MACQUARIE POWER & INFRASTRUCTURE INCOME FUND

ANNUAL INFORMATION FORM

For the Financial Year Ended December 31, 2005

March 21, 2006

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EXPLANATORY NOTES

The information in this Annual Information Form is stated as at December 31, 2005, unless otherwise indicated. In this Annual Information Form, all references to "$" are to Canadian dollars. Please refer to the "Glossary" in this Annual Information Form for the definitions of certain defined terms. In this Annual Information Form, unless the context otherwise requires, references to the "Fund" include Macquarie Power & Infrastructure Income Fund.

Certain of the statements contained in this Annual Information Form are forward-looking and reflect management's expectations regarding the Fund's future growth, results of operations, performance and business based on information currently available to the Manager and the Fund. These statements use forward-looking words, such as "anticipate", "continue", "expect", "may", "will", "estimate", "believe" or other similar words. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements, and should not be relied upon as a prediction of future events. Although the Fund and the Manager believe that the expectations reflected in these forward-looking statements are reasonable, actual results may differ from those suggested by the forward-looking statements for various reasons, including risks associated with the Cardinal Facility and the power industry including: plant performance, expiry of the Power Purchase Agreement, renewal of the Gas Purchase Agreement, potential expiry of the Lease, termination of the Energy Savings Agreement, contract performance, expenses due to losses under Gas Swap Agreements, regulatory regime and government permits, uninsured and under-insured losses, debt of Cardinal LP, transmission of electricity, labour relations, *force majeure*, fluctuation of distributions, dependence on the Manager, potential conflicts of interest and terrorist attacks. There are also certain risks related to the Fund's indirect interest in LSCLP and the LTC Sector including: business risks, LTC Facility ownership and operation, geographic concentration, the Fund's indirect minority interest, continued growth and development, industry dynamics, government regulation and funding, termination of Residence Agreements and residence fees, enforcement of indemnities, debt financing, environmental, health and safety liabilities, liability and insurance, personnel costs, reliance on key personnel and labour relations. In addition, risks related to the structure of the Fund include: risks associated with investment eligibility, income tax matters, nature of Units, Unitholder liability, dilution of existing Unitholders, price fluctuations of the Units, distribution of securities on redemption or termination of the Fund, delays in distributions, reliance on Cardinal LP and LSCLP, rating of the Units, restrictions on certain Unitholders and liquidity of Units, restrictions on potential growth and undiversified and illiquid holding in MPIIT (see "Risk Factors"). These forward-looking statements reflect the expectations of the Manager and the Fund as of the date of this Annual Information Form and, except as may be required by applicable law, neither the Fund nor the Manager undertakes any obligation to publicly update or revise any forward-looking statements.

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.

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

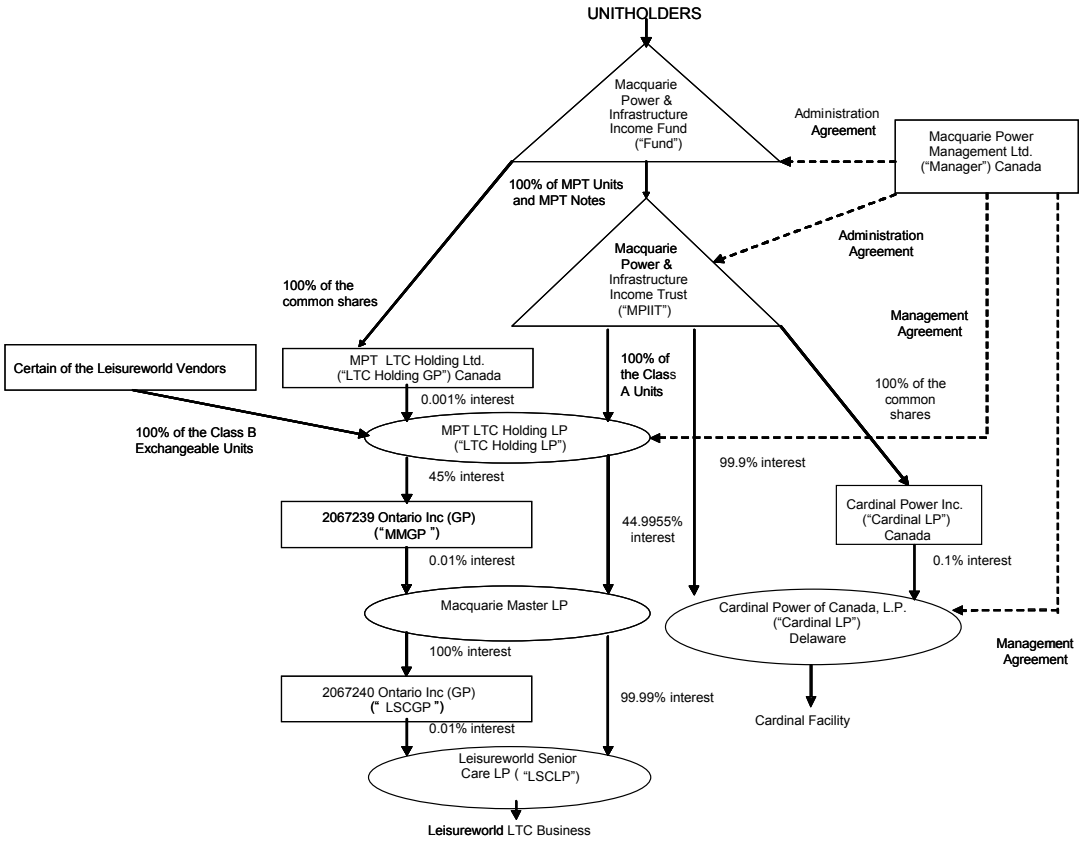
STRUCTURE OF THE FUND

Macquarie Power & Infrastructure Income Fund

Macquarie Power & Infrastructure Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established by a declaration of trust dated March 15, 2004, as amended and restated as of April 16, 2004 (the "Fund Declaration of Trust") under the laws of the Province of Ontario. The Fund Declaration of Trust was further amended, effective February 21, 2006 and a copy of such amendment is available on SEDAR at www.sedar.com. Pursuant to Section 12.2 of the Fund Declaration of Trust, notice of such amendment is hereby provided to holders of units of the Fund. The amendment corrected and rectified section 4.4 of the Fund Declaration of Trust to clarify that the acquisition and investment guidelines of the Fund should not be applied to internal reorganizations of any direct or indirect subsidiary entities of the Fund.

The Fund indirectly owns (a) a 100% interest in a 156 megawatt power generating facility located in Cardinal, Ontario (the "Cardinal Facility"), of Cardinal Power of Canada, L.P. ("Cardinal LP") and (b) a 45% interest in the long term care (the "LTC") and related business (the "Leisureworld LTC Business") of Leisureworld Senior Care LP ("LSCLP").

The following diagram illustrates the primary contractual and ownership relationships of the Fund with its principal subsidiary entities as at March 21, 2006 and the Fund's indirect ownership of Cardinal LP and indirect interest in LSCLP. Unless otherwise specified below, all entities were incorporated or organized in Ontario:



The Fund and Macquarie Power & Infrastructure Income Trust ("MPIIT") are administered by Macquarie Power Management Ltd. (the "Manager") through an administration agreement, as amended (the "Administration Agreement"). The Manager also provides certain management services to Cardinal LP for the Cardinal Facility under a management agreement with Cardinal LP (the "Cardinal LP Management Agreement") and to MPT LTC Holding LP ("LTC Holding LP") in respect of its 45% indirect interest in LSCLP under a management agreement with LTC Holding LP (the "LTC Holding LP Management Agreement"). The Manager is a wholly-owned indirect subsidiary of Macquarie Bank Limited, an Australian public company listed on the Australian Stock Exchange.

The principal and head office of the Fund is located at 100 Wellington Street West, Suite 2200, P.O. Box 234, Toronto, Ontario, Canada, M5K 1J3 (see "Description of the Fund").

GENERAL DEVELOPMENT OF THE BUSINESS

History of the Fund

The Fund was established on March 15, 2004 with nominal capitalization. Prior to April 30, 2004, when the Fund completed its initial public offering (the "Initial Public Offering") of Units, it did not hold any material assets. Upon completion of the Initial Public Offering, through a series of investments, the Fund indirectly acquired Cardinal LP, which owns the Cardinal Facility (see "- Acquisition of the Cardinal Facility"). On October 18, 2005, the Fund acquired a 45% indirect interest in LSCLP (see "- Acquisition of Interest in Leisureworld LTC Business"). On February 21, 2006, the Fund changed its name from "Macquarie Power Income Fund" to "Macquarie Power & Infrastructure Income Fund" to more accurately reflect the nature of the Fund's investments.

Fund Objective and Strategy

The Fund's objective is to produce growing and sustainable levels of cash for distributions to Unitholders on a monthly basis. When possible, the Fund and MPIIT intend to increase the amount of cash available for distributions to Unitholders by (i) pursuing additional investments and other direct and indirect rights in infrastructure projects with an emphasis on power infrastructure, and other businesses or activities as may be approved from time to time by a majority of the Trustees (including a majority of the Trustees independent of the Manager), including investments and other direct and indirect rights in other forms of energy-related projects and utility projects and (ii) improving the profitability of the existing assets of the Fund. While the Fund focuses on making additional investments in and acquisitions of operating power generation facilities, the Trustees are aware that potentially attractive investment and acquisition opportunities may emerge in the broader infrastructure sector and intend to pursue such opportunities as they arise (see "Trustees, Management and Operations" and "Conflicts of Interest and Fiduciary Duties").

Acquisition of the Cardinal Facility

On April 30, 2004, the Fund completed its indirect acquisition of the Cardinal Facility through the following steps: (i) the Fund used the gross proceeds from its issuance of Units pursuant to the Initial Public Offering to make an equity and debt investment in MPIIT; (ii) MPIIT used $211.7 million to subscribe for a limited partnership interest in Cardinal LP; (iii) Cardinal LP entered into the Credit Agreement providing for a $35 million non-revolving term loan facility and a $15 million revolving credit facility and drew $35 million under the term loan facility which, together with a portion of the Initial Public Offering proceeds, was used by Cardinal LP to repay the amount outstanding and the prepayment fees under a credit agreement made as of September 3, 1992 between, among others, Cardinal LP and a syndicate of lenders (the "Original Credit Agreement") (see "- Credit Agreement"); (iv) MPIIT capitalized Cardinal GP; (v) Cardinal GP used the proceeds of MPIIT's investment to subscribe for a partnership interest in Cardinal LP; and (vi) Cardinal LP used the proceeds of MPIIT's and Cardinal GP's investments to (a) pay the levelization account balance of $42.4 million under the Power Purchase Agreement (see "Narrative Description of the Business – Power Purchase Agreement"), (b) fund the general reserve account in the amount of $3 million, fund the major maintenance reserve account in the amount of $3 million and fund the capital expenditure reserve account in the amount of $1 million (see "Reserve Accounts"), (c) pay the expenses of the Initial Public Offering in the amount of approximately $17.6 million, (d) fund the Transmission Line Escrow Account in the amount of $150,000, (e) fund the Return of Capital Escrow Account in the amount of $2 million, and (f) return capital of approximately $42.7 million to Sithe Canadian Holdings Inc., Sithe Canada Ltd. (together, the

"Original Limited Partners") and Cardinal Investors, Inc., the then general partner of Cardinal LP, on their withdrawal from Cardinal LP pursuant to the Investment Agreement (see "Material Contracts – Investment Agreement").

The $42.7 million return of capital paid at the closing of the Initial Public Offering to the Original Limited Partners and Cardinal Investors, Inc. was subsequently increased to $43.4 million to account for a post-closing adjustment contemplated under the Investment Agreement, including in light of the final determination of Cardinal LP's working capital as of the date of such closing. This adjustment was funded from amounts in the Return of Capital Escrow Account. Thereafter, the $1.3 million remaining in the Return of Capital Escrow Account was released to the Fund.

Acquisition of Interest in Leisureworld LTC Business

On October 18, 2005, the Fund acquired a 45% indirect equity interest in LSCLP and immediately thereafter. LSCLP acquired the Leisureworld LTC Business for a total cost of approximately $517 million, including LSCLP's transaction and purchase costs. The acquisition of the Leisureworld LTC Business was partially funded by LSCLP drawing approximately $310 million upon a senior bridge debt facility (the "Bridge Facility") provided by a Canadian chartered bank. The remaining $207 million of LSCLP's acquisition costs was financed through (1) the Fund's indirect investment in LSCLP of approximately $93 million, compromised of (a) $58 million in cash, representing the net proceeds from the Fund's issuance of subscription receipts pursuant to the Short Form Prospectus and (b) $35 million of Class B Exchangeable Units of LTC Holding LP issued to certain of the vendors of Leisureworld (see "Description of LTC Holding LP"); and (2) the investment of approximately $114 million in cash by a subsidiary of Macquarie Bank Limited.

The principal activity of the Leisureworld LTC Business is the ownership and operation of 19 long-term care facilities (the "Leisureworld LTC Facilities"), comprising 3,147 beds, located in Ontario. In addition, through various entities, the Leisureworld LTC Business provides: professional nursing and personal support services for both community-based home care and long-term care facilities; laundry services to the Leisureworld LTC Facilities; and purchasing services to the Leisureworld LTC Facilities. The Leisureworld LTC Business also includes the ownership and operation of two retirement homes (87 beds) and an independent living facility (53 beds) in Ontario.

Macquarie Bank Limited owns the remaining 55% interest in LSCLP and has transferred the economic benefits of its ownership to Macquarie International Infrastructure Fund Limited ("MIIF"), a Singapore-listed infrastructure fund managed by an indirect subsidiary of Macquarie Bank Limited.

Information relating to the acquisition of the Fund's interest in the Leisureworld LTC Business is set forth in the business acquisition report of the Fund dated October 18, 2005, which report is incorporated by reference herein and is available on SEDAR at www.sedar.com.

Acquisition and Investment Strategy

The Fund may, where practical and economical, expand its operations by making additional investments and other direct and indirect rights in infrastructure projects with an emphasis on power infrastructure, and such other businesses or activities as may be approved from time to time by a majority of the Trustees (including a majority of the Trustees independent of the Manager), including investments and other direct and indirect rights in other forms of energy-related projects and utility projects. The Fund will make additional investments or acquisitions only if the Fund believes that such acquisitions or investments will meet the Fund's acquisition and investment guidelines. Such investments or acquisitions may be financed by the issuance of Units, from the cash flows of the Fund or through indebtedness. It is expected that any future acquisition or investment will be made by the Fund through one or more of its direct or indirect subsidiaries.

Acquisition and Investment Guidelines

The following guidelines are used in the review and evaluation of possible acquisitions and other investments:

- each acquisition or investment will be made only if the Fund believes that the acquisition or investment will result in an increase in Distributable Cash per Unit;

- each acquisition or investment will be reviewed and approved by the Trustees who are independent of the Manager;

- in the case of an acquisition of or investment in operating power generation facilities, facilities with long-term power purchase agreements with major electrical utilities or industrial users will be preferred; and, for facilities without such agreements, free market electricity price assumptions used in acquisition or investment evaluations will be obtained from a recognized independent source;

- in the case of an acquisition of or investment in an operating power generation facility, the acquisition or investment will be subject to prior due diligence and based on an independent engineer's report confirming the condition or development of the facility and the technical assumptions used in the acquisition or investment evaluation;

- in the case of an acquisition of or investment in an operating power generation facility, the expected useful life of the facility and associated structures will, with regular maintenance and upkeep, be long enough for an investment therein to conform with the Fund's objective of providing stable long-term distributions of Distributable Cash to Unitholders;

- in the case of acquisitions or investments other than an acquisition of or investment in an operating power generation facility, the terms and conditions upon which such acquisitions or investments will be made will be determined on a case-by-case basis by the Trustees who are independent of the Manager; and

- an acquisition or investment will not be made if it would result in the Fund losing its status as either a "unit trust" or "mutual fund trust" or holding excess "foreign property" under the *Income Tax Act* (Canada) (the "Tax Act").

All acquisitions or investments must be made in accordance with the Fund Declaration of Trust, MPIIT Declaration of Trust or the CLP Agreement, as applicable (see "Description of the Fund", "Description of MPIIT" and "Description of Cardinal LP").

NARRATIVE DESCRIPTION OF THE BUSINESS

The Cardinal Facility

Overview

Cardinal LP and the Cardinal Facility produce a stable, predictable level of income based upon proven technology, contracted long-term electricity sales and long-term fuel supply. The Fund operates the Cardinal Facility in a manner that maximizes revenues within existing contractual arrangements, while continually seeking to improve its profitability. Cardinal LP entered into the Gas Swap Agreements on April 29, 2004 with a Canadian chartered bank to mitigate the effect of gas price fluctuations on the net proceeds which Cardinal LP receives for natural gas in excess of the Cardinal Facility's requirements. In addition to selling excess gas under the Gas Swap Agreements, Cardinal LP can curtail the production of electricity within certain parameters and sell the gas that would otherwise have been used to generate electricity in the spot market. Cardinal LP avails itself of this option when additional net income can be realized from this operating strategy.

The electricity generated by the Cardinal Facility (less the amount consumed in its operations) is sold exclusively to OEFC at contracted rates under the Power Purchase Agreement (see "- Power Purchase Agreement). The Power Purchase Agreement matures on December 31, 2013, but its term is automatically extended for successive one year periods from year to year until terminated by either party on one year's prior written notice, at

any time after expiration of the original term. Effectively, the earliest the Power Purchase Agreement may be terminated is December 31, 2014. The Cardinal Facility operates as a self-scheduling generator. It is not dispatched by the Independent Electricity System Operator in Ontario ("IESO") (formerly the Independent Market Operator) in response to bids made into the IESO-administered market; instead the Cardinal Facility self-schedules its output by advising the IESO of its expected output. In fiscal 2004 and 2005, approximately 98.8% and 98.9%, respectively, of the Cardinal Facility's revenues were derived from the sale of electricity to OEFC.

The steam generated by the Cardinal Facility is sold to CASCO at contracted rates under the terms of the Energy Savings Agreement. The Energy Savings Agreement matures on January 31, 2015, but Cardinal LP has the unilateral right to extend the original term by a period of up to two years. Pursuant to the Energy Savings Agreement, the Cardinal Facility provides all of the steam required by CASCO for its plant operations, up to a maximum of 723 million pounds per year. In fiscal 2004 and 2005, steam sale revenues represented approximately 1.3% and 1.1%, respectively, of the Cardinal Facility's revenues. Cardinal LP is also under a continuing commitment to supply the steam necessary to meet the circulating hot water heating requirements of the adjacent Benson School.

Cardinal LP purchases the natural gas to operate the Cardinal Facility under the Gas Purchase Agreement. The Cardinal Facility is required to take a minimum volume of gas equivalent to 80% of the contract maximum. Husky Energy Marketing Inc. ("Husky Marketing"), which supplies gas pursuant to the Gas Purchase Agreement, is entitled to financial compensation if the minimum volume of gas is not purchased by the Cardinal Facility.

Cogeneration

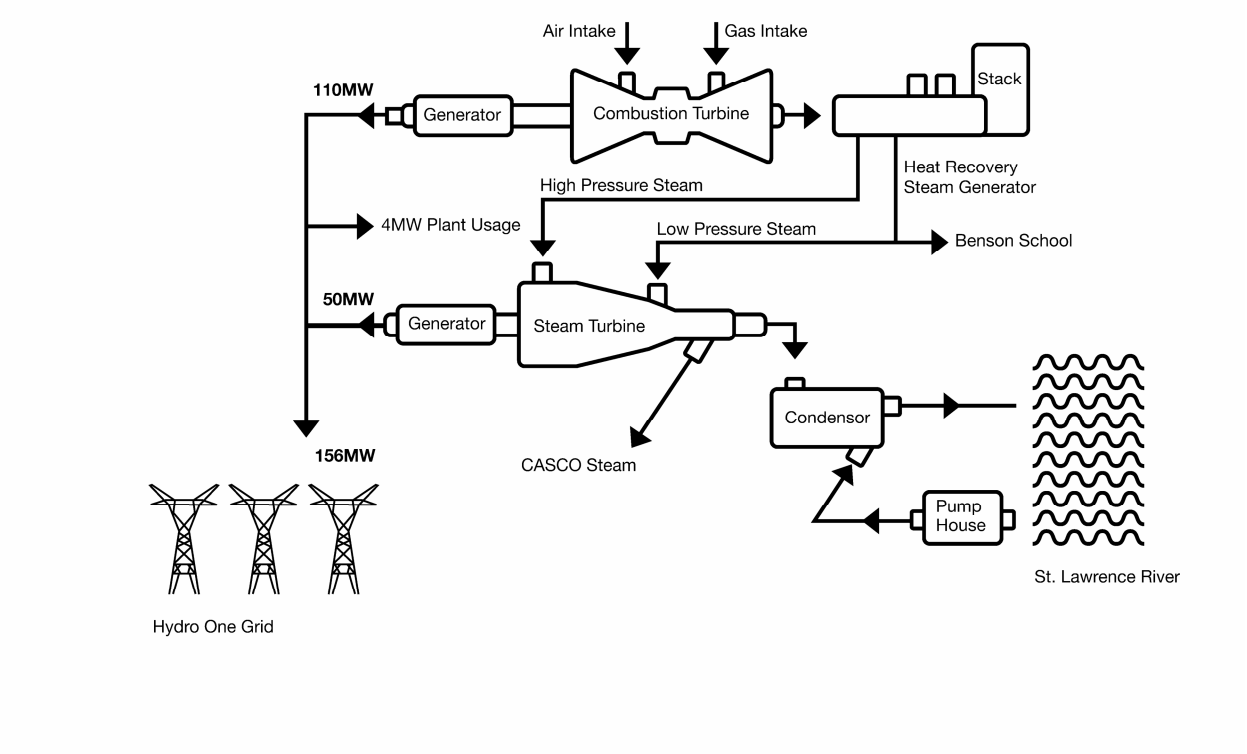
As is typical with cogeneration plants, the Cardinal Facility has a low heat to electricity ratio and produces significantly more electricity than steam for sale. A combustion turbine burning natural gas powers a generator that produces electricity. The hot exhaust gas from the combustion turbine is diverted into a heat recovery steam generator that produces high pressure steam. This steam is piped to a steam turbine which powers a second generator that produces more electricity. Some of the steam is diverted from the steam turbine to CASCO's plant and is used in its manufacturing process. This results in high efficiency and an effective use of energy.

Where both electrical and thermal energy are generated separately, typically one-third to one-half of the fuel's energy content is converted into useful energy output such as steam or electricity. The remainder is wasted energy, which escapes as unused heat. By producing electricity and steam simultaneously, cogeneration converts a higher proportion of the fuel's energy content. Depending on the degree of steam or useful heat utilization, 65% to 85% of the fuel's energy content is converted into useful energy output, which produces significant fuel savings over non-cogeneration technologies. Cogeneration systems predominantly use natural gas, a fuel source that emits less than half the greenhouse gas per unit of energy produced than the cleanest available thermal power station. Natural gas combustion results in virtually no atmospheric emissions of sulphur dioxide or small particulate matter, and far lower emissions of carbon monoxide, oxides of nitrogen ("NOx"), and greenhouse gases such as reactive hydrocarbons and carbon dioxide, than the combustion of other fossil fuels.

Plant Design and Equipment

The Cardinal Facility is a combined cycle cogeneration station fuelled by natural gas. The Cardinal Facility has a net rated capacity of 156 MW of electrical power. The Cardinal Facility's powerhouse building houses the combustion turbine and generator, the heat recovery steam generator, the steam turbine and generator, the office and the control and electrical rooms. Power generation is achieved using one Westinghouse combustion turbine generator operating in combined cycle with a Westinghouse steam turbine generator.

The following is a simplified schematic design of the Cardinal Facility and its principal components:



The Cardinal Facility is a combined cycle power plant consisting of one combustion turbine and generator, one heat recovery steam generator, and one steam turbine and generator. In the combustion turbine, ambient air is first drawn into a 19 stage air compressor. The high pressure air then enters 14 burners in which natural gas or fuel oil is combusted. The high temperature gas produced in the burners passes through a four-stage power turbine that drives both the compressor and an electric generator. The combustion turbine generator produces a nominal 110 MW of electrical power. The power produced by the combustion turbine can be increased by admitting steam to the combustors.

Hot gas leaving the combustion turbine passes through a heat recovery steam generator where steam is produced to drive a steam turbine. The heat recovery steam generator incorporates two pressure level ranges for steam generation. The high pressure steam production of the heat recovery steam generator is approximately 349,000 lb/hr of superheated steam at 1,110 psig, 945°F under a base load operating condition. Low pressure steam production is approximately 87,000 lb/hr of 78 psig, 404°F steam. After passing through the heat recovery steam generator, the cooled combustion gas enters the stack.

The steam turbine has a ten-stage high pressure/intermediate pressure ("HP/IP") section and a three-stage low pressure section in a single casting. High pressure steam from the heat recovery steam generator enters the HP/IP section at approximately 1,068 psig, 942°F. Low pressure steam is admitted to the low pressure section. The steam turbine drives a generator which produces up to a nominal 50 MW of electricity. Steam is extracted from two locations in the HP/IP section to supply process steam to the CASCO plant. Steam is supplied at 160 psig at flows from zero to 132,000 lb/hr. A small portion of the low pressure steam passes through a heat exchanger to provide space heating for Benson School.

The surface condenser condenses the exhaust steam from the steam turbine. The exhaust steam is condensed by temperature reduction using river water. The condenser is a horizontal tube design located below the steam turbine's exhaust port. The condenser is designed to allow a full steam flow to bypass the steam turbine when a steam turbine trips or a start-up or shutdown condition exists. Condensate collected in the condenser is pumped to a deaerator. Feedwater for the heat recovery steam generator is pumped from the deaerator by the feedwater pump.

Water from the St. Lawrence River is used for cooling purposes and other plant processes. The raw water is filtered, treated and processed before being used. All processes are initiated and performed automatically.

Boiler chemical treatment consists of an oxygen scavenger and neutralizing amine net feed to the deaerators and phosphate blend to the boilers. All boiler chemicals are received and stored in bulk storage tanks provided by the vendor. Chemical addition is by metering pump to the deaerators and boilers.

The combustion turbine generator and steam turbine generator are operated to produce gross facility output of approximately 160 MW at 44°F with 156 MW of net power output after in-plant consumption. The combustion turbine generator and steam turbine generator each has a rated voltage of 13.8 kV and is connected to a 115 kV class switchgear by isolated phase and non-segregated bus ducts.

Electricity is generated by the Cardinal Facility at 13.8 kV and stepped up to 115 kV by two main step-up transformers. The main combustion turbine transformer is a three-phase oil-filled, water-cooled transformer rated at 60 Hz, 145 MVA and 120/13.8kV. The steam turbine transformer is a three-phase, oil-filled, water-cooled transformer rated at 60 Hz, 65 MVA and 120/13.8 kV. These two main step-up transformers are located in a three-sided enclosure at the northwest corner of the powerhouse building. The transformers have a concrete containment pit as part of their foundations to hold any potential oil spills in the event of a transformer failure. Two auxiliary transformers are also provided to supply power to the Cardinal Facility's auxiliary equipment.

A switchyard is located above the transformers in the main building. Five kV and 600 V switch gear and motor control centres are located indoors. The Cardinal Transmission Line delivers power to a remote switchyard adjacent to the 115 kV grid.

Power Purchase Agreement

The Power Purchase Agreement provides for the sale of electricity produced at the Cardinal Facility to OEFC. The original term of the Power Purchase Agreement matures on December 31, 2013, but is thereafter automatically extended for successive one year periods from year to year until terminated by either party, on one year's prior written notice, at any time after expiration of the original term. Effectively, the earliest the Power Purchase Agreement may be terminated is December 31, 2014. Under the Power Purchase Agreement, all electricity generated by the Cardinal Facility, less the amount consumed in the operation of the Cardinal Facility, is sold exclusively to OEFC. OEFC is required under the Power Purchase Agreement to supply the Cardinal Facility's internal electricity requirements that cannot be generated by the Cardinal Facility itself. OEFC is an agent of the Government of Ontario for all purposes and, accordingly, obligations of OEFC under the Power Purchase Agreement are obligations of the Government of Ontario.

The Cardinal Facility, which is directly interconnected with Hydro One's transmission system, supplies electricity to the Hydro One grid on a continuous basis (24 hours a day, 365 days a year, except for planned and unplanned downtime).

Under the Power Purchase Agreement, OEFC is obligated to make monthly payments for electricity delivered. Higher rates are paid for electricity sold to OEFC during the winter than during the summer. The Cardinal Facility is capable of producing more electricity in winter when the gas turbine attains its peak output as a result of lower ambient temperatures. Assuming base-load operations, the Cardinal Facility's revenues from electricity sales are expected by Cardinal LP to continue to be greater during winter, and its gas requirements increase proportionately with its increased production during the winter. During the last three years, on average, proportionally more of the Cardinal Facility's revenues were generated during the winter (October through March, inclusive) than during the summer (April through September, inclusive). In addition to the monthly payments for electricity delivered, capacity payments are due from OEFC for electricity delivered from 7:00 a.m. to 11:00 p.m. local time at the Cardinal Facility on weekdays, excluding public holidays (the "On-peak Hours"), subject to the on-peak deliveries during the On-peak Hours exceeding 80% of the monthly target quantities, being the amount of energy predicted to be delivered, in respect of a given month, during the On-peak Hours (the "Target Quantities"). No capacity payment will be made for deliveries of electricity during the On-peak Hours of a given month in excess of the Target Quantities unless the delivery of such excess amount is approved or requested by OEFC or is due solely to local ambient effects. In 2004 and 2005, revenue attributable to electricity sales accounted for

approximately 64%, of total revenue derived under the Power Purchase Agreement, with revenue attributable to capacity payments accounting for the remainder.

Payment rates under the Power Purchase Agreement escalate in accordance with the Direct Customer Rate ("DCR"), which rate is designed to recover the fully delivered cost of uninterruptible power at 100% load factor to customers directly connected to the Ontario transmission systems, and is established by OEFC from time to time. An amendment to the Power Purchase Agreement, as renegotiated in early 2004, sets out in detail the method of calculation of the DCR and the method to be used to implement it each year. The renegotiation has not had an adverse impact on the revenues received by Cardinal LP under the Power Purchase Agreement or on the cost of gas under the Gas Purchase Agreement.

The monthly payments for electricity delivered under the Power Purchase Agreement are equal to the monthly electricity delivered during all hours, both On-peak Hours and off-peak hours, multiplied by the energy rates, Energy "A" and Energy "B". The Energy "A" rates vary with the greater of the DCR escalator and 4%. The Energy "B" rates vary with the greater of the DCR escalator and 0%. The capacity payment is based on the monthly energy delivered by the Cardinal Facility during On-peak Hours, to a maximum of the Target Quantities. The capacity rate varies with the greater of the DCR escalator and 0%.

The provisions of the Power Purchase Agreement and of the Gas Purchase Agreement provide for fuel commodity cost protection through the alignment of rate escalators on both the revenue side and the cost side. Under the Gas Purchase Agreement, the commodity gas price increases at the greater of 2% and the preceding year DCR escalator while under the Power Purchase Agreement, the Energy "A" rate increases at the greater of 4% and the DCR escalator and both the Energy "B" rate and the capacity rate increase with the DCR escalator.

Revenue attributable to the Energy "A" rate in 2005 accounted for approximately 45% of total revenue in 2005 derived under the Power Purchase Agreement.

If the DCR escalator in any given year is 0% then the Energy "A" rate will increase at 4% over the prior year and the rate charged for the fuel under the Gas Purchase Agreement and the Gas Transportation Agreement will increase at 2% over the prior year. Over time, this will result in an increasing spread between the Energy "A" rate and the price charged for natural gas at a minimum DCR escalator of 0% on a relative basis.

Under the Power Purchase Agreement, the minimum annual DCR escalator is 0%. As the Energy "B" rates and capacity payment rates increase at the same rate as the DCR escalator, the Fund will benefit from any positive annual DCR escalation.

Operating standards and procedures for the Cardinal Facility are prescribed in the Power Purchase Agreement as well as the Transmission Connection Agreement, which also covers technical operational matters. Each of OEFC and Cardinal LP has the right to request discontinuance of electricity supply in order to ensure system safety and security and to safeguard life or property. Such operating standards are customary in non-utility power generator ("NUG") power purchase agreements and are intended to maintain the integrity of the electrical power system.

Upon written notice to Cardinal LP, OEFC may terminate the Power Purchase Agreement if Cardinal LP fails to deliver electricity to OEFC for any 24 consecutive months, unless such failure is directed or authorized by OEFC or due to an event of *force majeure*. If Cardinal LP fails to perform any obligation under the Power Purchase Agreement, OEFC may give written notice to Cardinal LP that OEFC will discontinue its receipt of electricity from, or its supply of electricity to, Cardinal LP, if the unperformed obligation is not completely fulfilled within a reasonable period of time after receipt of the notice by Cardinal LP. If after OEFC has discontinued the receipt of electricity from, or its supply of electricity to, Cardinal LP by reason of the failure of Cardinal LP to perform any of its obligations under the Power Purchase Agreement, and Cardinal LP continues in default in respect of the unperformed obligation, OEFC may, at its option, deliver a written notice to Cardinal LP that unless the obligation is completely fulfilled or steps have been taken, with which OEFC agrees, to remedy the default within a reasonable specified period which shall not be less than seven days after receipt of that notice, the Power Purchase Agreement will be deemed terminated. Cardinal LP can sell, transfer or assign its interest in the Power Purchase Agreement, subject to receiving written consent from OEFC, which may not be unreasonably withheld.

Upon the expiration or termination of the Power Purchase Agreement with OEFC, assuming current market structure, Cardinal LP would have three primary options: (i) it could bid all of the power it produces into the IESO-administered markets and receive the market price for it; (ii) it could enter into a bilateral power purchase contract with another counterparty to sell electricity at a negotiated price; or (iii) it could do a combination of both, bidding some power into the IESO-administered market and selling the rest under a bilateral contract with a counterparty. The attractiveness of one option over another will depend upon the relationship between short-term and long-term electricity prices in Ontario at the time.

Gas Purchase Agreement

The Gas Purchase Agreement was originally entered into with Husky Oil Operations Ltd., and subsequently assigned to Husky Marketing by an assignment and novation agreement dated as of December 15, 2001. The Gas Purchase Agreement provides for the supply of natural gas to the Cardinal Facility. Under the Gas Purchase Agreement, Cardinal LP is required to purchase certain minimum volumes of gas (the "Minimum Volumes") equivalent to 80% of the contract maximum, subject to financial compensation to Husky Marketing for any shortfall in purchasing the Minimum Volumes. Cardinal LP is prohibited from purchasing natural gas for the Cardinal Facility from any other party unless Husky Marketing fails to deliver in accordance with the terms prescribed under the Gas Purchase Agreement. The Gas Purchase Agreement expires on May 1, 2015. The obligations of Husky Marketing under the Gas Purchase Agreement are guaranteed by its parent company, Husky Energy Inc.

The natural gas supplied to the Cardinal Facility pursuant to the Gas Purchase Agreement originates from Husky Oil Operations Ltd.'s reserves in Alberta. Natural gas is transported from Alberta across Canada to the immediate vicinity of the Cardinal Facility through a natural gas pipeline system owned and operated by TransCanada Pipelines Limited ("TCPL"), and from TCPL's system to the Cardinal Facility by Union Gas Limited ("Union"). Husky Marketing is responsible under the Gas Purchase Agreement for transportation of the gas to the interconnection with Union.

Notwithstanding Cardinal LP's obligation to purchase the Minimum Volumes under the Gas Purchase Agreement, pursuant to an amending agreement dated November 1, 1994 (the "Gas Mitigation Agreement"), Cardinal LP may, from time to time, elect to purchase less than such Minimum Volumes and, where this election is made, the difference between the Minimum Volumes and the amount it actually elects to purchase is sold by Husky Marketing to third parties, provided a certain floor price can be met. Cardinal LP currently sells excess natural gas through the Gas Mitigation Agreement with Husky Marketing. The sales amount from excess volumes are shared between Husky Marketing and Cardinal LP based on a formula set out in the Gas Mitigation Agreement. The formula provides that Husky Marketing first receives payment for the variable costs at delivery and other adjustments. Husky Marketing receives an additional marketing fee prior to Cardinal LP receiving an amount equal to the total fixed costs of delivery. This amount effectively represents a reimbursement for transportation costs otherwise paid by Cardinal LP. To the extent there is any remaining income from the sale of excess gas, it is split equally between Husky Marketing and Cardinal LP.

Under the terms of the Power Purchase Agreement, OEFC may, subject to certain limits, in each year during 600 summer off-peak hours, limit its acceptance of electricity to 80% of the average output for the month in which such curtailment takes place. The gas that would, if not for the curtailment, be used to generate electricity can be sold under the terms of the Gas Mitigation Agreement. Since 2000, the Cardinal Facility has availed itself of this option on numerous occasions when the market price of gas reached levels that allowed the Cardinal Facility to generate additional net income.

The price of natural gas delivered under the Gas Purchase Agreement is tied to the DCR, with a guaranteed minimum 2% per annum escalator. The Gas Purchase Agreement does not entitle the gas supplier to renegotiate or arbitrate the price payable under the Gas Purchase Agreement. Upon written notice, Husky Marketing may terminate the Gas Purchase Agreement for reasons of (i) failure by Cardinal LP to make payments not in dispute after 30 days following the receipt of a written notice requesting that such payment be made; (ii) Cardinal LP becoming subject to a bankruptcy or similar proceeding; or (iii) failure by Cardinal LP to accept delivery of any natural gas for a period of 180 consecutive days for any reason other than *force majeure* or a failure of Husky Marketing to deliver such natural gas.

Credit Agreement

In connection with the Initial Public Offering, Cardinal LP entered into a credit agreement with, amongst others, TD Securities Inc. acting as lead arranger and book manager, a Canadian chartered bank affiliated with TD Securities Inc. acting as administrative agent and CIBC World Markets Inc. as syndication agent to provide credit facilities in the aggregate amount of $50 million. The Credit Agreement is comprised of: (a) a $35 million non-revolving term loan facility (the "Term Cardinal Facility") which matures on April 29, 2007 and which was fully drawn at closing of the Initial Public Offering to repay the amount outstanding and the prepayment fees under the Original Credit Agreement; and (b) a separate $15 million revolving credit facility (the "Revolving Cardinal Facility") to fund working capital, permitted capital expenditures, and in certain circumstances up to a maximum amount of $6 million outstanding at any one time, to fund distributions to Unitholders. During the first fiscal quarter of 2005, the maturity date of the Revolving Cardinal Facility was extended from April 30, 2005 to April 29, 2007. No amounts were drawn on the Revolving Cardinal Facility during 2004 or 2005.

As of March 1, 2006, the amount outstanding under the Term Cardinal Facility was $35 million and no amounts were outstanding under the Revolving Cardinal Facility. The amount outstanding under the Term Cardinal Facility must be permanently repaid using the net proceeds from all issues of debt (other than the Revolving Cardinal Facility or permitted capital leases) and/or the net proceeds from asset dispositions by Cardinal LP in the amount of $250,000 or more in aggregate over the term of the Term Cardinal Facility.

The interest rates on the Credit Agreement are variable and the actual rates are determined based on the ratio of consolidated total debt of Cardinal LP to the consolidated earnings before interest, income taxes, depreciation and amortization ("EBITDA") of Cardinal LP. Such rates range from up to 0.3% above the prime rate, as defined in the Credit Agreement, and from 0.9% to 1.3% above the bankers' acceptance rate with respect to bankers' acceptances, letters of credit or letters of guaranty. The Credit Agreement provides for customary representations and warranties, covenants (including financial covenants and financial ratios) and events of default. Among the covenants are limitations on change of control, indebtedness, investments, and, in certain circumstances, such as in the event of an actual or pending default or event of default, distributions to Unitholders. During 2005, interest rates payable on the Term Cardinal Facility were fixed from time to time based on certain bankers' acceptance instruments of varying maturity dates.

The obligations of Cardinal LP under the Credit Agreement are secured by a first-ranking lien on all present and future assets, undertakings and agreements of Cardinal LP. In addition, guarantees have been provided by MPIIT, Cardinal GP and each direct and indirect subsidiary of Cardinal LP supported by first-ranking liens on all present and future assets of such guarantors. Indebtedness owing under the Credit Agreement ranks senior to any other indebtedness of Cardinal LP and the guarantors.

The Manager expects to renew the Credit Agreement in the second fiscal quarter of 2006 on similar terms.

Environmental Matters

The Cardinal Facility and its operations are subject to a complex and increasingly stringent environmental, health and safety regulatory regime, including federal, provincial, municipal and local laws, statutes, regulations, by-laws, common law, licences, permits and other approvals, government directions and orders, government guidelines and policies, and other requirements governing or relating to, among other things: air emissions; taking of water and discharges into water; the storage, handling, use, transportation and distribution of dangerous goods and hazardous and residual material, such as chemicals; the prevention of releases of hazardous materials into the environment; the prevention, presence and remediation of hazardous materials in soil and ground water, both on and off site; and workers health and safety issues ("Environmental, Health and Safety Laws"). The Cardinal Facility is managed in a manner designed to maintain compliance with Environmental, Health and Safety Laws including air approvals and water permits that allow water to be taken from the St. Lawrence River and cooling water to be discharged back into the St. Lawrence River and the Fund believes the Cardinal Facility and operations are in compliance in all material respects to permit the Cardinal Facility to operate at full capacity.

On December 17, 2002, the Government of Canada ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "Kyoto Protocol"). The Kyoto Protocol calls for Canada to reduce

its greenhouse gas emissions to 6% below 1990 levels by 2012. New federal and provincial climate control initiatives including new legislation are expected to affect the operation of all industries in Canada. Although the impact of the Kyoto Protocol cannot be fully determined at this point, particularly in light of the new federal Conservative government, the Fund believes that the overall impact on the Cardinal Facility's operations should be minimal. This is so particularly because the Cardinal Facility is a natural gas combined cycle cogeneration plant, which is expected to have a lower greenhouse gas emission rate per unit of output compared to certain other power plants.

The Cardinal Facility is subject to a NOx cap and trade program pursuant to Ontario legislation currently in force. The program provides that each of the facilities regulated under the legislation will receive a cap (or maximum yearly emission compliance limit) which may be achieved by traditional source emission control and reduction methods or by trading NOx allowances. For 2005, the Cardinal Facility received 1,263 tonnes of NOx allowances based on actual generation in 2004. The Cardinal Facility is retiring 324 tonnes in 2005. The Fund believes that the NOx allowances (which will be gradually reduced over time) are expected to be more than adequate to cover existing and future operations provided production continues at close to full capacity. If a NOx allowance market develops, the excess allowance allocation could represent a future revenue stream for Cardinal LP.

In the fall of 2003, the Cardinal Facility applied to the Ministry of the Environment ("MOE") for permission to install and operate PEMS. The MOE provided a response letter on October 14, 2003 requesting additional information and sent further letters on November 26 and 27, 2003 seeking additional information and noting that compliance was required by December 31, 2003. While Cardinal LP believed it had a good case for approval of PEMS, the Cardinal Facility did not have in place a Director approved PEMS by December 31, 2003. Consequently, as the Cardinal Facility was not in compliance with the requirements of Ontario Regulation 397/01 during a period of 68 days during 2004. In order to provide certainty and limit exposure to any potential MOE prosecution, Cardinal LP requested that the MOE issue an order pursuant to Section 157 of Ontario's *Environmental Protection Act* ("Order"). The Order, issued by the MOE on March 9, 2004, provided that the Cardinal Facility should carry out a number of tests and analyses to demonstrate the case for retaining the PEMS approach. Cardinal Facility deemed the tests, analyses and requirements too costly and informed the MOE that a CEMS would be installed.

The installation and commissioning of CEMS was completed in January 2005. In August 2005, the MOE removed the Order with no further requirements. The costs of commissioning and installing CEMS was approximately $228,529, and this amount was drawn from the capital reserve account (see "Reserve Accounts").

Employees

The total workforce at the Cardinal Facility, including management, is 17. Employees involved in the operation of the Cardinal Facility are currently non-unionized.

Permits

The Ontario Energy Board ("OEB") granted Electricity Generation Licenses dated October 20, 2003 and October 16, 2003, respectively, to Cardinal LP and to the previous plant operator which were valid until March 31, 2023. The OEB replaced such licences on August 6, 2004 with a single licence to Cardinal LP, which licence is retroactive from October 20, 2003 and valid until October 19, 2023. On November 13, 2001, the IESO granted Cardinal LP an authorization to operate as a market participant. A decision of the OEB concerning the relationship between CASCO and Hydro One necessitated that Cardinal LP apply for a transmission licence or seek an exemption from the obligation to obtain such license. On March 8, 2004, the OEB granted Cardinal LP an exemption from obtaining a transmission licence and related requirements. Instead, Cardinal LP is required to administer a transmission cost pass-through arrangement between CASCO and Hydro One.

Insurance

The Fund has arranged and maintains ''all risks'' property and machinery breakdown insurance, business interruption, automobile insurance and liability insurance, including sudden and accidental pollution coverage, with rated insurers on and in respect of the assets and operations of Cardinal LP, in a form and for limits generally

consistent with the insurance currently in effect with respect to such assets and operations and with coverages and in amounts that are consistent for comparable operations and services, including the generation and transmission of electrical power.

The Cardinal Facility has approximately $24 million of liability insurance under a general third party liability policy and several umbrella liability policies. The property insurance coverage provides all-risk coverage for the replacement cost of the Cardinal Facility up to a limit of approximately $173 million and the business interruption insurance provides coverage up to a limit of approximately $44 million. There is a deductible of $250,000 for general losses and a deductible of $500,000 for losses resulting from a machinery breakdown. The business interruption coverage is generally subject to a deductible of 45 days and to a deductible of 60 days in the case of machinery breakdown and will reimburse all the profits lost while damage to the Cardinal Facility is repaired as well as paying continuing expenses such as rent payments, interest and gas transportation fixed charges.

Major Maintenance and Capital Expenditures

Maintenance expenditures are made to replace or add to capital assets required to maintain the Cardinal Facility's current output capacity. Assets subject to major maintenance consist of the combustion turbine, the steam turbine, the combustion turbine generator and the steam turbine generator. A combustion turbine overhaul is required every 8,000 hours, at which time the parts used in such combustion turbine are removed for repair or replacement. A hot gas path inspection is performed after every 24,000 hours of operations, when most of the combustion and turbine component sections are replaced with new or repaired components. After every 48,000 hours of operations, a major inspection of the combustion turbine is performed and involves a total overhaul of the combustion turbine, including the air compression section. For the steam turbine, a valve and steam chest inspection is carried out for every 24,000 hours of operations and, for every 48,000 hours of operations, a major inspection is performed. The electrical generators for the combustion and steam turbines are subject to a minor inspection every 24,000 hours and to a major inspection every 48,000 hours.

Cardinal Facility outages required to perform major maintenance items, such as turbine overhaul, hot section refurbishment, steam turbine overhauls and combustion and steam electrical generators are, to the greatest extent possible, scheduled with OEFC and IESO approval under the Power Purchase Agreement.

Cardinal LP has established a capital reserve account and a major maintenance reserve account. (See "Reserve Accounts").

POWER INDUSTRY OVERVIEW

Independent Power Generation and North American Supply Outlook

Historically, the North American electricity industry was characterized by vertically integrated monopolies. During the late 1980s, several jurisdictions began a process of restructuring by moving away from vertically integrated monopolies towards more competitive market models. Rapid growth in electricity demand, environmental concerns, increasing electricity rates, technological advances and other concerns prompted government policies to encourage the supply of electricity from independent power producers.

In the independent power generation sector, electricity is generated from a number of sources, including water, natural gas, coal, waste products such as biomass (*e.g.*, waste wood from forest products operations) and landfill gas, geothermal sources, such as heat or steam, the sun, and wind.

Ontario Power Industry

Regulatory Environment

During the 1980s, some provinces, notably, Québec, British Columbia, Alberta, Ontario, Nova Scotia and Newfoundland, began actively seeking investment in new generation from independent power producers. Under those arrangements, independent power producers typically entered into long-term power purchase agreements with government agencies at defined rates providing a cash flow stream to the independent power producers reflecting

the projected long-term value of the capacity and electricity to the purchasing utility. During the late 1980s, changing technology, such as improvements in combined cycle cogeneration systems, the commercial availability of low-cost, smaller scale electricity generating equipment fuelled by natural gas, and favourable natural gas prices resulted in changes to the economics of electricity generation favouring smaller, more efficient generating units that could be built in a shorter time frame and at less cost than large central generating stations. During the same period, Ontario Hydro, with the support of the Ontario Ministry of Energy, developed policies to encourage the addition of new generating capacity by independent power producers. In connection with this policy initiative, Ontario Hydro entered into approximately 90 long-term power purchase agreements with NUGs located in Ontario. These power purchase agreements, which expire on various dates until 2048, represent approximately 1,700 megawatts of generating capacity and account for about 6% to 8% of the generating capacity available to meet Ontario's energy requirements.

In November 1995, the Government of Ontario appointed the Advisory Committee on Competition in Ontario's Electricity System (the "Advisory Committee") to investigate and assess options for phasing competition into Ontario's electricity industry. Acting on many of the recommendations in the Advisory Committee's report and the principles contained in the government's November 1997 White Paper on the electricity sector, the Ontario legislature passed the *Energy Competition Act, 1998*, which, in turn, enacted two pieces of legislation necessary to create a legislative framework for a restructured Ontario electricity market — the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* ("OEB Act"). The *Electricity Act, 1998* restructured Ontario Hydro's integrated electricity businesses into the following five separate corporations effective April 1, 1999: (i) Ontario Power Generation ("OPG"), which assumed the electricity generation, wholesale energy and ancillary services businesses, (ii) Hydro One, which assumed the transmission, rural distribution and retail energy services businesses, (iii) the IESO, which was formed to act as an independent electricity system operator responsible for dispatching generation, to direct the operations of the Ontario transmission grid and to act as an independent administrator of the energy and ancillary services markets, (iv) the Electrical Safety Authority, which was established to carry out electrical equipment and electrical wiring installation inspection functions, and (v) the OEFC.

OEFC is the legal continuation of Ontario Hydro and an agent of the Province of Ontario. OEFC is responsible for servicing and retiring Ontario Hydro's outstanding debt and other obligations. In addition, OEFC administers the NUG contracts previously entered into by Ontario Hydro with independent power producers.

On May 1, 2002, Ontario's wholesale and retail electricity markets opened to competition and the obligation of transmitters and distributors to provide non-discriminatory open access to their systems came into force. With open access, generators can sell power to counter-parties under bilateral contracts or bid their power into the IESO-administered markets and receive the market-clearing price. Pursuant to the IESO Market Rules, the IESO schedules and dispatches dispatchable generators and settles the purchase and sale of energy and ancillary services made through the IESO-administered markets.

Following the opening of Ontario's wholesale and retail markets, Ontario experienced high levels of demand for electricity during July, August and September 2002, with resulting increases in the wholesale price of electricity and the incurring of significant costs for imported power. Reacting to public concerns over electricity prices, the Progressive Conservative government passed the *Electricity Pricing, Conservation and Supply Act, 2002* on December 9, 2002, which introduced, among other things, an energy price freeze at 4.3 cents per kWh until at least May 1, 2006 in favour of consumers who consume less than 250,000 kWhs of electricity in a year and of certain other "designated consumers". On December 18, 2003, the newly-elected Liberal government enacted the *Ontario Energy Board Amendment Act, 2003* changing the electricity price cap for residential consumers effective April 1, 2004 to 4.7 cents per kWh for the first 750 kWh consumed in any month and 5.5 cents per kWh for any consumption above that level. The interim arrangement was to have remained in place until no later than May 1, 2005 by which time the Ontario Energy Board was directed to develop and implement a new pricing mechanism for residential consumers. The Ontario Energy Board continues to oversee price controls for consumers, whereby price volatility is reduced.

On December 9, 2004, the Ontario Legislature passed the *Electricity Restructuring Act 2004* (the "ERA") which further restructured the electricity industry in Ontario and established the Ontario Power Authority ("OPA") which is to oversee and facilitate electricity supply adequacy and conservation for the Province. The OPA has the task of procuring new electricity supply, transmission, demand management and conservation either by competition

or by contract when necessary. The ERA also transferred powers previously within the ambit of the IESO to the OPA, including medium and long-term electricity forecasting and planning. Similarly, the ERA significantly altered the scope of the Ontario Energy Board's responsibilities by leaving the Ontario Energy Board with the following two of its seven responsibilities set out in the OEB Act: to protect the interests of consumers so that consumers have access to quality electricity that is reliable, adequate and economical, and secondly, to support the generation, transmission, distribution, sale and conservation of electricity that is cost-effective. The ERA concurrently expanded the Ontario Energy Board's role by empowering it to approve the integrated power system plans and procurement processes developed by the OPA.

Ontario Market Supply Situation

In its March 2003 10-Year Outlook, the IESO warned of the aging of Ontario's generation resources. Indeed, up to 20% of existing generation resources are expected to be retired from service or require substantial refurbishment over the next decade, with another 20% in the subsequent five years. In January 2004, the Electricity Conservation & Supply Task Force (the "Task Force") published a report outlining the current state of the Ontario electricity market. The report noted the following: Ontario faces a looming electricity supply shortfall in the years ahead as coal-fired generation is taken out of service and existing nuclear plants approach the end of their planned operating lives. Current projections suggest that, without new supply and substantial conservation efforts, Ontario could have insufficient power to meet its peak requirements by 2006 and that by 2014, the province would have only half the generation capacity it needs to ensure adequate and reliable electricity service. Following the publication of the Task Force's report, Ontario's Energy Minister proceeded with several Requests for Proposals ("RFP"), including:

- 2,500 MW - gas-fired generation and demand side projects
- Renewables I - 300 MW of new renewable energy supply
- Renewables II – 1,000 MW of new renewable energy supply from generation facilities between 20 MW and 200 MW
- Renewables III – 200 MW of new renewable energy supply from generation facilities under 20 MW

In addition, the Ontario Ministry of Energy negotiated a contract with Bruce Power to refurbish two nuclear units which will provide 1,500 MW of capacity.

The OPA has also initiated the following RFP/sole source negotiations:

- Combined Heat and Power RFP - 1,000 MW of high-efficiency combined heat and power projects
- Greater Toronto Area West (GTA West) - 1,000 MW of new gas-fired generation in the GTA West
- negotiations with the Goreway Station project for up to 900 MW of new gas-fired generation
- City of Toronto Solicitation – 600 MW of new capacity in downtown Toronto
- Demand Management RFP – 250 MW or more of demand-side initiatives across the province
- Standard Offer Program – a standard offer program for small generators that utilize clean or renewable resources will be developed

Competitive Structure

Responsibility for the legacy of NUG contracts entered into by Ontario Hydro remains with OEFC. Since NUG contracts involve the purchase by OEFC of most of the output of a NUG at prices calculated in accordance with the power purchase agreement between the NUG and OEFC, most NUGs are treated as transitional scheduling generators under the IESO Market Rules. As such, NUGs effectively self-schedule their energy supply into the IESO-administered markets; they operate independently of dispatch instructions from the IESO, instead providing the IESO with a schedule of the energy they intend to produce and convey into the IESO-controlled grid. The NUGs are paid for such energy by OEFC at the prices contained in their power purchase agreements. The IESO Market

Rules permit cogeneration NUGs to re-register as dispatchable generation facilities, self-scheduling facilities or intermittent generation facilities.

OPG is the dominant generator of electricity in the Province of Ontario, presently controlling approximately 70% of existing generation capacity. Although OPG's generator licence contains conditions requiring it to transfer effective control over portions of its output, political events since the passage of the *Electricity Pricing, Conservation and Supply Act, 2002* in December 2002 have made it difficult to ascertain whether the Government of Ontario remains committed to these decontrol targets. The current Liberal government's election platform contained a promise that it would not sell any public generating stations. In view of that promise, the Task Force concluded that the current OPG Market Power Mitigation Agreement could not be effectively implemented. However, the Power Purchase Agreement requires Cardinal LP to sell and OEFC to purchase all electricity from the Cardinal Facility at fixed rates subject to certain escalators. Accordingly, any changes in the structure of the generation market in Ontario, including whether or not OPG is directed to continue its decontrol initiatives, should not affect the electrical sales revenues of the Cardinal Facility over the term of the Power Purchase Agreement.

U.S. Power Industry

The electric power industry is one of the largest industries in the U.S., with an estimated end-user market of nearly $250 billion of electricity sales in 2002 based on information published by the Energy Information Administration of the U.S. Department of Energy. Historically, the power generation industry in the U.S. has been characterized by electric utility monopolies selling under regulated rates. However, industry trends and legislative and administrative initiatives have introduced competition into components of the electricity industry, creating markets where load-serving entities and end-users may purchase electricity from a variety of suppliers, including independent power producers, power marketers, regulated public utilities and others. For the past decade, the power industry has been undergoing deregulation at the wholesale level allowing generators to sell directly to the load-serving entities, such as public utilities, municipalities and electric cooperatives. Although industry trends and regulatory initiatives aimed at further deregulation have slowed, sectors of the power industry continue to move to competitive markets.

The North American Electric Reliability Council estimates that in the U.S. peak (summer) net electric demand in 2002 totaled approximately 686,399 MW, while summer generating capacity in 2002 totaled approximately 834,770 MW, creating a peak summer reserve margin of 148,371 MW, or 17.8%. Some regions have margins well in excess of the 15% to 20% target range, while other regions remain short of ideal reserve margins. The estimated 148,371 MW of reserve margin in 2002 compares to an estimated 121,049 MW in 2001. The increase was due in large part to the start-up of new gas-fired power plants. The U.S. market consists of regional electric markets, not all of which are effectively inter-connected, so reserve margins vary from region to region.

According to a November 2003 report from Standard & Poor's (the "S&P Report"), the U.S. power industry has experienced a continued decline in credit quality, an unprecedented number of bankruptcies, and a blackout of historic proportion. The years of 2002 and 2003 were marked by a decrease in power prices in many power markets as the industry was confronted with an over-supply of power generating capacity caused by an increased level of highly leveraged investments in non-regulated power generating assets, coupled with a declining economy. Supply increased drastically (with new merchant plants financed on a short-term basis), while the economic slowdown reduced power demand. This resulted in an industry-wide decrease in credit ratings of generating companies and has constrained their access to capital markets.

According to the S&P Report, in 2003, the number of S&P credit rating downgrades in the power energy industry far outpaced the number of upgrades, with the downgrade to upgrade ratio exceeding 10:1. The average credit rating for the electric utility sector is firmly in the "BBB" category, down from the "A" category three years ago. Prospects for credit quality remain challenging, as indicated by S&P ratings outlooks, 40% of which are negative.

The Manager believes that credit concerns have affected the sector's strategic business plans, forcing some companies to liquidate assets in order to improve their balance sheets. This situation has presented acquisition opportunities for less affected power companies. Restructuring has produced a resurgence of merger and acquisition transactions in the power generation sector. The Manager believes that the merger and acquisition activity in the

power generation sector over the next several years will be characterized by continued divestiture activity and focused acquisitions aimed at restructuring portfolios.

LEISUREWORLD LTC BUSINESS

Leisureworld LTC Business

Overview

LSCLP and the Leisureworld LTC Business generate predictable cash flow due to the nature of the funding sources for the LTC sector and the steady growth in demand for LTC. The funding sources include payments from the Province of Ontario and payments from residents (certain of whom are subsidized by the Province of Ontario). In addition, the majority of the beds of the Leisureworld LTC Business were built within the last five years and, as a result are eligible to participate in the capital cost funding program offered by the Province of Ontario for the next 15 years. See "Long-Term Care Industry – Capital Cost Funding".

Business Segments

The principal activity of the Leisureworld LTC Business is the ownership and operation of 19 LTC Facilities (representing 3,147 beds) located in Ontario (the ''Leisureworld LTC Facilities''). The Leisureworld LTC Business also includes the ownership and operation of two retirement homes ("RHs") (representing 87 beds) and one independent living facility ("IL Facility") (representing 53 beds) in the Province of Ontario (collectively with the Leisureworld LTC Facilities, the ''Leisureworld Facilities''). Other ancillary businesses of the Leisureworld LTC Business include Preferred Health Care Services (''PHCS''), an accredited provider of professional nursing and personal support services for both community-based home care and LTC Facilities, Ontario Long-Term Care Providers (''OLTC''), a provider of purchasing services to the Leisureworld LTC Facilities and Tealwood Developments, a provider of laundry services to the Leisureworld LTC Facilities, which together generated approximately less than 6% of the total revenues of the Leisureworld LTC Business for the period ended December 31, 2005.

Leisureworld Facilities

The Leisureworld LTC Facilities include 19 LTC Facilities (3,147 beds), two RHs (87 beds) and one IL Facility (53 beds). As of December 31, 2005, the Leisureworld LTC Business owned and managed 19 Leisureworld LTC Facilities, with all but two of the Leisureworld LTC Facilities having, either in the past or at present, exceeded the threshold occupancy rate of 97%, so they are now considered Mature LTC Homes.

The following table summarizes the Leisureworld Facilities and the current occupancy level (as of December 31, 2005) of the Leisureworld Facilities as reported by Leisureworld management.

Summary of Leisureworld Facilities (as of December 31, 2005)

Name of Facility	Location	Class	Year Built	Beds	Occupancy
Mature LTC Homes					
Barrie	Barrie	C	1972	57	97% or greater
Brantford	Brantford				
Original		C	1972	90	97% or greater
Expansion		A	2002	32	97% or greater
Brampton Woods	Brampton	A	2003	160	95%
Creedan Valley	Creemore	C	1975	95	97% or greater
Ellesmere	Scarborough	A	2003	224	97% or greater
Elmira	Elmira (Kitchener)	A	2000	96	97% or greater
Etobicoke	Etobicoke	A	2001	160	96%
Lawrence	Toronto	A	2002	224	97% or greater
Muskoka[1]	Gravenhurst	A	1999	182	97% or greater
North Bay	North Bay	C	1975	148	97% or greater
Norfinch	North York	A	2003	160	96%
O'Connor Court	Toronto	A	2001	160	97% or greater
O'Connor Gate	Toronto	A	2001	158	97% or greater
Richmond Hill	Richmond Hill	A	2003	160	97% or greater
Scarborough	Scarborough	B	1991	299	96%
Spencer House[2]	Toronto	D	1976	120	92%
St. George	Toronto	C	1972	238	97% or greater
Total Mature LTC Homes				**2,763**	
LTC Homes in Ramp-Up					
Brampton Meadows	Brampton	A	2003	160	89%
Vaughan	Vaughan	A	2004	224	53%
Total LTC Homes in Ramp-Up				**384**	
Total LTC Homes				**3,147**	
Retirement Homes / Independent Living					
Muskoka	Gravenhurst		1999	29	93%
Midland Gardens	Scarborough		1991	53	87%
Spencer House	Toronto		1976	58	53%
Total Retirement Homes / Independent Living				**140**	

Notes:

(1) The original structure at Muskoka was built in 1975 but underwent complete renovation and refurbishment in 1999.

(2) Spencer House is currently managed by, and Spencer House Inc. leases land and buildings from 2063414 Investment LP ("Leisureworld LP"), a wholly-owned subsidiary of LSCLP. See ''– The Orillia LTC Facility and Spencer House".

Class A facilities comprise 67% of the total beds of the Leisureworld LTC Facilities. This compares favourably to the overall supply of Ontario LTC Facilities, of which approximately 46% are Class A facilities, as shown in the following table:

Breakdown of Beds by Class (as of July 31, 2005)

	Leisureworld LTC Facilities		Ontario		Leisureworld Share of Ontario Market
Beds by Class	Number	Percent	Number[1]	Percent	Percent
A	2,100	66.7%	33,800	45.6%	6.2%
B	299	9.5%	7,450	10.0%	4.0%
C	628	20.0%	27,470	37.0%	2.3%
D	120[2]	3.8%	5,470	7.4%	2.2%
Total	3,147	100.0%	74,190	100.0%	4.2%

Notes:
(1) As of July 31, 2005. Source: Care Planning Partners, Inc.
(2) Spencer House (Class D) is to be replaced by a new facility in Orillia (Class A). See ''– The Orillia LTC Facility and Spencer House''.

All Class A Leisureworld LTC Facilities were built after 1998 to the current design standards of the Ontario Ministry of Health and Long-Term Care (the "MOHLTC"). Each of the Leisureworld LTC Facilities has been accredited by Canadian Council on Health Services Accreditation (the "CCHSA"), except for six facilities (Brampton Meadows, Brampton Woods, Ellesmere, Norfinch, Richmond Hill, and Vaughan) which have been recently built and are expected to complete the initial accreditation process in 2006, and Spencer House (which is to be replaced by a new Class A LTC Facility in Orillia).

The Leisureworld LTC Facilities have a significant proportion of beds which are designated as preferred accommodation, with an overall portfolio ratio of 48.6% of beds designated as private or semi-private accommodation. Approximately 4% of the revenues are generated from charging to residents an incremental $18.00 per day per bed and $8.00 per day per bed for private and semi-private accommodation, respectively.

Summary of Leisureworld LTC Facility Portfolio by Type of Beds

Name of Cardinal Facility	Basic	Semi-Private	Private	Short Stay Beds
Barrie	21	31	3	2
Brantford	48	37	35	2
Brampton Meadows	64	0	96	0
Brampton Woods	64	0	96	0
Creedan Valley	53	30	10	2
Ellesmere	88	0	132	4
Elmira	38	0	56	2
Etobicoke	80	0	80	0
Lawrence	90	0	131	3
Muskoka	114	0	66	2
North Bay	91	26	30	1
Norfinch	64	0	96	0
O'Connor Court	64	0	96	0
O'Connor Gate	78	0	80	0
Richmond Hill	64	0	96	0
Scarborough	157	107	31	4
Spencer House[1]	110	7	2	1
St. George	210	18	4	6
Vaughan	90	0	134	0
Total	1,588	256	1,274	29
% of Total	50.5%	8.1%	40.5%	0.9%

Note:
(1) Spencer House is currently managed by, and Spencer House Inc. leases land and buildings from, Leisureworld LP. See ''– The Orillia LTC Facility and Spencer House''.

The Orillia LTC Facility and Spencer House

A Class A LTC Facility in Orillia housing 160 licensed beds (the "Orillia LTC Facility") is currently under development pursuant to a development agreement between Spencer House Inc. and the MOHLTC dated July 5, 2005. The Manager expects the Orillia LTC Facility to be completed in the second half of 2006.

The Spencer House nursing home, the only Class D Leisureworld LTC Facility, is currently managed by Leisureworld LP. Spencer House Inc., a charitable organization, holds the letter of approval from MOHLTC to operate Spencer House as a LTC Facility and leases land and buildings from Leisureworld LP. LSCLP has entered into a purchase and sale agreement dated January 16, 2006 with respect to the sale of the Spencer House property. The sale is conditional upon certain conditions being met including, the purchaser winning a tender from the City of Toronto allowing it to utilize the property to provide a specific type of housing that is not LTC-related. The sale of the Spencer House property is expected to close following the opening of the Orillia LTC Facility .

The Orillia LTC Facility will be managed by a Leisureworld Limited Partnership and Spencer House Inc. will lease land and buildings from such Leisureworld Limited Partnership pursuant to amendments to the existing Spencer House LTC Facility lease and management agreements with Spencer House Inc.

Intangible Assets

Intangible assets of the Leisureworld LTC Business include bed licences, resident relationships developed prior to the Fund's indirect acquisition of the Leisureworld LTC Business and professional nursing and personal support contracts.

Outstanding Debt of LSCLP

On November 24, 2005, LSCLP issued $310 million 4.814 % Series A Senior Secured Notes due November 24, 2015 (the "2015 Notes") collateralized by the assets of LSCLP and its subsidiary partnerships and guaranteed by the subsidiary partnerships. The proceeds of the 2015 Notes were used to repay the Bridge Facility. Interest on the 2015 Notes is payable semi-annually in arrears on May 24 and November 24 of each year, commencing on May 24, 2006. The 2015 Notes may be redeemed in whole or in part at the option of LSCLP at any time, upon not less than 30 days' and not more than 60 days' notice to the holders of the Notes. The redemption price is the greater of: (i) the face amount of the 2015 Notes to be redeemed; and (ii) the price that will provide a yield to the remaining average life of such 2015 Notes equal to the Canada Yield Price (as defined in the indenture governing such notes) plus 0.18%, in each case together with accrued and unpaid interest.

LSCLP also has a $20 million revolving credit facility with a Canadian chartered bank, which it can access for working capital purposes. The facility bears interest on cash advances at 45 basis points per annum over the floating bankers' acceptance rate (30, 60 or 90 days) and on letters of credit at 45 basis points per annum and matures on October 17, 2006 or such later date as may be agreed by the lender and LSCLP.

Environmental, Health and Safety Compliance

In addition to the laws and regulations that apply specifically to the LTC sector, the Leisureworld LTC Business must also comply with federal, provincial and local laws and regulations of general application, including those with respect to the environment and worker health and safety (''EH&S Requirements''). For example, under various EH&S Requirements, LSCLP, as either indirect owner or manager of the Leisureworld LTC Business, could become liable for the costs of removal or remediation of certain hazardous, toxic or regulated substances released on or in the Leisureworld LTC Facilities or disposed of at other locations sometimes regardless of whether or not LSCLP knew of or was responsible for their presence. In addition, the Leisureworld LTC Business must comply with various permitting and registration requirements.

Prior to the Fund's indirect acquisition of the Leisureworld LTC Business, 2005 Phase I environmental site assessments were conducted at all, and Phase II environmental site assessments were conducted at some, of the Leisureworld LTC Facilities in order to identify and assess any potentially material environmental conditions (such as significant subsurface contamination) or material non-compliance with applicable EH&S Requirements. There

were no material conditions or material non-compliance issues identified as a result of such environmental site assessments.

It will be the operating policy of LSCLP to obtain a Phase I environmental site assessment, conducted by an independent and experienced environmental consultant or consulting firm, prior to acquiring or financing the development of any property. Phase I environmental site assessments are non-intrusive investigations which involve a visual site inspection and a review of historical land use information. Where Phase I environmental site assessments identify sufficient environmental concerns or recommend further assessments, it will be the operating policy of LSCLP to obtain Phase II environmental site assessments, which are intrusive investigations that involve soil, groundwater or other sampling to confirm the absence or presence and extent of an environmental concern.

LSCLP will make the necessary capital and operating expenditures to comply with EH&S Requirements and address any material environmental, health and safety issues.

Insurance

The Leisureworld LTC Business currently has in place, and LSCLP intends to maintain for so long as available on a commercially reasonable basis, comprehensive property, casualty, business interruption, malpractice liability and general umbrella liability insurance with rated insurers on and in respect of the Leisureworld LTC Business, with coverages and in amounts that are consistent with those maintained by comparable operations and services. The existing insurance program of the Leisureworld LTC Business meets or exceeds all Ontario legislative requirements related to the insurance held by operators of LTC Facilities.

Employees

As of December 31, 2005, the Leisureworld LTC Business employed approximately 3,200 people. All of the Leisureworld LTC Facilities are currently unionized with employees represented by various unions including the Service Employees International Union, the Ontario Nurses Association, the Christian Labour Association of Canada and the Canadian Union of Public Employees. The Leisureworld LTC Business has had good relationships historically with both employees and unions and to date the Leisureworld LTC Business has not been subject to any work stoppages.

Legal Proceedings

The Leisureworld LTC Business is from time to time involved in legal and administrative proceedings relating to the ordinary course of its business. Other than as described below, the Leisureworld LTC Business does not currently have any litigation pending that the Manager believes is material. However, given the inherent unpredictability of litigation, it is possible that an adverse outcome could, from time to time, have a material adverse effect on the Leisureworld LTC Business, including its operations, results or cash flows in any particular quarterly or annual period or periods.

The former majority owner of the Leisureworld LTC Business is involved in a lawsuit with a former supplier, Corporate Building Services Inc. This claim is for $5,860,000, the outcome of which cannot be determined. Markham Suites Hotel Limited ("MSHL") (formerly, "Leisureworld Inc."), whose assets were acquired by Leisureworld LP, has been added as a defendant since December 31, 2005. LSCLP, under the terms of its acquisition of the Leisureworld LTC Business, is required to indemnify MSHL in the event MSHL should be found to be liable under such claim. As a result, LSCLP intends to defend MSHL's position in this action vigorously. In LSCLP management's opinion, the resolution of this action will not have a material adverse effect on the financial condition of Leisureworld LP or LSCLP. The defendants will be denying all allegations and asserting that the action should be dismissed with costs payable to the defendants.

LONG TERM CARE INDUSTRY

Industry Overview

Regulation of Ontario LTC Sector

In Ontario, all LTC Facilities are regulated by the Ontario government. Such regulations require that LTC Facilities be licensed or receive a letter of approval in order to operate and to receive available government funding. In addition, no licensee may operate a nursing home unless the licensee is a party to a service agreement with the Crown in Right of the Province of Ontario that relates to such LTC Facility and the service agreement complies with the *Nursing Homes Act* (Ontario) (the ''Nursing Homes Act'') and its regulations. LTC Facilities must generally be built to specified design criteria and funding is generally tied to the level of delivery of mandated care services. See ''– Overview of Ontario LTC Funding Model''.

LTC Facilities include nursing homes, charitable homes for the aged and municipal homes for the aged, which are governed by the Nursing Homes Act, the *Charitable Institutions Act* (Ontario) and the *Homes for the Aged and Rest Homes Act* (Ontario), respectively. LTC Facilities do not include retirement homes, which are not regulated by the government. Nursing homes are generally operated by private corporations while charitable and municipal homes for the aged are generally operated by charitable organizations and municipalities, respectively.

Nursing home licences are for a term of one year, but are routinely renewed each year unless there is a history of concerns and/or complaints with respect to the facility. The approval to operate a charitable or municipal home for the aged is substantially similar to a nursing home licence, with a key difference being that an approval to operate does not require renewal. While it is possible for authorities to revoke a licence or withdraw a letter of approval due to inadequate performance or care by the operator of either a nursing home or a charitable home for the aged, the Manager believes such actions are rare and would typically be preceded by a series of warnings, notices and other sanctions and, typically, operators would be given an opportunity to rectify any deficiencies before revocation or cancellation takes place.

On March 1, 2006, Ontario passed the *Local Health System Integration Act*, *2006* (the "LHSI Act"). The LHSI Act is awaiting Royal Assent, and could come into force at any time. With the passage of the LHSI Act, the management of certain local health services, including the funding of and setting performance goals for LTC Facilities, will be devolved to fourteen regional non-profit corporations, known as Local Health Integration Networks ("LHINs"). The implication of the LHSI Act on LTC Facilities is not presently known, and the LHINs' functions will be phased in over time. However, since the province's plan is that LHINs, rather than the MOHLTC, be responsible for entering into service agreements with LTC Facilities, setting local performance goals and funding LTC Facilities, it is possible that the current system of standards and funding described below could be significantly changed in the near future. (See "Risks Related to the Leisureworld LTC Business and the LTC Sector - Government Regulation and Funding".)

Monitoring and Evaluation

The MOHLTC monitors and evaluates the performance of LTC Facilities against established standards and criteria. The following are some of the standards and criteria employed:

- applicable regulatory requirements;
- terms and conditions of the service agreement between the LTC Facility and the MOHLTC;
- standards and criteria contained in the LTC Facility Program Manual produced by the MOHLTC, which was developed to guide LTC Facilities in providing quality care, service and programs to persons residing in LTC Facilities; and
- other MOHLTC policies and directives.

In connection with the MOHLTC's monitoring and evaluation of Ontario LTC Facilities, the MOHLTC conducts annual reviews, including inspections and any required follow-up visits at all Ontario LTC Facilities to monitor compliance with established expectations, which is known as the Compliance Management Program. In addition, the MOHLTC undertakes post-occupancy reviews after the opening of a new LTC Facility, and surprise visits, follow-up visits and complaint investigations. MOHLTC Compliance Advisors can cite unmet criteria and/or standards set out in the MOHLTC LTC Facility Program Manual in which case a Plan for Corrective Action must be submitted by the facility to the MOHLTC within a designated time period. The Compliance Advisor will then revisit the facility to determine if the unmet standards or criteria have been resolved or, if a finding was issued and not resolved within a specified time according to the Plan for Corrective Action, then the finding will be re-issued or issued as a citation. The Compliance Advisor may also issue a citation under the Nursing Homes Act. Facilities with findings under the Nursing Homes Act will generally be placed on increased monitoring by the MOHLTC until the situation improves. Increased monitoring is not generally accompanied by a reduction in funding to the LTC Facility operator. However, sanctions available to the MOHLTC to address significant and ongoing non-compliance that is not appropriately remedied may result in reduced funding. For example, one sanction available to the MOHLTC is the suspension of new admissions to a LTC Facility. Reduced occupancy levels following a suspension of admissions may result in lower revenues for the LTC Facility operator.

Complaints

A ''complaint'' refers to an expression of dissatisfaction relating to the operation of a LTC Facility. Any complaint received by a LTC Facility must, according to MOHLTC standards, be reported to the MOHLTC. Complaints are followed up by MOHLTC inspectors who investigate each reported concern. Each concern in a complaint may or may not be verified. Verified concerns may result in an unmet standard/criterion or citation issued against the LTC Facility operator.

Public Reporting on LTC Facilities

The MOHLTC website provides a list of all sanctions imposed, citations under the legislation or regulations and all findings of verified concerns and unmet standards and/or criteria at Ontario LTC Facilities for the period from July 1, 2004 to June 30, 2005. Provincial averages are reported so that comparisons may be made with other LTC Facilities in the province. The provincial average reported in Inspection Findings (for both citations and unmet standards/criteria) is the total number of findings divided by the total number of LTC Facilities in the province during the specified reporting period. The provincial average reported in verified concerns is adjusted to 100 beds because of differences in number of beds between facilities.

In addition, when a MOHLTC Compliance Advisor completes a LTC Facility's annual review, the Compliance Advisor prepares a written report, which is a public document, and sends copies of the report to the relevant LTC Facility. All LTC Facilities must post the results of the annual review in a public place on the premises, and the public can obtain a copy of the written report directly from the LTC Facility.

Overview of Ontario LTC Funding Model

Ontario LTC Facilities are funded through a well-defined funding model. The Nursing Homes Act provides that all licensed operators of Ontario LTC Facilities are entitled to an operating subsidy subject to reconciliation. Provincial support for the Ontario LTC sector has been demonstrated by increased funding commitments to the sector. The Ontario provincial government increased the budget for the LTC sector to $2.5 billion in 2005.

Operational Funding

Operational funding of LTC Facilities in Ontario is paid monthly and is divided into three ''envelopes''. Total operational funding received by operators is composed of a provincial government component and a direct charge to residents. Each envelope is structured as a fixed amount per resident per day or ''rate''. If a LTC Facility's average annual occupancy level meets or exceeds 97%, it is the Ontario government's policy to provide funding based on 100% occupancy. The three funding envelopes are as follows:

- **Nursing and Personal Care (''NPC'')**. Funded by the MOHLTC and designed to cover expenses associated with nursing and personal care staffing as well as medical and nursing supplies. LTC Facilities receive funding based on the assessed care needs of their residents.

- **Programs and Support Services (''PSS'')**. Funded by the MOHLTC and designed to cover expenses associated with therapeutic services, pastoral care, recreation, staff training, volunteer coordination and other services.

- **Accommodation**. A co-payment charged to residents of Ontario LTC Facilities designed to cover expenses associated with room-and-board expenses such as food, housekeeping, dietary services, laundry and linen, administration, and building/property operations and maintenance, including mortgage payments and taxes. A portion of the accommodation envelope, known as the raw food (''Food'') component, is set aside to cover raw food ingredients and cannot be used to cover any other expenses. The remainder of the accommodation envelope is known as the other accommodation (''OA'') component. It is the MOHLTC's policy that no resident be turned away from an LTC Facility based on ability to pay. All residents are subject to an income-based ''needs test''. If a resident is unable to pay the full resident co-payment amount, the resident may be eligible for a subsidy provided by the MOHLTC. As such, the accommodation funding received by operators is generally a blended payment comprised of direct payments from residents and the provincial government contribution for subsidized residents, with the proportion (but not the total amount) varying according to the means of the residents. See ''– Historical Escalation of LTC Funding Rates''.

Implications of Funding Framework

Together, the NPC and PSS envelopes, and the Food component of the accommodation envelope, generally make up more than 60% of the per day operational funding received by operators of LTC Facilities. Funding provided to the NPC and PSS envelopes and for Food must be applied to expenses categorized for each envelope respectively and cannot be transferred to any other envelope.

Any funding received by an operator of a LTC Facility from the NPC and PSS envelopes and the Food component of the accommodation envelope in excess of the amounts spent by the operator must be reimbursed to the MOHTLC during an annual reconciliation process. Funding provided to the OA component of the accommodation envelope may be used for expenses related to any envelope or retained for profit (provided that all MOHLTC accommodation standards for LTC Facilities are met). Should an operator incur costs in excess of the amount allocated for an envelope (for example, spend more than $6.60 per resident per day on PSS) (a practice known as ''overspending''), then that expenditure must be paid from OA funding. Overspending the NPC and PSS envelopes and the Food component of the accommodation envelope can impact profitability as any shortfall must be made up from the OA component of the accommodation envelope, the only source from which the operator may retain a profit. As such, LTC Facility operators have an incentive to manage costs within their funding envelopes. The economies of scale in hiring, purchasing, administering and other areas enjoyed by larger operators can reduce the likelihood of overspending.

Revenue from Preferred Accommodation

LTC Facilities offer a variety of accommodation options. The resident co-payment amount of $48.69 per resident per day applies to ''basic'' or ''standard'' accommodation. ''Preferred'' accommodation is the term used to describe private or semi-private rooms. According to the MOHLTC's Long Term Care Facility Design Manual, dated May 1998, a private room must accommodate one resident and have a separate ''barrier-free'' ensuite washroom, and a semi-private room must accommodate one resident in one bedroom and a second resident in a separate bedroom with both bedrooms joined by a barrier-free ensuite washroom (preferred accommodation in LTC Facilities constructed prior to these 1998 design standards may not meet these standards). Operators of LTC Facilities can charge residents of designated preferred accommodation an additional per day amount. The additional amount that an operator may charge for preferred accommodation is set at $8.00 per resident per day for semi-private accommodation and $18.00 per resident per day for private accommodation according to provincial government regulation.

The operator of a LTC Facility collects and retains 100% of the billed and collected preferred accommodation revenue. All LTC Facilities must provide accommodation at the basic accommodation rate for at least 40% of residents, while the remaining 60% of residents may be offered preferred (semi-private and private) accommodation and charged the preferred accommodation rates.

Over the last 10 years, the additional resident co-payment amount that may be charged to residents in designated preferred accommodation has remained constant. However, in 2001, the MOHLTC increased the amount that operators may retain from collected preferred accommodation revenue from 50% to 100%.

Capital Cost Funding

Operators of LTC licences awarded since April 1, 1998 and operators of beds in significantly out-dated existing LTC Facilities (referred to as Class D facilities) that are to be redeveloped, retrofitted or upgraded are eligible for provincial capital cost funding of up to $10.35 per bed per day for 20 years to support the repayment of capital used to pay for construction costs. This represents construction funding of up to approximately $75,000 per bed. See ‘‘– Recent Government Initiatives’’.

Structural Compliance Premiums

The following payments, known as the ‘‘structural compliance premiums’’, are provided to operators of LTC Facilities on a per resident per day basis and apply to those facilities that are not eligible for the capital cost funding described immediately above:

- Class A facilities – $5.00;
- Class B facilities – $2.50; and
- Class C facilities – $1.00.

These amounts are adjusted according to the level of any capital grant provided by the government to fund construction.

Other Funding Items

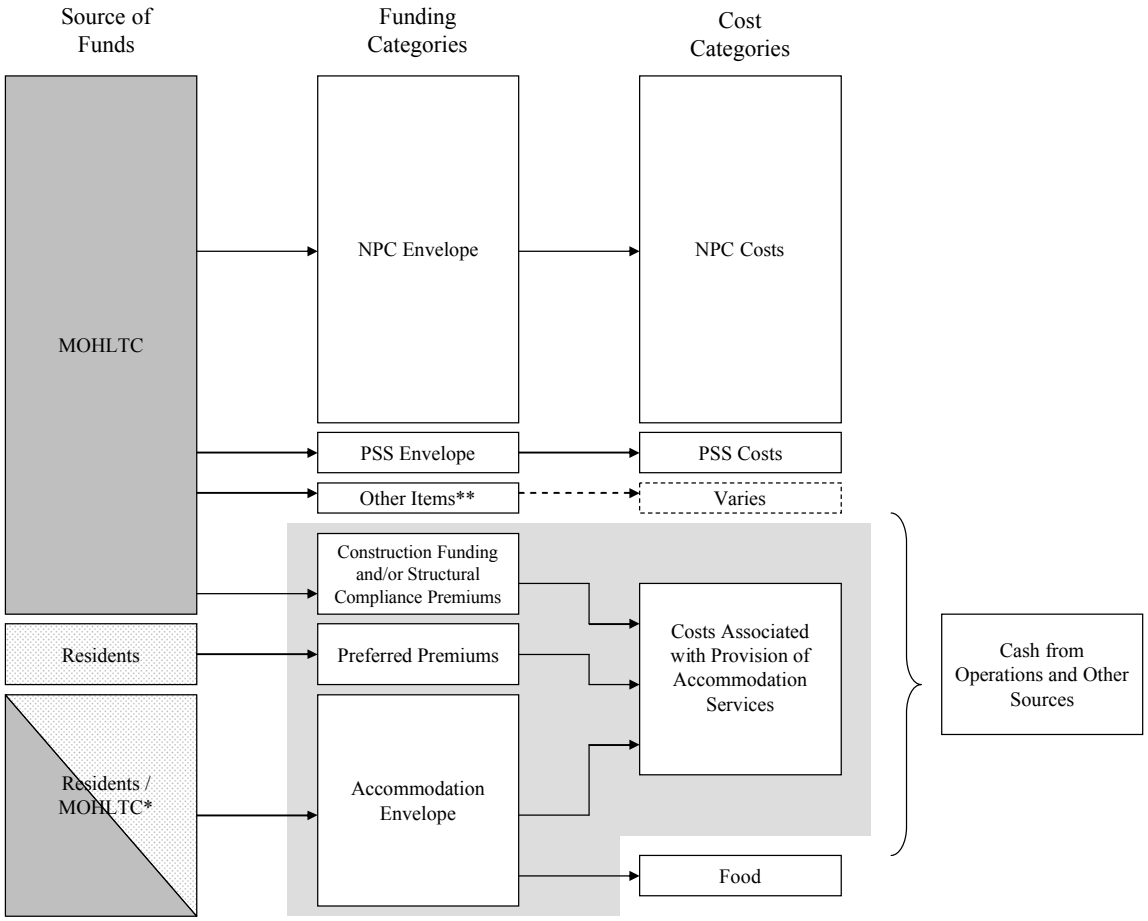
The MOHLTC also provides additional funding to LTC Facilities, including:

- **Accreditation Funding**. A payment of $0.33 per bed per day is provided to LTC Facilities that meet certain prescribed standards and have been accredited by the CCHSA.
- **Equalization and Pay Equity**. Funds are provided to operators of LTC Facilities to cover past and continuing pay equity obligations for LTC Facilities that used the ‘‘proxy pay equity method’’. The proxy pay equity method refers to the practice of measuring whether pay equity (the concept of ‘‘equal pay for equal work’’) holds by comparing jobs of equal value across sectors. In the case of LTC Facilities, comparatives tend to be homes for the aged (which prior to the introduction of pay equity legislation generally paid higher wages). Pay equity funding varies from facility to facility because it is based on individual payroll obligations. Effective October 1, 2004, pay equity and the equalization adjustment totalled $3.25 per resident per day which was provided to LTC Facilities.
- **Municipal Property Tax Allowance**. A proportion of the real property and capital tax paid by LTC Facilities is reimbursed through the Municipal Property Tax Allowance. In 2006, the tabled rate of reimbursement is up to 85%.

Summary of Funding Framework

The following diagram provides an overview of the overall funding framework for a LTC Facility in Ontario on a normalized basis, assuming no over-spending. The diagram is presented for illustrative purposes only, and should be read together with the more detailed information provided above.

Overview of Normalized Funding Framework



* Some portion of funding to the accommodation envelope may be derived from the MOHLTC due to subsidization of low income residents
** Other Items includes items such as accreditation funding and pay equity funding
Note: Not to scale, actual spending amounts differ.

Escalation of Funding

Over the last decade, the LTC funding envelopes have, on an overall basis, increased in excess of the CPI, as evidenced in the following table:

Historical Escalation of LTC Funding Rates

Funding Envelope	1995 ($ per resident per day)	2005 ($ per resident per day)	Compound Annual Growth Rate
Nursing and personal care*	$ 42.05	$ 68.19	4.95%
Programs and support services	$ 2.51	$ 6.60	10.15%
Accommodation:			
Food	$ 4.26	$ 5.34	2.29%
Other accommodation	$ 34.61	$ 44.42	2.53%
CPI			2.00%

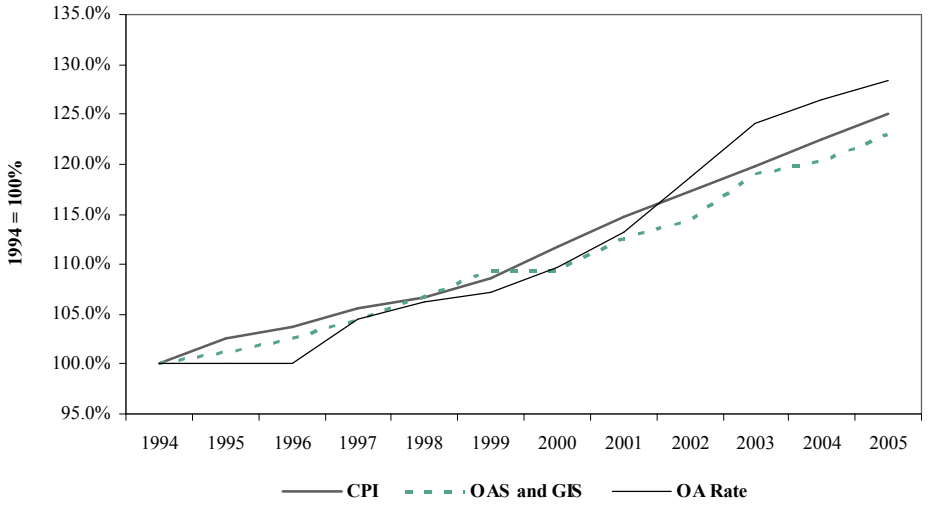
Source: 1995 funding envelope rates per Leisureworld management records. 2005 rates per MOHLTC Memorandum to Cardinal Facility Administrators dated July 26, 2005. CPI per Statistics Canada.
* Based on a Case Mix Index (''CMI'') of 100. The CMI is a measure of the resources a home requires to care for its residents; the average provincial CMI is set at 100.

The amount of the accommodation envelope is calculated by the MOHLTC based in part on the payments received by residents who receive Old Age Security (''OAS'') and Guaranteed Income Supplement (''GIS'') payments from the Canadian federal government. OAS is available to all residents of Canada who are 65 or older and who meet residence requirements, and GIS is provided to those who receive OAS with little or no other income. OAS and GIS benefit rates are reviewed in January, April, July and October of each year to reflect increases in the cost of living as measured by the CPI. Thus, while not explicitly linked to the CPI, the accommodation rate has tended to increase historically in line with the CPI.

Although the amount of the accommodation envelope for 2004 and 2005 was increased by the MOHLTC in July 2004 and again in July 2005, resident co-payment amounts were frozen for the next following 12-month period at their then current level. The difference between the resident co-payment amounts and the applicable accommodation envelope amount has been funded by the MOHLTC during such 12-month periods.

The following chart compares the cumulative rate of increase in the CPI, the OAS and GIS increase announced by the federal government and the OA component of the accommodation envelope for the period 1994-2005:

Comparison of Cumulative Historical Other Accommodation Rates



Source: CPI Statistics Canada. OAS and GIS per Social Development Canada (GIS supplement for a single person or the spouse/common law partner of a non-pensioner). OA Rate per Leisureworld management records.

Recent Government Initiatives

In light of the demographic and other trends described above, and the time required to construct LTC Facilities, the Ontario provincial government has been motivated to seek ways to encourage development of new facilities and programs to meet anticipated needs of seniors. Since some seniors who cannot find appropriate alternative care may be forced to remain in CCC hospitals, governments are motivated to promote facilities such as LTC Facilities, as they are less costly alternatives to CCC hospitals.

In 1998, the Province of Ontario announced a plan to provide 20,000 new beds in LTC Facilities over an eight-year period (the ''1998 Initiative''), representing an increase in supply of approximately 35%. In March 1999, the government announced that the 20,000 new beds would be completed by 2004. The final large-scale tender for bed licences in LTC Facilities under the 1998 Initiative occurred in May 2001 with licences for approximately 6,600 beds awarded. As at July 7, 2005, 19,039 beds had been built with another 552 under development.

In 1998, the MOHLTC introduced new mandatory facility design standards for new LTC Facilities to replace the previous standards, which had been in effect from 1972. At that time, all existing LTC Facilities were reviewed by a MOHLTC Compliance Plan Review Board and categorized as:

- Class A Facilities. Facilities which meet or exceed the 1998 design standards;
- Class B Facilities. Facilities which exceed the original 1972 standards, but fall short of the 1998 design standards;
- Class C Facilities. Facilities which meet the original 1972 design standards; or
- Class D Facilities. Facilities which fail to meet the 1972 standards and must be upgraded by the end of 2006.

To encourage improvement of compliance with the design standards for LTC Facilities, the MOHLTC provides compliance incentives to operators of LTC Facilities in a per resident per day amount. See ''– Capital Cost Funding'' and ''– Structural Compliance Premiums''.

DESCRIPTION OF THE FUND

General

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to the Fund Declaration of Trust. The Fund qualifies as a "mutual fund trust" for the purposes of the Tax Act.

The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Fund Declaration of Trust, which summary does not purport to be complete and is subject to and qualified in its entirety by the full text of the Fund Declaration of Trust. Reference should be made to the Fund Declaration of Trust for a complete description of the Units and the full text of its provisions (see "Material Contracts").

Activities of the Fund

The Fund Declaration of Trust provides that the Fund is restricted to:

(i) investing in and otherwise dealing with securities issued by MPIIT and the securities of any other person involved directly or indirectly in the Power Business or in such other business or activity as may be approved by a majority of the Trustees (including a majority of the Trustees independent of the Manager, acting as administrator);

(ii) temporarily holding cash in interest-bearing accounts, short-term government debt or short-term investment grade corporate debt for the purposes of paying the expenses and liabilities of the Fund, paying amounts payable by the Fund in connection with the redemption of any Units or other securities of the Fund and making distributions to Unitholders;

(iii) issuing Units or securities convertible into Units (i) for cash, (ii) in satisfaction of any non-cash distribution, (iii) in order to acquire securities, or (iv) pursuant to any distribution reinvestment plans, incentive option plans or other compensation plans, if any, established by the Fund;

(iv) issuing debt securities or otherwise borrowing or encumbering the assets of the Fund;

(v) guaranteeing the payment of any indebtedness, liability or obligation of MPIIT and its Affiliates, or the performance of any obligation of MPIIT and its Affiliates, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of its assets as security for such guarantee, and subordinating its rights under the MPIIT Notes to other indebtedness;

(vi) disposing of any part of the assets of the Fund;

(vii) issuing or redeeming rights and Units pursuant to any unitholder rights plan adopted by the Fund;

(viii) repurchasing securities issued by the Fund;

(ix) satisfying the obligations, liabilities or indebtedness of the Fund; and

(x) undertaking all other usual and customary actions for the conduct of the activities of the Fund in the ordinary course as are approved by the Trustees from time to time, or as are contemplated by the Fund Declaration of Trust;

provided the Fund will not undertake any activity, take any action, omit to take any action or make any investment that would result in the Fund not being considered a "mutual fund trust" for purposes of the Tax Act, or would result in the Units being treated as "foreign property" for the purposes of the Tax Act.

Units

An unlimited number of Units may be issued pursuant to the Fund Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains (other than net realized capital gains distributed to redeeming Unitholders) or other amounts, and in the net assets of the Fund in the event of the termination or winding-up of the Fund.

All Units are of the same class with equal rights and privileges. Each Unit entitles the holders thereof to one vote for each whole Unit held at all meetings of Unitholders. Except as set out under "- Redemption at the Option of Unitholders" below, the Units have no conversion, retraction, redemption or pre-emptive rights.

Issuance of Units

The Fund Declaration of Trust provides that Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine, including pursuant to any unitholder rights plan or any incentive option or other compensation plan established by the Fund. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a *pro rata* basis to the extent that the Fund does not have available cash to fund such distribution. The Fund Declaration of Trust also provides, unless the Trustees determine otherwise, that immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be automatically consolidated such

that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution, except where tax was required to be withheld in respect of the Unitholder's share of the distribution. In this case, each certificate, if any, representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts so distributed represent income, non-resident holders will be subject to withholding tax and the consolidation will not result in such non-resident Unitholders holding the same number of Units. Such non-resident Unitholders will be required to surrender the certificates, if any, representing their original Units in exchange for a certificate representing their post-consolidation Units.

Trustees

The Fund Declaration of Trust provides that the Fund must have a minimum of four and a maximum of ten trustees, as determined from time to time by the Trustees. Presently, the Fund has four Trustees (see "Trustees, Management and Operations – Trustees"). Each of the Trustees, other than the Manager's appointee, is elected by Unitholders and is "independent" (as such term is defined under section 1.4 of Multilateral Instrument 52-110 — *Audit Committees*). During the term of the Administration Agreement, the Manager is entitled to appoint one Trustee. The term of office of any Trustee continues until the next annual meeting of Unitholders following his or her election or appointment or until the date on which his or her successor is elected or appointed, or earlier if he or she dies, resigns, or is removed or disqualified, or until his or her term of office is terminated for any other reason in accordance with the Fund Declaration of Trust.

The Fund Declaration of Trust provides that, subject to its terms and conditions, the Trustees have full, absolute and exclusive power, control and authority over the assets of the Fund and over the affairs of the Fund to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the assets of the Fund and shall supervise the investments and conduct the affairs of the Fund. Subject to such terms and conditions, the Trustees are responsible for, among other things:

- acting for, voting on behalf of and representing the Fund as a holder of MPIIT Units, MPIIT Notes and other securities of MPIIT;
- maintaining records and providing reports to Unitholders;
- supervising the activities and managing the investment and affairs of the Fund;
- effecting payments of Distributable Cash from the Fund to Unitholders; and
- voting in favour of the Fund's nominees to serve as MPIIT Trustees.

Any one or more of the Trustees may resign upon 30 days' written notice to the Fund, unless such resignation would cause the number of remaining Trustees to be less than a quorum. Other than the Manager's appointee, the Trustees may be removed by a resolution passed by Ordinary Resolution and the vacancy created by the removal or resignation must be filled at the same meeting, failing which it may be filled by the affirmative vote of a quorum of the Trustees.

A quorum of the Trustees, being the majority of the Trustees then holding office, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees or from a failure of the Unitholders to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the required number of Trustees, the Trustees will promptly call a special meeting of the Unitholders to fill the vacancy. If the Trustees fail to call that meeting or if there are no Trustees then in office, any Unitholder may call the meeting. The Trustees may, between annual meetings of Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Unitholders, but the number of additional Trustees will not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders.

The Fund Declaration of Trust provides that the Trustees must act honestly and in good faith with a view to the best interests of all the Unitholders and in connection with that duty they must exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Fund Declaration of Trust provides that each Trustee is entitled to indemnification from the Fund in respect of the exercise of the Trustee's powers and the discharge of the Trustee's duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of all the Unitholders or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the Trustee had reasonable grounds for believing that his/her conduct was lawful.

Distribution Policy

The Fund's policy is to make distributions of its available cash, less estimated cash amounts required for expenses and other obligations of the Fund, cash redemptions of Units and any tax liability, to the maximum extent possible to the Unitholders. Cash distributions are payable to Unitholders of record on the last business day of each month for which a distribution is declared and are paid on the last business day of the following month.

The Fund may make additional distributions in excess of monthly distributions during the year, as the Trustees may determine.

Any income of the Fund which is applied to any cash redemptions of Units or is otherwise unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have an income tax liability under Part I of the Tax Act, be distributed to Unitholders in the form of additional Units. To the extent that the Fund does not have sufficient available cash to make cash distributions, the Fund may issue additional Units to Unitholders in lieu of making such distribution in cash. Those additional Units will be issued under exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

Redemption at the Option of Unitholders

Units are redeemable at any time on demand by the holders thereof. As the Units are issued in book-entry form, a Unitholder who wishes to exercise the redemption right must obtain a redemption notice form from the Unitholder's investment dealer who is required to deliver the completed redemption notice form to the Fund at its head office and to the Canadian Depository for Securities Limited ("CDS"). Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption shall be surrendered (including the right to receive any distributions thereon) and the holder thereof shall be entitled to receive a price per Unit (the "Redemption Price") equal to the lesser of:

(i) 90% of the Market Price of a Unit calculated as of the date on which the Units were surrendered for redemption (the "Redemption Date"); and

(ii) 100% of the Closing Market Price on the Redemption Date.

The aggregate Redemption Price payable by the Fund in respect of all Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment no later than the last day of the month following the month during which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that:

(i) the total amount payable by the Fund in respect of those Units and all other Units tendered for redemption in the same calendar month shall not exceed $50,000, provided that the Trustees may, in their sole discretion, waive this limitation in respect of all Units tendered for redemption in any calendar month;

(ii) at the time the Units are tendered for redemption, the outstanding Units shall be listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and

(iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten-day trading period ending on the Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of one or more of the foregoing limitations, then each Unit tendered for redemption will, subject to any applicable regulatory approvals, be redeemed by way of a distribution *in specie*. In such circumstances, Series 1 MPIIT Notes and MPIIT Units of a value equal to the Redemption Price will be redeemed by MPIIT in consideration of the issuance to the Fund of Series 3 MPIIT Notes and Series 2 MPIIT Notes, respectively. The Series 2 MPIIT Notes and the Series 3 MPIIT Notes will then be transferred to a wholly-owned subsidiary of the Fund in exchange for Series 2 Exchange Notes and Series 3 Exchange Notes, respectively. The Series 2 Exchange Notes and Series 3 Exchange Notes will have terms similar to the Series 2 MPIIT Notes and Series 3 MPIIT Notes, respectively, except that the interest rates on the Series 2 Exchange Notes and Series 3 Exchange Notes will be 0.05% less than the interest rates on the Series 2 MPIIT Notes and Series 3 MPIIT Notes. The Series 2 Exchange Notes and Series 3 Exchange Notes will then be distributed in satisfaction of the Redemption Price. No fractional Series 2 Exchange Notes or Series 3 Exchange Notes in integral multiples of less than $100 will be distributed and, where the number of securities of MPIIT to be received by a Unitholder includes a fraction or a multiple less than $100, that number shall be rounded to the next lowest whole number or integral multiple of $100. The Fund will be entitled to all interest paid on the MPIIT Notes and the distributions paid on the MPIIT Units on or before the date of the distribution *in specie*. Where the Fund makes a distribution *in specie* of a *pro rata* number of securities on the redemption of Units of a Unitholder, the Fund currently intends to designate to that Unitholder any income or capital gain realized by the Fund as a result of the redemption and the distribution of those securities to the Unitholder.

It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Units. Series 2 Exchange Notes and Series 3 Exchange Notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in Series 2 Exchange Notes and Series 3 Exchange Notes and they may be subject to resale restrictions under applicable securities laws. Series 2 Exchange Notes and Series 3 Exchange Notes so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, depending upon the circumstances at the time.

Repurchase of Units

The Fund may, from time to time, purchase Units for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such repurchase will constitute an "issuer bid" under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Meetings of Unitholders

The Fund Declaration of Trust provides that meetings of Unitholders must be called and held annually for the presentation of the audited financial statements of the Fund, the appointment of Trustees, the appointment of auditors of the Fund and the transaction of such other business as Unitholders are entitled to vote upon. The Fund Declaration of Trust provides that the Unitholders are entitled to pass resolutions that will bind the Fund only with respect to:

- the election or removal of Trustees;
- the appointment or removal of nominees of the Fund chosen by the Unitholders to serve as MPIIT Trustees (except filling casual vacancies);
- the appointment or removal of the auditors of the Fund;

- the appointment of an inspector to investigate the performance by the Trustees in respect of their responsibilities and duties in respect of the Fund;
- the approval of amendments to the Fund Declaration of Trust (but only in the manner described below under "- Amendments to the Fund Declaration of Trust");
- the termination of the Fund;
- the sale of all or substantially all of the assets of the Fund;
- the exercise of certain voting rights attached to the securities of MPIIT held by the Fund (see "–Exercise of Certain Voting Rights Attached to Securities of MPIIT");
- the ratification of any Unitholder rights plan, distribution reinvestment plan, distribution reinvestment and Unit purchase plan, Unit option plan or other compensation plan contemplated by the Fund Declaration of Trust requiring Unitholder approval;
- the dissolution of the Fund prior to the end of its term;
- the arrangement, amalgamation or other merger of the Fund; and
- any other matters required by securities law, stock exchange rules or other laws or regulations to be submitted to Unitholders for their approval.

No other action taken by Unitholders or any other resolution of the Unitholders at any meeting will in any way bind the Trustees.

A resolution with respect to (i) the election or removal of Trustees; (ii) the appointment or removal of nominees of the Fund chosen by the Unitholders to serve as MPIIT Trustees (except filling casual vacancies); (iii) the appointment or removal of the auditors of the Fund; (iv) the exercise of certain voting rights attached to the securities of MPIIT held by the Fund, and (v) any other matters required by securities law, stock exchange rules or other laws or regulations to be submitted to the Unitholders for their approval must be passed by Ordinary Resolution. The balance of the foregoing matters must be passed by Special Resolution. A meeting of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened, except in certain circumstances, if requisitioned by the holders of not less than 5% of the Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxy-holder need not be a Unitholder. Two persons present in person holding personally or representing as proxies at least 10% of the votes attached to all outstanding Units will constitute a quorum for the transaction of business at all meetings.

The Fund Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a "mutual fund trust" for the purposes of the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Fund Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of more than 49.9% of the Units. The Trustees, in their sole discretion, may require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the Trustees become aware that the beneficial owners of at least 49.9% of the Units then outstanding are, or may be, non-residents or that such a situation is imminent, the transfer agent and registrar may make a public announcement thereof and shall not accept a subscription for Units from, or issue or register a transfer of Units to, a person unless the person provides a

declaration that the person is not a non-resident. If, notwithstanding the foregoing, the Trustees, in their sole discretion, determine that 49.9% or more of the Units are held by non-residents, the Trustees may send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days and, in the interim, shall suspend the voting and distribution rights attached to such Units. If the persons receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents within such period, the Trustees may, on behalf of such persons, sell such Units. Upon such sale, the affected holders shall cease to be holders of the Units and their rights shall be limited to receiving the net proceeds of such sale upon surrender of the certificates representing such Units.

Amendments to the Fund Declaration of Trust

The Fund Declaration of Trust contains provisions that allow it to be amended or altered from time to time by the Trustees with the consent of the Unitholders by Special Resolution.

The Trustees, in their discretion and without the approval of the Unitholders, are entitled to make certain amendments to the Fund Declaration of Trust, including amendments:

(i) which are required for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or the Fund, including ensuring that the Fund continues to qualify as a "mutual fund trust" and the Units do not constitute "foreign property", each within the meaning of the Tax Act;

(ii) which provide additional protection or added benefits for the Unitholders, provided that the Trustees receive a legal opinion from counsel to this effect;

(iii) to remove any conflicts or inconsistencies in the Fund Declaration of Trust or to make minor corrections which are necessary or desirable and not prejudicial to the Unitholders; and

(iv) which are necessary or desirable as a result of changes in tax laws.

Notwithstanding the previous sentence, the Trustees may not amend the Fund Declaration of Trust in a manner which would result in (a) the Fund failing to qualify as a "mutual fund trust" under the Tax Act or (b) the Units being treated as "foreign property" for the purposes of the Tax Act.

Term of the Fund

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on March 15, 2004. On a date selected by the Trustees, which is not more than two years prior to the expiry of the term of the Fund, the Trustees are obligated to commence to wind-up the affairs of the Fund so that it will terminate on the expiry of the term. At any time prior to the expiry of the term of the Fund, the Unitholders may by Special Resolution require the Trustees to commence the termination, liquidation or winding-up of the affairs of the Fund.

The Fund Declaration of Trust provides that, upon being required to commence the termination, liquidation or winding-up of the affairs of the Fund, the Trustees will give notice thereof to the Unitholders, which notice shall designate the time or times at which Unitholders may surrender their Units for cancellation and the date at which the register of Units will be closed. After the date the register is closed, the Trustees shall proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for such purpose shall, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Unitholders, sell and convert into money the MPIIT Units, the MPIIT Notes and all other assets comprising the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the assets of the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities

and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees shall, subject to obtaining all necessary regulatory approvals, distribute the remaining part of the proceeds of the sale of the MPIIT Units, the MPIIT Notes and other assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their *pro rata* interests. If the Trustees are unable to sell all or any of the MPIIT Units, the MPIIT Notes or other assets which comprise part of the Fund by the date set for termination, the Trustees may distribute the remaining MPIIT Units, the MPIIT Notes or other assets *in specie* directly to the Unitholders in accordance with their *pro rata* interests subject to obtaining all required regulatory approvals.

Take-over Bids

The Fund Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Units and not less than 90% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or Associates or Affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the take-over bid on the terms on which the offeror acquired Units from Unitholders who accepted the take-over bid.

Exercise of Certain Voting Rights Attached to Securities of MPIIT

The Fund Declaration of Trust provides that the Fund will not vote any securities of MPIIT held by the Fund to authorize any of the following transactions:

- any sale, lease or other disposition of all or substantially all of the assets of MPIIT or Cardinal LP other than in the ordinary course of business or in connection with an internal reorganization of MPIIT or Cardinal LP;
- any amalgamation, arrangement or other merger of MPIIT or Cardinal LP with any other entity, except in conjunction with an internal reorganization of MPIIT or Cardinal LP;
- any material amendment to the Note Indenture other than in contemplation of a further issuance of MPIIT Notes to the Fund that are identical in all material respects to the MPIIT Notes issued in connection with the Initial Public Offering or in conjunction with an internal reorganization of MPIIT or Cardinal LP;
- the winding-up or dissolution of MPIIT or Cardinal LP prior to the end of the term of the Fund; or
- any material amendment to the constating documents of MPIIT or the CLP Agreement to change the authorized share capital or partnership interests which may be prejudicial to the Fund,

without the authorization of the Unitholders by Special Resolution.

Information and Reports

The Fund furnishes to Unitholders, in accordance with applicable securities laws, all financial statements of the Fund (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Trustees will provide to the Unitholders (along with notice of the meeting) all information as is required by applicable law and by the Fund Declaration of Trust to be provided to Unitholders.

Cardinal LP has undertaken to provide the Fund with a report of any material change that occurs in the affairs of Cardinal LP and with quarterly and annual financial statements accompanied by management's discussion and analysis for the period covered by such financial statements, in each case, in form and content that Cardinal LP

would be required to file with the Ontario Securities Commission if they were reporting issuers under Ontario securities laws. All of those reports and financial statements are to be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements under applicable securities laws relating to reporting of material changes in its affairs and the filing and delivery to securityholders of financial statements as required under applicable securities laws.

Management of the Leisureworld LTC Business have agreed to provide the Fund with any report or information necessary for it to comply with the Fund's continuous disclosure obligations under applicable securities laws and stock exchange rules.

Book-Entry Only System

Registration of interests in and transfers of the Units is made through a book-based system (the "Book-Entry System") administered by CDS. CDS retains a global certificate registered in the name of CDS & Co. as CDS' nominee, evidencing the aggregate number of Units issued and outstanding. Units may be purchased, transferred and surrendered for redemption through a CDS Participant. All rights of Unitholders must be exercised through, and all payments or other property to which a Unitholder is entitled are made or delivered by CDS or the CDS Participant through which the Unitholder holds such Units. Upon a purchase of any Units, the Unitholder will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Units are purchased.

The Fund has the option to terminate registration of the Units through the Book-Entry System, in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

Conflicts of Interest Restrictions and Provisions

The Fund Declaration of Trust contains "conflict of interest" provisions that serve to protect Unitholders without creating undue limitations on the Fund. The Fund Declaration of Trust contains provisions, similar to those contained in the *Canada Business Corporations Act*, that require each Trustee to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund. In any case, a Trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to (i) his remuneration as a Trustee or officer of the Fund, (ii) insurance or indemnity, or (iii) a contract or transaction with MPIIT or another wholly-owned subsidiary of the Fund.

DESCRIPTION OF MPIIT

The MPIIT Declaration of Trust contains provisions substantially similar to those of the Fund Declaration of Trust relating to the Fund. The principal differences between MPIIT Declaration of Trust and the Fund Declaration of Trust are those described below. The description below is a summary only and is qualified in its entirety by reference to the text of MPIIT Declaration of Trust and the Fund Declaration of Trust (see "Material Contracts").

General

MPIIT is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to the MPIIT Declaration of Trust. MPIIT's activities are generally restricted to conducting the Power Business and ancillary activities with a focus on operating power generation facilities in Canada and the U.S. MPIIT may also engage in such other businesses or activities as approved by a majority of the MPIIT Trustees (including a majority of the MPIIT Trustees independent of the Manager) including investments and other direct and indirect rights in other forms of energy-related projects, utility projects and infrastructure projects. MPIIT's activities include the following:

(i) acquiring, investing in, transferring and otherwise dealing with securities;

(ii) making loans, including to any subsidiaries of the Trust (the "MPIIT Group");

(iii) borrowing funds for the foregoing purposes;

(iv) issuing MPIIT Units;

(v) issuing debt securities, including MPIIT Notes;

(vi) redeeming MPIIT Units;

(vii) purchasing securities issued by MPIIT;

(viii) guaranteeing the obligations of the MPIIT Group, or any Affiliate of MPIIT, pursuant to any good faith debt for borrowed money incurred by the MPIIT Group or the Affiliate, as the case may be, and pledging securities issued by the MPIIT Group or any Affiliate of MPIIT, as security for such guarantee; and

(ix) satisfying the obligations, liabilities or indebtedness of MPIIT.

Currently, MPIIT does not hold securities of any entities other than Cardinal LP, Cardinal GP, LTC Holding LP or in connection with its short-term cash management.

Trustees/Corporate Governance

The MPIIT Declaration of Trust provides that MPIIT must have a minimum of four and a maximum of ten trustees, as determined from time to time by the MPIIT Trustees such that the number of MPIIT Trustees is equal to the number of Trustees. Presently, the number of MPIIT Trustees is set at four. Pursuant to the Fund Declaration of Trust, the MPIIT Units held by the Fund are to be voted by the Fund to cause the appointment as MPIIT Trustees of the same persons chosen by the vote of the Unitholders as Trustees. During the term of the Administration Agreement, the Manager is entitled to appoint one MPIIT Trustee, who may not be removed by Unitholders for so long as the Administration Agreement is in effect. The four MPIIT Trustees are the same individuals as the Trustees. The term of office of each MPIIT Trustee expires at each annual meeting of MPIIT Unitholders, unless a MPIIT Trustee otherwise resigns, is removed or is disqualified pursuant to the terms of the MPIIT Declaration of Trust.

Restrictions on MPIIT Trustees' Powers

The MPIIT Declaration of Trust provides that the MPIIT Trustees may not, without approval by Ordinary Resolution of the MPIIT Unitholders:

(i) take any action upon any matter which under applicable law (including policies of the Canadian securities commissions) or applicable stock exchange rules would require approval by Ordinary Resolution of the MPIIT Unitholders had MPIIT been a reporting issuer (or the equivalent) in the jurisdictions in which the Fund is a reporting issuer (or the equivalent) and had MPIIT Units been listed for trading on the stock exchanges where the Units are listed for trading; and

(ii) subject to certain exceptions, appoint or change the auditors of MPIIT.

Furthermore, the MPIIT Declaration of Trust provides that the MPIIT Trustees may not, without approval by Special Resolution or super-majority (as defined under applicable law or applicable stock exchange rules) of the MPIIT Unitholders:

(i) take any action upon any matter which under applicable law (including policies of the Canadian securities commissions) or applicable stock exchange rules would require approval by Special Resolution or supermajority (as defined or described therein) of the MPIIT Unitholders had MPIIT been a reporting issuer (or the equivalent) in the jurisdictions in which the Fund is a reporting issuer (or the equivalent) and had MPIIT Units been listed for trading on the stock exchanges where the Units are listed for trading;

(ii) amend the MPIIT Declaration of Trust except in certain limited circumstances similar to those under which the Fund Declaration of Trust may be amended without the consent of Unitholders;

(iii) materially amend the Note Indenture other than in connection with a further issuance of MPIIT Notes to the Fund that are identical in all respects to the MPIIT Notes issued in connection with the Initial Public Offering or in connection with an internal reorganization of MPIIT or Cardinal LP;

(iv) sell, lease or otherwise dispose of all or substantially all of the assets of MPIIT or, if the assets of Cardinal LP represent all or substantially all of the assets of MPIIT, Cardinal LP other than in the ordinary course of business or in connection with an internal reorganization of MPIIT or Cardinal LP;

(v) authorize the winding-up or dissolution of MPIIT or, if the assets of Cardinal LP represent all or substantially all of the assets of MPIIT, Cardinal LP, other than at the end of the term of the Fund;

(vi) authorize the amalgamation, arrangement or other merger of MPIIT or Cardinal LP with any other entity except in connection with an internal reorganization of MPIIT or Cardinal LP; or

(vii) if the assets of Cardinal LP represent all or substantially all of the assets of MPIIT, materially amend the CLP Agreement to change the partnership interests in a way which may be prejudicial to the MPIIT Unitholders.

Redemption Right

MPIIT Units are redeemable at any time on demand by the holders thereof upon delivery to MPIIT of a duly completed and properly executed notice requiring MPIIT to redeem MPIIT Units, in a form reasonably acceptable to the MPIIT Trustees, together with certificates representing the MPIIT Units to be redeemed. Upon receipt by MPIIT of the notice to redeem MPIIT Units, the holder of MPIIT Units tendered for redemption shall thereafter cease to have any rights with respect to such MPIIT Units other than the right to receive the redemption price for such MPIIT Units. The redemption price for each MPIIT Unit tendered for redemption will be equal to:

$$\frac{(A \times B) - C + D}{E}$$

Where:

A = the cash redemption price per Unit of the Fund calculated as of the close of business on the date MPIIT Units were so tendered for redemption by a MPIIT Unitholder;

B = the aggregate number of Units of the Fund outstanding as of the close of business on the date MPIIT Units were so tendered for redemption by a MPIIT Unitholder;

C = the aggregate unpaid principal amount of the Series 1 MPIIT Notes and accrued interest thereon and any other indebtedness held by or owed to the Fund and the fair market value of any other assets or investments held by the Fund (other than MPIIT Units) as of the close of business on the date MPIIT Units were so tendered for redemption by a MPIIT Unitholder;

D = the aggregate unpaid liabilities of the Fund (prior to the redemption of the Units of the Fund for such date) as of the close of business on the date the MPIIT Units were so tendered for redemption by a holder of MPIIT Units; and

E = the aggregate number of MPIIT Units outstanding held by the Fund as of the close of business on the date MPIIT Units were so tendered for redemption by a MPIIT Unitholder.

The MPIIT Trustees will also be entitled to call for redemption, at any time, all or part of the outstanding MPIIT Units registered in the name of the holders thereof other than the Fund at the same redemption price as described above for each MPIIT Unit called for redemption, calculated with reference to the date that the MPIIT Trustees approved the redemption of MPIIT Units.

The aggregate redemption price payable by MPIIT in respect of any MPIIT Units tendered for redemption by the holders thereof during any month will be satisfied, at the option of MPIIT Trustees, (i) in immediately available funds by cheque; (ii) by the issuance to or to the order of the holder whose MPIIT Units are to be redeemed of such aggregate amount of Series 2 MPIIT Notes as is equal to the aggregate redemption price payable to such holder of MPIIT Units rounded down to the nearest $100, with the balance of any such aggregate redemption price not paid in Series 2 MPIIT Notes to be paid in immediately available funds by cheque; or (iii) by any combination of funds and Series 2 MPIIT Notes as the MPIIT Trustees shall determine in their discretion, in each such case payable or issuable on the last day of the calendar month following the calendar month in which MPIIT Units were so tendered for redemption. A holder of MPIIT Units whose MPIIT Units are tendered for redemption may elect, at any time prior to the payment of the redemption price, to receive Series 2 MPIIT Notes pursuant to (ii) above in the place of all or part of the funds otherwise payable, the amount of such Series 2 MPIIT Notes payable to be equal to the funds otherwise payable, rounded down to the nearest $100.

Distribution Policy

MPIIT's distribution policy is to make monthly cash distributions to the Fund of its net monthly cash receipts, after satisfaction of its interest obligations, if any, and less any estimated cash amounts required for expenses and other obligations of MPIIT, any cash redemptions or repurchases of MPIIT Units or MPIIT Notes and any tax liability. Such distributions will be paid on the last day of each month following each calendar month for which a distribution is declared and such distributions are intended to be received by the Fund prior to its related cash distribution to Unitholders.

The distribution declared in respect of the month ending December 31 in each year includes such amount in respect of the taxable income and net realized capital gains, if any, of MPIIT for such year as is necessary to ensure that MPIIT will not be liable for ordinary income taxes under the Tax Act in such year.

If the MPIIT Trustees determine that MPIIT does not have cash in an amount sufficient to make payment of the full amount of any distribution, the payment may include the issuance of additional MPIIT Units having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by MPIIT Trustees to be available for the payment of such distribution. The value of each MPIIT Unit so issued will be the redemption price thereof.

Any MPIIT Units issued to MPIIT Unitholders pursuant to a distribution *in specie* may be subject to resale and transfer restrictions and cannot be resold or transferred except as permitted by applicable securities law.

MPIIT Notes

MPIIT Notes are issuable in Canadian currency. MPIIT Notes are issuable in denominations of $100 and integral multiples of $100. No fractional MPIIT Notes will be distributed and where the number of MPIIT Notes to

be distributed includes a fraction, such number shall be rounded to the next lowest whole number. On closing of the Initial Public Offering MPIIT issued $161,689,970 principal amount of Series 1 MPIIT Notes to the Fund. On closing of the acquisition of the Leisureworld LTC Business, MPIIT issued $43,964,600 principal amount of Series 1 MPIIT Notes to the Fund.

Series 2 MPIIT Notes are reserved by MPIIT to be issued exclusively to holders of MPIIT Units as full or partial payment of the redemption price of MPIIT Units. Series 3 MPIIT Notes are reserved by MPIIT to be issued exclusively as full or partial payment of the redemption price of Series 1 MPIIT Notes.

In the event that Series 2 MPIIT Notes and Series 3 MPIIT Notes are issued to the Fund by MPIIT, such MPIIT Notes shall be transferred by the Fund to a wholly-owned subsidiary of the Fund in exchange for Series 2 Exchange Notes and Series 3 Exchange Notes. The Series 2 Exchange Notes and Series 3 Exchange Notes issued by the wholly-owned subsidiary of the Fund will have terms similar to the Series 2 MPIIT Notes and Series 3 MPIIT Notes, respectively, except that the interest rate on the Series 2 Exchange Notes and Series 3 Exchange Notes will be 0.05% less than the interest on the Series 2 MPIIT Notes and Series 3 MPIIT Notes.

Interest and Maturity

The Series 1 MPIIT Notes issued at closing of the Initial Public Offering are payable on demand, and mature on the 25th anniversary of their date of issuance and do not bear interest. Each Series 2 MPIIT Note will mature on a date which is no later than the first anniversary of the date of issuance thereof and bear interest at a market rate to be determined by the MPIIT Trustees at the time of issuance thereof, payable on the last day of each calendar month that such Series 2 MPIIT Note is outstanding. Each Series 3 MPIIT Note will mature on the same date as the Series 1 MPIIT Notes and bear interest at a market rate to be determined by the MPIIT Trustees at the time of issuance thereof, payable on the last day of each calendar month that such Series 3 MPIIT Note is outstanding.

Payment upon Maturity

On maturity, MPIIT will repay MPIIT Notes by paying to holders of MPIIT Notes in cash an amount equal to the principal amount of the outstanding MPIIT Notes which have then matured, together with accrued and unpaid interest thereon.

Redemption

MPIIT Notes are redeemable (at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, payable in cash) at the option of MPIIT prior to maturity.

Subordination

Payment of the principal amount and interest on MPIIT Notes is subordinated in right of payment to the prior payment in full of the principal of, and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness which is defined as all indebtedness, liabilities and obligations of MPIIT which, by the terms of the instrument creating or evidencing the same, will be expressed to rank in right of payment in priority to the indebtedness evidenced by the Note Indenture. The Note Indenture provides that upon any distribution of the assets of MPIIT in the event of any dissolution, liquidation, reorganization or other similar proceedings relative to MPIIT, the holders of all such senior indebtedness will be entitled to receive payment in full before the holders of MPIIT Notes are entitled to receive any payment.

Default

The Note Indenture provides that any of the following shall constitute an event of default:

(i) default in payment of the principal of the MPIIT Notes when the same becomes due and the continuation of such default for a period of 60 days;

(ii) default in payment of any interest due on any MPIIT Notes and continuation of such default for a period of 60 days;

(iii) default in the observance or performance of any other covenant or condition of the Note Indenture and continuance of such default for a period of 60 days after notice in writing has been given to the MPIIT Trustees specifying such default and requiring MPIIT to rectify the same; and

(iv) certain events of dissolution, liquidation, reorganization or other similar proceedings relative to MPIIT.

The provisions governing an event of default under the Note Indenture and remedies available thereunder do not provide protection to the holders of MPIIT Notes which would be comparable to the provisions generally found in debt securities issued to the public.

MPIIT Unit Certificates

As MPIIT Units are not intended to be issued to or held by any person other than the Fund, registration of interests in, and transfers of, MPIIT Units are not made through the Book-Entry System administered by CDS. Rather, holders of MPIIT Units receive certificates therefor.

Meetings of MPIIT Unitholders

Annual meetings of MPIIT Unitholders are held at such time and place as shall be prescribed by the MPIIT Trustees for the purpose of transacting such business as is provided under the MPIIT Declaration of Trust or as may properly be brought before the meeting.

DESCRIPTION OF CARDINAL LP

The description below is a summary only of the CLP Agreement, including the material attributes and characteristics of a partnership interest.

Activities

Cardinal LP's activities are generally restricted to conducting the Power Business and ancillary activities with a focus on operating power generation facilities in Canada and the U.S. Cardinal LP may also engage in such other businesses or activities as approved by a majority of the Cardinal GP's directors ("Cardinal GP Directors") (including a majority of the Cardinal GP Directors independent of the Manager), including investments and other direct and indirect rights in other forms of energy-related projects, utility projects and infrastructure projects.

Distribution Policy

Cardinal LP makes monthly distributions of distributable cash, provided that no distribution is made to the extent that, at the time of the distribution, and after giving effect to the distribution, all liabilities of Cardinal LP, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of Cardinal LP, exceed the fair market value of the assets of Cardinal LP.

Allocation of Profits and Losses

Profits and losses of Cardinal LP are allocated to Cardinal LP's partners for any taxable year in proportion to their then existing partnership interests.

A capital account is maintained for each partner to which is credited (i) the fair market value of the total capital contribution of such partner, net of liabilities secured by such capital contribution, and (ii) the amount of profits allocated to such partner. To each capital account there is debited (i) the amount of distributable cash distributed to such partner, (ii) the amount of any losses allocated to such partner and (iii) the fair market value of

any property distributed in kind to such partner. Notwithstanding the foregoing, Cardinal GP must maintain a minimum capital account balance of the lesser of (i) 0.1% of the total capital account balance for Cardinal LP and (ii) $500,000.

Cardinal GP

Cardinal GP is authorized to take any action of any kind and to do any and all things necessary or convenient to the conduct of Cardinal LP's business. Cardinal GP must conduct the affairs of Cardinal LP in the best interests of Cardinal LP and its partners, including the safekeeping and use of all funds and assets of Cardinal LP and the use thereof for the benefit of Cardinal LP.

Limited Liability

Cardinal LP operates in a manner as to ensure to the greatest extent possible the limited liability of MPIIT as its limited partner. If MPIIT loses its limited liability by reason of the negligence of Cardinal GP in performing its duties and obligations under the CLP Agreement, Cardinal GP must indemnify MPIIT against all claims arising from assertions that its liability is not limited as intended by the CLP Agreement.

Transfer of a Partnership Interest

A partnership interest in Cardinal LP is assignable subject to compliance with applicable law and the CLP Agreement. Each partner has a right of first refusal in respect of any partnership interest proposed to be transferred. No transferee of a partnership interest has the right to become a substituted partner unless: (i) the transferring partner executes an instrument setting forth the intention of such partner that the transferee become a partner in its place; (ii) the transferring partner and the transferee execute such other instruments as Cardinal GP may deem necessary to effect the admission of the transferee to the partnership, including an adoption by the transferee of the provisions of the CLP Agreement; (iii) a reasonable transfer fee is paid to Cardinal LP; and (iv) Cardinal GP has consented to such admission to the partnership, which consent may be withheld by Cardinal GP in its sole discretion.

Amendments to the CLP Agreement

Amendments may be made to the CLP Agreement by Cardinal GP with the consent of a majority in interest of the limited partners of Cardinal LP provided that, without the consent of the limited partners to be adversely affected by such amendment, the CLP Agreement may not be amended to (i) convert a limited liability partner's interest to a general partner's interest; (ii) modify the limited liability of a limited partner; (iii) alter the interest of a limited partner in profits, losses or distributions, or (iv) alter the fees or other compensation payable to a limited partner.

No material amendment may be made to the CLP Agreement in order to change the partnership interests in a way which may be prejudicial to the limited partners of Cardinal LP unless such amendment has been approved by a Special Resolution of the limited partners.

Cardinal GP, without the consent of the limited partners of Cardinal LP, may make amendments to the CLP Agreement to: (i) add to the representations, duties or obligations of Cardinal GP or surrender any right or power granted to Cardinal GP under the CLP Agreement, for the benefit of the limited partners; (ii) cure any ambiguity or correct or supplement any provision under the CLP Agreement which may be inconsistent with any other provisions thereof, or make any other provisions with respect to matters or questions arising under the CLP Agreement not inconsistent with the provisions of the CLP Agreement; and (iii) delete or add to any provision of the CLP Agreement required to be so deleted or added by the staff of the Securities and Exchange Commission, the Ontario Securities Commission or other governmental agency which deletion or addition is deemed by such commission, agency or official to be for the benefit or protection of the limited partners, provided that no such amendment shall be adopted unless the adoption thereof (i) is for the benefit of or not adverse to the interests of the limited partners; (ii) does not affect distributions or the allocation of profits and losses among the limited partners or between the limited partners and Cardinal GP; and (iii) does not affect the limited liability of the limited partners or the status of Cardinal LP as a partnership for Canadian or U.S. federal income tax purposes.

Restrictions on Cardinal GP's Powers

The CLP Agreement provides that Cardinal GP may not, without the approval by Special Resolution of the limited partners of Cardinal LP:

(i) sell, lease or otherwise dispose of all or substantially all of the assets of Cardinal LP other than in the ordinary course of business or in connection with an internal reorganization of Cardinal LP;

(ii) wind-up or dissolve Cardinal LP, other than at the end of the term of the Fund; or

(iii) proceed with the amalgamation, arrangement or other merger of Cardinal LP with any other entity except in connection with an internal reorganization of Cardinal LP.

Meetings of the Limited Partners

Meetings of the limited partners of Cardinal LP may be called by Cardinal GP or the limited partners for any matters on which the limited partners may vote. Upon receipt of a written request, either in person or by registered mail, stating the purpose of the meeting, Cardinal GP shall provide all limited partners, within ten days after receipt of such request, notification of a meeting and the purpose of such meeting. The presence in person or by proxy of a majority in interest of the limited partners shall constitute a quorum at all meetings of the limited partners, provided that where there is no such quorum, holders of a majority in interest of such limited partners present or represented at such meetings may adjourn the meeting from time to time without further notification, until a quorum has been obtained.

DESCRIPTION OF CARDINAL GP

Activities

Cardinal GP, as general partner of Cardinal LP, has exclusive authority to manage the business and affairs of Cardinal LP, to make all decisions regarding the business of Cardinal LP and to bind Cardinal LP. Cardinal GP is obliged to exercise its powers and discharge its duties honestly, in good faith and in the best interests of Cardinal LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in Cardinal GP to manage the business and affairs of Cardinal LP includes all authority necessary or incidental to carry out the objects, purposes and business of Cardinal LP.

In addition to the general responsibility for the management of the business and affairs of Cardinal LP, Cardinal GP, as general partner of Cardinal LP, is also responsible for all operating and maintenance services as may be necessary or advisable from time to time in order to operate and maintain the Cardinal Facility, including the following services (the "Operations Services"): (i) to operate and manage the Cardinal Facility in compliance with (1) all applicable laws including all permits and approvals required to operate the Cardinal Facility, (2) the operating plan and budget from time to time in effect (subject to deviation therefrom in an emergency situation), and (3) the operations and maintenance procedures, as updated from time to time, (4) industry practices, and (5) agreements pertaining to the Cardinal Facility or Future LP Facilities to which Cardinal LP or Cardinal GP is a party; (ii) to hire staff in accordance with the operating budget (other than the plant manager and other senior managers as determined by the Manager); (iii) to train, direct and otherwise manage the staff engaged at the Cardinal Facility; (iv) to secure and maintain a supply of spare parts, tools, supplies and consumables, and all equipment (including office equipment) and vehicles required for the proper discharge and performance of the Operations Services; (v) to maintain operations and maintenance procedures including (1) the Cardinal Facility's specific preventative maintenance procedures, including without limitation, sufficient procedures to maintain the gas turbine, boilers and associated equipment, steam turbine and auxiliaries, all rotating equipment water intakes, water treatment facilities, fuel handling equipment and environmental systems, (2) adequate safety and fire prevention measures and procedures, including without limitation, safety procedures for the safe operation and maintenance of primary equipment (particularly high voltage electrical components and systems), (3) adequate security measures and procedures, and (4) operating and maintenance logs for the Cardinal Facility; (vi) to identify the required improvements for the Cardinal Facility and facilitate changes thereto; (vii) to develop an annual operational and

capital expenditure budget for the Cardinal Facility in conjunction with the Manager; (viii) to develop the Cardinal Facility's annual business plan in conjunction with the Manager; (ix) to budget, schedule and manage a major maintenance schedule, such schedules defining outage time for regular overhaul work to be performed on the Cardinal Facility's boilers, gas turbine, steam turbine and major auxiliary equipment; (x) to perform, or cause to be performed, all maintenance for the Cardinal Facility in accordance with the operational and capital expenditures budget in effect from time to time; (xi) to maintain such books and records in connection with the performance of the Operations Services as is consistent with the operations and maintenance procedures; and (xii) to negotiate operating agreements in respect to the Cardinal Facility consistent with the annual operating budget and strategic plan of Cardinal LP and negotiate other agreements on behalf of Cardinal LP if directed to do so by the Manager. Cardinal GP shall be responsible for the provision of operating and maintenance services to any Future LP Facilities.

In addition, the Manager or Cardinal GP may, from time to time, appoint an independent engineer to, among other things, review and assess the operating results or performance of the Cardinal Facility and Future LP Facilities and the operating and maintenance of the Cardinal Facility and Future LP Facilities, the adequacy of actual or proposed operational and capital expenditure programs or any modifications thereto, and any opportunities to enhance the Cardinal Facility and Future LP Facilities.

Withdrawal or Removal of Cardinal GP

Cardinal GP may resign on not less than 180 days' prior written notice to the limited partners of Cardinal LP, provided that Cardinal GP may not resign if the effect would be to dissolve Cardinal LP.

Cardinal GP may not be removed unless: (i) Cardinal GP has committed a material breach of the CLP Agreement, which breach has continued for 30 days after notice, and that removal is approved by a special resolution of the partners of Cardinal LP; or (ii) the Cardinal GP Directors pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of Cardinal GP, or Cardinal GP commits certain other acts of bankruptcy or ceases to be a subsisting corporation. Prior to any resignation or removal of Cardinal GP as general partner of Cardinal LP, a successor general partner with the same ownership and governance structure at the relevant time must agree to act as general partner under the CLP Agreement.

DESCRIPTION OF LTC HOLDING LP

General

LTC Holding LP is a limited partnership established under the laws of the Province of Ontario for the purpose of acquiring, investing in, holding, transferring, disposing of or otherwise dealing with investments in securities and/or assets of Macquarie Master LP and its general partner, their successors, assigns and/or affiliates, as well as other corporations, partnerships, trusts and any other persons conducting business or otherwise involved in the seniors' housing industry and ancillary activities, and such other investments as the board of directors of LTC Holding GP may, in its discretion, determine, and to own, operate and lease assets and property in connection therewith. The following is a summary of the material attributes and characteristics of the partnership units (the ''LTC Holding LP Units'') of LTC Holding LP and certain provisions of the amended and restated LTC Holding LP limited partnership agreement dated October 18, 2005 (the ''LTC Holding LP Partnership Agreement'') which is not intended to be complete and is qualified in its entirety by reference to the provisions of the LTC Holding LP Partnership Agreement.

Partnership Units

LTC Holding LP is entitled to issue various classes of partnership interests. LTC Holding LP has issued (i) general partnership units to LTC Holding GP; (ii) Class A LP Units to MPIIT ("Class A Units"); and (iii) Class B LP Exchangeable Units ("Class B Exchangeable Units") to MSHL, LWC and OLTCI, each of which were vendors of the Leisureworld LTC Business.

Holders of Class A Units are entitled to notice of, and to attend and vote at, all meetings of holders of partnership units except as required by law and in certain specified circumstances in which the rights of a holder of another class of units are affected.

The Class B Exchangeable Units have economic rights equivalent in all material respects to those of the Units. The principal terms of the Class B Exchangeable Units are: (i) subject to customary anti-dilution provisions, the Class B Exchangeable Units are exchangeable in minimum increments of 457,666 Class B Exchangeable Units, in respect of MSHL and LWC and 45,766 Class B Exchangeable Units in respect of OLTCI on a one-for-one basis for Units at the option of the holder, at any time unless such holder is (a) a non-resident of Canada or a partnership unless all of the partners of such partnership are residents of Canada, and (b) the exchange would jeopardize the Fund's status as a ''unit trust'', ''mutual fund trust'' or ''registered investment'' under the Tax Act (together, the ''Exchange Prohibition Conditions''); (ii) so long as the Exchange Prohibition Conditions are not in effect on October 18, 2015, any outstanding Class B Exchangeable Units will be automatically exchanged (the ''Automatic Exchange'') for Units on a one-for-one basis, provided that if the Exchange Prohibition Conditions are then in effect, the Automatic Exchange will occur on the fifth business day after the Exchange Prohibition Conditions are no longer in effect; (iii) each Class B Exchangeable Unit entitles the holder thereof to receive distributions from LTC Holding LP at the same time as and equal to distributions made by the Fund on a Unit; (iv) except as required by law, holders of the Class B Exchangeable Units are not entitled to vote at any meeting of the limited partners of LTC Holding LP except in respect of a matter which specifically affects the Class B Exchangeable Units; and (v) an offeror may acquire the Class B Exchangeable Units as set out under ''– Exchange Agreement''. The distributions on the Class B Exchangeable Units will be supported through a support arrangement contained in the Exchange Agreement.

Distributions

LTC Holding LP distributes its distributable cash to the maximum amount possible. Distributions are made on the Class A Units and Class B Exchangeable Units within 30 days of the end of each month and the distributions to MPIIT are intended to be received by MPIIT prior to its related payments and distributions to the Fund. Distributions on the Class B Exchangeable Units are made payable at the same time and in the same amount as the Units on a one-for-one basis. Distributions on Class A Units are paid after providing for the full distributions or loans in lieu thereof on Class B Exchangeable Units. Holders of Class B Exchangeable Units have the right to request non-interest bearing loans from LTC Holding LP in lieu of the distributions for any fiscal period, which are satisfied solely by a set off against such distributions, which are paid immediately following such fiscal period.

Distributions are payable to the holders of Class A Units of record on the last day of the period in respect of which the distribution is to be paid.

Distributable cash represents, in general, all of LTC Holding LP's cash, including, as applicable, such amount of the cash reserves, if any, established and maintained by LTC Holding LP as LTC Holding GP may, in its sole discretion, designate in respect of a particular distribution period for purposes of stabilizing, within any year, the monthly distributions to Unitholders, after:

(i) satisfaction of its debt service obligations (principal and interest) under credit facilities or other agreements with third parties;

(ii) satisfaction of its other liabilities and expense obligations; and

(iii) amounts that LTC Holding GP may reasonably consider to be necessary to provide for the payment of any costs or expenses that have been or are reasonably expected to be incurred in the activities and operations of LTC Holding LP (to the extent that such costs or expenses have not otherwise been taken into account).

Allocation of Net Income and Losses

The income or loss of LTC Holding LP for each fiscal year is allocated to LTC Holding GP, as general partner, and to the limited partners as to 0.001% and 99.999%, respectively. Generally, the income for tax purposes of LTC Holding LP for a particular fiscal year is allocated to each limited partner by multiplying the total income of LTC Holding LP allocated to all limited partners by a fraction, the numerator of which is the total sum of the cash distributions received by that limited partner with respect to that fiscal year and the denominator of which is the total amount of the cash distributions made by LTC Holding LP to all limited partners with respect to that fiscal year,

subject to certain exceptions. The amount of income allocated to a limited partner may exceed or be less than the amount of cash distributed by LTC Holding LP to that limited partner.

Income and loss of LTC Holding LP for accounting purposes is allocated to each partner in the same proportion as income or loss that is allocated for tax purposes.

If, with respect to a given fiscal year, no cash distribution is made by LTC Holding LP to its partners, or LTC Holding LP has a loss for tax purposes, one-twelfth of the income or loss, as the case may be, for tax purposes of LTC Holding LP for that fiscal year will be allocated to LTC Holding GP, as general partner, and the limited partners at the end of each month ending in that fiscal year, as to 0.001% and 99.999%, respectively, and to each limited partner in the proportion that the number of LTC Holding LP Units held at each of those dates by that limited partner is of the total number of LTC Holding LP Units issued and outstanding at each of those dates (for such purposes treating all classes of limited partners as one).

The fiscal year end of LTC Holding LP is December 31.

To the extent that there is insufficient cash in LTC Holding LP to make the required distribution in respect of the Class B Exchangeable Units, pursuant to the Exchange Agreement, LTC Holding LP will be indirectly funded in the form of a contribution to LTC Holding LP to the extent of such shortfall.

Reimbursement of LTC Holding GP

LTC Holding LP reimburses LTC Holding GP for all direct costs and expenses incurred by LTC Holding GP in the performance of its duties under the LTC Holding LP Partnership Agreement on behalf of LTC Holding LP.

Limited Liability

LTC Holding LP operates in a manner as to ensure, to the greatest extent possible, the limited liability of the limited partners. Limited partners may lose their limited liability in certain circumstances. If limited liability of the limited partners is lost by reason of the negligence of LTC Holding GP in performing its duties and obligations under the partnership agreement, LTC Holding GP has agreed to indemnify the limited partners and former limited partners against all claims arising from assertions that their respective liabilities are not limited as intended by the LTC Holding LP Partnership Agreement. However, since LTC Holding GP has no significant assets or financial resources, this indemnity may have nominal value. In addition, limited partners of LTC Holding LP shall have no obligation to contribute funds to the limited partnership to fund its obligations or liabilities.

Transfer of Partnership Units

Subject to the approval of LTC Holding GP and compliance with applicable securities laws, LTC Holding LP Units are fully transferable; provided, however, that no LTC Holding LP Units may be transferred to a person who is not ‘‘resident in Canada’’ or to a partnership unless all of the partners of such partnership are ‘‘resident in Canada’’, in all cases, for purposes of the Tax Act. Class B Exchangeable Units may only be transferred to an ‘‘affiliate’’ (as defined in the Canada Business Corporations Act) or spouse or child of the holder of such Class B Exchangeable Units or otherwise for estate planning purposes. A LP Unit is not transferable in part, and no transfer of a LP Unit will be accepted by LTC Holding GP unless a transfer form, duly completed and signed by the registered holder of the LP Unit, has been remitted to LTC Holding GP. A transferee of a LP Unit must provide to LTC Holding GP such other instruments and documents as LTC Holding GP may require in appropriate form completed and executed in a manner acceptable to LTC Holding GP and must pay the administration fee, if any, required by LTC Holding GP. A transferee of a LP Unit will become a limited partner and will be subject to the obligations and entitled to the rights of a limited partner under the LTC Holding LP Partnership Agreement on the date on which the transfer is recorded. The foregoing transfer provisions do not apply in respect of the exchange of the Class B Exchangeable Units.

Amendments to the LTC Holding LP Partnership Agreement

The LTC Holding LP Partnership Agreement may only be amended if the proposed amendment will not adversely affect any holder of LTC Holding LP Units or with the consent of the holders of at least 66⅔% of the outstanding LTC Holding LP Units voted on the amendment at a duly constituted meeting or by a written resolution of partners holding more than 66⅔% of the outstanding LTC Holding LP Units entitled to vote at a duly constituted meeting. Notwithstanding the foregoing,

(a) no amendment will be permitted to be made to the LTC Holding LP Partnership Agreement altering the ability of the limited partners to remove LTC Holding GP involuntarily, changing the liability of any limited partner, changing the priority of distributions provided for in the LTC Holding LP Partnership Agreement, changing the right of a partner to vote at any meeting, adversely affecting the rights, privileges or conditions attaching to any of the LTC Holding LP Units or changing LTC Holding LP from a limited partnership to a general partnership, in each case, without the unanimous approval of the partners;

(b) no amendment can be made to the LTC Holding LP Partnership Agreement which would adversely affect the rights and obligations of any particular partner without similarly affecting the rights and obligations of all other partners without the unanimous approval of the partners; and

(c) no amendment which would adversely affect the rights and obligations of LTC Holding GP, as general partner, will be permitted to be made without its consent.

LTC Holding GP may call meetings of partners and will be required to convene a meeting on receipt of a request in writing of the holder(s) of not less than 66⅔% of the outstanding Class A Units. Each partner is entitled to one vote for each Class A Unit held. A quorum of a meeting of partners consists of two or more partners present in person or by proxy. Notwithstanding the foregoing, if notice of a meeting of partners is given to all of the partners and a quorum is not present, then a meeting of partners may thereafter be held on ten days' prior written notice to all of the partners of the second meeting to transact the business set forth in the original notice in respect of that meeting and such business may be transacted by the partners in attendance at the meeting.

Exchange Agreement

MSHL, LWC and OLTCI own all of the Class B Exchangeable Units. Assuming exchange of all of the Class B Exchangeable Units for Units of the Fund, MSHL, LWC and OLTCI would own, in aggregate, approximately 10.8% of the total number of Units outstanding following such exchange and the Fund would indirectly own 45% of LSCLP and the Leisureworld LTC Business. MSHL, LWC and OLTCI have agreed not to transfer any of the Class B Exchangeable Units held by them, other than to an ''affiliate'' (as defined in the *Canada Business Corporations Act*) or spouse or child of the holder of such Class B Exchangeable Units or otherwise for estate planning purposes or to an offeror in connection with a take-over bid for the Units.

The Fund, MPIIT, LTC Holding LP and MSHL, LWC and OLTCI entered into an exchange agreement dated October 18, 2005 (the ''Exchange Agreement''). The Exchange Agreement and the provisions of the Class B Exchangeable Units grant MSHL, LWC and OLTCI the right to require LTC Holding LP and the Fund to directly or indirectly exchange each Class B Exchangeable Unit for a Unit on a one-for-one basis (subject to customary anti-dilution provisions) unless the Exchange Prohibition Conditions are in effect. The Exchange Agreement may be assigned in whole or in part by the holders of Class B Exchangeable Units in certain circumstances. The Exchange Agreement also provides that, so long as the Exchange Prohibition Conditions are not in effect on October 18, 2015, any outstanding Class B Exchangeable Units will be automatically exchanged for Units on a one-for-one basis, provided that if the Exchange Prohibition Conditions are in effect, then the Automatic Exchange will occur on the fifth business day after the Exchange Prohibition Conditions are no longer in effect.

MSHL and LWC have agreed, and each transferee of the Class B Exchangeable Units from them, will agree, that they will not acquire any additional Units (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 consent of the Fund until October 18, 2015. MSHL and LWC have agreed, and each transferee of Class B

Exchangeable Units from them will also agree, not to sell more than 5% of the aggregate outstanding Units in any four-month period and to not 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.

In the event of a take-over bid (as defined in the *Securities Act* (Ontario)) for the Units, a holder may exchange its Class B Exchangeable Units for Units on a conditional basis in order to tender to such bid or, if such holder does not tender and Units representing more than 90% of the aggregate number of outstanding Units and Units for which outstanding Class B Exchangeable Units may be exchanged are tendered to such bid, then the offeror will have the right to acquire the Class B Exchangeable Units held by such Holder on the same terms as the Units were acquired under the take-over bid.

DESCRIPTION OF LTC HOLDING GP

General

LTC Holding GP is a corporation established under the laws of Canada to act as the general partner of LTC Holding LP. The Fund owns all of the outstanding common shares of LTC Holding GP (the ‘‘LTC Holding GP Common Shares’’). The Manager owns the only outstanding Class B share of LTC Holding GP (the ‘‘Class B Share’’).

Capital of the GP

The authorized share capital of LTC Holding GP consists of an unlimited number of LTC Holding GP Common Shares and one Class B Share without par value. Each LTC Holding GP Common Share entitles the holder thereof to receive notice of and to attend all meetings of shareholders of LTC Holding GP and to one vote per share at such meetings (other than meetings of another class of shares of the LTC Holding GP). The LTC Holding GP Common Shares entitle the holders thereof to receive in any year dividends as and when declared by the board of directors. In the event of a liquidation of LTC Holding GP, holders of the LTC Holding GP Common Shares, after payment of or other proper provision for all of the liabilities of the LTC Holding GP, will be entitled to share rateably in all remaining assets of LTC Holding GP, subject to the preference of the holder of the Class B Share. The holder of the Class B Share is entitled to elect two directors of LTC Holding GP provided that the holder of the Class B Share shall otherwise have no right to vote as a shareholder at any meeting of the shareholders. The holder of the Class B Share is not entitled to receive any dividends. The Class B Share may be redeemable by LTC Holding GP in accordance with its articles for nominal value. The articles and by-laws of LTC Holding GP will contain standard restrictions which restrict shareholders from transferring LTC Holding GP Common Shares and Class B Share without the consent of the directors or shareholders of LTC Holding GP.

Functions and Powers of the LTC Holding GP

In its capacity as general partner of LTC Holding LP, LTC Holding GP has exclusive authority to manage the business and affairs of LTC Holding LP, to make all decisions regarding the business of LTC Holding LP and to bind LTC Holding LP in respect of any such decisions.

LTC Holding GP is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of LTC Holding LP and to exercise the care, diligence and skill of a reasonable prudent person in comparable circumstances.

The authority and power vested in LTC Holding GP to manage the business and affairs of LTC Holding LP includes all authority necessary or incidental to carry out the objects, purposes and business of LTC Holding LP, including, without limitation, the ability to engage agents to assist LTC Holding GP to carry out its management obligations and administrative functions in respect of LTC Holding LP and its business.

Restrictions on the Authority of LTC Holding GP

The authority of LTC Holding GP is limited in certain respects under the LTC Holding LP Partnership Agreement. LTC Holding GP is prohibited, without the prior approval of the limited partners given by ‘‘special

resolution'', from: (i) dissolving, terminating, winding-up or otherwise discontinuing LTC Holding LP; (ii) selling or otherwise disposing of all or substantially all of the assets of LTC Holding LP (otherwise than in conjunction with an internal reorganization that has been approved by the Fund); (iii) issuing or accepting, recognizing or registering the transfer of any LTC Holding LP Units, unless such issuance or transfer has been effected in strict and complete compliance with the LTC Holding LP Partnership Agreement; and (iv) waiving any default on the part of LTC Holding GP or releasing LTC Holding GP from any claims in respect thereof.

Withdrawal or Removal of the GP

LTC Holding GP is permitted to resign as general partner on not less than 180 days' prior written notice to the partners, provided that LTC Holding GP may not resign if the effect thereof would be to dissolve LTC Holding LP.

LTC Holding GP may be removed as general partner of LTC Holding LP, without its consent, if: (i) the shareholders or directors of LTC Holding GP pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding up of LTC Holding GP, or LTC Holding GP commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner with the same ownership and governance structure at the relevant time agrees to act as general partner under the LTC Holding LP Partnership Agreement, or (ii) a special resolution of the limited partners has been passed and a successor general partner has agreed to act as general partner under the LTC Holding LP Partnership Agreement.

DESCRIPTION OF MACQUARIE MASTER LP

LTC Holding LP and Macquarie Leisureworld Holdings Ltd. ("MLHL"), a subsidiary of Macquarie Bank Limited, entered into a limited partnership agreement governing their rights and obligations in relation to their 44.9955% and 54.9945% respective ownership interests in Macquarie Master LP. MLHL has transferred the economic benefits of its ownership in Macquarie Master LP to MIIF. The following is a summary of the material provisions of the limited partnership agreement. This summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the limited partnership agreement.

Limited Partnership Agreement

General

Macquarie Master LP is a limited partnership established under the laws of the Province of Ontario to invest in, directly or indirectly, entities located in Canada that directly or indirectly provide seniors' housing services and related businesses and engage in such other necessary or related activities as the general partner deems advisable in order to carry on this business. The following is a summary of the material attributes and characteristics of the voting limited partnership units of Macquarie Master LP (the ''MMLP Units'') and certain provisions of the Macquarie Master LP limited partnership agreement (the ''Macquarie Master LP Partnership Agreement'') which is not intended to be complete, and is qualified in its entirety by reference to, the provisions of the Macquarie Master LP Partnership Agreement (see "Material Contracts"). The business of Macquarie Master LP may be changed only with the approval of limited partners holding not less than 90% of the MMLP Units. If LTC Holding LP were to hold less than 10% of the MMLP Units and the objects of Macquarie Master LP were changed to be inconsistent with the Fund's objects, LTC Holding LP might have to divest its interest in Macquarie Master LP.

General Partner

The general partner of Macquarie Master LP is 2067239 Ontario Inc. ("MMGP"), a subsidiary of LTC Holding LP.

Partnership Units

The interests in Macquarie Master LP are divided into and represented by an unlimited number of units and are issued for such consideration and on such terms and conditions as may be determined by the general partner. A

holder of MMLP Units has the right to receive allocations of net income, net loss, taxable income and tax loss, the right to share in returns of capital and to share in cash and any other distributions to partners and to receive the remaining property of Macquarie Master LP on dissolution or winding up, and the right to one vote per MMLP Unit at all meetings of the partners, all of which such rights shall be in accordance with the Macquarie Master LP Partnership Agreement. The limited partners of Macquarie Master LP are LTC Holding LP and MLHL. Each limited partner has a right of first offer on any new issuances of partnership units on a *pro rata* basis in accordance with the number of MMLP Units held by each partner.

Distributions

Macquarie Master LP generally distributes monthly any available cash of Macquarie Master LP on a *pro rata* basis in accordance with the number of MMLP Units held by each partner, as determined by the general partner, taking into account the amount of cash necessary to be maintained on hand in order to (i) comply or ensure that Macquarie Master LP's subsidiaries comply, as the case may be, with any loan agreement, and applicable laws, and (ii) ensure adequate provision for the working capital requirements and for expected liabilities (whether actual or contingent) of Macquarie Master LP and its subsidiaries. All such distributions are subject to any restrictions in any agreement for money borrowed or otherwise to which Macquarie Master LP may be a party.

Allocation of Net Income and Losses

Generally, net income and net loss for any fiscal year or part thereof is allocated to the partners *pro rata* in accordance with the amount of distributions received.

Reimbursement of MMGP

Macquarie Master LP reimburses MMGP for all expenses incurred by MMGP in the performance of its duties under the Macquarie Master LP Partnership Agreement.

Limited Liability

Macquarie Master LP, to the extent of its assets legally available for the purpose, will indemnify the partners and former partners and their shareholders, managers, officers, directors, agents, employees and affiliates from all loss, damage and expense (including costs and expenses of courts and professional advisors) or liability incurred by reason of anything such indemnified person has done or refrained from doing in connection with the business and affairs of Macquarie Master LP, except to the extent that it is proved by clear and convincing evidence (a) that the conduct of such indemnified person was not taken honestly and in good faith with a view to the best interests of Macquarie Master LP; and (b) with respect to any criminal or administrative action or proceeding that is enforced by a monetary penalty, that such indemnified person did not have reasonable grounds to believe its conduct was lawful.

Transfer of Partnership Units

No person shall be admitted as a partner of Macquarie Master LP without the written consent of MMGP, provided that no consent of MMGP shall be required to admit a new limited partner that acquires its interest pursuant to provisions relating to the right of first offer, change of control and certain affiliate transfer provisions contained in the Macquarie Master LP Partnership Agreement, and that, if not already a limited partner, upon demand of MMGP, executes and delivers to Macquarie Master LP such documents as may be necessary or appropriate, in the opinion of MMGP, to reflect such person's admission to Macquarie Master LP as a partner and to be bound by the terms of the Macquarie Master LP Partnership Agreement, provided such transfer does not breach or violate the provisions of the Macquarie Master LP Partnership Agreement (and the rights and obligations of each limited partner) or any law or regulation. The prior consent of the limited partners to the admission of a person as a partner of Macquarie Master LP is not required.

MMLP Units are transferable, provided each limited partner will have a right of first offer on any transfers of limited partnership units by a limited partner on a *pro rata* basis in accordance with the number of MMLP Units held by each non-transferring partner and in accordance with the provisions of the Macquarie Master LP Partnership

Agreement; provided, however, that no units may be transferred to a person who is not ‘‘resident in Canada’’ for purposes of the Tax Act. A transferee of an MMLP Unit will become a limited partner and will be subject to the obligations and entitled to the rights of a limited partner under the Macquarie Master LP Partnership Agreement on the date on which the transfer is recorded. The right of first offer shall not apply in respect of transfers by, subject to the foregoing, a limited partner to its affiliate or by any ‘‘Macquarie Entity’’ (as defined in the Macquarie Master LP Partnership Agreement) to another Macquarie Entity. An exercise by the Fund of its right to acquire MMLP Units will require funding and there can be no assurance that any such funding will be available on terms that are acceptable to the Fund.

Change of Control of Limited Partners

If the ultimate direct or indirect control of any limited partner changes, the other limited partners of Macquarie Master LP will have the right to purchase all, but not less than all, of the MMLP Units beneficially owned by such limited partner on a *pro rata* basis in accordance with the number of MMLP Units held by each of the other limited partners and in accordance with the provisions of the Macquarie Master LP Partnership Agreement, provided, however, that in such circumstances the price of the offered MMLP Units will be the fair market value of such units as at the end of the financial quarter of Macquarie Master LP immediately preceding the financial quarter in which the notice of sale was given, as determined by a valuator appointed for such purpose by the parties. A change of control of LTC Holding LP is deemed to have occurred if the Fund ceases to be managed by the Manager or an affiliate of the Manager. This provision may have the effect of discouraging take-over bids or other acquisition transactions in respect of the Fund.

Removal of the General Partner

MMGP may be removed and may withdraw as the general partner of Macquarie Master LP with only the unanimous consent of the limited partners.

Shareholders' Agreement

LTC Holding LP and MLHL entered into a shareholders' agreement, governing their rights and obligations in relation to their respective 45% and 55% ownership interests in MMGP (the "MMGP USA"). The following is a summary of the material provisions of the shareholders' agreement. This summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the shareholders' agreement (see "Material Contracts").

General

The business and operation of MMGP is governed by the MMGP USA. The MMGP USA provides that MMGP shall act as the general partner of Macquarie Master LP pursuant to the Macquarie Master LP Partnership Agreement and carry on the business of Macquarie Master LP with full power and authority to manage, control, administer and operate the business and affairs of Macquarie Master LP and be fully responsible for the overall direction and supervision of Macquarie Master LP.

Issuance and Transfers of Shares

Except in accordance with the MMGP USA, including the right of first offer as provided below, MMGP shall not (i) issue or sell additional shares, whether unissued or otherwise; (ii) issue any obligations, evidences of indebtedness or other securities of MMGP convertible into or exchangeable for, or carrying or accompanied by any rights to receive, purchase or subscribe to, any unissued shares; (iii) issue any right of, subscription to or right to receive, or any warrant or option for the purchase of, any of the foregoing securities; or (iv) issue or sell any other securities that may be issued or sold by MMGP that represents an ownership interest in MMGP.

Each shareholder has a right of first offer on any issuances of shares of MMGP or in respect of any sales of shares of MMGP held by a shareholder on a *pro rata* basis in accordance with the number of shares held by such shareholder and in accordance with the provisions of the MMGP USA, including receipt of all necessary regulatory approvals (including approval by the MOHLTC, if required). Except in respect of a transfer by a Macquarie Entity

(as defined in the MMGP USA) to another Macquarie Entity, no shareholder shall transfer any shares of MMGP or MMLP Units unless concurrently with such transfer, a shareholder transfers an equal percentage interest of shares in accordance with the MMGP USA or MMLP Units in accordance with Macquarie Master LP Partnership Agreement. An exercise by LTC Holding LP of its right to acquire shares of MMGP will require funding and there can be no assurance that any such funding will be available or, if available, on terms that are acceptable to the Fund.

Subject to receipt of all required regulatory approvals (including approval by the MOHLTC), any Macquarie Entity that is a shareholder may at any time freely effect a transfer to another Macquarie Entity and, in respect of such a transfer, the right of first offer of each shareholder shall not apply.

Change of Control of Shareholders

If the ultimate direct or indirect control of any shareholder changes, or in the case of the Fund, if the Fund ceases to be managed by the Manager, the other shareholders of MMGP will have the right to purchase all, but not less than all, of the MMGP shares beneficially owned by such shareholder on a *pro rata* basis in accordance with the number of MMGP shares held by each of the other shareholders and in accordance with the provisions of the MMGP USA provided, however, that in such circumstances the price of the offered shares will be the fair market value of such shares as at the end of the financial quarter of MMGP immediately preceding the financial quarter in which the notice of sale was given, as determined by a valuator appointed for such purpose by the parties. A change of control of LTC Holding LP is deemed to have occurred if the Fund ceases to be managed by the Manager or an affiliate of the Manager. This provision may have the effect of discouraging take-over bids or other acquisition transactions in respect of the Fund.

Board of Directors

The board of directors shall manage the business, affairs and property of MMGP, in each case in compliance with the Business Plan and Annual Business Plan (each as defined in the MMGP USA). Each shareholder holding a percentage interest in MMGP exceeding 16.67% shall be entitled to appoint one director for each such 16.67% percentage interest, provided, however that there may not be more than six or fewer than two directors. Currently, there are four directors, of whom two have been appointed by LTC Holding LP and two have been appointed by MLHL.

Required Majorities

Any material amendments to the MMGP USA must be made by ‘‘Super Majority Approval’’, meaning that the number of shares voted in favour of an action by shareholders is equal to or exceeds 90% of the total number of shares owned by all shareholders.

‘‘Special Majority Approval’’, meaning that the number of directors voting in favour of an action representing shareholders holding that number of shares that exceeds 75% of the total number of shares owned by all shareholders or the number of shares voted in favour of an action by shareholders exceeds 75% of the total number of shares owned by all shareholders, is required to perform certain actions, including the following: (i) the voluntary dissolution or initiation of bankruptcy proceedings by MMGP, Macquarie Master LP or their respective Subsidiaries (as defined in the MMGP USA); (ii) amending the articles or by-laws of MMGP or the constating documents of Macquarie Master LP or the Subsidiaries; (iii) an initial public offering of MMGP, Macquarie Master LP or their respective Subsidiaries; (iv) any acquisition, new development or material expansion of existing assets or facilities by MMGP, Macquarie Master LP or their respective Subsidiaries; (v) any sale or other transfer by MMGP, Macquarie Master LP or their respective Subsidiaries of a material portion of their respective assets; (vi) approving the Annual Business Plan, the Business Plan or any amendment thereto; (vii) the incurrence of indebtedness for borrowed money by MMGP, Macquarie Master LP or any Subsidiary, other than a working capital facility; (viii) the issuance or redemption of securities of MMGP, Macquarie Master LP or their respective Subsidiaries; (ix) a change of the auditors of MMGP, Macquarie Master LP or their respective Subsidiaries or certain changes in accounting principles; (x) any change to the manager of MMGP or the senior officers of MMGP, Macquarie Master LP or their respective Subsidiaries; (xi) the creation of any mortgage, lien or security interest over the assets of MMGP, Macquarie Master LP or their respective Subsidiaries; (xii) approving annual budgets for MMGP; (xiii) any capital expenditure or operational or business expenditure for the business of Macquarie Master LP not contemplated in the

Business Plan, the Annual Business Plan or the current budget; and (xiv) drawdowns of funds pursuant to working capital facilities, major maintenance reserves or the reserve in respect of the Orillia LTC Facility.

Transactions between MMGP, Macquarie Master LP or any Subsidiary and a shareholder or its affiliate must be approved by the non-interested shareholders.

A simple majority approval shall be required in respect of all other actions permitted to be undertaken under the *Business Corporations Act* (Ontario) or in accordance with the MMGP constating documents, other than matters which require Super Majority Approval or Special Majority Approval as set out in the MMGP USA.

Distributions

MMGP shall, and shall cause Macquarie Master LP and each of its subsidiaries to, make distributions of the maximum available cash of each such entity, taking into account the amount of cash necessary to be maintained on hand in order to (i) comply or ensure that MMGP or Macquarie Master LP and each Subsidiary comply, as the case may be, with any loan agreement, (ii) comply or ensure that MMGP and their respective Subsidiaries comply, as the case may be, with applicable laws, and (iii) ensure adequate provision for the working capital requirements and for expected liabilities (whether actual or contingent) of MMGP or Macquarie Master LP and their respective Subsidiaries, to their respective partners and pay dividends to their respective shareholders, on the third last business day of each month.

Defaults

Upon default by a shareholder of a material provision of the MMGP USA that is not cured within 30 days, the non-defaulting party shall have the option to acquire all (but not part) of the defaulting shareholder's shares for 90% of fair market value as determined by an independent valuator selected by the parties. Upon default by insolvency of a shareholder, the non-defaulting party shall have the option to acquire all (but not part) of the defaulting shareholder's shares at fair market value.

Disputes

In the event of deadlock by the board of MMGP or in the event of a dispute between the parties which they cannot resolve, the matter shall be submitted to senior officers of each party for resolution by meeting or conference call. Failing resolution, a dispute may be submitted, with the consent of the parties, to binding arbitration.

DESCRIPTION OF LSCLP

LSCLP Limited Partnership Agreement

General

LSCLP is a limited partnership established under the laws of the Province of Ontario pursuant to an agreement of limited partnership dated March 15, 2005, as amended, to invest in, directly or indirectly, entities engaged in owning and operating seniors' care facilities and engage in such other necessary or related activities as the general partner deems advisable in order to carry on such business. The following is a summary of the material attributes and characteristics of the voting limited partnership units of LSCLP (the ''LSCLP Units'') and certain provisions of the LSCLP limited partnership agreement (the ''LSCLP Partnership Agreement'') which is not intended to be complete and is qualified in its entirety by reference to the provisions of the LSCLP Partnership Agreement.

General Partner

The general partner of LSCLP is 2067240 Ontario Inc. ("LSCGP"), a subsidiary of Macquarie Master LP.

Partnership Units

The interests in LSCLP are divided into and represented by an unlimited number of units and shall be issued for such consideration and on such terms and conditions as may be determined by the general partner. A holder of LSCLP Units has the right to receive allocations of net income, net loss, taxable income and tax loss, the right to share in returns of capital and to share in cash and any other distributions to partners and to receive the remaining property of LSCLP on dissolution or winding up. The limited partner of LSCLP is Macquarie Master LP.

Distributions

LSCLP will distribute any available cash of LSCLP on a *pro rata* basis in accordance with the number of LSCLP Units held by each partner, as determined by the general partner. All such distributions will be subject to any restrictions in any agreement for money borrowed or otherwise to which LSCLP may be a party.

Allocation of Net Income and Losses

Generally, net income and net loss for any fiscal year or part thereof will be allocated to the partners *pro rata* in accordance with the amount of distributions received.

Reimbursement of LSCGP

LSCLP will reimburse LSCGP for all expenses incurred by LSCGP in the performance of its duties under the LSCLP Partnership Agreement.

Limited Liability

LSCLP, to the extent of its assets legally available for the purpose, will indemnify the partners and former partners and their shareholders, managers, officers, directors, agents, employees and affiliates from all loss, damage and expense (including costs and expenses of courts and professional advisors) or liability incurred by reason of anything such indemnified person has done or refrained from doing in connection with the business and affairs of LSCLP, except to the extent that it is proved by clear and convincing evidence (a) that the conduct of such indemnified person was not taken honestly and in good faith with a view to the best interests of LSCLP; and (b) with respect to any criminal or administrative action or proceeding that is enforced by a monetary penalty, that such indemnified person did not have reasonable grounds to believe its conduct was lawful.

Transfer of Partnership Units

No person shall be admitted as a partner of LSCLP without the written consent of the general partner. LSCLP Units will be freely transferable, subject to applicable federal and provincial securities laws, and subject to receipt of the written consent of the general partner.

Removal of the General Partner

The general partner may be removed and may withdraw as the general partner only with the unanimous consent of the limited partners.

RESERVE ACCOUNTS

Cardinal LP has established a general reserve account, a capital expenditure reserve account and a major maintenance reserve account (collectively referred to as the "Reserve Accounts"). As of December 31, 2005, the balance in each of the Reserve Accounts was $3,000,000 for the general reserve account, $1,435,000 for the capital expenditure reserve account, and $4,145,000 for the major maintenance reserve account. The amounts in the Reserve Accounts are held in accounts with a Schedule I chartered bank incorporated under the laws of Canada.

The funds in the major maintenance reserve account are available to Cardinal LP for the inspection and maintenance of the combustion turbine, the combustion turbine generator, the steam turbine and the steam turbine

generator. The funds in the capital expenditure reserve account are available to Cardinal LP for capital expenditures. The funds in the general reserve account are available to the Fund for distribution to Unitholders, in the discretion of the Trustees, in the event that the cash available for distribution to Unitholders is less than the amount anticipated to be available for distributions by the Fund for any period. Fluctuations in cash available for distribution to Unitholders may result from a variety of factors including the financial performance of Cardinal LP and debt covenants and obligations (see "Risk Factors").

Amounts in the Reserve Accounts are invested at the direction of the Manager in book-based securities, negotiable instruments, or securities ("Eligible Investments") represented by instruments in bearer or registered form payable in Canadian dollars having, in the case of (i) to (vi) below, original or remaining maturities of one year or less which evidence: (i) direct obligations of, and obligations fully guaranteed as to timely payment by, the Government of Canada or any agency or instrumentality thereof the obligations of which are backed by the full faith and credit of the Government of Canada; (ii) demand deposits, time deposits or certificates of deposit of any chartered bank or trust company or credit union or co-operative credit society incorporated under the laws of Canada or any province thereof and subject to supervision and examination by federal banking or depository institution authorities; provided, however, that at the time of the investment or contractual commitment to invest therein, the commercial paper or other short-term unsecured debt obligations (other than such obligations the rating of which is based on the credit of a person other than such depository institution or trust company) of such bank, trust company, credit union or co-operative society shall have a credit rating of R-1 (low) or better from DBRS and provided that the long-term debt rating of the applicable bank, trust company, or credit union or co-operative society is A or better from S&P; (iii) call loans to and notes or bankers' acceptances issued or accepted by any bank, trust company, credit union or co-operative society described in (ii) above; (iv) commercial paper having, at the time of the investment or contractual commitment to invest therein, a rating of R-1 (low) or better from DBRS provided that the long-term debt of the entity issuing the commercial paper is rated A or better by S&P; (v) investments in money market funds having a rating of A or better by S&P when purchased; (vi) demand deposits, term deposits and certificates of deposit which when purchased are issued by an entity, the commercial paper of which is rated R-1 (low) or better by DBRS, provided that the long-term debt of the entity is rated A or better from S&P; (vii) securities of any income fund (other than the Fund) with a stability rating from S&P equivalent or superior to the rating assigned to the Fund; or (viii) any other investment in which written confirmation from S&P has been obtained at the time of the investment therein or contractual commitment to invest therein confirming that the proposed action will not result in a reduction or withdrawal of the then current rating of the Units immediately before the taking of such action; provided that, unless consented to by the Trustees, the aggregate amount at any time of Eligible Investments of the same type listed under clause (vii) may not exceed 50% of the aggregate balance of all Eligible Investments deposited in the Reserve Accounts and Eligible Investments of the same issuer pursuant to clause (vii) may not exceed 25% of the aggregate balance of all Eligible Investments deposited in the Reserve Accounts.

In connection with the operation of the Reserve Accounts, the Manager may seek such advice and retain such experts as the Manager may deem prudent or as otherwise may be required by applicable securities laws.

TRUSTEES, MANAGEMENT AND OPERATIONS

Trustees

The Fund Declaration of Trust provides that the Fund must have a minimum of four and a maximum of ten trustees, as determined from time to time by the Trustees, the majority of whom must not be non-residents of Canada. Presently, the Fund has four Trustees, three of whom are "independent" (as such term is defined under section 1.4 of Multilateral Instrument 52-110 – *Audit Committees*). During the term of the Administration Agreement, the Manager is entitled to appoint one Trustee (see "Description of the Fund – Trustees"). The Trustees hold their office until the next annual meeting of the Unitholders following his or her election or appointment or until his or her successor is duly elected or appointed in accordance with the Fund Declaration of Trust. The Fund has an Audit Committee and a Governance Committee, each of which has a minimum of three Trustees all of whom must be "independent" (as such term is defined under section 1.4 of Multilateral Instrument 52-110 – *Audit Committees*). The members of such committees are indicated below.

The following table sets forth information with respect to each Trustee, including the number of Units beneficially owned, directly or indirectly, or over which control or direction was exercised, by such person or the

person's associates or affiliates as at March 7, 2006. The information as to Units beneficially owned or over which control or direction is exercised by each nominee has been furnished by that nominee individually. To the knowledge of the Fund, the Trustees, together as a group, beneficially own, directly or indirectly, or exercise control or direction over 16,493 Units, representing less than 1% of the outstanding Units of the Fund and no Trustee beneficially owns or controls voting securities of any of the Fund's subsidiaries.

Nominee Name and Place of Residence	Present Principal Occupation	Date of Initial Appointment	Securities Beneficially Owned or over which Control or Direction is Exercised
Derek Brown[(1)(2)(3)] Ontario, Canada	Corporate Director	March 15, 2004	1,000
Patrick J. Lavelle[(1)(2)(5)] Ontario, Canada	Management Consultant	April 15, 2004	5,493
François R. Roy[(1)(2)(4)] Québec, Canada	Corporate Director	March 15, 2004	Nil
Shemara Wikramanayake[(6)] New York, USA	Investment Manager	December 5, 2005	10,000

Notes:

(1) Member of the Audit Committee of the Board of Trustees
(2) Member of the Governance Committee of the Board of Trustees
(3) Chairman of the Board of Trustees
(4) Chairman of the Audit Committee of the Board of Trustees
(5) Chairman of the Governance Committee of the Board of Trustees
(6) Appointee of the Manager

The principal occupations over the past five years of each of the Trustees are set out below.

Derek Brown is a retired Professor of Finance (adjunct) at the University of Toronto, prior to which he was a Vice President and Director of RBC Dominion Securities Inc. From 1997 to 2003, Mr. Brown was a Commissioner of the Ontario Securities Commission. Mr. Brown sits on the boards of SNP Split Corp., Sixty Split Corp., and DALSA Corporation and is an independent public trustee of the Nova Scotia Association of Health Organizations Pension Plan. Mr. Brown is a member of the finance committee of the Canadian Opera Foundation and is an Associate Governor of Dalhousie University. Techknowledge Inc., a private Nova Scotia company, voluntarily entered into insolvency proceedings after Mr. Brown resigned from its board of directors. Mr. Brown received a Bachelor of Commerce and Bachelor of Laws degree from Dalhousie University. He is also trained as a Chartered Business Valuator and was a Governor of the Canadian Institute of Chartered Business Valuators from 1998 to 2003.

Patrick J. Lavelle is the Chairman and Chief Executive Officer of Patrick J. Lavelle and Associates, a strategic management consulting firm which he established in 1991. Until March 2002, Mr. Lavelle was also Chairman and Chief Executive Officer of Unique Broadband Systems Inc. He has also held the position of Chairman of Export Development Canada (1998-2001) and served a three-year term as Chairman of the Board of the Business Development Bank of Canada. Mr. Lavelle is a director of UE Waterheater Income Fund, Arriscraft International Income Fund, Algoma Steel Inc., Tahera Diamond Corporation, SR Telecom Inc., Retrocom Mid-Market Real Estate Investment Trust and Canadian Bank Note Company, Limited. Mr. Lavelle ceased to be a director of Proprietary Industries Inc. ("Proprietary") on February 17, 2005. Prior to Mr. Lavelle being appointed a director of Proprietary, the Alberta Securities Commission ("ASC") and other securities regulatory authorities issued cease trade orders in connection with allegations that certain of Proprietary's financial statements were not prepared and/or filed in accordance with applicable requirements. The ASC has since approved a settlement agreement with Proprietary and the relevant securities authorities approved the lifting of the cease trade orders previously applicable

to Proprietary's shares. Mr. Lavelle was also a director of Slater Steel Inc. when it filed for protection under the *Companies' Creditors' Arrangment Act* (Canada) in Canada and under Chapter 11 of the U.S. Bankruptcy Code in the United States. Mr. Lavelle is Chairman of the Bay of Spirits Gallery and a member of the Advisory Board of the International MBA program at York University. Mr. Lavelle is also the Chairman of Union Energy Income Trust and Westport Innovations Ltd.

François R. Roy was Chief Financial Officer of Telemedia Corporation between March 2000 and May 2003. From July 1998 to March 2000, he was Executive Vice President and Chief Financial Officer of Quebecor Inc. Since June 2003, Mr. Roy has been offering consulting services. Mr. Roy sits on the boards and is a member of the audit committees of MDC Partners Inc., AFT Technologies Income Trust and SFK Pulp Income Fund and is a member of the advisory board and audit committee of Dessau-Soprin. Mr. Roy is on the Board of Advisors of Veronis Suhler Stevenson, a merchant bank based in New York, New York. Mr. Roy received a MBA from the University of Toronto.

Shemara Wikramanayake is an Executive Director of the Macquarie group and is currently head of the Macquarie group's Infrastructure and Specialised Funds division in North America. Ms. Wikramanayake joined the Macquarie group in 1987. Prior to her current position, Ms. Wikramanayake was employed as head of the Prudential Oversight team in the Investment Banking Group, a position she held since 2001. Prior to 2001, Ms. Wikramanayake spent 14 years in Macquarie Bank Limited's Corporate Advisory team, where she advised on a range of transactions including mergers and acquisitions, restructurings, valuations and public sector advice and privatizations.

Audit Committee Information

Charter of the Audit Committee

The Board of Trustees of the Fund approved an updated charter of the audit committee in February 2006 which is set out in Schedule A to this Annual Information Form.

Composition of the Audit Committee

The audit committee is composed of three Trustees, namely François Roy, (Chair), Patrick Lavelle and Derek Brown. Each member of the audit committee is "independent" and "financially literate", each as defined under Multilateral Instrument 52-110 – *Audit Committees*.

Relevant Education and Experience of the Audit Committee Members

In addition to each member's general business experience, the education and experience of each audit committee member that is relevant to the performance of his responsibilities as an audit committee member is set forth in their respective biographies above under "Trustees, Management and Operations – Trustees".

External Audit Fees

The following table outlines the fees billed by PricewaterhouseCoopers LLP to the Fund for each of the last two fiscal years of the Fund, categorized by audit fees, audit-related fees, tax fees and all other fees and includes a description of the nature of services comprising such fees.

	March 15, 2004 - December 31, 2004	January 1, 2005 - December 31, 2005
Audit Fees	$45,278	$224,182
Audit-Related Fees[(1)]	$663,443	$233,333
Tax Fees[(2)]	$1,017	$38,766
All Other fees	$20,332[(3)]	$10,165
Total	$730,070	$506,446

Notes:

(1) The Fund's audit-related fees include fees paid to the Fund's auditors for consent and comfort letters in connection with the Fund's securities regulatory filings, statutory audits, attest services and assistance with and review of documents filed with regulators.
(2) Tax fees are services performed by the Fund's auditors' tax division except those tax services related to the audit. These services include fees for tax compliance, tax planning and tax advice.
(3) Other fees primarily include fees for the French translation of financial statements and management's discussion and analysis ("MD&A") in connection with the initial public offering of the Fund, as well as due diligence services related to the Fund's acquisition of Cardinal LP.
(4) Other fees primarily include fees for French translation of annual financial statements and MD&A in connection with the Fund's securities regulatory filings.

All non-audit services to be provided to the Fund or any of its Affiliates by the external auditors or any of their Affiliates are subject to pre-approval by the audit committee. The audit committee has determined that PricewaterhouseCoopers LLP's provision of non-audit services was compatible with maintaining its independence.

Remuneration of the Trustees

Each Trustee who is not employed by the Manager or any of its affiliates is entitled to an aggregate remuneration equal to $25,000 per year and $1,200 per board or committee meeting attended in person or by teleconference. The Chair of the Board of Trustees and the chair of each committee of the Board is entitled to additional aggregate remuneration equal to $10,000 per year and $5,000 per year, respectively. The Independent Trustees are reimbursed for their expenses. During 2005, the Fund paid the Trustees a total of $115,550 on account of retainer and meeting attendance fees and $23,910 on account of reimbursement for out-of-pocket expenses incurred by them in connection with their attendance at meetings.

Environmental and Social (including Occupational Health and Safety) Responsibility Management Policy

The Fund adopted an updated environmental and social responsibility management policy (the "Policy") in February 2006 to incorporate occupational health and safety ("OH&S") as part of the Fund's social responsibilities. In general, the Policy aims to ensure compliance by the Fund with applicable laws and regulations relating to environmental and social responsibility matters. The Fund's ongoing environmental and social responsibilities are managed as follows:

- *Asset acquisition due diligence* – Where such information is available, environmental and social responsibilities are considered by the Fund during the due diligence process in its review and evaluation of possible acquisitions. The asset's environmental and OH&S risk management frameworks are reviewed as part of the broader risk management framework assessment. Where regulatory obligations exist, the Fund views such obligations as minimum standards for environmental and social responsibility management post-acquisition. The Policy outlines the key steps to be taken during the due diligence phase, including engaging an appropriate expert to identify issues and obligations relating to any investment.

- *Ongoing management* – Each asset maintains its own environmental and OH&S risk management framework and supports infrastructure to manage its obligations and risks. The Fund's ability to control or influence such a framework and infrastructure differs based on its level of ownership/control and the regulatory framework that governs environmental OH&S risks. In general, the regulatory/governing framework and minimum standards under which an asset operates is not controlled by the Fund or its assets. It is the Fund's policy to confirm compliance by its assets with such minimum standards. For each asset, Board reporting enables compliance with environmental and OH&S requirements to be monitored and issues to be identified and resolved on a timely basis..

- *Stakeholder reporting* – The Policy recognizes the importance of environmental and social responsibility management by requiring the Fund to report annually to Unitholders regarding

environmental and social responsibility management, including a summary of the Policy and key responsibilities, and a statement on the regulatory compliance of the applicable assets during the reporting period.

Insurance Coverage and Indemnification

The Fund has obtained a policy of insurance for its Trustees, directors and officers and those of its subsidiaries. The aggregate limit of liability applicable to all insured Trustees, directors and officers under the policy is $25 million inclusive of defence costs, with a $5 million sublimit for defence costs associated with pollution claims. The Fund Declaration of Trust, the MPIIT Declaration of Trust and the by-laws of each of Cardinal GP and LTC Holding GP provide for the indemnification of their respective trustees, directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties or office, subject to certain usual limitations.

Under the policy of insurance, Cardinal LP and LTC Holding LP have reimbursement coverage to the extent that either has indemnified their respective directors and officers in excess of the $100,000 deductible. The policy includes securities claims coverage for the Fund, insuring against any legal obligation to pay on account of any securities claims brought against it, subject to a $250,000 deductible. This policy of insurance also applies to Trustees and provides reimbursement coverage to the Fund, in excess of the deductible, to the extent that Trustees shall be entitled to indemnification by the Fund pursuant to the Fund Declaration of Trust. Subject to a priority of payments clause in favour of individual insured persons, the aggregate limit of liability under the policy is shared between the respective directors, officers and trustees of Cardinal LP, LTC Holding LP, Cardinal GP, LTC Holding GP, MPIIT and the Fund such that the limit of liability is not exclusive to Cardinal LP, LTC Holding LP, Cardinal GP, LTC Holding GP, MPIIT, the Fund or their respective directors, officers and trustees.

Administration Agreement

The Manager, the Fund and MPIIT entered into the Administration Agreement pursuant to which, and subject to the supervision of the Trustees and the MPIIT Trustees, the Manager has been appointed as administrative agent of the Fund and MPIIT. The Manager manages the day-to-day operations of the Fund and MPIIT, including providing administration services necessary to: (i) assist the Fund in complying with its continuous disclosure obligations under applicable securities legislation; (ii) provide investor relations services; (iii) provide or cause to be provided to Unitholders and holders of MPIIT Units ("MPIIT Unitholders") all information to which they are entitled under the Fund Declaration of Trust and the MPIIT Declaration of Trust; (iv) monitor compliance of the Fund and MPIIT with applicable tax laws; (v) organize meetings of Unitholders and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (vi) provide for the calculation of distributions to Unitholders and to MPIIT Unitholders; (vii) attend to all administrative and other matters arising in connection with any redemptions of Units and MPIIT Units; (viii) monitor compliance with the Fund's limitations on non-resident ownership; (ix) assist in and supervise the analysis of potential acquisitions and dispositions in Canada and elsewhere as agreed by the Manager and carry out or supervise the making of such acquisitions, dispositions or investments; (x) assist in connection with any financings; (xi) assist with respect to treasury, legal and compliance, financing and risk assessment and such other services as the Fund and MPIIT may reasonably require from time to time; (xii) assist with the preparation, planning and coordination of meetings of the Trustees and the MPIIT Trustees; and (xiii) retain accountants, lawyers, consultants, investment bankers and such other professional advisers as the Manager considers necessary or desirable to advise in connection with the administration of the Fund and MPIIT and to assist in complying with applicable laws.

In connection with such services, the Manager has supplied the services of persons to serve as the President and Chief Executive Officer, the Vice-President and Chief Financial Officer, and the Secretary and General Counsel of the Fund and MPIIT. Such services are provided on an "as needed basis" and are not full time.

In consideration for providing the services under the Administration Agreement, the Manager receives (i) an annual management fee from the Fund equal to $100,000, subject to adjustment for inflation; and (ii) payments representing cost reimbursement (except for compensation payable by the Manager to the persons whose services may be supplied to act as the President and Chief Executive Officer and the Vice-President, Chief Financial Officer and Secretary of the Fund and MPIIT). The allocation of such charges are subject to the approval of the Trustees or

the MPIIT Trustees independent of the Manager, as applicable, either by way of their approval of the annual budgets of the Fund or MPIIT, as applicable, or by way of a specific authorization. In the event that MPIIT or the Fund were to directly acquire assets other than through Cardinal LP or another entity for which the Manager is directly appointed manager in accordance with the Administration Agreement, the annual fee will be increased by an amount agreed to by MPIIT or the Fund and the Manager, as approved by the Trustees or the MPIIT Trustees independent of the Manager taking into consideration the increased service levels required and the resource requirements imposed as a result of or created by such acquisition. The Manager earned aggregate fees under the Administration Agreement in the amount of $101,950 for the year ended December 31, 2005. In addition, the Manager was reimbursed an aggregate of $1,460,167 in costs incurred on behalf of the Fund for the same period pursuant to the Administration Agreement, the Cardinal LP Management Agreement and the LTC Holding LP Management Agreement. All cost recovery was on an "as incurred" basis without any margin or profit component.

The Administration Agreement has an initial 20-year term and will be automatically renewed for additional five-year terms unless terminated in accordance with its terms. The Administration Agreement may be terminated by any party (i) in the event of the insolvency or receivership of one of the other parties; (ii) in the event of fraud, wilful default or gross negligence committed by the Manager; (iii) in the event of a default by one of the other parties in the performance of a material obligation under the Administration Agreement (other than as a result of the occurrence of an event of *force majeure*), subject to certain cure periods; or (iv) in the event of a termination of all outstanding management agreements to which the Manager and subsidiaries of the Fund are parties. The Fund may also terminate the Administration Agreement upon the occurrence of certain events such that a subsidiary of the Fund no longer operates the Cardinal Facility and the Cardinal Facility then represents all or substantially all of the assets of the Fund. The Manager may terminate the Administration Agreement at will upon 90 days' prior written notice. The Fund may terminate the Administration Agreement upon 90 days' prior written notice should the Manager cease to be a wholly-owned subsidiary of at least one of Macquarie Bank Limited, Macquarie North America Ltd., Macquarie North America Holdings Ltd. or Macquarie Canada Holdings Ltd. at any time during the term of the Administration Agreement without the prior written consent of the Fund, which consent shall not be unreasonably withheld.

Pursuant to the Administration Agreement, a number of material actions may not be authorized by the Manager without first obtaining the approval of a majority of the Trustees or MPIIT Trustees, as applicable, including: (i) adopting, amending or materially deviating from the Fund's annual business plan; (ii) disposing of any material assets or equipment which are used in operating or maintaining any facilities indirectly acquired by the Fund in the future ("Future Facilities"), other than as provided for in the Fund's annual business plan; (iii) making any material expenditure or commitment outside the Fund's annual business plan; (iv) entering into agreements on behalf of the Fund or MPIIT that are material to the Fund as a whole; (v) raising capital by way of an issuance of securities or otherwise; or (vi) borrowing money, if the amount borrowed is material to the Fund, is outside of the ordinary course of business and not contemplated in the Fund's annual business plan. Without the approval of a majority of the Trustees or MPIIT Trustees independent of the Manager, as applicable, except as contemplated by the Administration Agreement, the Manager, on behalf of the Fund or MPIIT, may not (i) enter into any transaction with the Manager or an affiliate of the Manager; or (ii) amend the terms of the Administration Agreement or the fees payable thereunder. Without the approval of a majority of the Trustees or the MPIIT Trustees, as applicable, and the approval of a majority of the Trustees or the MPIIT Trustees independent of the Manager, as applicable, the Manager, on behalf of the Fund or MPIIT, may not acquire a Future Facility or dispose of MPIIT's interests in Cardinal LP or any other investments the effect of which is to dispose of the Cardinal Facility, a Future LP Cardinal Facility (as defined below) or a Future Facility.

The Manager may delegate certain aspects of its responsibilities under the Administration Agreement, but no such delegation will relieve the Manager of its obligations thereunder. The Manager may, with the approval of the Trustees or the MPIIT Trustees independent of the Manager, as applicable, contract with affiliates of the Manager to provide services to the Fund or MPIIT not otherwise provided for in the Administration Agreement, such as advisory and investment banking services. The Manager has full access to all of the records of the Fund, MPIIT and the Future Facilities.

The Manager, its affiliates and any person who is serving or shall have served as a director, officer, employee, subcontractor or agent of the Manager or its affiliates shall be indemnified and saved harmless by the Fund and MPIIT from and against all losses, claims, damages, liabilities, obligations, costs and expenses (including

judgments, fines, penalties, amounts paid in settlement and counsel and accountants' fees) of whatsoever kind or nature incurred by, borne by or asserted against the Manager, its affiliates and any person who is serving or shall have served as a director, officer, employee, subcontractor or agent of the Manager, in any way arising from or related in any manner to the Administration Agreement, unless and to the extent that such claims arise from the fraud, wilful default or gross negligence of the Manager, its affiliates or any person who is serving or shall have served as a director, officer, employee, subcontractor or agent of the Manager. The Manager and its affiliates may rely on information provided by the Fund and MPIIT unless it has actual notice that such information is inaccurate.

Cardinal LP Management Agreement

The Manager, the Fund, MPIIT and Cardinal LP entered into the Cardinal LP Management Agreement, pursuant to which the Manager was exclusively engaged to provide or cause to be provided certain management services ("Cardinal Management Services") to Cardinal LP for the Cardinal Facility and any facilities that may be acquired directly or indirectly by Cardinal LP in the future ("Future LP Facilities"), including: (i) overseeing Cardinal GP in its operation and maintenance of the Cardinal Facility and Future LP Facilities, including evaluating the performance of senior plant management and hiring and terminating senior plant management; (ii) assisting Cardinal LP in the development, implementation and monitoring of the Cardinal Facility's and Future LP Facilities' strategic plans; (iii) assisting Cardinal LP in developing the Cardinal Facility's and Future LP Facilities' annual business plans, which will include operational and capital expenditure budgets; (iv) reviewing the budgets and schedule for major maintenance proposed by Cardinal GP; (v) assisting in the preparation of financial reports in respect of the Cardinal Facility and Future LP Facilities based on information supplied by Cardinal LP; (vi) assisting in the negotiation of material agreements in respect of the Cardinal Facility or Future LP Facilities or any amendments thereto; (vii) monitoring compliance by Cardinal LP with the Cardinal Facility's and Future LP Facilities' annual business plan; (viii) assisting in and supervising the analysis of potential acquisitions and dispositions in Canada and the U.S. and elsewhere as agreed by the Manager; (ix) carrying out or supervising the making of acquisitions, dispositions or investments by Cardinal LP in Canada and the U.S. and elsewhere as agreed by the Manager; (x) assisting in connection with any financings by Cardinal LP; (xi) calculating available cash for distribution by Cardinal LP to its partners based on information provided by Cardinal GP; (xii) assisting with the preparation, planning and coordination of meetings of the board of directors of Cardinal GP; (xiii) assisting with respect to treasury, legal and compliance, financing, insurance and risk assessment and such other services as Cardinal LP may reasonably require from time to time; and (xiv) retaining accountants, lawyers, consultants, investment bankers and such other professional advisers as the Manager considers necessary or desirable to advise in connection with the Cardinal Management Services to be provided to Cardinal LP and to assist in complying with applicable law.

In connection with the Cardinal Management Services, the Manager has supplied the services of persons to serve as the President and Chief Executive Officer, the Vice-President and Chief Financial Officer and the Secretary and General Counsel of Cardinal GP. Such services are provided on an "as needed basis" and are not full time.

In consideration for providing the Cardinal Management Services, the Manager receives: (i) an annual management fee from Cardinal LP equal to $575,000, subject to adjustment for inflation and future acquisitions; (ii) payments representing cost reimbursement (which excludes the compensation payable by the Manager to the persons whose services are supplied to Cardinal GP to act as Cardinal GP's President and Chief Executive Officer and the Vice-President, Chief Financial Officer and Secretary); and (iii) an incentive fee based on distributable cash per Unit. Until such time as the Fund or MPIIT holds investments in other entities from which the Manager receives a portion of the incentive fee, Cardinal LP is responsible for paying 100% of any incentive fee obligations. The Manager earned aggregate fees under the Cardinal LP Management Agreement in the amount of $586,213 and incentive fees of $1,229,941 for the year ended December 31, 2005. Please see "Administration Agreement" for information regarding cost reimbursement.

The Cardinal LP Management Agreement has an initial 20-year term and will be automatically renewed for additional five-year terms unless terminated in accordance with its terms. Cardinal LP may terminate the Cardinal LP Management Agreement earlier in circumstances of (i) insolvency or receivership of the Manager; (ii) fraud, wilful default or gross negligence committed by the Manager; (iii) default by the Manager in the performance of a material obligation under the Cardinal LP Management Agreement, if such default is not caused by an event of *force majeure*, subject to certain cure periods; or (iv) upon the occurrence of certain events such that a subsidiary of the

Fund no longer operates the Cardinal Facility and the Cardinal Facility then represents all or substantially all of the assets of Cardinal LP. The Manager may terminate the Cardinal LP Management Agreement (i) immediately in the event of (1) the insolvency or receivership of Cardinal LP, or (2) a default by Cardinal LP in the performance of a material obligation under the Cardinal LP Management Agreement (other than as a result of the occurrence of a *force majeure* event), subject to certain cure periods; and (ii) at will upon 90 days' prior written notice to Cardinal LP. Cardinal LP may terminate the Cardinal LP Management Agreement upon 90 days' prior written notice should the Manager cease to be a directly or indirectly wholly-owned subsidiary of at least one of Macquarie Bank Limited, Macquarie North America Ltd., Macquarie North America Holdings Ltd. or Macquarie Canada Holdings Ltd. at any time during the term of the Cardinal LP Management Agreement without the prior written consent of Cardinal LP, which consent shall not be unreasonably withheld.

Pursuant to the Cardinal LP Management Agreement, a number of material actions may not be authorized by the Manager or undertaken by Cardinal GP without first obtaining the approval of a majority of the Cardinal GP Directors, including: (i) adopting, amending or materially deviating from the Cardinal Facility's or Future LP Facilities' annual business plans; (ii) disposing of any material assets or equipment which are used in operating or maintaining the Cardinal Facility or Future LP Facilities, other than as provided for in the Cardinal Facility's or Future LP Facilities' annual business plans or approved operational and capital expenditure programs; (iii) making any material expenditure or commitment outside the Cardinal Facility's or Future LP Facilities' annual business plans and approved operational and capital expenditure programs; (iv) entering into agreements that are material to the Fund as a whole; (v) raising partnership capital by way of an issuance of securities or otherwise; or (vi) borrowing amounts that are material to the Fund, are outside of the ordinary course of business and not contemplated in the annual business plan. Without the approval of a majority of the Cardinal GP Directors that are independent of the Manager, the Manager may not, except as contemplated by the Cardinal LP Management Agreement, (i) enter into any transaction, on behalf of Cardinal LP or a subsidiary of Cardinal LP, with the Manager or an affiliate of the Manager; or (ii) amend the terms of the Cardinal LP Management Agreement or the fees payable thereunder. Without the approval of a majority of the Cardinal GP Directors and the approval of a majority of the Cardinal GP Directors independent of the Manager, the Manager, on behalf of Cardinal LP, may not dispose of the Cardinal Facility or a Future LP Cardinal Facility or acquire Future LP Facilities.

The Manager may delegate certain aspects of its responsibilities under the Cardinal LP Management Agreement, but no such delegation will relieve the Manager of its obligations thereunder. The Manager may, with the approval of the Cardinal GP Directors independent of the Manager, contract with affiliates to provide services to Cardinal LP not otherwise provided for in the Cardinal LP Management Agreement, such as advisory and investment banking services. The Manager has full access to all of the records of Cardinal LP, Cardinal GP, the Cardinal Facility, Future Facilities and Future LP Facilities.

The Manager, its affiliates and any person who is serving or shall have served as a director, officer, employee, subcontractor or agent of the Manager shall be indemnified and saved harmless by Cardinal LP, the Fund and MPIIT from and against all losses, claims, damages, liabilities, obligations, costs and expenses (including judgments, fines, penalties, amounts paid in settlement and counsel and accountants' fees) of whatsoever kind or nature incurred by, borne by or asserted against the Manager, its affiliates and any person who is serving or shall have served as a director, officer, employee, subcontractor or agent of the Manager, in any way arising from or related in any manner to the Cardinal LP Management Agreement, unless such claims arise from the fraud, wilful default or gross negligence of the Manager, its affiliates or any person who is serving or shall have served as a director, officer, employee, subcontractor or agent of the Manager. The Manager and its affiliates may rely on information provided by Cardinal GP unless it has actual notice that such information is inaccurate.

The obligations of Cardinal LP under the Cardinal LP Management Agreement are guaranteed by the Fund and MPIIT.

LTC Holding LP Management Agreement

The Manager, LTC Holding LP, the Fund and MPIIT entered into the LTC Holding LP Management Agreement pursuant to which the Manager provides or causes to be provided certain management services (the "LTC Management Services") to LTC Holding LP in respect of its investment in Macquarie Master LP and any other investments made by it in the future (the "LTC Holding LP Business"). The LTC Management Services

include: (i) overseeing LTC Holding GP in its ownership and management of the LTC Holding LP Business, including evaluating the performance of senior management and hiring and terminating senior management in the LTC Holding LP Business; (ii) assisting LTC Holding LP in the development, implementation and monitoring of strategic plans for the LTC Holding LP Business and Macquarie Master LP; (iii) assisting LTC Holding GP in developing the annual management plan for LTC Holding LP and the annual management plan, business plan and annual budget for Macquarie Master LP; (iv) reviewing the budgets and schedule for major maintenance and other capital expenditures proposed by LTC Holding GP; (v) assisting in the preparation of financial reports in respect of LTC Holding LP based on information supplied by LTC Holding LP and Macquarie Master LP; (vi) assisting in the negotiation and administration of material agreements in respect of the LTC Holding LP Business and Macquarie Master LP or any amendments thereto; (vii) monitoring compliance by Macquarie Master LP with its annual management plan, business plan and annual budget; (viii) assisting in and supervising the analysis of potential acquisitions and dispositions in Canada and elsewhere as agreed by the Manager; (ix) carrying out or supervising the making of acquisitions, dispositions or investments by LTC Holding LP in Canada and elsewhere as agreed by the Manager; (x) assisting in connection with any financings by LTC Holding LP; (xi) calculating cash available for distribution by LTC Holding LP to its partners based on information provided by LTC Holding GP, (xii) assisting with the preparation, planning and coordination of meetings of the board of directors of LTC Holding GP and MMGP; (xiii) assisting with respect to treasury, legal and compliance, financing, insurance and risk assessment; (xiv) retaining accountants, lawyers, consultants, investment bankers and such other professional advisers as the Manager considers necessary or desirable to advise in connection with the LTC Management Services to be provided to LTC Holding LP and to assist in complying with applicable law; and (xv) arranging for the borrowing of money upon the credit of LTC Holding LP and its assets following approval of such borrowing by the LTC Holding GP Directors.

In connection with such LTC Management Services, the Manager has supplied the services of persons to serve as the President and Chief Executive Officer, the Vice-President and Chief Financial Officer and the Secretary and General Counsel of LTC Holding GP. Such services are provided on an "as needed basis" and are not full time.

In consideration for providing the LTC Management Services, the Manager receives: (i) an annual management fee equal to $450,000, subject to adjustment for inflation and future acquisitions; (ii) payments representing cost reimbursement (which excludes the compensation payable by the Manager to the persons whose services are supplied to LTC Holding GP to act as LTC Holding GP's President and Chief Executive Officer and the Vice-President, Chief Financial Officer and Secretary); and (iii) an incentive fee based on distributable cash per Unit. The Manager earned aggregate fees under the LTC Holding LP Management Agreement in the amount of $92,466 and incentive fees in the amount of $29,596 for the period from October 18, 2005 to December 31, 2005. Please see "Administration Agreement" for information regarding cost reimbursement.

The LTC Holding LP Management Agreement has an initial term ending on April 30, 2024 and will be automatically renewed for additional five-year terms unless terminated in accordance with its terms. LTC Holding LP may terminate the LTC Holding LP Management Agreement earlier in circumstances of (i) insolvency or receivership of the Manager; (ii) fraud, wilful default or gross negligence committed by the Manager; (iii) default by the Manager in the performance of a material obligation under the LTC Holding LP Management Agreement, if such default is not caused by an event of *force majeure*, subject to certain cure periods; or (iv) upon 90 days' written notice if LTC Holding LP sells its interest in Macquarie Master LP and such interest represents all or substantially all of the assets of LTC Holding LP. The Manager may terminate the LTC Holding LP Management Agreement immediately (i) in the event of (1) the insolvency or receivership of LTC Holding LP, or (2) a default by LTC Holding LP in the performance of a material obligation under the LTC Holding LP Management Agreement (other than as a result of the occurrence of a *force majeure* event), subject to certain cure periods; and (ii) at will upon 90 days' prior written notice to LTC Holding LP.

LTC Holding LP may terminate the LTC Holding LP Management Agreement upon 90 days' prior written notice should the Manager cease to be a directly or indirectly wholly-owned subsidiary of at least one of Macquarie Bank Limited, Macquarie North America Ltd., Macquarie North America Holdings Ltd. or Macquarie Canada Holdings Ltd. at any time during the term of the LTC Holding LP Management Agreement without the prior written consent of LTC Holding LP, which consent shall not be unreasonably withheld.

Pursuant to the LTC Holding LP Management Agreement, a number of material actions may not be authorized by the Manager or undertaken by LTC Holding GP without first obtaining the approval of a majority of the LTC Holding GP Directors, including: (i) adopting, amending or materially deviating from LTC Holding LP's annual management plan; (ii) disposing of any material assets or investments, other than as provided for in the annual management plan; (iii) making any material expenditure or commitment outside the annual management plan; (iv) entering into agreements that are material to the Fund as a whole; (v) raising partnership capital by way of an issuance of securities or otherwise; or (vi) borrowing amounts that are material to the Fund, are outside of the ordinary course of business and not contemplated in the annual management plan. Without the approval of the majority of the LTC Holding GP Directors that are independent of the Manager, the Manager may not, except as contemplated by the LTC Holding LP Management Agreement, (i) enter into any transaction, on behalf of LTC Holding LP or a subsidiary of LTC Holding LP, with the Manager or an affiliate of the Manager; or (ii) amend the terms of the LTC Holding LP Management Agreement or the fees payable thereunder. Without the approval of a majority of the LTC Holding GP Directors and the approval of a majority of the LTC Holding GP Directors independent of the Manager, the Manager, on behalf of LTC Holding LP, may not dispose of or acquire seniors' care facilities in which LTC Holding LP has an interest.

The Manager may delegate certain aspects of its responsibilities under the LTC Holding LP Management Agreement, but no such delegation will relieve the Manager of its obligations thereunder. The Manager may, with the approval of the LTC Holding GP directors independent of the Manager, contract with affiliates to provide services to LTC Holding LP and LTC Holding GP not otherwise provided for in the LTC Holding LP Management Agreement, such as advisory and investment banking services. The Manager has full access to all of the records of LTC Holding LP.

The Manager and any person who is serving or shall have served as a director, officer, employee, subcontractor or agent of the Manager shall be indemnified and saved harmless by LTC Holding LP, the Fund and MPIIT from and against all losses, claims, damages, liabilities, obligations, costs and expenses (including judgments, fines, penalties, amounts paid in settlement and counsel and accountants' fees) of whatsoever kind or nature incurred by, borne by or asserted against the Manager and any person who is serving or shall have served as a director, officer, employee, subcontractor or agent of the Manager, in any way arising from or related in any manner to the LTC Holding LP Management Agreement, unless such claims arise from the fraud, wilful default or gross negligence of the Manager or any person who is serving or shall have served as a director, officer, employee, subcontractor or agent of the Manager. The Manager may rely on information provided by LTC Holding GP, unless it has actual notice that such information is inaccurate.

The obligations of LTC Holding LP under the LTC Holding LP Management Agreement are guaranteed by MPIIT.

Non-Exclusivity and Rights of First Offer

Pursuant to the terms of the Management Agreements and the Administration Agreement, the Manager's personnel may be employed or contracted directly by the Manager or may be seconded from one or more of the Manager's Affiliates on a full-time or part-time basis. Such personnel are not required to devote their time exclusively to or for the benefit of the Fund, MPIIT, Cardinal LP, the Cardinal Facility, Future Facilities, Future LP Facilities or managing LTC Holding LP's investment in Macquarie Master LP, as applicable. The Manager, its Affiliates and its employees or agents may be engaged or invest directly or indirectly in a variety of other companies or other entities involved in owning, managing or advising on or otherwise engaged in the business of the generation, production, transmission, distribution, purchase and sale of electricity, other forms of energy-related projects, infrastructure projects, utility projects, seniors' housing or other businesses.

Such business interests are subject to the condition that unless otherwise permitted by the Cardinal LP Management Agreement or the Administration Agreement, the Manager and its Canadian Affiliates are prohibited from acquiring an interest as principal in operating power generating facilities in Canada or the U.S. when such investments would meet the Fund's acquisition and investment guidelines, unless it has been offered to the Fund on the terms available to the Manager or the Fund has otherwise first been given the opportunity to pursue such investment in accordance with the terms of the Cardinal LP Management Agreement and the Administration Agreement. This prohibition does not apply to prohibit Affiliates of the Manager from (i) engaging in commodity

trading, including trading in electricity; (ii) lending money to or guaranteeing the debts or obligations of any other entity; (iii) acquiring interests on a temporary basis as a result of underwriting activities; (iv) acquiring securities in entities where the majority of the assets of such entities are not operating power generating facilities in Canada or the U.S.; or (v) acquiring interests of less than 10% in publicly-listed entities when such Affiliate does not have board representation in respect of such shareholding ("Exempt Power Investments").

For greater certainty, these prohibitions and rights of first opportunity do not apply to the acquisition of or other investment in operating power facilities in Canada or the U.S. by a fund or entity that is managed by the Manager or an Affiliate of the Manager, or where the Manager or an Affiliate of the Manager is the general partner of such fund or entity, including Macquarie Essential Assets Partnership ("MEAP").

Affiliates of the Manager currently act as the manager to a number of infrastructure investment funds whose investment criteria are broad enough to encompass investments in operating power generation facilities in Canada and the U.S. In particular, an Affiliate of the Manager is the general partner of MEAP, which invests in regulated and other essential infrastructure assets. Neither MEAP nor any of these other funds are primarily focused on operating power generation facilities in Canada and the U.S. and they do not currently own any operating power generation facilities.

The Management Agreements and the Administration Agreement contain a protocol to address potential conflicts of interest which may arise as a result of the management of MEAP and future infrastructure investment vehicles by the Manager's Affiliates.

The investment protocol provides that if an Affiliate of the Manager is the general partner of MEAP or otherwise manages MEAP, the Manager will be unable to provide services to the Fund in respect of the acquisition of any assets or investment in securities, including operating power generation facilities in Canada and the U.S., that MEAP has decided to pursue, except that the services of the President and Chief Executive Officer and Vice-President, Chief Financial Officer and Secretary will remain available to the Fund. In such circumstances, the Manager will notify the Fund of such investment opportunity if (i) the investment opportunity is within the operating power generation sector in Canada or the Manager would have recommended that the Fund assess the investment opportunity under circumstances where it was permitted to provide services to the Fund; (ii) it is either subject to a public auction or the participation by potential investors in the sales process is sufficiently broad that it is reasonable to expect that the opportunity would come to the attention of the Fund; and (iii) the Manager is not precluded from making such disclosure by any legal obligation applicable to it or its Affiliates. When the Manager is unable to provide services, the Fund may pursue the investment opportunity directly, including using the services of the President and Chief Executive Officer and the Vice-President, Chief Financial Officer and Secretary. In the event that a conflict of interest arises in respect of the continued provision of their services, the President and Chief Executive Officer and the Vice-President, Chief Financial Officer and Secretary will work with the Trustees to determine the appropriate means to resolve the conflict. Based on the investment criteria of MEAP and the Fund, the Manager believes that it is unlikely that a conflict of interest will arise in relation to the investment in operating power generation facilities in Canada and the U.S.

In the future, Affiliates of the Manager may establish infrastructure investment vehicles which have investment criteria broad enough to overlap with the investment criteria of the Fund (a "Future Investment Vehicle"). These Future Investment Vehicles may be permitted to invest in operating power generation facilities and in other assets which satisfy the investment criteria of the Fund. In relation to investments in the U.S., the investment protocol provides that the Manager will be unable to provide services to the Fund in respect of the acquisition of U.S. assets, including operating power generation facilities, that any such Future Investment Vehicle has decided to pursue, except that the services of the President and Chief Executive Officer and Vice-President, Chief Financial Officer and Secretary will remain available to the Fund. In the case of such U.S. investment opportunities, the Manager will notify the Fund of such U.S. investment opportunity if (i) the Manager would have recommended that the Fund assess the investment opportunity under circumstances where it was permitted to provide services to the Fund; (ii) it is either subject to a public auction or the participation by potential investors in the sales process is sufficiently broad that it is reasonable to expect that the opportunity would come to the attention of the Fund; and (iii) the Manager is not precluded from making such disclosure by any legal obligation applicable to it or its Affiliates. When the Manager is unable to provide services, the Fund may pursue the investment opportunity directly, including using the services of the President and Chief Executive Officer and the Vice-

President, Chief Financial Officer and Secretary of the Manager. In the event that a conflict of interest arises in respect of the continued provision of their services, the President and Chief Executive Officer and the Vice-President, Chief Financial Officer and Secretary will work with the Trustees to determine the appropriate means to resolve the conflict. In relation to investments in Canada, the Manager will be entitled to provide services to the Fund in respect of the acquisition of operating power generation facilities in Canada even if a Future Investment Vehicle has decided to pursue an investment in that asset. In such circumstances, the Manager and its Affiliates will be unable to provide services to such Future Investment Vehicle in respect of that investment.

Subject to the exceptions noted below, the Manager and its Canadian Affiliates will grant a right of first offer to the Fund in respect of any ownership interest held by the Manager or any of its Canadian Affiliates as principal in any operating power generation facilities in Canada and the U.S. that meets the Fund's investment criteria and is not an Exempt Power Investment, that the Manager or its Canadian Affiliate intends to sell or offer to a third party purchaser or to monetize through a structure similar to the Fund. If the ownership interest meets the investment criteria of MEAP and the operating power generation facility is located in Canada or the U.S., the Manager or its Canadian Affiliate will first offer the ownership interest to MEAP before offering it to the Fund. Similarly, if the ownership interest meets the investment criteria of a Future Investment Vehicle in the U.S. and the operating power generation facility is located in the U.S., the Manager or its Canadian Affiliate will first offer the ownership interest to such Future Investment Vehicle before offering it to the Fund. The Manager believes that it is unlikely that an investment opportunity will arise in relation to an operating power generation facility located in Canada that will meet the acquisition and investment guidelines of both MEAP and the Fund.

For greater certainty, these rights of first offer do not apply to the disposition of operating power facilities in Canada or the U.S. by a fund or entity that is managed by the Manager or an Affiliate of the Manager.

The Manager and its Canadian Affiliates will not, during the term of the Management Agreements or the Administration Agreement, become managers of an income fund or a similar investment vehicle listed on a stock exchange in Canada whose primary investment objective is to invest in operating power generation facilities or LTC Facilities in Canada. For greater certainty, this will not preclude Affiliates of the Manager from managing power generation assets or LTC Facilities for institutions, corporations or other entities that are not income funds or similar investment vehicles listed on a stock exchange in Canada, or from providing advisory or other investment banking services to any party.

CONFLICTS OF INTEREST AND FIDUCIARY DUTIES

Certain conflicts of interest could arise as a result of the relationships among the Manager, MPIIT, the Fund, Cardinal GP, Cardinal LP, LTC Holding LP and LTC Holding GP. Cardinal GP, with the assistance and supervision of the Manager, makes all decisions relating to the Cardinal Facility. The senior officers of the Manager are also officers of Cardinal GP and LTC Holding GP. The Fund and MPIIT are dependent upon the Manager for all management services in respect of Cardinal LP's and LTC Holding LP's businesses. Subject to the terms of the Management Agreements, the directors and officers of the Manager have fiduciary duties to manage Cardinal LP, the Cardinal Facility and LTC Holding LP, including their investments in their respective subsidiaries, in a manner beneficial to the Manager. In general, Cardinal GP and LTC Holding GP, as the general partner of Cardinal LP and LTC Holding LP, respectively, have fiduciary duties to manage Cardinal LP and LTC Holding LP, respectively, in a manner beneficial to the limited partners of Cardinal LP and LTC Holding LP, respectively. The duties of the directors and officers of the Manager may come into conflict with the duties of the directors of Cardinal GP or LTC Holding GP. The CLP Agreement, the Fund Declaration of Trust and the MPIIT Declaration of Trust provide that transactions between Cardinal LP and Cardinal GP, the Fund or MPIIT on the one hand, and the Manager or its Affiliates, on the other hand, must be approved by a majority of the Cardinal GP Directors, the MPIIT Trustees or the Trustees, as the case may be, who are ''independent'' (as such term is defined under section 1.4 of Multilateral Instrument 52-110 – *Audit Committees*) from the Manager. Conflicts of interest or potential conflicts of interest could arise in the situations described below, among others:

(a) the amount of Distributable Cash may be affected by various determinations made by the Manager pursuant to the Cardinal LP Management Agreement including, for example, those relating to the time of any capital transaction, the establishing of, or maintenance of, reserves, the timing of expenditures, the incurrence of debt and other matters;

(b) counsel, accountants and others performing services for Cardinal LP, Cardinal GP, LTC Holding LP, LTC Holding GP, MPIIT and the Fund are selected by the Manager and may also perform services for the Manager and its Affiliates. Cardinal LP, Cardinal GP, LTC Holding LP, LTC Holding GP, MPIIT and the Fund may retain separate counsel, depending on the nature of a conflict which might arise in the future, but do not presently intend to do so in most cases;

(c) the Manager and its Affiliates may engage in business activities in direct competition with Cardinal LP, Cardinal GP, LTC Holding LP, LTC Holding GP, MPIIT and the Fund and may also manage funds that may directly compete with Cardinal LP, Cardinal GP, LTC Holding LP, LTC Holding GP, MPIIT and the Fund, and in some instances, will not be able to offer acquisition support services in respect of investments under a protocol that is set out in the Management Agreements and Administration Agreement; and

(d) there may be competition between Cardinal LP, Cardinal GP, LTC Holding LP, LTC Holding GP, MPIIT and the Fund, on the one hand, and the Manager and its Affiliates, on the other hand, for the time and efforts of the President and Chief Executive Officer and the Vice-President, Chief Financial Officer and Secretary of the Manager who also serve in such capacities with Cardinal GP, LTC Holding GP, MPIIT and the Fund. Officers of the Manager divide their time between the business of the Manager and its Affiliates, on the one hand, and the business of the Fund and its subsidiaries, on the other hand, and are not required to spend any specified percentage or amount of their time on the business of the Fund and its subsidiaries.

See ‘‘Trustees, Management and Operations - Management Agreement’’, ‘- Administration Agreement’’ and ‘‘- Non-Exclusivity and Rights of First Offer’’.

RISK FACTORS

The Fund and its subsidiary entities face a number of risks, including the risk factors set out below. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form and in the Fund’s filings with Canadian securities regulators from time to time.

Risks related to the Cardinal Facility and the Power Industry

Plant Performance

The revenues generated by the Cardinal Facility are proportional to the amount of electrical energy and steam generated by it. The ability of the Cardinal Facility to generate the maximum amount of power to be sold to OEFC under the Power Purchase Agreement is currently one of the primary determinants of the amount of Distributable Cash that will be available for distribution to Unitholders. There is a risk of equipment failure due to wear and tear, latent defect, design error or operator error, among other things, which could adversely affect cash distributions by the Fund. To the extent that the Cardinal Facility’s equipment requires longer than anticipated down times for maintenance and repair, or suffers disruptions of power generation for other reasons, the amount of Distributable Cash may be negatively affected.

Expiry of the Power Purchase Agreement

All the electricity generated by the Cardinal Facility (less the amount consumed in its operations) is currently sold to OEFC under the Power Purchase Agreement, which could be terminated on December 31, 2014. In the event that the Power Purchase Agreement expires or is not renewed, Cardinal LP could be required to: (i) bid all of the power it produces into the IESO-administered markets and receive the market price for the electricity sold; (ii) enter into a bilateral power purchase contract with another counterparty to sell electricity at a negotiated price; or (iii) do a combination of both, bidding some power into the IESO-administered market and selling the rest under a bilateral contract with a counterparty. In the event that Cardinal LP chooses to renegotiate or enter into a power purchase contract, there can be no assurance that Cardinal LP will be able to renegotiate or enter into a power supply contract on terms that are commercially reasonable, if at all. In the event that Cardinal LP chooses to bid the power

it produces into the IESO-administered markets, and assuming current market structure, there can be no assurance that the market price Cardinal LP will receive for the electricity so offered would exceed the Cardinal Facility's marginal cost of operations. Furthermore, the Cardinal Facility may be economically less competitive than other power producing facilities.

Renewal of the Gas Purchase Agreement

The Gas Purchase Agreement expires on May 1, 2015. Upon expiry of the Gas Purchase Agreement, Cardinal LP will have to renegotiate the agreement or enter into a new gas supply agreement. Current gas prices are significantly greater than those payable pursuant to the Gas Purchase Agreement. There can be no assurance that Cardinal LP will be able to renegotiate the Gas Purchase Agreement or enter into a new gas supply agreement on terms that are similar to the Gas Purchase Agreement, if at all. Furthermore, there can be no assurance as to the supply or price of gas available at the time of the expiry of the Gas Purchase Agreement. If at the time of the renewal of the Gas Purchase Agreement, the price of natural gas available to the Cardinal Facility is in excess of that available under the Gas Purchase Agreement, there could be a negative effect on available cash from the Cardinal Facility.

The Cardinal Facility is also dependent on the transportation of natural gas to it, and as such, service interruption pursuant to the Gas Purchase Agreement may result in a significant reduction in distributable cash due to loss of production of the Cardinal Facility.

Potential Expiry of the Lease

The Lease expires concurrently with the Energy Savings Agreement, including any extension thereof. In the event that CASCO decides not to extend the Energy Savings Agreement and that Cardinal LP avails itself of its right to extend the original term of the Energy Savings Agreement to January 31, 2017, the Lease will also expire on January 31, 2017. In certain circumstances, Cardinal LP may continue the term of the Lease until a date no later than December 31, 2020. In no event can the term of the Lease extend beyond December 31, 2030. At the expiration of the term of the Lease, Cardinal LP is responsible for dismantling and removing all improvements on the leased land and restoring the leased land to its condition prior to the commencement of the term of the Lease and is specifically liable for all costs related to remedial action that would need to be taken in order for hazardous substances, if any, to be removed so that the leased land complies with environmental laws. There can be no assurance that Cardinal LP will have the benefit of the Lease beyond January 31, 2017. Furthermore, there can be no assurance that Cardinal LP will be able to negotiate an extension to the Lease or renegotiate a lease agreement with CASCO on commercially reasonable terms, if at all. At such time as the Lease expires, Cardinal LP will be unable to operate the Cardinal Facility. There can be no assurance that Cardinal LP will have the necessary financial resources or will be able to obtain the necessary financial resources to fund or cause to be funded the required restoration and/or remediation of the leased land to its original condition.

Termination of the Energy Savings Agreement

The Energy Savings Agreement matures on January 31, 2015 and provides that by January 31, 2014, the parties will start negotiations with respect to a renewal term. During those negotiations, either party can decide not to renew the Energy Savings Agreement. In the event that CASCO makes that determination, Cardinal LP has an unilateral right to extend the original term to January 31, 2017. In the event that the Energy Savings Agreement is so extended by Cardinal LP, the price of steam payable by CASCO to Cardinal LP during the Extension Period will be reduced by 50% of the price of steam otherwise payable under the Energy Savings Agreement. There can be no assurance that the Energy Savings Agreement can be renegotiated on terms that are commercially reasonable, if at all.

Contract Performance

The amount of Distributable Cash available for distribution to Unitholders is highly dependent upon the parties to the applicable agreements fulfilling their contractual obligations, particularly OEFC under the Power Purchase Agreement (which accounts for approximately 98.7% of the gross revenues expected from the Cardinal

Facility), and Husky Marketing under the Gas Purchase Agreement. An inability or failure by any such party to meet its contractual commitments may adversely affect cash distributions by the Fund.

Gas Swap Agreements

The Gas Swap Agreements mitigate the effect of gas price fluctuations on the net proceeds which Cardinal LP receives for natural gas in excess of the Cardinal Facility's requirements. The Gas Swap Agreements could expose the Fund to losses which could occur under various circumstances, including to the extent that the Counterparty does not perform its obligations under the Gas Swap Agreements, if the Gas Swap Agreements provide an imperfect hedge or in the event that the Fund's swap policies and procedures are not followed.

Regulatory Regime and Government Permits

The profitability of the Cardinal Facility is, in part, dependent upon the continuation of a favourable regulatory climate with respect to the continuing operations and the future growth and development of the power industry and environmentally preferred energy sources. Should the regulatory regime be modified in a manner which adversely affects the Cardinal Facility, including increases in taxes and permit fees, cash distributions by the Fund may be adversely affected. The failure to obtain and maintain all necessary licenses or permits, including renewals thereof or modifications thereto, may adversely affect cash distributions by the Fund.

The Cardinal Facility is subject to a complex and increasingly stringent environmental, health and safety regulatory regime, which includes Environmental, Health and Safety Laws. As such, the operation of the Cardinal Facility carries an inherent risk of environmental, health and safety liabilities (including potential civil actions, compliance or remediation orders, fines and other penalties), and may result in the Cardinal Facility being involved from time to time in administrative and judicial proceedings related to such matters, which could have a material adverse effect on the Fund's business, financial condition and results of operations. Cardinal LP has not been notified of any such civil or regulatory action in regards to its operations, however, it is not possible to predict with absolute certainty what position a regulatory authority may take regarding matters of non-compliance with Environmental, Health and Safety Laws. Changes in such laws, or more aggressive enforcement of existing laws, could lead to material increases in unanticipated liabilities or expenditures for investigation, assessment, remediation or prevention, capital expenditures, restrictions or delays in the Cardinal Facility's activities, the extent of which cannot be predicted.

Uninsured and Underinsured Losses

The Fund Declaration of Trust requires that the Fund obtain and maintain at all times insurance coverage in respect of potential liabilities of the Fund and the accidental loss of value of the assets of the Fund from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of similar assets and operations. The Fund believes that the existing ''all risks'' property and machinery breakdown insurance, business interruption, automobile insurance and liability insurance, including sudden and accidental pollution coverage insurance, represents coverage that is consistent for comparable operations and services, including the generation and transmission of electrical power. However, not all risk factors are covered by such insurance, and no assurance can be given that insurance will be consistently available or will be consistently available on a commercially reasonable basis or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or operations of Cardinal LP.

Debt of Cardinal LP

The Credit Agreement expires in 2007. Cardinal LP may need to refinance or reimburse the amount outstanding under the Credit Agreement. The ability of the Fund and its subsidiaries to meet their debt service requirements will depend on the ability of Cardinal LP to generate cash in the future, which depends on many factors, including the financial performance of Cardinal LP, debt covenants and obligations, working capital requirements and future capital requirements. In addition, the ability of the Fund or its subsidiaries to borrow funds in the future to make payments on outstanding debt will depend on the satisfaction of covenants in existing credit and other agreements. In addition, the Credit Agreement contains a number of financial covenants that require

Cardinal LP to meet certain financial ratios. A failure to comply with the obligations in the Credit Agreement could result in a default, which, if not cured or waived, could result in the termination of distributions by Cardinal LP and permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Agreement were to be accelerated, there could be no assurance that the assets of Cardinal LP would be sufficient to repay in full that indebtedness. There can be no assurance that Cardinal LP will generate sufficient cash flow from operations or that future distributions will be available in amounts sufficient to pay outstanding indebtedness, or to fund any other liquidity needs. There can be no assurance that the Fund or its subsidiaries could refinance the Credit Agreement or obtain additional financing on commercially reasonable terms, if at all. In the event that the Credit Agreement cannot be refinanced, or if it can only be refinanced on terms that are less favourable than the current terms, cash distributions by the Fund may be adversely affected. The Credit Agreement is and future borrowings may be at variable rates of interest, which exposes the Fund to the risk of increased interest rates. This factor may increase the sensitivity of distributable cash to interest rate variations. Furthermore, distributions by Cardinal LP to MPIIT, and, consequently, distributions to the Fund, may be restricted if Cardinal LP fails to maintain certain covenants under the Credit Agreement such as financial ratios.

Transmission of Electricity

The Cardinal Facility is connected to the Hydro One transmission grid by the Cardinal Transmission Line. There is a risk of failure of the Cardinal Transmission Line due to wear and tear, latent defect or design error, among other things. The Cardinal Transmission Line could also be seriously affected by a natural disaster such as the ice storm of January 1998. The failure of the Cardinal Transmission Line could adversely affect cash distributions by the Fund.

Labour Relations

While labour relations with the employees at the Cardinal Facility have been stable to date and there has not been any disruption in operations as a result of labour disputes, the maintenance of a productive and efficient labour environment cannot be assured. Accordingly, a strike, lock-out or deterioration of labour relationships could adversely affect cash distributions by the Fund. Employees involved in the operation of the Cardinal Facility are currently non-unionized.

Force Majeure

The occurrence of a significant event which disrupts the ability of the Cardinal Facility to produce or sell power for an extended period, including events which preclude OEFC from purchasing power, could have a material negative impact on cash distributions by the Fund. However, a significant portion of the events giving rise to *force majeure* are mitigated by the Fund's insurance program.

Terrorist Attacks

The Cardinal Facility may be a target of terrorist activities that could result in the disruption of the Cardinal Facility's ability to produce or deliver its energy products. Any such disruption could adversely affect cash distributions by the Fund.

Risks Related to the Leisureworld LTC Business and the LTC Sector

LTC Facility Ownership and Operation

By investing indirectly in LTC Facilities and other classes of seniors' housing, the Fund is exposed to adverse effects on such sectors and is also subject to general business risks inherent in the seniors' housing industry. These risks include fluctuations in levels of occupancy and the inability to achieve economic accommodation funding or residency fees (including anticipated increases in such fees) due to, among other factors, regulations controlling LTC funding, regulations controlling rents, possible future changes in labour relations, increases in labour, other personnel costs and other operating costs, competition from or oversupply of other similar properties, changes in neighbourhood conditions, location conditions or general economic conditions and the imposition of increased taxes or new taxes. These risks also include the effects of health-related risks and disease outbreaks. As

such, there is no assurance that future occupancy rates at the Leisureworld LTC Facilities will be consistent with historical occupancy rates achieved by the Leisureworld LTC Facilities, or future rates anticipated by the Manager.

Geographic Concentration

All of the business and operations of the Leisureworld LTC Business is currently conducted in Ontario. If the Ontario market were to generally experience a decline in financial performance as a result of changes in local and regional economic conditions, such as the addition of new LTC Facilities, or an adverse change to the Ontario regulatory environment, the market value of the Leisureworld Facilities, the income generated from them and the overall financial performance of the Fund could be negatively affected.

Minority Interest

The Fund owns an indirect 45% minority interest in LSCLP and its general partner. As such, the Fund will have limited legal rights to influence the management of LSCLP, including those rights specified in the MMGP shareholders' agreement.

The remaining 55% is owned by Macquarie Bank Limited which has transferred the economic benefits of its ownership to MIIF. MIIF is managed by a member of Macquarie group. MIIF or any future holders of its 55% interest may develop different objectives than those of the Fund. As a result, LSCLP may not make distributions to the Fund at anticipated levels. As well, certain decisions could be made that could adversely affect the distributions of the Fund and otherwise negatively affect the ability of LSCLP to generate cash and to pay distributions to the Fund.

Continued Growth and Development

The external growth prospects for the Leisureworld LTC Business will depend in large part on identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions and development strategies, and effectively operating the acquired or developed seniors' housing facilities. If LSCLP is unable to manage its growth and integrate its acquisitions and developments effectively, its business, operating results and financial condition could be adversely affected, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

Industry Dynamics

Numerous developers, managers and owners of seniors' housing facilities compete with the Leisureworld LTC Business in seeking residents. The existence of competing developers, managers and owners and competition for residents could have an adverse effect on the ability of the Leisureworld LTC Business to find or retain residents for the Leisureworld Facilities and on the funding received or rents charged, which could adversely affect revenues of the Leisureworld LTC Business and, consequently, on its ability to meet debt obligations and the Fund's ability to pay distributions on its Units.

The 1998 Initiative resulted in an oversupply of LTC beds in the province, causing a sustained decrease in average occupancy in LTC Facilities across Ontario. Province wide average occupancy was below the 97% threshold for the year ending December 31, 2005. It is likely that this (or any other) increase in supply of LTC Facilities will continue to affect occupancies and may result in a lower level of occupancy at the Leisureworld Facilities in the future.

Government Regulation and Funding

Health care in general, including LTC Facilities, is an area subject to extensive regulation and frequent regulatory change. In Canada, a number of provinces are promoting regionally managed and regulated health care systems. The provinces of Alberta, British Columbia and Manitoba have led this trend, and Ontario is currently in the process of implementing such a system. These changes favour larger operators having the resources to provide more cost-effective management services and well-developed staff training programs on a regional basis; however, there can be no assurance that future regulatory changes in health care, particularly those changes affecting the

seniors' housing industry, will not adversely affect the Leisureworld LTC Business or the Fund. In addition, new regulatory standards and requirements are being considered in a number of provinces, including Ontario, which may affect all types of seniors' housing facilities.

In Ontario, all nursing homes must be licensed under applicable provincial legislation. Such licences are for a term of one year, but are routinely renewed each year unless there is a concern or complaint with respect to the facility. Therefore, these licences do not represent any guarantee of continued operation beyond the term of the licence. While LSCLP will endeavour to ensure compliance with all regulatory requirements applicable to the Leisureworld Facilities, it is not unusual for stringent inspection procedures to identify deficiencies in operations. Should this occur, it is possible that such deficiencies may not be able to be remedied within the time frames allowed. If this were to occur it could have an impact upon the business, operating results and financial condition of the Leisureworld LTC Business, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

The provincial regulation of LTC Facilities includes the control of LTC fees. The Province of Ontario also funds care, programs and support provided in LTC Facilities, and subsidizes accommodation costs for qualifying residents. As a result of increasing health care costs, the risk exists that funding agencies may in the future reduce the level of, or eliminate such fees, payments or subsidies. There can be no assurance that the current level of such fees, payments and subsidies will be continued or that such fees, payments and subsidies will increase commensurate with expenses. A reduction of such fees, payments or subsidies could have an impact upon the business, operating results and financial condition of the Leisureworld LTC Business, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

The Province of Ontario has proposed that the Nursing Homes Act, the *Charitable Institutions Act* (Ontario) and the *Homes for the Aged and Rest Homes Act* (Ontario) be replaced by a single piece of legislation, the Long-Term Care Homes Act (Ontario) (the ''Long-Term Care Homes Act''). Because the Long-Term Care Homes Act has not been released in draft form, it is unclear how it would affect the regulatory environment for LTC Facilities. If enacted, the Long-Term Care Homes Act could provide, among other things, for additional minimum standards for LTC Facilities and related enforcement measures to ensure that such minimum standards are met and amendments to licenses including length of term and level of funding. The new legislation, if enacted, could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

In addition, Ontario is in the process of setting up 14 Local Health Integration Networks ("LHIN") throughout the Province. LHINs are non-profit corporation that are designed to plan, coordinate and fund the delivery of health care services across the province. In conjunction with the LHINs, the province has passed the LHSI Act, which is awaiting Royal Assent and could come into force at any time. With the LHSI Act, the management of local health services, including the funding of and setting performance goals for LTC Facilities, will be devolved to the LHINs.

Under the LHSI Act, the relationship between LHINs and the MOHLTC will be governed by a memorandum of understanding and accountability and performance agreements between each LHIN and the MOHLTC. Therefore, the provincial government will continue to set direction, strategic policy, and basic system standards. The implication of the LHSI Act on LTC Facilities is not presently known, and, despite the fact that the LHSI Act could come in force at any time, the LHINs' functions will be phased in over time. As the functions of the LHINs are phased in, instead of entering into service agreements with the province (see "Long-Term Care Industry – Industry Overview – Regulation of Ontario LTC Sector"), LTC Facilities will enter into service accountability agreements with the local LHIN. In addition, the LHSI Act allows the MOHLTC to assign to LHINs its rights and obligations under current service agreements between the MOHLTC and LTC Facilities. As the province's plan is that LHINs be responsible for setting local performance goals and funding for LTC Facilities, it is possible that the current system of regulation and funding described in the "Long-Term Care Industry" section of this Annual Information Form could be significantly changed in the near future. Further, it is possible that standards and funding for LTC Facilities could differ between the LHINs. Any such changes could have an impact upon the business, operating results and financial condition of the Leisureworld LTC Business.

Termination of Residence Agreements and Residence Fees

Regulations that apply to LTC Facilities generally require written agreements with each resident. Most of these regulations also require that each resident have the right to terminate the resident agreement for any reason on reasonable notice. Consistent with these regulations, the resident agreements for the Leisureworld LTC Facilities allow residents to terminate their agreement on 30 days' notice and in accordance with the *Commercial Tenancies Act* (Ontario). Thus, if a large number of residents elected to terminate their resident agreements at or around the same time, the revenues and earnings related to the Leisureworld LTC Business could be adversely affected, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

Enforcement of Indemnities Against the Vendors

Pursuant to the purchase agreements (the "Leisureworld Purchase Agreements") under which LSCLP acquired the Leisureworld LTC Business, the vendors of the Leisureworld LTC Business agreed to indemnify LSCLP in respect of breaches of covenants and representations and warranties of the vendors contained in such agreements, which are not required to be paid until the aggregate of claims under all of the Purchase Agreements exceed $1 million, and all claims for indemnification by LSCLP under the Leisureworld Purchase Agreements are subject to an aggregate limit equal to $15 million (except that claims made in connection with any reassessment in respect of land transfer taxes arising in connection with certain pre-closing transactions and the Leisureworld LTC Acquisition (for which the applicable vendors have agreed to be liable for one-half of any such costs) is separately limited to $2,575,000 and liability for the vendors' representations regarding their right and ability to sell the purchased interests is limited to 100% of the purchase price payable pursuant to the Purchase Agreements). As such, there can be no assurance that LSCLP will be able to obtain from the vendors the full amount of any damages suffered by it in respect of any breaches of covenants, representations and/or warranties by the vendors under the Leisureworld Purchase Agreements.

In addition, there may have been liabilities and contingencies that LSCLP, the Fund and the Manager failed to or were unable to discover in its due diligence prior to consummation of the acquisition of the Leisureworld LTC Business, and LSCLP may not be indemnified for some or all of these liabilities. The Leisureworld LTC Business may have liabilities for which LSCLP, as successor owner, may be legally and financially responsible. The discovery of any material liabilities could have a material adverse effect on the business, operating results and financial condition of the Leisureworld LTC Business, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

Indemnities in Favour of the Vendors

Pursuant to the indemnity agreement dated September 12, 2005 among the Fund and the vendors of the Leisureworld LTC Business (the "Indemnity Agreement"), the Fund has agreed to indemnify the vendors and their directors and management for any liabilities they may suffer as a result of the Short Form Prospectus containing a misrepresentation to a maximum of $15 million. Accordingly, the Fund will be required to provide payment for any liability suffered by the vendors, their directors and/or management as a result of a misrepresentation contained in the Short Form Prospectus. In addition, pursuant to the Leisureworld Purchase Agreements, LSCLP has agreed to indemnify the vendors for any misrepresentation contained in any prospectus filed in respect of the Leisureworld LTC Business which describes the vendors or the Leisureworld LTC Business. If any payment on such indemnities is required to be made, such payment may materially and adversely affect the Fund and the Fund's ability to pay distributions on its Units.

Debt Financing

A portion of LSCLP's cash flow is devoted to servicing its debt, and there can be no assurance that LSCLP will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If LSCLP were unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. If this were to occur it could have an impact upon the business, operating results and financial condition of the Leisureworld LTC Business, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units. As well, LSCLP's debt imposes covenants and obligations on LSCLP. There is a risk that this debt may go into default if there is a breach in complying with

such covenants and obligations. In addition, the eventual refinancing of this debt when it becomes due in 2015 may be done on terms and rates which are not as advantageous as currently anticipated by the Manager. These situations could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

Environmental, Health and Safety Liabilities

Under various EH&S Requirements, LSCLP, as either indirect owner or manager of the Leisureworld LTC Business, could become liable for the costs of removal or remediation of certain hazardous, toxic or regulated substances released on or in the Leisureworld Facilities or disposed of at other locations sometimes regardless of whether or not LSCLP knew of or was responsible for their presence. The failure to remove, remediate or otherwise address such substances, if any, may adversely affect LSCLP's ability to sell such properties or to borrow using such properties as collateral and could potentially result in claims against LSCLP by public or private parties. LTC Facilities must also comply with various permitting and registration requirements, including with respect to the storage and handling of waste.

In addition, LSCLP may become subject to liability for undetected contamination or other environmental conditions at its LTC Facilities against which it cannot insure, or against which LSCLP may elect not to insure, where insurance premium costs are considered to be disproportionate to the assessed risk. LSCLP may also be subject to investigations, orders, charges, administrative or judicial proceedings relating to EH&S Requirements, including with respect to potential non-compliance. Such proceedings could have a material adverse effect on the Leisureworld LTC Business, its operating results and financial condition, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

In the first quarter of 2005, Phase I environmental site assessments were conducted at all, and Phase II environmental site assessments were conducted at some, of the Leisureworld LTC Facilities in order to identify and assess any potentially material environmental conditions (such as significant subsurface contamination) or material non-compliance with applicable EH&S Requirements. Although certain minor environmental conditions and compliance matters were identified, the assessments did not identify any material issues of potential environmental concern nor is the Manager aware of any such issues that it believes would involve material expenditure or liability exposure, directly or indirectly, by LSCLP.

EH&S Requirements may change and LSCLP or the Leisureworld LTC Business may become subject to more stringent enforcement in the future. More stringent enforcement and/or compliance with more stringent EH&S Requirements could have a material adverse effect on the Leisureworld LTC Business, its operating results and financial condition, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

Liability and Insurance

The Leisureworld LTC Business entails an inherent risk of liability. The Manager expects that from time to time the Leisureworld LTC Business may be subject to lawsuits as a result of the nature of its businesses. LSCLP will maintain business and property insurance policies in amounts and with such coverage and deductibles as deemed appropriate, based on the nature and risks of the businesses, historical experience and industry standards. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. There are certain types of risks, generally of a catastrophic nature, such as war, terrorism or environmental contamination, which are either uninsurable or are not insurable on an economic basis. A successful claim against LSCLP or the Leisureworld LTC Business not covered by, or in excess of, LSCLP's insurance could have a material adverse effect on LSCLP and the Leisureworld LTC Business, operating results and financial condition, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units. Claims against LSCLP, regardless of their merit or eventual outcome, also may have a material adverse effect on the ability to attract residents or expand the Leisureworld LTC Business, and will require management of LSCLP to devote time to matters unrelated to the operation of the Leisureworld LTC Business.

Personnel Costs

The Leisureworld LTC Business is a labour intensive operation, in which a substantial portion of direct operating expenses are comprised of labour related expenses. The Leisureworld LTC Business is required to compete with other health care providers with respect to attracting and retaining qualified personnel. The Leisureworld LTC Business may also be dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the Leisureworld LTC Business to enhance wage and/or benefits provided to employees in order to compete. No assurance can be given that labour costs will not increase, or that if they do increase, that they can be matched by corresponding increases in rental or management revenue. Wage increases in excess of increases that can be obtained from rental or cost reimbursement can have a negative effect on operating performance.

Reliance on Key Personnel

The success of the Leisureworld LTC Business depends upon the retention of senior management, including its Chief Executive Officer, David Cutler. There can be no assurance that LSCLP would be able to find qualified replacements for the individuals who make up the senior management team of the Leisureworld LTC Business if their services were no longer available. The loss of services of one or more members of such senior management team could have a material adverse effect on the Leisureworld LTC Business, its operating results and financial condition, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

Labour Relations

As at December 31, 2005, the Leisureworld LTC Business employed, directly and indirectly, over 3,200 people, of whom approximately 80% are represented by unions. Labour relations with the unions are governed by collective bargaining agreements with eight union locals of five separate unions. There can be no assurance that the Leisureworld LTC Business will not at any time, whether in connection with a renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on the Fund's and the Leisureworld LTC Business, operating results and financial condition. However, all LTC Facilities in the Province of Ontario are currently governed by the *Hospital Labour Disputes Arbitration Act* (Ontario), which prohibits strikes and lockouts in the seniors' housing industry. Therefore collective bargaining disputes are more likely to be resolved through compulsory third party arbitration. All of the Leisureworld LTC facilities are currently unionized.

Managed Facility

The licence relating to one of the Leisureworld LTC Facilities, Spencer House, is not owned by the Leisureworld LTC Business. Although the Leisureworld LTC Business owns Spencer House and leases it to Spencer House Inc., the Leisureworld LTC Business may not continue to receive the revenue with respect to this facility (or the new facility in Orillia which is to replace it) if the management agreement with Spencer House Inc., the owner of the licence, a charitable organization, is terminated. If the management agreement with the applicable Limited Partnership for Spencer House is terminated, the Leisureworld LTC Business will cease to control the operation of Spencer House. Spencer House Inc. will, however, continue to be responsible for the payment of rent under its lease. The Orillia LTC Facility will be managed by a Leisureworld Limited Partnership and Spencer House Inc. will lease land and buildings from such Leisureworld Limited Partnership pursuant to amendments to the existing Spencer House LTC Facility lease and management agreements with Spencer House Inc.

Risks related to the Structure of the Fund

Investment Eligibility

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans (each as defined in the Tax Act). There may be adverse tax consequences under the Tax Act, possibly including penalties, in respect of the acquisition or holding of non-qualified or ineligible investments.

Income Tax Matters

There can be no assurance that the Tax Act or the regulations thereunder and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the Unitholders.

The Fund Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to ensure that the Fund is not liable to be taxed under Part I of the Tax Act in any year. The Fund Declaration of Trust further provides that where the Fund does not have sufficient cash to pay such distribution in a year, the Fund may issue additional Units to Unitholders in lieu of making such distribution in cash. Unitholders will be required to include such distribution in their income for tax purposes even though the Unitholder has not received such distribution in cash.

Nature of Units

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the business of Cardinal LP or LTC Holding LP and should not be viewed by investors as direct securities of Cardinal LP or LTC Holding LP. As holders of Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's primary assets are MPIIT Units and MPIIT Notes.

A fundamental characteristic that distinguishes the Units from traditional fixed income securities is that the Fund does not have a fixed obligation to make payments to Unitholders. The Fund has the ability to reduce or suspend distributions if circumstances warrant. The Fund's ability to consistently make distributions to Unitholders will fluctuate depending on the operations of Cardinal LP and LTC Holding LP. Unlike an issuer of a fixed-income security, the Fund does not promise to return the initial purchase price of a Unit on a certain date in the future. In addition, unlike interest payment or an interest-bearing debt security, the Fund's cash distributions are composed of different types of payments (portions of which may be fully or partially taxable or may constitute non-taxable returns of capital). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax returns to Unitholders. For example, in order to qualify for accelerated capital cost allowance on certain of its assets, the Cardinal Facility must be operated within certain fuel consumption requirements. If the Cardinal Facility is not operated within those requirements, there could be an impact on the ability of the Fund to claim capital cost allowance, which, in turn, could affect the nature of the distributions received by the Unitholders. Therefore, a Unitholder's rate of return over a defined period may not be comparable to the rate of return on a fixed-income security that provides a "return on capital" over the same period.

The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporations Act* (Canada) and are not insured under the provisions of that act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Unitholder Liability

The Fund Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with a holding of Units. In addition, legislation has been enacted in Ontario, Alberta and Quebec that is intended to provide Unitholders in those provinces with limited liability. However, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be held personally liable, despite such statement in the Fund Declaration of Trust, for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. It is intended that the affairs of the Fund will be conducted to seek to minimize such risk wherever possible.

Dilution of Existing Unitholders

The Fund Declaration of Trust permits the Fund to issue an unlimited number of previously unissued Units without the approval of Unitholders. The Unitholders will have no pre-emptive rights in connection with such further issues. Trustees have discretion in connection with the price and the terms of issue of further Units.

Price Fluctuations

Units of a publicly-traded income fund do not necessarily trade at values determined solely by reference to the underlying value of its assets. One of the factors that may influence the market price of the Units is the annual yield on the Units. An increase in market interest rates may lead purchasers of Units to demand a higher annual yield and this could adversely affect the market price of the Units. In addition, the market price for the Units may be affected by changes in general market conditions, fluctuations in the market for equity or debt securities and numerous other factors beyond the control of the Fund.

Distribution of Securities on Redemption or Termination of the Fund

There can be no assurance that the Fund will be in a position to redeem Units for cash when requested to do so. Upon a redemption of Units or termination of the Fund, the Trustees may distribute Series 2 Exchange Notes and Series 3 Exchange Notes directly to the Unitholders. There is currently no market for Series 2 Exchange Notes and Series 3 Exchange Notes. In addition, Series 2 Exchange Notes and Series 3 Exchange Notes are subject to resale restrictions and will not be listed on any stock exchange (see "Description of the Fund — Redemption at the Option of Unitholders"). Depending on the circumstances at the time, securities of the Fund so distributed may not be qualified investments for registered retirement savings plans, registered retirement income funds, or registered education plans, each as defined in the Tax Act.

Delays in Distributions

Payments by MPIIT to the Fund may be delayed by the establishment of reserves for expenses. Any such delay could adversely affect cash distributions by the Fund.

Reliance on Cardinal LP and LSCLP

The Fund is a limited purpose trust which is currently entirely dependent on the operations and assets of Cardinal LP and LSCLP through the indirect ownership of a limited partnership interest in Cardinal LP and LSCLP, respectively. Cash distributions to Unitholders depend on the ability of MPIIT to pay its interest obligations under its loan obligations and to make other distributions, which in turn depends on the ability of Cardinal LP, LSCLP or other Future Facilities to make distributions and make payments on the instruments governing any indebtedness of those entities (including the Credit Agreement). The actual amount distributed in respect of the Units to Unitholders depends upon numerous factors, including profitability, fluctuations in working capital, and debt expenses, the sustainability of EBITDA, increases or decreases in capital expenditures and compliance with restrictive covenants under the Credit Agreement, distributions from Leisureworld and other debt obligations.

Rating

The Units have a stability rating by S&P. This rating may be revised or withdrawn in the future by S&P. A revision or withdrawal of the rating may have an adverse effect on the market price of the Units (see "Stability Rating").

Restrictions on Certain Unitholders and Liquidity of Units

The Fund Declaration of Trust imposes various restrictions on Unitholders. Non-resident Unitholders are prohibited from beneficially owning more than 49.9% of Units. This restriction may limit (or inhibit the exercise of) the rights of certain Unitholders, including non-residents of Canada, to acquire Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units. On September 16, 2004, the Minister of Finance released certain proposals that a trust such as the Fund

would lose its status as a mutual fund trust under the Tax Act if, at any time, the aggregate fair market value of all of its issued and outstanding units held by one or more non-resident persons and/or by partnerships which are not Canadian partnerships under the Tax Act, is more than 50% of the aggregate fair market value of all issued and outstanding units of the trust, unless no more than 10% (based on fair market value) of the trust's property at any time is taxable Canadian property and certain other types of specified property. These proposals did not provide any means of rectifying the loss of mutual fund trust status. On December 6, 2004, the Minister of Finance suspended implementation of these proposals pending further consultation with the private sector.

Restrictions on Potential Growth

The pay out by Cardinal LP and LSCLP of substantially all of their operating cash flow after satisfaction of their capital expenditure provisions will make additional capital and operating expenditures dependent on increased cash flow for additional financing in the future. Lack of such funds could limit the future growth of Cardinal LP, LSCLP and the related cash flow to the Fund.

Undiversified and Illiquid Holding in MPIIT

The Fund's holding of MPIIT Units and MPIIT Notes is undiversified, and such securities are illiquid, as they are not listed or quoted on any stock exchange or other market.

The Fund May Face Significant Competition for Acquisitions and May Not Successfully Integrate Acquisitions

The Fund's business plan includes growth through identifying suitable acquisition or investment opportunities, pursuing such opportunities, consummating acquisitions or investments and effectively integrating acquisitions or investments with the Fund's business. There can be no assurance that the Manager will be able to identify attractive acquisition candidates in the future or that the Fund will be able to make acquisitions or investments on an accretive basis. The Manager believes that the Fund is likely to confront significant competition for acquisition or investment opportunities.

Any acquisition or investment may involve potential risks, including an increase in indebtedness, the inability to successfully integrate operations, the potential disruption of the Fund's ongoing business and the diversion of management's attention from other business concerns and the possibility that the Fund pays more than the acquired company or interest is worth. There may also be liabilities that the Manager failed to discover or was unable to discover in its due diligence prior to the consummation of the acquisition or investment and the Fund may not be indemnified for some or all these liabilities. In addition, the Fund's funding requirements associated with acquisitions or investments and integration costs may reduce the funds available to the Fund to make distributions.

Cash Distributions are not Guaranteed and will Fluctuate with Business Performance

Although the Fund distributes any interest received in respect of the MPIIT Notes and the cash distributions received in respect of the MPIIT Units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the businesses of Cardinal LP, LTC Holding LP or Future Facilities or ultimately distributed to the Fund. The actual amount distributed in respect of the Units is not guaranteed and will depend on numerous factors including the financial performance of Cardinal LP, LTC Holding LP or Future Facilities, debt covenants and obligations, working capital requirements and future capital requirements, all of which are susceptible to a number of risks.

Dependence on the Manager and Potential Conflicts of Interest

The Fund is dependent on the Manager in respect of the administration of the Fund and of MPIIT as well as for providing management supervisory services to Cardinal LP. The Manager, its Affiliates, employees or agents and other funds and vehicles managed by Affiliates of the Manager may be engaged or invest, directly or indirectly, in a variety of other companies or entities involved in owning, managing, advising on or being otherwise engaged in the Business or other infrastructure businesses. The Management Agreements, the Administration Agreement, the MPIIT Declaration of Trust and the Fund Declaration of Trust contain provisions respecting the procedures to be

followed in the event of such conflict of interests. In certain circumstances, such conflicts may result in the Fund or its subsidiaries having to engage persons other than the Manager to provide acquisition and support services in respect of certain acquisitions or investments (see "Description of the Fund", "Conflicts of Interest and Fiduciary Duties" and "Trustees, Management and Operations — Non-Exclusivity and Rights of First Offer").

DISTRIBUTION HISTORY OF THE FUND

The Fund is currently entirely dependent on the operations of Cardinal LP and its investment in LSCLP. In turn, the earnings and cash flows of Cardinal LP and LSCLP are affected by certain risks described elsewhere in this Annual Information Form (see "Risk Factors").

The Fund makes monthly distributions to Unitholders of its Distributable Cash to the extent amounts are received by the Fund, including any amounts paid by MPIIT on the MPIIT Units and the MPIIT Notes held by the Fund. To the extent that the Fund does not have sufficient available cash to make cash distributions, the Fund may issue additional Units to Unitholders in lieu of making such distribution in cash. Based on announced distributions as of March 1, 2006, the distribution history of the Fund since the creation of the Fund is as follows:

Record Date	Per Unit Cash Distribution	Payment Date
January 31, 2005	$0.07917	February 28, 2005
February 28, 2005	$0.07917	March 31, 2005
March 31, 2005	$0.07917	April 29, 2005
April 30, 2005	$0.07917	May 31, 2005
May 31, 2005	$0.07917	June 30, 2005
June 30, 2005	$0.07917	July 29, 2005
July 31, 2005	$0.07917	August 31, 2005
August 31, 2005	$0.07917	September 30, 2005
September 30, 2005	$0.07917	October 31, 2005
October 31, 2005	$0.07917	November 30, 2005
November 30, 2005	$0.07917	December 30, 2005
December 31, 2005	$0.07917	January 31, 2006
January 31, 2006	$0.08333	February 28, 2006
February 28, 2006	$0.08333	March 31, 2006

MARKET FOR SECURITIES

The outstanding Units are listed on the Toronto Stock Exchange under the symbol MPT.UN. The following table sets forth the high and low sales prices per outstanding Unit and trading volumes for the outstanding Units on the Toronto Stock Exchange for the periods indicated.

	Price Per Unit		
2005	**High**	**Low**	**Unit Trading Volume**
January	11.85	10.66	1,109,977
February	12.50	11.25	1,968,933
March	11.65	10.11	975,829
April	11.27	10.70	1,009,254
May	11.59	10.70	1,085,762
June	12.07	11.15	621,463
July	12.00	11.20	272,788
August	12.00	11.20	620,450
September	12.00	10.80	163,4690
October	11.03	9.00	1,118,061
November	10.48	9.25	2,663,724
December	10.40	9.38	1,348,966
2006			
January	10.98	10.06	3,321,126
February	11.50	10.25	1,024,521

STABILITY RATING

The Fund has received a stability rating on the Units from S&P of SR-2.

The rating is based on a rating scale developed by S&P, which characterizes the stability of cash distribution streams. S&P's stability analysis encompasses the variability and sustainability of a cash distribution stream in the medium to long-term with a single stability rating of SR-1 through SR-7. Variability in the distribution stream refers to changes in the distributions from period to period over a business cycle, whereas sustainability of the distribution stream refers to the length of time that distributions can likely be made. Together, these two characteristics are referred to by S&P as the stability profile of the issuer. The stability rating scale is organized such that a rating of SR-1 signifies the lowest level of cash distribution variability and the highest level of cash distribution sustainability, while a rating of SR-7 signifies the highest level of variability and the highest amount of uncertainty in the sustainability of the cash distribution stream.

Specifically, issuers rated as SR-2 are considered by S&P to have a very high level of cash distribution stability relative to other rated Canadian income funds.

A rating is not a recommendation to buy, sell or hold any security and may be subject to revision or withdrawal at any time by S&P.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Units is Computershare Investor Services Inc. at its principal office located in Toronto, Ontario.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the Fund, except as otherwise disclosed elsewhere in this Annual Information Form, no Trustee or director or executive officer of the Manager, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over more than 10% of the outstanding Units and no associate or affiliate of any of the foregoing persons or companies, has or has had any material interest, direct or indirect, in any transaction since the creation of the Fund that has materially affected or is expected to materially affect the Fund.

INTEREST OF EXPERTS

PricewaterhouseCoopers LLP is the auditor of the Fund. The partners and staff of PricewaterhouseCoopers LLP do not beneficially own, directly or indirectly, any securities of the Fund.

PROMOTER

As described under "General Development of the Business - Acquisition of the Cardinal Facility", on April 30, 2004, in conjunction with the Initial Public Offering, the Fund indirectly acquired the Cardinal Facility through the acquisition of Cardinal LP. In connection with such acquisition, the Original Limited Partners, wholly-owned subsidiaries of RQ Canada, LLC, received an aggregate cash payment in the amount of $42.7 million, by way of return of capital in consideration of their withdrawal from Cardinal LP pursuant to the Investment Agreement. The purchase price for the sale of the limited partnership interests in Cardinal LP was determined following the pricing of the Initial Public Offering by negotiation among the Fund and RQ Canada, LLC. RQ Canada, LLC had previously acquired the Cardinal Facility as part of a larger transaction involving the acquisition of a number of power plants and development properties located throughout North America.

RQ Canada, LLC may have been considered to be a promoter of the Fund by reason of its initiative in organizing the business and affairs of the Fund. To the knowledge of the Fund, as of March 1, 2006, RQ Canada, LLC does not beneficially own, directly or indirectly, or exercise control over, any securities of the Fund.

LEGAL PROCEEDINGS

To the knowledge of the Fund, except as may be described elsewhere in this Annual Information Form, there are no material legal proceedings to which the Fund is a party or to which its property is subject, and no such proceedings are contemplated. (See "Leisureworld LTC Business – Legal Proceedings").

MATERIAL CONTRACTS

Except for those contracts entered into in the ordinary course business of the Fund and its subsidiaries, the following are the only material contracts entered into by the Fund or its subsidiaries during 2005 (or prior to 2005 in the case of material contracts that are still in effect):

(i) the Fund Declaration of Trust;

(ii) the MPIIT Declaration of Trust;

(iii) the Note Indenture;

(iv) the Cardinal LP Management Agreement;

(v) the Administration Agreement;

(vi) the Credit Agreement;

(vii) the Investment Agreement;

(viii) the Macquarie Master LP Limited Partnership Agreement and the MMGP USA;

(ix) the LTC Holding LP Management Agreement;

(x) the Indemnity Agreement; and

(xi) the Exchange Agreement.

A general description of the Investment Agreement is set out below. A general description of the other material contracts listed above can be found elsewhere in this Annual Information Form.

Copies of all material contracts listed above have been filed with the securities regulatory authorities in each of the provinces and territories of Canada and can be obtained on the Internet by accessing SEDAR at www.sedar.com.

Investment Agreement

The Original Limited Partners, Cardinal Investors, Inc., RQ Canada, LLC, Cardinal LP, Cardinal GP, MPIIT and the Fund entered into the Investment Agreement in conjunction with the Initial Public Offering. Pursuant to the terms of the Investment Agreement, the Fund acquired its indirect interest in the Cardinal Facility (see "General Development of the Business – Acquisition of the Cardinal Facility").

The Investment Agreement contained: (i) representations and warranties by Cardinal LP in favour of MPIIT and the Fund as to certain matters, including title to, and condition of, the Cardinal Facility; compliance with environmental and other laws; compliance with material contracts; (ii) representations and warranties by RQ Canada, LLC, including as to the limited partnership interests in Cardinal LP held by the Original Limited Partners; (iii) covenants; (iv) conditions precedent to the closing of the transactions contemplated therein; and (v) other customary provisions.

The Investment Agreement also provided for indemnification from RQ Canada, LLC in favour of MPIIT and the Fund in respect of certain matters, including a breach of any representation or warranty made by RQ Canada, LLC in the Investment Agreement. The obligation to indemnify is limited to the return of capital received by the Original Limited Partners and Cardinal Investors, Inc. in connection with the Initial Public Offering (see "General Development of the Business – Acquisition of the Cardinal Facility"). In addition, such obligation may not be triggered unless the aggregate amount of all claims under the Investment Agreement exceeds $500,000 and each claim is individually at least $25,000. Certain of the indemnities provided by RQ Canada, LLC under the Investment Agreement continue without limit as to time while certain other indemnities can only be claimed within 37 months of closing of the Initial Public Offering.

ADDITIONAL INFORMATION

Additional information, including trustees' remuneration and indebtedness, is contained in the Fund's information circular for its most recent annual meeting of Unitholders of the Fund. Additional financial information is provided in the Fund's annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2005. Such documentation and additional information relating to the Fund may be found on SEDAR at www.sedar.com.

GLOSSARY

In this Annual Information Form, unless the context otherwise requires:

"1998 Initiative" means the Province of Ontario's plan, announced in 1998, to provide 20,000 LTC Facilities over an eight-year period.

"Administration Agreement" means the agreement dated April 30, 2004 among the Fund, MPIIT and the Manager, as amended, pursuant to which the Manager provides administrative services to the Fund and MPIIT, as such agreement may be amended, supplemented or restated from time to time.

"Administration Services" means the administrative services provided to the Fund and MPIIT by the Manager pursuant to the Administration Agreement.

"Advisory Committee" means the Advisory Committee on competition in Ontario's electricity system.

"Affiliate" has the meaning ascribed thereto in the Fund Declaration of Trust.

"Associate" has the meaning ascribed thereto in the *Securities Act* (Ontario).

"Book-Entry System" means the system administered by CDS through which interests in and transfers of the Units are registered.

"business day" means any day that is not a Saturday, Sunday or civic or statutory holiday in the Province of Ontario.

"Cardinal Facility" means the 156 MW combined co-generation plant fuelled by natural gas located in Cardinal, Ontario as well as the Cardinal Transmission Line.

"Cardinal GP" means Cardinal Power Inc., the general partner of Cardinal LP.

"Cardinal GP Director" or **"Cardinal GP Directors"** means directors of Cardinal GP or any of them.

"Cardinal LP" means Cardinal Power of Canada, L.P., a limited partnership established under the laws of Delaware.

"Cardinal LP Management Agreement" means the management agreement dated April 30, 2004 among the Manager, the Fund, MPIIT and Cardinal LP, as it may be amended, supplemented and restated from time to time.

"Cardinal Management Services" means the management services provided to Cardinal LP by the Manager pursuant to the Cardinal LP Management Agreement.

"Cardinal Transmission Line" means the approximately 6.5 km, 115 kV transmission line owned by Cardinal LP, which connects the Cardinal Facility with the Hydro One transmission grid.

"CASCO" means Canada Starch Operating Company Inc.

"CCC" means complex continuing care. CCC provides patients with room, board and other basic necessities in addition to medical care. CCC is funded by the MOHLTC with patients directly charged a co-payment amount (with a subsidy available based on economic need).

"CCHSA" means Canadian Council on Health Services Accreditation.

"CDS" means the Canadian Depository for Securities Limited or a successor thereof.

"CDS Participant" means a participant in the depository service of CDS or a successor.

"CEMS" means Continuous Emission Monitors.

"Class A Units" means Class A LP Units of LTC Holding LP.

"Class B Exchangeable Units" means Class B Exchangeable LP Units of LTC Holding LP.

"Closing Market Price" means the price of a Unit, as at a specified date, calculated as follows:

(xii) an amount equal to the volume weighted average trading price of a Unit (calculated by dividing the total value by the total volume of Units traded for the relevant period) on the principal exchange or market on which the Units are listed or quoted for trading on the specified date, if the principal exchange or market provides information necessary to compute a volume weighted average trading price of the Units on the specified date;

(xiii) an amount equal to the closing price of a Unit on the principal market or exchange, if there was a trade on the specified date and the principal exchange or market provides only a closing price of the Units on the specified date;

(xiv) (an amount equal to the simple average of the highest and lowest prices of the Units on the principal market or exchange, if there was trading on the specified date and the principal exchange or market provides only the highest and lowest trading prices of the Units on the specified date; or

(xv) the simple average of the last bid and last asking prices of the Units on the principal market or exchange, if there was no trading on the specified date.

"CLP Agreement" means the first amended and restated agreement of limited partnership dated as of August 1, 1992, governed by the laws of the state of Delaware, pursuant to which Cardinal LP was established, as amended by the second amended and restated limited partnership agreement and as it may be further amended, supplemented or restated from time to time.

"CMI" means Case Mix Index, a measure of the resources a home requires to care for its residents.

"cogeneration" means the simultaneous production of electricity and thermal energy in the form of heat or stream from a single fuel source.

"Counterparty" means the Canadian chartered bank that has entered into the Gas Swap Agreements with Cardinal LP.

"CPI" means the Consumer Price Index which is a measure of price changes in consumer goods and services.

"Credit Agreement" means the credit agreement dated April 29, 2004, among Cardinal LP, Cardinal GP, MPIIT, TD Securities Inc. as lead arranger and bookrunner, an Affiliate of TD Securities Inc., as administrative agent, a syndicate of lenders and CIBC World Markets Inc. as syndication agent, as it may be amended, supplanted or restated from time to time.

"DBRS" means Dominion Bond Rating Service Inc.

"DCR" means the Ontario Hydro Direct Customer Rate.

"Distributable Cash" means all amounts received by the Fund including amounts paid on the MPIIT Units or MPIIT Notes, as the case may be, held by the Fund (which may include amounts released from the Reserve

Accounts) and the income, interest, dividends, return of capital or other amounts, if any, from other permitted investments held by the Fund, less amounts that may be paid by the Fund in connection with any cash redemptions or repurchases of Units and amounts which the Manager and the Trustees may reasonably consider necessary for payment of any costs or expenses required for the operation of the Fund and reasonable reserves.

"Distributable Cash per Unit" means, for any given period, the Distributable Cash dividend by the weighted average of total Units issued and outstanding.

"EBITDA" means earnings before interest, income taxes, depreciation and amortization.

"EH&S Requirements" means environment and worker health and safety requirements.

"Energy Savings Agreement" means the energy savings agreement dated to be effective as of September 3, 1992 between CASCO and Cardinal LP, as it may be amended, supplemented or restated from time to time.

"Environmental, Health and Safety Laws" means federal, provincial, municipal local laws, statutes, regulations, by-laws, common law, licenses, permits and other approvals, government directions and orders, government guidelines and policies and other requirements governing or relating to, among other things: air emissions; taking of water and discharges into water; the storage, handling, use, transportation and distribution of dangerous goods and hazardous and residual material such as chemicals; the prevention of releases of hazardous materials into the environment; the prevention, presence and remediation of hazardous materials in soil and ground water both on and offsite; and workers' health and safety issues.

"Exchange Agreement" means the exchange agreement dated October 18, 2005 among the Fund, MPIIT, LTC Holding LP, MSHL, LWC and OLTCI.

"Exempt Power Investments" means the following activities:

(i) engaging in commodity trading including trading in electricity;

(ii) lending money or guaranteeing the debts or obligations of any other entity;

(iii) acquiring interests on a temporary basis as a result of underwriting activities;

(iv) acquiring securities in entities where the majority of the assets for such entities are not operating power generating facilities in Canada or the U.S.; and

(v) acquiring interests of less than 10% in publicly listed entities when the entity making such acquisition does not have broad representation in respect of such shareholding.

"Extension Period" means the period between January 31, 2015 and January 31, 2017 during which Cardinal LP has the unilateral right to extend the original term of the Energy Savings Agreement.

"Food" means the raw food component of the accommodation envelope funded by the MOHLTC which is set aside to cover raw food ingredients.

"Fund" means the Macquarie Power & Infrastructure Income Fund, an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario.

"Fund Declaration of Trust" means the declaration of trust established on March 12, 2004, governed by the laws of the Province of Ontario, pursuant to which the Fund was established, as amended and restated by an amended and restated declaration of trust dated April 16, 2004 and as it may be further amended, superseded or restated from time to time.

"Future Facilities" means facilities that may be acquired indirectly by the Fund in the future.

"Future Investment Vehicle" means any investment fund or vehicle managed or otherwise directed by an Affiliate of the Manager or in respect of which an Affiliate of the Manager is general partner or acts in a similar capacity, other than the Fund.

"Future LP Facilities" means facilities that may be acquired directly or indirectly by Cardinal LP in the future.

"Gas Purchase Agreement" means the gas purchase agreement made as of August 8, 1991 between Husky Oil Operations Ltd. and Cardinal LP and assigned by Husky Oil Operations Ltd. to Husky Marketing by an assignment and novation agreement dated as of December 15, 2001, as amended supplanted or restated from time to time, with a guarantee of the obligations of Husky Marketing under the Gas Purchase Agreement by its parent, Husky Energy Inc.

"Gas Swap Agreements" means the five gas swap agreements dated April 29, 2004 between Cardinal LP and a Canadian chartered bank that is affiliated with TD Securities Inc.

"Gas Transportation Agreement" means the gas transportation agreement made as of March 25, 1992 between Cardinal LP and TCPL and assigned by Cardinal to Husky Marketing by a permanent assignment as amended, supplemented or restated from time to time.

"GIS" means Guaranteed Income Supplement payments from the Canadian federal government which are provided to those who receive OAS with little or no other income.

"HP/IP" means high pressure/intermediate pressure.

"Husky Marketing" means Husky Energy Marketing Inc.

"Hydro One" means Hydro One Networks Inc.

"IESO" means the Independent Electricity System Operator in Ontario.

"IESO Market Rules" means the rules made and enforced by the IESO that govern the IESO –controlled grid and that establish and govern the IESO –administered market relating to electricity and ancillary services in Ontario.

"IL Facilities" means independent living facilities. IL Facilities are similar to an apartment or townhome, or can take the form of a larger seniors' community or campus. Suites in IL Facilities may be owned or rented and cater to the independent senior who requires minimal or no assistance with daily living. Services such as meals, housekeeping or laundry are often provided on request for an additional charge. IL Facilities are not subsidized by the government and residents are responsible for the entire cost of accommodation and care.

"Indemnity Agreement" means the indemnity agreement dated September 12, 2005 among the Fund and the vendors of the Leisureworld LTC Business.

"Initial Public Offering" means the offering of 21,168,977 Units issued and sold by the Fund pursuant to the Fund's April 19, 2004 prospectus.

"Investment Agreement" means the investment agreement dated as of April 16, 2004 pursuant to which MPIIT and Cardinal GP agreed to make a capital contribution to Cardinal LP and the Original Limited Partners and Cardinal Investors, Inc. agreed to withdraw from Cardinal LP.

"kilovolt" or **"kV"** means a unit of potential difference equal to 1,000 volts.

"kilowatt hour" or **"kWh"** means one hour during which one kilowatt of electrical power has been continuously produced.

"Lease" means the premises lease and facilities agreement dated to be effective as of September 3, 1992, entered into by Cardinal Investors, Inc., the then general partner of Cardinal LP, CASCO and National Trust Company (as trustee for CASCO), as amended, supplemented or restated from time to time.

"Leisureworld LP" means 2063414 Investment LP, a wholly-owned subsidiary of LSCLP.

"Leisureworld LTC Business" means the long term care, retirement home and related businesses of LSCLP.F

"Leisureworld LTC Facilities" means 19 long term care facilities forming part of the Leisureworld LTC Business, comprising 3,147 beds in Ontario.

"Leisureworld Facilities" means collectively, the Leisureworld LTC Facilities and the two RHs (representing 87 beds) and one IL Facility (representing 53 beds) in the Province of Ontario forming part of the Leisureworld LTC Business.

"Leisureworld Limited Partnership" means any one of 2063412 Investment LP, 2063414 Investment LP, 2063415 Investment LP, 2067474 Investment LP, 2067475 Investment LP and 2067476 Investment LP; all wholly owned subsidiaries of LSCLP.

"Leisureworld Purchase Agreements" means the agreements between LSCLP and each of the six vendors of the Leisureworld LTC Business under which LSCLP acquired the Leisureworld LTC Business.

"LSCGP" means 2067240 Ontario Inc., a subsidiary of Macquarie Master LP.

"LSCLP" means Leisureworld Senior Care LP.

"LTC" means long term care.

"LTC Facilities" means long term care facilities. LTC Facilities are designed to accommodate seniors who may require 24-hour per day care and suffer from cognitive or physical impairment. LTC Facilities offer higher levels of personal care and support than those typically offered by IL Facilities, RHs or supportive housing. LTC Facilities may include shared, semi-private and private suites. All Ontario LTC Facilities must be licensed by or receive a letter of approval to operate from, the MOHLTC. LTC Facilities are eligible for government funding and are subject to government regulation and care standards.

"LTC Holding GP" means MPT LTC Holding Ltd.

"LTC Holding GP Director" or **"LTC Holding GP Directors"** means directors of LTC Holding GP or any of them.

"LTC Holding LP" means MPT LTC Holding LP.

"LTC Holding LP Management Agreement" means the management agreement dated October 18, 2005 among the Manager, the Fund, MPIIT and LTC Holding LP, as it may be amended, supplemented and restated from time to time.

"LTC Holding LP Partnership Agreement" means the amended and restated limited partnership agreement of LTC Holding LP dated October 18, 2005.

"LTC Holding LP Units" means limited partnership units of LTC Holding LP.

"LTC Homes in Ramp-Up" means LTC Facilities that have not reached a 97% occupancy threshold.

"LTC Management Services" means the management services provided to LTC Holding LP by the Manager pursuant to the LTC Holding LP Management Agreement.

"LUTA" means line use and transfer agreement dated to be effective as of September 3, 1992 and entered into by CASCO and Cardinal LP, as amended supplemented or restated from time to time.

"LWC" means LECR Inc. (formerly, Leisureworld Creemore Inc.).

"Macquarie group" means Macquarie Bank Limited and its subsidiaries and affiliates.

"Macquarie Master LP Partnership Agreement" means the limited partnership agreement of Macquarie Master LP.

"Management Agreements" means collectively, the Cardinal LP Management Agreement and the LTC Holding LP Management Agreement.

"Manager" means Macquarie Power Management Ltd.

"Market Price" means the price of a Unit, as at a specified date, calculated as follows:

(i) an amount equal to the volume weighted average trading price of a Unit (calculated by dividing the total value by the total volume of Units traded for the relevant period) on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date;

(ii) an amount equal to the weighted average of the closing prices of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date, if the applicable exchange or market does not provide information necessary to compute a volume weighted average trading price; or

(iii) if there was trading on the applicable exchange or market for fewer than five of the ten trading days, an amount equal to the weighted average of the following prices established for each of the ten consecutive trading days ending on such date: the weighted average of the last bid and last asking prices of the Units for each day on which there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the volume weighted average of the highest and lowest prices of the Units for each day that there was trading, if the market provides only the highest and lowest prices of Units traded on a particular day.

"Mature LTC Homes" means any LTC Facilities that has reached a 97% occupancy threshold and is not an LTC Home in Ramp-Up.

"megawatt" or **"MW"** means 1,000 kilowatts.

"megawatt hour" or "**MWh**" means one hour during which 1,000 kilowatts of electrical power have been continuously produced.

"Minimum Volumes" means the minimum volumes of gas that Cardinal LP is required to purchase pursuant to the Gas Purchase Agreement.

"MLHL" means Macquarie Leisureworld Holdings Ltd., a subsidiary of Macquarie Bank Limited.

"MMGP" means 2067239 Ontario Inc., a subsidiary of LTC Holding LP.

"MMGP USA" means the unanimous shareholders' agreement between LTC Holding LP, MLHL and MMGP which governs MMGP .

"MMLP Units" means limited partnership units of Macquarie Master LP.

"MOE" means Ministry of the Environment.

"MOHLTC" means Ontario Ministry of Health and Long Term Care.

"MPIIT" means Macquarie Power & Infrastructure Income Trust, an unincorporated, open-ended limited purpose trust established under the laws of the Province of Ontario.

"MPIIT Declaration of Trust" means the declaration of trust established on March 12, 2004, governed by the laws of the Province of Ontario, pursuant to which MPIIT was established, as amended and restated by an amended and restated declaration of trust dated April 16, 2004 and as it may be further amended, superseded or restated from time to time.

"MPIIT Group" means any subsidiary of MPIIT.

"MPIIT Notes" means the notes issued by MPIIT from time to time in accordance with the Note Indenture, as either Series 1, Series 2 or Series 3.

"MPIIT Trustees" means the trustees of MPIIT as elected by MPIIT Unitholders pursuant to the direction of the Unitholders, as applicable, from time to time.

"MPIIT Unit" means a unit of interest in MPIIT issued from time to time in accordance with the MPIIT Declaration of Trust.

"MPIIT Unitholder" means a holder of MPIIT Units.

"MSHL" means Markham Suites Hotel Limited (formerly, Leisureworld Inc.)

"MVA" means megavolt-ampere.

"Note Indenture" means the note indenture dated April 30, 2004 between MPIIT and Computershare Investor Services Inc. (formerly, "Computershare Trust Company of Canada"), as trustee thereunder, pursuant to which MPIIT may issue MPIIT Notes, as it may be amended, supplemented or restated from time to time.

"NUG" means a non-utility power generator.

"NPC" means the nursing and personal care envelope that is funded by the MOHLTC.

"Nursing Homes Act" means the *Nursing Homes Act* (Ontario).

"OA" means the other accommodation component of the accommodation envelope funded by the MOHLTC which is set aside to expenses other than raw food ingredients.

"OAS" means Old Age Security payments from the Canadian federal government which are available to all Canadian residents over the age of 65 years..

"OEFC" means Ontario Electricity Finance Corporation, a corporation without share capital, which is the legal continuation of Ontario Hydro and an agent of the Province of Ontario, and is responsible for servicing and retiring the former Ontario Hydro's outstanding debt and other obligations and for administering the NUG contracts.

"OLTC" means 2067475 Investment LP, a subsidiary of LSCLP that provides purchasing services to the Leisureworld LTC Facilities and carries on business under the name Ontario Long Term Care Providers.

"OLTCI" means OLTCP Inc. (formerly, Ontario Long Term Care Providers Inc.).

"On-peak Hours" means 7:00 a.m. to 11:00 p.m. local time at the Cardinal Facility on weekdays, excluding public holidays.

"Operating Plant Service Agreement" means the operating plant service agreement between SWPC and Cardinal LP dated as of January 14, 2004, as it may be amended, supplemented or restated from time to time.

"OPG" means Ontario Power Generation.

"Order" means an order issued pursuant to section 157 of the *Environmental Protection Act* (Ontario) issued on March 9, 2004.

"Ordinary Resolution" means a resolution passed by the affirmative votes of the holders of more than 50% of the Units or MPIIT Units, as the case may be, who voted in respect of that resolution at a meeting at which a quorum was present or a resolution or instrument signed in one or more counterparts by the holders of more than 50% of the Units or MPIIT Units, as the case may be, entitled to vote on such resolution.

"Original Credit Agreement" means the credit agreement made as of September 3, 1992 among Cardinal LP, a syndicate of lenders, Cardinal Investors, Inc. and The Mutual Life Assurance Company of Canada, as agent for the lenders, as amended, supplemented or restated from time to time.

"Original Limited Partners" means Sithe Canadian Holdings Inc. and Sithe Canada Ltd.

"Orillia LTC Facility" means the Class A LTC facility in Orillia housing 160 licensed beds which is currently under development pursuant to a development agreement between Spencer House Inc. and the MOHLTC dated July 5, 2005.

"PEMS" means Predictive Emission Monitors.

"PHCS" means 2067474 Investment LP, a subsidiary of LSCLP that is an accredited provider of professional nursing and personal support services for both community-based home care and LTC Facilities and carries on business under the name Preferred Health Care Services.

"PHCSI" means Preferred Health Care Services Inc.

"Power Business" means the business of owning, operating and leasing assets and property in connection with the generation, production, transmission, distribution and purchase and sale of electricity and other forms of energy-related projects in Canada and the U.S. and engaging in all activities ancillary or incidental thereto.

"Power Purchase Agreement" means the power purchase agreement made on May 29, 1992 between Ontario Hydro (continued as OEFC) and Cardinal LP, as amended, supplemented or restated from time to time.

"psig" means pounds per square inch gauge.

"PSS" means the programs and support services envelope that is funded by the MOHLTC.

"Redemption Date" means the date on which Units are surrendered for redemption.

"Redemption Price" means a price per Unit equal to the lesser of (i) 90% of the Market Price of a Unit calculated as of the Redemption Date, and (ii) 100% of the Closing Market Price on the Redemption Date.

"Reserve Accounts" means, collectively, the major maintenance reserve account, the capital expenditure reserve account and the general reserve account.

"Return of Capital Escrow Account" means the escrow account funded on the closing of the Initial Public Offering as to $2 million in connection with **the** final adjustment of the Return of Capital Amount following the final determination of Cardinal LP's working capital at the closing of the Initial Public Offering.

"Revolving Cardinal Facility" means the $15 million revolving credit facility provided to Cardinal LP pursuant to the Credit Agreement.

"Revolving Cardinal Facility Maturity Date" means ●, 2007.

"RH" means retirement home..

"S&P" means Standard & Poor's Inc., a division of The McGraw-Hill Companies, Inc.

"SEDAR" means System for Electronic Document Analysis and Retrieval.

"Series 2 Exchange Notes" means the Series 2 notes of a wholly-owned subsidiary of the Fund to be issued in exchange for Series 2 MPIIT Notes.

"Series 3 Exchange Notes" means the Series 3 notes of a wholly-owned subsidiary of the Fund to be issued in exchange for Series 3 MPIIT Notes.

"Series 1 MPIIT Notes" means the Series 1 notes of MPIIT issued to the Fund at closing of the Initial Public Offering.

"Series 2 MPIIT Notes" means the Series 2 notes of MPIIT to be issued exclusively to holders of MPIIT Units as full or partial payment of the redemption price of MPIIT Units, as the MPIIT Trustees may decide or, in certain circumstances, be obliged to issue.

"Series 3 MPIIT Notes" means the Series 3 notes of MPIIT to be issued exclusively as full or partial payment of the redemption price of Series 1 MPIIT Notes.

"Short Form Prospectus" means the short form prospectus of the Fund dated September 22, 2005 offering 5,630,000 subscription receipts of the Fund, each representing the right to receive one Unit.

"Special Resolution" means a resolution passed by the affirmative votes of the holders of not less than two-thirds of the Units, the MPIIT Units or the limited partnership interests of Cardinal LP, as the case may be, who voted in respect of that resolution at a meeting at which a quorum was present or a resolution or instrument signed in one or more counterparts by the holders of not less than two-thirds of the Units, the MPIIT Units or the limited partnership interests of Cardinal LP, as the case may be, entitled to vote on such resolution.

"SWPC" means Siemens Westinghouse Power Corporation.

"Target Quantities" means the quantities of energy predicted to be delivered, in respect of a given month, during the On-peak Hours.

"Task Force" means the electricity conservation and supply task force.

"Tax Act" means the *Income Tax Act* (Canada), as amended.

"TCPL" means TransCanada Pipelines Limited.

"Term Cardinal Facility" means the $35 million non-revolving term facility provided to Cardinal LP pursuant to the Credit Agreement.

"Transmission Connection Agreement" means the transmission connection agreement between Hydro One and Cardinal LP, made on June 6, 2002, as it may be amended, supplemented or restated from time to time.

"Transmission Line Escrow Account" means the escrow account funded on closing of the Initial Public Offering as to $150,000 in connection with the repair of certain transmission lines at the Cardinal Facility.

"Trustee" or **"Trustees"** means the trustees of the Fund or any one of them.

"Union" means Union Gas Limited.

"Union Agreement" means the gas distribution contract made as of October 15, 2003, between Cardinal LP and Union, as it may be amended, supplemented or restated from time to time.

"Unit" means a unit of the Fund.

"Unitholder" means a holder of Units.

SCHEDULE A

MACQUARIE POWER & INFRASTRUCTURE INCOME FUND

AUDIT COMMITTEE CHARTER

The term "Fund" herein shall refer to Macquarie Power & Infrastructure Income Fund and the term "Board" shall refer to the Board of Trustees of the Fund. "Macquarie Power & Infrastructure Income Group" means, collectively, the Fund, Macquarie Power & Infrastructure Income Trust (the "Trust"), the general partner of any Fund asset or investment ("General Partner"), the limited partnership of any Fund asset or investment ("Limited Partnership") and Macquarie Power Management Ltd. (Canada) (the "Manager"). The term "Management" herein shall refer to senior management of the General Partner and the Manager.

PURPOSE

The Audit Committee (the "Committee") is a standing committee appointed by the Board to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting including responsibility to:

- oversee the work of the Fund's external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Fund;
- oversee the integrity of the Fund's financial statements and financial reporting process, including the audit process and the Fund's internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the external auditors;
- oversee the work of the Fund's financial management and external auditors in these areas; and provide an open avenue of communication between the external auditors, the Board and Macquarie Power & Infrastructure Income Group, including the Board of Trustees of the Trust and management of the Manager, thus enabling information and points of view to be freely exchanged.

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

The function of the Committee is oversight. It is not the duty or responsibility of the Committee or its members (i) to plan or conduct audits, (ii) to determine that the Fund's financial statements are complete and accurate and are in accordance with generally accepted accounting principles or (iii) to conduct other types of auditing or accounting reviews or similar procedures or investigations. The Committee and its Chair are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the fund and are specifically not accountable or responsible for the day to day operation or performance of such activities.

Management is responsible for the preparation, presentation and integrity of the Fund's financial statements. Management is also responsible for maintaining appropriate accounting and financial reporting principles and policies and systems of risk assessment and internal controls and procedures designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, recorded and reported and to assure the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with accounting standards and applicable laws and regulations. The external auditors are responsible for planning and carrying out an audit of the Fund's annual financial statements in accordance with generally accepted auditing standards to provide reasonable assurance that, among other things, such financial statements are in accordance with generally accepted accounting principles.

PROCEDURES, POWERS AND DUTIES

In addition to the procedures and powers set out in the resolution of the Board establishing this Committee, the Committee shall have the following procedures, powers and duties:

2. General

(a) *Composition* – The Committee shall be composed of a minimum of three members. Each member of the Committee shall be an "independent" trustee as defined in the Declaration of Trust of the Fund and none of the members shall have participated in the preparation of the financial statements of the Fund at any time over the past three years; provided that the fact that a trustee is also a trustee of the Trust or a director of the General Partner will not disqualify the trustee from being a member of the Committee so long as the trustee would otherwise be eligible to be a member of the Committee.

All members of the Committee must be "financially literate" (as that term is defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which the Fund's securities are listed for trading or if it is not so defined as that term is interpreted by the Board in its business judgement) or must become financially literate within a reasonable period of time after their appointment to the Committee.

(b) *Appointment and Replacement of Committee Members* - Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a trustee. The Board may fill vacancies on the Committee by appointing another trustee to the Committee. The Board shall fill any vacancy if the membership of the Committee is less than three trustees. Whenever there is a vacancy on a Committee, the remaining members may exercise all its power as long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be appointed by the Board annually and each member of the Committee shall remain on the Committee until the next annual meeting of unitholders after his or her appointment or until his or her successor shall be duly appointed and qualified.

(c) *Committee Chair* - The Chair of the Committee shall be designated by the full Board. The Chair of the Committee shall be responsible for leadership of the Committee, including preparing the agenda, presiding over the meetings, making committee assignments and reporting to the Board.

(d) *Conflicts of Interest* - If a Committee member faces a potential or actual conflict of interest relating to a matter before the Committee, that member shall be responsible for alerting the Committee Chair. If the Committee Chair faces a potential or actual conflict of interest, the Committee Chair shall advise the Chair of the Board. If the Committee Chair, or the Chair of the Board, as the case may be, concurs that a potential or actual conflict of interest exists, the member faced with such conflict shall disclose to the Committee the member's interest and shall not participate in consideration of the matter and shall not vote on the matter.

(e) *Compensation of Committee Members* - The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine. No member of the Committee shall receive from the Fund any compensation other than the fees to which he or she is entitled as a trustee, a member of a committee of the Board, a member of the Board of Trustees of the Trust or a committee thereof, or a member of the Board of Directors of the General Partner.

(f) *Separate Executive Meetings* - The Committee shall meet periodically with the Chief Financial Officer, the head of the internal audit function (if other than the Chief Financial Officer) and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately and such persons shall have access to the

Committee to bring forward matters requiring its attention. However, the Committee shall also meet periodically without Management present.

(g) *Meetings of the Committee* -

(i) *Procedures for Meetings* - Subject to any applicable statutory or regulatory requirements and the Declaration of Trust of the Fund, the time at which and place where the meetings of a Committee shall be held and the calling of Committee meetings and the procedure in all things at such meetings shall be determined by the Committee.

(ii) *Calling of Meetings* – The Committee shall meet as often as it deems appropriate to discharge its responsibilities. Notice of the time and place of every meeting shall be given in writing, by any means of transmitted or recorded communication, including facsimile, telex, telegram or other electronic means that produces a written copy, to each member of a Committee at least 24 hours prior to the time fixed for such meeting. However, a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting constitutes a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called. Whenever practicable, the agenda for the meeting and the meeting materials shall be provided to members before each Committee meeting in sufficient time to provide adequate opportunity for their review.

(iii) *Quorum* – A majority of members constitute a quorum for the transaction of Committee business.

(iv) *Chair of Meetings* - If the Chair of a Committee is not present at any meeting of the Committee, one of the other members of the Committee who is present shall be chosen by the Committee to preside at the meeting.

(v) *Secretary of Meeting* - The Chair of the Committee shall designate a person who need not be a member of the Committee to act as secretary or, if the Chair of the Committee fails to designate such a person, the Corporate Secretary of the Manager shall be secretary of the Committee. The agenda of each Committee meeting will be prepared by the secretary of the Committee and, whenever reasonably practicable, circulated to each member prior to each meeting.

(vi) *Minutes* – The secretary of the Committee shall prepare and maintain minutes of the proceedings of the Committee. Minutes shall be kept in minute books provided for that purpose. The minutes of Committee meetings shall accurately record the discussions of and decisions made by the Committee, including all recommendations to be made by the Committee to the Board and shall be distributed to all Committee members.

(h) *Professional Assistance* - The Committee may require the external auditors and internal auditors to perform such supplemental reviews or audits as the Committee may deem desirable. In addition, the Committee may retain such special legal, accounting, financial or other consultants as the Committee may reasonably determine to be necessary to carry out the Committee's duties at the Fund's expense in accordance with the procedures for retaining professional advisors as set out in the Fund's Corporate Governance Guidelines.

(i) *Reliance* - Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside Macquarie Power & Infrastructure Income Group from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by

Management and the external auditors as to any information technology, internal audit and other non-audit services provided by the external auditors to the Fund and Macquarie Power & Infrastructure Income Group.

(j) *Reporting to the Board* - The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.

(k) *Powers of the Committee* -

(i) *Access* – The Committee is entitled to full access to all books, records, facilities, and personnel of the Fund and Macquarie Power & Infrastructure Income Group, as related to the investment activities and affairs of the Fund. The Committee may require such officers, trustees and employees of the Fund and Macquarie Power & Infrastructure Income Group and others as it may see fit from time to time to provide any information about the Fund and Macquarie Power & Infrastructure Income Group it may deem appropriate and to attend and assist at meetings of the Committee.

(ii) *Delegation* - The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.

(iii) *Adoption of Policies and Procedures* - The Committee may adopt policies and procedures for carrying out its responsibilities.

AUDIT RESPONSIBILITIES OF THE COMMITTEE

Selection and Oversight of the External Auditors and Independence Requirements

3. The external auditors are ultimately accountable to the Committee and the Board as the representatives of the unitholders of the Fund and shall report directly to the Committee and the Committee shall so instruct the external auditors. The Committee shall evaluate the performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors of the Fund to be proposed in the Fund's proxy circular for unitholder approval and shall have authority to terminate the external auditors. If a change in external auditors is proposed, the Committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditors, and enquire on the qualifications of the proposed auditors before making its recommendation to the Board. The Board is responsible for selecting the external auditor to be proposed in the Fund's proxy circular for unitholder approval and appointment.

4. The Committee shall approve in advance the terms of engagement and the compensation to be paid by the Fund to the external auditors with respect to the conduct of the annual audit.

5. The Committee shall review the independence of the external auditors and shall make recommendations to the Board on appropriate actions to be taken which the Committee deems necessary to protect and enhance the independence of the external auditors. In connection with such review, the Committee shall:

(a) actively engage in a dialogue with the external auditors about all relationships or services that may impact the objectivity and independence of the external auditors;

(b) require that the external auditors submit to it on a periodic basis, and at least annually, a formal written statement delineating all relationships between the Fund and Macquarie Power & Infrastructure Income Group, on the one hand, and the external auditors and their affiliates on the other hand, and that it has remained independent for the full-year;

(c) require that (i) both the lead audit partner and the partner responsible for performing a second review respecting the audit be rotated at least every five years and be subject to a five year time out and (ii) all other partners on the audit engagement team who provide more than 10 hours of audit, review or attest services with respect to the Fund's consolidated financial statements or who serve as the lead partner in connection with any audit or review related to financial statements of a subsidiary whose assets or revenues constitute at least 20% of the consolidated assets or revenues of the Fund be rotated at least every seven years and be subject to a two year time out;

(d) require that the audit partners and any audit firm employee on the audit of the Macquarie Power & Infrastructure Income Group are prohibited from being an officer of the Macquarie Power & Infrastructure Income Group;

(e) require that immediate family members of an audit partner or any audit firm employee on the audit of the Macquarie Power & Infrastructure Income Group are prohibited from being a director or in a senior audit facing role at the Macquarie Power & Infrastructure Income Group until lapse of a "cooling off" period of at least five years and, after the five years "cooling off" period, can have no continuing financial relationship with the audit firm. The five year "cooling off" period is measured from the time that the former audit firm partner or employee ceases to be on the engagement team of the Macquarie Power & Infrastructure Income Group;

(f) require that the audit firm engagement team in any given year cannot include a person who had been a former officer of the Macquarie Power & Infrastructure Income Group during that year; and

(g) require that officers of the Macquarie Power & Infrastructure Income Group are prohibited from receiving any remuneration from the audit firm;

(h) require that members of the audit team and firm are prohibited from having a business relationship with the Macquarie Power & Infrastructure Income Group or any officer of the Macquarie Power & Infrastructure Income Group unless the relationship is clearly insignificant to both parties;

(i) require that the audit firm, its partners, its employees on the audit of the Macquarie Power & Infrastructure Income Group and the immediate family members are prohibited from having loans or guarantees with the Macquarie Power & Infrastructure Income Group;

(j) require that the audit firm is prohibited from having a financial interest in any entity with an controlling interest in the Macquarie Power & Infrastructure Income Group;

(k) consider whether there should be a regular rotation of the external audit firm itself; and

(l) consider the auditor independence standards promulgated by applicable auditing regulatory and professional bodies.

6. The Committee shall prohibit the external auditor and its subsidiaries from providing certain non-audit services to the Fund. This is to ensure the auditor does not assume the role of management, become an advocate for their own client, or audit their own professional expertise. All non-audit services to be provided to the Fund or any of its affiliates by the external auditors or any of their affiliates shall be subject to pre-approval by the Committee. The Committee may approve policies and procedures for the pre-approval of non-audit services to be rendered by the external auditors, which policies and procedures (i) shall include reasonable detail with respect to the services covered, (ii) shall require that the Committee be informed of each non-audit service and (iii) shall not include delegation of the Committee's responsibilities to Management.

7. The auditor will not normally provide the following services:

(a) Bookkeeping or other services relating to the accounting records or financial statements of the Macquarie Power & Infrastructure Income Group;

(b) Appraisal or valuation and fairness opinions;

(c) Taxation planning and consulting services;

(d) Financial information or information technology systems design and implementation;

(e) Internal audit outsourcing services;

(f) Management functions, including temporary staff assignments or human resource services, including recruitment of senior management;

(g) Legal or litigation support services;

(h) Broker or dealer, investment adviser or investment banking;

(i) Actuarial services.

Under this policy, any fee arrangement between the Macquarie Power & Infrastructure Income Group and the auditor must not contain any contingent or success fees element.

8. The Committee shall establish and monitor clear policies for the hiring by Macquarie Power & Infrastructure Income Group of partners, employees and former partners and employees of the external auditors.

9. The Committee shall require the external auditors to provide to the Committee, and the Committee shall review and discuss with the external auditors, all reports which the external auditors are required to provide to the Committee or the Board under rules, policies or practices of professional or regulatory bodies applicable to the external auditors, and any other reports which the Committee may require. Such reports shall include:

(a) a description of the external auditors' internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues; and

(b) a report describing (i) all critical accounting policies and practices used in the preparation of the Fund's financial statements, (ii) all alternative treatments of financial information within generally accepted accounting principles related to material items that have been discussed with Management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors (iii) other material written communication between the external auditors and Management, such as any management letter or schedule of unadjusted differences; and (iv) disagreements between Management and/or the internal auditors and the external auditors regarding financial reporting.

10. The Committee is responsible for resolving disagreements between Management and the external auditors regarding financial reporting.

Oversight of Internal Audit Function

11. The Committee shall determine the appropriate internal audit function for the Fund and oversee its processes, reports and the terms of compensation for any individuals engaged in such function, if any.

Oversight and Monitoring of Audits

12. The Committee shall review with the external auditors and Management the audit function generally, the objectives, staffing, locations, co-ordination, reliance upon Management, any internal audit and general audit approach and scope of proposed audits of the financial statements of the Fund, the overall audit plans, the responsibilities of Management and the external auditors, the audit procedures to be used and the timing and estimated budgets of the audits.

13. The Committee shall meet periodically with the internal finance management staff to discuss the progress of their activities and any significant findings stemming from any internal audits and any difficulties or disputes that arise with Management and the adequacy of Management's responses in correcting audit-related deficiencies.

14. The Committee shall discuss with the external auditors any difficulties or disputes that arise with Management or any internal auditors during the course of the audit and the adequacy of Management's responses in correcting audit-related deficiencies.

15. The Committee shall review with Management the results and scope of any internal and all external audits.

16. The Committee shall take such other reasonable steps as it may deem necessary to satisfy itself that the audit was conducted in a manner consistent with all applicable legal requirements and auditing standards of applicable professional or regulatory bodies.

Oversight and Review of Accounting Principles and Practices

17. The Committee shall, as it deems necessary, oversee, review and discuss with Management, the external auditors and any internal auditors:

    (a) the quality, appropriateness and acceptability of the Fund's accounting principles and practices used in its financial reporting, changes in the Fund's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;

    (b) all significant financial reporting issues and judgments made in connection with the preparation of the Fund's financial statements, including the effects of alternative methods within generally accepted accounting principles on the financial statements and any "second opinions" sought by Management from an independent auditor with respect to the accounting treatment of a particular item;

    (c) disagreements between Management and the external auditors or any internal auditors regarding the application of any accounting principles or practices;

    (d) any material change to the Fund's auditing and accounting principles and practices as recommended by Management, the external auditors or any internal auditors or which may result from proposed changes to applicable generally accepted accounting principles;

    (e) the effect of regulatory and accounting initiatives on the Fund's financial statements and other financial disclosures;

    (f) any reserves, accruals, provisions, estimates or management programs and policies, including factors that affect asset and liability carrying values and the timing of revenue and expense recognition, that may have a material effect upon the financial statements of the Fund;

    (g) the use of special purpose entities and the business purpose and economic effect of off-balance sheet transactions, arrangements, obligations, guarantees and other relationships of Macquarie

Power & Infrastructure Income Group and their impact on the reported financial results of the Fund;

(h) any legal matter, claim or contingency that could have a significant impact on the financial statements, the Fund's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Fund's financial statements;

(i) the treatment for financial reporting purposes of any significant transactions which are not a normal part of the Fund's operations;

(j) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles; and

(k) Management's determination of goodwill impairment, if any, as required by applicable accounting standards.

18. The Committee will review and resolve disagreements between Management and the external auditors regarding financial reporting or the application of any accounting principles or practices.

Oversight and Monitoring of Internal Controls

19. The Committee shall, as it deems necessary, exercise oversight of, review and discuss with Management and the external auditors:

(a) the adequacy and effectiveness of the Fund's internal accounting and financial controls (including accounting and operational risk management controls) based on recommendations of Management and the external auditors for the improvement of accounting practices and internal controls;

(b) any material weaknesses in the internal control environment, including with respect to computerized information system controls and security; and

(c) Management's compliance with the Fund's processes, procedures and internal controls.

Communications with Others

20. The Committee shall establish and monitor procedures for the receipt and treatment of complaints received by the Fund regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with Management, the Board of Trustees of the Trust and senior finance officers of Macquarie Power & Infrastructure Income Group responsible for the internal audit function, these procedures and any significant complaints received.

Oversight and Monitoring of the Fund's Financial Disclosures

21. The Committee shall:

(a) review with the external auditors and Management and recommend to the Board for approval the audited financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements, the Fund's annual report, the financial information of the Fund contained in any prospectus or information circular or other disclosure documents or regulatory filings of the Fund; and

(b) review with the external auditors and Management and approve each set of interim financial statements and the notes and Management's Discussion and Analysis accompanying such

financial statements and any other disclosure documents or regulatory filings of the Fund containing or accompanying financial information of the Fund.

Such reviews shall be conducted prior to the release of any summary of the financial results or the filing of such reports with applicable regulators.

22. Prior to their distribution and filing, the Committee shall review and discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies. The Chair of the Committee may perform this review function, on behalf of the Committee, as is required. Such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and the Committee need not discuss in advance each instance in which the Fund gives earning guidance if it has reviewed and approved the Fund's policies and procedures with respect to such matters.

23. The Committee shall meet with Management to review and assess the process and systems in place for the review of public disclosure documents that contain audited and unaudited financial information and their effectiveness.

24. As part of the process by which the Committee shall satisfy itself as to the reliability of public disclosure documents that contain audited and unaudited financial information, the Committee shall require each of the Chief Executive Officer and the Chief Financial Officer of the Manager to provide a certificate addressed to the Committee certifying in respect of each annual and quarterly report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws.

25. The Committee shall review the disclosure with respect to its pre-approval of audit and non-audit services provided by the external auditors.

Oversight of Finance Matters

26. The Committee shall receive and review:

(a) periodic reports on compliance with requirements regarding statutory deductions and remittances, the nature and extent of any non-compliance together with the reasons therefor and Management's plan and timetable to correct any deficiencies;

(b) material policies and practices of Macquarie Power & Infrastructure Income Group respecting cash management and material financing strategies or policies or proposed financing arrangements and objectives of Macquarie Power & Infrastructure Income Group; and

(c) material tax policies and tax planning initiatives, tax payments and reporting and any pending tax audits or assessments.

27. The Committee shall meet periodically with Management to review and discuss the Fund's major financial risk exposures and the policy steps Management has taken to monitor and control such exposures, including the use of financial derivatives and hedging activities.

28. The Committee shall meet periodically with the Corporate Secretary of the Manager to review issues arising out of compliance activities, as well as assess contingent legal and regulatory risks.

29. The Committee shall receive and review the financial statements and other financial information of members of Macquarie Power & Infrastructure Income Group and any auditor recommendations concerning such entities as they relate to the assets of the Fund.

Committee Reporting

30. As required by applicable laws or regulations or stock exchange requirements, the Committee shall review and approve the information required to be reported to unitholders and others in its Annual Information Form, and for such purposes, each member of the Committee shall provide information respecting that member's education and experience that relate to his or her responsibilities as a Committee member.

Board, Committee and Breach Reporting

31. To assist the Committee in monitoring and reviewing (at least annually) the effectiveness of the operational risk management framework and compliance with key risk management policies, the Corporate Secretary will provide the following items to the Committee for its review:

    (a) Results of the Operational Risk Self Assessment ("ORSA") process via the ORSA matrix, including a summary of improvement actions completed and actions to be completed

    (b) A summary of policies and procedures established during the period

    (c) Results of due diligence carried out on external service providers, if any

    (d) Current Business Continuity Plan for the operations

    As necessary:

    (e) Any significant changes to the ORSA matrix, including external factors to be considered (such as major regulatory or industry developments)

    (f) Results of internal audit reviews or other independent reviews

    (g) Any significant operational risk incidents relating to the Fund, not already reported to the Board.

Additional Responsibilities

32. Each new member of the Committee shall receive such training as may be approved by the Chair of the Committee. Training should cover the requirements and obligations of audit committees, issues of accounting principles, auditing standards, risk management and ethical compliance. Each Committee member should attend refresher training annually.

33. The Committee should request and review a report from the Corporate Secretary of the Manager at least twice each year as to compliance with the Fund's prohibitions against any related party transactions between trustees, directors or employees and their families and the Fund or any of the Macquarie Power & Infrastructure Income Group entities.

34. The Committee shall review on an annual basis, insurance programs and policies relating to the Fund and its investments.

35. The Committee shall review and/or approve any other matter specifically delegated to the Committee by the Board and undertake on behalf of the Board such other activities as may be necessary or desirable to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting.

THE CHARTER

The Committee shall review and reassess the adequacy of this Charter at least annually and otherwise as it deems appropriate and recommend changes to the Board. The performance of the Committee shall be evaluated with reference to this Charter annually.

The Committee shall ensure that this Charter or a summary of it which has been approved by the Committee is disclosed in accordance with all applicable securities laws or regulatory requirements in the annual proxy circular or annual report of the Fund.