

MACQUARIE

MACQUARIE POWER & INFRASTRUCTURE INCOME FUND

ANNUAL INFORMATION FORM

For the Financial Year Ended December 31, 2006

March 20, 2007

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EXPLANATORY NOTES

This Annual Information Form is dated March 20, 2007. Except where otherwise indicated, the information contained in this Annual Information Form is stated as at December 31, 2006 and all references to dollar amounts and "\$" 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, the "Fund" refers to Macquarie Power & Infrastructure Income Fund and the "Manager" refers to Macquarie Power Management Ltd.

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 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 believes 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 operational performance of the Cardinal Facility; the expiry of the Power Purchase Agreement; fuel costs, supply, and transportation; contract performance; default under Credit Agreement; expiry of the Lease; LTC Home ownership and operation; minority interest in LSCLP; reliance on key personnel; government regulation and funding; default under LSCLP's 2015 Notes and credit facility; labour relations and cost; proposed changes in federal tax policy for flow-through entities; the variability of distributions; Unitholder liability and dilution; dependence on the Manager and potential conflicts of interest; insurance; environmental, health, and safety; and nature of Units (see "Risk Factors"). These forward-looking statements reflect the expectations of the Fund as of the date of this Annual Information Form and, except as may be required by applicable law, the Fund does not undertake 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.

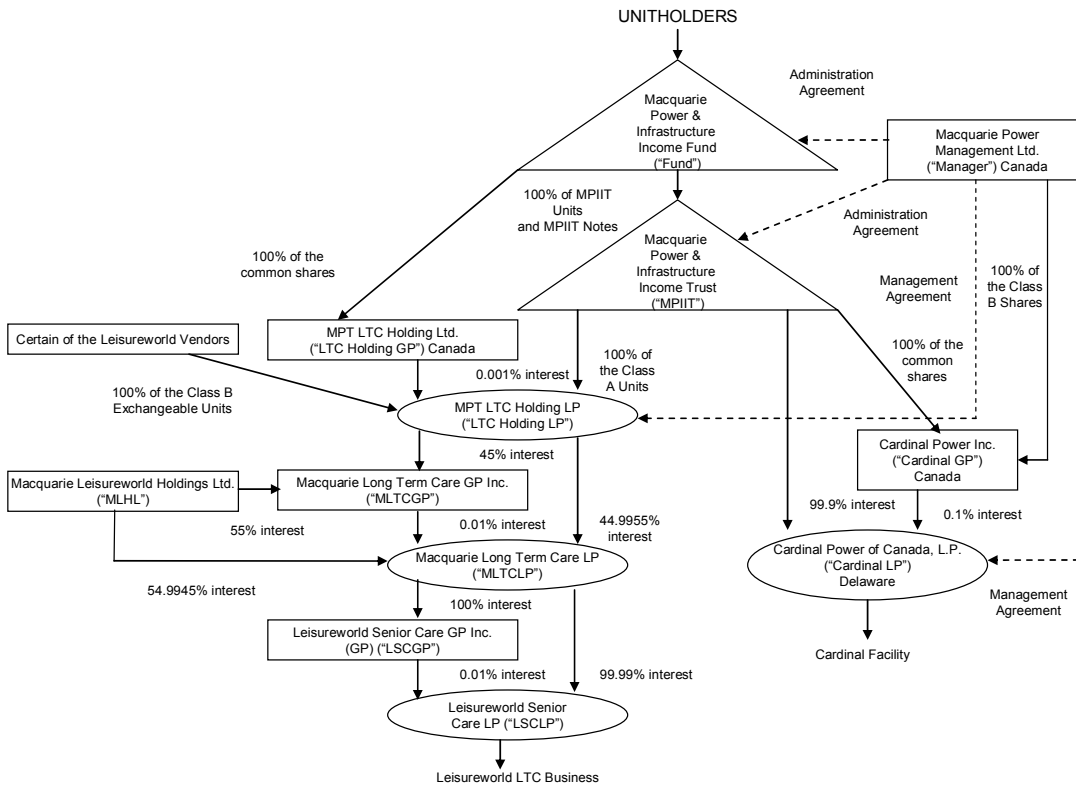
Investments in the Fund are not deposits with or other liabilities of Macquarie Bank Limited, the Manager or of any entity of the Macquarie group and are subject to investment risk, including loss of income and equity invested or delays in redemption. None of Macquarie Bank Limited, the Manager or any 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 (the “Fund”) is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario by a declaration of trust dated March 15, 2004, as amended and restated as of April 16, 2004 and as further amended effective February 21, 2006 (collectively, the “Fund Declaration of Trust”).

The Fund indirectly owns (a) a 100% interest in Cardinal Power of Canada, L.P. (“Cardinal LP”), which owns and operates a 156 megawatt power generating facility located in Cardinal, Ontario (the “Cardinal Facility”) and (b) an approximate 45% interest in Leisureworld Senior Care LP (“LSCLP”), which owns and operates long term care (“LTC”) facilities and related businesses (collectively, the “Leisureworld LTC Business”) in the Province of Ontario.

The following diagram illustrates the primary contractual and ownership relationships of the Fund with its principal subsidiary entities as at March 20, 2007. Unless otherwise specified below, all entities were incorporated or organized in Ontario.



The Fund and Macquarie Power & Infrastructure Income Trust (“MPIIT”) are both administered by Macquarie Power Management Ltd. (the “Manager”) through an administration agreement between the Fund, MPIIT, and the Manager dated April 30, 2004 (the “Administration Agreement”) (see “Management of the Fund – Administration Agreement”). The Manager also provides certain management services to each of (a) Cardinal LP, under a management agreement between the Fund, MPIIT, Cardinal LP, and the Manager dated April 30, 2004 (the “Cardinal LP Management Agreement”) (see “Management of the Fund – Cardinal LP Management Agreement”) and (b) LTC Holding LP, under a management agreement between the Fund, MPIIT, LTC Holding LP, and the Manager dated October 18, 2005 (the “LTC Holding LP Management Agreement”) (see “Management of the Fund – LTC Holding LP Management Agreement”).

The Manager is an indirect, wholly-owned subsidiary of Macquarie Bank Limited, an Australian public company listed on the Australian Stock Exchange.

The Fund's head office and registered office are located at 100 Wellington Street West, Suite 2200, P.O. Box 234, Toronto, Ontario, Canada, M5K 1J3.

GENERAL DEVELOPMENT OF THE BUSINESS

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 21,168,997 Units for gross proceeds of approximately \$211.7 million, 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 an approximate 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.

Acquisition of the Cardinal Facility

On April 30, 2004, the Fund applied the net proceeds of approximately \$194.9 million from the Initial Public Offering to indirectly subscribe for the entire partnership interest of Cardinal LP. Concurrently with this subscription, 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. The funds drawn under the term loan facility were, together with a portion of the proceeds from the subscription for the limited partnership interest, used 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") in the aggregate amount of approximately \$129.3 million (see "Narrative Description of the Business – The Cardinal Facility – Credit Agreement"). The balance of the proceeds from the subscription for the limited partnership interest was used by Cardinal LP to provide for, among other things: (a) the return capital 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 as the remaining partners of Cardinal LP pursuant to the Investment Agreement (see "Material Contracts – Investment Agreement"); (b) the funding of various reserves accounts; and (c) the repayment of the levelization account balance under the Power Purchase Agreement.

Acquisition of Interest in the Leisureworld LTC Business

On October 18, 2005, the Fund acquired an approximate 45% indirect interest in LSCLP, which then 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 funded by: (a) LSCLP initially drawing approximately \$310 million under a senior bridge debt facility (the "Bridge Facility") provided by a Canadian chartered bank, which facility was subsequently repaid from the proceeds of the private placement of the 2015 Notes issued by LSCLP (see "Leisureworld LTC Business – LSCLP 2015 Notes and Credit Facility"); (b) the Fund's indirect investment in LSCLP of approximately \$93 million, comprised of (i) \$58 million of the net proceeds of the issuance of 5,630,000 subscription receipts (each representing the right to receive one Unit) pursuant to the short form prospectus of the Fund dated September 22, 2005 (the "Short Form Prospectus"), and (ii) the issuance of \$35 million of Class B Exchangeable Units of LTC Holding LP to certain of the vendors of the Leisureworld LTC Business (see "Description of the Fund – Class B Exchangeable Units and Exchange Agreement"); and (c) the investment of approximately \$114 million by a subsidiary of Macquarie Bank Limited for the remaining approximate 55% indirect interest in LSCLP. The Fund understands that the economic benefit of Macquarie Bank Limited's indirect ownership has been transferred to Macquarie International Infrastructure Fund Limited ("MIIF"), a Singapore-listed infrastructure fund managed by an indirect subsidiary of Macquarie Bank Limited.

NARRATIVE DESCRIPTION OF THE BUSINESS

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. To do so, the Fund's strategy is to (a) pursue 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 independent of the Manager, including investments and other direct and indirect rights in other forms of energy-related projects and utility projects (see "– Acquisition and Investment Guidelines") and (b) improve 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 "Management of the Fund – Non-Exclusivity and Rights of First Offer" and "Conflicts of Interest").

Acquisition and Investment Guidelines

The Fund Declaration of Trust provides that the Fund may only make additional investments or acquisitions in accordance with the following Acquisition and Investment Guidelines. Such investments or acquisitions may be financed by the issuance of Units, from the cash on hand 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.

- 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 have been 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.
- 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").

In addition, all acquisitions or investments must be made in accordance with the Fund Declaration of Trust and the MPIIT Declaration of Trust, as applicable (see "Description of the Fund").

The Cardinal Facility

Overview

The Cardinal Facility produces a stable, predictable level of income based upon reliable technology, contracted long-term electricity sales, and long-term fuel supply. Cardinal LP operates the Cardinal Facility in a manner that maximizes revenues within existing contractual arrangements, while continually seeking to improve its profitability.

The electricity generated by the Cardinal Facility (less the amount consumed in its operations) is sold exclusively to Ontario Electricity Financial Corporation (“OEFEC”) at contracted rates under the Power Purchase Agreement (see “– Power Purchase Agreement”). 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). In fiscal 2006, approximately 98.7% of the Cardinal Facility’s revenues were derived from the sale of electricity to OEFEC.

Up to a maximum of 723 million pounds per year of the steam generated by the Cardinal Facility is sold to Canada Starch Operating Company Inc. (“CASCO”) for its plant operations under the terms of an energy savings agreement between Cardinal LP and CASCO dated to be effective as of September 3, 1992 (the “Energy Savings Agreement”). The Energy Savings Agreement matures on January 31, 2015, but may be extended by up to two years at the option of Cardinal LP. In fiscal 2006, steam sale revenues represented approximately 1.1% of the Cardinal Facility’s revenues. Cardinal LP is also subject to an ongoing commitment to supply an immaterial amount of steam to meet the circulating hot water heating requirements of the Benson School, which is located adjacent to the Cardinal Facility. The land underlying the Cardinal Facility is leased from CASCO for a nominal amount with the term of the Lease running concurrently with the Energy Savings Agreement.

Cardinal LP purchases the natural gas to operate the Cardinal Facility from Husky Energy Marketing Inc. (“Husky Marketing”) under the Gas Purchase Agreement (see “– Gas Purchase Agreement”). To mitigate the effect of price fluctuations on the net proceeds from the sale of any excess natural gas under the Gas Purchase Agreement, Cardinal LP entered into the Gas Swap Agreements. As well, Cardinal LP is able to curtail the production of electricity at the Cardinal Facility within certain parameters and through the Gas Mitigation Agreement sell the gas that would otherwise have been used to generate electricity. Cardinal LP avails itself of this option on occasion when additional net income can be realized from this operating strategy.

Plant Design and Equipment

The Cardinal Facility is a combined cycle cogeneration station fuelled by natural gas with a net rated capacity of 156 MW of electrical power. The Cardinal Facility’s main 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 a Westinghouse combustion turbine generator operating in combined cycle with a Westinghouse steam turbine.

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 their 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 have a rated voltage of 13.8 kV and are 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 in 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.

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. By producing electricity and steam simultaneously, cogeneration converts a higher proportion of the fuel's energy content into useful energy output compared to both electrical and thermal energy that is generated separately, 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.

Power Purchase Agreement

The power purchase agreement (the "Power Purchase Agreement") made on May 29, 1992 between Ontario Hydro (continued as OEFC) and Cardinal LP provides for the exclusive sale to OEFC of all electricity produced at the Cardinal Facility, less any electricity consumed in its operation. 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 Power Purchase Agreement matures on December 31, 2013, but will be automatically extended for successive one year periods 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 Power Purchase Agreement also contains operating standards and procedures and early termination provisions as are customary for non-utility power generator ("NUG") power purchase agreements.

Under the Power Purchase Agreement, OEFC is obligated to make monthly payments for the electricity that is delivered by the Cardinal Facility. During the last three years, on average, more of the Cardinal Facility's revenues were generated during the winter season (October through March, inclusive) than during the summer season (April through September, inclusive). This can be attributed primarily to the fact that higher rates are paid by OEFC for electricity delivered during the winter than during the summer and that lower ambient temperatures enable the Cardinal Facility's gas combustion turbine to reach its peak output and thus produce more electricity. In addition, subject to certain exceptions, where the Cardinal Facility delivers between 80% and 100% of its monthly target quantity (the "Target Quantities") of electricity to be delivered between the weekday hours of 7:00 a.m. to 11:00 p.m. (the "On-peak Hours"), the Power Purchase Agreement provides for OEFC to make certain additional capacity payments to Cardinal LP.

Payment rates under the Power Purchase Agreement escalate in accordance with the direct customer rate (“DCR”) established by OEFC from time to time, which is designed to recover the fully-delivered cost of uninterrupted power at 100% load factor to customers directly connected to the Ontario transmission system. The Power Purchase Agreement provides that the amount by which the DCR escalates (the “DCR escalator”) will be calculated, for the purposes of the agreement, to be a minimum of 0%. Monthly payments for electricity delivered are equal to the sum of the amount of electricity delivered each month multiplied separately by each of the Energy “A” and Energy “B” rates. The Energy “A” rate increases by the greater of the DCR escalator and 4%. The Energy “B” rate increases by the greater of the DCR escalator and 0%. Capacity payments are based on the monthly amount of energy delivered during On-peak Hours, to a maximum of the Target Quantities, and increases by the greater of the DCR escalator and 0%.

The provisions of both the Power Purchase Agreement and the Gas Purchase Agreement (described below) provide for fuel commodity cost protection through the alignment of rate escalators on both the revenue side (under the Power Purchase Agreement) and the cost side (under the Gas Purchase Agreement). Under the Gas Purchase Agreement, the commodity gas price increases at the greater of the prior year’s DCR escalator and 2% while, as noted above, the Energy “A” rate increases at the greater of the DCR escalator and 4% (see “– Gas Purchase Agreement”).

Upon the expiration or termination of the Power Purchase Agreement, assuming the current structure of the Ontario power industry, Cardinal LP would have three primary options: (i) bid all of the electricity it produces into the Independent Electricity System Operator (“IESO”)-administered market at the market price; (ii) enter into a bilateral power purchase contract with another counterparty to sell electricity at a negotiated price; (iii) a combination of (i) and (ii); or (iv) renegotiate a revised power purchase agreement. 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 was subsequently assigned to Husky Marketing by means of an assignment and novation agreement dated as of December 15, 2001. The obligations of Husky Marketing under the agreement are guaranteed by its parent company, Husky Energy Inc. This agreement provides that Cardinal LP is required to purchase a minimum of 9,289,104 MMBtu of natural gas each year (the “Minimum Volume”), equivalent to 80% of the contract maximum, subject to financial compensation to Husky Marketing for any shortfall. Cardinal LP is prohibited from purchasing natural gas for the Cardinal Facility from any other party for the term of the Gas Purchase Agreement, which expires on May 1, 2015, unless Husky Marketing fails to deliver in accordance with the terms thereof. 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.

The November 1, 1994 amendment to the Gas Purchase Agreement (the “Gas Mitigation Agreement”) permits Cardinal LP and Husky Marketing to sell certain amounts of gas in excess of that required by the Cardinal Facility. The proceeds from sales under the Gas Mitigation Agreement are shared based on a formula which 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 proceeds, it is split equally between Husky Marketing and Cardinal LP. In addition, under 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 this curtailment, be used to generate electricity may be sold under the terms of the Gas Mitigation Agreement. As well, Cardinal LP may elect to curtail electricity production and sell gas under the Gas Mitigation Agreement. The Cardinal Facility has availed itself of this option on occasion when the market price of gas reached levels that allowed the generation of additional net income.

Credit Agreement

The Credit Agreement is comprised of: (a) a \$35 million non-revolving term loan facility (the “Term Cardinal Facility”), which matures on May 16, 2011 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”), which may be used to fund working capital, permitted capital expenditures, and, in certain circumstances up to a maximum amount of \$10 million outstanding at any one time, to fund distributions to Unitholders. No amounts were drawn under the Revolving Credit Facility in 2004, 2005 or 2006. 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. As of December 31, 2006, \$35 million was outstanding under the Term Cardinal Facility and no amounts were outstanding under Revolving Cardinal Facility as of such date.

Advances under the Credit Agreement are made in the form of either banker’s acceptance instruments (“BAs”) or prime rate loans. In the case of BAs, interest is charged at the BA rate plus a stamping fee based upon Cardinal LP’s ratio of consolidated total debt to consolidated earnings before interest, income taxes, depreciation and amortization, and unrealized gains and losses. In the case of prime rate loans, interest is charged at the bank’s prime rate plus an applicable margin based upon the same ratio used for BAs. The Credit Agreement provides for customary representations and warranties, covenants (including financial covenants and financial ratios), and events of default. During 2006, interest rates payable on the Term Cardinal Facility were fixed from time to time based on certain BAs 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 Cardinal Power Inc. (“Cardinal GP”), the general partner of Cardinal LP, 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.

Operational Permits and Environmental Matters

The Cardinal Facility holds all necessary permits and approvals required for its operations, including an Electricity Generation License issued by the Ontario Energy Board which is valid until October 19, 2023. Cardinal LP is also authorized by the IESO to operate as a market participant.

The Cardinal Facility and its operations are subject to a complex and stringent environmental, health, and safety regulatory regime, including: (a) federal, provincial, municipal, and local laws; (b) regulations, by-laws, common law, licenses, permits, and other approvals; (c) government directions and orders; and (d) government guidelines and policies and other requirements governing or relating to, among other things: (i) air emissions; (ii) taking of water and discharges into water; (iii) the storage, handling, use, transportation, and distribution of dangerous goods and hazardous and residual material (such as chemicals); (iv) the prevention of releases of hazardous materials into the environment; (v) the prevention, presence, and remediation of hazardous materials in soil and ground water, both on and off site; and (vi) workers’ health and safety issues (collectively, “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 and subsequently discharged back into the St. Lawrence River. The Fund believes that the Cardinal Facility and its operations are in compliance in all material respects to permit the Cardinal Facility to operate at full capacity.

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 2006, the Cardinal Facility received 1511 tonnes of NOx allowances based on actual generation in 2004. The Cardinal Facility expects to retire 289 tonnes in 2006 leaving a balance of 2451 tonnes. 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.

Employees

The total workforce at the Cardinal Facility, including management, is 18. Employees involved in the operation of the Cardinal Facility are non-unionized.

Major Maintenance and Capital Expenditures

The Cardinal Facility undertakes scheduled major maintenance activities on a periodic basis. A combustion turbine overhaul is required every 8,000 hours, at which time the parts used in the 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 after every 24,000 hours of operations and, after every 48,000 hours of operations, a major inspection is also performed. The electrical generators for the combustion and steam turbines are subject to minor inspections every 24,000 hours and major inspections every 48,000 hours. During the second quarter of 2006, a major inspection of the combustion turbine and the electrical generators was completed which resulted in the Cardinal Facility being shut down for 22 days. This major maintenance activity was completed earlier than expected and in line with the budget.

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, 2006, the balance in each of the Reserve Accounts was \$3.0 million for the general reserve account, \$1.06 million for the capital expenditure reserve account, and \$2.22 million for the major maintenance reserve account. The amounts in the Reserve Accounts are held in accounts with a Canadian chartered bank.

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 operational performance of the Cardinal Facility and servicing of Cardinal LP's debt obligations (see "Risk Factors").

Ontario Power Industry

Overview

Historically, the North American electricity industry was characterized by vertically-integrated monopolies, such as Ontario Hydro. During the late 1980s, several jurisdictions began a process of restructuring by moving away from these 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 NUGs. 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, represented approximately 1,700 MW of generating capacity and accounted for about 6% to 8% of the generating capacity available to meet Ontario's energy requirements in 2005. NUGs generate electricity 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.

In January 2004, the Electricity Conservation & Supply Task Force appointed by the Government of Ontario reported that Ontario faces a looming electricity supply shortfall in the years ahead as coal-fired generation is taken out of service and existing nuclear power generation plants approach the end of their planned operating lives. The Task Force also reported that 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 one-half of the generation capacity it needs to ensure adequate and reliable electricity service. The summer of 2006 saw Ontario's peak demand for electricity reach new highs, with a new all-time record for electricity demand of 27,005 MW reached on August 1, 2006. Throughout the period of this peak demand, Ontario was forced to import electricity from neighbouring jurisdictions. The Government of Ontario has since instituted several generation procurement programs, as described below.

Regulatory Environment

The regulatory environment for electricity in Ontario was restructured in October 1998 following the passage of the *Energy Competition Act, 1998*, which, in turn, enacted two pieces of legislation necessary to create the legislative framework for the 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: (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. The 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, including the Power Purchase Agreement.

Ontario’s wholesale and retail electricity markets were opened to competition on May 1, 2002 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 counterparties 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 Ontario government instituted price controls for electricity charged to consumers which continue in a modified form to this day.

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 (the “OPA”) which oversees and facilitates 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 narrowed the scope of the Ontario Energy Board’s responsibilities to the following: (a) the protection of the interests of consumers so that consumers have access to quality electricity that is reliable, adequate, and economical and (b) support for 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.

Competitive Structure

OPG is the dominant generator of electricity in the Province of Ontario, controlling approximately 70% of existing generation capacity in 2005. Although OPG’s generator license contains conditions requiring it to transfer effective control over portions of its output, recent political events have made it difficult to ascertain whether the

Government of Ontario remains committed to these decontrol targets. The current government has committed not to sell OPG's major generating assets.

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 NUGs at prices calculated in accordance with the power purchase agreements between the NUGs and OEFC, many NUGs are treated as transitional scheduling generators under the IESO Market Rules. As such, these NUGs effectively self-schedule their energy supply into the IESO-administered markets and they operate independently of dispatch instructions from the IESO, as opposed to 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.

As discussed above, 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 (see "Narrative Description of the Business – The Cardinal Facility – Power Purchase Agreement"). Accordingly, any changes in the structure of the generation market in Ontario, including whether or not OPG is directed to continue its decontrol initiative, should not affect the electricity sales revenues of the Cardinal Facility over the term of the Power Purchase Agreement

Leisureworld LTC Business

Overview

The Fund owns an approximate 45% indirect interest in LSCLP, which, in turn, owns and operates the Leisureworld LTC Business. 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. These funding sources include payments from the Province of Ontario and payments from residents (certain of which 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 (see "– Ontario Long Term Care Industry – LTC Funding Model").

Business Segments

The principal activity of the Leisureworld LTC Business is the ownership and operation of 19 LTC Homes (representing 3,187 beds) located in Ontario (the "Leisureworld LTC Homes"). The Leisureworld LTC Business also includes the ownership and operation of one retirement home ("RH") (representing 29 beds) and one independent living facility ("IL Facility") (representing 53 beds) in the Province of Ontario (collectively with the Leisureworld LTC Homes, the "Leisureworld Homes") (see "Ontario Long Term Care Industry – Overview").

The Leisureworld LTC Business also includes the following ancillary businesses: (a) Preferred Health Care Services, an accredited provider of professional nursing and personal support services for both community-based home care and LTC Homes; (b) Ontario Long-Term Care Providers, a provider of purchasing services to the Leisureworld Homes; and (c) Tealwood Developments, a provider of laundry services to the Leisureworld Homes. In aggregate, these ancillary businesses generated less than 5% of the total revenue of the Leisureworld LTC Business for the period ended December 31, 2006.

Leisureworld Homes

The following table summarizes the Leisureworld Homes in operation at December 31, 2006 and their average occupancy levels for the year ended December 31, 2006, as reported by LSCLP management:

Summary of Leisureworld Homes

<u>Name of Home</u>	<u>Location</u>	<u>Class</u>	<u>Year Built</u>	<u>Beds</u>	<u>Average 2006 Occupancy</u>
<u>Mature LTC Homes</u>					
Barrie	Barrie	C	1972	57	97% or Greater
Brampton Meadows	Brampton	A	2003	160	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	97% or Greater
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	97% or Greater
Lawrence	Toronto	A	2002	224	97% or Greater
Muskoka ⁽²⁾	Gravenhurst	A	1999	182	97% or Greater
North Bay	North Bay	C	1975	148	97% or Greater
Norfinch	North York	A	2003	160	97% or Greater
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	97% or Greater
St. George	Toronto	C	1972	238	97% or Greater
Total Mature LTC Homes				2,803	
<u>LTC Homes in Ramp-Up</u>					
Orillia ⁽¹⁾	Orillia	A	2006	160	5%
Vaughan	Vaughan	A	2004	224	79%
Total LTC Homes in Ramp-Up				384	
Total LTC Homes				3,187	
<u>Retirement Homes/Independent Living</u>					
Muskoka	Gravenhurst		1999	29	95%
Midland Gardens	Scarborough		1991	53	86%
Total Retirement Homes / Independent Living				82	

Notes:

- (1) The Orillia LTC Home opened on November 17, 2006. Spencer House Inc., a not-for-profit home for the aged, holds the letter of approval from the MOHLTC to operate the LTC beds and leases the Orillia LTC Home's land and buildings from a Leisureworld Limited Partnership. Spencer House Inc. has appointed a Leisureworld Limited Partnership as manager of the Orillia LTC Home's 160 LTC beds.
- (2) The original structure at Muskoka was built in 1975 but underwent complete renovation and refurbishment in 1999.

Class A facilities comprise approximately 71% of the total beds of the Leisureworld LTC Homes. This compares favourably to the overall supply of Ontario LTC Homes, of which approximately 32% are Class A facilities, as shown in the following table:

Breakdown of Beds by Class (as of December 31, 2006)

<u>Beds by Class</u>	<u>Leisureworld LTC Homes</u>		<u>Ontario</u>		<u>Leisureworld Share of Ontario Market</u>
	<u>Number</u>	<u>Percent</u>	<u>Number⁽¹⁾</u>	<u>Percent</u>	<u>Percent</u>
A	2,260	70.9%	24,440	32.1%	9.2%
B	299	9.4%	8,108	10.6%	3.7%
C	628	19.7%	30,953	40.6%	2.0%
D	0	0%	12,679	16.6%	0%
Total	<u>3,187</u>	<u>100%</u>	<u>76,180</u>	<u>100.0%</u>	<u>4.2%</u>

Notes:

(1) As of March 7, 2007. Source: Care Planning Partners.

All Class A Leisureworld LTC Homes were built after 1998 to the current design standards of the Ontario Ministry of Health and Long-Term Care (the "MOHLTC"). All Leisureworld LTC facilities have been accredited by Canadian Council on Health Services Accreditation (the "CCHSA"), except for the Orillia facility which was recently built and is expected to complete the accreditation process in 2008.

In November 2006, the Spencer House LTC Home located in Toronto, Ontario, which was the only Class D Leisureworld LTC Home, was closed. LSCLP has entered into a purchase and sale agreement dated January 29, 2007 with respect to the sale of the Spencer House property in the aggregate amount of \$3.8 million. The sale is conditional upon the fulfilment of certain terms and conditions.

The Leisureworld LTC Homes have a significant proportion of beds which are designated as preferred accommodation, with an overall portfolio ratio of approximately 50% of beds designated as private or semi-private accommodation. Approximately 4% of the total revenue of the Leisureworld LTC Business for the period ended December 31, 2006 was generated from charging residents an incremental preferred premium of \$18.00 per day per bed and \$8.00 per day per bed for private and semi-private accommodations, respectively.

Summary of Leisureworld LTC Home Portfolio by Type of Beds

<u>Name of Facility</u>	<u>Basic</u>	<u>Semi-Private</u>	<u>Private</u>	<u>Short Stay/ Convalescent Beds⁽¹⁾</u>
Barrie	21	31	3	2/0
Brantford	49	37	34	2/0
Brampton Meadows	64	0	96	0/0
Brampton Woods	64	0	86	0/10
Creedan Valley	54	30	10	1/0
Ellesmere	88	0	134	2/0
Elmira	36	0	58	2/0
Etobicoke	80	0	80	0/0
Lawrence	90	0	132	2/0
Muskoka	114	0	66	2/0
North Bay	91	20	30	1/6
Norfinch	64	0	96	0/0
O'Connor Court	64	0	96	0/0
O'Connor Gate	78	0	80	0/0
Orillia	66	0	94	0/0
Richmond Hill	64	0	96	0/0
Scarborough	159	106	30	4/0
St. George	212	18	4	4/0
Vaughan	90	0	134	0/0
Total	<u>1,548</u>	<u>242</u>	<u>1,359</u>	<u>38</u>
% of Total	<u>48.6%</u>	<u>7.6%</u>	<u>42.6%</u>	<u>1.2%</u>

Notes:

(1) Short Stay and Convalescent Care Beds are reserved for people requiring stays in a LTC homes of less than 30 and 90 days, respectively. Short Stay beds are designed to provide home caregivers with relief from their caregiving duties on a periodic basis. Convalescent Care beds provide resident support to regain strength and confidence, usually following a hospital stay. Short Stay and Convalescent Care beds are funded at 100% occupancy regardless of actual occupancy. In addition, Convalescent Care beds earn additional funding as a result of the higher level of care required.

LSCLP 2015 Notes and Credit Facility

On November 24, 2005, LSCLP privately placed \$310 million 4.814% Series A Senior Secured Notes due November 24, 2015 (the "2015 Notes") collateralized by the assets of LSCLP and its subsidiaries and guaranteed by its subsidiaries. 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, and commenced 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 2015 Notes, at a redemption price calculated in accordance with the indenture governing such notes.

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 at a variable rate on cash advances based upon a BA rate and on letters of credit. On October 17, 2006, the revolving credit facility was amended to extend its maturity by one year to October 17, 2007. As at December 31, 2006, \$5,298,000 had been drawn against the facility in the form of letters of credit.

Operational Permits and Environmental Matters

LSCLP holds all necessary permits and approvals required to operate the Leisureworld LTC Business, including licenses for the Leisureworld LTC Homes issued by the MOHLTC (with the exception of the Orillia LTC Home which it manages on behalf of Spencer House Inc., the holder of the letter of approval from the MOHLTC). The Fund believes that each of the Leisureworld Homes and their operations are in compliance in all material respects with Environmental, Health, and Safety Laws.

It is LSCLP's policy 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 new 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, LSCLP's policy is 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.

Employees

As at December 31, 2006, the Leisureworld LTC Business employed, directly and indirectly, over 3,604 people. All of the Leisureworld Homes are currently unionized with approximately 80% of employees represented by union locals of either the Service Employees International Union, the Ontario Nurses Association, the Christian Labour Association of Canada, the Canadian Union of Public Employees and the Teamsters' Union. The *Hospital Labour Disputes Arbitration Act* (Ontario), which prohibits strikes and lockouts in the seniors' housing industry, governs the Leisureworld LTC Homes' labour relations.

As at December 31, 2006, all labour contracts relating to the Leisureworld LTC Business were in force. In 2007, one labour contract relating to the Leisureworld LTC Business is schedule to expire.

Legal Proceedings

The Leisureworld LTC Business is from time to time involved in legal and administrative proceedings in the ordinary course of its business. The Leisureworld LTC Business does not currently have any litigation pending that the Fund or the Manager believe 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.

Ontario Long Term Care Industry

Overview

For seniors living outside of the family home, the types of housing facilities available may generally be grouped in one of the following three categories:

- **Independent Living (“IL Facilities”):** IL Facilities are similar to an apartment or town home and 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. Other than general regulations applicable to rental housing facilities and public health, these facilities are not licensed or regulated by the government.
- **Retirement Homes (“RHs”):** RHs contain hotel-style rooms and suites that are generally rented to residents on a monthly basis in conjunction with a meal and service package. Services provided by RHs can be divided among “light care” (which provide a high degree independence but within a more secure and supportive environment than in IL Facilities), “full care” (which have facilities and services similar to those at “light care” RHs but which are geared towards more frail seniors and may provide access to 24-hour nursing support), and “assisted living” (which provide additional care to very frail or cognitively-impaired residents who may require supervision in a secure, controlled section of a RH). Similar to IL Facilities, RHs are not licensed or regulated by the government other in respect of general regulations applicable to rental housing facilities and public health.
- **Long Term Care (“LTC”) Homes:** LTC Homes are designed to accommodate seniors who may require 24-hour per day care and who may suffer from cognitive or physical impairment. LTC Homes offer higher levels of personal care and support than those typically offered by IL Facilities or RHs. LTC Homes may include shared, semi-private, and private suites. All LTC Homes in Ontario must be licensed by, or receive a letter of approval to operate from, the MOHLTC. LTC Homes are eligible for government funding and are subject to government regulation and care standards. LTC Homes include nursing homes (generally operated by private operators), charitable homes for the aged (generally operated by charitable organizations), and municipal homes for the aged (generally operated by municipalities). Each of the Leisureworld LTC Homes is considered to be a nursing home.

The demand for seniors’ housing and programs is growing in Canada. The Fund believes that the following factors have and will continue to have a positive impact on demand for housing in LTC Homes in Ontario: favourable demographics; increasing life expectancy; increasing seniors’ affluence; and changing family dynamics.

- **Favourable Demographics:** The primary demographic group living in LTC Homes is Canadians who are greater than 75 years of age. According to the Ontario Ministry of Finance, the 75-plus age cohort is expected to be among the fastest growing age cohorts in Ontario over the next 20 years, projected to double in size from approximately 753,000 (or 6% of the population of Ontario in 2005) to 1.6 million (or 10% of the projected population of Ontario in 2031).
- **Increasing Life Expectancy:** Primarily as a result of advances in healthcare, Canada’s population is aging. The average life expectancy for Canadians has increased to 79.9 years in 2003 from 75.3 years in 1980 according to a report prepared by the Organization for Economic Cooperation and Development.
- **Increasing Seniors’ Affluence:** According to Statistics Canada, the average after-tax income of senior families in Ontario, in which the major income earner was 65 years of age or over, increased almost 12% in real terms from 1996 to 2004. In addition, the proportion of low-income

seniors continues to decrease compared with the Canadian population as a whole, with only 5.6% of Canadian seniors living below the low-income cut-off in 2004 versus 6.8% in 2003, 9.8% in 1996, and 21.3% in 1980. Increases in net worth (largely as a result of the many seniors who now own their homes debt-free), combined with increased household incomes, allow seniors to afford a much higher quality housing product with greater amenities than at any time in the past. Seniors' housing is now more upscale and residential, compared to the institutional feel that previously characterized such facilities. And, instead of having to settle for a traditional ward room, seniors can now choose private or semi-private accommodation that more resembles a hotel than a nursing home of a previous generation.

- **Changing Family Dynamics:** Today, when seniors no longer can or wish to live in their own homes, they often do not have the option to move in with their adult children as they might have in the past. With more and more families having both spouses working full-time outside of the home and changes in lifestyles reducing the ability of adult children to care for their aging parents, seniors' housing facilities are an attractive option.

Regulatory Environment

In Ontario, all LTC Homes are regulated by the MOHLTC. These regulations require that LTC Homes 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 Home and the service agreement complies with the *Nursing Homes Act* (Ontario) (the "Nursing Homes Act") and its regulations. LTC Homes must generally be built to specified design criteria and funding is generally tied to the level of delivery of mandated care services. See "– LTC Funding Model". The MOHLTC sets standards for care, fees residents may be charged, and conducts annual compliance reviews of LTC Homes, although more frequent inspections may be done when the circumstances warrant (e.g., post-sale inspections, follow-up inspections, and inspections conducted to investigate concerns).

Nursing home licences are valid 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. While it is possible for a nursing home's licence to be revoked due to inadequate performance or care by the operator, the Fund believes such actions are rare and would typically be preceded by a series of warnings, notices, and other sanctions and operators would typically be given an opportunity to rectify any deficiencies before a revocation or cancellation takes place.

In the spring of 2006, the *Local Health System Integration Act, 2006* (the "LHSI Act") came into force, although a number of the provisions under this act relating to LTC Homes have not yet been implemented. Under the LHSI Act, the management of certain local health services, including the funding of and setting performance goals for LTC Homes, was devolved to 14 regional non-profit corporations known as Local Health Integration Networks ("LHINs"). The implication of the LHSI Act on LTC Homes is not presently known and the LHINs' functions will be phased in over time. However, since the intention of the LHSI Act is that LHINs, rather than the MOHLTC, be responsible for entering into service agreements with LTC Homes, setting local performance goals, and funding LTC Homes, it is possible that the current system of standards and funding described herein could be significantly changed in the near future. Further, it is possible that standards and funding for LTC Homes could differ between LHINs. See "Risk Factors".

Bill 140, Long-Term Care Homes Act, 2006, passed second reading in the Ontario legislature in December 2006. Bill 140 establishes a new system of governance for LTC Homes in Ontario, including the consolidation of the Nursing Homes Act with the similar acts governing charitable and municipal homes for the aged. Among its provisions, Bill 140 provides for: zero tolerance of abuse and neglect of LTC home residents; whistle-blowing protections for staff, residents, and volunteers who report abuse or neglect; enshrining in legislation the requirement that a registered nurse be on duty in the home 24 hours a day, seven days a week; restrictions on the use of restraints to limited circumstances where it is absolutely necessary and only with appropriate safeguards; limitations on licence terms for LTC Homes to 25 years, with initial licence terms for existing LTC Homes to be up to 25 years depending on whether a home is considered Class A, B, C or D or a new home with respect to its design standards (currently, LTC licences have one-year terms subject to automatic renewal on an annual basis); and licences to be able to be revoked in cases of non-compliance (and other sanctions). Many of the provisions of Bill 140 are already

in place at the Leisureworld LTC Homes and the Fund believes that the term limits for nursing homes licences will have a non-material impact on LSCLP's operations. However, Bill 140 has not yet passed into law and is in front of a parliamentary committee which may propose changes.

LTC Funding Model

Operational funding of LTC Homes in Ontario is currently paid monthly and is divided into three "envelopes". Total operational funding received by operators includes 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 Home's average annual occupancy level meets or exceeds 97%, it is the Ontario government's policy to provide funding of its components based on 100% occupancy.

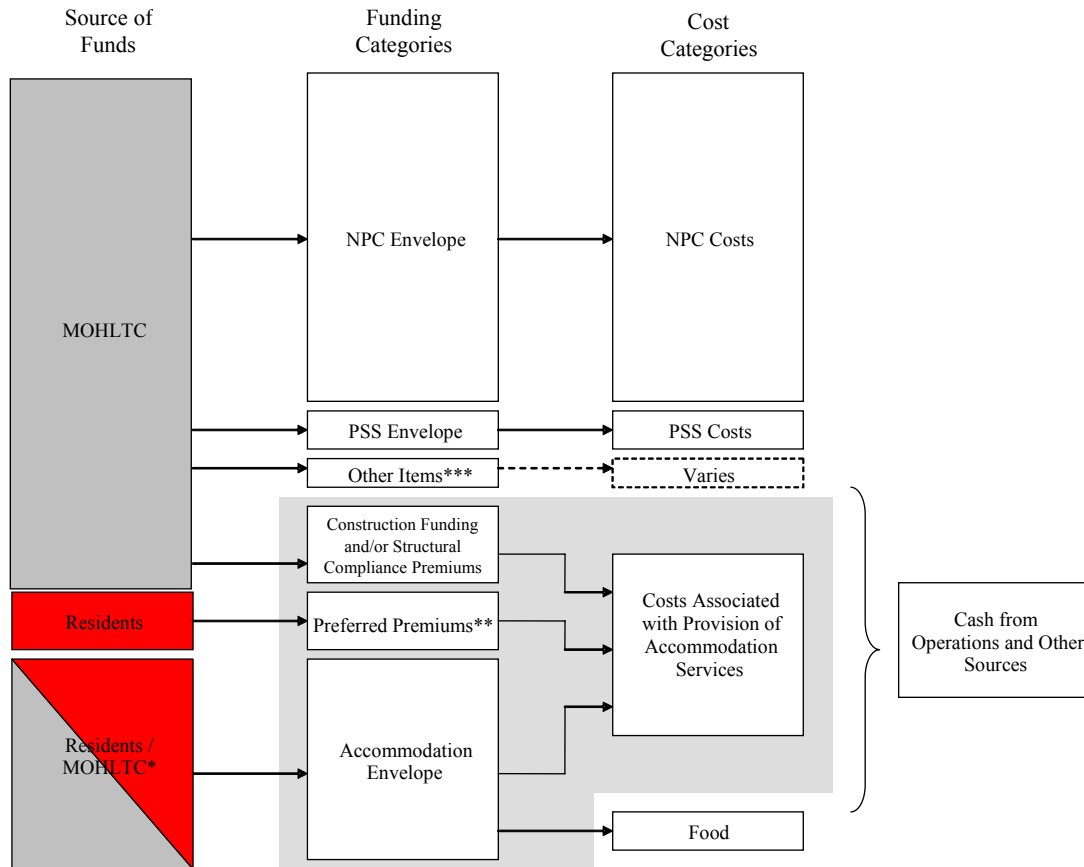
- **Nursing and Personal Care ("NPC"):** Funded by the MOHLTC and designed to cover expenses associated with nursing and personal care staffing as well as medical and nursing supplies. LTC Homes receive funding based on the assessed care needs of their residents.
- **Programs and Support Services ("PSS"):** 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 designed to cover funding for 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. This envelope comprises a food-only component (the "Food Component") and an other accommodation ("OA") component.

Additional funding is also available to operators of LTC Homes from the following sources:

- **Capital Cost Funding:** Operators of LTC Homes awarded since April 1, 1998 and operators of beds in significantly out-dated existing Class D LTC Homes that are to be redeveloped, retrofitted or upgraded to Class A LTC Homes are eligible for provincial capital cost funding. The capital cost funding is a 20-year commitment from the MOHLTC to pay a specified amount, which depends on the actual construction costs, per day, per bed.
- **Structural Compliance Premiums:** An amount is provided on a per person per day basis and applies to those operators (other than operators of Class D LTC Homes) who have fully or partially financed their own construction costs. The amount depends on the design standard that the LTC Home meets and the amount of any government grants received.
- **Other Funding Items:** The MOHLTC also provides additional funding to LTC Homes, including accreditation funding for LTC Homes which meet prescribed standards and have been accredited by the CCHSA and partial reimbursement of LTC Homes' municipal property tax obligations, among other funding items for various other purposes. As well, preferred premiums are received from residents for semi-private or private accommodation.

Funding provided to the NPC and PSS envelopes and for the Food Component of the Accommodation envelope generally make up more than 60% of the per day operational funding received by operators of LTC Homes and may only be applied to expenses categorized for each respective envelope and cannot be transferred to any other envelope. Any funding received by an operator of a LTC Home 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 MOHLTC 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 Homes are met). Should an operator incur costs in excess of the amount allocated for an envelope, then that expenditure must be paid from the OA Component of the Accommodation envelope (a practice known as "overspending"). Overspending in 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 component from which the operator may retain a profit. As such, operators of LTC Homes have an incentive to manage costs within their funding envelopes. The economies of scale in hiring, purchasing, administration, and other areas enjoyed by larger operators reduces the likelihood of overspending. The following diagram (which is not to scale and actual spending amounts differ) provides an overview of the overall funding framework for a LTC Home in Ontario on a normalized basis, assuming no overspending:



* Some portion of funding to the accommodation envelope may be derived from the MOHLTC due to subsidization of low income residents.

** Preferred premiums are paid by residents for semi-private or private accommodation.

*** Other Items includes items such as accreditation funding and pay equity funding.

Competitive Structure

The LTC industry in Ontario is comprised of a number of private and public sector operators offering a variety of similar services to those offered by the Leisureworld LTC Business. The LTC industry has historically been fragmented, with small independent operators providing most of the housing. However, in recent years, the industry has experienced a great deal of consolidation. Larger operators (such as LSCLP, which is the third largest operator of LTC Homes in Ontario) run by professional management, are able to realize cost efficiencies, economies of scale, and greater access to capital while at the same time increasing the quality of the facilities and the services provided.

The Leisureworld LTC Business faces competition from other health care providers, hospital-based long-term care units, rehabilitation hospitals, home health agencies, and rehabilitative therapy providers. Competitive factors which determine the placement of residents in nursing and assisted living facilities (such as IL Facilities and RHs) include quality of care, services offered, reputation, physical appearance of the facility, location, and cost to

the resident for additional services or private or semi-private accommodation. As well, competition in the LTC industry is affected by supply/demand imbalances which occur as a result of government initiatives, such as the recent program that was implemented to create an additional 20,000 long term beds between 1998 and 2004. Such initiatives can lead to an oversupply in some markets which can have competitive implications for new or existing operators.

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. Under the Fund Declaration of Trust, the Fund is generally restricted to investing in and otherwise dealing with securities issued by MPIIT and the securities of any other person which is involved directly or indirectly in the Power Business and ancillary activities with a focus on operating power generation facilities in Canada and the U.S. 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) such as social infrastructure. The Fund qualifies as a “mutual fund trust” for the purposes of the Tax Act and is expected to continue to so qualify at all material times in the future.

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”).

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. No Unitholder has or is deemed to have any right of ownership in any of the assets 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, and rights, warrants, and options to acquire Units or securities convertible into or exchangeable for Units (“Other Securities”), 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. New Units or Other Securities may be issued for cash through public offerings, through rights offerings to existing Unitholders (i.e., offerings in which Unitholders receive rights to subscribe for new Units or Other Securities in proportion to their existing holdings of Units or Other Securities, which rights may be exercised or sold to other investors), through private placements (i.e., offerings to specific investors which are not made generally available to the public or existing Unitholders) or as a result of conversion rights exercised under convertible securities, including warrants and subscription receipts. 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.

Purchase 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 may constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Redemption at the Option of Unitholders

Units are redeemable at any time on demand by the holders thereof upon delivery to the Fund of a duly completed and properly executed notice requesting redemption. Upon receipt of the redemption request by the Fund, all rights to and under the Units tendered for redemption will be surrendered and the holder thereof will be entitled to receive a price per Unit (the “Redemption Price”) equal to the lesser of: (i) 90% of the “market price” (as defined in the Fund Declaration of Trust) of the Units as of the date on which the Units are surrendered for redemption; and (ii) the “closing market price” (as defined in the Fund Declaration of Trust) as of the date that the Units are surrendered for redemption.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during a particular calendar month will be satisfied by 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 does 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 are 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 date on which Units are surrendered for redemption or for more than five trading days during the ten-day trading period ending on such 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* of notes (the “Exchange Notes”) of a wholly-owned subsidiary of the Fund in satisfaction of the Redemption Price. The Exchange Notes will have terms similar to those of the Series 2 MPIIT Notes and the Series 3 MPIIT Notes (see “– MPIIT – Note Indenture”). No fractional Exchange Notes in integral multiples of less than \$100 will be distributed and, where the amount of Exchange Notes to be received by a Unitholder includes a fraction or a multiple less than \$100, that number or amount shall be rounded to the next lowest whole number or integral multiple of \$100. It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Units. 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 the Exchange Notes and they may be subject to resale restrictions under applicable securities laws.

Meetings of Unitholders

The Fund Declaration of Trust provides that meetings of Unitholders must be called and held for, among other things, the presentation of the audited financial statements of the Fund, the election of the Trustees independent of the Manager, the appointment of the auditors of the Fund, and the transaction of such other business as Unitholders are entitled to vote upon. Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxyholder 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, however, in their discretion and without the approval of the Unitholders, are entitled to make certain amendments to the Fund Declaration of Trust, including amendments:

- (a) 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;
- (b) which provide additional protection or added benefits for the Unitholders, provided that the Trustees receive a legal opinion from counsel to this effect;
- (c) 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
- (d) which are necessary or desirable as a result of changes in tax laws.

Notwithstanding the foregoing, 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.

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.

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 and which are similar to those contained in the *Canada Business Corporations Act*. These provisions 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 or her 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.

Class B Exchangeable Units and Exchange Agreement

LTC Holding LP, a limited partnership established under the laws of the Province of Ontario, has issued (i) general partnership units to LTC Holding GP, its general partner; (ii) Class A LP Units to MPIIT; and (iii) Class B LP Exchangeable Units (the “Class B Exchangeable Units”) to MSHL, LWC, and OLTCI, each of which were vendors of the Leisureworld LTC Business. MSHL, LWC and OLTCI own all of the Class B Exchangeable Units which have economic rights equivalent in all material respects to those of the Units. The distributions on the Class B Exchangeable Units are supported through a support arrangement contained in an exchange agreement dated October 18, 2005 (the “Exchange Agreement”) among the Fund, MPIIT, LTC Holding LP and MSHL, LWC, and OLTCI (see “Material Contracts”).

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 and other conditions contained in the Exchange Agreement). The Exchange Agreement also provides that on or after October 18, 2015, so long as certain conditions are not in effect, any outstanding Class B Exchangeable Units will be automatically exchanged for Units on a one-for-one basis. Assuming exchange of all of the Class B Exchangeable Units for Units of the Fund in accordance with the Exchange Agreement, MSHL, LWC, and OLTCI would own, in aggregate, approximately 10.8% of the total number of Units outstanding following such exchange.

MSHL and LWC have agreed 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 of the Fund) without consent of the Fund until October 18, 2015. MSHL and LWC have also agreed not to sell more than 5% of the aggregate outstanding Units in any four-month period and to not vote any Units each receives on exchange of their Class B Exchangeable Units until they, together, hold 1% or less of the aggregate outstanding Units. In addition, MSHL, LWC, and OLTCI have agreed not to transfer any of the Class B Exchangeable Units held by them, other than to an affiliate or spouse or child of the holder of such Class B Exchangeable Units or otherwise for estate planning purposes.

In the event of a take-over bid 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.

MPIIT

MPIIT Declaration of Trust

MPIIT is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to a declaration of trust established on March 12, 2004, as amended and restated as of April 16, 2004 (the “MPIIT Declaration of Trust”).

The MPIIT Declaration of Trust contains provisions substantially similar to those of the Fund Declaration of Trust. 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 of certain provisions of the MPIIT 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 MPIIT Declaration of Trust. Reference should be made to the MPIIT Declaration of Trust for the full text of its provisions (see “Material Contracts”).

The Fund is the sole holder of all of the outstanding units of MPIIT (the “MPIIT Units”). 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 trustees of MPIIT (the “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 the MPIIT Unitholder for so long as the Administration Agreement is in effect. The four MPIIT Trustees are the same individuals as those serving as the Trustees.

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 is calculated in accordance with the terms of the MPIIT Declaration of Trust and is based on: (a) the cash redemption price per Unit; (b) the aggregate number of Units outstanding; (c) the aggregate unpaid principal amount and accrued interest thereon of indebtedness of MPIIT to the Fund (including the MPIIT Notes (described below)) and the fair market value of any other assets or investments held by the Fund (other than MPIIT Units); (d) the aggregate unpaid liabilities of the Fund; and (e) the aggregate number of MPIIT Units outstanding held by the Fund.

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 of such aggregate amount of Series 2 MPIIT Notes (as described below) as is equal to the aggregate redemption price payable to such holder of MPIIT Units rounded down to the nearest \$100, with the balance 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.

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 are intended to be received by the Fund prior to its related cash distribution to Unitholders.

Note Indenture

MPIIT may issue notes (“MPIIT Notes”) from time to time pursuant to the note indenture (the “Note Indenture”) dated April 30, 2004 between MPIIT and Computershare Investor Services Inc. (formerly, Computershare Trust Company of Canada), as trustee thereunder. The description below is a summary only of certain provisions of the Note Indenture, which summary does not purport to be complete and is subject to and qualified in its entirety by the full text of the Note Indenture. Reference should be made to the Note Indenture for the full text of its provisions (see “Material Contracts”).

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

The outstanding Series 1 MPIIT Notes issued at the closing of the Initial Public Offering and in connection with the acquisition of the Leisureworld LTC Business are payable on demand, non-interest bearing, and mature on the 25th anniversary of their date of issuance. 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. 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. 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.

Payment of the principal amount and interest on the 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 of MPIIT 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.

The Note Indenture provides for a number of events that would constitute an event of default under the Note Indenture. However, 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.

MLTCLP and MLTCGP

MLTCLP Partnership Agreement

Macquarie Long Term Care LP (“MLTC LP”) is a limited partnership created under the laws of the Province of Ontario pursuant to a limited partnership agreement dated as of October 18, 2005 (the “MLTCLP Partnership Agreement”) to invest, directly or indirectly, in 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 its general partner deems advisable in order to carry on this business. MLTCLP holds, directly or indirectly, the entire partnership interest of LSCLP.

The description below is a summary only of certain provisions of the MLTCLP Partnership Agreement, which summary does not purport to be complete and is subject to and qualified in its entirety by the full text of the MLTCLP Partnership Agreement. Reference should be made to the MLTCLP Partnership Agreement for the full text of its provisions (see “Material Contracts”)

The interests in MLTCLP are divided into and represented by an unlimited number of units (“MLTCLP Units”) and are issued for such consideration and on such terms and conditions as may be determined by MLTCLP’s general partner, Macquarie Long Term Care GP Inc. (“MLTCGP”). A holder of MLTCLP 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, to share in cash and any other distributions to partners, to receive the remaining property of MLTCLP on dissolution or winding up, and the right to one vote per MLTCLP Unit at all meetings of the partners. The limited partners of MLTCLP are LTC Holding LP and Macquarie Leisureworld Holdings Ltd. (“MLHL”), a subsidiary of Macquarie Bank Limited, which hold a respective 44.9955% and 54.9945% partnership interest in MLTCLP. The Fund understands that MLHL has transferred the economic benefits of its ownership interest in MLTCLP to MIIF. MLTCGP holds a 0.01% partnership interest in MLTCLP. MLTCGP may be removed and may withdraw as general partner only with the unanimous consent of the limited partners.

The business of MLTCLP may be changed only with the approval of limited partners holding not less than 90% of the outstanding MLTCLP Units. If LTC Holding LP were to hold less than 10% of the MLTCLP Units and the objects of MLTCLP were changed to be inconsistent with the Fund’s objects, LTC Holding LP might have to divest its interest in MLTCLP.

MLTCLP Units are transferable, subject to the right of first offer of each limited partner to acquire MLTCLP Units on a *pro rata* basis in accordance with the number of MLTCLP Units held by each non-transferring partner; provided, however, that no units may be transferred to a person who is not “resident in Canada” for the purposes of the Tax Act. See also “– MLTCGP USA”. The right of first offer shall not apply in respect of transfers by a limited partner to its affiliates or by any Macquarie Entity (as defined in the MLTCLP Partnership Agreement) to another Macquarie Entity. A transferee of a MLTCLP Unit will become a limited partner and will be subject to the obligations and entitled to the rights of a limited partner under the MLTCLP Partnership Agreement only upon execution and delivery to MLTCLP of such documents as may be necessary or appropriate, in the opinion of MLTCGP, to reflect such person’s admission to MLTCLP as a partner and to bind such person by the terms of the MLTCLP Partnership Agreement. Each limited partner has a right of first offer on any new issuances of MLTCLP Units on a *pro rata* basis in accordance with the number of MLTCLP Units held by such partner.

If the ultimate direct or indirect control of any limited partner changes, the other limited partners of MLTCLP will have the right to purchase all, but not less than all, of the MLTCLP Units beneficially owned by such limited partner on a *pro rata* basis in accordance with the number of MLTCLP Units held by each of the other limited partners; provided, however, that in such circumstances the price of the offered MLTCLP Units will be the fair market value of such units as at the end of the financial quarter of MLTCLP 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.

An exercise by the Fund of any of its rights to acquire MLTCLP Units 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.

MLTCGP USA

LTC Holding LP and MLHL entered into a shareholders’ agreement dated October 18, 2005 (the “MLTCGP USA”), governing their rights and obligations in relation to their respective 45% and 55% ownership interests in MLTCGP.

The description below is a summary only of certain provisions of the MLTCGP USA, which summary does not purport to be complete and is subject to and qualified in its entirety by the full text of the MLTCGP USA. Reference should be made to the MLTCGP USA for the full text of its provisions (see “Material Contracts”)

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

Each shareholder has a right of first offer on any issuances of shares of MLTCGP or in respect of any sales of shares of MLTCGP 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 MLTCGP 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 MLTCGP USA) to another Macquarie Entity, no securityholder is permitted to transfer any shares of MLTCGP or MLTCLP Units unless, concurrently with such transfer, such securityholder transfers an equal percentage of such holder's interest in MLTCLP Units or shares, as applicable, in accordance with both the MLTCGP USA and the MLTCLP Partnership Agreement, as applicable. See also "– MLTCLP Partnership Agreement". Subject to receipt of all required regulatory approvals (including approval by the MOHLTC, if required), 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.

If the ultimate direct or indirect control of any shareholder changes, the other shareholders of MLTCGP will have the right to purchase all, but not less than all, of the MLTCGP shares beneficially owned by such shareholder on a *pro rata* basis in accordance with the number of MLTCGP shares held by each of the other shareholders; 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 MLTCGP 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.

An exercise by LTC Holding LP of its any of its rights to acquire shares of MLTCGP 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.

The MLTCGP USA provides that each shareholder holding a percentage interest in MLTCGP exceeding 16.67% is 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 MLTCGP, two which have been appointed by LTC Holding LP and two which have been appointed by MLHL.

Any material amendment to the MLTCGP USA must be approved by a "super majority" of shareholders, which requires that the number of shares voted in favour of such amendment to be equal to or exceed 90% of the total number of shares owned by all shareholders. As well, certain actions by the board of directors of MLTCGP must be approved by a "special majority" of directors who represent at least 90% of the total number of shares owned by all shareholders.

In the event of a deadlock by the board of MLTCGP or in the event of a dispute between MLTCGP's shareholders which cannot be resolved, the MLTCGP USA provides that the matter is to be submitted to the senior officers of each party for resolution by way of a meeting or conference call. Failing resolution, a dispute may be submitted, with the consent of the parties, to binding arbitration.

MANAGEMENT OF THE FUND

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. Each of the Trustees, other than the Trustee appointed by the Manager in accordance with the Administration Agreement, is elected by Unitholders and is "independent" (as such term is defined under Canadian Securities Administrators' Multilateral Instrument 52-110 — *Audit Committees* ("MI 52-110")). During the term of the Administration Agreement, the Manager is entitled to appoint one Trustee. The term of office of any Trustee continues until (a) the next annual meeting of Unitholders following his or her election or appointment; (b) 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 (c) his or her term of office is terminated for any other reason in accordance with the Fund Declaration of Trust and, in the case of the Trustee appointed by the Manager, the Administration Agreement.

Subject to the terms and conditions of the Fund Declaration of Trust, the Trustees have full, absolute, and exclusive power, control, and authority over the assets 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 they are to supervise the investments and conduct the affairs of the Fund. 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 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 MI 52-110). The members of such committees are indicated below.

The name, province or state and country of residence, and principal occupation for the last five years for each Trustee are as follows:

<u>Name, Jurisdiction of Residence and Date elected Trustee</u>	<u>Principal Occupation and Employment</u>
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Derek Brown ⁽¹⁾⁽²⁾⁽³⁾
Ontario, Canada
Trustee since March 15, 2004

Derek Brown is a corporate director and currently sits on the boards of SNP Split Corp., Sixty Split Corp., and DALSA Corporation and he is an independent public trustee of the Nova Scotia Association of Health Organizations Pension Plan. Mr. Brown is also member of the finance committee of the Canadian Opera Foundation and is an Associate Governor of Dalhousie University. From 1996 to his retirement in 2005, Mr. Brown was a 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 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 ⁽¹⁾⁽²⁾⁽⁵⁾
Ontario, Canada
Trustee since April 15, 2004

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. Mr. Lavelle is also the Chairman of Union Energy Income Trust and Westport Innovations Ltd. He is a director or trustee 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. In addition, Mr. Lavelle serves as Chairman of the Bay of Spirits Gallery and is a member of the Advisory Board of the International MBA program at York University. Until March 2002, Mr. Lavelle was the Chairman and Chief Executive Officer of Unique Broadband Systems Inc. He previously held the position of Chairman of Export Development Canada from 1998-2001 and he served a three-year term as Chairman of the Board of the Business Development Bank of Canada commencing in 1984.

François R. Roy ⁽¹⁾⁽²⁾⁽⁴⁾
Québec, Canada
Trustee since March 15, 2004

François R. Roy is a corporate director and sits on the boards and is a member of the audit committees of MDC Partners Inc., Pixman Nomadic Media Inc., and SFK Pulp Income Fund. He is also 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 private equity and mezzanine capital fund management company based in New York, New

York. Mr. Roy was the 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. Mr. Roy received a MBA from the University of Toronto.

Shemara Wikramanayake⁽⁶⁾
New York, USA
Trustee since December 5, 2005

Shemara Wikramanayake is an Executive Director of the Macquarie group and is currently head of the Macquarie group's IB Funds division in North America a position she has held since October 2004. Ms. Wikramanayake joined the Macquarie group in 1987. Prior to her current position, Ms. Wikramanayake was employed as head of the Macquarie group's Prudential Oversight team in the Investment Banking Group, a position she held since 2001. Prior to 2001, Ms. Wikramanayake spent 14 years on Macquarie group's Corporate Advisory team, where she advised on a range of transactions including mergers and acquisitions, restructurings, valuations, and public sector advice and privatizations.

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) Appointed by the Manager pursuant to the Administration Agreement.

To the knowledge of the Fund, no Trustee or executive officer of the Trust (or a personal holding company of such person) (A) is or has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; (B) is or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision; (C) is or has been in the last ten years, a director or executive officer of an issuer that, while that person was acting in that capacity, (a) was the subject of a cease trade order or similar order or an order that denied the issuer access to any exemption under securities legislation, for a period of more than 30 consecutive days, (b) was subject to an event that resulted, after that person ceased to be a director or executive officer, in the issuer being the subject of a cease trade or similar order or an order that denied the issuer access to any exemption under securities legislation, for a period or more than 30 consecutive days, or (c) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (D) has in the last ten years become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets, except for the following:

1. Following Mr. Brown's resignation from its board of directors, Techknowledge Inc., a private Nova Scotia company, voluntarily entered into insolvency proceedings.
2. 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 (the "ASC") and certain 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' Arrangement Act* (Canada) in Canada and under Chapter 11 of the U.S. Bankruptcy Code in the United States.

Executive Officers

The name, province or state and country of residence, and principal occupation for the last five years for each executive officer of the Fund as at March 20, 2007 are as follows:

<u>Name and Jurisdiction of Residence</u>	<u>Fund Office</u>	<u>Principal Occupation and Employment</u>
Gregory J. Smith Ontario, Canada	Chief Executive Officer	Division Director of the Macquarie group's IB Funds division in North America ⁽¹⁾
Harry Atterton Ontario, Canada	Vice President, Chief Financial Officer and Secretary	Division Director of the Macquarie group's IB Funds division in North America ⁽²⁾
Stuart M. Miller Ontario, Canada	Vice President and General Counsel	Vice President and General Counsel of the Macquarie group's IB Funds division in North America ⁽³⁾

Notes:

- (1) Mr. Smith was appointed Chief Executive Officer of the Fund effective December 5, 2005. Prior to joining the Macquarie group's IB Fund's division in October 2003, Mr. Smith was Managing Director of RBC Capital Partners – Mezzanine Fund since June 2001. Prior to June 2001, Mr. Smith was Managing Director with Deloitte & Touche LLP in its Corporate Finance group.
- (2) Prior to joining the Macquarie group's IBF Funds division in January 2005 and being appointed Vice President and Chief Financial Officer of the Fund effective March 2005, Mr. Atterton was a Firm Director with Deloitte & Touche LLP in its financial advisory group.
- (3) Mr. Miller joined the Macquarie group's IB Funds division in November 2006 and was appointed Vice President and General Counsel of the Fund in February 2007. Prior to joining the Macquarie group, Mr. Miller was the Executive Director, Corporate Services and Compliance and Corporate Secretary of Fairmont Hotels & Resorts Inc. and Senior Legal Counsel and Secretary of Legacy Hotels Real Estate Investment Trust since June 2005. Prior to June 2005, Mr. Miller was a partner with McCarthy Tétrault LLP, a Canadian law firm.

The Trustees and the executive officers of the Fund as a group own, directly or indirectly, or exercise control or direction over less than 1% of the voting securities of the Fund and any subsidiary thereof.

Audit Committee Information

Charter of the Audit Committee

The text of the Charter of the Audit Committee of the Board of Trustees of the Fund (the "Audit Committee") 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 Derek Brown, Patrick Lavelle, and François Roy (Chair). Each member of the Audit Committee is "independent" and "financially literate", each as defined under MI 52-110.

Relevant Education and Experience of the Audit Committee Members

The education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as a member of the Audit Committee are set forth in their respective biographies above under the heading "– Trustees".

External Audit Fees

The following table outlines the fees billed to the Fund by PricewaterhouseCoopers LLP, the Fund’s external auditors, for each of the Fund’s last two fiscal years, 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.

	<u>January 1, 2005 - December 31, 2005</u>	<u>January 1, 2006 - December 31, 2006</u>
Audit Fees.....	\$224,182	\$149,838
Audit-Related Fees ⁽¹⁾	\$233,333	\$6,500
Tax Fees ⁽²⁾	\$38,766	\$26,380
All Other fees.....	<u>\$10,165⁽³⁾</u>	<u>\$23,220⁽⁴⁾</u>
Total	\$506,446	\$205,938

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 in connection with the Short Form Prospectus, as well as due diligence services related to the Fund’s acquisition of the Leisureworld LTC Business.
- (4) Other fees primarily include fees for French translation of annual financial statements and management’s discussion and analysis 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 independent of the Manager is entitled to an annual retainer equal to \$25,000 per year and \$1,200 per board or committee meeting attended in person or by teleconference. The Trustee appointed by the Manager does not receive an annual retainer or any meeting attendance fees. The Chair of the Board of Trustees and the Chair of each committee of the Board is entitled to an additional retainer in the amount of \$10,000 per year and \$5,000 per year, respectively. Each Trustee who is independent of the Manager is also reimbursed for his or her expenses. During 2006, the Fund paid the Trustees a total of \$192,200 on account of retainer and meeting attendance fees and \$11,206 on account of reimbursement for out-of-pocket expenses incurred in connection with their attendance at meetings.

Effective January 1, 2007, the additional retainers for the Chair of the Board of Trustees and the Chair of the Audit Committee were fixed at \$15,000 and \$10,000, respectively, and attendance fees for meetings were increased to \$1,500 per meeting for Trustees independent of the Manager. In addition, the Board of Trustees of the Fund has adopted a voluntary Unit ownership policy under which each Trustee that is independent of the Manager will endeavour to own Units with a value equal to such Trustee’s annual retainer.

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 2007, which incorporates its occupational health and safety (“OH&S”) policy. 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 owned by the Fund maintains its own environmental and OH&S risk management framework and support 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 the 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 GP and LTC Holding GP have reimbursement coverage to the extent that either has indemnified their respective directors and officers in excess of the \$100,000 deductible. The policy also includes an endorsement for securities claims coverage for the Fund, insuring against any legal obligation to pay on account of any securities claims brought against it. This policy of insurance also applies to the Trustees and provides reimbursement coverage to the Fund, in excess of the deductible, to the extent that the Trustees are 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 description below is a summary only of certain provisions of the Administration Agreement, which summary does not purport to be complete and is subject to and qualified in its entirety by the full text of the Administration Agreement. Reference should be made to the Administration Agreement for the full text of its provisions (see “Material Contracts”).

The Manager, the Fund, and MPIIT have entered into the Administration Agreement pursuant to which the Manager has been appointed as administrative agent of the Fund and MPIIT, subject to the supervision of the Trustees and the trustees of MPIIT (the “MPIIT Trustees”), as applicable. Under the Administration Agreement, the

Manager provides or arranges for administrative services to the Fund and MPIIT, as applicable, including legal, investor relations, and financial accounting and administration services. In addition, under the Administration Agreement, the Manager assists in and supervises the analysis of potential acquisitions and dispositions and carries out or supervises the making of acquisitions, dispositions or investments, as agreed by the Manager and subject to the control and direction of the Trustees and the MPIIT Trustees, as applicable. In connection with the Administration Agreement, the Manager has supplied the services of persons to serve as the Chief Executive Officer and the Vice President, Chief Financial Officer, and Secretary of each of the Fund and MPIIT. Such services are provided on an “as needed basis” and are not full time positions.

In consideration for providing the services under the Administration Agreement, the Manager receives (i) an annual management fee 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 Chief Executive Officer and the Vice President, Chief Financial Officer, and Secretary of the Fund and MPIIT). In the event that the Fund or MPIIT 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 the Fund or MPIIT, as applicable, and the Manager, as approved by the Trustees or the MPIIT Trustees, as applicable, 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 a management fee under the Administration Agreement in the amount of \$104,798 for the year ended December 31, 2006. In addition, the Manager was reimbursed an aggregate of \$1,393,045 in costs incurred for the same period pursuant to the Administration Agreement, the Cardinal LP Management Agreement and the LTC Holding LP Management Agreement (each discussed below). All cost recovery was on an “as incurred” basis without any margin or profit component.

Under 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, and/or, in certain circumstances, the approval of a majority of the Trustees or the MPIIT Trustees, as applicable, independent of the Manager. Included among such material actions are the Manager, on behalf of the Fund or MPIIT, entering into any transaction with the Manager or an affiliate of the Manager and amending the terms of the Administration Agreement or the fees payable thereunder.

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. In addition to standard termination provisions, the Administration Agreement provides that the Manager may also terminate at will upon 90 days’ prior written notice. The Fund and the Trust may terminate the Administration Agreement upon: (i) 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 and the Trust, which consent may not be unreasonably withheld; (ii) the termination of all outstanding management agreements between the Manager and Cardinal LP and any subsidiaries of the Fund or the Trust; or (iii) 90 days’ prior written notice if the lease for the Cardinal Facility expires and 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.

Cardinal LP Management Agreement

The description below is a summary only of certain provisions of the Cardinal LP Management Agreement, which summary does not purport to be complete and is subject to and qualified in its entirety by the full text of the Cardinal LP Management Agreement. Reference should be made to the Cardinal LP Management Agreement for the full text of its provisions (see “Material Contracts”).

The Manager, the Fund, MPIIT, and Cardinal LP have entered into the Cardinal LP Management Agreement pursuant to which the Manager has been engaged to provide or cause to be provided certain management services to Cardinal LP for the Cardinal Facility, as well as any facilities that may be acquired directly or indirectly by Cardinal LP in the future, including overseeing operations and maintenance of the Cardinal Facility, human resources, legal, and financial accounting and administration. In addition, under the Cardinal LP Management Agreement, the Manager assists in and supervises the analysis of potential acquisitions and dispositions and carries

out or supervises the making of acquisitions, dispositions or investments, as agreed by the Manager and subject to the control and direction of the board of directors of Cardinal GP. In connection with the Cardinal LP Management Agreement, the Manager has supplied the services of persons to serve as the President and Chief Executive Officer and the Vice President, Chief Financial Officer, and Secretary of Cardinal GP. Such services are provided on an “as needed basis” and are not full time positions. The obligations of Cardinal LP under the Cardinal LP Management Agreement are guaranteed by the Fund and MPIIT.

In consideration for providing the services under the Cardinal LP Management Agreement, the Manager receives (i) an annual management fee equal to \$575,000, subject to adjustment for inflation and future acquisitions; (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 Cardinal GP); and (iii) an incentive fee based on Distributable Cash per Unit. The Manager earned a management fee in the amount of \$602,588 and an incentive fee of \$1,368,363 for the year ended December 31, 2006 under the Cardinal LP Management Agreement. See “– Administration Agreement” for information regarding cost reimbursement.

Under the Cardinal LP Management Agreement, a number of material actions may not be authorized by the Manager without first obtaining the approval of a majority of the directors of Cardinal GP and/or, in certain circumstances, the approval of a majority of the directors of Cardinal GP independent of the Manager. Included among such material actions are the Manager, on behalf of Cardinal GP, entering into any transaction with the Manager or an affiliate of the Manager and amending the terms of the Cardinal LP Management Agreement or the fees payable thereunder.

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. In addition to standard termination provisions, the Cardinal LP Management Agreement provides that the Manager may also terminate at will upon 90 days’ prior written notice. Cardinal LP may terminate the Cardinal LP Management Agreement upon 90 days’ prior written notice: (i) 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 Cardinal LP Management Agreement without the prior written consent of Cardinal LP, which consent may not be unreasonably withheld; or (ii) if the lease for the Cardinal Facility expires and 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.

LTC Holding LP Management Agreement

The description below is a summary only of certain provisions of the LTC Holding LP Management Agreement, which summary does not purport to be complete and is subject to and qualified in its entirety by the full text of the LTC Holding LP Management Agreement. Reference should be made to the LTC Holding LP Management Agreement for the full text of its provisions (see “Material Contracts”).

The Manager, the Fund, MPIIT, and LTC Holding LP have entered into the LTC Holding LP Management Agreement pursuant to which the Manager has been engaged to provide or cause to be provided certain management services to LTC Holding LP in respect of its investment in MLTCLP, as well as any other investments that may be acquired directly or indirectly by LTC Holding LP in the future, including human resources, legal, and financial accounting and administration services. In addition, under the LTC Holding LP Management Agreement, the Manager assists in and supervises the analysis of potential acquisitions and dispositions and carries out or supervises the making of acquisitions, dispositions or investments, as agreed by the Manager and subject to the control and direction of the board of directors of LTC Holding GP. In connection with the LTC Holding LP Management Agreement, the Manager has supplied the services of persons to serve as the President and Chief Executive Officer and the Vice President, Chief Financial Officer, and Secretary of LTC Holding GP. Such services are provided on an “as needed basis” and are not full time positions. The obligations of LTC Holding LP under the LTC Holding LP Management Agreement are guaranteed by the Fund and MPIIT.

In consideration for providing the services under the LTC Holding LP Management Agreement, 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 (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 LTC Holding GP); and (iii) an incentive fee based on Distributable Cash per Unit. The Manager earned a management fee in the amount of \$462,570 and an incentive fee of \$478,556 for the year ended December 31, 2006 under the LTC Holding LP Management Agreement. See “– Administration Agreement” for information regarding cost reimbursement.

Under the LTC Holding LP Management Agreement, a number of material actions may not be authorized by the Manager without first obtaining the approval of a majority of the directors of LTC Holding GP and/or, in certain circumstances, the approval of a majority of the directors of LTC Holding GP independent of the Manager. Included among such material actions are the Manager, on behalf of LTC Holding GP, entering into any transaction with the Manager or an affiliate of the Manager and amending the terms of the LTC Holding LP Management Agreement or the fees payable thereunder.

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. In addition to standard termination provisions, the LTC Holding LP Management Agreement provides that the Manager may terminate at will upon 90 days’ prior written notice. LTC Holding LP may terminate the LTC Holding LP Management Agreement upon 90 days’ prior written notice: (i) 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 LTC Holding LP Management Agreement without the prior written consent of LTC Holding LP, which consent may not be unreasonably withheld; or (ii) if LTC Holding LP sells its interest in MLTCLP and such interest represents all or substantially all of the assets of LTC Holding LP.

Non-Exclusivity and Rights of First Offer

Pursuant to the terms of the Administration Agreement and the Management Agreements, 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 or LTC Holding 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. Notwithstanding the foregoing and subject to certain exceptions (including those described below), the Manager and its Canadian Affiliates are prohibited from acquiring, as principal, an interest in operating power generating facilities in Canada or the United States when such investments would meet the Fund’s Acquisition and Investment Guidelines, unless such interest has first been offered to the Fund on the terms available to the Manager or the Fund has otherwise been given the opportunity to pursue such investment, subject to the terms of the Administration Agreement and the Management Agreements, as applicable. 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, as applicable, Macquarie Essential Assets Partnership (“MEAP”).

Affiliates of the Manager currently act as the manager of 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. Each of the Administration Agreement and the Cardinal LP Management 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. However, 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 United States.

Subject to certain exceptions contained in the Administration Agreement, 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 or the U.S. that meets the Fund's investment criteria 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. However, 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. 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. The foregoing right of first offer does 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 also 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 Homes in Canada.

CONFLICTS OF INTEREST

Certain conflicts of interest could arise as a result of the relationships among the Manager, the Fund, MPIIT, Cardinal GP, Cardinal LP, LTC Holding LP, and LTC Holding GP. The Manager directly, or indirectly through Cardinal GP and LTC Holding GP, makes all decisions relating to the Fund, MPIIT, the Cardinal Facility, and LTC Holding LP's business. The Fund, MPIIT, Cardinal GP, and LTC Holding GP are also dependent upon the Manager, through the Administration Agreement and the Management Agreements, for all management and administrative services relating thereto. The officers of the Fund are also officers of the Manager. The directors and officers of the Manager have a fiduciary duty to manage the Manager in the best interests of the Manager, subject to the terms of the Administration Agreement and the Management Agreements. The Administration Agreement and the Management Agreements provide that a number of material actions may not be authorized by the Manager without first obtaining the approval of a majority of the trustees or directors of the Fund, MPIIT, Cardinal GP or LTC Holding GP, as applicable, and/or, in certain circumstances, the approval of a majority of the trustees or directors of the applicable entity independent of the Manager. See "Management of the Fund – Administration Agreement", "Management of the Fund – Cardinal LP Management Agreement", "Management of the Fund – LTC Holding LP Management Agreement", and "Management of the Fund – Non-Exclusivity and Rights of First Offer".

As of the date of this Annual Information Form, the Fund is not aware of any conflict of interest in any transaction since the creation of the Fund or in any proposed transaction that has materially affected or will materially affect the Fund.

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

Operational Performance of the Cardinal Facility

The revenues generated by the Cardinal Facility are proportional to the amount of electrical energy and steam generated by it. The Cardinal Facility, including the Cardinal Transmission Line, is subject to operational risks, including premature wear or failure due to defects in design, material or workmanship and longer than anticipated down times for maintenance and repair. The risks associated with the Cardinal Facility are partially

mitigated by the proven nature of its cogeneration technology, its comprehensive maintenance program, and the design of the facility. In addition, the Cardinal Facility is geographically located at a single site which could subject the Fund to greater risk of a material negative impact on Distributable Cash from the occurrence of, among other things: (a) a significant event disrupting the facility's ability to produce or sell power for an extended period of time; (b) a change in the Ontario power industry's favourable regulatory environment; or (c) a labour dispute that disrupts operations. Any of the foregoing operational risks could have an adverse impact upon the business, operating results, and financial condition of Cardinal LP, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

Expiry of 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 (i) and (ii), bidding some power into the IESO-administered markets and selling the rest under a bilateral contract with a counterparty or (iv) renegotiate a revised power purchase agreement. Any of these circumstances could have an adverse impact upon the business, operating results, and financial condition of Cardinal LP, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units. 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 such 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 the 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.

Fuel Costs, Supply, and Transportation

The Gas Purchase Agreement expires on May 1, 2015. Upon the expiry of the Gas Purchase Agreement, Cardinal LP will have to renegotiate the agreement or enter into a new gas supply agreement. Current natural gas prices are significantly higher 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 expiry of the Gas Purchase Agreement, the price of natural gas available to the Cardinal Facility is in excess of the price available under the Gas Purchase Agreement, this could have an adverse impact upon the business, operating results, and financial condition of Cardinal LP, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units. The Cardinal Facility is also dependent on the transportation of natural gas to it and, as such, any service interruption may result in a significant reduction in Distributable Cash due to loss of production at the facility.

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

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 of the Cardinal Facility) and Husky Marketing under the Gas Purchase Agreement. An inability or failure by any such party to meet its contractual commitments could have an adverse impact upon the business, operating results, and financial condition

of Cardinal LP, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

Default under Credit Agreement

The Credit Agreement expires in 2011. The Credit Agreement contains a number of standard financial and other covenants and a failure by Cardinal LP to comply with its 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 favorable than the current terms, this could have an adverse impact upon the business, operating results, and financial condition of Cardinal LP, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units. 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.

Expiry of Lease

The initial term of the Lease expires on January 31, 2015, but may be extended by up to two years at the option of Cardinal LP and runs concurrently with the Energy Savings Agreement. 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 Cardinal LP 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 continue 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 remediation of the leased land to its original condition.

Risks Related to the Leisureworld LTC Business

LTC Home Ownership and Operation

By investing indirectly in the Leisureworld Homes, the Fund is exposed to the general business risks inherent in the seniors' housing industry. These risks include fluctuations in levels of occupancy and the inability to achieve economic accommodation funding or residency fees (including anticipated increases in such fees). The inability to achieve such funding or fees could occur as a result of, among other factors, regulations controlling LTC funding; regulations controlling rents for the RHs and IL Facilities; possible future changes in labour relations; increases in labour, other personnel costs, and other operating costs; competition from or oversupply of other similar properties; changes in conditions of the Leisureworld Homes or general economic conditions; and the imposition of increased or new taxes. These risks also include the effects of health-related risks and disease outbreaks. As such, there is no assurance that future occupancy rates at the Leisureworld Homes will be consistent with historical occupancy rates achieved and this could have an adverse impact upon the business, operating results, and financial condition of LSCLP, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

As well, all of the business and operations of LSCLP are currently conducted in the Province of Ontario. If the Ontario market was to generally experience a decline in financial performance as a result of changes in local or

regional economic conditions, such as the addition of new LTC Homes, or an adverse change to the regulatory environment in Ontario, the market value of the Leisureworld Homes, the income generated from them, and the overall financial performance of the Fund could be negatively affected.

Minority Interest

The Fund owns an indirect 45% minority interest in LSCLP. As such, the Fund has restricted legal rights to influence the management of LSCLP, including those rights specified in the MLTCLP Partnership Agreement and the MLTCGP USA. The remaining indirect 55% interest in LSCLP is indirectly owned by Macquarie Bank Limited, which the Fund understands has transferred the economic benefits of its ownership to MIIF. Macquarie Bank Limited or any future holders of its 55% interest may have or could have different objectives than those of the Fund with respect to LSCLP. As a result, the ability of LSCLP to generate cash and to pay distributions to the Fund could be adversely affected by certain actions of the indirect majority owner of LSCLP, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

Reliance on key personnel

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

Government Regulation and Funding

In Ontario, all LTC Homes must be licensed under applicable provincial legislation. Such licenses 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 licenses do not represent any guarantee of continued operation beyond the one-year term of the license. While LSCLP endeavors to ensure compliance with all regulatory requirements applicable to the Leisureworld LTC Homes, 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 and this could have an impact upon the business, operating results, and financial condition of LSCLP, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

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

Bill 140, Long-Term Care Homes Act, 2006, contains a number of new provisions which, if enacted in its present form, could impact on the operations of the Leisureworld Homes. Among the new provisions are licence term limits for LTC Homes to 25 years (currently, LTC licences have one-year terms subject to automatic renewal on an annual basis). As well, Bill 140 provides that licences can be revoked in cases of non-compliance. Although many of its provisions are already in place at the Leisureworld Homes, Bill 140, if enacted, could have an impact upon the business, operating results, and financial condition of LSCLP, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

Default under LSCLP's 2015 Notes and Credit Facility

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 the required interest and principal payments on the 2015 Notes or drawings under its credit facility. If LSCLP were unable to meet such interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. If this were to occur, it could have an impact upon the business, operating results and financial condition of LSCLP which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

As well, the 2015 Notes and the credit facility contain a number of standard financial and other covenants and a failure by LSCLP to comply with its obligations under these instruments could result in a default, which, if not cured or waived, could result in the termination of distributions by LSCLP and permit acceleration of the relevant indebtedness. In these circumstances, this could have an impact upon the business, operating results, and financial condition of LSCLP, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

Labour Relations and Cost

As at December 31, 2006, the Leisureworld LTC Business had 3,199 unionized employees. All of the Leisureworld Homes are currently unionized and represented by union locals of either the Service Employees International Union, the Ontario Nurses Association, the Christian Labour Association of Canada, the Canadian Union of Public Employees and the Teamsters. There can be no assurance that the Leisureworld Homes 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 LSCLP's operating results and financial condition. However, all LTC Homes in the Province of Ontario are governed by the *Hospital Labour Disputes Arbitration Act* (Ontario), which prohibits strikes and lockouts in the seniors' housing industry. Therefore, collective bargaining disputes are more likely to be resolved through compulsory third party arbitration.

The Leisureworld LTC Business is labour intensive, with labour-related costs comprising a substantial portion of LSCLP's direct operating expenses. The Leisureworld LTC Business competes with other health care providers with respect to attracting and retaining qualified personnel. A shortage of trained or other personnel may require LSCLP to enhance wage and benefits provided to employees in order to compete. No assurance can be given that labour costs will not increase, or that if they do increase, that they will be matched by corresponding increases in revenue. Wage increases in excess of increases that can be obtained from increases in rental or cost reimbursement could have an impact upon the business, operating results, and financial condition of LSCLP, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its Units.

Risks Related to the Fund

Proposed Changes in Federal Tax Policy for Flow-Through Entities

On October 31, 2006, the federal government proposed a new tax regime for flow-through entities, including publicly-listed Canadian income trusts (such as the Fund) and partnerships, other than real estate investment trusts and those flow-through entities that hold only portfolio investments. If implemented, the proposed tax regime will tax income funds in a similar, but not identical, manner as corporations beginning in 2011. On December 21, 2006, legislation to give effect to this proposed tax regime was released. As of the date of this Annual Information Form, this legislation has not yet been passed into law. Management of the Fund will continue to evaluate any impact on the Fund and its Unitholders as the legislative process evolves.

Variability of Distributions

The actual amount of Cash Distributions to Unitholders will depend on numerous factors, including the financial performance of the Fund's operations, ability to meet debt covenants and obligations, working capital requirements, future capital requirements, and tax-related matters. As well, the establishment of reserves for

expenses could adversely affect Cash Distributions. The market value of the Units may deteriorate if the Fund is unable to maintain its Cash Distribution levels in the future, and that deterioration may be material.

Unitholder Liability and Dilution

The Fund Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with a holding of Units. In addition, legislation has been enacted in the Provinces of Ontario, Alberta, and Quebec that is intended to provide Unitholders in those provinces with limited liability. However, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be held personally liable 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.

The Fund Declaration of Trust permits the issuance of an unlimited number of Units on such terms as the Trustees determine without the approval of Unitholders, who have no pre-emptive rights in connection with such issuances.

Dependence on the Manager and Potential Conflicts of Interest

The Manager directly, or indirectly through Cardinal GP and LTC Holding GP, makes all decisions relating to the Fund, MPIIT, the Cardinal Facility, and LTC Holding LP's business. The Fund, MPIIT, Cardinal GP, and LTC Holding GP are also dependent upon the Manager, through the Administration Agreement and the Management Agreements, for all management and administrative services relating thereto. The Manager, its Affiliates, employees or agents and other funds and vehicles managed by Affiliates of the Manager may be engaged or invest, directly or indirectly, in a variety of other companies or entities involved in owning, managing, advising on or being otherwise engaged in the Power Business or other infrastructure businesses. The Management Agreements, the Administration Agreement, the 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

Insurance

The Fund and LSCLP maintain at all times insurance coverage in respect of potential liabilities and the accidental loss of value of their assets from risks, in amounts, with such insurers, and on such terms as the Trustees and the directors of LSCGP consider appropriate, taking into account all relevant factors including the practices of owners of similar assets and operations. However, not all risk factors are covered by such insurance, and no assurance can be given that insurance will be consistently available or 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 the Fund or LSCLP.

Environmental, Health, and Safety

The Cardinal Facility and the Leisureworld Homes are subject to a complex and increasingly stringent environmental, health, and safety regulatory regime, which includes Environmental, Health, and Safety Laws. As such, the operation of these facilities 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 facilities 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 and which could adversely affect the Fund's ability to pay distributions on its Units. Neither Cardinal LP nor, to the Fund's or the Manager's knowledge, LSCLP have been notified of any such civil or regulatory action in regards to their 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 facilities' activities, the extent of which cannot be predicted.

Nature of Units

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 and 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.

The Units are equity securities of the Fund. Although the Fund’s distribution policy is to make monthly distributions 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, the Units are not traditional fixed income securities. 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 and does not promise to return the initial purchase price of a Unit on a certain date in the future. 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 LSCLP. In addition, unlike interest payments 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. 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.

DISTRIBUTIONS

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 or about the 15th day of the following month. The Fund may also 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.

Monthly Distributions

The Fund is currently entirely dependent on the operations of Cardinal LP and its investment in LSCLP to generate Distributable Cash. 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. Commencing in October 2005, holders of Class B Exchangeable Units receive distributions from MPT LTC Holding LP equivalent to those paid on the Units.

For the month ended May 31, 2004, the Fund distributed \$0.08177 per Unit to Unitholders. For each of the months ending June 30, 2004 through and including December 31, 2005, the Fund distributed \$0.07917 per Unit. For each of the months ending January 31, 2006 through and including August 31, 2006, the Fund distributed \$0.08333 per Unit. For each of the months ending September 30, 2006 through and including February 28, 2007, the Fund distributed \$0.08583 per Unit.

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:

	<u>Price Per Unit</u>		<u>Unit Trading Volume</u>
	<u>High</u>	<u>Low</u>	
<u>2006</u>			
January	10.98	10.06	3,321,126
February	11.50	10.25	1,024,521
March	11.27	10.75	870,848
April	11.05	10.01	924,668
May	10.75	10.10	830,786
June	10.50	9.96	606,187
July	10.50	10.00	623,870
August	11.37	10.20	1,077,951
September	11.49	10.75	1,242,782
October	11.74	11.31	1,575,757
November	10.40	8.50	1,693,411
December	10.49	9.20	1,212,555
<u>2007</u>			
January	11.14	10.03	1,051,097
February	11.96	10.75	1,431,267

STABILITY RATING

The Fund has received a stability rating 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 stability 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

The Fund's auditors are PricewaterhouseCoopers LLP., Chartered Accountants, who have prepared an independent auditors' report dated February 28, 2007 in respect of the Fund's consolidated financial statements with accompanying notes as at and for the years ended December 31, 2005 and 2006. PricewaterhouseCoopers LLP have advised that they are independent with respect to the Fund within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as at February 28, 2007.

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, each wholly-owned subsidiaries of RQ Canada, LLC received an aggregate cash payment in the amount of \$42.7 million by way of a return of capital in consideration of their withdrawal from Cardinal LP pursuant to the Investment Agreement (described below). 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, 2007, 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.

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 2006 (or prior to 2006 in the case of material contracts that are still in effect):

- (a) the Credit Agreement;
- (b) the Fund Declaration of Trust;

- (c) the Exchange Agreement;
- (d) the MPIIT Declaration of Trust;
- (e) the Note Indenture;
- (f) the MLTCLP Partnership Agreement and the MLTCGP USA;
- (g) the Administration Agreement;
- (h) the Cardinal LP Management Agreement;
- (i) the LTC Holding LP Management Agreement;
- (j) the Investment Agreement; and
- (k) the Indemnity Agreement.

General descriptions of the Investment Agreement and the Indemnity Agreement are 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 the Canadian Securities Administrators' System for Electronic Document Analysis and Review ("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").

Among its provisions, the Investment Agreement provides 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. 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.

Indemnity Agreement

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.

ADDITIONAL INFORMATION

Additional information, including Trustees' remuneration and indebtedness, is contained in the Fund's information circular dated March 1, 2007. 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, 2006. 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:

“**2015 Notes**” means \$310 million 4.814% Series A Senior Secured Notes due November 24, 2015 issued by LSCLP on November 24, 2005.

“**Administration Agreement**” means the agreement dated April 30, 2004 among the Fund, MPIIT, and the Manager, pursuant to which the Manager provides administrative services to the Fund and MPIIT.

“**Affiliate**” has the meaning ascribed thereto in the Fund Declaration of Trust.

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

“**Audit Committee**” means the Audit Committee of the Board of Trustees of the Fund.

“**BAs**” means bankers’ acceptances.

“**Bridge Facility**” means the senior bridge debt facility provided to LSCLP by a Canadian chartered bank in connection with the acquisition of the Leisureworld LTC Business.

“**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 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.

“**Cardinal Transmission Line**” means the approximately 6.5 km long, 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.

“**CCHSA**” means Canadian Council on Health Services Accreditation.

“**Class B Exchangeable Units**” means Class B Exchangeable LP Units of LTC Holding LP.

“**cogeneration**” means the simultaneous production of electricity and thermal energy in the form of heat or steam from a single fuel source.

“**Credit Agreement**” means the amended and restated credit agreement dated May 16, 2006, among Cardinal LP, Cardinal GP, MPIIT, TD Securities Inc. as lead arranger and bookmanager, and an Affiliate of TD Securities Inc. as administration agent and lender.

“**DCR**” means the direct customer rate established by OEFC from time to time.

“**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.

“Energy Savings Agreement” means the energy savings agreement dated to be effective as of September 3, 1992 between CASCO and Cardinal LP.

“Environmental, Health, and Safety Laws” means: (a) federal, provincial, municipal, and local laws; (b) regulations, by-laws, common law, licenses, permits, and other approvals; (c) government directions and orders; and (d) government guidelines and policies and other requirements governing or relating to, among other things: (i) air emissions; (ii) taking of water and discharges into water; (iii) the storage, handling, use, transportation, and distribution of dangerous goods and hazardous and residual material (such as chemicals); (iv) the prevention of releases of hazardous materials into the environment; (v) the prevention, presence, and remediation of hazardous materials in soil and ground water, both on and off site; and (vi) 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.

“Food Component” 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 dated March 15, 2004, as amended and restated as of April 16, 2004 and as further amended effective February 21, 2006, pursuant to which the Fund was established.

“Gas Mitigation Agreement” means the November 1, 1994 amendment to the Gas Purchase Agreement.

“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.

“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.

“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 markets relating to electricity and ancillary services in Ontario.

“IL Facilities” means independent living facilities.

“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 1,000 volts.

“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).

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

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

“Leisureworld Homes” means collectively, the Leisureworld LTC Homes and the two RHs and one IL Facility owned and operated by LSCLP 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; each of which are wholly-owned subsidiaries of LSCLP.

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

“LSCLP” means Leisureworld Senior Care LP.

“LTC” means long term care.

“LTC Homes” means long term care homes.

“LTC Holding GP” means MPT LTC Holding Ltd.

“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.

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

“LWC” means LECR Inc. (formerly, Leisureworld Creemore Inc.).

“Macquarie group” means Macquarie Bank Limited and its subsidiaries and affiliates.

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

“Manager” means Macquarie Power Management Ltd.

“Mature LTC Homes” means any LTC Homes that have reached a 97% occupancy threshold and are not LTC Homes in Ramp-Up.

“**MEAP**” means Macquarie Essential Assets Partnership.

“**megawatt**” or “**MW**” means 1,000 kilowatts.

“**MI 52-110**” means Canadian Securities Administrators’ Multilateral Instrument 52-110 — *Audit Committees*.

“**MIIF**” means Macquarie International Infrastructure Fund Limited.

“**Minimum Volume**” 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.

“**MLTCLP**” means Macquarie Long Term Care LP.

“**MLTCLP Partnership Agreement**” means the limited partnership agreement of Macquarie Long Term Care LP dated October 18, 2005.

“**MLTCGP**” means Macquarie Long Term Care GP Inc.

“**MLTCGP USA**” means the unanimous shareholders’ agreement dated October 18, 2005 between LTC Holding LP, MLHL, and MLTCGP which governs MLTCGP.

“**MLTCLP Units**” means limited partnership units of MLTCLP.

“**MMBtu**” means one million British thermal units, a standard unit of measurement used to calculate the energy content of natural gas.

“**MOHLTC**” means Ontario Ministry of Health and Long Term Care.

“**MPIIT**” means Macquarie Power & Infrastructure Income Trust.

“**MPIIT Declaration of Trust**” means the declaration of trust dated March 12, 2004, as amended and restated as of April 16, 2004, pursuant to which MPIIT was established.

“**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.

“**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.

“**NO_x**” means oxides of nitrogen.

“**NUGs**” mean non-utility power generators.

“**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.

“**OEB Act**” means the *Ontario Energy Board Act, 1998*.

“**OEFC**” means Ontario Electricity Finance Corporation.

“**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.

“**OPG**” means Ontario Power Generation.

“**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.

“**Original Limited Partners**” means Sithe Canadian Holdings Inc. and Sithe Canada Ltd.

“**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.

“**psig**” means pounds per square inch gauge.

“**PSS**” means the programs and support services envelope that is funded by the MOHLTC.

“**Revolving Cardinal Facility**” means the \$15 million revolving credit facility provided to Cardinal LP pursuant to the Credit Agreement.

“**RH**” means retirement home.

“**S&P**” means Standard & Poor’s Inc., a division of The McGraw-Hill Companies, Inc.

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval.

“**Series 1 MPIIT Notes**” means the Series 1 notes of MPIIT issued to the Fund.

“**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 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 entitled to vote on such resolution.

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

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

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

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

“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:

- i) 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;
- ii) 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;
- iii) oversee the qualifications and independence of the external auditors;
- iv) oversee the work of the Fund's financial management and external auditors in these areas; and
- v) 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 -*

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.

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.

Quorum – A majority of members constitute a quorum for the transaction of Committee business.

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.

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.

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* -

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.

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.

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.