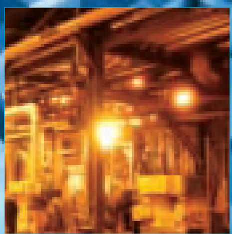
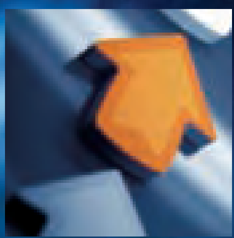
MACQUARIE POWER & INFRASTRUCTURE INCOME FUND
ANNUAL REPORT 2006

MACQUARIE





beyond yield

Corporate profile

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

Infrastructure assets meet critical, long-term community needs, such as power generation and electricity transmission. Infrastructure assets also include structures or services that society cannot function without, including water systems, health care and long-term care for an aging population. Simply, public infrastructure underpins national productivity, economic competitiveness and the quality of life we enjoy day to day.

MPT's portfolio currently includes Cardinal, a gas-fired cogeneration plant, and a 45% indirect interest in Leisureworld, a provider of long-term care (LTC) homes.

Financial highlights ($000s)

	Year Ended December 31, 2006	Year Ended December 31, 2005	Eight Months Ended December 31, 2004
Total revenue	**89,940**	90,235	88,793
Net income	**8,411**	8,372	7,236
Cash flow from operating activities	**21,044**	20,230	13,072
Distributable cash(i)	**34,058**	25,989	14,168
Per diluted Unit	**1.133**	1.117	0.669
Distributions to Unitholders	**30,423**	22,220	13,463
Per diluted Unit(iii)	**1.012**	0.950	0.636
Payout ratio(ii)	**89%**	85%	95%
Total assets	**297,392**	320,404	232,209
Total long-term liabilities	**37,668**	38,580	35,517

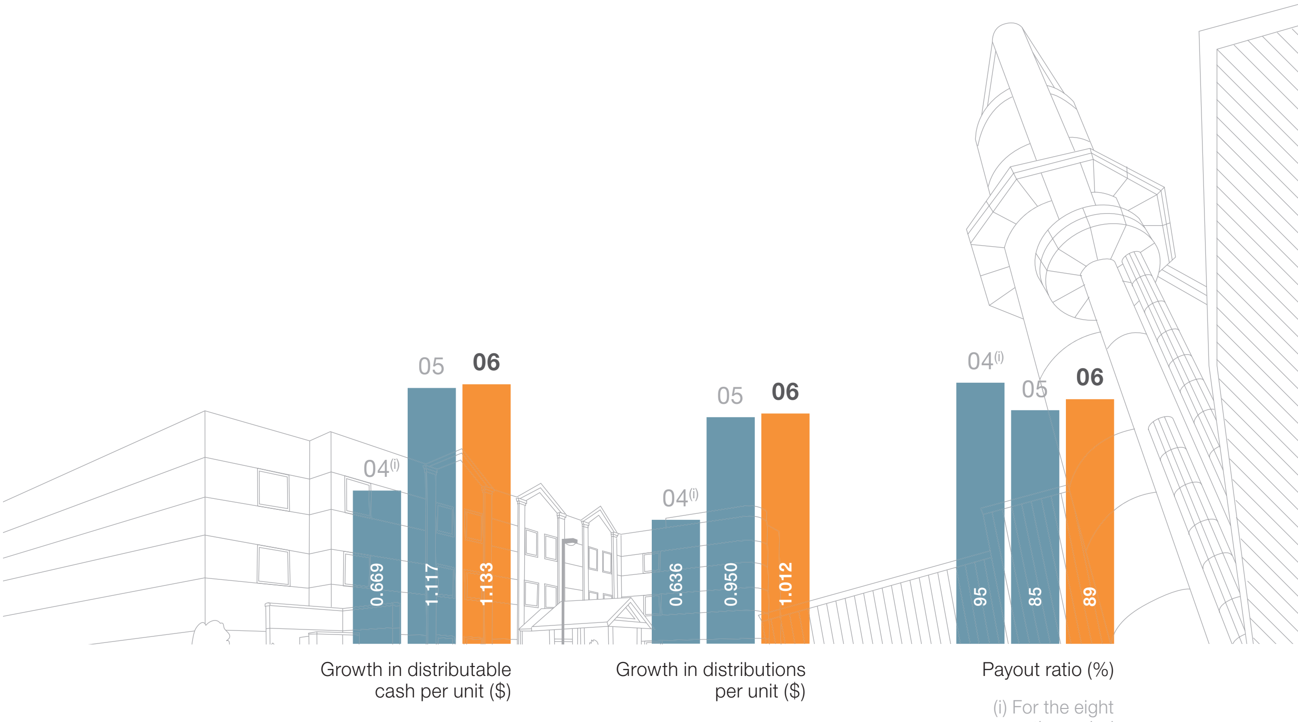
(i) Distributable cash is not a recognized measure under GAAP and does not have standardized meaning prescribed by GAAP. Therefore, distributable cash may not be comparable to similar measures presented by other issuers.
(ii) Payout ratio is defined as distributions declared as a proportion of distributable cash. There is no GAAP measure comparable to payout ratio. Payout ratio may not be comparable to similar measures presented by other issuers.
(iii) All unitholders were paid distributions equivalent to amounts shown.

Operating highlights

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Cardinal			
Sale of electricity (000s MWh)	**1,227**	1,282	1,281
Sale of steam (000s lbs)	**676**	683	691
Leisureworld			
Average total occupancy(i)	**98.5%**	93.5%	(ii)
Average preferred occupancy(i)	**83.4%**	78.3%	(ii)

(i) Average total occupancy and average preferred occupancy are shown for mature homes. Mature homes are homes that have completed their initial occupancy ramp-up period.
(ii) Operational results have been presented only if available or comparable to the current year.

MPT is delivering value beyond yield: stable, sustainable distributions with significant potential for growth.



(i) For the eight months ended December 31, 2004

Table of contents

2 MPT at-a-glance
4 Message to unitholders
8 Management roundtable
12 Corporate governance
14 Environmental and social responsibility
16 Management's discussion and analysis
37 Consolidated financial statements and notes
48 Supplementary financial information
49 Distribution reinvestment plan
50 Glossary
IBC Corporate and unitholder information

MPT at-a-glance

why invest in infrastructure?

cardinal

Cardinal is one of the largest cogeneration power plants in Ontario.

leisureworld

Leisureworld is the third largest provider of long-term care in Ontario with 19 LTC homes, one retirement home and one independent living home.

MPT's infrastructure assets generate reliable cash flow throughout the economic cycle and are positioned to deliver increasing value to unitholders over the long term.

Contracted power infrastructure defining characteristics:

Essential: Reliable electricity generation is essential to meet increasing demand and consumption of electricity.

Long life: Cardinal's high quality ensures it will remain competitive and continue to play a vital role in Ontario's long-term power supply mix.

Stable cash flow: The exclusive power purchase agreement with the Ontario Electricity Financial Corporation for all electricity generated by the plant until at least 2014 ensures stable revenue.

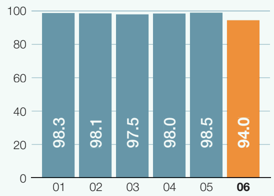
Low variable costs: Gas costs are managed through a gas purchase contract with Husky Energy Marketing Inc. in effect until 2015.

Sustainable competitive advantage: Long-term purchase agreements protect contracted power operators from price competition and other suppliers.

Fiscal 2006 highlights:

Availability (%)

Cardinal's operating performance continues to be consistent and solid.



Insulated against economic cycle: Long-term purchase contracts insulate Cardinal's cash flow from the economic cycle.

LTC social infrastructure defining characteristics:

Essential: According to the Ontario Ministry of Finance, the 75-plus age group is the fastest growing segment of the population and is expected to double in size by 2031.

Long life: Government licencing requirements secure long-term cash flow.

Stable cash flow: A minimum of 60% of Leisureworld's revenue is supported by government funding.

Low variable costs: Government funding provides for the majority of LTC operating costs, including nursing and personal care, as well as program and support services.

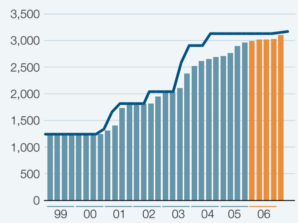
Sustainable competitive advantage: The government licencing model and specialized expertise needed to provide quality long-term care limit new LTC entrants.

Fiscal 2006 highlights:

Leisureworld capacity and occupancy

Leisureworld is continuing to increase capacity and occupancy.

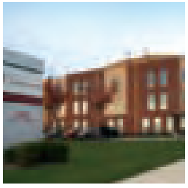
Bars: Average residents per day
Line: Total Leisureworld LTC capacity



Insulated against economic cycle: Demand for long-term care is based on need and supported by demographic growth and favourable government funding.

Message to unitholders

beyond yield


MPT's strong performance in 2006 demonstrated the merit of investing in essential infrastructure assets. Moreover, our prudent investment philosophy and active asset management equip MPT to deliver growing value to unitholders for many years to come.

Stability and growth in distributions

In 2006, MPT paid stable and increasing cash distributions to unitholders — a key indicator by which we gauge our success.

In fact, distributions to unitholders increased twice during the year, by 5 cents in January and another 3 cents in August, which is the equivalent of $1.03 per unit on an annualized basis. For the year, we paid distributions to unitholders of $1.01 per unit. This represents an average payout ratio of 89%, which provides for stability of distributions while allowing for growth.

Excellent operating performance

The growth in distributions to unitholders is evidence of the high quality and consistent performance of our assets.

In 2006, Cardinal's revenue was $89.9 million compared with $90.2 million in 2005. During the year, Cardinal successfully completed its major maintenance program, which occurs every six years, earlier than expected and in line with the budget. All of Cardinal's future capital expenditures are planned for and funded by established reserve accounts. With the 2006 major maintenance behind us, Cardinal will start to rebuild its major maintenance reserve in anticipation of the 2012 program.

The consistency in Cardinal's revenue despite the major maintenance reflects a sustainable increase in electricity rates, which we expect to continue to drive revenue growth in 2007, combined with excellent operating performance. Notably, the nature of Cardinal's long-term power purchase agreement (PPA) and gas supply contract means that the gas price growth rate will never surpass the electricity price growth rate. This ensures strong, embedded annual growth in cash flow, which sets Cardinal's PPA apart from others in the industry.

In its first full year of operations within MPT's portfolio, Leisureworld proved its value with a $10.4-million contribution to MPT's distributable cash. A key factor driving this performance was an improvement in average total occupancy to 98.5% from 93.5% last year at the 17 LTC homes that were open for the full year. A higher percentage of residents in preferred versus basic accommodation also generated incremental revenue. Finally, Leisureworld benefited from funding increases from the Ontario Ministry of Health and Long-Term Care (MOHLTC).

In November, Leisureworld reached an important milestone with the opening of a new, 160-bed Class A long-term care home in Orillia, Ontario. Class A homes now represent 70.9% of our long-term care portfolio. At the time of writing, occupancy of the Orillia home exceeded 97%, a measure of the pent-up demand for long-term care in south central Ontario.

Strength in the new tax environment

In late 2006, the federal government's proposed changes to the tax treatment of flow-through entities, including publicly-listed Canadian income funds, created significant uncertainty in the marketplace. Indeed, the announcement had a profound impact on the market valuations of all income funds, including MPT, despite the quality and cash flow stability of our assets.

MPT's focus on total return rather than yield alone promotes a highly disciplined approach to creating long-term unitholder value.

While the environment in which MPT operates has changed, our strategy to build value for unitholders has not. The new rules allow income funds to pursue growth within reasonable limits and may actually create further opportunities for MPT. When it comes to acquisitions, MPT has always focused on total return, seeking growth in addition to immediate yield. This criterion has embedded discipline in our approach to evaluating growth opportunities, one that will serve MPT well under the proposed new tax regime and enhance our competitiveness in the market. At the same time, MPT has a low leverage rate relative to the stable cash flow profile of our assets.

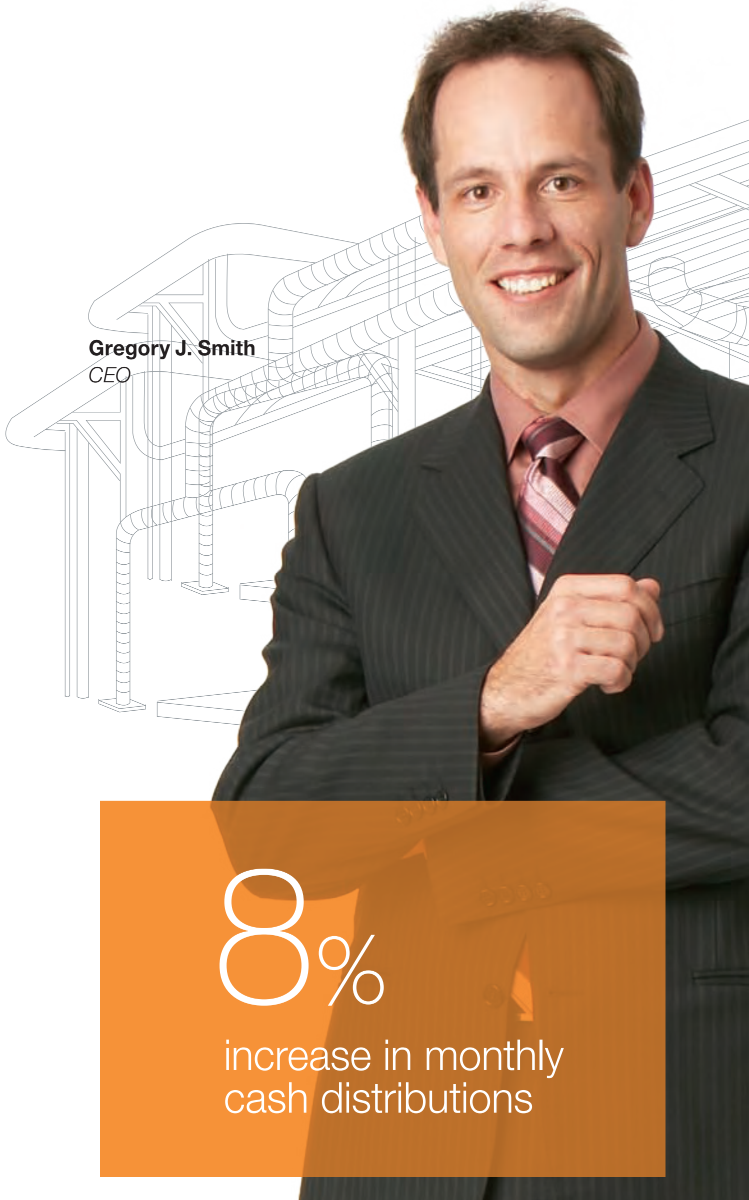
We are confident that MPT can successfully navigate the transition period and maximize returns to unitholders.

Focused acquisition strategy

With our focus on total return, we are very selective about the investments that we pursue.

Cardinal and Leisureworld demonstrate the essential characteristics that we seek in any infrastructure asset. Both of these assets meet a critical, long-term need. Both operate within regulated or contractual frameworks that create formidable barriers to entry and predictable revenue streams. Demand for both power and long-term care is inelastic, which insulates our assets from economic and market vagaries. Collectively, these traits contribute to MPT's stability of distributions and relatively low risk profile.

Any future acquisitions must demonstrate a similar cash flow profile. They must also extend the average life of our assets, increase the size and liquidity of our portfolio and increase distributable cash per unit.

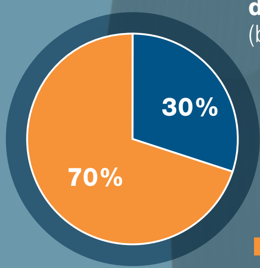


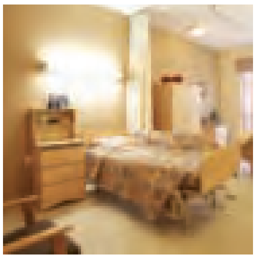
Gregory J. Smith
CEO

8%

increase in monthly cash distributions

Estimated fund distributable cash
(by asset)




Power remains an important emphasis in MPT's portfolio. Although the investment landscape for power generation in North America is highly competitive, we see increasingly favourable economics in wind generation, regulated electricity transmission and local distribution, to name a few areas of interest. Consolidation opportunities in the Canadian power income fund sector are another potential avenue for growth.

Beyond power, we continue to evaluate opportunities in the long-term care sector. The demand for additional long-term care homes in Ontario is increasing as the population ages. New licences were released by the MOHLTC for many regions across Ontario in late 2006 and early 2007, and we expect to see additional licences released this year and in 2008.

We will also seek to build growth platforms around new infrastructure assets, including through public-private partnerships. We believe that investment in Canada's existing infrastructure has failed to keep pace with economic and demographic growth. In many communities, the infrastructure is now inadequate to support current and future needs. Billions of dollars are needed to maintain existing infrastructure and services and add new capacity — a cost that governments simply cannot fund alone. We believe there are potentially attractive investment opportunities in a number of areas, including water, schools and hospitals.

Global expertise of Macquarie group

As we seek growth opportunities for MPT, our relationship with the Macquarie group is an important advantage. The Macquarie group is a diversified financial services organization, headquartered in Australia, with a leading position in infrastructure advisory and funds management. Macquarie manages approximately $30 billion of equity in infrastructure in 25 countries. Worldwide, Macquarie has more than 480 advisory professionals who source infrastructure investment opportunities and execute those deals with clients, including MPT. This market presence and proven expertise gives MPT valuable insight into the financing and management of infrastructure assets.

While this relationship provides MPT with access to a robust stream of potential deals, the decision to pursue an opportunity is made solely by MPT's Board of Trustees. The Board, which is comprised of a majority of independent trustees, guides and approves MPT's strategy and investments. Additionally, MPT's own management team includes infrastructure professionals who bring a breadth of management skills and experience to MPT and our individual assets as well as specialized expertise in evaluating and executing infrastructure investments.

Delivering value beyond yield

With strong fundamentals, MPT is positioned to continue delivering attractive, growing distributions to unitholders. Our active, prudent management approach and commitment to operating excellence will help to ensure a continued high rate of return to investors.

Future acquisitions must extend the average life of our assets, increase the size and liquidity of our portfolio and increase distributable cash per unit.

We expect Cardinal to experience a strong increase in cash flow in 2007 due to less scheduled maintenance time and the growing gap between electricity rates and gas costs. Growth for Leisureworld is expected to continue through improved occupancy and the decision by more of our residents to choose preferred accommodation.

We also have the expertise and financial capacity to capture investment opportunities in North America that will enhance MPT's stability while driving growth.

Globally, infrastructure assets are increasingly attractive to investors who want to diversify their portfolios and benefit from the long-term cash flow that these assets generate. MPT is a unique public entity through which Canadian investors can participate in this class of investments.

In closing, I would like to thank the Board of Trustees for their guidance and stewardship of MPT over the past year. I would also like to express my gratitude to you, our unitholders, for your confidence and support as we execute our strategy to build lasting value.

Sincerely,

(signed)

Gregory J. Smith
Chief Executive Officer

PROVEN, ACTIVE MANAGEMENT

Improving asset performance

MPT teams with management at each asset to optimize operating and financial performance.

Safeguarding MPT's performance

Strong professionalism and risk management practices underpin all activities, safeguarding MPT's performance and unitholders' interests at all times.

Growing MPT's portfolio

MPT has the expertise to capitalize on investment opportunities in North America that will enhance stability of distributions while driving growth.

frequently asked questions

Q How active is MPT in pursuing acquisitions?

A Gregory Smith: Acquisitions are an important part of our strategy to create long-term value for unitholders. As the theme of this year's report suggests, we are interested in investments that deliver a compelling total return, not just an attractive immediate yield. We look for essential, stable and cash-flow generating assets that will diversify and extend the life of MPT's portfolio while contributing to increasing distributable cash per unit.

While growth is high on our agenda, we are strategic and prudent in how we pursue it, and with the guidance of the Board of Trustees, act only in the best long-term interest of our unitholders. We have assessed a number of assets in the past two years. To date, only Leisureworld has met all of our criteria.

There are excellent opportunities in a number of infrastructure sectors, from electricity transmission or distribution, renewable energy, long-term care, hospitals and wastewater, although it is a question of which ones come to fruition first. MPT's depth of expertise and the global resources of the Macquarie group ensure that we are capable of acting quickly when the right opportunities become available.

Q What are the criteria to increase cash distributions?

A Gregory Smith: The Board of Trustees evaluates MPT's distribution policy at least every quarter. Any decision to increase cash distributions is based on the sustained performance of MPT's assets. The Board's philosophy is to provide unitholders with stable distributions as well as the potential for growth. This philosophy is reflected in MPT's payout ratio of 89% for 2006. We expect the Board of Trustees to maintain a payout ratio of 90% to 95% through 2007.

Gregory J. Smith
Chief Executive Officer

Mr. Smith was the Manager-appointed Trustee for MPT at the time of its IPO in April 2004, assuming his current role in December 2005. He is also Head, IB Funds Division for Macquarie North America Ltd.

Martin Liddell
Chief Financial Officer, Leisureworld

Mr. Liddell joined Leisureworld in January 2006 as Chief Financial Officer with senior management expertise in finance, mergers and acquisitions, and public company reporting.

Q How often does Cardinal conduct maintenance?

A Dennis Dmytrow: Cardinal is highly efficient and consistently generates stable revenue. In 2006, Cardinal successfully completed its major maintenance program, which includes an overhaul of the gas and steam turbines, in 22 days in April and May, three days ahead of schedule. This achievement underlines the exceptional skills and experience of the Cardinal team.

The maintenance program runs on a six-year cycle, with two years of combustion inspections requiring a five-day outage, followed by a hot gas path inspection, which requires a 10-day outage. This is followed by two more years of combustion inspections in preparation for the sixth year major maintenance program. Our maintenance program is key to Cardinal's success and ensures that the plant runs as smoothly as possible to maximize output and revenue. In fact, Cardinal is one of the most productive cogeneration plants in Ontario. Over the past five years, Cardinal has averaged an availability of 98.0% and a capacity of 92.7%, which is an outstanding record.

Q How will Cardinal operate after its PPA expires in 2014?

A Gregory Smith: Cardinal's high quality ensures that it will remain competitive and have an ongoing economic life as part of the Ontario power market for at least 20 years, whether it is a base load, intermediate or peaking facility.

Cogeneration plants such as Cardinal account for approximately 6% to 8% of the generating capacity available to meet Ontario's energy requirements. Additionally, Ontario is facing a serious electricity shortfall due to growth and economic pressures, which makes the contribution from plants like Cardinal even more important. In fact, the Ontario Power Authority (OPA) recently stated publicly that cogeneration is a vital part of the province's long-term supply due to its ability to extract the most overall energy out of a fuel source.

Q How would you characterize MPT's financial position?

A Harry Atterton: MPT's financial position is excellent. At year end, MPT's working capital was positive at $19.2 million with cash on hand of $12.1 million, of which $6.3 million was allocated to its three reserve accounts.

Cardinal and Leisureworld are structured as standalone operations, and, as such, there are no cross guarantees for financing of debt facilities. Cardinal has a $35-million credit facility maturing in 2011 and the interest rates are locked in through the use of Bankers Acceptances, or BAs, to manage rate fluctuations. Leisureworld has a conservative $310-million facility at a fixed rate of 4.8% that matures in 2015. This gives Leisureworld a stable financing base for the long term as well as room for growth.

Dennis Dmytrow
General Manager, Cardinal Power

Mr. Dmytrow played an active role in the commissioning of the Cardinal facility in 1995 and has served as General Manager since 1999. He has extensive operational and managerial experience in the resource and energy sectors.

David Cutler
Chief Executive Officer, Leisureworld

Mr. Cutler joined Leisureworld as Chief Operating Officer in 1990 and became Chief Executive Officer in 2005. He is also Vice President, Government Relations for the Ontario Long-Term Care Association (OLTCA).

Harry Atterton
Vice President, Chief Financial Officer and Secretary, MPT

Mr. Atterton joined MPT in January 2005, bringing more than 20 years of experience in accounting, finance, mergers and acquisitions, and business consulting.

Cardinal's total leverage ratio is 1.12, which is significantly lower than the 2.25 to 1 ratio permitted under its credit facility. Cardinal's interest coverage ratio is 31.60, which exceeds the prescribed requirement of no less than 4 to 1. Leisureworld's debt service coverage ratio is 2.35, which meets the covenant of at least 1.6 to 1.

Q **What kind of ramp up in occupancy do you expect for the Orillia facility?**

A **David Cutler:** New long-term care homes typically ramp up within 12 to 18 months. Overall, high occupancy levels are driven by Ontario government limitations on the supply and distribution of home licences across the province as well as growing demand for LTC beds. Our 160-bed Orillia home is in a high-demand area and as a result is already more than 97% occupied.

Our track record shows that once a Leisureworld home reaches 97% occupancy, it stays there, which is important because a home that reaches 97% occupancy on an annual basis qualifies for 100% funding. High and stable occupancy is an important driver of the predictability of Leisureworld's operating profit.

Q **How will Leisureworld continue to grow?**

A **David Cutler:** Leisureworld is currently the third-largest provider of long-term care in Ontario. We continue to look for acquisition opportunities that will complement our operations and diversify our presence in Ontario.

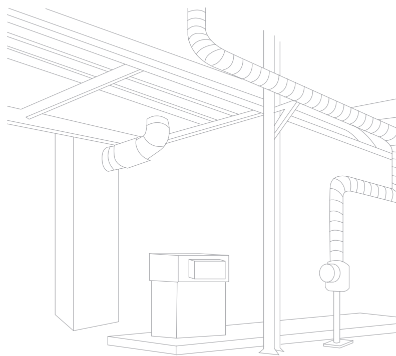
We will also pursue licences for new LTC beds where we believe we can successfully create value for MPT. In late 2006, numerous new licences were released across Ontario, including in the Kingston and Ottawa areas and in several communities just beyond the GTA. Additional licences have already been released in 2007 and we expect strong demographic growth to continue to drive demand for more LTC beds. Moreover, the cost of caring for a resident in a long-term care home is about $128 per day compared with a cost of about $400 per day in a chronic care hospital. So there is a strong economic incentive for the government to ensure there is an adequate supply of high quality LTC beds.

An important contributor to Leisureworld's distributable cash is the mix of preferred versus basic accommodation in our portfolio. Approximately 50.2% of our beds are designated as private or semi-private accommodation. The premiums for preferred accommodation, which are regulated, are $8 per day for semi-private and $18 per day for private — which flows straight through to our distributable cash. At year end, the average preferred occupancy of mature homes was 83.4%.

Q **Do you expect the government to increase funding for long-term care homes in 2007?**

A **Martin Liddell:** Long-term care homes receive operational funding on a monthly basis. The funding is divided into three envelopes. The nursing and personal care envelope is funded by the MOHLTC, and covers staffing and medical supplies costs. The MOHLTC also funds the program and support services envelope for therapeutic services, pastoral care and staff training, among other services. Accommodation charges, the third envelope, are charged directly to residents or are government-subsidized to cover funding for room-and-board expenses.

Increases in the nursing and programs envelopes are generally made on April 1 each year. Increases in the accommodation envelope typically occur annually on July 1.



MPT has a positive outlook for continuing stable performance in 2007, and expects to maintain a payout ratio of 90% to 95%.

Historically, funding increases across these envelopes have tended to track increases in the Consumer Price Index. In 2006, government funding for nursing and personal care increased by 3.4% while funding for programs and support services increased by 3.3%. Funding within the accommodation envelope for food and other accommodation increased by 2.3% and 1.8%, respectively. This represents an overall increase of 2.8%. We expect to see similar funding increases in line with inflation rates in 2007.

Q How will the new tax rules affect MPT's unitholders?

A Harry Atterton: In our view, MPT is a high quality income trust that will continue to deliver increasing value for unitholders regardless of the tax environment in which it operates. Cardinal and Leisureworld are both strong cash flow generators with ongoing growth potential.

Once it becomes law, the new tax policy will have the greatest impact on those investors that are currently non-taxable. Taxable investors will see their distributions receive the same tax treatment as dividends, so there is no real impact to the net amount of distributions. In 2004 and 2005, 100% of MPT's distributions to unitholders were return of capital, offering a further tax advantage. In 2006, 79% of distributions will be return of capital. For 2007, we expect approximately 70% of distributions to be return of capital.

Q Will MPT remain an income fund?

A Gregory Smith: Under the government's new tax policy, income funds will be taxed in a similar manner to corporations. Income funds that existed prior to October 31, 2006 have four years in which to transition to this new tax environment in 2011. In December 2006, the government provided guidance on the rules that will be applied to income funds between now and 2011, including the ability to issue additional equity capital and to convert to a corporate structure without tax consequences.

These new rules will allow us to continue to execute MPT's growth strategy while broadening the options available to us to optimize MPT's capital structure. We have four years in which to evaluate and address that structure, and, in the meantime, we will continue to pursue new growth opportunities and deliver attractive, increasing distributions to unitholders.

Q What is your outlook for 2007?

A Gregory Smith: We have a positive outlook for continuing stable performance in 2007. For Cardinal, we expect to see an increase in cash flow due to higher revenue under the PPA as well as less scheduled maintenance time, which will be partially offset by higher gas transportation costs. For Leisureworld, we anticipate growth in cash flow resulting from the ramp-up in the Orillia home's occupancy and increasing use of preferred accommodation by residents. We also expect one-time proceeds from the sale of the Spencer House property. Finally, we will continue to evaluate appropriate acquisitions that will enhance long-term unitholder value.

safeguarding investors' interests

Mr. Brown was Adjunct Professor of Finance 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 Toronto Stock Exchange-listed companies: Sixty Split Corp.; SNP Corp.; and DALSA Corporation. He is also an independent public trustee of Nova Scotia Association of Health Organizations.

Derek Brown *Independent Chair*

Commitment to strong governance

Strong corporate governance is an essential element of MPT's performance. Effective governance enables prudent risk management and decision-making, which contributes to the continued growth of your investment in MPT.

The Board of Trustees is ultimately responsible for stewardship of MPT. Working with management, it oversees MPT's business and relationships to protect the best interests of unitholders, stakeholders and the communities in which the assets operate. To fulfill this responsibility, the Board is guided by a clearly defined mandate that includes monitoring MPT's financial performance, approving MPT's policies and procedures and overseeing MPT's communications and reporting.

Aided by an independent consultant, the overall performance and effectiveness of the Board of Trustees is evaluated annually along with the effectiveness of each committee and its chair, the Chairman of the Board and each Trustee.

The Board of Trustees' commitment to serving the unitholders of MPT is demonstrated by the 98% average attendance rate at the 10 board meetings held in 2006.

Adherence to regulatory requirements

MPT complies with all relevant corporate governance requirements and policy statements of the various Canadian securities regulatory authorities. Notably, MPT's four-person board consists of three unrelated, or independent, Trustees as defined by applicable securities laws. These independent Trustees meet regularly without the presence of management and the non-independent Trustee. This structure fosters a neutral perspective, encourages objectivity and aligns decisions with the best interest of unitholders and other stakeholders.

The Board's Audit and Corporate Governance Committees are comprised entirely of independent Trustees. The Audit Committee oversees the integrity of MPT's financial statements and reporting process and monitors the performance of MPT's external auditors. The Governance Committee oversees and assesses the functioning and composition of the Board and its committees and establishes MPT's governance principles. The Governance Committee also performs the functions that would otherwise be fulfilled by the nominating and compensation committees.

Governance initiatives in 2006

A key imperative of the Board of Trustees is to maintain a constructive dialogue on governance and to continuously assess the effectiveness and structure of MPT's governance framework.

In 2006, the Board undertook a number of initiatives designed to confirm and enhance MPT's governance foundation, including the adoption of updated policies related to risk management, environmental and social responsibility, whistle-blowing, business conduct, insider trading and external communications. MPT's policies apply equally to the individual assets in its portfolio.

The management of MPT also completed a comprehensive assessment and evaluation of internal controls in all functional areas, including at each asset, as part of its compliance with the Canadian Securities Administrators' Multilateral Instrument 52-109, which was overseen by a third-party consultant. No material weaknesses were identified. Monitoring of the internal control system will be an ongoing exercise, and MPT will implement changes as required.

MPT's corporate governance framework is designed to protect our unitholders' interests and improve the performance of their investments.

From left to right:
Patrick J. Lavelle,
Shemara Wikramanayake,
François R. Roy.

During the year, the Board also authorized management to establish a disclosure committee. This committee's role is to evaluate the materiality of developments at MPT's assets and operations, and to ensure that the timing and content of MPT's public disclosures comply with securities law and requirements of the Toronto Stock Exchange.

Enhancing stability and growth of distributions

MPT's governance structure supports a management philosophy in which ethical conduct, independent thinking and prudent risk management are deeply ingrained. Additional information on MPT's corporate governance policies and processes can be found in MPT's management information circular, available at www.sedar.com and www.macquarie.com/mpt.

In the year ahead, the Board of Trustees will continue to challenge and support management to build on MPT's past successes, exploring all appropriate avenues to enhance the stability and growth of distributions to unitholders.

I would like to thank you, our unitholders, for your investment in MPT. We value the trust you place in us and are committed to representing and safeguarding your interests.

(signed)

Derek Brown
Chairman
Board of Trustees

BOARD OF TRUSTEES

In addition to Mr. Brown, the following individuals are members of the Board of Trustees:

Patrick J. Lavelle *Independent Trustee*
Mr. Lavelle is the Chairman and Chief Executive Officer of Patrick J. Lavelle and Associates, a strategic management consulting firm that he established in 1991. He currently serves as Chairman of Union Energy Income Trust. Mr. Lavelle previously served as 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.

Shemara Wikramanayake
Macquarie Power Management Ltd. – appointed Trustee
Ms. Wikramanayake is an Executive Director of the Macquarie group and head of the Macquarie group's IB 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.

François 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., Pixman Nomadic Media Inc. 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.

committed to managing responsibly

Respect for the environment, people and communities forms an integral element of MPT's business strategy. Our operations have an impact (both positive and negative) on natural resources, such as water, energy and other raw materials, as well as our employees, customers, investors and the communities in which our assets are located. We endeavour to manage that impact responsibly.

We view compliance with regulatory obligations, including occupational health and safety (OH&S) laws related to employees, contractors and visitors, as the minimum standard. We strive for best practices in environmental and social responsibility management and proactively manage these responsibilities throughout the investment process, which includes:

Review and evaluation of possible acquisitions:
MPT's due diligence process includes a review of an asset's environmental and OH&S risk management frameworks as part of the assessment of the broader risk management framework. This process includes a series of steps to be taken during the due diligence phase, including the use of independent experts to identify issues and obligations related to the investment.

Ongoing management:
Each asset maintains its own risk management framework and supporting systems to manage its obligations and risks. MPT's ability to control or influence these frameworks depends on our level of ownership or control and the regulatory framework that governs the specific environmental and OH&S risks at the asset. Each asset must report to the Board on risk management, which helps to ensure compliance with regulatory requirements as well as timely identification and resolution of issues.

Stakeholder reporting:
MPT is required to report annually to unitholders on environmental and social responsibility management. This includes a summary of our policies and key responsibilities as well as a statement on regulatory compliance by our assets during the reporting period.

Key environmental and social responsibility factors

MPT's key environmental and social responsibility factors include resource use, dangerous goods and hazardous materials, gaseous emissions, noise, flora and fauna, heritage, waste storage and handling, environmental monitoring and reporting, occupational health and safety, recruitment and employment compliance, and community and stakeholder relations.

Environmental and social responsibility initiatives at Cardinal

Workplace safety is a priority for all employees and contractors working at Cardinal. A robust safety and technical training program fosters a positive attitude towards safety and has been instrumental in Cardinal maintaining an exemplary health and safety record. Once again, in 2006 there was no lost time due to injuries.

Cardinal's management provides a variety of health and safety sessions on topics such as first aid, operating a lift truck and working in confined spaces. These sessions are reinforced with technical programs relevant to the responsibilities of each employee. All employees participate in additional cross-training courses to gain a better understanding of the technical and safety requirements of fellow employees as well as total plant systems. Also, all contractors are required to review Cardinal's site-specific safety video once a year before working on any project. In 2006, Cardinal's 18 employees received a total of 1,943 hours of safety and technical training, an average of 108 hours per employee.

Respect for the environment, people and communities is an integral element of MPT's business strategy, guiding our actions throughout the investment process.

Environmental and social responsibility initiatives at Leisureworld

Leisureworld's focus on the quality of care includes a commitment to ensuring a safe environment for residents and employees alike. Each Leisureworld home has established a Joint Health and Safety Committee (JHSC). Members of each JHSC are certified every year in accordance with standards set by the Ontario Ministry of Labour. Also, every year each Leisureworld home conducts extensive safety and health training for its employees on topics ranging from emergency response to personal protective equipment to preventing workplace violence. This training, conducted using a provincially-certified OH&S provider, has played an important role in preventing injuries in the workplace and reducing Workplace Safety and Insurance Board (WSIB) claims.

Environmental and social responsibility regulatory requirements

MPT is not aware of any significant breaches of relevant environmental and social responsibility regulatory standards by Cardinal or Leisureworld during the year ended December 31, 2006.

MBL FUNDS MANAGEMENT ACTIVITY POLICY

Macquarie Bank Limited (MBL) applies a governance framework to its specialist funds' activities, including MPT. 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 MBL-managed funds. Therefore, additional safeguards have been adopted to ensure that investors are protected. The key elements of the MBL Fund Policy are:

- Related party transactions between specialist funds and Macquarie entities are clearly identified and governed by rules requiring that they be undertaken on arm's length terms.
- Only independent directors or trustees can make decisions about transactions that involve Macquarie or its affiliates as counterparties. Macquarie-appointed directors or trustees do not vote on related party matters.
- All related party transactions are tested by reference to market standards. In particular, fee schedules and mandate terms and conditions are subject to third-party expert review.
- There is a separate IB Funds division of MBL that is dedicated to the funds management business. Staff members of IB Funds serve the interests of shareholders and the boards of the funds.
- Discrete operating systems and physical barriers create a separation, or wall, between the infrastructure funds management business and other parts of MBL.

vision, core businesses and strategy

MPT's 2006 performance was excellent, reflecting the high quality and stability of our assets as well as the success of our operating strategies.

About the Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is designed to provide readers with an informed discussion of the activities and operating results of Macquarie Power & Infrastructure Income Fund ("MPT" or the "Fund"), Macquarie Power & Infrastructure Income Trust (the "Trust"), Cardinal Power Inc. ("Cardinal GP"), Cardinal Power of Canada LP ("Cardinal"), MPT LTC Holding Ltd. ("LTC GP") and MPT LTC Holding LP ("LTC Holding LP"). LTC Holding LP has an indirect 45% investment in Leisureworld Senior Care LP ("Leisureworld"), which is accounted for using the equity method.

The MD&A is the responsibility of management and reflects events known to management as of February 28, 2007. The Board of Trustees carries out its responsibility for review of this disclosure principally through its audit committee, comprised entirely of independent Trustees.

This MD&A is intended to complement MPT's audited consolidated financial statements and related notes for the year ended December 31, 2006 (collectively, the financial statements), which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). You are encouraged to review MPT's financial statements in conjunction with your review of this MD&A. Additional information relating to MPT, including MPT's Annual Information Form and Management Proxy Circular, is available on SEDAR at www.sedar.com.

All dollar amounts are in thousands of Canadian dollars unless otherwise specified.

Statements contained in this MD&A, which are not historical facts, are forward-looking statements that involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied. For more detail on these factors, see the section titled "Caution regarding forward-looking information" in this MD&A.

Table of contents

17 Mission
17 Business overview and strategy
18 Key performance drivers
21 Capability to deliver results
22 Review of operations
24 Leisureworld
25 Liquidity and capital resources
26 Financial condition
26 Related party transactions
26 Contractual commitments
27 Non-GAAP performance measures
28 Quarterly financial information
29 Subsequent event
29 Accounting policies
30 Disclosure controls and procedures
30 Outlook
31 Caution regarding forward-looking information
31 Risks and uncertainties

Mission

MPT's mission is to deliver to unitholders sustainable, increasing income as well as capital growth. This is to be achieved through the acquisition and active management of essential infrastructure assets in North America, particularly Canada, with an emphasis on power assets. Infrastructure assets meet critical, long-term community needs, such as power generation and electricity transmission. Infrastructure also includes systems or services that society cannot function without, including water systems, health care and long-term care.

Business overview and strategy

MPT's Business

MPT is an unincorporated, open-ended limited purpose trust established by a declaration of trust dated March 15, 2004. This declaration was amended and restated on April 16, 2004 and further amended on February 21, 2006. MPT is managed by Macquarie Power Management Limited ("MPML" or the "Manager"), a member of the Macquarie group, one of the world's largest and most experienced owners and managers of infrastructure with approximately $30 billion of equity under management in infrastructure and related sectors in 25 countries. Through its subsidiaries, MPT owns and operates Cardinal and holds an indirect interest in Leisureworld.

MPT has increased distributions to unitholders twice since inception to $1.03 per unit on an annualized basis. MPT's average payout ratio for the year ended December 31, 2006 was 89%, which provides for stability of distributions and the financial flexibility to seek growth. Standard and Poor's has rated MPT's stability as SR-2, which, according to Standard and Poor's, indicates the solid sustainability and low variability of the Fund's cash flow.

Asset	Description	Percentage Ownership
Cardinal	• Contracted power infrastructure • A 156 megawatt ("MW") gas-fired cogeneration power plant in Ontario • Commenced operations in 1995 • Located in Cardinal, Ontario • Contributes approximately 70% of MPT's distributable cash	100%
Leisureworld	• Regulated social infrastructure • Long-term care ("LTC") provider in Ontario with more than 30 years of operating experience • 19 long-term care homes (3,187 beds) • One retirement home (29 beds) • One independent living home (53 beds) • Preferred Health Care Services, which provides professional nursing and personal support services • Ontario Long-Term Care, which provides laundry and purchasing services • Contributes approximately 30% of MPT's distributable cash	45%*

* The remaining 55% is owned by Macquarie Bank Limited, which transferred the economic benefits of its ownership to Macquarie International Infrastructure Fund ("MIIF") in November 2005. MIIF is managed by a member of the Macquarie group.

Cardinal

Cardinal is one of the largest independent gas-fired cogeneration plants in Ontario. Cardinal has two generators that produce electricity. One is powered by a combustion turbine that burns natural gas. The hot exhaust gas from the combustion turbine is delivered into a heat recovery steam generator that produces high pressure steam, which is then piped to a steam turbine that powers the second generator. This process is highly efficient and results in an effective use of energy.

Cardinal sells the electricity it generates to the Ontario Electricity Financial Corporation ("OEFC") under an exclusive power purchase agreement ("PPA") in effect until at least 2014. The steam and compressed air generated by Cardinal is sold at contracted rates to the Canada Starch Operating Company ("CASCO"), the largest corn refining facility in Canada, under an energy savings agreement ("ESA") that expires in 2015 but can be extended by mutual agreement. CASCO is located beside the Cardinal plant. Cardinal manages natural gas costs and the seasonal nature of the Canadian electricity market through gas swap contracts and long-term gas purchase and gas transportation contracts with Husky Energy Marketing Inc. ("Husky Marketing"), which expire in 2015 and 2014 respectively.

Leisureworld

Leisureworld is the third-largest operator of long-term care homes in Ontario. Long-term care homes are designed to accommodate seniors who may require 24-hour per day care or who suffer from cognitive or physical impairment. This requirement for care distinguishes LTC homes from independent living and retirement homes. Independent living homes are similar to apartments, townhouses or seniors' communities. Retirement homes offer rooms and suites designed for seniors who require minimal to moderate assistance with the activities of daily living.

Long-term care is regulated and funded by the Ministry of Health and Long-Term Care ("MOHLTC"), which requires that LTC homes be licenced in order to operate and receive government funding. LTC homes must be built to specified design criteria and funding is generally tied to the delivery level of mandated care services.

MPT's Strategy

MPT aims to deliver to unitholders sustainable, increasing income as well as capital growth. MPT pursues the following strategy to provide unitholders with an attractive total return on their investment:

Optimize the performance of MPT's assets through active management.

Active asset management supports sustainable growth in cash flow. This includes working with the management teams at each asset to optimize operating and financial performance and applying strong risk management principles and procedures to safeguard MPT's performance.

Expand MPT's existing businesses through acquisitions.

Cardinal and Leisureworld are essential infrastructure assets that provide stable, predictable cash flow. MPT seeks to expand these businesses through the acquisition of new power generation assets or long-term care operations, or by pursuing licences for new LTC beds as they are issued by the MOHLTC.

Pursue opportunities to invest in new infrastructure assets.

MPT seeks to diversify its portfolio through the acquisition of new essential infrastructure assets. These assets must operate within a regulated or contractual framework, which creates barriers to entry by competitors and ensures predictable revenue streams throughout the economic cycle. MPT's investment criteria require that any new acquisition extend the average life of the assets in MPT's portfolio, increase MPT's size and value, and deliver a sustainable increase in distributable cash per unit.

Key performance drivers

The main factors that drive MPT's performance are:

Cardinal

Consistent availability and capacity support reliability of cash flow.

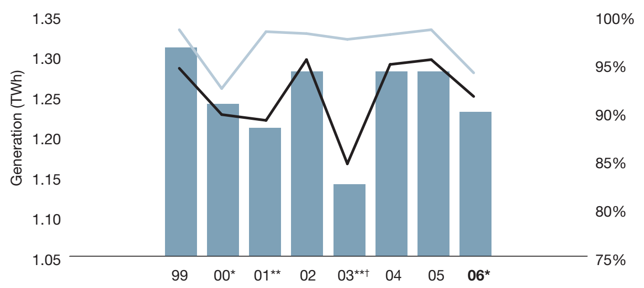
Cardinal has a track record of solid and consistent operating performance with a five-year average availability of 98.0%, and a five-year average capacity of 92.7% (see Figure 1). Availability is the number of hours that a generating unit is capable of providing service, whether or not it is actually in service, as a percentage of total hours in the period. Capacity is the net amount of electricity generated by a generating unit as a percentage of the total possible generation over the period. With thorough maintenance planning and execution, Cardinal is expected to continue to operate reliably for its estimated useful life.

Contracted long-term electricity rate provides stable revenue.

Under the PPA, the OEFC is obligated to make monthly payments for electricity delivered.

The rate paid by the OEFC escalates with the direct customer rate ("DCR"), which is based on the total market cost of electricity ("TMC") to industrial customers. The DCR is based

Figure 1



* Major maintenance, which occurs on a six-year cycle, was conducted in 2000 and in 2006, which affected availability, capacity and the amount of electricity generated.

** In 2001 and 2003, the previous owner of the plant reduced generation and capacity to sell gas into the market.

† Hot gas path maintenance is performed every three years, which means that every six years it is conducted with the major maintenance. Hot gas path maintenance was performed in 2003.

on the three-year average of the TMC (see Figure 2). The minimum DCR escalator is 0%. The monthly payments for electricity under the PPA are equal to the monthly electricity delivered during both on-peak and off-peak hours multiplied by two energy rates, Energy "A" and Energy "B". In addition to the monthly payments for electricity delivered, capacity payments are due from the OEFC for electricity delivered during on-peak hours to a maximum of the target quantities specified in the PPA.

The Energy A rate, which accounts for approximately 45% of MPT's total revenue, increases at a minimum rate of 4% per year. The cost of gas under the gas purchase agreement increases at a minimum of 2% per year. If the cost of gas increases by an escalator greater than 4%, the Energy A rate is structured to match the percentage increase. Furthermore, Energy B and capacity rates increase at the same rate as the escalator, which means that MPT benefits from any positive annual DCR escalation. In essence, Cardinal's PPA provides MPT with an indexed price for electricity.

Figure 2

The DCR rate for a wholesale market participant load customer connected at 230 kV in cents per kilowatt hour (kWh) is as follows:

	2002 Final	2003 Final	2004 Final	2005 Final	Second Interim 2006***
Total Market Cost*	6.1121	6.0820	6.0428	7.1982	6.6759
Direct Customer Rate**	5.8272	5.9597	6.0790	6.4410	6.6384

* The total market cost of electricity is based on the following: the hourly Ontario energy price; wholesale market service charges; transmission service charges; a debt retirement charge; and Ontario Power Generation Incorporated ("OPGI") market power mitigation rebate.

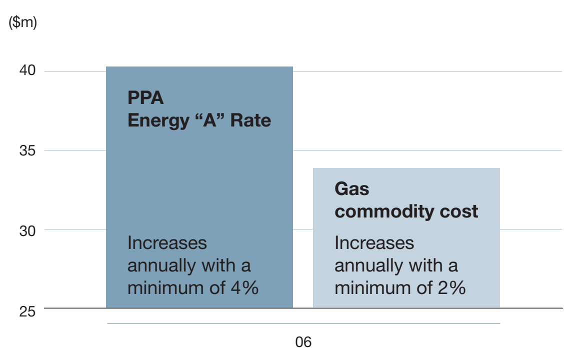
** The DCR rate that applies to Cardinal is derived from the total market cost of electricity delivered on a 100% load factor firm basis to a wholesale market participant load customer connected at 230 kV.

*** The OEFC is required to calculate and publish the Final DCR (2006) when final market data is available and the Interim DCR (2007) within 60 days of the end of the previous half-year period.

Contracted long-term fuel supply mitigates exposure to gas prices.

Cardinal's natural gas costs and the seasonal nature of the Canadian electricity market are managed through a long-term gas purchase and gas transportation contract with Husky Marketing. As noted above, the price of natural gas delivered under the purchase contract is tied to the DCR with a guaranteed minimum 2% per year escalator. This means that the growth rate in gas prices should not surpass the growth rate of electricity prices (see Figure 3). The purchase contract

Figure 3



also includes a gas mitigation clause, under which Cardinal has the option to sell excess natural gas not used in its operations.

Disciplined management of operating costs supports low variability of cash flow.

Cardinal's primary operating expenses are for gas and transportation costs, which are managed through long-term contracts as noted above. Maintenance expenditures are incurred to replace or add capital assets required to maintain the plant's current output capacity. All of Cardinal's future capital expenditures are planned for and funded by established reserve accounts, which helps to support the low variability of Cardinal's distributable cash.

Increasing demand for electricity supports Cardinal's ongoing role in Ontario's power supply market.

Electricity consumption in Ontario is continuing to grow, primarily reflecting growth in the population, personal incomes and the economy. At the same time, in the past decade there has been almost no increase in net generation capacity. The Ontario Power Authority ("OPA") expects a shortfall of 10,000 MW by 2025 due in part to the scheduled replacement of coal-fired generation that currently supplies approximately 20% of Ontario's power. In addition, units in the nuclear fleet, which supply approximately 50% of Ontario's load, will start to reach their planned retirement dates in 2014. Non-utility generators such as Cardinal currently contribute approximately 6% to 8% of Ontario's generating capacity available to meet the province's energy requirements, making them an important part of Ontario's future supply mix.

Leisureworld

Government-supported revenue ensures stability of cash flow.

Ontario's LTC sector is regulated by the MOHLTC according to a defined funding model. This model contributes to the predictability of Leisureworld's cash flow. Operational funding, paid monthly, is divided into three envelopes: nursing and personal care ("NPC"); program and support services ("PSS"); and basic accommodation (see Figure 4). Approximately 60% of revenue from Leisureworld's LTC homes is received from the MOHLTC. Over the past 10 years, government funding of Leisureworld's LTC homes has increased in excess of the consumer price index.

Leisureworld also receives capital cost funding of up to \$10.35 per bed, per day from the MOHLTC for Class A homes, which comprise 70.9% of Leisureworld's portfolio, and payments from residents for both basic and preferred accommodation. Preferred accommodation consists of private and semi-private rooms. Leisureworld also receives structural compliance premiums from the MOHLTC, on a per resident per day basis, for Class B and C homes. Additionally, the MOHLTC provides funding to LTC homes that have been accredited by the Canadian Council on Health Services Accreditation.

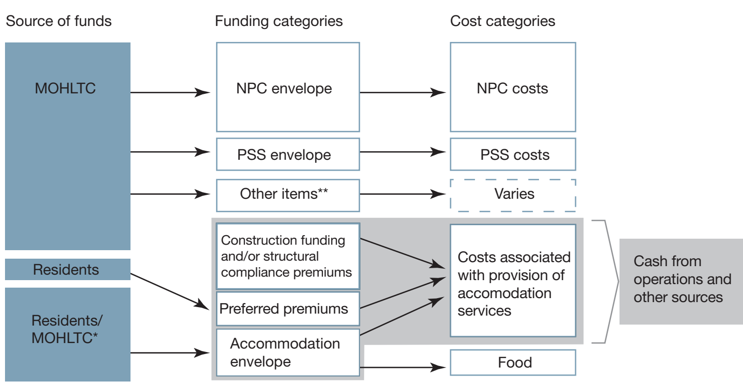
Increasing occupancy enhances cash flow.

Occupancy is a key driver of Leisureworld's performance. An LTC home that meets or exceeds 97% annual average occupancy receives funding from the MOHLTC based on 100% occupancy. Leisureworld has a strong record of increasing capacity and occupancy (see Figure 5). In addition, the supply of LTC beds is controlled and regulated by the government, which ensures barriers to entry. At year end, Leisureworld's annual average occupancy for mature homes was 98.5%.

Optimization of preferred accommodation mix increases operating profitability.

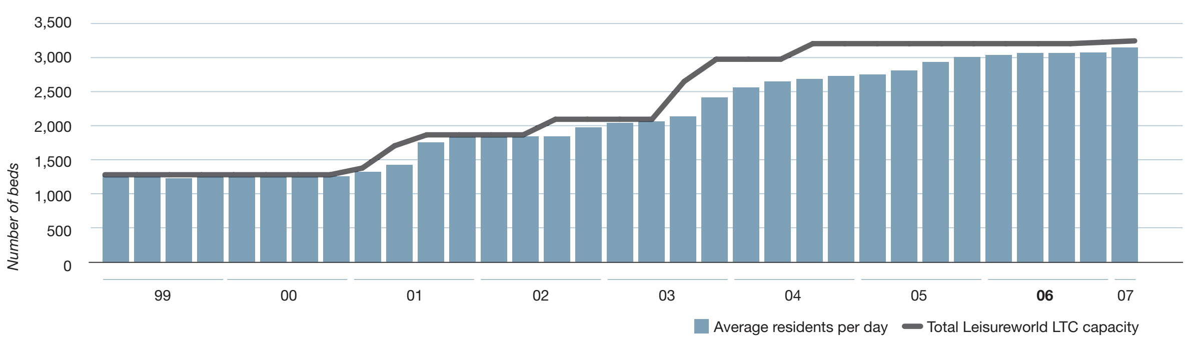
An LTC home that provides basic accommodation for at least 40% of residents may offer the remaining residents preferred accommodation in semi-private or private rooms. The LTC home operator retains the premiums collected for such

Figure 4



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

Figure 5



accommodation, which typically increases revenue and enhances profitability. These premiums, which are regulated, are currently $8 per day for a semi-private room and $18 per day for a private room. Approximately 50.2% of the beds in Leisureworld's portfolio are designated as private or semi-private accommodation. At year end, preferred bed average total occupancy for mature homes was 83.4%.

Disciplined cost management is key to operating profitability.

Leisureworld enjoys economies of scale in areas such as hiring, purchasing and administration for its LTC homes. Long-term care operators in Ontario receive funding from the government. Operators must return any funding that is not spent to the government, however spending in excess of the government funding is paid for by the LTC operator. Leisureworld manages costs prudently to ensure that it continues to provide quality accommodation and services while maximizing operating profit.

Positive demographic trends support demand for long-term care.

The demand for LTC homes is dictated by a need for care driven by demographic trends, rather than changes in the economy. According to the Ontario Ministry of Finance, the 75-plus age cohort is anticipated to be among the fastest-growing age cohorts over the next 20 years, doubling in size from 753,000, or 6%, of the population, in 2005, to 1.6 million, or 10%, of the population, in 2031.

The Fund

The acquisition of new infrastructure assets that meet MPT's investment criteria will help to accelerate the rate of MPT's growth.

MPT seeks to acquire new infrastructure assets that will diversify MPT's portfolio, increase the average asset life and contribute a sustainable increase in distributions per unit. In line with MPT's mission and strategy, management's mandate is to explore opportunities across a range of infrastructure assets, including but not limited to wind and other power generation assets, electricity distribution and transmission networks, water and wastewater systems and social infrastructure such as long-term care homes, schools and hospitals. The timing of acquisitions depends on the availability of appropriate opportunities as well as access to the equity and debt markets on favourable terms.

Capability to deliver results

Management believes that MPT's portfolio is capable of continuing to generate stable, growing distributions to unitholders.

First, Cardinal and Leisureworld are essential infrastructure assets that generate predictable cash flow, operate in sectors where there are high barriers to entry, and have a low correlation to economic or market fluctuations.

Second, MPT's operations generate significant cash resources, which are currently sufficient to fund capital expenditures, distributions to unitholders and build the cash resources to support growth initiatives. In 2006, MPT's operating activities generated $21,044 in cash. As at December 31, 2006, MPT had positive working capital of $19,151 and cash on hand totalling $12,142, of which $5,868 was not designated as major maintenance, capital expenditure or general reserves.

Third, the relationship of the Manager with the Macquarie group is an important strength for MPT. Macquarie is a global leader in infrastructure acquisition, funding and management. Worldwide, Macquarie has more than 480 advisory professionals who source infrastructure investment opportunities and execute those deals with clients, including MPT. This market presence and proven expertise gives MPT valuable insight into the financing and management of infrastructure assets as well as access to potential investment opportunities.

Additionally, MPT's own team includes infrastructure professionals who bring a breadth of management skills and experience to MPT and its individual assets as well as specialized expertise in evaluating and executing infrastructure investments.

Finally, MPT's strong professionalism and rigorous risk management practices underpin all activities and growth initiatives, thereby helping to safeguard MPT's performance and unitholders' interests.

Review of operations

Selected consolidated financial and operating information ($000s)

	Year Ended December 31, 2006	Year Ended December 31, 2005	Eight Months Ended December 31, 2004(iv)
Revenue	$ 88,976	$ 90,101	$ 53,013
DCR adjustment in respect of other periods	964	134	2,835
	$ 89,940	$ 90,235	$ 55,848
Income before the following:	10,566	13,562	7,964
Unrealized gain (loss) on gas swap contracts	1,520	(3,240)	213
Net interest expense	(974)	(1,146)	(941)
Equity accounted loss from Leisureworld	(2,701)	(804)	–
Net income	$ 8,411	$ 8,372	$ 7,236
Basic income per Unit	$ 0.280	$ 0.364	$ 0.342
Diluted income per Unit	$ 0.280	$ 0.360	$ 0.342
Cash flows from operating activities	$ 21,044	$ 20,230	$ 13,072
Distributable cash(i)	$ 34,058	$ 25,989	$ 14,168
Per diluted Unit ($)	$ 1.133	$ 1.117	$ 0.669
Distributions declared to Unitholders	$ 30,423	$ 22,220	$ 13,463
Per diluted Unit ($)(iii)	$ 1.012	$ 0.950	$ 0.636
Payout ratio(ii)	89%	85%	95%
Weighted average number of trust units and Class B exchangeable units outstanding (Units)	30,048,386	22,993,529	21,168,997
Diluted weighted average number of Units	30,048,386	23,271,173	21,168,997
Sale of electricity (000s MWh)	1,227	1,282	843
Sale of steam (MM lbs)	676	683	440
Total assets	$ 297,392	$ 320,404	$ 232,209
Total long-term liabilities	$ 37,668	$ 38,580	$ 35,517

(i) See "Additional information about non-GAAP performance measures" for a reconciliation of distributable cash to cash flows from operating activities for the year. Distributable cash is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, distributable cash may not be comparable to similar measures presented by other issuers.
(ii) 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.
(iii) All unitholders were paid distributions equivalent to the amount shown.
(iv) As the Fund commenced operations on April 30, 2004, results are provided for the eight-month period ended December 31, 2004.

Revenue

In 2006, Cardinal generated total revenue of $89,940 compared with $90,235 in 2005. The plant performed in line with expectations, with electricity sales of 1,227,000 MWh (2005 – 1,282,000 MWh), availability of 94.0% (2005 – 98.5%) and capacity of 91.6% (2005 – 95.4%). Although electricity sales decreased by 4.2%, revenue for the period, excluding DCR adjustments, decreased by only 1.3%. The DCR is a component of the overall electricity rate from the OEFC. Although the DCR is reviewed on an annual basis, the changes to the rate are not available until after the beginning of the calendar year to which they apply. As a result, the OEFC adjusts prior year payments in the subsequent year and MPT records those adjustments in the period in which they are received. In 2006, MPT received an adjustment of $964 (2005 – $134).

The decrease in electricity sales was primarily due to the planned major maintenance, which occurs on a six-year cycle, that was completed in the second quarter of 2006. The major maintenance resulted in 519 hours of outage (a period of time when the plant does not produce any electricity) compared with 104 hours in 2005. However, this decrease in volume was offset by a 3.2% increase in electricity prices. The shutdown for major maintenance also reduced plant availability and capacity. During the year, Cardinal curtailed 263 hours (a period of time when the plant produces electricity but not at full availability) (2005 – 525 hours).

Income from operations

Income from operations before net interest, share of Leisureworld losses and unrealized gains on swap contracts for the year ended December 31, 2006 was $10,566 compared with $13,562 for 2005. During the year, Cardinal's transportation and fuel costs declined by approximately $2,400, which reflected a 4.6% decrease in fuel consumption and a 0.8% decrease in fuel costs. Gas toll rates were lower than in 2005, which resulted in a savings of approximately $400. Gas toll rates are regulated rates that can only be changed with regulatory approval.

Reduced fuel costs also reflected the ongoing mitigation, or sale, of fuel. Under the terms of the gas purchase agreement, Cardinal may sell gas that it does not use to generate electricity. In addition, under the terms of its gas swap contract Cardinal must sell a certain volume of gas for a fixed price each month between April and October. Beyond this volume, gas is sold into the market at market prices.

The decreased transportation and fuel costs were offset by higher maintenance costs of $2,300 due to the major maintenance.

Administration expenses in 2006 increased by $2,556 from 2005. The major components of administration expenses are as follows:

($000s)	Year Ended December 31, 2006	Year Ended December 31, 2005
Management and administrative fees	$ 1,170	$ 782
Cost reimbursement	1,393	982
Incentive fee	1,847	1,260
Other administrative expenses	2,753	1,583
	$ 7,163	$ 4,607

The Manager receives payment in three components for duties performed related to the assets, including base management and administration fees, reimbursement for expenses, and incentive fees. With the Leisureworld investment in 2005, an additional management agreement was entered into for which two and a half months of management fees were included in 2005.

Cost reimbursement represents the costs incurred by the Manager for the ongoing administration of MPT and the assets, and to evaluate and pursue strategic growth initiatives. The costs for 2006 were in line with 2005 when including $478 of transaction-related costs in 2005 related to the acquisition of Leisureworld, of which $239 was charged to unitholders' equity and $239 was capitalized in the investment in Leisureworld.

The higher incentive fee in 2006 reflected MPT's excellent performance during the year. The calculation, which was determined at MPT's inception, compares a distributable cash benchmark of $0.95 per unit per year with current distributable cash, using a prescribed formula. Twenty-five per cent of the excess, if any, is paid to the Manager after approval by the Board.

Other administrative expenses include all other third-party costs, including legal, audit and regulatory services. Increased expenses of $1,170 in 2006 related primarily to increased governance costs, Bill 198 activities and the pursuit of strategic initiatives.

The majority of Cardinal's revenue and expenses are under contract, so there is no material exposure to the effects of inflation.

Unrealized gain (loss) on gas swap contracts

At times, Cardinal does not produce electricity, such as when the plant is shut down to perform regularly scheduled maintenance. In such a situation, Cardinal has excess natural gas that it sells to mitigate the loss of revenue resulting from decreased electricity production. The sale of excess gas exposes MPT to price fluctuations in the market rates for gas.

To stabilize the cash flow from excess gas sales, Cardinal entered into five gas swap contracts in April 2004 that fix the revenue received 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. These floating payments 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 much of the revenue uncertainty related to the sale of excess gas.

An unrealized gain of $1,520 was recorded in the year ended December 31, 2006 (2005 – loss of $3,240) to reflect the movement in fair value of the contracts entered into for 2007 and 2008. The fair value of the contracts is affected by the forward price of gas. This unrealized gain had no impact on the operating cash flow or distributable cash for the year ended December 31, 2006.

Net interest expense

Net interest expense represents borrowing costs less interest earned on cash balances. Overall, the expense is lower as a result of interest earned. MPT uses a series of Banker Acceptances ("BAs") that are renewed at maturity. This allows MPT 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 maturities. Borrowing costs of $1,567 were amortized in the year ended December 31, 2006 (2005 – $1,406). Although MPT renegotiated the credit agreement in May 2006, resulting in more favourable terms and fees, the base interest rate has risen since 2005.

Leisureworld

The Fund's investment in Leisureworld is accounted for as an equity investment and as such MPT records its pro rata share (45%) of any income or loss for the period. The Fund's share of Leisureworld's net loss was $2,701 for the year ended December 31, 2006. Included in MPT's pro rata portion of net loss was depreciation and amortization of $9,505, the amortization of a deferred gain of $203 and an impairment of property for sale of $180. Not included in MPT's pro rata portion of net loss was construction funding of $1,734 and an annuity payment of $453 received during the year. MPT's pro rata share of maintenance capital expenditures for the year was $137. Construction funding is a reimbursement of costs related to the cost of construction of Class A homes. The annuity payment is from a five-year cash annuity which has equal payouts on May 24 and November 24 each year for five years. During the year, Leisureworld paid $10,350 in cash distributions to the Fund.

Selected consolidated financial and operating information ($000s)

	Year Ended December 31, 2006	Year Ended December 31, 2005
Revenue	$ 172,054	$ 154,775
Operating and administration costs	147,227	134,031
Income from operations	24,827	20,744
Interest, net	9,307	6,741
Amortization	21,122	8,159
Impairment of property held for sale	400	–
Income taxes	–	2,929
Net income (loss)	$ (6,002)	$ 2,915
Cash flow provided by operating activities	$ 11,756	(i)
Distributions paid to partners	$ 23,000	(i)
Total assets	$ 517,812	$ 553,424
Long-term debt	$ 310,000	$ 310,000

(i) Results for the prior year have been presented only if comparable.

The average total occupancy and average preferred occupancy for Leisureworld's LTC homes for the year ended December 31, 2006, were as follows:

	Average total occupancy		Average preferred occupancy	
	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2006	Year Ended December 31, 2005
Mature Homes	98.5%	93.5%	83.4%	78.3%
Vaughan	79.4%	38.3%	40.3%	12.7%
Orillia	5.1%	N/A	4.0%	N/A
Spencer House	53.2%	93.2%	28.1%	45.9%

Mature homes are homes that have reached an average of 97% occupancy. The Vaughan and Orillia homes are the most recently opened homes. Vaughan reached 97% occupancy during the fourth quarter of 2006. Orillia opened on November 17, 2006 and reached 97% occupancy on February 12, 2007, which was within the 90-day fill period and ensures that Orillia is eligible for 100% funding from the day of opening. Occupancy at Spencer House reduced during the year as it transitioned towards closure on November 16, 2006. The actual total occupancy and actual preferred occupancy for Vaughan and Orillia as at December 31, 2006 were as follows:

	Actual total occupancy	Actual preferred occupancy
Vaughan	97.8%	49.3%
Orillia	56.3%	40.4%

Revenue

During the year ended December 31, 2006, Leisureworld generated revenue of $172,054 compared with $154,775 in the prior year. This increase of $17,279 or 11.2% was mainly due to the increased occupancy at the newer homes discussed above. Average total occupancy at the Vaughan home increased from 38.3% in the year ended December 31, 2005 to 79.4% in the current year. The average total occupancy across mature homes increased from 93.5% in the prior year to 98.5% in the year ended December 31, 2006. Government funding rates increased by 3.0% over 2005. In addition, revenue from preferred accommodation increased by $714, reflecting strong increases in occupancy of private rooms at the newer homes and new initiatives backed by government funding, including convalescent care and a new resident classification program, which increased revenue by $1,278. PHCS's external revenue increased by 4.3% and contributed $230 of the overall increase due to increases in nursing and personal support contract revenue during 2006.

Operating and administrative expenses

During the year ended December 31, 2006, operating and administrative expenses were $147,227, which was $13,196 or 9.8% higher than the prior year. The increase was primarily due to increased occupancy and associated increases in staff and operating costs at the newer homes. There was also an increase in corporate and acquisition integration costs over the prior year period following the change in ownership. In addition, pay for unionized staff increased at the beginning of fiscal 2006. PHCS's expenses increased by $900 or 8.7% over the prior year due to the cost of providing increased training and education services to LTC homes, servicing growth in nursing and personal support contracts and an increase in pay for nursing staff.

Amortization

During the year ended December 31, 2006, amortization increased by $12,963 or 158.9% over the prior year to $21,122. The main components of the period's amortization charge relate to resident relationships – $12,000, professional nursing and personal support contracts – $937, and property, plant and equipment – $7,920.

Financial expenses

For the year ended December 31, 2006, net interest expense amounted to $9,307, an increase of $2,566 or 38.1% from the prior year. During the year, interest expense on long term debt was $14,674. Interest income of $5,367 was recognized, of which $4,146 related to construction funding. Interest expense in the prior year was $6,741, consisting of interest on long-term debt of $1,481, interest on the bridge facility of $1,161 and mortgage interest of $9,536 net of interest income of $5,437 including interest income on construction funding of $5,232.

Net loss

Net loss for the year ended December 31, 2006 was $6,002 compared with a net income of $2,915 in the prior year. This reflects increased amortization and interest charges, which were only partly offset by income growth from higher occupancy, increased funding rates, improvements to the preferred accommodation mix and personal support contracts in the PHCS segment.

Liquidity and capital resources

During 2007, MPT expects to meet all of its obligations and make distributions to unitholders from cash flow generated from operating activities and distributions received from Leisureworld. For 2006, $21,044 of cash was generated from operating activities (2005 – $20,230.) As at December 31, 2006, MPT had positive working capital of $19,151 (2005 – $17,805) and cash on hand totalled $12,142 (2005 – $11,738), of which $5,868 (2005 – $3,158) was not designated as major maintenance, capital expenditure or general reserves.

Under Cardinal's credit agreement (the "Credit Agreement"), MPT has access to a revolving line of credit and term debt facilities. A revolving line of credit of $15,000 (2005 – $15,000) is available to MPT to fund future acquisitions and for general working capital requirements. As at December 31, 2006, there were no outstanding amounts against this facility (2005 – nil). As at December 31, 2006, MPT's long-term debt outstanding was $35,000 (2005 – $35,000).

Major maintenance on the Cardinal facility is scheduled every six years, requiring the plant to shut down for approximately 25 days as maintenance is performed on major components. After completion of major maintenance in 2006, and with the continued funding of major maintenance and capital expenditure reserves, MPT believes it has more than sufficient funds to meet all anticipated maintenance and capital requirements of Cardinal for 2007.

($000s)	**December 31, 2006**	December 31, 2005
Major maintenance reserve	**$ 2,219**	$ 4,145
Capital expenditure reserve	**1,055**	1,435
General reserve	**3,000**	3,000
Total reserve accounts	**6,274**	8,580
Other cash and cash equivalents	**5,868**	3,158
Total cash and cash equivalents	**$ 12,142**	$ 11,738

Seasonality

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

In addition, Cardinal generally performs its major maintenance activities between April and July, which affects MPT's operating results during that period. To partially offset this seasonality, Cardinal sells the excess natural gas not consumed through gas swap contracts with its gas supplier. In addition, MPT maintains reserve accounts and free cash in order to offset the seasonality and other factors that may impact electricity demand. MPT expects that active management of the reserve accounts and free cash will be sufficient to maintain stable monthly distributions to unitholders throughout the coming years.

Financial condition

Accounts receivable at December 31, 2006 were $18,021 (2005 – $17,641). Accounts receivable normally only includes one month of revenue due from OEFC. However, in 2006 as in 2005, due to the timing of holidays, both the November and December balances were outstanding at December 31, which resulted in a high accounts receivable balance.

Investment in Leisureworld represents the acquisition of the indirect 45% interest in Leisureworld. The investment is accounted using the equity method whereby the cost of the investment is adjusted by MPT's share of income and reduced by any distributions payable to MPT. As such, the $90,643 investment as of December 31, 2005 was reduced by MPT's 2006 pro rata share of Leisureworld's net loss of $2,701 (2005 – net loss of $804) and distributions of $10,350 (2005 – $1,852) received from Leisureworld.

During the year, MPT capitalized expenditures of $783 (2005 – $464) in property, plant and equipment, and incurred amortization of $7,741 (2005 – $7,698).

Trade payables at December 31, 2006 were $10,258 (2005 – $10,562). Of the balance, $4,648 was payable for gas (2005 – $4,617), $1,393 was payable for cost reimbursements (2005 – $1,460) and $1,847 was payable for incentive fees (2005 – $1,260).

Related party transactions

Under the terms of the administration and management agreements, MPT makes payments to the Manager for administration and management fees, incentive fees and cost reimbursement. For the year, MPT incurred administration and management fees of $1,170 (2005 – $782); incentive fees of $1,847 (2005 – $1,260); and cost reimbursement of $1,393 (2005 – $1,460). The Manager receives reimbursement for cost of services provided to MPT in relation to, but not limited to, administration, regulatory, finance, rent and information technology.

Contractual commitments

No significant changes in MPT's obligations and commitments occured in 2006. MPT's significant contractual obligations and commitments as at December 31, 2006 are described below.

Long-term debt

The term debt facility is a term loan of $35,000 (2005 – $35,000) that matures on May 16, 2011. Collateral for the facility is provided by a first ranking hypothec covering the assets of Cardinal. Use 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 Cardinal's ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization and unrealized gain and losses. 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, 2006, MPT's term debt was in the form of a series of instruments as follows:

Type of instrument	Drawdown amount	Maturity	All-in rate
BA	$11,600	June 13, 2007	5.21%
BA	$11,700	August 28, 2007	5.02%
BA	$11,700	December 14, 2007	4.83%

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, 2006, the unamortized portion of the capitalized borrowing costs totalled $1,145 (2005 – $881), which is included in the consolidated statement of financial position.

Electricity supply contract

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

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. Under its long-term purchase agreement for natural gas, Cardinal is required to purchase a minimum volume of natural gas equivalent to 80% of the contract maximum, or the supplier is entitled to financial compensation from Cardinal.

Lease

Cardinal leases a portion of the site on which the plant is located from CASCO. Under the lease, Cardinal pays nominal rent. The lease expires concurrently with the energy savings agreement between CASCO and Cardinal. The ESA expires on January 31, 2015 but can be extended by mutual agreement.

Gas swap contracts

Cardinal has entered into gas swap contracts to protect itself against fluctuations in the price of excess gas sold under the gas mitigation clause of the gas purchase contracts. 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 two 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, 2006, the following contracts remained:

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

Non-GAAP performance measures

Distributable cash and payout ratio

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

Payout ratio is defined as distributions declared as a percentage 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 MPT's consolidated statement of cash flow. Cash flow from operating activities is adjusted for changes in the reserve accounts, working capital and distributions received from Leisureworld.

($000s)	Year Ended December 31, 2006	Year Ended December 31, 2005
Cash flows from operating activities	$ 21,044	$ 20,230
Maintenance of productive capacity:		
Release from major maintenance reserve account	4,294	1,958
Allocation to major maintenance reserve account	(2,368)	(1,769)
Allocation to capital expenditure reserve account	(404)	(1,002)
	22,566	19,417
Other adjustments:		
Distributions received from Leisureworld	10,350	1,852
Changes in working capital	1,142	4,720
Distributable cash for the period	$ 34,058	$ 25,989
Distributable cash per diluted Unit	$ 1.133	$ 1.117
Distributions declared to Unitholders	$ 30,423	$ 22,220
Distributions declared per diluted Unit	$ 1.012	$ 0.950
Payout ratio	89%	85%
Diluted weighted average number of Units	30,048,386	23,271,173

As a result of the major maintenance in 2006, the release from the major maintenance reserve account was significantly higher than in 2005 as was the allocation to the account. Currently, all reserves are appropriately funded. Expected maintenance costs are fully funded by reserves and as a result should not impact distributable cash. For the year ended December 31, 2006, the Fund declared distributions to unitholders of $30,423 (2005 – $22,220). This represents a payout ratio of 89% (2005 – 85%). Payout ratio is defined as distributions declared as a proportion of distributable cash.

As a result of the acquisition of Leisureworld on October 18, 2005, MPT issued 5,630,000 units (through subscription receipts) and 3,249,390 Class B exchangeable units. This resulted in a significantly lower weighted average number of trust units in 2005. The Class B exchangeable units are eligible to receive distributions under the same terms and conditions as distributions paid on MPT's units.

In November 2006, The Canadian Institute of Chartered Accountants ("CICA") issued draft guidance for income trusts that recommends standardized calculation and reporting of distributable cash (see sec. 16 Accounting Policies).

Quarterly financial information

($000s) (unaudited) For the quarters ended	**Dec. 31, 2006**	**Sep. 30, 2006**	**Jun. 30, 2006**	**Mar. 31, 2006**	Dec. 31, 2005	Sep. 30, 2005	Jun .30, 2005	Mar. 31, 2005
Revenue	**25,622**	**20,356**	**16,278**	**27,684**	24,620	20,689	19,698	25,228
Net income (loss)	**4,026**	**2,252**	**(1,473)**	**3,606**	1,697	1,656	800	4,217
Cash flows from operating activities	**6,853**	**(2,303)**	**2,206**	**14,288**	(782)	5,695	3,937	9,123
Distributable cash	**10,003**	**6,947**	**6,308**	**10,800**	7,786	6,292	4,271	7,695
Distributions declared	**7,737**	**7,662**	**7,512**	**7,512**	7,136	5,028	5,028	5,028
(dollars)								
Basic net income (loss) per Unit	**0.134**	**0.075**	**(0.049)**	**0.120**	0.060	0.078	0.038	0.199
Diluted net income (loss) per Unit	**0.134**	**0.075**	**(0.049)**	**0.120**	0.058	0.078	0.038	0.199
Cash flows from operating activities per Unit (Diluted)	**0.228**	**(0.077)**	**0.073**	**0.476**	(0.027)	0.269	0.186	0.431
Distributable cash per Unit (Diluted)	**0.333**	**0.231**	**0.210**	**0.359**	0.264	0.295	0.202	0.364
Distributions declared per Unit (Diluted)	**0.257**	**0.255**	**0.250**	**0.250**	0.242	0.238	0.238	0.238

Fourth quarter performance

Revenue for the quarter ended December 31, 2006 increased by $1,002 from the same period in 2005, reflecting an increase in electricity rates. Electricity sold during the quarter increased by approximately 3.2% from the same period in 2005. Availability of 98.9% was in line with 2005 of 98.7%. There was no curtailment in the fourth quarter of 2006 compared with curtailment of 360 hours in 2005 to mitigate gas. As a result, Cardinal's capacity in the fourth quarter of 2006 was 96.6% compared with 93.7% in 2005.

Net income in the fourth quarter of 2006 was $4,026 compared with $1,697 for the same period in 2005. Approximately $1,000 of the increase resulted from higher revenue as previously discussed. Additionally, administrative expenses in 2005 were higher as significant accruals for incentive fee and cost recovery were recorded in the quarter. In 2006, MPT recorded costs throughout the year as they were incurred. As a result, the charges for these amounts were lower in the fourth quarter of 2006 than in the same period of 2005, even though the actual expense was greater in 2006. The remainder of the change related to reduced losses on the gas swaps (2006 – $291; 2005 – $598) and equity accounted loss for Leisureworld (2006 – $625; 2005 – $804).

Subsequent event

The electricity rate paid to Cardinal by the OEFC escalates with the DCR, which is based on a three-year average of the total market cost of electricity to industrial customers. As the determination of the final DCR for the year will not be available until mid 2007, the OEFC provides provisional and interim rates until the final DCR is determined. Subsequent to year end, the OEFC released the second interim DCR for 2006. Management is reviewing the impact of the updated DCR and estimates that this could result in an additional payment from the OEFC to Cardinal of approximately $1.4 million for electricity generated in prior periods. This amount will be recorded in the first quarter of 2007, consistent with the Fund's revenue recognition policy.

Accounting policies

MPT has adopted certain accounting policies that 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 management 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

MPT uses gas swap contracts to manage its exposure to price fluctuations on sales of excess natural gas. MPT has adopted CICA Accounting Guideline 13, Hedging Relationships ("AcG-13"), which sets out the criteria for applying hedge accounting for these financial instruments. Gas 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. Gas swap contracts that do not qualify for hedge accounting under AcG-13 are recorded in the consolidated statement of financial position at fair value established by the market. Changes in fair value are recorded as adjustments to net income in the consolidated statement of income. In analyzing the effectiveness of gas swap contracts, it is necessary for MPT 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. To determine fair value, the Manager is required 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 2006 continues to support the carrying value of MPT's long-lived assets.

Asset retirement obligation

MPT recognizes a liability for the present value of the expected future costs of retirement of the Cardinal plant. Expected values are probability weighted to deal with the risks 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 Cardinal'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. In the second quarter, management completed a reassessment of the asset retirement obligation and as a result increased the obligation by $555.

Long-term investment

MPT 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 adjusted by MPT's proportionate share of operations and reduced by any distributions payable to MPT by Leisureworld.

Maintenance and repairs

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

Useful life of the Cardinal plant

Plant and equipment are amortized over their estimated useful lives of 20 years. Management 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

The CICA has issued three new accounting standards in the CICA Handbook: Section 3855 Financial Instruments – Recognition and Measurement, Section 3865 Hedges, and Section 1530 Comprehensive Income. Sections 3855, 3865 and 1530 apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Financial statements of prior periods are required to be restated for certain comprehensive income items. MPT will be adopting these standards in 2007 and management expects that the principal impacts of the standards are as follows. Other comprehensive income will be a new component of unitholders' equity and a new statement entitled Statement of Comprehensive Income will be added to MPT's Consolidated Financial Statements. Financial assets and liabilities will be required to be classified as available for sale, held to maturity, trading, or loans and receivables. Certain instruments are expected to be recorded at fair value with changes in fair value recorded through income.

Management is continuing to review and quantify the financial impact that these standards will have on the consolidated financial statements of MPT in the first quarter of 2007.

Distributable cash

The CICA has released draft interpretive guidance on distributable cash for income trusts and other flow-through entities that recommends standardized calculation and reporting of distributable cash. The Canadian Securities Administrators have also released for comment proposed amendments to National Policy 41-201 – Income Trusts and Other Indirect Offerings. These pronouncements are not yet policy. The Fund has reviewed these pronouncements and anticipates adopting the final recommendations.

The OEFC is Cardinal's primary customer which accounts for over 99% of revenue. Cardinal bills the OEFC once every month. As there are only 12 payments during the year, the timing of each payment has a significant impact on the Fund's working capital. According to the OEFC's billing schedule, each bill is to be paid by the 21st business day of the following month. However, the number of business days in a month varies depending on the timing of holidays or weekends. As a result, the OEFC may not pay a bill until the following month which could result in a situation where two invoices are paid in the same month. Such circumstances could cause significant fluctuation in working capital, distributable cash and payout ratio that is not reflective of the Fund's ongoing distributable cash or stability of operations.

Including the impact of changes in working capital, distributable cash would be $32,916 for the year ended December 31, 2006. Payout ratio would be 92% for the year.

Disclosure controls and procedures

The Fund's Chief Executive Officer and Chief Financial Officer, on behalf of MPT's Board of Trustees, are required by the provincial securities regulators to certify annually that they have designed, or caused to be designed, MPT's disclosure controls and procedures, as defined in Multilateral Instrument 52-109, and that they have evaluated the effectiveness of these controls and procedures in the applicable period. Disclosure controls are those controls and other procedures that are designed to provide reasonable assurance that relevant information that MPT is required to disclose is recorded, processed and reported within the timeframes specified by such securities regulators.

MPT's disclosure policy was approved by the Board of Trustees and adopted by MPT in December 2005. The Board of Trustees, which is responsible for oversight of this policy, also developed structured operating routines involving senior management of MPT'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. This process, which management believes existed before, has now been documented in MPT's written operating procedures and is effective.

An evaluation of the effectiveness of the design and operation of MPT's disclosure controls and procedures was conducted as of December 31, 2006, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that MPT's disclosure controls and procedures are effective to ensure that information required to be disclosed in reports that MPT files or submits under Canadian securities legislation is recorded, processed, summarized and reported within applicable time periods.

Changes in internal control over financial reporting

During 2006 and the most recent interim period, there were no changes in MPT's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, MPT's internal controls over financial reporting.

Outlook

MPT's excellent performance in 2006 was in line with expectations. Management anticipates continued strong performance in 2007, based on the growth and stability inherent in the Cardinal and Leisureworld assets.

Cardinal is expected to experience an increase in cash flow due to higher revenue from increased electricity rates and reduced scheduled maintenance time. This will be partially offset by higher gas transportation costs in 2007. Anticipated maintenance and capital expenditure requirements at Cardinal are fully funded by established reserve accounts. Planned maintenance in 2007 will consist of a combustion inspection, which typically requires a five-day outage.

In 2006, Leisureworld achieved its performance targets in its first full year of operation within MPT's portfolio. In 2007, growth for Leisureworld is expected to continue through improved occupancy. In February 2007, occupancy of Leisureworld's newest Class A home in Orillia exceeded 97%. Management expects that in 2007 all 19 LTC homes will achieve the 97% annual occupancy threshold that is required for full funding. Leisureworld will also continue to execute its strategy to optimize preferred accommodation and provide high quality care and services to residents. In addition, MPT expects to realize one-time proceeds in the second quarter of 2007 on the sale of Spencer House, which was closed at the time the new Orillia home opened.

MPT will continue to explore investment opportunities that complement the cash flow profile of Cardinal and Leisureworld, extend the average asset life of MPT's portfolio and deliver a sustainable increase in distributable cash per unit with the potential for capital growth.

On October 31, 2006 the federal government proposed a new tax regime for flow-through entities that applies to publicly-listed Canadian trusts and partnerships, other than Real Estate Investment Trusts ("REIT") and those flow-through entities that only hold portfolio investments. The proposed changes, which appear designed to effectively tax income funds in the same manner as corporations, are expected to have the most impact on tax-deferred investors such as pension funds and RRSPs and non-resident investors. The proposed tax changes are expected to become effective for the Fund and its unitholders in 2011.

To be considered a REIT for this purpose, a trust must not hold "non-portfolio" properties except real estate, must derive at least 95% of its income from rents, mortgages or gains from real property, and must hold real property in Canada, cash and government debt that accounts for at least 75% of its equity value. Management is continuing to evaluate the impact of this provision on MPT.

On December 15, 2006, the government clarified the level of growth that income funds would be permitted during the transition period. Income funds will be permitted to increase equity capital through the issuance of new equity by an amount that does not exceed the greater of $50 million and an objective safe harbour that is measured by reference to an income fund's market capitalization as of the close of trading on October 31, 2006. From November 1, 2006 to the end of 2007, the safe harbour will be 40% of the October 31, 2006 benchmark. For each of the 2008 through 2010 calendar years, the safe harbour will be 20% of that benchmark, together allowing growth of up to 100% over the four-year transition period. The safe harbour amounts are cumulative. Additionally, mergers of two or more income funds that were publicly-traded on October 31, 2006 will not be considered growth to the extent that there is no net addition to equity as a result of the merger or reorganization. Furthermore, the government stated that income funds will be permitted to convert into corporations without any tax consequences to investors.

Although legislation introduced on December 21, 2006 did not contain this guidance, management is encouraged by the government's stated position and the flexibility it provides for MPT's continuing growth. MPT has delivered increasing value for unitholders since inception, reflecting the high quality and stability of MPT's assets as well as the success of MPT's operating strategies. The fundamentals of MPT's business are strong and management is confident in MPT's long-term growth prospects, including growth through acquisitions.

MPT anticipates maintaining a payout ratio of 90% to 95% in 2007, which provides stability and growth of distributions to unitholders. For 2006, 79% of the distributions paid to unitholders will be non-taxable as a return of capital. Management expects the return of capital portion to be approximately 70% for the 2007 fiscal year, barring any significant external shocks.

Caution regarding forward-looking information

Certain statements in this MD&A may be "forward-looking" statements subject to known and unknown risks and uncertainties. These statements reflect current expectations regarding future events and operating performance. Actual results could be materially different from any future results implied by such forward-looking statements.

Statements using words such as "may", "will", "expect", "believe", "plan", or similar terminology, constitute forward-looking statements. 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, 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 viewed as exhaustive. Other events and risk factors in addition to those discussed in this report, including risk factors disclosed in MPT's Annual Information Form, could cause actual results to differ materially from the results discussed in the forward-looking statements. The forward-looking statements contained in this MD&A are based on currently available information and what management currently believes are reasonable assumptions. However, MPT cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made only as of the date of this MD&A, and MPT assumes no obligation to update or revise them to reflect new events or circumstances. MPT cautions readers not to place undue reliance on any forward-looking statements.

Risks and uncertainties

Cardinal and Leisureworld face various risk factors and uncertainties that could have an adverse impact on their businesses, operating results and financial condition, which could adversely affect MPT's results and ability to pay distributions to its unitholders. Management of MPT attempts to mitigate the risks and uncertainties that may affect MPT's performance through a process of identifying, assessing, reporting and managing risks of significance. The following information should be read in conjunction with this annual report, MPT's annual information form and other disclosure documents filed with the provincial securities commissions, which are available on SEDAR at www.sedar.com.

Risks Related to Cardinal

Operational performance of Cardinal's plant

Cardinal's revenue is proportional to the amount of electrical energy and steam it generates. The Cardinal plant, including its connection to the Cardinal transmission line, is subject to operational risks, including premature wear or failure, due to defects in design, material or workmanship, and longer than anticipated down times for maintenance and repair. The risks associated with Cardinal are partially mitigated by the proven nature of its cogeneration technology, comprehensive maintenance program, and the design of the plant. In addition, the plant is geographically located at a single site which could subject MPT to greater risk of a material negative impact on distributable cash from the occurrence of a significant event disrupting the plant's ability to produce or sell power for an extended period of time.

Expiry of power purchase agreement

All the electricity generated by Cardinal, less the amount consumed in its operations, is currently sold to the 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:

- bid all of the power it produces into the Independent Electricity System Operator ("IESO")-administered market and receive the market price for the electricity sold;
- enter into a bilateral power purchase contract with another counterparty to sell electricity at a negotiated price; or
- do a combination of both, bidding some power into the IESO-administered market and selling the rest under a bilateral contract with a counterparty.

In the event that Cardinal 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 IESO-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 facility's marginal cost of operations. Furthermore, Cardinal may be economically less competitive than other power producing facilities.

Fuel costs, supply and transportation

The gas purchase agreement expires on May 1, 2015. Upon expiry of the gas purchase agreement, Cardinal will have to renegotiate the agreement or enter into a new gas supply agreement. Current natural 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. The plant is also dependent on the transportation of natural gas to it, and as such, any service interruption may result in a significant reduction in distributable cash due to loss of production at the facility.

Cardinal uses gas swap agreements to mitigate the effect of gas price fluctuations on the net proceeds that Cardinal receives for natural gas in excess of the plant's requirements. The gas swap agreements could expose MPT to losses that could occur under various circumstances, including the counterparty defaulting in respect of its obligations under the gas swap agreements, if the gas swap agreements provide an imperfect hedge, or in the event that MPT's swap policies and procedures are not followed.

Contract performance

The amount of distributable cash available for distribution to unitholders is highly dependent on the parties to the applicable agreements fulfilling their contractual obligations, particularly the OEFC under the PPA (which accounts for approximately 98.7% of the gross revenues expected from Cardinal) and Husky Marketing under the gas purchase agreement. An inability or failure by any such party to meet its contractual commitments could have an adverse impact on Cardinal's business.

Default under credit agreement

The credit agreement expires in 2011. The credit agreement contains a number of standard financial and other covenants. A failure by Cardinal to comply with its obligations in the credit agreement could result in a default, which, if not cured or waived, could result in the termination of distributions by Cardinal and permit acceleration of the relevant indebtedness. If the indebtedness under the credit agreement were to be accelerated, there could be no assurance that Cardinal's assets 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 MPT or its subsidiaries could refinance the credit agreement or obtain additional financing on commercially reasonable terms, if at all. The credit agreement is, and future borrowings may be, at variable rates of interest, which exposes MPT to the risk of increased interest rates. This factor may increase the sensitivity of distributable cash to interest rate variations.

Expiry of lease

The initial term of the lease expires on January 31, 2015, but may be extended by up to two years at Cardinal's option and runs concurrently with the energy savings agreement. 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 continue to operate the plant. 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.

Risks Related to Leisureworld

Government regulation and funding

In Ontario, all LTC homes must be licenced under applicable provincial legislation. Such licences are for a term of one year, but are routinely renewed each year unless there is a concern or complaint about the home. Therefore, these licences do not represent any guarantee of continued operation beyond the one-year term of the licence. While Leisureworld endeavors to ensure compliance with all regulatory requirements applicable to the Leisureworld homes, it is not unusual for stringent inspection procedures to identify deficiencies in operations. Should this occur, it is possible that Leisureworld may not be able to remedy such deficiencies within the time frames allowed.

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

Bill 140, the *Long-Term Care Homes Act 2006*, contains a number of new provisions which, if enacted in its present form, could impact on the operations of the Leisureworld homes. Among the new provisions are licence term limits for LTC homes according to class from 15 to 25 years (currently, LTC licences have one-year terms subject to automatic renewal on an annual basis). As well, Bill 140 provides that licences can be revoked in cases of non-compliance. Although many of its provisions are already in place at the Leisureworld homes, Bill 140, if enacted, could have an impact on Leisureworld's business.

LTC home ownership and operation

By investing indirectly in Leisureworld, MPT is exposed to the general business risks inherent in the seniors' housing industry. These risks include fluctuations in levels of occupancy and the inability to achieve economic accommodation funding or residency fees (including anticipated increases in such fees). The inability to achieve such funding or fees could occur as a result of, among other factors, regulations controlling LTC funding; regulations controlling rents for the RHs and IL homes; possible future changes in labour relations; increases in labour, other personnel costs, and other operating costs; competition from or oversupply of other similar properties; changes in conditions of Leisureworld or general economic conditions; and the imposition of increased or new taxes. These risks also include the effects of health-related risks and disease outbreaks. As such, there is no assurance that future occupancy rates at Leisureworld will be consistent with historical occupancy rates achieved.

As well, all of Leisureworld's business and operations is currently conducted in the Province of Ontario. If the Ontario market was to generally experience a decline in financial performance as a result of changes in local or regional economic conditions, such as the addition of new LTC homes, or an adverse change to the regulatory environment in Ontario, the market value of the Leisureworld homes, the income generated from them, and MPT's overall financial performance could be negatively affected.

Minority interest

MPT owns an indirect 45% minority interest in Leisureworld. As such, MPT has restricted legal rights to influence the management of Leisureworld. The remaining indirect 55% interest in Leisureworld is owned by Macquarie Bank Limited, which has transferred the economic benefits of its ownership to Macquarie International Infrastructure Fund (MIIF). MIIF or any future holders of its 55% interest may have different objectives than those of MPT for Leisureworld. As a result, Leisureworld's ability to generate cash and to pay distributions to MPT could be adversely affected by certain actions of the indirect majority owner of Leisureworld.

Reliance on key personnel

The success of the Leisureworld LTC business 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 its senior management team if their services were no longer available. The loss of services of one or more members of such senior management team could have a material adverse effect on Leisureworld, its operating results, and financial condition, which could adversely affect MPT's results and ability to pay distributions to unitholders.

Default under Leisureworld's long-term debt

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 on the long-term debt or drawings under its credit facility. If Leisureworld were unable to meet such interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. If this were to occur it could have an impact upon the business, operating results and financial condition of Leisureworld which could adversely affect MPT's results and ability to pay distributions to unitholders. As well, the long-term debt and the credit facility contain a number of standard financial and other covenants and a failure by Leisureworld to comply with its obligations under these instruments could result in a default, which, if not cured or waived, could result in the termination of distributions by Leisureworld and permit acceleration of the relevant indebtedness.

Labour relations and cost

As at December 31, 2006, Leisureworld employed, directly and indirectly, over 3,200 people. All of the Leisureworld LTC homes are currently unionized with approximately 80% of employees represented by unions, including the Service Employees International Union, the Ontario Nurses Association, the Christian Labour Association of Canada, the Canadian Union of Public Employees and the Teamsters. There can be no assurance that 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 Leisureworld's and MPT's operating results and financial condition. However, all LTC homes in the Province of Ontario are governed by the Hospital Labour Disputes Arbitration Act (Ontario), which prohibits strikes and lockouts in the seniors' housing industry. Therefore, collective bargaining disputes are more likely to be resolved through compulsory third party arbitration.

Leisureworld's LTC business is labour intensive, with labour-related costs comprising a substantial portion of Leisureworld's direct operating expenses. The Leisureworld LTC business competes with other health care providers with respect to attracting and retaining qualified personnel. A shortage of trained or other personnel may require 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 will be matched by corresponding increases in revenue.

Risks Related to the Fund

Proposed changes in federal tax policy for flow-through entities

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

Variability of distributions

The actual amount of cash distributions to unitholders will depend on numerous factors, including the financial performance of MPT's operations, ability to meet debt covenants and obligations, working capital requirements, future capital requirements and tax-related matters. The market value of the units may deteriorate if MPT is unable to maintain its cash distribution levels in the future, and that deterioration may be material.

Unitholder liability

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

Dependence on the Manager and potential conflicts of interest

The Manager directly, or indirectly through its operating subsidiaries, makes all decisions relating to MPT, the Trust, Cardinal and Leisureworld's businesses, which are also dependent on the Manager, through the administration agreement and the management agreements, for all management and administrative services relating thereto. The Manager, its affiliates, employees or agents and other funds and vehicles managed by affiliates of the Manager may be engaged or invest, directly or indirectly, in a variety of other companies or entities involved in owning, managing, advising on or being otherwise engaged in the power business or other infrastructure businesses. The management agreements, the administration agreement, the Trust's Declaration of Trust, and MPT's Declaration of Trust contain provisions respecting the procedures to be followed in the event of such conflict of interests. In certain circumstances, such conflicts may result in MPT or its subsidiaries having to engage persons other than the Manager to provide acquisition and support services in respect of certain acquisitions or investments.

Insurance

MPT and Leisureworld maintain at all times insurance coverage in respect of potential liabilities and the accidental loss of value of their assets from risks, in amounts, with such insurers, and on such terms as the Trustees and the directors of Leisureworld consider appropriate, taking into account all relevant factors including the practices of owners of similar assets and operations. However, not all risk factors are covered by such insurance, and no assurance can be given that insurance will be consistently available or available on a commercially reasonable basis or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving MPT's assets or operations.

Environmental, health and safety

Cardinal and Leisureworld are subject to a complex and increasingly stringent environmental, health and safety regulatory regime, which includes environmental, health and safety laws. As such, the operation of the facilities carries an inherent risk of environmental, health and safety liabilities (including potential civil actions, compliance or remediation orders, fines and other penalties), which may result in the facilities being involved from time to time in administrative and judicial proceedings related to such matters. Neither Cardinal nor Leisureworld, to MPT's or the Manager's knowledge, has been notified of any such civil or regulatory action in regards to their operations. However, it is not possible to predict with certainty what position a regulatory authority may take regarding matters of non-compliance with environmental, health and safety laws. Changes in such laws, or more aggressive enforcement of existing laws, could lead to material increases in unanticipated liabilities or expenditures for investigation, assessment, remediation or prevention, capital expenditures, restrictions or delays in the facilities' activities, the extent of which cannot be predicted.

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 Annual 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 independent auditors, PricewaterhouseCoopers LLP, have examined the consolidated financial statements in accordance with Canadian GAAP. The independent auditors' responsibility is to express an opinion on the consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion on the consolidated financial statements. The following report of PricewaterhouseCoopers LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

(signed)

Gregory J. Smith
Chief Executive Officer

(signed)

Harry Atterton
Vice President and Chief Financial Officer

Toronto, Canada
February 28, 2007

Independent auditors' report

To the Unitholders of Macquarie Power & Infrastructure Income Fund:

We have audited the consolidated statements of financial position of Macquarie Power & Infrastructure Income Fund as at December 31, 2006 and 2005 and the consolidated statements of income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of management of the Fund. 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 the 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)

Chartered Accountants

Toronto, Canada
February 28, 2007

Consolidated statement of financial position

December 31,

($000s)	2006	2005
Current Assets		
Cash and cash equivalents (note 4)	$ 12,142	$ 11,738
Accounts receivable	18,021	17,641
Inventory	191	93
Prepaid expenses and borrowing costs	1,634	1,274
Total Current Assets	31,988	30,746
Investment in Leisureworld (note 5)	77,592	90,643
Property, plant and equipment (note 6)	134,603	141,006
Electricity supply and gas purchase contracts (note 6)	35,186	39,986
Goodwill	18,023	18,023
Total Assets	$ 297,392	$ 320,404
Current Liabilities		
Trade payables and accrued expenses	$ 10,258	$ 10,562
Distributions payable	2,579	2,379
Total Current Liabilities	12,837	12,941
Long-term debt (note 8)	35,000	35,000
Gas swap contracts at fair value (note 14)	1,507	3,027
Liability for asset retirement (note 9)	1,161	553
Total Liabilities	50,505	51,521
Unitholders' Equity (notes 10 and 11)	246,887	268,883
Total Unitholders' Equity and Liabilities	$ 297,392	$ 320,404

Commitments and contingencies (note 13)

See accompanying Notes to the Consolidated Financial Statements

Consolidated statement of Unitholders' equity

For the Year Ended December 31, 2006

($000s)	Unitholders' Capital	Class B Exchangeable Units	Subscription Receipts	Cumulative Earnings	Cumulative Distributions	Total
Balance, December 31, 2004	$ 194,907	$ –	$ –	$ 7,234	$ (13,463)	$ 188,678
Issuance of subscription receipts, net of issuing costs of $3,876	–	–	60,869	–	–	60,869
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 LP	–	35,500	–	–	–	35,500
Net income for the year ended December 31, 2005	–	–	–	8,372	–	8,372
Distributions declared to Unitholders for the year ended Dec. 31, 2005	–	–	–	–	(22,220)	(22,220)
Balance, December 31, 2005	253,460	35,500	–	15,606	(35,683)	268,883
Recovery of costs incurred in relation to subscription receipts offering	16	–	–	–	–	16
Net income for the quarter ended March 31, 2006	–	–	–	3,606	–	3,606
Distributions declared to Unitholders for the quarter ended March 31, 2006	–	–	–	–	(7,512)	(7,512)
Balance, March 31, 2006	253,476	35,500	–	19,212	(43,195)	264,993
Net loss for the quarter ended June 30, 2006	–	–	–	(1,473)	–	(1,473)
Distributions declared to Unitholders for quarter ended June 30, 2006	–	–	–	–	(7,512)	(7,512)
Balance, June 30, 2006	253,476	35,500	–	17,739	(50,707)	256,008
Net income for the quarter ended Sept. 30, 2006	–	–	–	2,252	–	2,252
Distributions declared to Unitholders for quarter ended Sept. 30, 2006	–	–	–	–	(7,662)	(7,662)
Balance, September 30, 2006	253,476	35,500	–	19,991	(58,369)	250,598
Net income for the quarter ended December 31, 2006	–	–	–	4,026	–	4,026
Distributions declared to Unitholders for quarter ended Dec. 31, 2006	–	–	–	–	(7,737)	(7,737)
Balance, December 31, 2006	$ 253,476	$ 35,500	$ –	$ 24,017	$ (66,106)	$ 246,887

See accompanying Notes to the Consolidated Financial Statements

Consolidated statement of income

For the Year Ended December 31, 2006

($000s)		2006		2005
Revenue	$	**89,940**	$	90,235
Costs and expenses				
Operating costs		**59,670**		59,568
Administrative expenses		**7,163**		4,607
Depreciation and amortization		**12,541**		12,498
		79,374		76,673
Income from operations		**10,566**		13,562
Unrealized gain (loss) on gas swaps contracts (note 14)		**1,520**		(3,240)
Net interest expense		**(974)**		(1,146)
Equity accounted loss from Leisureworld (note 5)		**(2,701)**		(804)
Net income	$	**8,411**	$	8,372
Weighted average number of trust units and Class B exchangeable units outstanding (Units)		**30,048,386**		22,993,529
Basic income per Unit ($)	$	**0.280**	$	0.364
Diluted weighted average number of Units outstanding		**30,048,386**		23,271,173
Diluted income per Unit ($)	$	**0.280**	$	0.360

See accompanying Notes to the Consolidated Financial Statements

Consolidated statement of cash flow

For the Year Ended December 31, 2006

($000s)	2006	2005
Cash flows from operating activities:		
Net income	$ 8,411	$ 8,372
Add back:		
Unrealized (gain)/loss on gas swap contracts	(1,520)	3,240
Depreciation and amortization	12,541	12,498
Amortization of prepaid borrowing costs	1,567	1,406
Accretion of asset retirement liability	53	36
Equity accounted loss from Leisureworld	2,701	804
Prepayment of borrowing costs and interest	(1,832)	(1,454)
Non-cash changes in working capital		
Increase in accounts receivable	(380)	(8,888)
Increase in inventory	(98)	(5)
Increase in prepaid expenses	(95)	(5)
Increase (decrease) in trade payables and accrued expenses	(304)	4,226
Total cash flows from operating activities	**21,044**	20,230
Cash flows from investing activities:		
Investment in Leisureworld	–	(57,799)
Distributions received from Leisureworld	10,350	1,852
Investment in property, plant and equipment	(783)	(464)
Total cash flows from investing activities	**9,567**	(56,411)
Cash flows from financing activities:		
Cash proceeds received from public offering	–	64,745
Costs in relation to public offering	16	(5,746)
Return of capital to subscription receipt holders	–	(446)
Distributions paid to Unitholders	(30,223)	(21,517)
Total cash flows from financing activities	**(30,207)**	37,036
Increase in cash and cash equivalents	**404**	855
Cash and cash equivalents at the beginning of year	11,738	10,883
Cash and cash equivalents at the end of year	**$ 12,142**	$ 11,738
Supplemental information:		
Interest paid	$ 1,885	$ 1,522

See accompanying Notes to the Consolidated Financial Statements

1. Organization

Macquarie Power & Infrastructure Income Fund (the "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 LP ("Cardinal"). Cardinal is a 156-megawatt, gas-fired combined cycle cogeneration plant located in Cardinal, Ontario. On October 18, 2005, the Fund acquired an indirect 45% interest in Leisureworld Senior Care LP ("Leisureworld"), a long-term care ("LTC") provider in Ontario.

Macquarie Power Management Ltd. ("MPML" or the "Manager") is an indirect wholly-owned subsidiary of Macquarie Bank Limited, an Australian public company listed on the Australian Stock Exchange. MPML 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 LP ("LTC Holding, LP") in accordance with management agreements.

2. Summary of significant accounting policies

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

Basis of presentation

The audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows as at December 31, 2006 and 2005 and for all periods presented, have been included. These audited consolidated financial statements should be read in conjunction with the Annual Information Form, which is 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 GP"), Cardinal, MPT LTC Holding Ltd. ("LTC GP"), and LTC Holding LP, all of which are 100% owned subsidiaries of the Fund.

The Fund, through its wholly owned subsidiaries, LTC GP and LTC Holding LP, uses the equity method to account for its 45% interest in Leisureworld.

All intercompany 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 the current and prior periods. The Fund accounts for such adjustments in the period when the adjustments are determinable.

Use of estimates

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

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 adjusted by the Fund's proportionate share of Leisureworld's results and reduced by any distributions payable to the Fund by Leisureworld.

Property, plant and equipment

Property, plant and equipment have been recognized at cost of acquisition and are included in the consolidated statement of financial position. Plant and equipment are depreciated over their estimated 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 consolidated statement of income in the period they are incurred. Improvements that increase or prolong the service life or capacity of an asset are capitalized.

Impairment of assets

The Fund evaluates the operating and financial performance of its long-lived assets for potential impairment in accordance with The Canadian Institute of Chartered Accountants ("CICA") Accounting Recommendation 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 consolidated statement of financial position, and were recorded at their fair value at the date of acquisition. The contracts are amortized over their useful lives of 10 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 applies CICA Accounting Guideline 13 “Hedging Relationships” (AcG-13), which establishes the criteria for applying hedge accounting for derivative instruments. Derivatives that have been designated and function effectively as hedges in accordance with AcG-13 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 consolidated statement of financial position at fair value. Changes in fair value are recorded in the consolidated statement of income.

Asset retirement obligation

The Fund recognizes a liability for the future retirement obligations associated with the Cardinal plant. 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.

Exchangeable securities

The Fund has applied the recommendations of the Emerging Issues Committee (EIC) of the CICA who issued an Abstract of Issues Discussed No. 151, Exchangeable Securities by Subsidiaries of Income Trusts (EIC-151), which provides guidance on the presentation of exchangeable securities issued by a subsidiary of an income trust. In order to be presented as equity, the exchangeable securities must have distributions that are economically equivalent to distributions on units issued directly from the Fund and the exchangeable securities must also ultimately be exchanged for units of the Fund. The LP units issued by a subsidiary of the Fund meet the above criteria and, accordingly, have been presented as equity.

Income taxes

Under the terms of the Income Tax Act (Canada) (the “Tax Act”), Cardinal and LTC Holding LP, as partnerships, are not subject to income taxes. Their income is allocated to and included in computing the income of its partners, who are Cardinal GP, LTC GP and the Trust. Under the terms of the Tax Act, the Fund and the Trust are not generally subject to income taxes to the extent their taxable income and taxable capital gains are distributed to Unitholders. As the Fund and the Trust distributed their taxable income and taxable capital gains to Unitholders in 2006, neither entity will be subject to income taxes in 2006. Accordingly, no provision for income taxes has been recorded by the Fund or the Trust.

On October 31, 2006, the Government of Canada announced a Tax Fairness Plan that proposed changes to the way income trusts are taxed. Under draft legislation proposals released in December 2006, distributions paid by the Fund would be subject to a distribution tax beginning in 2011. At December 31, 2006, as this proposed legislation was not substantially enacted, it did not impact these consolidated financial statements.

Variable interest entities

CICA Accounting Guideline 15, “Consolidation of Variable Interest Entities” (“AcG-15”), provides guidance for applying the principles in CICA Handbook Section 1590, “Subsidiaries”, to those entities defined as Variable Interest Entities (“VIEs”), in which either the equity at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties, or equity investors lack either voting control, an obligation to absorb expected losses, or the right to receive residual returns. AcG-15 requires consolidation of VIEs by the primary beneficiary. The primary beneficiary is defined as the party that has exposure to the majority of a VIE’s expected losses and/or residual returns. The Fund has determined that it is the primary beneficiary as at December 31, 2006 and should continue to consolidate Cardinal.

Basic and diluted income per unit

Basic and diluted income per unit is established by dividing net income, as determined above, by the weighted average number of trust units and Class B exchangeable units outstanding (“Units”) 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 homes 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. As at December 31, 2006 and December 31, 2005, cash and cash equivalents included the following:

	December 31, 2006	December 31, 2005
Major maintenance reserve	**$ 2,219**	$ 4,145
Capital expenditure reserve	**1,055**	1,435
General reserve	**3,000**	3,000
Total reserve accounts	**6,274**	8,580
Other cash and cash equivalents	**5,868**	3,158
Total cash and cash equivalents	**$ 12,142**	$ 11,738

5. Investment in Leisureworld

The investment in Leisureworld comprises:

	December 31, 2006	December 31, 2005
Opening balance	**$ 90,643**	$ –
Acquisition and transaction costs	**–**	93,299
Equity accounted loss for the year	**(2,701)**	(804)
Distributions received in the year	**(10,350)**	(1,852)
Closing balance	**$ 77,592**	$ 90,643

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

Property, plant and equipment	Cost	Accumulated Depreciation	**Dec. 31, 2006 Net Book Value**	Dec. 31, 2005 Net Book Value
Opening balance	$ 153,830	$ (12,824)	**$ 141,006**	$ 148,240
Purchases of property, plant and equipment	783	–	**783**	464
Increase to asset retirement obligation	555	–	**555**	–
Depreciation	–	(7,741)	**(7,741)**	(7,698)
Ending balance	$ 155,168	$ (20,565)	**$ 134,603**	$ 141,006

Electricity supply and gas purchase contracts	Cost	Accumulated Amortization	**Dec. 31, 2006 Net Book Value**	Dec. 31, 2005 Net Book Value
Opening balance	$ 48,000	$ (8,014)	**$ 39,986**	$ 44,786
Amortization	–	(4,800)	**(4,800)**	(4,800)
Ending balance	$ 48,000	$ (12,814)	**$ 35,186**	$ 39,986

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 banker's acceptances ("BAs") or prime rate loans. As at December 31, 2006, there is no amount outstanding under this facility (2005 – nil).

8. Long-term debt

The term debt facility is a term loan for an amount of $35,000 (2005 – $35,000) maturing May 16, 2011. 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, including limits on the amount of leverage and the ratio of debt to capital, and a minimum interest coverage ratio. 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 Cardinal's ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization and unrealized gains and losses. In the case of prime rate loans, interest is charged at the bank's prime rate plus an applicable margin based on the same ratio. As at December 31, 2006, the Fund's long-term debt was in the form of a series of instruments as follows:

Type of instrument	Drawdown amount	Maturity	All-in rate
BA	$11,600	June 13, 2007	5.21%
BA	$11,700	August 28, 2007	5.02%
BA	$11,700	December 14, 2007	4.83%

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, 2006, the unamortized portion of the capitalized borrowing costs totalled $1,145 (2005 – $881) and is included as an asset in the consolidated statement of financial position. Included in net interest expense on the consolidated statement of income is interest expense on long-term debt of $1,621 (2005 – $1,473).

9. Liability for asset retirement

The Fund recognizes a liability for the future retirement obligations associated with the Cardinal plant. The carrying value of these obligations is based on estimated cash flows of $2,100 required to settle the obligations in present day costs as at the date of the last assessment, June 30, 2006. The timing of settlement is based on probability weighted scenarios ranging in time from 2014 to 2023. A 2.0% inflation rate is assumed to estimate the cash flows in the future, and a credit-adjusted risk-free rate of 6.2% is used to discount the future cost of the liability.

The result, as at the date of the last assessment, was an expected present value of the retirement obligations of $1,126. This amount is included as a liability on the consolidated statement of financial position and accretes until the date of expected settlement of the retirement obligations. The present value of the retirement obligations is also included in the cost of property, plant and equipment and is depreciated over the useful life of the plant.

10. Units issued by the Fund

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

(i) 90% of the daily weighted average price per unit during the period of the last ten days; and

(ii) an amount equal to either:

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

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

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

The total amount payable in cash by the Fund in respect of such units and all other units tendered for redemption in the same calendar month shall not exceed $50 (provided that such limitation may be waived at the discretion of the trustees of the Fund). During the year, two units were redeemed by Unitholders in accord with the conditions set out above. In total, 26,798,995 units are outstanding as at December 31, 2006 (2005 – 26,798,997 units).

The Fund has also issued 3,249,390 Class B exchangeable units. Each exchangeable unit is 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 10th anniversary of the Acquisition Closing Date, October 15, 2015. Each Class B exchangeable unit will convert into units of the Fund on the 10th 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 with any units it receives on exchange of their Class B exchangeable units until they, together, hold 1% or less of the aggregate outstanding units.

11. Distributions to Unitholders

Distributions to Unitholders are paid on the last business day of each month, one month in arrears. The following distributions have been declared to Unitholders including Class B exchangeable units for the year ended, December 31, 2006:

Period of distribution	Date of payment	Amount declared	Amount declared (per unit)*
January 1 to 31, 2006	February 28, 2006	$ 2,504	$ 0.08333
February 1 to 28, 2006	March 31, 2006	2,504	0.08333
March 1 to 31, 2006	April 28, 2006	2,504	0.08333
April 1 to 30, 2006	May 31, 2006	2,504	0.08333
May 1 to 31, 2006	June 30, 2006	2,504	0.08333
June 1 to 30, 2006	July 31, 2006	2,504	0.08333
July 1 to 31, 2006	August 31, 2006	2,504	0.08333
August 1 to 31, 2006	September 29, 2006	2,579	0.08583
September 1 to 30, 2006	October 31, 2006	2,579	0.08583
October 1 to 31, 2006	November 30, 2006	2,579	0.08583
November 1 to 30, 2006	December 29, 2006	2,579	0.08583
December 1 to 31, 2006	January 31, 2007	2,579	0.08583
Year ended December 31, 2006		$ 30,423	$ 1.01250

* Amounts declared (per unit) are rounded for presentation purposes.

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.

12. Related party transactions

MPML provides management services to Cardinal, LTC Holding LP, the Fund and the Trust under 20-year management agreements. The Fund incurred management fees of $1,065 in respect of the year ended December 31, 2006 (2005 – $680) 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. The Fund incurred administrative fees of $105 for the year ended December 31, 2006 (2005 – $102). MPML 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 $1,393 for the year ended December 31, 2006 (2005 – $1,460). Additionally, an incentive fee of $1,847 (2005 – $1,260) payable to MPML was recorded for the year for exceeding the distributable cash per unit target of $0.95.

13. 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.

13. Commitments and contingencies (cont'd)

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 make 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 two years ending on 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, 2006, the following contracts are outstanding:

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

Lease

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

14. 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 approximates their carrying amounts 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 the OEFC 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 13). Neither of these contracts meets the effectiveness criteria for hedge accounting and accordingly, the fair value of these contracts has been reflected in these consolidated financial statements with a corresponding unrealized gain of $1,520 (2005 – unrealized loss of $3,240) for the year recorded in the consolidated statement of income. The fair value of these derivatives at December 31, 2006 is estimated to be a liability to the Fund of $1,507 (2005 – liability of $3,027). These contracts are to mitigate exposure to natural gas price fluctuations from sales of excess natural gas volumes in 2007 and 2008.

15. Economic dependence

For the year, approximately 98.7% (2005 – 98.9%) of the Fund's revenue was derived from the sale of electricity to the OEFC. Approximately 97.3% (2005 – 97.5%) of the accounts receivable balance was due from the OEFC relating to electricity sales.

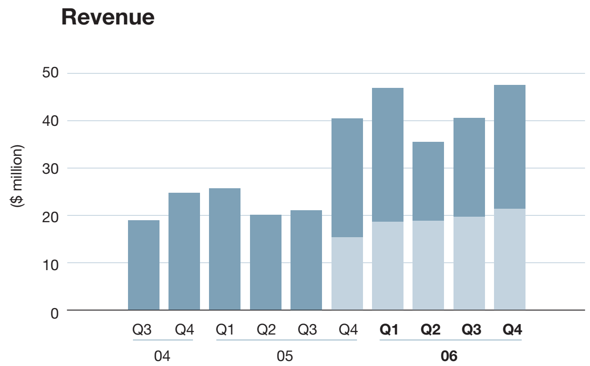
For the year, approximately 79.3% (2005 – 86.8%) of the Fund's operating costs were derived from the purchase of gas from Husky Energy Marketing Inc. ("Husky") under a long-term gas purchase contract. Approximately 43.7% (2005 – 42.1%) of the trade payables and accrued expenses was payable to Husky relating to gas purchases.

16. Subsequent event

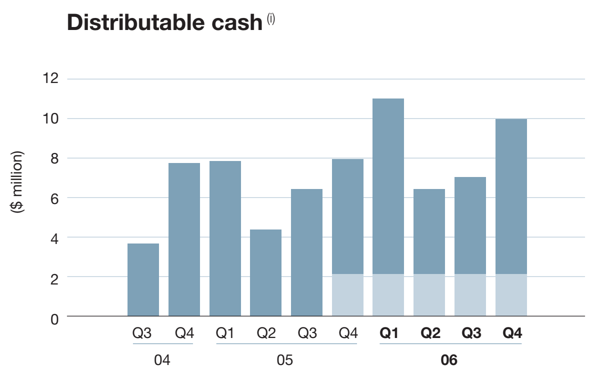
The electricity rate paid to Cardinal by the OEFC escalates with the direct customer rate ("DCR"), which is based on a three-year average of the total market cost of electricity to industrial customers. As the determination of the final DCR for the year will not be available until mid 2007, the OEFC provides provisional and interim rates until the final DCR is determined. Subsequent to year end, the OEFC released the second interim DCR for 2006. Management is reviewing the impact of the updated DCR and estimates that this could result in an additional payment from the OEFC to Cardinal of approximately $1.4 million for electricity generated in prior periods. This amount will be recorded in the first quarter of 2007, consistent with the Fund's revenue recognition policy.

Supplementary financial information

Leisureworld is accounted for using the equity method, which means that its results are not consolidated in MPT's financial statements on a line by line basis. The graphs below illustrate the combined revenues of Cardinal and Leisureworld:



This graph demonstrates the stability of Cardinal's revenue. Cardinal generates higher revenue in the winter as a result of higher electricity rates and improved plant efficiency due to lower ambient temperatures in the winter months. In the second quarter of 2006, Cardinal completed scheduled major maintenance, during which time the plant did not produce electricity for 22 days. Revenue from Leisureworld has limited operational variability and significantly enhances the Fund's revenue profile.



Distributable cash is comprised of 100% of the distributable cash generated by Cardinal and the distributions that MPT receives from Leisureworld.

(i) Distributable cash is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, distributable cash may not be comparable to similar measures presented by other issuers.

Distribution reinvestment plan

Macquarie Power & Infrastructure Income Fund's Distribution Reinvestment Plan (DRIP) offers unitholders a convenient way to increase their investment in MPT without incurring any commissions, service charges or brokerage fees.

To be eligible to participate in the DRIP, you must be a Canadian resident and the beneficial holder of one or more units held in the account of a Canadian Depository for Securities (CDS) participant, such as a broker or investment advisor. Unitholders who are residents in any other jurisdictions outside of Canada may participate only if permitted by the laws of the jurisdiction in which they reside.

How the DRIP works

On each distribution date, MPT pays the cash distributions on the units enrolled on your behalf in the DRIP to Computershare, which is MPT's registrar and transfer agent. Computershare then uses this cash to purchase units on the Toronto Stock Exchange. The units purchased under the DRIP are credited through CDS to your account with your broker or investment dealer.

Units purchased under the DRIP will be purchased on the Toronto Stock Exchange at prevailing market prices. Units will then be distributed among DRIP participants at the average weighted cost, excluding any brokerage commissions, of all units purchased for participants in the DRIP. The units will be purchased over a period of five trading days following the distribution payment date.

Unitholders can opt in or out of the DRIP as they wish. To participate, you need to contact your broker or investment advisor. Once you have enrolled in the DRIP, your participation will continue automatically unless terminated or suspended in keeping with the terms of the plan.

How unitholders benefit

The DRIP allows unitholders to continue investing in MPT in an incremental and affordable manner, and to improve their total return from holding MPT's units.

Because the transaction is taking place directly between you and MPT, there are no commissions, service charges or brokerage fees.

In addition, unitholders who are enrolled in the DRIP can participate in an Optional Unit Purchase Plan, which allows you to purchase a minimum of $500 in new units per cash distribution date up to a maximum of $20,000 per year – under the same favourable terms offered by the DRIP.

MPT advises you to consult your tax advisor regarding the tax implications of your participation in the DRIP. The reinvestment of distributions on units does not relieve you of any liability for income tax that may have been otherwise payable on such distributions. If applicable, non-resident tax will be deducted.

For more information about MPT's DRIP, please visit our website at www.macquarie.com/mpt or contact:

Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Attention: Dividend Reinvestment Department
T: 1-800-564-6253

Glossary

Base load facility

A facility that is normally operated to take the entire minimum load of a system. A base load facility produces electricity at an essentially constant rate and runs continuously.

Cogeneration

The simultaneous production of electricity and thermal energy in the form of heat or steam from a single fuel source.

Consumer Price Index (CPI)

An indicator of inflation that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food and transportation.

Direct to Consumer Rate (DCR)

The rate set by the OEFC is calculated based on a three-year average of the total market cost of electricity to industrial customers.

Intermediate facility

The range from base load to a point between base load and peak.

Kilowatt (kW)

This commercial unit of electric power refers to 1,000 watts of electrical power (total amount of power needed to light 10 100-watt light bulbs).

Megawatt (MW)

1,000 kilowatts.

Payout ratio

Percentage of distributable cash paid out in distributions to unitholders.

Peaking facility

A facility that is reserved for operation during the hours of highest daily, weekly, or seasonal loads.

Power Purchase Agreement (PPA)

An agreement to purchase electricity at a specified rate for a defined period of time.

Return of capital

A return from an investment that is not considered income for tax purposes.

Total return

The return on an investment, including income from distributions, as well as unit price appreciation or depreciation, over a given time period.

Watt

The scientific unit of electric power.

Yield

Yield refers to the amount that MPT pays out to its unitholders in the form of distributions and is calculated by taking the amount of distributions paid per unit over the course of a year and dividing by the unit's price.

MMBtu

A unit of heat equal to one million British thermal units. A British thermal unit is used to measure the quantity of heat, as defined by the quantity of energy necessary to raise the temperature of one pound of water by one degree Fahrenheit.

Corporate and unitholder information

Macquarie Power & Infrastructure Income Fund

Management

Gregory J. Smith
Chief Executive Officer

Harry Atterton
Vice President and Chief Financial Officer and Secretary

Stu Miller
Vice President and General Counsel

Auditors

PricewaterhouseCoopers LLP
Toronto, Ontario

Investor Information

Stock Exchange and Symbol

Toronto Stock Exchange: MPT.UN

Stability Rating

Standard & Poor's: SR-2

Transfer Agent and Registrar

Computershare Investor Services Inc.
1500 University Street, Suite 700
Montreal, Quebec H3A 3S9
T: 1-800-564-6253

Contact Computershare if you wish to change your mailing address, transfer units or eliminate duplicate mailings, or if you have a question about your distribution cheque.

Head Office

100 Wellington Street West, 22nd Floor
Toronto, Ontario M5K 1J3
T: 416-607-5000
F: 416-607-5073

Investor Relations

Contact investor relations at mpt@macquarie.com/mpt or 416-607-5000 if you wish to join MPT's email list to receive news releases, or if you are seeking additional financial information or investor presentations and publications.

Annual General Meeting of Unitholders

Wednesday, April 11, 2007
9 a.m. ET
St. Andrew's Club & Conference Centre
150 King Street West, 27th Floor
Toronto, Ontario

Website

Visit our website at www.macquarie.com/mpt for corporate and investor relations information, including annual and quarterly financial reports, and recent news and investor presentations, including a webcast of the annual general meeting.

Trading Summary *(in dollars)*

Quarter	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
Low (Intraday)	10.11	10.70	10.80	9.00	10.06	9.96	10.00	8.50
Low (Daily Close)	10.35	10.70	10.85	9.30	10.07	9.97	10.06	8.99
Close	10.89	11.35	11.04	10.28	10.75	10.22	11.45	10.05
High (Intraday)	12.50	12.07	12.00	11.03	11.50	11.05	11.49	11.74
High (Daily Close)	11.90	12.00	12.00	10.76	11.50	10.93	11.45	11.69

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 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, an Australian public company listed on the Australian Stock Exchange.

Investments in the Fund are not deposits with or other liabilities of Macquarie Bank Limited, the Manager or of any member company of 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 not an offer or invitation for subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in MPT, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment advisor if necessary.

MPT is delivering
value beyond yield:
stable, sustainable
distributions with
significant potential
for growth.

Macquarie Power & Infrastructure Income Fund's Website

www.macquarie.com/mpt

beyond **yield**

MACQUARIE POWER & INFRASTRUCTURE INCOME FUND ANNUAL REPORT 2006