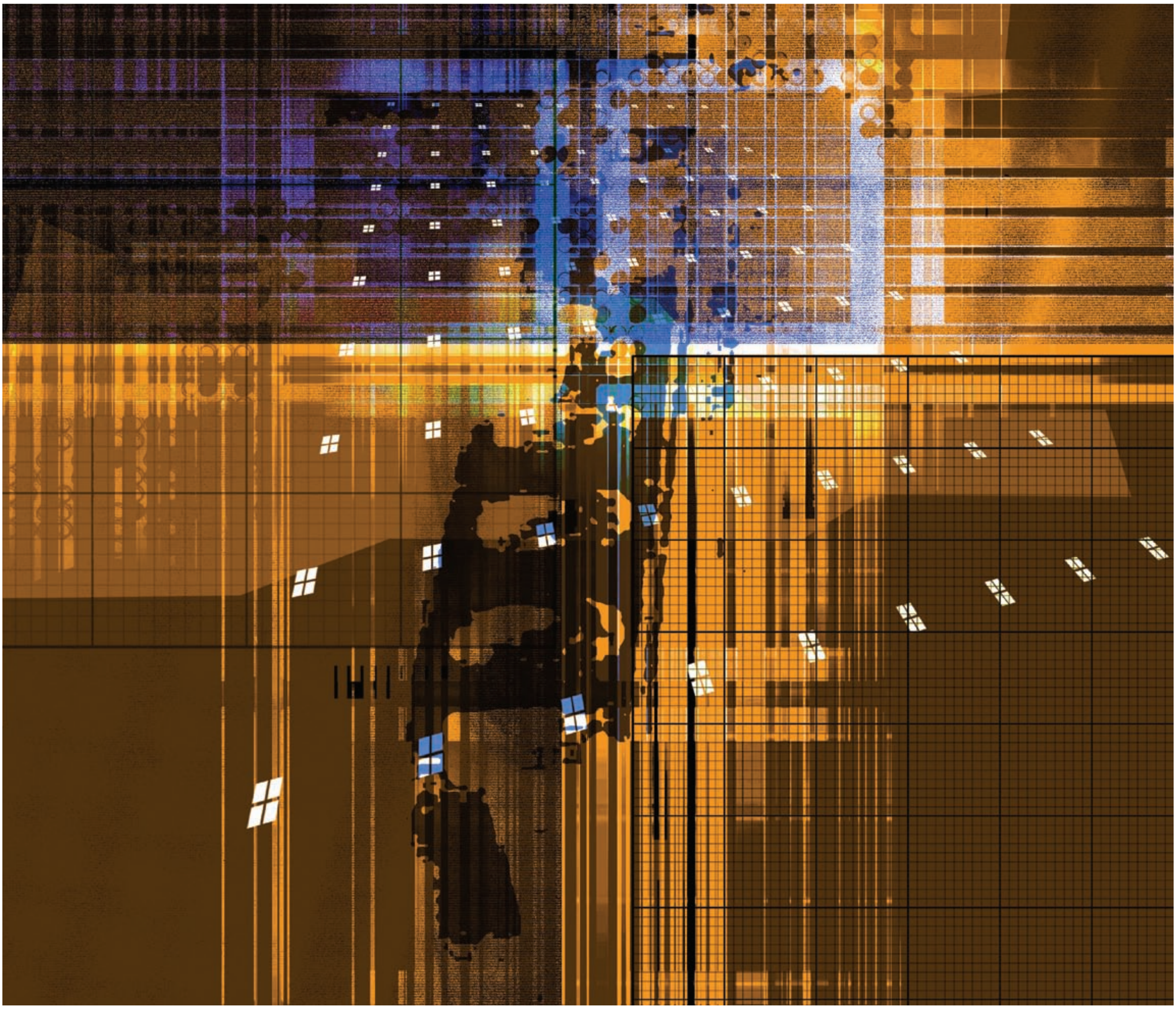
DEFINING INFRASTRUCTURE INVESTMENT

MACQUARIE POWER & INFRASTRUCTURE INCOME FUND

ANNUAL REPORT 2005

MACQUARIE



Infrastructure: Steady growth, low risk ...

Macquarie Power & Infrastructure Income Fund (MPT) invests in infrastructure assets, with an emphasis on power infrastructure.

Our strategy is to acquire and actively manage a high-quality portfolio of long-life infrastructure assets to improve their financial performance and provide growing and sustainable distributions to unitholders for the long term.

MPT's infrastructure portfolio currently includes Cardinal, one of the largest independent natural gas cogeneration power plants in Ontario, and Leisureworld, a leading long-term care provider in Ontario with over 30 years operating experience.

The defining characteristics of infrastructure are the key to what makes infrastructure investment attractive.

Infrastructure is an essential part of any modern community, providing the underlying foundation of basic services, facilities and institutions. MPT targets infrastructure investment because its defining characteristics offer long-term stable returns with the opportunity for capital growth:

> **Long life.** Created through the security of long-term concessions or agreements, government regulations or licenses.

> **Sustainable competitive advantages and barriers to entry by competitors.** These barriers can be exclusive concession periods or licenses, provided by legislation or regulation, natural barriers such as planning restrictions or availability of land, the high cost of new development, or long-term contracts for a significant portion of demand.

> **Low variable cost base.** Highly predictable operating costs create greater certainty in cash flows and returns to investors.

> **Low demand variability.** Demand for products or services provided by infrastructure assets is generally stable and often grows with underlying economic or demographic growth. This creates stable operating cash flows and reduced volatility in returns to investors.

CONTENTS

... enhanced by proven and active management

MPT: Enhanced by proven and active management

MPT's management team includes infrastructure professionals who bring a breadth of management skills and experience to the Fund and our individual assets as well as specialist expertise in evaluating and executing infrastructure investments.

Improving the performance of individual assets

MPT takes an active role working with management at each asset to optimize operational and financial performance. This can range from business planning, capital management and advice on financial structuring, through to providing personnel.

Safeguarding fund performance

Our ability to elicit peak performance from individual assets is combined with a clear focus on achieving outstanding results for the Fund and our investors. MPT's strong professionalism and risk management underpins all activities to safeguard performance and the interests of investors at all times.

Growing our infrastructure portfolio

MPT has the necessary skills and experience to identify and secure opportunities to grow our portfolio of quality infrastructure assets — despite their scarcity.

The Manager of MPT is part of the Macquarie group, one of the world's leading owners and operators of infrastructure businesses with around $26 billion in infrastructure equity under management in 20 countries around the world.

Letter to unitholders

2005 was a defining year for Macquarie Power & Infrastructure Income Fund in which we cemented our track record as effective owners and managers of quality infrastructure assets.

Not only did we confirm the benefits of investing in infrastructure, we provided proof that the MPT management team has the breadth of skills and experience to enhance the performance of our individual assets and build a portfolio that creates a platform for further growth.

During the year, MPT:

> Broadened our acquisition strategy and secured a high-quality infrastructure asset, Leisureworld;

> Proved that the active involvement of MPT management could enhance the already strong performance of Cardinal, allowing it to surpass 2004 results;

> Demonstrated a steady improvement in the Fund's performance and financial strength; and,

> Delivered on our goal to provide growing and sustainable distributions to unitholders by announcing a more than 5% increase in monthly cash distributions to be paid in 2006.

Broadened acquisition strategy

In line with MPT's charter, in April 2005, we broadened our acquisition strategy to examine a range of infrastructure investment opportunities not limited to the power sector.

We did this to fulfill our core goal — to profitably grow the Fund and returns to unitholders by acquiring additional infrastructure businesses. Since MPT's inception, we had investigated a number of investment opportunities in the North American power sector. Not one met the stringent standard of quality and accretion for unitholders that we seek under our investment mandate.

Acting on the broadened acquisition strategy, MPT investigated an expanded range of infrastructure opportunities throughout North America before reaching an agreement to acquire a 45% interest in Ontario's third largest long-term care ("LTC") provider, Leisureworld for $102 million (including transaction and offering costs). This agreement was announced on September 13, 2005 and the acquisition was completed on October 18, 2005.

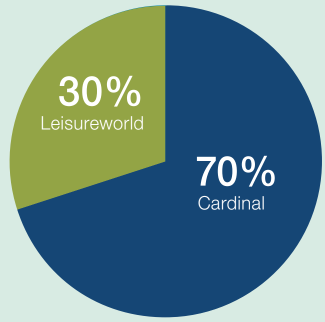
The investment in Leisureworld is a significant addition to the MPT portfolio, creating a more diverse asset base and providing an additional source of long-term cash flows to the Fund. Leisureworld will provide approximately 30% of the Fund's cash available for distribution to investors, the remaining 70% will be provided by Cardinal.

+5%

increase in monthly cash distributions

Estimated Fund distributable cash

by asset



MPT financed the Leisureworld acquisition by issuing 5,630,000 subscription receipts that were converted on a one-for-one basis to Fund units on October 18, 2005. At the same time, the Fund issued 3,249,390 Class B exchangeable units that will convert into units of the Fund on a one-for-one basis on October 18, 2015 unless converted earlier at the option of the unitholders.

Attractive infrastructure classes

MPT now holds significant, high-quality investments in two attractive infrastructure asset classes:

> LTC social infrastructure; and

> Contracted power infrastructure.

LTC social infrastructure, a sector within the broader seniors' housing industry, exhibits fundamental characteristics shared by contracted power and other infrastructure businesses.

The essential nature of infrastructure assets means these businesses typically enjoy stable demand that often grows with underlying economic or demographic growth. These businesses also offer low risk because they are difficult to replicate and income, which is generally linked to government funding or long-term contracts, tends to be predictable. Ultimately, it is these shared characteristics that make infrastructure investment attractive for those seeking long-term stable returns with the opportunity for capital growth.

Opportunities to invest in infrastructure assets are relatively scarce and the ability to source quality infrastructure assets is critical to developing a sound portfolio.

One of the strengths of the MPT management team is our specialist infrastructure experience and expertise in investment evaluation and execution. MPT also has access to significant investment opportunities through the Macquarie group, which has 300 infrastructure advisory professionals worldwide who are focused daily on finding infrastructure investment opportunities and executing those deals in conjunction with clients, including MPT. MPT worked with the Macquarie group to assess and secure the Leisureworld investment in 2005.

The strong performance of the Fund and its assets in 2005 has enabled MPT to deliver growing and sustainable distributions to our unitholders.

Adding ongoing value

In addition to growing the Fund by securing quality acquisitions, MPT actively manages our infrastructure assets to improve their financial performance and provide growing and sustainable distributions to unitholders for the long term.

Cardinal is a very strong contracted power asset. It has provided consistently solid operating and financial performance underpinned by long-term contractual arrangements for electricity and steam sales and gas supply.

MPT's CEO and CFO are part of the asset management team at Cardinal, working with other infrastructure specialists on the MPT team and the plant's general manager, Dennis Dmytrow, and his team to optimize Cardinal's operational and financial performance. A key focus during 2005 was the strategic planning for the major maintenance to be performed at Cardinal in April and May 2006. MPT was able to provide significant capital management advice on safety improvements and maintenance expenditure, and assisted with curtailment and gas mitigation planning.

At Leisureworld, MPT management works with the operational management team led by CEO David Cutler. Since completing the investment in Leisureworld in October 2005, MPT management has taken an active role in developing new operating structures, including financial reporting and governance frameworks, and implementing key initiatives announced as part of the acquisition, including the Orillia construction and the planned sale of the Spencer House facility.

Strong financial position, growing and sustainable distributions

MPT has completed its first full year in an excellent financial position, underpinned by strong operating and financial performance from Cardinal and the successful transition of the 45% interest in Leisureworld.

The Fund's distributable cash for the year was $26.0 million ($1.12 per unit). Declared distributions for the year were $22.2 million ($0.95 per unit), resulting in a payout ratio of 85.5% (eight months ended 2004 — 95%). The Fund's financial position improved during the year with positive working capital of $17.8 million (2004 — $12.9 million), including $3.2 million of uncommitted cash reserves.

The improvement in the Fund's cash flows in 2005 was driven by a sustainable increase in electricity rates under Cardinal's Power Purchase Agreement with Ontario Electricity Financial Corporation. The total market cost of electricity ("TMC") to industrial customers increased significantly during 2005, ending the year up 19% over 2004. The Direct Customer Rate ("DCR") is calculated based on a three year average of the TMC, and therefore the high prices experienced in 2005 will have a continuing impact on the DCR through 2007.

Other factors contributing to the increased cash flows included lower than expected fuel costs at Cardinal due to decreased transportation costs and distributions of $1.9 million from Leisureworld for the 75 days of ownership in 2005.

The strong performance of the Fund and its assets in 2005 has enabled MPT to deliver growing and sustainable distributions to our unitholders. On December 13, 2005 the Fund announced a more than 5% increase in monthly cash distributions from $0.07917 to $0.08333 per unit, the equivalent of $1.00 per unit on an annualized basis. The distribution increase applied to unitholders of record on January 31, 2006.

Outlook in 2006

The outlook for MPT continues to be positive for 2006, reflecting the continued strength and expected growth in cash flows from the underlying businesses:

> Cardinal is expected to produce results in line with 2005, with the benefit of increased electricity rates and anticipated lower gas transportation costs expected to largely offset the decrease in revenue associated with the major maintenance activity during the second quarter.

> Leisureworld's operating cash flows are expected to continue to improve as the business realizes its strategy of optimizing occupancy and resident mix, and providing high-quality accommodation and services. Also, the development of the Class A Orillia home will provide 160 beds during the second half of the year, replacing the Class D Spencer House facility, which is expected to close and be sold at the time the Orillia home opens.

> It is also significant that anticipated capital expenditure programs at both Cardinal and Leisureworld have already been fully funded by established reserve accounts.

The Board of Trustees anticipates maintaining a payout ratio of less than 95% for MPT in 2006.

During 2006 we will continue to manage our existing assets and explore opportunities to expand our infrastructure portfolio by investing in new assets or growing our existing businesses through acquisitions. We are particularly focused on enhancing the diversity and average asset life of the portfolio, increasing the Fund's size and improving the liquidity of our units.

We will remain disciplined and adhere to our investment mandate that requires any new acquisition to result in a sustainable increase in distributable cash for unitholders.

The Board of Trustees and the Manager of MPT would like to take this opportunity to thank Robert Rollinson for his services as the Fund's President and Chief Executive Officer since its establishment in 2004 to December 5, 2005, when he returned to Australia due to family health reasons. Robert provided an invaluable contribution to the Fund and its strong financial position today. He remains a director of the Manager of MPT providing ongoing operational and investment experience and expertise.

On behalf of the Board of Trustees and the Manager of MPT, we thank our unitholders for their investment in MPT.

Derek Brown
Chair, Board of Trustees

Gregory J. Smith
President and Chief Executive Officer

Asset Review: Cardinal

The asset

MPT owns 100% of Cardinal.

Cardinal is one of Ontario's largest independent gas-fired cogeneration power plants with a capacity of 156 MW. Operating since 1995, the plant is located alongside the St. Lawerence River in Cardinal, Ontario.

Cardinal has a strong track record of producing stable and predictable cash for distribution, underpinned by efficient and reliable operations and long-term power sales and gas supply agreements.

Cardinal's primary revenue source is an exclusive power purchase agreement ("PPA") with Ontario Electricity Financial Corporation for all electricity generated by the plant until at least 2014.

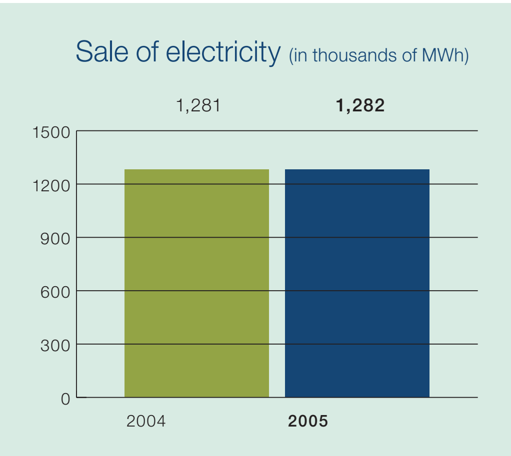
Cardinal also receives revenue from Canada Starch Operating Company (CASCO), the largest corn refining facility in Canada, for steam and compressed air supplied under a long-term agreement. CASCO is located beside the Cardinal plant.

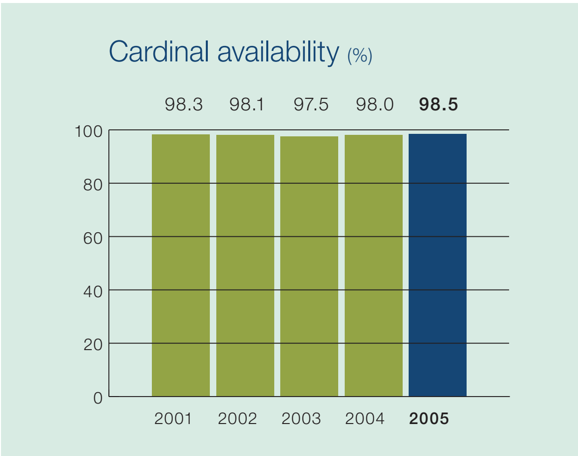
Cardinal's natural gas costs and the seasonal nature of the Canadian electricity market are managed through gas swap contracts and a long-term gas purchase contract with Husky Energy Marketing Inc. in effect until 2015.

Cardinal employs 17 people.

2005 performance

Operations One of Cardinal's strengths is the embedded growth it enjoys under the PPA and gas purchase contract. The pace at which particular electricity rates under the PPA escalates exceeds the pace at which the cost of gas increases under the fuel supply agreement. In 2005, PPA rates



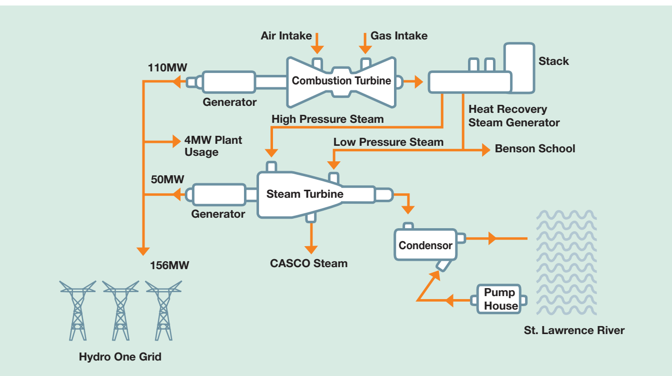


Contracted power infrastructure defining characteristics:

- **Essential:** Contracted power operators are playing an increasingly essential role in supplying electricity due to the rapid growth in electricity demand.
- **Long life:** Contracted power assets – including Cardinal – typically operate under long-term purchase agreements.
- **Sustainable competitive advantage and barriers to entry:** Exclusive long-term purchase agreements protect contracted power operators from price competition and alternative suppliers.
- **Low variable cost base:** Contracted power plants have predictable operating costs due to long-term fuel supply agreements and low staffing.
- **Low demand variability:** Long-term purchase agreements provide stable and predictable cash flows that are insulated from economic cycles.

increased by 3.9% while the gas rate increased by only 2.0%. Cardinal's growth profile was further enhanced in 2005 by increasing electricity rates under the PPA, a factor that will continue to benefit Cardinal during 2006 and 2007.

During 2005, Cardinal also continued its solid and consistent operating performance track record. Availability of supply was strong at 98.5% (2004 — 98.0%), reflecting the quality of Cardinal's plant equipment. The plant's capacity load factor remained high at 95.4% (2004 — 94.9%), due to plant management's ability to minimize plant down-time and curtailment. This solid performance enabled Cardinal to slightly increase electricity sold during the year from 1,281,000 MWh to 1,282,000 MWh.



Cardinal is one of Ontario's largest independent gas-fired cogeneration power plants (156 MW capacity), producing both electricity and steam for sale under long-term agreements.

Financials Cardinal's current operating revenue for 2005 increased by 4.8% to $90.1 million (2004 — $86.0 million), driven by the sustainable increase in electricity rates combined with Cardinal's strong operating performance.

Cardinal's historically low operating expenses continued to enhance the plant's results during 2005. Cardinal also benefited from lower gas transportation expenses as the rate charged to firm customers decreased in line with stronger demand for gas in Ontario.

Business initiatives The Cardinal plant performs a major maintenance program every six years, with the next program to take place during April and May 2006. Significant preparatory work was undertaken in 2005, including the ordering and delivery of repaired and replacement parts, detailed scheduling for the 25-day maintenance program, and finalizing the capital management for the safety improvement and maintenance expenditure.

As part of its continued focus on operational improvements, Cardinal undertook five capital projects during 2005. All were completed on schedule and within budget. One of the 2005 improvements was the installation of a partial discharge generator monitoring (PDM) device in the steam turbine. The PDM has already proven its value by eliminating the need to remove the generator rotors during the upcoming maintenance program, saving both time and significant expenses.

Asset Review: Leisureworld

The asset

MPT owns a 45% interest in Leisureworld.

Leisureworld is the third-largest LTC provider in Ontario, with approximately 3,300 beds in 19 LTC homes, two retirement homes and one independent living facility. The business also includes Preferred Health Care Services, a leading provider of professional nursing and personal support services for LTC homes and community based home care.

Leisureworld's LTC homes are high quality, with 67% of LTC beds located in Class A homes built within the last five years, compared to the provincial average of 46% (as at July 31, 2005).

In operation since 1973, Leisureworld has demonstrated stable cash flow growth over time due to two factors: predictable revenues from government and other sources along with growing demand driven by Ontario's demographic trends.

Leisureworld's three primary sources of revenue are:

> annual operating funding paid to licensed LTC operators by the Province of Ontario ("the Province") to cover nursing and personal care, programs and support services, and some basic accommodation;

> capital cost funding paid to licensed LTC operators by the Province for Class A homes; and

> payments from residents for both basic and preferred accommodation, including private or semi-private rooms.

Leisureworld employs approximately 3,200 people.

Acquisition update

MPT completed the acquisition of its 45% interest in Leisureworld on October 18, 2005. The remaining 55% is owned by Macquarie Bank Limited which has transferred the economic benefits of its ownership to Macquarie International Infrastructure Fund (MIIF). MIIF is managed by a member of the Macquarie group.

2005 performance

Operations Leisureworld's key operating drivers are occupancy and resident mix, quality of accommodation and care, and cost management. By focusing on these three factors, Leisureworld aims to optimize the performance of its existing homes and provide a sound base on which to grow capacity in the medium term through acquisitions or additional licenses.

At the end of 2005, Leisureworld provided 3,147 LTC beds with occupancy at all but two homes surpassing 97%, the threshold rate at which they are considered mature. The threshold rate is significant; if a LTC home's average annual occupancy meets or exceeds 97%, it is the Province's policy to provide funding based on 100% occupancy. The two homes that remain in ramp–up phase were constructed after September 2003 and are expected to achieve 97% occupancy by the fourth quarter of 2006.

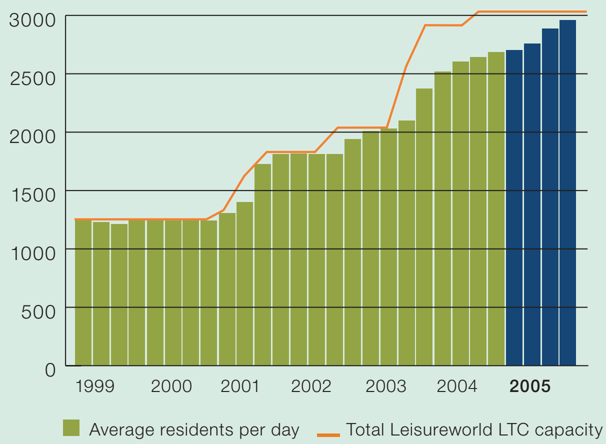
LTC social infrastructure defining characteristics:

- **Essential:** LTC facilities provide an essential service by accommodating seniors who suffer from cognitive or physical impairment and may require 24-hour care.
- **Long life:** Created through the security of government licensing requirements.
- **Sustainable competitive advantage and barriers to entry:** The extensive expertise necessary to deliver quality personal care and supervision, combined with government licensing requirements, limits new LTC entrants.
- **Low variable cost base:** Strong government funding models provide for the majority of LTC operating costs such as nursing and personal care as well as program and support services.
- **Low demand variability:** Demand for LTC is steady across economic cycles as strong government funding models continue to support residents requiring 24-hour care.

Leisureworld's mature homes are also increasing the proportion of residents who opt to pay for preferred accommodation with many homes approaching the optimal mix vis-à-vis their designated bed capacity. At the end of 2005, Leisureworld was receiving the preferred payment rate for 75% of its designated preferred beds.

Leisureworld's prudent cost management program ensures it continues to provide quality accommodation and services with the Provincial funding it receives. This funding covers Leisureworld's costs for nursing and personal care, and programs and support services. Each year unused funding is returned to the Province.

LTC capacity and occupancy – All homes



Financials Leisureworld paid $1.9 million in distributions to MPT for the 75 days of ownership in 2005.

Business initiatives Work began on the sale of Leisureworld's 120-bed Spencer House facility, announced as part of the acquisition agreement. The sale reflects the Province's policy to phase out Class D LTC homes and is intended to take place at the same time Leisureworld's new home at Orillia opens.

Construction began on the new Orillia home in November 2005 and remains on track for completion in the second half of 2006. The Class A Orillia home will provide 160 beds, replacing Spencer House in the Leisureworld portfolio. Orillia has been identified as a community where LTC needs are under-serviced and Leisureworld is confident there will be strong demand for beds on opening.

In response to the Province of Ontario's 1998 Initiative to provide 20,000 new LTC beds, Leisureworld has demonstrated the success of its LTC approach, with strong trends of both increasing capacity and occupancy.

Taking responsibility within our communities

MPT recognizes that its infrastructure investments involve both environmental and social responsibilities as a result of the essential services provided by such assets.

MPT's environmental responsibility arises from the impact (both positive and negative) on natural resources by the operations of the Fund and its investments. MPT's social responsibility (including Occupational Health and Safety (OH&S)) arises from the impact (both positive and negative) on the community, customers, employees and investors by the operations of the Fund and its investments.

In general, it is MPT's policy to confirm compliance by its investments within the relevant regulatory framework and the minimum standards under which its assets operate. MPT's environmental and social responsibilities are managed throughout the investment process as follows:

> **Asset acquisition due diligence** – environmental and social responsibilities are considered by the Fund during the due diligence process in its review and evaluation of possible acquisitions. Where regulatory obligations exist, the Fund views such obligations as minimum standards for environmental and social responsibility management post-acquisition. The asset's environmental and OH&S risk management frameworks are reviewed as part of the broader risk management framework assessment. 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** – 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 and OH&S risks. For each asset, Board reporting enables compliance with environmental and OH&S requirements to be monitored and issues to be identified 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.

Key environmental and social responsibility factors

Following a review of the specific regulatory requirements related to each of its assets, MPT has identified its key environmental and social responsibility factors as:

> Resource use (water, energy and raw materials)
> Dangerous goods and hazardous materials
> Gaseous emission
> Noise
> Flora and fauna
> Heritage
> Waste storage and handling
> Environmental monitoring and reporting
> Occupational health and safety
> Recruitment and employment compliance
> Community and stakeholder relations.

Environmental and social responsibility-related initiatives at MPT assets

Here is just one example from a range of environmental and social responsibility-related initiatives undertaken at assets in which MPT invested during 2005:

Cardinal's positive approach to safety Workplace safety is a priority for all employees and contractors working at the Cardinal plant. Cardinal's employee safety and technical training program fosters a positive attitude towards safety and was instrumental in ensuring there were no lost time injuries in 2005. Cardinal's management leads by example by organizing and participating in sessions on such topics as first aid, operating a lift truck, and confined spaces training. Technical programs related to the responsibilities of each employee reinforce Cardinal's focus on safety and proper training. Contractors are also required to review Cardinal's site-specific safety video once a year before working on any project. In all, Cardinal's 17 employees received 1,934 hours of safety and technical training in 2005, an average 114 hours for each employee.

Environmental and social responsibility-related regulatory requirements

MPT is not aware of any significant breaches of relevant environmental and social responsibility regulatory standards by its assets during the year ended December 31, 2005.

MPT's framework for safe-guarding investor interests

Macquarie Power & Infrastructure Income Fund (the "Fund") is subject to the rules and policies of the Canadian Securities Administrators (the "CSA") regarding audit committees and the certification of certain annual and interim filings. In addition, in 2005, the CSA finalized, and the Fund became subject to, National Policy 58-201 – *Corporate Governance Guidelines*, National Instrument 58-101 – *Disclosure of Corporate Governance Practices* and Form 58-101F1 – *Corporate Governance Disclosure* (collectively, the "New Governance Rules"). The Toronto Stock Exchange replaced its governance disclosure requirements and guidelines with those set forth in the New Governance Rules. The following outlines the various procedures, policies and practices that the Fund and its Board of Trustees (the "Board") have implemented to address the requirements of the New Governance Rules and, where appropriate, to reflect current best practices.

Corporate governance guidelines

To enhance the Fund's commitment to maintaining a high standard of corporate governance, the Board adopted updated corporate governance guidelines in February 2006 (the "Guidelines"). The Guidelines assist the Board with respect to meeting the Fund's corporate governance responsibilities. Among other things, the Guidelines address the following matters:

> **Board Organization and Membership** — including a requirement for a majority of the Trustees to be independent (as such term is defined under Section 1.4 of Multilateral Instrument 52-110 – *Audit Committees*) and a prohibition on retaining Trustees for consulting services without the pre-approval of the Board.

> **Board Committees** — including a requirement for the Fund's Audit Committee and Governance Committee to be composed of entirely independent Trustees.

> **Board's Relationship with Management** — including a requirement for the Governance Committee to oversee and evaluate the compliance of the Manager with respect to its goals, objectives and responsibilities under the Fund's annual management plan and the Administration Agreement and to report such findings to the Board for its review.

> **Trustee Responsibilities and Performance** — including the assessment of the overall performance and effectiveness of the Board, each committee thereof, the Chair of the Board, chairs of Board committees and each Trustee on an annual basis.

Board of Trustees

Derek Brown
(Independent) Chair

Mr. Brown was Professor of Finance (adjunct) at the University of Toronto from 1996 to 2005. Mr. Brown also spent 26 years as a Vice President and Director of RBC Dominion Securities and six years as a Commissioner of the Ontario Securities Commission. He currently serves as a Director of the following TSX-listed companies: Sixty Split Corp., SNP Corp. and DALSA Corporation and is an independent public trustee of Nova Scotia Association of Health Organizations.

Patrick J. Lavelle
(Independent) Trustee

Mr. Lavelle has been the Chairman and Chief Executive Officer of Patrick J. Lavelle and Associates, a strategic management consulting firm, which he established in 1991. He currently serves as Chairman of Union Energy Income Trust and Chairman of Westport Innovations Ltd. In the past, Mr. Lavelle has been Chairman and Chief Executive Officer of Unique Broadband Systems Inc., Chairman of Export Development Canada, and Chairman of the Board of the Business Development Bank of Canada.

Francois R. Roy
(Independent) Trustee

Mr. Roy was the Chief Financial Officer of Telemedia Corporation from March 2000 to May 2003. Prior to this he was Executive Vice President and Chief Financial Officer of Quebecor Inc. Mr. Roy serves on the Boards of MDC Partners Inc., AFT Technologies Income Trust and SFK Pulp Income Fund. Mr. Roy also serves on the Board of Advisors of Veronis Suhler Stevenson, a New York-based media merchant bank and on the Advisory Board of Dessau-Soprin.

Shemara Wikramanayake
(Macquarie Power Management Ltd.) Trustee

Shemara Wikramanayake is an Executive Director of the Macquarie group and head of the Macquarie group's Infrastructure and Specialized Funds division in North America. Ms Wikramanayake joined the Macquarie group in 1987.

Prior to her current position, Ms Wikramanayake was head of the Prudential Oversight team in the Investment Banking Group, a position she held since 2001. Prior to 2001, Ms Wikramanayake spent 14 years in Macquarie Bank Limited's Corporate Advisory team, where she advised on a range of transactions including mergers and acquisitions, restructurings, valuations and public sector advice and privatizations.

To enhance the Fund's commitment to maintaining a high standard of corporate governance, the Board adopted updated corporate governance guidelines in February 2006.

> **Ethics and Conflicts of Interest** – including the requirement that any waiver of the Fund's ethics policies with respect to any trustee, director or executive officer of the Macquarie Power & Infrastructure Income Group be granted by the Governance Committee. As used herein, "Macquarie Power & Infrastructure Income Group" means, collectively, the Fund, Macquarie Power & Infrastructure Income Trust ("MPIIT"), the general partner of any Fund asset or investment, the limited partnership of any Fund asset or investment and Macquarie Power Management Ltd. (the "Manager").

Code of Business Conduct and Ethics

To encourage and promote a culture of ethical business conduct, the Fund adopted an updated written Code of Business Conduct and Ethics (the "Code of Ethics") in February 2006. The Code of Ethics is applicable to all trustees, officers, employees, contractors and agents of the Macquarie Power & Infrastructure Income Group (collectively referred to in the Code of Ethics as "Employees"). The Code of Ethics generally outlines standards of conduct that must be met in the carrying out of one's duties with the Fund, including: (i) guidelines on the acceptance or offering of gifts, entertainment or other advantages in the conduct of business; (ii) guidelines relating to dealings with public officials; and (iii) prohibitions on the inappropriate gathering of competitive information. The Code of Ethics also provides detailed guidelines with respect to the identification and declaration of conflicts of interest, the protection of confidential information and the appropriate use of computer and communications systems.

To ensure that Trustees exercise independent judgment in considering transactions and agreements in respect of which an Employee of the Macquarie Power & Infrastructure Income Group has a material interest, the Code of Ethics requires such Employees to avoid all situations in which their personal interests conflict or might conflict with their duties to the Macquarie Power & Infrastructure Income Group by avoiding acquiring any interests or participating in any activities that could:

> deprive Macquarie Power & Infrastructure Income Group of the time or attention required to perform their duties properly; or

> create an obligation or distraction which would affect their judgment or ability to act solely in the Fund's best interest.

In addition, Trustees and officers of the Fund and the Manager are required to follow the procedures contained in the Guidelines and the Code of Ethics in respect of material contracts or transactions to which they are a party or in which they have a material interest, including the requirement to: (i) disclose in writing all business, commercial or financial interests or activities that might reasonably be regarded as creating an actual or potential conflict of interest; and (ii) for Trustees to abstain from voting on such matters.

The Board has delegated its responsibility for monitoring compliance with the Code of Ethics to the Governance Committee which, among other things, reviews the Code of Ethics annually, is responsible for granting any waivers from the Code of Ethics and oversees the Corporate Secretary's implementation and monitoring of the Code of Ethics. To date, no waivers of the Code of Ethics have been granted. A copy of the Code of Ethics is available on SEDAR at *www.sedar.com*.

Board of Trustees

As at March 1, 2006, the Board was composed of four members. The Board has concluded that a majority of those Trustees, specifically three out of four (or 75%), are “independent”. The Board’s determination as to each Trustee’s independence is made with reference to definitions under applicable securities laws. Each of Messrs. Brown (Chair of the Board), Lavelle and Roy meet the definitions of independence under applicable securities laws and are considered by the Board to be independent. Ms. Wikramanayake is not considered to be independent because she is appointed to the Board by the Manager.

Certain Trustees are also directors of (or serve in similar capacities on behalf of) other public entities in Canada and in other jurisdictions. The biography of each Trustee set forth on page 13 also outlines such Trustee’s relevant experience and expertise. Other than the Fund, no Trustee sits on the board of a public entity on which another Trustee also sits.

Board and committee meetings

The Board meets regularly to review the business operations and financial results of the Fund. Meetings of the Board include regular meetings with the Manager to review and discuss specific aspects of the operations of the Fund. Mr. Brown is the Chair of the Board and is an independent Trustee. The Board has determined that the independent Trustees shall hold regularly scheduled meetings. For fiscal 2006, in camera executive sessions will be held with only the independent Trustees present at all scheduled quarterly Board meetings and at other times throughout the year as required. In fiscal 2005, the non-independent Trustee and other attendees of the Manager were present at all Board and committee meetings. However, to facilitate open and candid discussion among the independent Trustees, the non-independent Trustee and other attendees of the Manager were excused from any meeting of the Board and any committee meeting during the discussion of any agenda items reserved for discussion among independent Trustees. During the year ended December 31, 2005, the number of Board and committee meetings held and the attendance of Trustees at these meetings were as follows:

Trustee	Board Meetings	Audit Committee Meetings	Governance Committee Meetings
Derek Brown	14 of 14 (100%)	11 of 11 (100%)	6 of 6 (100%)
Patrick J. Lavelle	13 of 14 (93%)	11 of 11 (100%)	6 of 6 (100%)
Francois R. Roy	14 of 14 (100%)	11 of 11 (100%)	6 of 6 (100%)
Shemara Wikramanayake	1 of 1 (100%)	–	–

Note:
Ms. Wikramanayake was appointed as a Trustee on December 5, 2005, replacing Gregory Smith. Mr. Smith attended 13 of 13 (100%) of the Board meetings held in 2005 during the period he was a Trustee.

The Board adopted an updated written mandate for the Board in February 2006 to confirm and enhance the Board's ongoing responsibility for stewardship of the Fund.

Mandate for the Board

The Board adopted an updated written mandate for the Board (the "Mandate of the Board") in February 2006 to confirm and enhance the Board's ongoing responsibility for stewardship of the Fund. The Board is ultimately responsible for supervising the activities and managing the investments and affairs of the Fund and, in doing so, is required to act in the best interests of the Fund. The Board generally discharges its responsibilities either directly or through the Audit Committee and the Governance Committee.

Responsibilities of the Board set out in the Mandate of the Board include:

> oversight of the Fund's corporate governance;

> monitoring of the Fund's financial performance and other financial reporting matters;

> approving the Fund's policies and procedures; and

> oversight of the Fund's communications and reporting.

Board committees

Currently, each of the Audit Committee and the Governance Committee are composed of non-management trustees all of whom are considered to be "independent" as determined under applicable securities laws. The Fund does not have a Nominating Committee or a Compensation Committee, as the functions that would otherwise be performed by such committees are performed by the Governance Committee.

Audit Committee

Currently, the members of the Audit Committee are Messrs. Roy (Chair), Brown and Lavelle. In accordance with applicable securities laws, each of the members of the Audit Committee is "independent" and "financially literate." The Audit Committee corresponds directly with the Fund's finance department to review issues as appropriate and meets directly with the external auditors of the Fund on a regular basis. In February 2006, the Board adopted an updated audit committee charter (the "Audit Committee Charter") which is attached as a Schedule to the Fund's annual information form that will be available on SEDAR at *www.sedar.com* by March 31, 2006. The Audit Committee Charter outlines, among other things, the mandate of the Audit Committee to:

> oversee the integrity of the Fund's financial statements and financial reporting process;

> oversee the qualifications and independence of the Fund's external auditors;

> oversee the work of the Fund's financial management and external auditors; and

> provide an open avenue of communication between the external auditors, the Board and Macquarie Power & Infrastructure Income Group, including the board of trustees of MPIIT and management of the Manager.

Governance Committee

The Board has a Governance Committee that is composed of three independent Trustees, Messrs. Lavelle (Chair), Roy and Brown. The Governance Committee oversees and assesses the functioning of the Board and its committees, establishes the Fund's corporate governance principles and guidelines and, subject to the Fund Declaration of Trust, identifies and recommends qualified candidates for election to the Board. In February 2006, the Board adopted an updated charter for the Governance Committee (the "Governance Committee Charter") which outlines, among other things, the responsibilities of the Governance Committee with respect to:

> identifying and recommending qualified nominees to the Board;

> annually reviewing and revising the Fund's approach to governance issues;

> reviewing the Code of Ethics;

> periodically reviewing the Manager's systems and practices for filing of insider reports in connection with trading in the Fund's securities;

> recommending terms for the compensation of Trustees, the Chair of the Board, the chairs of the Board committees and the directors of the general partner of any Fund asset or investment; and

> annually evaluating the Manager's compliance with the Administration Agreement and the Fund's annual management plan.

The Governance Committee also assesses the size of the Board periodically and annually assesses the competencies, skills and personal qualities required of the Board as a whole and each Trustee to add value to the Fund, as well as the competencies, skills and personal qualities of existing Trustees. Based on this assessment, the Governance Committee will consider whether to recommend any changes to the composition of the Board. The Board has delegated the identification of candidates for Trustees to the Governance Committee, which is made up entirely of independent Trustees, to help ensure an objective nomination process. When required, the Governance Committee will recruit and consider potential candidates for Trustee having regard to the background, employment and qualifications of possible candidates and will consider whether the candidate's competencies, skills and personal qualities are aligned with the Fund's needs. In accordance with the Governance Committee Charter and the Guidelines, Trustees and the Board may engage an outside advisor at the expense of the Fund with the approval of the Chair of the Board.

The Board determines the compensation of the Trustees based on the recommendations of the Governance Committee, which is composed entirely of independent Trustees. The Governance Committee is responsible for reviewing and recommending the compensation of the Trustees. The Governance Committee has determined that the Trustees should be compensated in a form and amount which is appropriate and which is customary for comparative organizations, having regard for such matters as time commitment, responsibility and trends in director and trustee compensation. The Governance Committee is mandated to review the compensation of the Trustees on this basis annually. This review includes consideration of all forms of compensation that a Trustee receives, directly or indirectly, including any consulting contracts or charitable contributions to organizations in which a Trustee is affiliated.

In February 2006, the Board approved updated written position descriptions for the Chair of the Board, chairs of Board committees and the Chief Executive Officer of the Fund.

Position descriptions

In February 2006, the Board approved updated written position descriptions for the Chair of the Board, chairs of Board committees and the Chief Executive Officer of the Fund. In accordance with the Governance Committee Charter, the Governance Committee is responsible for annually reviewing and making recommendations to the Board regarding the position descriptions for the Board, the Chair of the Board, the chairs of Board committees and the Chief Executive Officer.

The Chair of the Board is responsible for, among other things, overseeing the Board's discharge of its duties, governing the conduct of the Board and assisting Board committees and acting as a liaison between the Board and the Manager. Chairs of Board committees are responsible for, among other things, providing leadership to their respective committees to enhance their effectiveness. The Chief Executive Officer is responsible for managing the underlying business within the structure of the Fund. The Chief Executive Officer's specific responsibilities include developing a long term corporate strategy in accordance with the Administration Agreement, the Cardinal LP Management Agreement and the LTC Holding LP Management Agreement, reporting to the Board on succession planning and consulting with the Chair of the Board.

Board assessment

The Governance Committee is responsible for annually assessing the effectiveness of the Board as a whole and each committee of the Board and making recommendations to the Board thereon. The Governance Committee is also responsible for evaluating the performance of the Chair of the Board, chairs of Board committees and the performance and contribution of individual Trustees. In 2005, the Governance Committee retained Lovas Stanley/Ray & Berndtson, a global executive consulting firm, to assist in conducting an annual survey of the Trustees (with respect to their views on the effectiveness of the Board, the Chair of the Board, Board committees, chairs of Board committees and individual Trustees). Lovas Stanley/Ray & Berndtson then presented the results of its annual survey to the Chair of the Governance Committee. The Governance Committee conducted its annual evaluation of the Board and each committee of the Board with reference to the annual survey. The Governance Committee also conducted its annual evaluation of the Chair of the Board, chairs of Board committees and the performance and contribution of individual Trustees, having regard for the results of the annual survey of the Trustees, attendance at Board and committee meetings and overall contribution. The Governance Committee then reported to the Board on the overall results of its assessment of the Board, its committees and the Trustees.

Orientation and continuing education

Pursuant to the Governance Committee Charter, the Governance Committee is mandated to oversee an orientation and education program for new Trustees and to provide ongoing educational opportunities for all Trustees. To assist in familiarizing new Trustees with the role of the Board and its committees and Trustees, new Trustees are provided with the Fund's Governance Framework and a presentation on duties and responsibilities of Canadian directors. New Trustees also have the opportunity to meet with the Manager and other members of the Board to familiarize themselves with the business of the Fund and their responsibilities as members of the Board.

To ensure that the Trustees maintain the knowledge and skill necessary to meet their obligations as trustees, the Governance Committee from time to time arranges for presentations by key personnel or qualified outside consultants concerning topics related to the Fund's business, changes to the Fund's legal and regulatory framework and corporate and board governance matters. Trustees are encouraged to attend any external continuing education programs at the expense of the Fund.

Macquarie Bank Limited Funds Management Activity Policy

To safeguard the interests of Unitholders, Macquarie Bank Limited ("MBL") has applied a governance framework to its specialist funds activities including the Fund. This framework is known as the Funds Management Activity Policy (the "MBL Fund Policy").

The framework addresses the fact that the interests of MBL may at times conflict with the interests of investors in the funds and thus, additional safeguards have been adopted to ensure the protection of the investors. The key elements of the MBL Fund Policy are:

> Related party transactions with Macquarie entities are clearly identified and governed by rules requiring they be undertaken on arm's length terms.

> Only independent directors make decisions about transactions which involve Macquarie or its affiliates as counterparties. Macquarie directors do not vote on related party matters.

> All related party transactions are tested by reference to whether they meet market standards. In particular, fee schedules and mandate terms and conditions are subject to third party expert review.

> There is a separate Infrastructure and Specialised Funds division and staff in this area who are dedicated to the funds management business. They serve the interests of security holders and the boards of the funds.

> All recommendations to fund boards are prepared by funds management staff and all information and analysis supporting the recommendations to the boards are reviewed or prepared by funds management staff.

> Each listed fund has its own managing director or chief executive officer.

> There is a "Chinese Wall" operating between the infrastructure funds management business and other parts of MBL.

Financial
Review

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Management's Discussion and Analysis

Introduction

This management's discussion and analysis ("MD&A") is current to February 28, 2006 and is intended to provide the reader with a financial overview of the operations of Macquarie Power & Infrastructure Income Fund (the "Fund") for the year ended December 31, 2005. The MD&A should be read in conjunction with the audited consolidated financial statements of the Fund dated December 31, 2005 included in this report. Additional information relating to the Fund including the Fund's continuous disclosure materials, annual and quarterly MD&A, annual and quarterly financial statements, 2005 Annual Report, Annual Information Form, Management Proxy Circular, Material Change Reports and the various press releases issued by the Fund can be found on the SEDAR website for Canadian regulatory filings at *www.sedar.com*.

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

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

Forward-looking statements

Certain statements in the following discussion and analysis may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results to be materially different from any future results expressed or implied by such forward-looking statements. When used in the following discussion and analysis, such statements use such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this discussion and analysis. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the risks and uncertainties described in this report under the heading "Risks and uncertainties".

The risks and uncertainties described in this report should not be construed as exhaustive, and other events and risk factors in addition to those discussed herein including risk factors disclosed in the 2005 Annual Information Form of the Fund could cause actual results to differ materially from the results discussed in the forward-looking statements. The forward-looking statements contained in this discussion and analysis are based upon information currently available and what the Manager currently believes are reasonable assumptions, however neither the Fund nor the Manager can assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this discussion and analysis, and the Fund and the Manager assume no obligation to update or revise them to reflect new events or circumstances. The Fund and the Manager caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made.

Measurement of performance

The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Fund uses certain performance measures which are not defined terms under Canadian GAAP. For instance, the Fund measures earnings before interest, taxes, depreciation and amortization and unrealized gains and losses ("EBITDA") because this method allows the Manager to assess the financial performance of the Fund's operations using a measurement of earnings that has non-cash items removed. Additional information in the section entitled "Additional information on Non-GAAP performance measures" dealing with non-GAAP measures compares the non-GAAP figures with the most comparable GAAP financial information.

Fund overview

The Fund is an unincorporated, open-ended, limited purpose trust established by a declaration of trust dated March 15, 2004, as amended and restated as of April 16, 2004 under the laws of the Province of Ontario, and as further amended on February 21, 2006. Through its subsidiaries, the Fund owns and operates Cardinal, and also has an indirect 45% interest in Leisureworld.

The Fund indirectly owns 100% of the equity of Cardinal which in turn owns, a nominal net 156 megawatt, baseload, combined cycle cogeneration plant (the "Facility"), fuelled by natural gas which is located in Cardinal, Ontario. The Facility is one of the largest independent natural gas cogeneration power producers in Ontario and was developed in the mid 1990s. The electricity generated by the Facility, less the amount consumed in operations, is sold exclusively to Ontario Electricity Financial Corporation ("OEFC") at contracted rates under the Power Purchase Agreement dated May 29, 1992 between Cardinal and OEFC, (the "PPA"). The Facility has minimum volume purchase requirements under the Gas Purchase Agreement dated August 8, 1991 between Cardinal and Husky Oil Operation Ltd., assigned to Husky Energy Marketing Inc. (the "Gas Purchase Agreement"). Gas swaps (under agreements with the Toronto-Dominion Bank dated April 1, 2006, 2007 and 2008) have been entered into to mitigate the effect of gas price fluctuations on the proceeds received for the sale of natural gas in excess of requirements. The Facility can curtail the production of electricity within certain parameters and sell the gas that would otherwise have been used to generate electricity on the spot market.

Leisureworld owns or operates 19 long-term care ("LTC") facilities (3,147 beds), two retirement homes (87 beds) and an independent living facility (53 beds) located in the Province of Ontario. In addition, through various entities, Leisureworld includes two related businesses, *Preferred Health Care Services* — which provides professional nursing and personal support services for both community-based home care and LTC facilities — and *Ontario Long-term Care* — which provides laundry and purchasing services to Leisureworld's LTC facilities.

Summary of operating results

The Fund completed its first full year in a strong financial position, underpinned by an excellent performance from Cardinal and increased stability in the Fund's long-term cash flows following the recent investment in Leisureworld. The Fund has maintained its Standard & Poor's stability rating at SR-2 and achieved a payout ratio for the year ended 2005 of 85.5% (eight months ended 2004 — 95.0%). Distributable cash for the year was $1.12 per unit. The Fund's financial position also improved during the year with positive working capital of $17,805 (2004 — $12,935), including $3,158 of uncommitted cash reserves.

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

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

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

Outlook

The Fund is well placed at the outset of 2006, with a strong working capital position and positive financial outlook.

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

Leisureworld's operating cash flows are expected to continue to improve in 2006 as the business realizes its strategy to optimize occupancy and resident mix, and provide high quality accommodation and services. The development of the Class A facility in Orillia is expected to also provide 160 beds during the second half of 2006 and replace the 120-bed Class D Spencer House facility in the Leisureworld portfolio. Spencer House is expected to close and be sold concurrent with the Orillia opening.

Anticipated major maintenance and capital expenditure requirements at both Cardinal and Leisureworld are fully funded by established reserve accounts.

The Fund will continue to explore investment opportunities which are complementary to the current financial profile of the Fund and will ultimately result in enhanced unitholder value.

Selected consolidated financial and operating information

	Year Ended December 31, 2005	Year Ended December 31, 2004	Eight Months Ended December 31, 2004	Year Ended December 31, 2003 (v)
Revenue for the period	**$ 90,101**	$ 85,958	$ 53,013	$ 80,401
DCR adjustments in respect of prior years	**134**	2,835	2,835	–
Total revenue	**90,235**	88,793	55,848	80,401
EBITDA (i)	**26,060**	29,722	16,304	28,163
Depreciation and amortization	**12,498**	(ii)	8,340	(ii)
Unrealized loss (gain) on gas swap contracts	**3,240**	(ii)	(213)	(ii)
Net interest expense	**1,146**	(ii)	941	(ii)
Equity accounted loss from Leisureworld	**804**	(ii)	–	(ii)
Net income	**8,372**	(ii)	7,236	(ii)
Per trust unit ($)	**0.364**	(ii)	0.342	(ii)
Per fully diluted trust unit ($)	**0.360**	(ii)	0.342	(ii)
Cash flow from operating activities	**20,230**	(ii)	13,072	(ii)
Distributable cash (i)	**25,989**	(ii)	14,168	(ii)
Per fully diluted trust unit ($)	**1.117**	(ii)	0.669	(ii)
Distributions declared to unitholders	**22,220**	(ii)	13,463	(ii)
Per fully diluted trust unit ($)	**0.950** (iv)	(ii)	0.636	(ii)
Payout ratio (iii)	**85.5%**	(ii)	95.0%	(ii)
Weighted average number of trust units and Class B exchangeable units outstanding — fully diluted ('000s)	**23,271**	(ii)	21,169	(ii)
Sale of electricity (000s MWh)	**1,282**	1,281	843	1,144
Sale of steam (000s lbs)	**683**	691	440	710
Total assets	**320,404**	232,209	232,209	159,939
Total long-term liabilities	**$ 38,580**	$ 35,517	$ 35,517	$ 35,646

(i) See "Additional information about non-GAAP performance measures" for a reconciliation of EBITDA and distributable cash to Net Income and Cash Flows from Operating Activities for the year. EBITDA and distributable cash are not recognized measures under GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, EBITDA and distributable cash may not be comparable to similar measures presented by other issuers.
(ii) Financial results have been presented only if comparable to the current year.
(iii) The payout ratio is defined as distributions declared as a proportion of distributable cash. There is no GAAP measure comparable to payout ratio. Payout ratio and distributable cash are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. Therefore, payout ratio and distributable cash may not be comparable to similar measures presented by other issuers.
(iv) All unitholders were paid distributions equivalent to $0.95 per unit.
(v) Results for the year ended December 31, 2003 of Cardinal may not be directly comparable to the Fund as capital and financial structure and certain terms of the PPA were adjusted upon the Fund's acquisition of Cardinal.

Revenue

Cardinal generated revenue for the year of $90,235, ahead of revenue of $88,793 for the year in 2004. During the year the Facility performed well with electricity sales of 1,282,000 MWh (2004 — 1,281,000 MWh), availability of 98.5% (2004 — 98.0%) and capacity of 95.4% (2004 — 94.9%). Plant availability and capacity were excellent and slightly ahead of 2004. During the year the Facility curtailed 525 hours (2004 — 788 hours). Current year operating revenues were higher primarily due to the 3.8% increase related to the 2005 first interim DCR.

EBITDA

The total EBITDA generated by the Fund during the year was $26,060, a decrease of $3,662 when compared to 2004 and was primarily impacted by the following. Operationally, Cardinal's overall transportation and fuel costs were lower by approximately $1,300 due to lower toll rates and price of gas. Offsetting this reduction in expenses was an increase in major maintenance expense of approximately $1,700 in preparation for the major maintenance scheduled for the second quarter of 2006. Also, other variable maintenance including Continuous Emissions Monitoring installation and testing increased overall maintenance costs by $600. Administration expenses were higher by $3,207 in the year primarily due to the Fund's very active pursuit of potential investments. Also included in the Fund's administration expenses in the year is an incentive fee of $1,260 (eight months ended 2004 — $204) payable to the Manager as a result of the strong annual cash flow performance of the Fund, including the Leisureworld acquisition.

As Cardinal has a majority of its revenue and expenses under contract there is no material exposure to the effects of inflation.

Unrealized (gain) loss on gas swap contracts

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

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

An unrealized loss of $3,240 (eight months ended 2004 — gain of $213) was recorded in the year ended December 31, 2005 to reflect the movement in fair value of certain of the contracts entered into for 2007 and 2008. The fair value of the contracts is impacted by the forward price of gas. This unrealized loss had no impact on the operating cash flow or distributable cash for the year ended December 31, 2005.

Net interest expense

In fiscal 2004, the Fund converted its term loan from a prime rate loan to a series of Banker Acceptances (BAs), which are renewed at their respective maturities. This allows the Fund to manage interest expense while having flexible renewal periods. The borrowing costs on these loans are paid at the inception date of the respective transactions and are amortized over the term of the respective maturities. Borrowing costs of $1,406 (eight months ended 2004 — $824) were amortized in the year ended December 31, 2005.

Leisureworld operations

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

A significant increase in total assets is due to the investment in Leisureworld. As identified in the prospectus dated September 22, 2005 the gross proceeds of the offering were $64,745, also $35,500 was valued as consideration for the Class B exchangeable units. Approximately $7,185 of the gross proceeds were primarily used for fees, expenses and return of capital to the subscription receipt holders. The remainder $93,060 was total consideration to complete the indirect 45% investment in Leisureworld.

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

Presented below is selected financial and operating information of Leisureworld.

		October 18 to December 31, 2005		October 18 to December 31, 2004
Revenue	$	33,532	$	28,929
Operating and administration costs		29,406		25,962
EBITDA[(i)]		4,126		2,967
Net interest expense		1,606		2,683
Amortization		4,306		854
Income taxes		–		478
Net loss	$	(1,786)	$	(1,048)
The Fund's pro rata share of net loss	$	(804)	$	–
Distributions paid to partners	$	4,116	$	–
The Fund's pro rata share of distributions	$	1,852	$	–

(i) EBITDA is not a recognized measure under Canadian GAAP and does not have a standardized meaning prescribed by Canadian GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. See "Additional information on Non-GAAP performance measures."

Revenue For the period October 18, 2005 to December 31, 2005, Leisureworld generated revenue of $33,532 compared to $28,929 for the same period ended December 31, 2004. This increase of $4,603 or 15.9% is primarily due to increased occupancy at the Brampton Meadows, Brampton Woods, Norfinch and Vaughan LTC homes which were opened in 2004. All but two of the Leisureworld homes have surpassed the threshold occupancy rate of 97% so they are now considered mature facilities. The threshold occupancy rate is significant because, if a LTC home's average annual occupancy rate meets or exceeds 97%, it is the Province of Ontario's policy to provide funding based on 100% occupancy. Only two homes, constructed since September 2003, remain in "ramp up" phase and are expected to achieve the 97% occupancy level by the fourth quarter of 2006. In addition, revenue increased as more residents were provided with preferred private or semi-private accommodation in the newer homes.

Operating and administrative expenses Leisureworld's operating and administrative expenses for the current period were $29,406, which were $3,444 or 13.3% higher than the prior year period, reflecting the increases in staff and operating costs at the newer homes as occupancy has increased. In addition, pay increases for unionized employees impacted payroll costs.

EBITDA The total EBITDA generated by Leisureworld during the period was $4,126, an increase of $1,159 or 39.1% over the prior period. This improvement is due to the higher occupancy levels at the newer homes and the incremental margin gained from higher levels of preferred accommodation revenue. A reconciliation of net loss to EBITDA is shown above.

Amortization Amortization increased by $3,452 or 404.2% over the prior period to $4,306 due to increases in the amortizable values of intangible and land and building assets that were allocated from the purchase price paid for Leisureworld. The main components of the period's amortization charge relate to resident relationships of $2,466, professional nursing and personal support contracts of $191, and property, plant and equipment of $1,623.

Financial expenses Net interest expense amounted to $1,606 during the period, a decrease of $1,077 or 40.1%. Interest expensed in the period was comprised of $1,161 on a bridge loan facility and $1,481 on the long-term debt. Interest income of $1,036 was recognized in the period, $867 of which related to construction funding. Interest expense in the prior period was $2,683, the majority of which was mortgage interest. The decrease in net interest expense from the prior period was mainly due to construction funding interest income being treated as revenue in the prior period, rather than offsetting interest expense.

Net loss Net loss for the period was $1,786, a $738 increase from the net loss of $1,048 in the prior period. Higher amortization charges were partially offset by increased operating income from higher occupancy and a more favourable mix of preferred accommodation and lower interest charges. Leisureworld, as a partnership, is not subject to income tax.

Liquidity and financial resources

During 2006 the Fund expects to meet all of its obligations and make distributions to unitholders from cash flow generated from operating activities. For 2005, $20,230 of cash was generated from operating activities (eight months ended 2004— $13,072.) The Fund had positive working capital of $17,805 at December 31, 2005 (2004 — $12,935). As at December 31, 2005, cash on hand totalled $11,738 (2004 —$10,883), of which $6,158 (2004 — $5,652) was not designated as reserves for major maintenance activities and capital expenditures.

Under Cardinal's credit agreement (the "Credit Agreement") the Fund has access to a revolving line of credit and term debt facilities. The Fund has available a revolving line of credit of $15,000 (2004 — $15,000) to fund future acquisitions and for general working capital requirements. As at December 31, 2005 there were no outstanding amounts against this facility. As at December 31, 2005 long-term debt outstanding was $35,000 (2004 — $35,000).

The Facility is scheduled to undergo a major maintenance during the second quarter in 2006. This major maintenance will require the Facility to shutdown for approximately 25 days so that maintenance can be performed on major components of the Facility. This type of maintenance is scheduled every 6 years. The Fund has fully funded major maintenance and capital expenditures reserves which it believes are more than sufficient to meet all anticipated maintenance and capital requirements of Cardinal during 2006.

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

Financial condition

Accounts receivable at December 31, 2005 were $17,641 (2004 — $8,753). Accounts receivable normally only include one month of revenue due from OEFC. However at December 31, 2005, due to the timing of holidays both the November and December balances were outstanding resulting in a significantly higher balance in accounts receivable.

Investment in Leisureworld represents the acquisition of the indirect 45% interest in Leisureworld. The investment is accounted using the equity method and as such the acquisition cost of $93,060 has been increased by the capitalization of transaction costs of $239 and reduced by the Fund's pro rata share of the net loss of $804 and distributions of $1,852 received from Leisureworld for the 75 days of ownership in 2005.

During the year the Fund capitalized expenditures of $464 (eight months ended 2004 — $366) in property, plant and equipment and incurred amortization of $7,698 (eight months ended 2004 — $5,126) for the year.

Trade payables at December 31, 2005 were $10,562 (2004 — $6,336). The higher balance in 2005 is due to payments to the Manager in relation to incentive fee and cost reimbursement.

Related party transactions

Under the terms of the administration and management agreements with the Fund and its subsidiaries, the Manager receives payment for administration and management fees, incentive fees and cost reimbursement. The Fund incurred administration and management fees of $782 (eight months ended 2004 — $454) for the year; incentive fees of $1,260 (eight months ended 2004 — $204) for the year; and cost reimbursement of $1,460 (eight months ended 2004 — $189) for the year. Of the cost reimbursement, $239 (eight months ended 2004 — Nil) was charged to unitholders' equity as it directly related to the issuance of subscription receipts associated with the acquisition of the Fund's interest in Leisureworld. A further $239 (eight months ended 2004 — Nil) related to due diligence and other activities associated with the acquisition of the Fund's interest in Leisureworld has been capitalized in the investment in Leisureworld. The Manager receives reimbursement for cost of services provided to the Fund in relation to, but not limited to, administration, regulatory, finance, rent and information technology, but does not receive reimbursement for compensation for those persons whose services are supplied to act as the appointing party's president and chief executive officer, the vice-president, chief financial officer and secretary. In 2005, the Fund changed the method by which it calculates distributable cash, as described below under the heading

"Additional information on Non-GAAP performance measures." The Fund has adjusted the amount of the incentive fee for 2005 to reflect what the 2004 incentive fee would have been had the 2004 incentive fee been determined using the current calculation format of distributable cash.

A subsidiary of the Fund entered into an agreement with a subsidiary of Macquarie Bank Limited dated as of September 12, 2005, which provided for the acquisition by the Fund of an indirect 45% ownership interest in Leisureworld and its general partner, prior to Leisureworld acquiring the Leisureworld business. Following the Fund's acquisition of its indirect 45% interest in Leisureworld and immediately prior to the acquisition of the Leisureworld business by Leisureworld, the Fund made an investment, indirectly, in Leisureworld in order to partially fund the acquisition of the Leisureworld business by Leisureworld and related costs. Included in such acquisition costs was $15,172 paid to an affiliate of Macquarie Bank Limited by Leisureworld for advisory and certain other services for which the Fund's pro rata share was $6,827. During the period, Leisureworld incurred charges for advisory and administration services from Macquarie North America Ltd., an affiliate of Macquarie Bank Limited in the amount of $647.

Contractual obligations and other commitments

The Cardinal long-term debt is non-amortizing with a one time payment of $35,000 due April 29, 2007. All other commitments are either nominal or have a volume commitment the pricing of which is based on a financial variable. The following describes the more significant contractual obligations and commitments of the Fund as of December 31, 2005.

Long-term debt

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

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

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

Electricity supply contract

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

Gas purchase contracts

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

Lease

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

Gas swap contracts

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

Period covered by contract
April 1 to October 31, 2006
April 1 to October 31, 2007
April 1 to October 31, 2008

Additional information on Non-GAAP performance measures

Distributable cash and payout ratio

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

Payout ratio is defined as distributions declared as a proportion of distributable cash. There is no GAAP measure comparable to payout ratio.

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

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

	Year Ended December 31, 2005	Eight Months Ended December 31, 2004
Cash flows from operating activities	**$ 20,230**	$ 13,072
Add:		
Release from major maintenance reserve account	**1,958**	215
Distributions received from Leisureworld	**1,852**	–
Changes in working capital	**4,720**	2,327
Less:		
Net allocation to major maintenance reserve account	**1,769**	1,549
Net allocation to capital expenditure reserve account	**1,002**	263
Distributable cash for the period	**$ 25,989**	$ 13,802
Add:		
Release from capital expenditure reserve account	**–**	366
Distributable cash for the period (as previously stated)	**$ –**	$ 14,168
Weighted average number of trust units and Class B exchangeable units outstanding — fully diluted (units)	**23,271,173**	21,168,997
Distributable cash per trust unit and Class B exchangeable unit for the period — fully diluted ($)	**1.117**	0.652
Distributable cash per trust unit and Class B exchangeable unit for the period — fully diluted (as previously stated) ($)	**–**	0.669

During the year, the Fund re-allocated $600 from major maintenance reserve to capital expenditure reserve in order to better reflect anticipated cash requirements. The Fund declared distributions to unitholders of $22,220 for the year ended December 31, 2005 (eight months ended 2004 — $13,463). This represents a payout ratio of 85.5% for the year (eight months ended 2004 — 97.5%, as previously stated 95.0%).

On September 30, 2005, in connection with the Fund's indirect acquisition of an interest in Leisureworld, the Fund completed an offering to the public of 5,630,000 subscription receipts of the Fund, each representing a right to receive one unit of the Fund. Concurrently, the Fund also entered into a commitment to cause its subsidiary entity to issue 3,249,390 Class B exchangeable units to certain vendors of Leisureworld, each such unit exchangeable into one unit of the Fund subject to certain conditions. On closing of the acquisition of the Leisureworld business on October 18, 2005, the subscription receipts were automatically exchanged for units of the Fund and thereafter cancelled and the Class B exchangeable units were issued. The Class B exchangeable units are eligible to receive distributions under the same terms and conditions as distributions paid on Fund units. On December 31, 2005 there were a total of 26,798,997 Fund units and 3,249,390 Class B exchangeable units outstanding, compared to 21,168,997 Fund units and no Class B exchangeable units outstanding as of December 31, 2004.

Reconciliation of net income and EBITDA

To assess the financial performance of the Fund, the Manager uses EBITDA. EBITDA refers to earnings before interest, taxes, depreciation and amortization and unrealized gains and losses and is reconciled to net income, the GAAP measure reported under "Reconciliation of EBITDA to Net Income." EBITDA is a financial indicator used by investors to assess the performance of a company or a fund, and its ability to generate cash through operations. The Manager believes that this is especially relevant for the Fund, which pays out virtually all of its cash flow in regular distributions. However, since EBITDA is not a measure of performance under GAAP, it may not be comparable to similarly named measures used by other companies. Investors should not use EBITDA as an alternative for net income, as an indicator of operating results or cash flows, or as a measurement of liquidity. Investors are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with GAAP, as an indicator of the Fund's performance or as an alternative to cash flows from operating, investing or financing activities as a measure of the Fund's liquidity and cash flows.

The following table reconciles EBITDA to net income:

	Year Ended December 31, 2005	Eight Months Ended December 31, 2004
Net income for the period	**$ 8,372**	$ 7,236
Net interest expense	**1,146**	941
Depreciation and amortization	**12,498**	8,340
Unrealized loss (gain) on the fair value of gas swap contracts	**3,240**	(213)
Equity accounted loss from Leisureworld	**804**	–
EBITDA for the period	**$ 26,060**	$ 16,304

Selected quarterly information

	Quarter Ended December 31, 2005	Quarter Ended September 30, 2005	Quarter Ended June 30, 2005	Quarter Ended March 31, 2005
Revenue	$ 24,620	$ 20,689	$ 19,698	$ 25,228
Net income	1,697	1,656	800	4,217
Net income per fully diluted weighted average of trust units and Class B exchangeable units outstanding ($)	0.058	0.078	0.038	0.199
Cash flow from operating activities per fully diluted weighted average of trust units and Class B exchangeable units outstanding ($)	(0.027)	0.269	0.186	0.431
Distributions declared per fully diluted weighted average of trust units and Class B exchangeable units outstanding ($)	0.242	0.238	0.238	0.238

	Quarter Ended December 31, 2004	Quarter Ended September 30, 2004	Two Months Ended June 30, 2004
Revenue	$ 24,256	$ 18,650	$ 12,942
Net income	5,282	876	1,078
Net income per fully diluted weighted average of trust units and Class B exchangeable units outstanding ($)	0.249	0.041	0.051
Cash flow from operating activities per fully diluted weighted average of trust units and Class B exchangeable units outstanding ($)	0.292	0.307	0.018
Distributions declared per fully diluted weighted average of trust units and Class B exchangeable units outstanding ($)	0.238	0.238	0.161

Seasonality

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

In addition, the Facility generally performs its major maintenance activities during the April to July period, which impact the Fund's operating results during the period. To partially offset this seasonality, the Facility sells the excess gas not consumed through a gas resale agreement with its gas supplier. The Fund maintains reserve accounts and free cash in order to offset the seasonality and other factors that may impact electricity demand. The active management of the reserve accounts and free cash are expected by the Manager to be sufficient to maintain stable monthly distributions to unitholders throughout 2006.

Fourth quarter results

Revenue of $24,620 was generated by Cardinal in the fourth quarter ended December 31, 2005 marginally ahead of the revenue of $24,256 achieved in the same period of 2004. During the quarter, electricity sales totalled 325,000 MWh compared to 336,000 MWh in the same period last year. The Facility continued to perform well during the quarter with availability of 98.7% (2004 — 97.9%) and capacity of 93.7% (2004 — 96.8%). During the quarter, the Facility curtailed 360 hours (2004 — Nil) to benefit from the temporary escalation in the spot price of gas through reduced net fuel costs. This has the effect of lowering electricity sales and capacity of the Facility. However, the reduction in electricity sales was more than offset by a 3.8% increase relating to the 2005 first interim DCR.

The Fund's net income for the quarter was $1,697 compared to $5,282 in the same period of 2004, a decrease of 3,585 due to higher expenses. At Cardinal, transportation costs were lower by $400 and gas sales were higher by $200 and increased maintenance costs of $700 relating to the major maintenance scheduled in 2006 contributed to higher operational expenses. The Fund also incurred higher administrative expenses of $2,351 due to the Fund's pursuit of potential investments. An incentive fee of $1,260 payable to the Manager is included in the quarter. Unrealized gas swap loss was higher in the 2005 quarter by $811. Net interest expense was lower by $142 due to interest earned on funds held in escrow during the offering for subscription receipts in connection with the Fund's acquisition of its indirect interest in the Leisureworld business. Also recorded in the fourth quarter of 2005 was the Fund's pro rata loss from Leisureworld of $804 (2004 — Nil).

Risks and uncertainties

Risks related to Cardinal and the Power Industry

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

Expiry of the Power Purchase Agreement All the electricity generated by the Facility (less the amount consumed in its operations) is currently sold to OEFC under the PPA, which could be terminated on December 31, 2014. In the event that the PPA expires or is not renewed, Cardinal could be required to: (i) bid all of the power it produces into the Independent Market Operator administered ("IMO-administered") markets and receive the market price for the electricity sold; (ii) enter into a bilateral power purchase contract with another counterparty to sell electricity at a negotiated price; or (iii) do a combination of both, bidding some power into the IMO-administered market and selling the rest under a bilateral contract with a counterparty. In the event that Cardinal chooses to renegotiate or enter into a power purchase contract, there can be no assurance that Cardinal will be able to renegotiate or enter into a power supply contract on terms that are commercially reasonable, if at all. In the event that Cardinal chooses to bid the power it produces into the IMO-administered markets, and assuming current market structure, there can be no assurance that the market price Cardinal will receive for the electricity so offered would exceed the Cardinal Facility's marginal cost of operations. Furthermore, the Cardinal Facility may be economically less competitive than other power producing facilities.

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

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

Potential expiry of the Lease The Lease expires concurrently with the Energy Savings Agreement, including any extension thereof. In the event that CASCO decides not to extend the Energy Savings Agreement and that Cardinal avails itself of its right to extend the original term of the Energy Savings Agreement to January 31, 2017, the Lease will also expire on January 31, 2017. In certain circumstances Cardinal 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 is responsible for dismantling and removing all improvements on the leased land and restoring the leased land to its condition prior to the commencement of the term of the Lease and is specifically liable for all costs related to remedial action that would need to be taken in order for hazardous substances, if any, to be removed so that the leased land complies with environmental laws. There can be no assurance that Cardinal will have the benefit of the Lease beyond January 31, 2017. Furthermore, there can be no assurance that Cardinal 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 will be unable to operate the Facility. There can be no assurance that Cardinal 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.

Termination of the Energy Savings Agreement The Energy Savings Agreement matures on January 31, 2015 and provides that by January 31, 2014, the parties will start negotiations with respect to a renewal term. During those negotiations, either party can decide not to renew the Energy Savings Agreement. In the event that CASCO makes that determination, Cardinal has an unilateral right to extend the original term to January 31, 2017.

In the event that the Energy Savings Agreement is so extended by Cardinal, the price of steam payable by CASCO to Cardinal during this extension period will be reduced by 50% of the price of steam otherwise payable under the Energy Savings Agreement. There can be no assurance that the Energy Savings Agreement can be renegotiated on terms that are commercially reasonable, if at all.

Contract performance The amount of distributable cash available for distribution to unitholders is highly dependent upon the parties to the applicable agreements fulfilling their contractual obligations, particularly OEFC under the PPA (which accounts for approximately 98.9% of the gross revenues expected from the Facility), and marketing (“Husky Energy Marketing Inc.”) under the Gas Purchase Agreement. An inability or failure by any such party to meet its contractual commitments may adversely affect cash distributions by the Fund.

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

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

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

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

Debt of Cardinal The Credit Agreement expires in 2007. Cardinal may need to refinance or reimburse the amount outstanding under the Credit Agreement. The ability of the Fund and its subsidiaries to meet their debt service requirements will depend on the ability of Cardinal to generate cash in the future, which depends on many factors, including the financial performance of Cardinal, debt covenants and obligations, working capital requirements and future capital requirements. In addition, the ability of the Fund or its subsidiaries to borrow funds in the future to make payments on outstanding debt will depend on the satisfaction of covenants in existing credit and other agreements. In addition, the Credit Agreement contains a number of financial covenants that require Cardinal to meet certain financial ratios. A failure to comply with the obligations in the Credit Agreement could result in a default, which, if not cured or waived, could result in the termination of distributions by Cardinal 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 would be sufficient to repay in full that indebtedness. There can be no assurance that Cardinal will generate sufficient cash flow from operations or that future distributions will be available in amounts sufficient to pay outstanding indebtedness, or to fund any other liquidity needs. There can be no assurance that the Fund or its subsidiaries could refinance the Credit Agreement or obtain additional financing on commercially reasonable terms, if at all. In the event that the Credit Agreement cannot be refinanced, or if it can only be refinanced on terms that are less favourable than the current terms, cash distributions by the Fund may be adversely affected. The Credit Agreement is and future borrowings may be at variable rates of interest, which exposes the Fund to the risk of increased interest rates. This factor may increase the sensitivity of distributable cash to interest rate variations. Furthermore, distributions by Cardinal to the Trust, and, consequently, distributions to the Fund, may be restricted if Cardinal fails to maintain certain covenants under the Credit Agreement such as financial ratios.

The ability of the Fund, the Trust or Cardinal to make distributions or other payments or advances is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities. The degree to which the direct and indirect subsidiaries of the Fund are leveraged could have important consequences to the unitholders, including that such subsidiaries' ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; that a significant portion of Fund's cash flow from operating activities may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations.

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

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

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

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

Risks Related to Leisureworld and the LTC Sector

LTC facility ownership and operation By investing indirectly in LTC facilities and other classes of seniors' housing, the Fund is exposed to adverse effects on such sectors and is also subject to general business risks inherent in the seniors' housing industry. These risks include fluctuations in levels of occupancy and the inability to achieve economic accommodation funding or residency fees (including anticipated increases in such fees) due to, among other factors, regulations controlling LTC funding, regulations controlling rents, possible future changes in labour relations, increases in labour, other personnel costs and other operating costs, competition from or oversupply of other similar properties, changes in neighborhood conditions, location conditions or general economic conditions and the imposition of increased taxes or new taxes. These risks also include the effects of health-related risks and disease outbreaks. As such, there is no assurance that future occupancy rates at the Leisureworld LTC facilities will be consistent with historical occupancy rates achieved by the Leisureworld LTC facilities, or future rates anticipated by the Manager.

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

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

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

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

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

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

Government regulation and funding Health care in general, including LTC facilities, is an area subject to extensive regulation and frequent regulatory change. In Canada, a number of provinces are promoting regionally managed and regulated health care systems. The provinces of Alberta, British Columbia and Manitoba have led this trend. These changes favour larger operators having the resources to provide more cost-effective management services and well-developed staff training programs on a regional basis; however, there can be no assurance that future regulatory changes in health care, particularly those changes affecting the seniors' housing industry, will not adversely affect Leisureworld or the Fund. In addition, new regulatory standards and requirements are being considered in a number of provinces, including Ontario, which may affect all types of seniors' housing facilities.

In Ontario, all LTC facilities must be licensed under applicable provincial legislation. Such LTC facility 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 term of the license. While Leisureworld will endeavor to ensure compliance with all regulatory requirements applicable to the Leisureworld facilities, it is not unusual for stringent inspection procedures to identify deficiencies in operations. Should this occur, it is possible that such deficiencies may not be able to be remedied within the time frames allowed. If this were to occur it could have an impact upon the business, operating results and financial condition of Leisureworld, which could adversely affect the Fund's results and the Fund's ability to pay distributions on its units.

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

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

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

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

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

Pursuant to an indemnity agreement (the "Indemnity Agreement"), the Fund has agreed to indemnify the vendors of the Leisureworld business and their directors and management for any liabilities they may suffer as a result of the prospectus filed by the Fund in September 2005 in connection with its offering of subscription receipts in connection with the Fund's acquisition of its interest in the Leisureworld business (the "September 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 management as a result of a misrepresentation contained in the September Prospectus. In addition, pursuant to the purchase agreements, Leisureworld has agreed to indemnify the Vendors for any misrepresentation contained in any prospectus filed before or after the acquisition closing date in respect of the Leisureworld business which describes the vendors or the Leisureworld business. If any payment on such indemnities is required to be made, such payment may materially and adversely affect the Fund and the Fund's ability to pay distributions on its units.

Debt financing A portion of Leisureworld's cash flow is devoted to servicing its debt, and there can be no assurance that Leisureworld will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If Leisureworld were unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. If this were to occur it could have an impact upon the business, operating results and financial condition of Leisureworld which could adversely affect the Fund's results and the Fund's ability to pay distributions on its units. As well the Leisureworld debt imposes covenants and obligations on Leisureworld. There is a risk that this debt may go into default if there is a breach in complying with such covenants and obligations. In addition, the eventual refinancing of this debt when it becomes due in 2015 may be done on terms and rates which are not as advantageous as currently anticipated by the Manager. These situations could adversely affect the Fund's results and the Fund's ability to pay distributions on its units.

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

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

In the first quarter of 2005, Phase I environmental site assessments were conducted at all, and Phase II environmental site assessments were conducted at some, of the Leisureworld LTC facilities in order to identify and assess any potentially material environmental conditions (such as significant subsurface contamination) or material non-compliance with applicable EH&S

requirements. Although certain minor environmental conditions and compliance matters were identified, the assessments did not identify any material issues of potential environmental concern nor is the Manager aware of any such issues that it believes would involve material expenditure or liability exposure, directly or indirectly, by Leisureworld.

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

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

Personnel costs The LTC business is a labour intensive operation, in which a substantial portion of direct operating expenses are comprised of labour related expenses. Leisureworld is required to compete with other health care providers with respect to attracting and retaining qualified personnel. Leisureworld may also be dependent upon the available labour pool of employees. A shortage of trained or other personnel may require the Leisureworld 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 can be matched by corresponding increases in rental or management revenue. Wage increases in excess of increases that can be obtained from rental or cost reimbursement can have a negative effect on operating performance.

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

Labour relations As at December 31, 2005, the Leisureworld business employed, directly and indirectly, approximately 3,200 people, of whom approximately 80% are represented by unions. Labour relations with the unions are governed by collective bargaining agreements with eight union locals of five separate unions. There can be no assurance that Leisureworld 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 Leisureworld's operating results and financial condition. However, all LTC facilities in the Province of Ontario are currently governed by the *Hospital Labour Disputes Arbitration Act* (Ontario), which prohibits strikes and lockouts in the seniors' housing industry. Therefore collective bargaining disputes are more likely to be resolved through compulsory third party arbitration. All of the Leisureworld LTC facilities are currently unionized.

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

Critical accounting policies and estimates

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

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

Gas swap contracts

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

Impairment of assets

Long-lived assets are reviewed for impairment during the second quarter of the fiscal year, or when indications of impairment arise during the year. An impairment loss is recognized when the fair value of the asset is less than the carrying amount. Fair value is based on estimates of future cash flows. The determination of fair value requires the Manager to make significant assumptions about future operating performance, market prices for natural gas and electricity, retirement costs and discount rates. The impairment review performed in 2005 continues to support the carrying value of the Fund's long-lived assets.

Asset retirement obligation

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

Long-term investment

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

Maintenance and repairs

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

Useful life of the Cardinal Facility

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

New accounting pronouncements

Variable interest entities

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

Financial instruments — recognition and measurement, CICA Handbook Section 3855

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

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

Hedges, CICA Handbook Section 3865

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

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

Comprehensive income, CICA Handbook Section 1530

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

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

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

Evaluation of disclosure controls and procedures

In accordance with the requirements of the Ontario Securities Commission and other provincial securities regulators, the chief executive officer ("CEO") and chief financial officer ("CFO") of the Manager, on behalf of the trustees of the Fund are required to certify annually that they have designed, or caused to be designed, the Fund's disclosure controls and procedures, as defined in Multilateral Instrument 52-109, and have evaluated their effectiveness for the applicable period. Disclosure controls are those controls and other procedures which are designed to provide reasonable assurance that relevant information that is required to be disclosed by the Fund is recorded, processed and reported within the time frames specified by such securities regulators.

During 2005, the Fund adopted a Disclosure Policy that was approved by its trustees in December 2005. Oversight of this policy is the responsibility of the Fund's Board. In conjunction with the adoption of this policy, the Board has developed structured operating routines involving senior management of the Manager and the Fund's operating entities to enforce the importance of disclosure controls and procedures. Accordingly, it is now written policy that information must be forwarded to the CEO and the CFO on a timely basis so they are able to make decisions regarding required external disclosures. We believe that this process existed before, and has now been enshrined in our written operating procedures and is effective.

An evaluation of the effectiveness of the design and operation of the Fund's disclosure controls and procedures was conducted as of December 31, 2005, by and under the supervision of the Manager, including its CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Fund's disclosure controls and procedures are effective to ensure that information required to be disclosed in reports that the Fund files or submits under Canadian securities legislation is recorded, processed, summarized and reported within applicable time periods.

Management's responsibility for financial reporting

The consolidated financial statements are the responsibility of the Manager of Macquarie Power & Infrastructure Income Fund and have been approved by the Fund's Board of Trustees. These consolidated financial statements have been prepared by the Manager in accordance with Canadian generally accepted accounting principles ("GAAP") and include amounts that are based on estimates and judgments. Financial information contained elsewhere in this Report is consistent with the consolidated financial statements.

Macquarie Power & Infrastructure Income Fund maintains a system of internal controls that are designed to provide reasonable assurance that the financial records are reliable and accurate and form a proper basis for the preparation of financial statements.

The Board of Trustees of Macquarie Power & Infrastructure Income Fund appointed an Audit Committee which is composed entirely of independent Trustees. The Audit Committee reviews the consolidated financial statements with the Manager and the external auditors before the consolidated financial statements are submitted to the Board of Trustees for approval.

The external auditors, PricewaterhouseCoopers LLP, have audited the consolidated financial statements in accordance with Canadian GAAP. The following report of PricewaterhouseCoopers LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

Gregory J. Smith
President and Chief Executive Officer

Harry Atterton
Chief Financial Officer

Toronto, Canada
February 20, 2006

Auditors' report

To the Unitholders of Macquarie Power & Infrastructure Income Fund:

We have audited the consolidated statement of financial position of Macquarie Power & Infrastructure Income Fund as at December 31, 2005 and 2004 and the consolidated statements of income, unitholders' equity and cash flows for the year ended December 31, 2005 and the eight months ended December 31, 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and the eight months ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada
February 20, 2006

Consolidated
Financial Statements

Consolidated Statement of Financial Position

December 31,

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

Consolidated Statement of Unitholders' Equity

For the Year Ended December 31, 2005

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

Consolidated Statement of Income

For the Year Ended December 31, 2005

($000s)	Year Ended December 31, 2005	Eight Months Ended December 31, 2004
Revenue	$ 90,235	$ 55,848
Costs and expenses		
Operating costs	59,806	38,382
Administrative expenses	4,369	1,162
Depreciation and amortization	12,498	8,340
	76,673	47,884
Income from operations	13,562	7,964
Unrealized gain (loss) on gas swap contracts (note 13)	(3,240)	213
Net interest expense	(1,146)	(941)
Equity accounted (loss) from Leisureworld	(804)	–
Net Income for the period	8,372	7,236
Weighted number of trust units outstanding (units)	22,993,529	21,168,997
Basic income per trust unit ($)	$ 0.364	$ 0.342
Fully diluted weighted average number of trust units and Class B exchangeable units outstanding (units)	23,271,173	21,168,997
Fully diluted income per trust unit and Class B exchangeable units ($)	$ 0.360	$ 0.342

Consolidated Statement of Cash Flow

For the Year Ended December 31, 2005

($000s)	Year Ended December 31, 2005	Eight Months Ended December 31, 2004
Cash flows from operating activities:		
Net income	$ 8,372	$ 7,236
Add back:		
Movement of fair value of gas swap contracts	3,240	(213)
Depreciation and amortization	12,498	8,340
Amortization of prepaid borrowing costs	1,406	824
Accretion of asset retirement liability	36	36
Equity accounted losses from Leisureworld	804	–
Prepayment of borrowing costs and interest	(1,454)	(1,657)
Non-cash changes in working capital		
(Increase) in accounts receivable	(8,888)	(2,039)
Decrease (Increase) in inventory	(5)	48
(Increase) in prepaid expenses	(5)	(360)
Increase in trade payables and accrued expenses	4,226	857
Total cash flows from operating activities	**20,230**	13,072
Cash flows from investing activities		
Cash paid to acquire Cardinal, net of cash acquired	–	(219,943)
Investment in Leisureworld	(57,799)	–
Distributions received from Leisureworld	1,852	–
Investment in property, plant and equipment	(464)	(366)
Total cash flows from investing activities	**(56,411)**	(220,309)
Cash flows from financing activities:		
Cash proceeds received from public offering	64,745	211,690
Costs in relation to public offering	(5,746)	(16,783)
Return of capital to subscription receipt holders	(446)	–
Cash proceeds received from the term loan	–	35,000
Distributions paid to Unitholders	(21,517)	(11,787)
Total cash flows from financing activities	**37,036**	218,120
Increase (decrease) in cash and cash equivalents	**855**	10,883
Cash and cash equivalents at the beginning of period	10,883	–
Cash and cash equivalents at the end of period	**$ 11,738**	$ 10,883
Interest paid	$ 1,522	$ 1,657

Notes to Consolidated Financial Statements

December 31, 2005 (in thousands of dollars except for Trust Units and per Trust Unit amounts)

1. Organization

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

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

2. Significant accounting policies

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

Basis of presentation

The accompanying audited consolidated financial statements include all information and footnote disclosures required under Canadian generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting primarily of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows as at December 31, 2005 and 2004 and for all periods presented, have been included. The audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These audited consolidated financial statements should be read in conjunction with the Annual Information Form, and the Short Form Prospectus dated September 22, 2005, all of which are filed electronically on SEDAR at www.sedar.com.

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

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

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

Revenue recognition

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

Use of estimates

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

Long-term investment

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

Property, plant and equipment

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

Maintenance and repairs

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

Impairment of assets

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

Contracts

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

Goodwill

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

Derivative instruments

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

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

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

Asset retirement obligation

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

Income taxes

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

Variable interest entities

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

Earnings per trust unit

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

3. Segmented information

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

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

4. Cash and cash equivalents

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

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

5. Investment in Leisureworld

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

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

The 45% equity pickup of the net loss of Leisureworld has been included in income from October 18, 2005, the acquisition date, to December 31, 2005. Total consideration was $93,060 and was paid in cash and Class B exchangeable units as follows:

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

(i) 45% share includes certain costs not borne by the Fund.

The investment in Leisureworld comprises as follows:

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

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

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

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

7. Bank credit facility

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

8. Long-term debt

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

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

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

9. Units issued by the Fund

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

(i) 90% of the daily weighted average price per unit during the ten days preceding the date on which the units were tendered for redemption; and

(ii) an amount equal to either:

(a) the closing price of the units on the date on which the units were tendered for redemption;

(b) the average of the highest and lowest prices of units on the date on which the units were tendered for redemption; or

(c) the average of the last bid and ask prices on the date on which the units were tendered for redemption.

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

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

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

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

10. Distributions to Unitholders

Distributions to unitholders are paid on the last business day of each month, one month in arrears. The following distributions have been declared to unitholders and commencing in respect of the month October 1 to 30, 2005, the holders of Class B exchangeable units for the year ended, December 31, 2005:

Period of distribution	Date of payment	Amount declared	Amount declared (per unit)
January 1 to 31, 2005	February 28, 2005	$ 1,676	$ 0.07917
February 1 to 28, 2005	March 31, 2005	1,676	0.07917
March 1 to 31, 2005	April 29, 2005	1,676	0.07917
April 1 to 30, 2005	May 31, 2005	1,676	0.07917
May 1 to 31, 2005	June 30, 2005	1,676	0.07917
June 1 to 30, 2005	July 29, 2005	1,676	0.07917
July 1 to 31, 2005	August 31, 2005	1,676	0.07917
August 1 to 31, 2005	September 30, 2005	1,676	0.07917
September 1 to 30, 2005	October 31, 2005	1,676	0.07917
October 1 to 31, 2005	November 30, 2005	2,379	0.07917
November 1 to 30, 2005	December 30, 2005	2,379	0.07917
December 1 to 31, 2005	January 31, 2006	2,378	0.07917
Year ended, December 31, 2005		$ 22,220	$ 0.95000

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

11. Related party transactions

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

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

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

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

12. Commitments and contingencies

Electricity supply contract

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

Gas purchase contracts

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

Gas swap contracts

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

Period covered by contract
April 1 to October 31, 2006
April 1 to October 31, 2007
April 1 to October 31, 2008

Lease

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

13. Financial instruments

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

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

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

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

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

14. Economic dependence

For the year, approximately 98.9% (2004 — 98.8%) of the Fund's revenue was derived from the sale of electricity to OEFC. Approximately 97.5% (2004 — 97.0%) of the accounts receivable balance was due from OEFC relating to electricity sales.

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

Corporate and unitholder information

Macquarie Power & Infrastructure Income Fund

Macquarie Power Management Ltd.

Gregory J. Smith
President and Chief Executive Officer

Harry Atterton
Chief Financial Officer

Noreen Flaherty
Corporate Secretary/General Counsel

Auditors

PricewaterhouseCoopers LLP
Toronto, Ontario

Legal Counsel

Blake, Cassels & Graydon LLP
Toronto, Ontario

General Information

Transfer Agent and Registrar

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Unitholder Information

Annual General Meeting of Unitholders

Wednesday, April 12th at 10:00am
TSX Conference Centre
130 King Street West, Toronto, Ontario

Unitholder Services

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Trust Units

The trust units are listed on the Toronto Stock Exchange and trade under the symbol MPT.UN

Website

www.macquarie.com/mpt

Important notice

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

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

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

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

This annual report is general advice and does not take into account the particular investment objectives, financial situation or particular needs of the investor. Before making an investment in the Fund, the investor or prospective investor should consider whether such an such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment advisor if necessary.

Certain statements in this report may constitute "forward looking statements" and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund to be materially different from any performance or achievement expressed or implied by such "forward looking statements".

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