MACQUARIE POWER & INFRASTRUCTURE INCOME FUND
ANNUAL REPORT 2007

MACQUARIE

building value

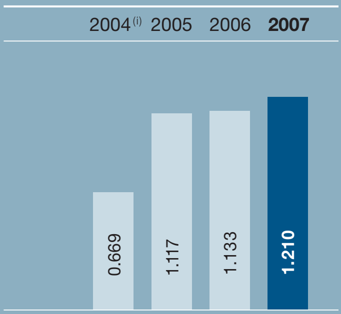
Profile

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

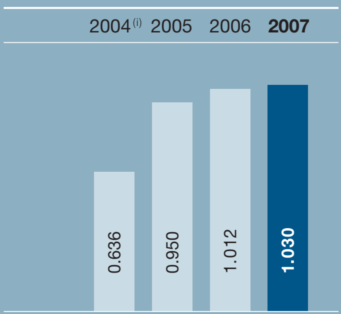
Infrastructure assets meet critical, long-term community needs, such as power generation, electricity transmission and highways. Infrastructure assets also include structures or services that society cannot function without, including water systems, health care, schools and long-term care homes for an 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 investments in gas cogeneration, wind, hydro and biomass power generating facilities, representing approximately 350 MW of installed capacity, and a 45% indirect interest in Leisureworld, a leading provider of long-term care, or social infrastructure, in Ontario.

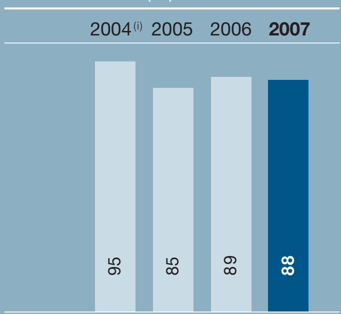
GROWTH IN DISTRIBUTABLE CASH PER UNIT ($)



GROWTH IN DISTRIBUTIONS PER UNIT ($)



PAYOUT RATIO (%)



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

Financial highlights

	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
Total revenue	**122,811**	89,940	90,235
Net income	**5,426**	8,411	8,372
Cash flow from operating activities	**29,663**	21,044	20,230
Distributable cash (ii)	**48,785**	34,058	25,989
Per unit	**1.210**	1.133	1.117
Distributions to unitholders	**42,942**	30,423	22,220
Per unit (iii)	**1.030**	1.012	0.950
Payout ratio (iv)	**88%**	89%	85%
Total assets	**797,952**	297,392	320,404
Total long-term liabilities	**361,887**	37,668	38,580

(ii) Distributable cash is not a recognized measure under Canadian generally accepted accounting principles (GAAP) and does not have standardized meaning prescribed by GAAP. The Fund's calculation of distributable cash may not be comparable to similar measures presented by other issuers.
(iii) All unitholders were paid distributions equivalent to amounts shown.
(iv) Payout ratio is defined as distributions declared as a proportion of distributable cash. There is no GAAP measure comparable to payout ratio. The Fund's calculation of payout ratio may not be comparable to similar measures presented by other issuers.

Operating highlights

	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
Power Infrastructure			
Sale of electricity (000s MWh) (v)	**1,687**	1,227	1,282
Sale of steam (000s lbs)	**697**	676	683
Social Infrastructure			
Average total occupancy	**98.4%**	95.3%	93.5%
Average preferred occupancy	**83.2%**	79.0%	78.3%

(v) The Fund acquired its wind, hydro and biomass power generating facilities on June 27, 2007. The total sale of electricity for the year includes the operating results of these assets only from the date of acquisition.

Front cover images (clockwise from top left): a Leisureworld home; a turbine at Erie Shores Wind Farm; and the Cardinal plant.

Back cover images (left to right): water flowing at the Dryden facility; and a view of the Whitecourt plant.

MACQUARIE

MPT offers its unitholders an attractive combination of income, safety and growth throughout the economic cycle.

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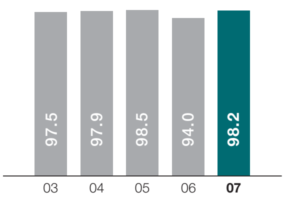
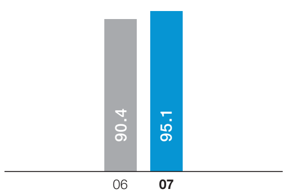
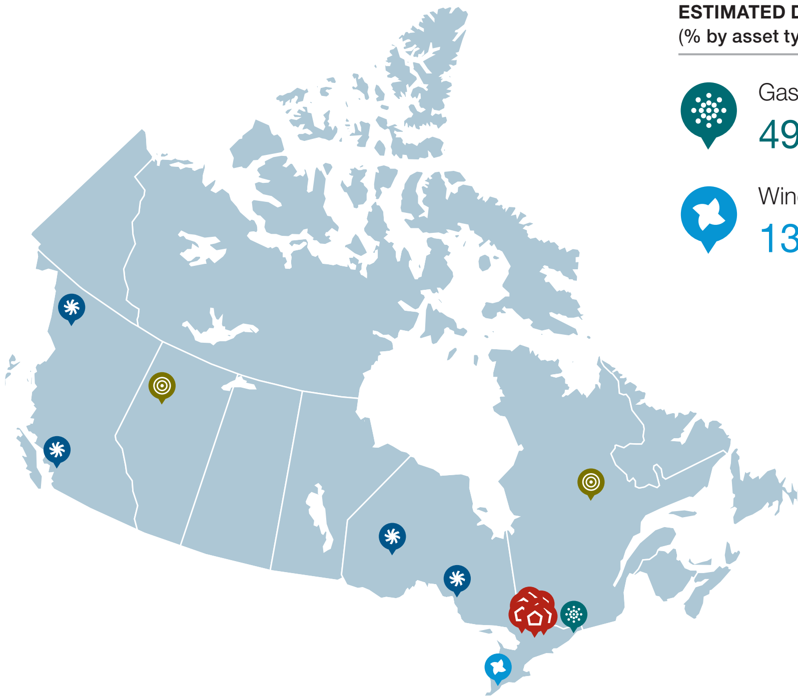
stable, diversified portfolio

MPT is building a strong portfolio of high quality, essential infrastructure assets that generate reliable cash flow. Our portfolio is diversified by asset type, geography and fuel source, which enhances the stability of MPT's performance.

	Gas Cogeneration Power	Wind Power
Profile	Cardinal is a 156 MW gas cogeneration plant with a history of high availability and capacity.	With a capacity of 99 MW, Erie Shores Wind Farm (Erie Shores) is one of the largest wind power facilities in Canada. It currently represents approximately 5.3% of Canada's installed wind power capacity.
Performance Highlights	 Cardinal is highly efficient, with a five-year average availability of 97.2%.	 Erie Shores achieved availability of 95.1% in 2007, reflecting the first full year of operations.
Performance Drivers	▸ Contracted long-term electricity rate provides stable revenue ▸ Contracted long-term fuel supply mitigates exposure to gas price fluctuations ▸ Disciplined management of operating costs supports cash flow stability ▸ Increasing demand for electricity supports Cardinal's continuing role as a supplier to Ontario's electricity market	▸ Contracted long-term electricity rate provides stable revenue ▸ As a renewable energy source, wind is not subject to the volatility of non-renewable fuel prices ▸ Low operating costs support cash flow stability ▸ 97% availability guaranteed by General Electric for the first four years of operations



ESTIMATED DISTRIBUTABLE CASH CONTRIBUTION IN 2008
(% by asset type)

Gas Cogeneration Power
49%

Hydro Power
12%

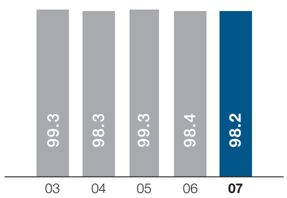
Wind Power
13%

Biomass Power
10%

Leisureworld
16%

Hydro Power

Located in the Atlantic, Arctic and Pacific watersheds, MPT's four hydro facilities have a combined capacity of approximately 36 MW.

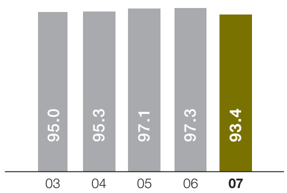


MPT's hydro facilities have a history of reliable performance, with a five-year weighted average availability of 98.7%.

- Contracted long-term electricity rate provides stable revenue
- As a zero-cost renewable energy source, water is not subject to the volatility of non-renewable fuel prices
- Low operating costs and maintenance and capital expenditure requirements support cash flow stability

Biomass Power*

Whitecourt is a 28 MW, highly efficient wood waste-fired biomass power plant. It was the first power generating facility in Canada to be certified under the EcoLogo™ program.



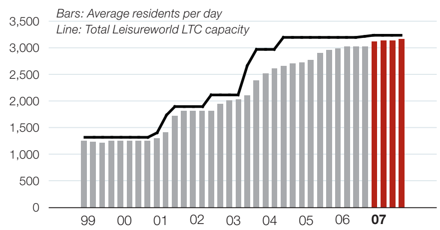
Whitecourt's five-year average availability of 95.6% reflects the plant's high quality.

- Contracted long-term electricity rate provides stable revenue
- Fuel is supplied under a long-term contract with an established forest products company
- Predictable production levels with little or no variation due to seasonality

* *MPT also holds an investment in a biomass plant in Chapais, Quebec, consisting of a 31.3% interest in one of Chapais' two classes of preferred shares, a 24.8% interest in Tranche A and B debt and a 50% interest in Tranche C debt.*

Leisureworld

Established in 1975, Leisureworld currently owns and operates 26† long-term care (LTC) homes in Ontario, making it the third largest LTC provider in the province.



Leisureworld is continuing to increase capacity and occupancy across its portfolio. Average total occupancy at the 19 homes owned and operated by Leisureworld in 2007 was 98.4%.

- Government-supported revenue ensures a reliable cash flow
- Increasing occupancy rates enhance cash flow
- Optimization of preferred accommodation mix increases operating profitability
- Disciplined cost management is key to operating profitability
- Positive demographic trends support demand for long-term care

† *On January 31, 2008, Leisureworld acquired seven Class C LTC homes.*

building long-term value

"MPT's goal is to build a significant portfolio of infrastructure assets that returns exceptional long-term value to unitholders."

(Signed)

GREGORY J. SMITH
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Fiscal 2007 was a significant year for Macquarie Power & Infrastructure Income Fund during which we delivered steady, attractive growth in value to our unitholders.

For the year, we paid distributions to unitholders of $1.03 per unit, representing a payout ratio of 88%. We also advanced our mandate to build a strong portfolio of essential infrastructure assets that generate reliable cash flow throughout the economic cycle.

Executing our strategy

The distinguishing event of 2007 was the acquisition of Clean Power Income Fund (CPIF) on June 27, adding high quality wind, hydro and biomass power assets to our portfolio. With this transaction, MPT nearly doubled in size and value and established a solid platform from which to pursue growth opportunities in the North American power infrastructure arena.

Specifically, this transaction has delivered several important benefits by:

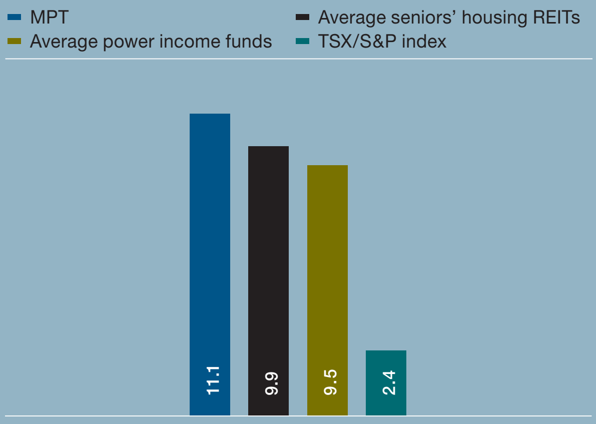
- Extending the average life of the assets in MPT's portfolio;
- Contributing stable, contractually defined revenue; and
- Diversifying our portfolio by geography, asset type and fuel source, which offsets any variability due to wind and water flow patterns.

Combined, these factors support MPT's long-term cash flow predictability as well as increasing distributions to unitholders.

Indeed, in January 2008 we increased monthly distributions to $0.0875 per unit, or $1.05 on an annualized basis. This marks the third distribution increase since the Fund's inception in 2004, representing compound annual growth in distributions of 2.8%. For 2008, we expect to achieve a payout ratio between 95% and 100%, which we believe provides for continuing stability in distributions.

As you will read in the following pages of this report, all of MPT's assets are fundamentally strong and performing in line with expectations. MPT's financial position is also solid with a conservative debt to capitalization ratio of approximately 38.8%. Moreover, we have considerable resources for continuing growth, including a $75-million credit facility earmarked for future acquisitions.

AN ATTRACTIVE YIELD (%)



Comparative Yields (as at December 31, 2007)

COMPELLING INVESTMENT OPPORTUNITY

- Safety
  MPT's infrastructure assets enjoy stable demand and contracted or regulated cash flow that is unaffected by economic or market fluctuations.
- Income
  MPT's stable cash flow means predictable income for investors. In fact, MPT has increased distributions to unitholders three times since inception.
- Growth
  MPT has a strong platform for continuing growth, which offers investors the potential for capital appreciation over time.

"MPT's power and social infrastructure assets are fundamentally strong and performing in line with expectations."

Our pursuit of growth is guided by three core strategies, to:

1. Expand our existing businesses through organic growth as well as complementary acquisitions, such as Leisureworld's recent purchase of seven Class C long-term care homes, or through ongoing consolidation in the power income fund sector;
2. Sustain operational excellence at each asset through continuing active management; and
3. Develop growth platforms in new categories of infrastructure that will further extend the longevity and value of MPT's portfolio.

MPT's focus on essential infrastructure assets is distinctive in the Canadian marketplace. To be included in our portfolio, an asset must demonstrate specific characteristics. It must serve a critical community need. It must operate within a regulated or contractual framework where revenue is stable and costs are predictable or controlled. There must be barriers to entry, such as access to land or regulatory obstacles. It must also enjoy consistent, inelastic demand. Combined, these factors mitigate economic risk, reduce earnings volatility and support stable cash flow while providing potential for growth over time.

Pursuing growth

We believe that there are numerous growth opportunities available to MPT. Investment in Canada's infrastructure — which underpins national competitiveness and quality of life — has failed to keep pace with economic and demographic growth. Nearly 60% of Canada's infrastructure is between 50 and 150 years old. Although projections vary, it is widely accepted that the gap between infrastructure spending required and the current annual infrastructure budgets of all levels of government ranges from at least $50 billion to $125 billion, or six to 10 times current spending. Governments can no longer carry this considerable burden alone and increasingly are seeking private sector investment.

MPT's emphasis remains on power infrastructure, including power generation, transmission and distribution businesses. However, we have the flexibility and expertise to invest in a variety of infrastructure assets, including through public-private partnerships (P3s). These opportunities could include additional long-term care homes; water or wastewater facilities; schools; hospitals; or roads that meet our cash flow requirements.

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Cardinal is a highly efficient plant with a long-serving team. Of Cardinal's 18 employees, 10 have worked at the plant since the start of commercial operations in 1995.

"We are confident that MPT's portfolio and strategy will continue to support stable and increasing returns to unitholders, today and in the post-2011 tax environment."

As we look to the future, an important competitive advantage for MPT is the relationship between MPT and Macquarie Group Limited (MGL). MGL is a recognized leader in the financing and management of infrastructure assets with approximately $50 billion in equity under management in infrastructure and adjacent sectors globally. This relationship gives MPT access to a robust pipeline of potential investments and to the expertise and resources needed to respond quickly to opportunities.

I am confident that MPT's portfolio and strategy will continue to support stable and increasing returns to unitholders, today and in the post-2011 tax environment. Indeed, the federal government's new tax policy, which generally permits income funds to double in size before 2011, does not impede MPT's growth strategy. In fact, the CPIF acquisition significantly increased the amount of tax shield available to MPT for future years. We are assessing how and when to apply this shield. For 2008, we expect that approximately 60% of the distributions paid to unitholders will be non-taxable as a return of capital. At the same time, we are developing our strategy to achieve the optimal balance of near- and long-term value for our unitholders. There are a number of options available to us and we have no doubt that we will find the solution that maximizes returns to investors.

With MPT, investors can participate in a relatively low-risk business that offers a combination of safety and income as well as the potential for growth. MPT intends to build a significant portfolio that returns exceptional long-term value to unitholders. We appreciate your continuing confidence and support as we pursue that objective.

Sincerely,

Gregory J. Smith
President and Chief Executive Officer

drivers of the infrastructure market

MPT is positioned to capitalize on opportunities in the power and social infrastructure arenas as well as in new infrastructure categories, including through public-private partnerships.

Leisureworld provides essential long-term care for Ontario's aging population.

1

Urgent need for infrastructure renewal

Investment in Canada's public infrastructure has lagged economic and demographic growth. Approximately 50% of Canada's infrastructure will reach the end of its serviceable life by 2027, representing a challenge for Canada's competitiveness and quality of life.

2

Renewed government focus on infrastructure

The redevelopment and extension of public infrastructure is increasingly a priority at the federal and provincial levels of government. In 2007, the federal government announced $33 billion in new investment in infrastructure in the next seven years as well as the establishment of a national P3 office. Many provinces likewise have P3 agencies aimed at building new infrastructure through partnerships with the private sector.

3

Growing public support for infrastructure investment

In a survey conducted by the Canadian Council for Public-Private Partnerships, nine out of 10 respondents agreed that governments are having trouble keeping pace with demand for new or improved roads, hospitals, schools, public transit systems, safe water systems and supplies of electricity. More than 60% of respondents supported a role for the private sector in closing the infrastructure gap.

4

Increasing awareness of the attractive investment attributes of infrastructure assets

Infrastructure is increasingly recognized as an emerging asset class with a number of attractive attributes for investors seeking to diversify their portfolios. These traits include long-term, stable cash flow through the economic cycle.

Power infrastructure

gas cogeneration

Cardinal is one of Ontario's largest independent non-utility electricity generators.

QUICK FACTS	Cardinal
Location	Cardinal, Ontario
Capacity	156 MW
Power Purchase Agreement	Ontario Electricity Financial Corporation (OEFC) until 2014
Other Contracts	Fuel supply contract with Husky Energy Marketing Inc. until 2015

The reliability of Cardinal results from a comprehensive maintenance program and a commitment to continuous improvement and innovation.

Asset review

As a combined cycle gas cogeneration facility, Cardinal simultaneously produces electricity and thermal energy from natural gas. This results in a highly efficient use of energy.

Cardinal delivered strong results in 2007, reflecting higher electricity rates and excellent operating performance offset by higher fuel usage and transportation costs. Cardinal achieved an availability of 98.2% and a capacity of 96.7%, which demonstrates the high quality of the facility.

It is significant that Cardinal's Power Purchase Agreement (PPA) is well matched by a long-term gas supply contract. This sets Cardinal's PPA apart from others in the industry and helps to sustain predictable cash flow.

Cardinal operates on a six-year maintenance cycle. In 2007, the facility completed its combustion inspection in four days instead of the five-day outage typically required. Maintenance expenditures for Cardinal, as well as for MPT's other power generation assets, are fully funded by established reserve accounts and do not affect distributable cash.

Outlook

For 2008, we expect continuing increases in gas transportation costs to more than offset increased electricity rates, which will reduce Cardinal's cash flow slightly for the year.

Cardinal is well positioned to play a continuing role in the Ontario power market for at least another 20 years, whether as a base load, cycling or peak load plant. Non-utility generators (NUGs) such as Cardinal account for approximately 6% to 8% of the generating capacity available to meet Ontario's energy requirements, making them an important part of the supply mix. In fact, the Ontario Power Authority's (OPA) *Integrated Power System Plan*, released in August 2007, indicates that cogeneration and NUGs are vital to Ontario's long-term electricity supply.

Power infrastructure

wind power

Erie Shores Wind Farm is one of the largest wind power facilities in Canada.

Erie Shores Wind Farm is located on the north shore of Lake Erie, one of Ontario's windiest regions.

QUICK FACTS	Erie Shores Wind Farm
Location	Port Burwell, Ontario
Capacity	99 MW
Power Purchase Agreement	Ontario Power Authority (OPA) until 2026
Other Contracts	Four-year fixed cost O&M contract with General Electric Canada (GE Canada)

Asset review

Erie Shores Wind Farm commenced operations in May 2006. The facility consists of 66 wind turbines, each with a capacity of 1,500 kilowatts (kW), manufactured and supplied by General Electric (GE) and GE Canada. For the first four years of operations, GE Canada provides fixed-cost operations and maintenance (O&M) services. GE also guarantees availability of 97% and direct revenue reimbursement if that threshold is not met.

Erie Shores is performing in line with our expectations. During the year, it achieved availability of 95.1% with 4.5 days of outage for annual maintenance conducted during a seasonally low period. The facility achieved a capacity factor of 28.1%. Total energy production of 243,423 MWh for the year reflected a full year of operations in 2007 as well as strong wind speed.

Outlook

We expect Erie Shores to continue to perform strongly in 2008. Going forward, we expect the facility to deliver long-term average annual production of approximately 245,600 MWh. Electricity production will fluctuate with the region's natural wind speed and density, which are usually greater in the fall and winter than in the spring and summer.

We believe that there are a number of attractive investment opportunities in the wind power space. MPT has a right of first refusal from the developer of Erie Shores for a proposed 51 MW expansion of the facility. MPT will also continue to examine other opportunities in Canada, particularly in Alberta and in Atlantic Canada where the speed and density of wind is particularly strong, as well as in the United States.

Power infrastructure

hydro power

The Dryden facility is comprised of the Wainwright, Eagle River (seen above) and McKenzie Falls stations.

QUICK FACTS	Sechelt	Hluey Lakes	Dryden	Wawatay
Location	Sechelt, British Columbia	Dease Lake, British Columbia	Dryden, Ontario	Marathon, Ontario
Capacity	16 MW	3 MW	3 MW	14 MW
Power Purchase Agreement	BC Hydro, until 2017	BC Hydro, until 2020	OEFC, until 2020	OEFC, until 2042

Asset review

MPT's hydro power facilities are located in Ontario and British Columbia, spanning the Atlantic, Pacific and Arctic watersheds, and enjoy long-term PPAs. Hydro power facilities have minimal fuel costs along with low maintenance and capital expenditure requirements. Combined, these factors contribute to stable cash flow, a long asset life and unplanned outage rates that are among the lowest in the electricity industry.

MPT's hydro power facilities performed as expected in 2007 due to strong water flows in both Ontario and British Columbia. The weighted average availability for the hydro facilities was 98.2% and the average capacity was 55.7%. Total energy production was 174,300 MWh.

Power generation, and, consequently, cash flow from our hydro power facilities can fluctuate during the year. Typically, water flows are greater during the autumn and spring months. In addition, the Wawatay and Dryden PPAs contain higher rates for electricity produced during the months of October to March.

Across the hydro facilities, major mechanical inspections are conducted every three years and electrical inspections are conducted every two years. These inspections are typically completed during the off-peak season to minimize the revenue impact.

MPT's hydro power facilities are located in three watersheds, which mitigates the impact of fluctuating water flows on revenue.

Outlook

We expect the hydro facilities to continue to deliver strong results in 2008, subject to water flows and with some outages expected for mechanical and electrical inspections scheduled for certain of the facilities. Based on actual historical production, we expect the hydro facilities to achieve annual long-term average production of 166,360 MWh.

Hydro power is an important part of Canada's electricity supply mix. MPT continues to examine opportunities in hydro power, particularly smaller-scale projects. These include existing facilities as well new projects being bid through provincial requests for proposal (RFP).

Power infrastructure

biomass

Whitecourt generates electricity from wood waste, or biomass, which is a substantial renewable resource.

Whitecourt has a proven record of high availability and capacity, which reflects the quality of the plant and long-serving team.

QUICK FACTS	Whitecourt
Location	Whitecourt, Alberta
Capacity	28 MW
Power Purchase Agreement	TransAlta Utilities Corp. until 2014
Other Contracts	20-year fuel supply agreement with Millar Western Group of Companies

Asset review

Whitecourt's long-term PPA is matched by a long-term fuel supply agreement that supports the facility's operating reliability as well as its low cost structure.

During 2007, Whitecourt achieved availability of 93.4% and capacity of 93.1%, which reflects the high quality and reliability of the facility and team. Availability was slightly lower than in 2006 due to an outage required to complete repairs. Total energy production was 192,080 MWh.

Whitecourt operates on a seven-year maintenance cycle, with major maintenance of the turbine and generator scheduled to occur in May 2008. Regular semi-annual maintenance at the facility occurs in April and October requiring a four-day outage each time. As at MPT's other power assets, major maintenance costs are fully funded through an established reserve account.

Outlook

We expect Whitecourt to continue to generate reliable performance in 2008, offset slightly by the outage required for the major maintenance in May.

Whitecourt's stable, lost-cost fuel supply is an important factor in the facility's long-term economic viability. Whitecourt is located near Millar Western Forest Products Ltd., one of Western Canada's largest privately-owned forest products companies. The proximity of the fuel supply minimizes transportation costs. In addition, there is an ample supply of wood waste in Alberta, unlike other provinces such as Ontario or Quebec.

Overall, Canada has vast amounts of biomass, most of which remains unused. MPT believes the most immediate opportunities are in western Canada, where damage to forests from the pine beetle is creating significant fuel supply, and in Alberta, where sustainable cutting practices have preserved the health of the forestry industry.

Social infrastructure

leisureworld

The 65-plus age group is expected to double in size to represent 21.4% of Ontario's population in 2031, according to the Ontario Ministry of Finance.

QUICK FACTS	Leisureworld
Location	Various locations in Ontario
Core Businesses	26 LTC homes (4,314 beds) 1 retirement home (29 beds) 1 independent living home (53 beds)
Total Beds	4,396
Share of Market	Approximately 5.6%

Leisureworld has earned a reputation for nursing and service excellence and for the quality of accommodation offered by its LTC homes.

Asset review

LTC homes, which are regulated and funded by the Ontario Ministry of Health and Long-Term Care (MOHLTC), are designed to accommodate seniors who require 24-hour per day care. They are a vital part of a community's social infrastructure and share features that characterize other high quality infrastructure assets, including stable revenue, significant barriers to entry and low demand variability.

At least 60% of revenue from Leisureworld's LTC homes is received from the MOHLTC, which contributes to the predictability of Leisureworld's cash flow. In 2007, Leisureworld's annual average total occupancy, which is a key driver of performance, was 98.4%. An LTC home that meets or exceeds 97% annual average occupancy is entitled to receive government funding based on 100% occupancy. The occupancy for preferred accommodation, for which Leisureworld receives a regulated premium, was 83.2%. This premium contributes directly to Leisureworld's operating profitability. During the year, Leisureworld also continued to benefit from increased government funding. Over the past 10 years, government funding of Leisureworld's LTC homes has increased in excess of the consumer price index.

Outlook

We expect Leisureworld to deliver increasing cash flow in 2008 due to higher occupancy, greater use of preferred accommodation and continuing increases in government funding as well as a significant contribution from the newly acquired portfolio of seven Class C homes. As a result, Leisureworld is positioned to maintain its distribution profile.

A key focus for Leisureworld will be on securing MOHLTC approval for its acquisition of the Good Samaritan Seniors Complex, which includes a 64-bed Class A LTC home and an attached 24-bed retirement home, in Alliston, Ontario. Leisureworld also has the capacity to pursue additional growth opportunities, primarily complementary acquisitions that will further enhance the portfolio.

committed to effective governance

"Integrity, discipline, transparency and accountability are the cornerstones of a successful, enduring enterprise."

(Signed)

DEREK BROWN
CHAIRMAN OF THE BOARD OF TRUSTEES
AND INDEPENDENT TRUSTEE

I am pleased to report to unitholders on behalf of the Board of Trustees. Fiscal 2007 was a successful year for MPT, distinguished by the significant acquisition of Clean Power Income Fund that increased MPT's size and value while strengthening its platform for continuing growth.

Since inception, MPT's performance has reflected the commitment of the Board and management team to integrity, discipline, transparency and accountability. We believe these qualities are the cornerstones of a successful, enduring enterprise. They are deeply embedded in MPT's corporate governance structure and guide MPT as it conducts its business, manages risks and builds value for stakeholders.

The Board of Trustees is responsible for the stewardship of MPT and is committed to this task with a 95% attendance rate at the 11 board meetings held in 2007.

The Board's mandate includes working with management to establish MPT's strategy and objectives, approving significant decisions that affect MPT and its results, monitoring MPT's financial performance, setting the distribution policy and overseeing MPT's stakeholder relationships and reporting obligations.

Access to information is essential to the Board's ability to deliver on this mandate and management ensures that the Board has full and timely access to all the information we need to make responsible decisions. The Board also has access to the Fund's management team at any time.

A few highlights of MPT's approach to governance include:

- A four-person board that consists of three independent Trustees (as defined by applicable securities laws). These independent trustees meet regularly without management and the Trustee that is appointed by the Fund's Manager, which encourages objectivity and aligns decisions with stakeholder interests;
- Audit and Governance Committees that are each comprised entirely of independent Trustees;
- Governance policies and procedures that apply equally to the individual assets in MPT's portfolio, which ensures consistency and reliability in reporting and risk management;
- A Code of Ethics that encourages and promotes a culture of ethical business conduct. This Code must be followed by all Trustees, officers, employees, contractors and agents of MPT; and
- An annual evaluation of Board and Trustee effectiveness to ensure the Board is representing unitholders and fulfilling its oversight role in the most effective manner.

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"A majority of MPT's trustees are independent, which encourages objectivity and aligns decisions with stakeholder interests."

Patrick J. Lavelle
Independent Trustee

François R. Roy
Independent Trustee

Stephen Mentzines
Manager-appointed Trustee

BIOGRAPHIES

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.

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. Mr. Lavelle serves as Chairman of Specialty Foods Group Income Fund and was previously the Chairman and Chief Executive Officer of Unique Broadband Systems Inc., Chairman of Export Development Canada, and Chairman of the Business Development Bank of Canada.

Mr. Roy is Vice-Principal (Administration and Finance) at McGill University. From March 2000 to May 2003, Mr. Roy served as the Chief Financial Officer of Telemedia Corporation. Mr. Roy serves on the Boards of Komunik Corporation, Pixman Nomadic Media Inc. and SFK Pulp Income Fund. Mr. Roy also serves on the Board of Advisors of Veronis Suhler Stevenson and on the Advisory Board of Dessau.

Mr. Mentzines is a senior managing director of Macquarie Group Limited and is responsible for the Macquarie Capital Funds division in North America. Prior to this, he served as the division's global Chief Operating Officer with responsibility for developing and supporting new funds around the world. Mr. Mentzines joined Macquarie in 1998. He has more than 28 years of experience, including 18 years in the financial services and funds management industry. He is also Alternate Chair of Macquarie Infrastructure Company, which is listed on the New York Stock Exchange.

Moreover, MPT complies with all relevant corporate governance requirements and policies of the various Canadian securities regulatory authorities. Additional information about MPT's commitment to corporate governance is contained in the Fund's information circular available at www.macquarie.com/mpt.

MPT's corporate governance practices constantly evolve in step with the business and regulatory environments in which it operates. The Board of Trustees continuously assesses, adapts and seeks to strengthen MPT's governance structure as a matter of best practice. In addition, the Board of Trustees supports management initiatives to enhance governance. For example, in 2007, management established a disclosure committee 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 regulations and requirements of the Toronto Stock Exchange.

In November, Stephen Mentzines joined the Board of Trustees as the Manager-appointed Trustee to replace Shemara Wikramanayake, who returned to Australia to assume a new role within Macquarie Group Limited. I would like to convey my sincere appreciation to Ms. Wikramanayake for her considerable contributions to MPT. I also extend a warm welcome to Mr. Mentzines, who directs the Macquarie Capital Funds business in North America. Mr. Mentzines' expertise in the financing and management of infrastructure assets will further strengthen MPT's competitive advantage as it seeks to grow and diversify its high quality portfolio.

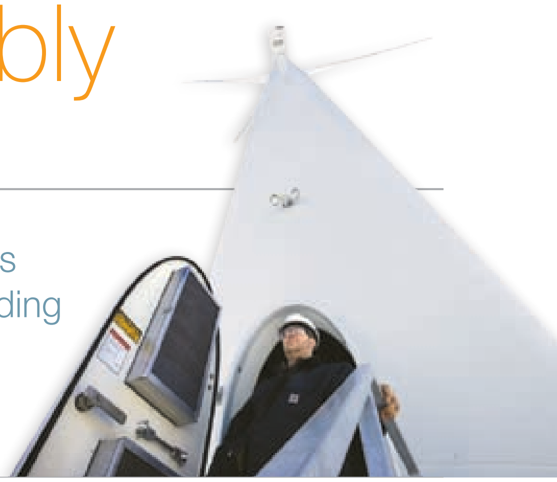
Finally, I would like to take this opportunity to thank the unitholders for their continuing trust and confidence in MPT and the Board of Trustees. I also express my appreciation to the Trustees, MPT's management team and employees at each of the Fund's assets for their dedication to achieving excellence. Together, we are striving to deliver superior returns to unitholders.

Sincerely,

Derek Brown
Chairman of the Board of Trustees

committed to managing responsibly

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



GE Canada, which provides Erie Shores with O&M services under contract until 2010, is focused on ensuring a safe work environment.

Essential infrastructure assets, including power generation facilities and LTC homes, are the backbone of a productive economy and a sustained high quality of life.

As physical assets that provide an essential service, our infrastructure businesses have an impact on natural resources such as water, energy and other raw materials as well as on our employees, customers, investors and the communities we serve. We endeavour to manage that impact responsibly. Indeed, respect for the environment, people and communities forms an integral element of MPT's business strategy.

We view compliance with regulatory obligations, including occupational health and safety (OH&S) laws related to employees, contractors and visitors, as the minimum standard. Instead, we strive for best practices in environmental and social responsibility management. We 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 as part of our assessment of the broader risk management framework. This process includes 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 of Trustees 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.

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As physical assets that provide an essential service, our infrastructure businesses have an impact on natural resources such as water, energy and other raw materials as well as on our employees, customers, investors and the communities we serve.

Initiatives at MPT's assets

Across our assets, workplace safety is a priority for all employees and contractors. We likewise seek to minimize our environmental footprint and to demonstrate our commitment to social responsibility.

Cardinal

Cardinal's robust safety and technical training program has been instrumental in maintaining an exemplary health and safety record. Once again, there was no lost time due to injuries in 2007.

Cardinal's management team provides sessions on a variety of health and safety topics, reinforced by technical programs relevant to the responsibilities of each employee. In 2007, Cardinal's 18 employees received a total of 1,468 hours of safety and technical training, an average of 82 hours per employee.

Cardinal's team is also dedicated to supporting the local community, offering financial support to Cardinal in Bloom, an annual beautification program that they initiated for the town of Cardinal that includes flower baskets and gardens tended by volunteers. The facility also supports local schools, providing two bursaries for high-achieving secondary school students as well as the Science and Technology Award at the elementary school.

In 2007, Cardinal's 18 employees received an average of 82 hours of training each.

Erie Shores Wind Farm

Erie Shores conducts comprehensive annual safety training and meets or exceeds the requirements of Ontario's *Occupational Health and Safety Act*. GE Canada, which provides operations and maintenance services under contract until 2010, is also focused on ensuring a safe work environment. During the year, there was no lost time due to injuries.

Erie Shores also complies with Ontario's *Environmental Assessment Act*, which provides for the protection and conservation of the environment, including land, air, wildlife, and social and economic considerations. As part of the site development process, Erie Shores underwent an environmental assessment that formed the basis for the design of the facility and placement of turbines to minimize environmental impact.

In 2007, Erie Shores, which has emerged as an important community attraction, was among the donors that provided financial support to the Municipality of Bayham for the establishment of a wind power interpretive centre.

Hydro Facilities

MPT's hydro power facilities meet or exceed the requirements of the *Occupational Health and Safety Acts* in the provinces of Ontario and British Columbia, where the facilities are located. Operators at each of the sites undergo annual safety training on topics such as first aid and high voltage electricity. In 2007, operators received a total of 110 hours of training, an average of 12 hours per operator. There was no lost time due to injuries.

At Sechelt, operating staff maintain a salmon spawning channel installed in 1997 by ensuring a constant supply of water and removal of any debris.

Whitecourt was the first power generation plant in Canada to earn the federal government's Environmental Choice™ designation.

The hydro power facilities operate in accordance with provincial water management plans where applicable and strive to preserve the quality of the local environment. At Sechelt, for example, operating staff maintain a salmon spawning channel installed in 1997 by ensuring a constant supply of water and removal of any debris.

Whitecourt

Whitecourt meets or exceeds the requirements of Alberta's *Occupational Health and Safety Act*. Whitecourt's approach to health and safety is comprehensive and is directed by a safety committee of representatives from various functional areas of the facility, such as operations, trucking and maintenance. In addition, employees undergo annual training on a range of topics from first aid, fall prevention and working in confined spaces to equipment maintenance and operation. In 2007, Whitecourt's 33 employees received a total of 450 hours of training, an average of 13.6 hours per employee. There was no lost time due to injuries.

Whitecourt was the first power generation plant in Canada to earn the federal government's Environmental Choice™ designation. This designation illustrates the quality of the facility and its contribution to the local environment through the efficient, controlled deployment of wood waste. The facility is also actively involved in the community of Whitecourt, supporting local health organizations, schools and a shelter for women in crisis.

Chapais

The Chapais plant strives to meet or exceed the requirements of Quebec's Commission de la santé et de la sécurité du travail (CSST) and complies with the *Environment Quality Act*. In 2007, Chapais' 25 employees received approximately 500 hours of training, an average of 20 hours per employee.

In 2007, one accident resulted in lost time due to injuries. The plant subsequently implemented additional training for maintenance staff and improved equipment to minimize the potential for similar accidents in the future.

Leisureworld

Leisureworld's focus on the quality of care includes a commitment to ensuring a safe work environment for residents and employees alike. In 2006, Leisureworld launched an extensive education program for the 3,200 employees across its portfolio of homes. In 2007, Leisureworld's homes covered 87 different topics related to resident care and staff development including hydration therapy, pain and comfort management, mechanical lifts and transfers, and customer service excellence. This compares with the 12 topics mandated for LTC homes by the MOHLTC.

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Leisureworld is also active in the communities it serves, including fundraising for the Alzheimer Society of Toronto and participation by staff in the Alzheimer Society of Ontario's annual Walk for Memories.

In addition, each Leisureworld home has 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. Leisureworld conducts annual health and safety training, delivered by a provincially-certified OH&S provider, on topics ranging from emergency response to personal protective equipment to preventing workplace violence.

Leisureworld is also active in the communities it serves, including fundraising for the Alzheimer Society of Toronto and participation by staff in the Alzheimer Society of Ontario's annual Walk for Memories.

Environmental and social responsibility regulatory requirements

MPT is not aware of any significant breaches of relevant environmental and social responsibility regulatory standards at any of its assets during the year ended December 31, 2007.

MGL FUNDS MANAGEMENT ACTIVITY POLICY

Macquarie Group Limited (MGL) applies a governance framework to its managed funds' activities, including MPT.

The framework addresses the fact that the interests of MGL may at times conflict with the interests of investors in MGL-managed funds. Therefore, additional safeguards have been adopted to ensure that investors are protected. The key elements of the framework are:

- Related party transactions between managed 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 MGL or its affiliates as counterparties. MGL-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 division of MGL that is dedicated to MGL's fund management business. Staff members of Macquarie Capital 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 fund management business and other parts of MGL.

vision, core businesses and strategy

MPT delivered on its performance objectives in 2007, reflecting the quality, diversity and stability of our portfolio.

About 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"), MPT LTC Holding LP ("LTC Holding LP) and Clean Power Operating Trust ("CPOT"). LTC Holding LP has an indirect 45% interest in Leisureworld Senior Care LP ("Leisureworld") and CPOT has an indirect 31.3% interest in one of the two classes of preferred shares in Chapais Électrique Limitée ("Chapais"). The Fund accounts for these investments using the equity method.

The MD&A is the responsibility of management and reflects events known to management as of February 26, 2008. 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, 2007 (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, please see the section titled "Caution regarding forward-looking statements" in this MD&A.

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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.

Fiscal 2007 highlights

Continuing Stable Distributions to Unitholders

In 2007, MPT paid distributions of $1.03 per unit on an annualized basis, representing a payout ratio of 88%. Subsequent to year end, MPT increased monthly distributions to unitholders from $0.08583 per unit to $0.08750 per unit, or $1.05 on an annualized basis, effective with the January 2008 distribution. Since MPT's inception in 2004, distributions to unitholders have increased at a compound annual growth rate of 2.8%.

Standard & Poor's has rated MPT's stability as SR-2, which, according to Standard & Poor's, indicates the solid sustainability and low variability of the Fund's cash flow.

Diversified, Enhanced Portfolio

On June 27, 2007, MPT acquired Clean Power Income Fund ("CPIF") in a unit-exchange takeover valued at approximately $215,000, adding investments in wind, hydro and biomass power generating facilities to the portfolio. MPT's power infrastructure portfolio currently represents 350 MW of generating capacity, with facilities diversified by geography and fuel source, which contributes to the stability of MPT's performance.

On August 27, 2007, Leisureworld signed an agreement with a wholly-owned subsidiary of Counsel Corporation to acquire a portfolio of seven Class C long-term care ("LTC") homes located in Scarborough, Mississauga, Streetsville, North York, Brampton and Ingersoll, Ontario, representing 1,127 beds. The $67,000 transaction, plus transaction and refurbishment costs, received regulatory approval from the Ministry of Health and Long-Term Care ("MOHLTC") and was subsequently completed on January 31, 2008. The acquisition is expected to enhance the long-term sustainability of Leisureworld's cash flow. Leisureworld is currently the third largest provider of long-term care in Ontario, representing a market share of approximately 5.6%.

Strong Financial Position and Flexibility for Continuing Growth

As at December 31, 2007, MPT's financial position was strong with positive working capital of $31,183 and cash on hand totalling $21,934, of which $18,628 was allocated to reserves. In addition, MPT has significant flexibility for continuing growth, including a $75,000 revolving credit facility to support further acquisitions.

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 Ltd. ("MPML" or the "Manager"), a wholly-owned subsidiary of Macquarie Group Limited ("MGL" or "Macquarie Group"), one of the world's largest and most experienced owners and managers of infrastructure and related assets in 25 countries.

Through its subsidiaries, MPT holds interests in the following infrastructure assets:

Power Infrastructure

MPT's power assets are diversified by geography and fuel source and have a weighted average remaining Power Purchase Agreement ("PPA") term of approximately 12 years.

Asset/Facility	Percentage Ownership	Location	Installed Capacity (MW)	Utility/Electricity Purchaser	Expiry of PPA	Fuel Supply Contract Expiry
Gas Cogeneration						
Cardinal	100%	ON	156 MW	Ontario Electricity Financial Corporation ("OEFC")	2014	2015
Wind						
Erie Shores Wind Farm ("Erie Shores")	100%	ON	99 MW	Ontario Power Authority ("OPA")	2026	n/a
Hydro						
Sechelt	100%	BC	16 MW	BC Hydro	2017	n/a
Hluey Lakes	100%	BC	3 MW	BC Hydro	2020	n/a
Wawatay	100%	ON	14 MW	OEFC	2042	n/a
Dryden (i)	100%	ON	3 MW	OEFC	2020	n/a
Biomass						
Whitecourt	100%	AB	28 MW	TransAlta Utilities Corp. ("TransAlta")	2014	2014
Chapais (ii)	31.3%	QC	31 MW	Hydro Quebec	2015, with option to extend to 2020 under certain conditions	2015, with option to extend to 2020 under certain conditions

(i) Comprised of the Wainwright, Eagle River and McKenzie Falls hydro power facilities.
(ii) The Fund has a 31.3% interest in one of the two classes of preferred shares of Chapais and also holds a 24.8% interest in Tranche A and B debt and a 50% interest in Tranche C debt.

Social Infrastructure

MPT holds a 45% interest in Leisureworld. The remaining 55% is owned by MGL, 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.

The composition of Leisureworld's LTC portfolio by structural classification as at December 31, 2007 was as follows:

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

(i) As of December 31, 2006. Source: Care Planning Partners, Inc.
(ii) Class A homes meet or exceed 1998 design standards.
Class B homes exceed 1972 standards but do not meet 1998 design standards.
Class C homes meet 1972 standards.
Class D homes do not meet 1972 standards.
(iii) All of Leisureworld's Class A homes are designated new homes and qualify for capital funding of $10.35 per day, per bed.

On January 31, 2008, Leisureworld acquired seven Class C long-term care homes. Leisureworld's LTC portfolio currently includes 4,314 beds with Class A representing approximately 52.4% of beds, Class B homes, 6.9%, and Class C homes, 40.7%.

Markets

MPT invests in long-life infrastructure assets for which there is stable demand and high barriers to entry.

Growing Demand for Electricity

MPT's power generation assets have a sustainable competitive advantage through long-term PPAs that provide price certainty for a majority of the power generated as well as protection from competition from other suppliers.

MPT's gas cogeneration, wind, hydro and biomass assets are an important part of the supply mix in the markets they serve. The Canadian Electricity Association ("CEA") estimates that electricity demand in Canada is growing at an annual average rate of 1.5% to 2%, primarily reflecting population and economic growth. At the same time, limited net generation capacity has been added. With the anticipated retirement by 2020 of about 20% of power generation facilities currently operating, the CEA projects that 60,000 MW of generation capacity will need to be added by 2020 to meet both system demand growth and plant replacement needs. Canada's electricity demand will be met through a mix of conventional generation facilities as well as renewable or emerging generation technologies, representing a mix of base load and peaking plants to manage and respond to changes in electricity consumption.

At the same time, Canada's electricity transmission and distribution infrastructure is inadequate to meet increasing demand for electricity. The CEA estimates the combined public and private cost to meet Canada's supply shortfall and transmission challenges to be $150 billion over the next two decades.

Demographic Trends Driving 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 Statistics Canada, the number of seniors aged 65 years plus in Ontario in 2006 represented approximately 12.9% of Ontario's total population while seniors aged 80 years and up represented approximately 3.6% of the province's population. Among seniors, the 85-plus age group grew fastest between 2001 and 2006, increasing 27.8%.

The Ontario Ministry of Finance projects that the population aged 65 years and up will nearly double from 1.6 million, or 12.9% of the population, in 2006 to 3.5 million, or 21.4%, in 2031.

Demand for long-term care is also supported by a favourable regulatory and funding model. LTC operations must be licenced by the government to operate, which ensures barriers to entry. In addition, for the government, LTC homes represent a cost-effective alternative to acute care hospital beds.

Aging Essential Infrastructure Requires Significant Investment

High quality infrastructure, such as roads, power generation and transmission, water distribution and long-term care, is essential to support national economic productivity and quality of life. Demand and need for infrastructure continues to increase, driven by economic and demographic growth. However, government spending has declined for a number of reasons, including fiscal constraints and the need to manage competing spending priorities such as health care. This has resulted in a widening investment gap.

The Canadian Council for Public-Private Partnerships ("CCPPP") estimates that there is a gap of at least $60 billion between the infrastructure spending required in Canada and the current annual infrastructure budgets of all levels of government. This represents an investment need that is six to 10 times spending plans. The CCPPP also projects that Canada's infrastructure deficit will increase to $1 trillion within 60 years should the current underinvestment in infrastructure continue.

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 rate of 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 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

MPT's power and social infrastructure assets provide stable, predictable cash flow. MPT seeks to expand its current businesses through the acquisition of new power assets or LTC homes, 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 that operate within a regulated or contractual framework, which creates barriers to entry by competitors and ensures predictable revenue streams throughout the economic cycle. These assets could include electricity generation and distribution, water/wastewater facilities, roads, hospitals and schools, among other assets, including through public-private partnerships ("P3s"). The timing of acquisitions depends on the availability of appropriate opportunities as well as access to the equity and debt markets on favourable terms.

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

There are a number of factors that drive the performance of MPT’s power and social infrastructure assets.

Power Infrastructure

Consistent Availability Supports Reliability of Cash Flow

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.

MPT’s power assets are characterized by high availability, which reflects the quality of plant operations and underlines the reliability of MPT’s cash flow. Cardinal’s five-year average availability, is 97.2%. Five-year average availability at the Whitecourt biomass facility and at the hydro facilities is 95.6% and 98.7%, respectively.

Availability of 97.0% at Erie Shores, which commenced operations in 2006, is guaranteed by General Electric for the first four years of the plant’s operations under a comprehensive warranty for the turbines, including parts, labour, maintenance and performance. This warranty includes a direct revenue reimbursement provision that compensates Erie Shores for lost revenue should the plant not achieve 97% availability.

MPT seeks to maximize the availability of its plants through continuous monitoring of equipment, comprehensive maintenance programs and through supply contracts to ensure consistent access to fuel at Cardinal and Whitecourt.

Long-term Power Purchase Agreements Provide Stable Revenue

Approximately 98.5% of the net electricity generated by MPT’s facilities is sold to major, creditworthy utilities such as the OEFC, OPA, BC Hydro and TransAlta under long-term PPAs with a weighted average remaining term of approximately 12 years. The remaining 1.5%, representing approximately 3 MW of net capacity at Whitecourt, is sold at the Alberta Power Pool spot price.

Under the PPAs, the customer is obligated to make monthly payments for electricity delivered, which contributes to the overall stability and predictability of MPT’s revenue. The major terms of MPT’s PPAs help to ensure that revenue and cost escalation are matched.

In addition, the PPAs for the Cardinal, Wawatay and Dryden facilities include higher rates during winter production periods from October to March.

While long-term PPAs help to ensure MPT’s cash flow stability, the amount of electricity generated by Erie Shores and the hydro facilities can fluctuate due to seasonal factors. Wind speed and density are generally greater during the autumn and winter periods. Water flows at MPT’s hydro facilities are typically greater during the autumn and spring months.

Long-term Fuel Supply Contracts Contribute to Predictable Margins

At Cardinal and Whitecourt, MPT manages fuel costs through long-term contracts that ensure stable and low-cost supply.

Cardinal’s natural gas costs and the seasonal nature of the Canadian electricity market are managed through long-term gas purchase and gas transportation contracts with Husky Energy Marketing Inc. (“Husky Marketing”) that expire in 2015 and 2014, respectively. The purchase contract also includes a gas mitigation clause under which Cardinal has the option to sell excess natural gas not used in its operations.

Whitecourt requires 300,000 tonnes of wood waste fuel each year, a majority of which is supplied under a long-term agreement by Millar-Western Pulp Ltd. (“Millar-Western”). Millar-Western operates a sawmill approximately seven kilometres from Whitecourt, which minimizes the cost to transport the wood waste to the plant. Millar-Western is required to pay the full cost of replacement fuel for Whitecourt if it does not deliver a minimum quantity of wood waste.

Erie Shores has zero fuel costs. Similarly, MPT’s hydro assets have minimal fuel costs, other than property taxes, water royalties or licence fees paid to government authorities or First Nation communities.

Disciplined Management of Operating Costs Supports Low Variability of Cash Flow

MPT incurs maintenance expenditures to replace or add capital assets required to maintain the plants’ current output capacity. All capital expenditures, including major maintenance costs, are planned for and funded by established reserve accounts to which funds are allocated regularly, which helps to support the low variability of MPT’s distributable cash. At December 31, 2007, MPT’s reserves for maintenance and capital expenditures totalled $13,628.

Each plant has an established maintenance program with an emphasis on routine and preventative maintenance, which helps to ensure the plants’ continuing consistent performance.

Social Infrastructure

Government-Sponsored Revenue Ensures Stability of Cash Flow

Ontario's LTC sector is regulated by the MOHLTC according to a defined funding model *(see Figure 1)*. This model contributes to the stability 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. 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 well 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, 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.

In 2007, the MOHLTC committed to a capital renewal program that will provide additional funding to operators to upgrade Class B and C homes to Class A standards, thereby improving the overall quality and comfort of accommodation available to residents. Redevelopment of Leisureworld's newly acquired Class C homes is expected to occur under this program.

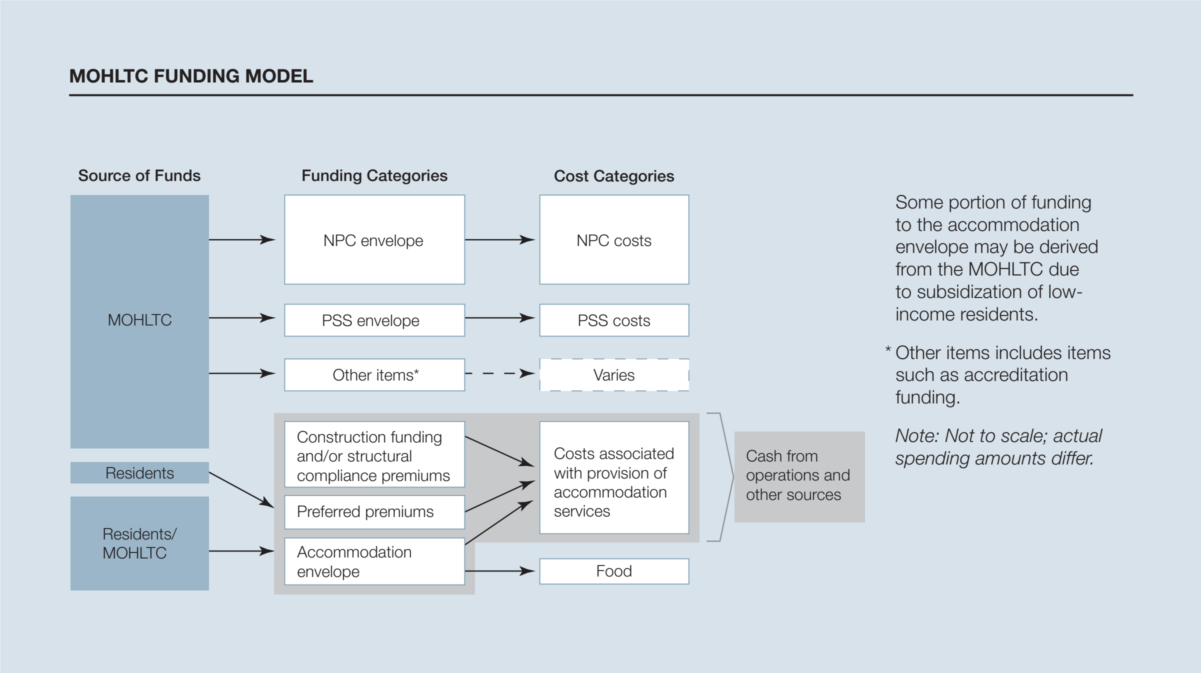
Increasing Occupancy Enhances Cash Flow

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 2)*. 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 was 98.4%.

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 accommodation, which typically increases revenue and enhances profitability. These premiums, which are regulated, are currently $8 per day for a semi-private bed and $18 per day for a private bed. At year end, approximately 50.2% of the beds in Leisureworld's portfolio were designated as private or semi-private accommodation. Average preferred occupancy for 2007 was 83.2%.

Figure 1



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 for nursing and personal care, and program and support services. Operators must return any funding from these envelopes 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.

Capability to deliver results

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

First, MPT's power and social infrastructure businesses are essential 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 and distributions to unitholders. In 2007, MPT's operating activities generated $29,663 in cash. As at December 31, 2007, MPT had positive working capital of $31,183 and cash on hand totalling $21,934, of which $18,628 was designated as major maintenance, capital expenditure or general reserves.

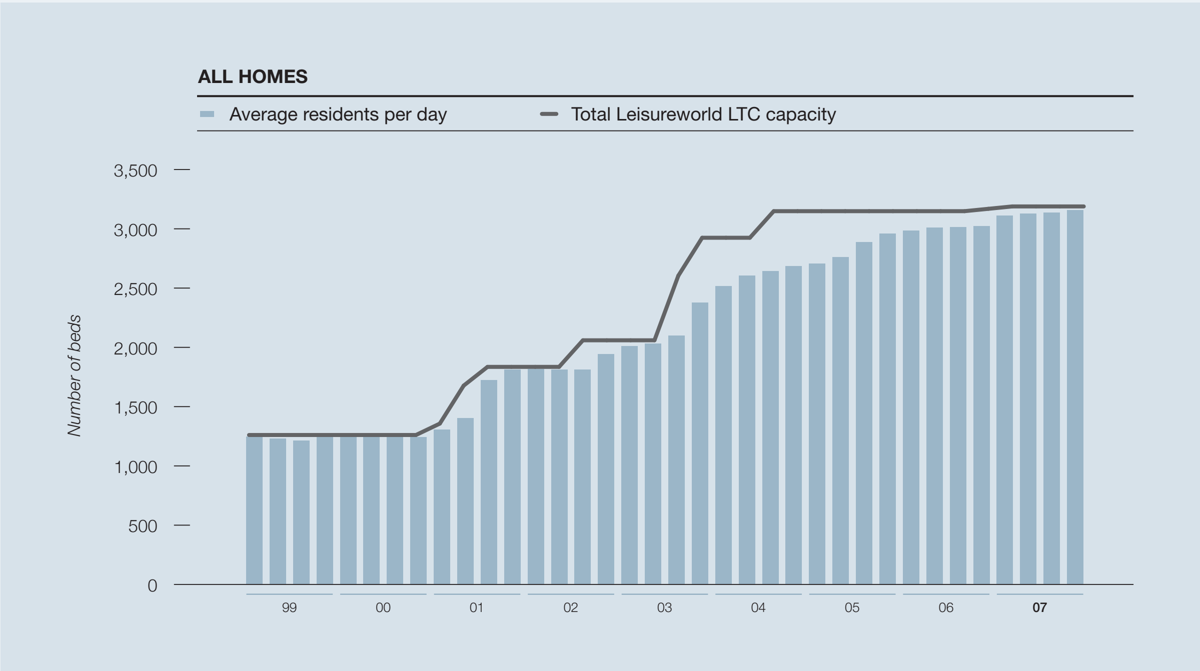
MPT also has significant flexibility for continuing growth, including a $75-million revolving credit facility to support further acquisitions. MPT seeks to acquire new infrastructure assets that will diversify the portfolio, increase the average asset life and contribute a sustainable increase in distributions per unit.

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 500 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.

Figure 2



Consolidation and comparison of operating results

Selected Consolidated Financial and Operating Information of the Fund

($000s, except for trust units and per trust unit amounts)

	Year Ended Dec. 31, 2007	Year Ended Dec.31, 2006
Revenue	**122,811**	89,940
Income before the following:	**23,257**	10,566
Unrealized gain on swap contracts	**523**	1,520
Unrealized gain on embedded derivative instruments	**10,456**	–
Net interest expense	**(6,982)**	(974)
Foreign exchange loss	**(1,129)**	–
Equity accounted loss from long-term investments	**(1,442)**	(2,701)
Gain on debtor repayment of loan receivable	**5,380**	–
Income before income taxes	**30,063**	8,411
Current income tax expense	**(5)**	–
Future income tax expense	**(24,632)**	–
Net income	**5,426**	8,411
Basic and diluted income per Unit	**0.135**	0.280
Cash flows from operating activities	**29,663**	21,044
Distributable cash (i)	**48,785**	34,058
Per Unit (Basic)	**1.210**	1.133
Distributions declared to Unitholders (ii)	**42,942**	30,423
Per Unit	**1.030**	1.012
Payout ratio (iii)	**88%**	89%
Basic and diluted weighted average number of trust units and Class B exchangeable units outstanding (Units)	**40,333**	30,048
Total assets	**797,952**	297,392
Total long-term liabilities	**361,887**	37,668
Sale of electricity (MWh) (iv)	**1,687,059**	1,227,214
Sale of steam (MM lbs)	**697,620**	676,014
Average total occupancy	**98.4%**	95.3%
Average preferred occupancy	**83.2%**	79.0%

(i) See "Distributable Cash and Payout Ratio" 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) All unitholders were paid distributions equivalent to the amount shown.

(iii) Payout ratio is defined by the Fund as distributions declared as a proportion of distributable cash. Payout ratio is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, it may not be comparable to similar measures presented by other issuers.

(iv) Total sale of electricity for the year ended December 31, 2007 includes operating results of the newly acquired assets only from the date of acquisition.

Revenue

Revenue for the year ended December 31, 2007 was $122,811 compared with $89,940 in the prior year. The $32,871 increase reflected six months of operating results from the wind, hydro and biomass power assets acquired on June 27, 2007, higher power prices from continued increases in the Direct Customer Rate ("DCR") as well as increased production at the Cardinal facility as the plant had a routine major maintenance outage in 2006. Total power generation for the year increased by 37% from 1,227,214 MWh in 2006 to 1,687,059 MWh in 2007.

Income Before the Following

Income before unrealized gains and losses on swap contracts and embedded derivatives, net interest expense, foreign exchange, equity accounted investments, gain on debtor repayment of loan receivable and taxes for the year ended December 31, 2007 was $12,691 higher than the prior year. The increase mainly reflected the operating results of the newly acquired assets as well as increased revenue at the Cardinal facility, offset by higher operating costs due to increased fuel usage and higher transportation charges. Administrative expenses for the year also increased as a result of higher incentive fees as cash flows generated from the newly acquired assets increased the Fund's distributable cash. Management fees and cost reimbursement charges were higher as the Fund required more support services in finance and asset management following the acquisition in June.

($000s unless otherwise noted)	**Year Ended Dec. 31, 2007**	Year Ended Dec. 31, 2006
Management and administrative fees	**1,518**	1,170
Cost reimbursement (i)	**2,138**	1,393
Incentive fees	**3,498**	1,847
Other administrative expenses	**2,623**	2,753
Administrative expenses	**9,777**	7,163

(i) In addition to the cost reimbursement included in administrative expenses for the year ended December 31, 2007, $55 of cost reimbursement was recorded in capital assets and $436 was capitalized as transaction costs in connection with the acquisition of CPIF. The Manager receives reimbursement for cost of services provided to the Fund in relation to, but not limited to, administration, regulatory, finance, rent and information technology.

Unrealized Gain on Swap Contracts

From time to time, Cardinal does not produce electricity, such as when the plant is shut down to perform regularly scheduled maintenance. As a result, the plant has excess natural gas that it sells to mitigate the loss of revenue due to reduced electricity production. The sale of excess natural gas exposes the Fund to gas price volatility caused by fluctuations in the market rates for natural gas. To stabilize the cash flows from excess gas sales, Cardinal entered into gas swap contracts.

The Fund also has an interest rate swap contract on a notional amount of $20,000 to mitigate some of the refinancing risk associated with Erie Shores' project debt. Under the contract, the Fund will pay a fixed rate of 5.5% for a period of five years from December 2011 to December 2016. In return, the Fund will be paid a floating rate equal to the then current three-month Bankers' Acceptance ("BA") rate.

($000s unless otherwise noted)	**Year Ended Dec. 31, 2007**	Year Ended Dec. 31, 2006
Unrealized gain on gas swap contracts	**1,032**	1,520
Unrealized loss on interest rate swap contract	**(509)**	–
Total unrealized gain on swap contracts	**523**	1,520

The fair values of the swap contracts have been recorded on the consolidated statement of financial position for the year ended December 31, 2007. Since these swap contracts do not meet the effectiveness criteria for hedge accounting, the movement in the fair value of these contracts has been reflected in the consolidated statement of operations for the year.

Unrealized Gain on Embedded Derivative Instruments

On the adoption of the new accounting pronouncements for financial instruments (Section 3855), the Fund identified that the gas supply contract for the Cardinal facility contains embedded derivative features. The Fund determined that these embedded derivative features, which include mitigation options and electricity indexing features within the contract, require separation and measurement at fair value. The determination of fair value of these embedded derivatives requires significant judgment based on management estimates and assumptions. The major assumptions that impact the value of the reported asset and liability include forecasts to 2015 for gas prices and volatility, foreign exchange, the OEFC DCR, gas volumes and sales, and fixed and variable gas transportation costs. Changes in one or a combination of these estimates can have a significant impact on the fair value of the embedded derivatives given the volume of gas and length of contract involved. Management revises these estimates as new information becomes available.

As of December 31, 2007, the embedded derivative asset and liability recorded at fair value were $17,718 and $13,658, respectively.

($000s unless otherwise noted)	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2006
Unrealized gain on embedded derivative asset	718	–
Unrealized gain on embedded derivative liability	9,738	–
Total unrealized gain on embedded derivative instruments	10,456	–

Net Interest Expense

Net interest expense consists of interest income earned on loans receivable and cash balances, offset by interest expense incurred in the year.

The Fund charges interest on its loans receivable from Chapais. These loans bear interest at rates ranging from 0% to 10.8% and mature in December 2015.

The Fund's long-term debt consists of a $35,000 term loan for Cardinal; $3,000 on a revolving facility and $47,000 on a term facility for CPOT; and $115,900 in project debt for Erie Shores bearing interest that ranges from 5.05% to 5.96%.

The Fund also has 6.75% convertible unsecured subordinated debentures ("the Debentures") outstanding due on December 31, 2010. Interest is paid semi-annually in arrears on June 30 and December 31 of each year.

Foreign Exchange Loss

The foreign exchange loss in the consolidated statement of operations in the year represents the loss on translation of the U.S. Wind Loan from U.S. into Canadian dollars in the year.

Equity Accounted Loss from Long-term Investments

The Fund has an indirect 45% interest in Leisureworld and an indirect 31.3% interest in one of the two classes of preferred shares in Chapais, which are accounted for using the equity method. Included in the consolidated statement of operations for the year ended December 31, 2007 is equity accounted loss of $1,286 (2006 – $2,701) from Leisureworld and $156 (2006 – nil) from Chapais.

Gain on Debtor Repayment of Loan Receivable

On December 7, 2007, the Fund completed a termination agreement with Caithness, whereby Caithness repaid the U.S. Wind Loan from the Fund for total proceeds of US$22,000 (CAD$22,125). The Fund realized a gain of $5,380 on the repayment.

Income Tax

Bill C-52, which was passed into law on June 22, 2007, resulted in the Fund's income being taxable starting in 2011. As a result, future income tax assets and liabilities have been recognized on the consolidated statement of financial position based on temporary differences between the accounting and tax bases of existing assets and liabilities that are expected to reverse after 2010. For the year ended December 31, 2007, the Fund recorded a future income tax expense of $24,632 on the consolidated statement of operations in respect of these assets and liabilities.

Cash Flows from Operating Activities

Cash flows from operating activities for the year were higher by $8,619 compared with the same period last year. The increase was primarily due to higher interest expense and changes in working capital, more than offset by an increase in earnings before non-cash expense items for the reasons described above.

Distributable Cash and Payout Ratio

Distributable cash and payout ratio are not recognized performance measures under GAAP. Many Canadian income funds, such as the Fund, 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 issuers, and accordingly, may not be comparable to distributable cash and payout ratio as reported by such issuers. The Fund believes that distributable cash and payout ratio are useful supplemental measures that may assist investors in assessing the Fund's financial performance. Payout ratio is defined as distributions declared as a proportion of distributable cash.

Distributable cash is based on cash flows from operating activities, the GAAP measure that is reported in the Fund's consolidated statement of cash flows. Cash flows from operating activities are adjusted for changes in the reserve accounts, non-discretionary receipts and payments and distributions received from Leisureworld. In addition, the impact of changes in non-cash working capital is excluded (the movements in trade-related current assets and liabilities) as management believes it should not be considered in a period calculation intended to demonstrate the degree to which cash flow from earnings supports the financial obligations of the Fund. The gain on debtor repayment of the loan receivable has been included in distributable cash for the period on the basis that the cash gain represents value in excess of the carrying value and equates the interest income that would otherwise have been received by the Fund had the loan been held to maturity.

The nature of power infrastructure assets requires scheduled maintenance to optimize their efficiency and operating life. The Fund has established reserves that are funded based on planned requirements. Cash from these reserves is released to meet maintenance and capital requirements. Adjustments for non-discretionary receipts and payments are made according to the Fund's investment and financing decisions regarding ongoing commitments.

For the year ended December 31, 2007, distributable cash exceeded distributions. The Fund makes monthly distributions at a constant amount per unit during the year. Given seasonal fluctuations in revenue and the timing of cash flows associated with working capital items, it is possible for monthly distributions to exceed distributable cash from time to time. In such a situation, the variance is funded from the Fund's existing cash resources. On an annual basis, the Fund expects distributable cash to exceed distributions paid to unitholders.

In any given period, the amount of distributions declared will exceed the net earnings of the Fund as a result of non-cash charges, most significantly, amortization and non-cash movements in future income taxes and embedded derivative balances. Except for allocations to capital expenditures and major maintenance reserve accounts, the Fund does not retain additional amounts for these non-cash balances as movements in these balances do not require periodic investments to maintain existing levels of activity. The amount of distributions declared will also exceed cash flow from operations in any given period as a result of distributions received from Leisureworld, which are excluded from the calculation of cash flow from operations.

($000s, except for trust units and per trust unit amounts)	**Year Ended Dec. 31, 2007**	Year Ended Dec. 31, 2006
Cash flows from operating activities	**29,663**	21,044
Maintenance of productive capacity:		
Release from major maintenance reserve account	**980**	4,294
Allocation to major maintenance reserve account	**(2,726)**	(2,368)
Allocation to capital expenditure reserve account	**(719)**	(404)
	27,198	22,566
Other adjustments:		
Scheduled repayment of debt	**(1,582)**	–
Scheduled receipt of loans receivable	**295**	–
Gain on debtor repayment of loan receivable	**5,380**	–
Distributions received from Leisureworld	**10,350**	10,350
Changes in working capital	**7,144**	1,142
Distributable cash for the period (i)	**48,785**	34,058
Per Unit	**1.210**	1.133
Distributions declared to Unitholders	**42,942**	30,423
Per Unit (ii)	**1.030**	1.012
Payout ratio (iii)	**88%**	89%
Basic and diluted Units outstanding	**40,333**	30,048

(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.

(ii) All unitholders were paid distributions equivalent to the amount shown.

(iii) Payout ratio is defined by the Fund as distributions declared as a proportion of distributable cash. Payout ratio is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, it may not be comparable to similar measures presented by other issuers.

For the year ended December 31, 2007, distributable cash was $48,785 (2006 – $34,058). The Fund declared distributions to unitholders of $42,942 (2006 – $30,423). This represents a payout ratio of 88% (2006 – 89%). The annual payout ratio in 2007 was slightly lower than the prior year, primarily due to cash flows generated from the newly acquired assets and a $5,380 gain on the repayment of the Fund's U.S. Wind Loan, offset by higher distributions declared in the year. Distributions declared in the year increased due to an increase in the number of units outstanding as a result of the CPIF acquisition, which was completed through a unit exchange takeover. In addition, due to the timing of the transaction on June 27, 2007, the former CPIF unitholders were unitholders of the Fund as of June 30, 2007, the record date for the June distribution payment, and were eligible to receive the distribution payment for the month of June. However, the newly acquired assets did not a make a significant contribution to the Fund's cash flow in that period.

Highlights by operating segment

The discussion and analysis of the Fund's summarized results is organized by principal operating segment: power infrastructure and social infrastructure.

	Year Ended December 31, 2007			Year Ended December 31, 2006		
($000s unless otherwise noted)	Power	Social	Total	Power	Social	Total
Revenue	122,811	–	122,811	89,940	–	89,940
Operating expenses	69,860	–	69,860	59,670	–	59,670
Contribution margin (i)	52,951	–	52,951	30,270	–	30,270
Interest income on loans receivable (ii)	1,368	–	1,368	–	–	–
Gain on debtor repayment of loan receivable	5,380	–	5,380	–	–	–
The Fund's pro rata share of equity accounted loss (iii)	156	1,286	1,442	–	2,701	2,701
Depreciation and amortization on capital assets	14,310	–	14,310	7,741	–	7,741
Sale of electricity (MWh)	1,687,059	–	1,687,059	1,227,214	–	1,227,214
Sale of steam (MM lbs)	697,620	–	697,620	676,014	–	676,014
Average total occupancy	–	98.4%	–	–	95.3%	–
Average preferred occupancy	–	83.2%	–	–	79.0%	–

(i) Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, contribution margin may not be comparable to similar measures presented by other issuers. Refer to page 33 for a reconciliation of contribution margin from income before taxes for the year.
(ii) The Fund's interest income consists of interest earned on the U.S. Wind Loan and Chapais loans for the period. This amount is included in net interest expense on the consolidated statement of operations.
(iii) The Fund's investments consist of a 31.3% interest in one of the two classes of preferred shares in Chapais and a 45% equity interest in Leisureworld.

Power Infrastructure

The power infrastructure segment includes gas cogeneration, wind, hydro and biomass power generation assets.

Gas Cogeneration Operations

($000s unless otherwise noted)	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2006
Revenue	98,589	89,940
Operating expenses	61,547	59,670
Contribution margin (i)	37,042	30,270
Depreciation and amortization on capital assets	7,785	7,741
Sale of electricity (MWh)	1,291,876	1,227,214
Sale of steam (MW lbs)	697,620	676,014

(i) Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, contribution margin may not be comparable to similar measures presented by other issuers. Refer to page 33 for a reconciliation of contribution margin from income before taxes for the year.

Cardinal's revenue for the year increased by $8,649 from 2006 due to continued increases in the DCR rate as well as higher production in the year due to fewer outages compared with the prior year. In the second quarter of 2006, the plant had a major maintenance outage totalling 496.2 hours, which resulted in reduced electricity generation. As a result, both availability and capacity factors were higher in 2007 at 98.2% (2006 – 94.0%) and 96.7% (2006 – 91.6%), respectively, with 150 hours (2006 – 533 hours) of outages and no curtailment hours (2006 – nil). Included in total revenue was steam revenue of $1,074, which also increased from the prior year (2006 – $1,028) due to greater steam requirements by Canada Starch Operating Company ("CASCO").

Operating costs for the year were higher in 2007 than the same period last year due primarily to increased production as well as increased fuel usage and higher transportation charges. Year to date contribution margin was $6,772 higher than the prior year as a result of the routine major maintenance outage in 2006.

Wind Power Operations

($000s unless otherwise noted)	Year Ended December 31, 2007 Erie Shores	Year Ended December 31, 2007 U.S. Wind Loan	Year Ended December 31, 2007 Total Wind	Year Ended December 31, 2006 Erie Shores	Year Ended December 31, 2006 U.S. Wind Loan	Year Ended December 31, 2006 Total Wind
Revenue	**10,301**	**–**	**10,301**	–	–	–
Operating expenses	**2,921**	**–**	**2,921**	–	–	–
Contribution margin (i)	**7,380**	**–**	**7,380**	–	–	–
Interest income on loans receivable	**–**	**937**	**937**	–	–	–
Gain on debtor repayment of loan receivable	**–**	**5,380**	**5,380**	–	–	–
Depreciation and amortization on capital assets	**4,236**	**–**	**4,236**	–	–	–
Sale of electricity (MWh)	**103,400**	**–**	**103,400**	–	–	–
Full year sale of electricity (MWh) (ii)	**243,423**	**–**	**243,423**	120,889	–	120,889

(i) Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, contribution margin may not be comparable to similar measures presented by other issuers. Refer to page 33 for a reconciliation of contribution margin from income before taxes for the year.

(ii) Included in the full year sale of electricity are operating results of the assets acquired on June 27, 2007 for the periods indicated. These results are provided solely for comparison purposes and do not change the results as reported by the Fund which only include operating results from June 27, 2007.

Erie Shores

Erie Shores started generating revenue and achieved commercial operation under the PPA with the OPA during the second quarter of 2006. Therefore, MWh production for the year ended December 31, 2006 is not indicative of actual operations and is not directly comparable to production for the year ended December 31, 2007.

Availability at Erie Shores for the year was 95.1% (2006 – 90.4%). The 5.2% increase in availability was a result of the plant being in the start-up phase in 2006 and also because of the outages due to testing in August and November 2006 to validate the equipment as required by the Independent Electricity System Operator ("IESO"). Erie Shores' production for the year was 243,423 MWh (2006 – 120,889 MWh), reflecting a full year of operations in 2007 compared with only seven months of operations in 2006. Erie Shores achieved a capacity factor of 28.1% (2006 – 14.4%) for the year.

U.S. Wind Loan Receivable

On December 7, 2007, the Fund entered into a termination agreement with Caithness Western Wind Holdings LLC ("Caithness"), whereby Caithness repaid the U.S. Wind Loan from the Fund for total proceeds of US$22,000 (CAD$22,125). The Fund realized a gain of $5,380 on the repayment. A portion of the proceeds were used to pay down $18,000 of debt. Interest of $378 was received during the fourth quarter up to and including the date of repayment.

Hydro Power Operations

($000s unless otherwise noted)	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2006
Revenue	**7,031**	–
Operating expenses	**1,878**	–
Contribution margin (i)	**5,153**	–
Depreciation and amortization on capital assets	**1,114**	–

(i) Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, contribution margin may not be comparable to similar measures presented by other issuers. Refer to page 33 for a reconciliation of contribution margin from income before taxes for the year.

Sale of electricity (MWh) Asset/Facility	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2006
Sechelt	**92,227**	82,602
Hluey Lakes	**7,035**	6,798
Wawatay	**60,938**	34,895
Dryden	**14,100**	14,594
Full year sale of electricity (i)	**174,300**	138,889
Sale of electricity	**89,112**	–

(i) Included in the full year sale of electricity are operating results of the assets acquired on June 27, 2007 for the periods indicated. These results are provided solely for comparison purposes and do not change the results as reported by the Fund which only include operating results from June 27, 2007.

Production at the hydro facilities increased 25.5% during the year to 174,300 MWh (2006 – 138,889 MWh) due to increased water flows at all facilities. Water flows were slightly above historical average levels at the Ontario plants and well above the extremely dry conditions experienced during 2006. The hydro power facilities operated at a weighted average availability of 98.2% for the year (2006 – 98.4%) and achieved a capacity factor of 55.7% (2006 – 44.3%). Overall availability for the year was slightly lower than last year due to outages at the Dryden facility in 2007 to allow for Hydro One to complete maintenance.

Biomass Operations

($000s unless otherwise noted)	**Year Ended December 31, 2007** Whitecourt	Chapais	Total Biomass	Year Ended December 31, 2006 Whitecourt	Chapais	Total Biomass
Revenue	**6,890**	**–**	**6,890**	–	–	–
Operating expenses	**3,514**	**–**	**3,514**	–	–	–
Contribution margin (i)	**3,376**	**–**	**3,376**	–	–	–
Depreciation and amortization on capital assets	**1,175**	**–**	**1,175**	–	–	–
The Fund's pro rata share of equity accounted loss	**–**	**156**	**156**	–	–	–
Interest income on loans receivable	**–**	**431**	**431**	–	–	–

(i) Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, contribution margin may not be comparable to similar measures presented by other issuers. Refer to page 33 for a reconciliation of contribution margin from income before taxes for the year.

Sale of electricity (MWh) Asset/Facility	**Year Ended December 31, 2007**	Year Ended December 31, 2006
Whitecourt	**192,080**	203,682
Chapais	**218,955**	219,961
Full year sale of electricity (i)	**411,035**	423,643
Sale of electricity	**202,671**	–

(i) Included in the full year sale of electricity are operating results of the assets acquired on June 27, 2007 for the periods indicated. These results are provided solely for comparison purposes and do not change the results as reported by the Fund which only include operating results from June 27, 2007.

Whitecourt

During the year, the Whitecourt facility operated at an availability of 93.4% (2006 – 97.3%) and achieved a capacity factor of 93.1% (2006 – 97.0%). The availability was lower compared with the prior year due to outages for approximately 462 hours (2006 – 65 hours) to complete repairs. Whitecourt production of 192,080 MWh (2006 – 203,682 MWh) was lower for the year, due to the lower availability. The average power pool price per MWh received during the year was $66.21 (2006 – $78.34).

Chapais

The Chapais facility operated at 94.8% availability for the year ended December 31, 2007 (2006 – 91.8%), reflecting 458 hours (2006 – 721 hours) of outages. Chapais' annual production was 218,955 MWh (2006 – 219,961 MWh). While production may vary throughout the quarters, annual production has historically approximated the maximum provision as per the PPA. Chapais' PPA is subject to a maximum annual production provision for each 12-month period ending November 30. Should the facility exceed this maximum production amount, the PPA rate paid on any excess production is significantly reduced. Therefore, the facility is operated throughout the year so that the total production for each 12-month period ending November 30 approximates the maximum provision in the PPA.

Chapais receives a monthly capacity premium during the four-month period from December to March provided that the facility meets the minimum 95% availability requirement for both peak and off-peak hours during the month. This premium is in addition to the production revenue received. As a result, Chapais operates at full production capacity for the period December to March producing approximately 50% of annual revenue. The Fund's pro rata share of Chapais' net loss for the period from June 27, 2007 to December 31, 2007 reflects the lower revenue earned in the second half of the year.

Social Infrastructure

The Fund's investment in Leisureworld is accounted for as an equity investment. As such, the Fund records its pro rata share (45%) of any income or loss for the period.

($000s unless otherwise noted)	**Year Ended Dec. 31, 2007**	Year Ended Dec. 31, 2006
Revenue	**181,725**	172,054
Net loss	**2,859**	6,002
The Fund's pro rata share of equity accounted loss	**1,286**	2,701
Distributions paid to the Fund	**10,350**	10,350
Average total occupancy	**98.4%**	95.3%
Average preferred occupancy	**83.2%**	79.0%

For the year ended December 31, 2007, Leisureworld generated revenue of $181,725 compared with $172,054 in the prior year. This $9,671 increase was primarily due to higher occupancy, increases in convalescent care revenue and funding for the resident classification system, increases in preferred accommodation, and increased government funding rates that were 3.6% higher than 2006. The increase in revenue was partially offset by higher operating and administrative expenses associated with increases in staff and operating costs at the homes that were ramping up to full occupancy during 2006. Increases in operating and administrative expenses were also driven by the increase in government funding rates.

Net loss for the year was $2,859 compared with a net loss of $6,002 in the prior year. The lower net loss in 2007 was mainly due to increased income from operations resulting from lower amortization charges, higher occupancy, an increase in accommodation funding rates, increases in the preferred accommodation mix and a decrease in property tax estimates.

Contribution Margin

Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Contribution margin can be defined as revenue net of direct operating expenses. Contribution margin provides useful information that may assist investors in assessing the operational performance of the Fund's underlying assets and their contribution to the Fund's financial results. The following provides a reconciliation of contribution margin from income before income taxes for the year ended December 31, 2007:

($000s unless otherwise noted)	**Year Ended Dec. 31, 2007**	Year Ended Dec. 31, 2006
Income before income taxes	**30,063**	8,411
Unrealized gain on swap contracts	**(523)**	(1,520)
Unrealized gain on embedded derivative instruments	**(10,456)**	–
Foreign exchange loss	**1,129**	–
Net interest expense	**6,982**	974
Equity accounted loss from long-term investments	**1,442**	2,701
Gain on debtor repayment of loan receivable	**(5,380)**	–
	23,257	10,566
Administrative expenses	**9,777**	7,163
Depreciation and amortization	**19,917**	12,541
Contribution margin	**52,951**	30,270

Liquidity and financial resources

The Fund expects to meet all of its operating obligations in 2008 and to make distributions to unitholders from cash flows generated from operating activities and distributions received from Leisureworld. As at December 31, 2007, the Fund had positive working capital of $31,183 (2006 – $19,151), and cash on hand of $21,934 (2006 – $12,142), of which $18,628 (2006 – $6,274) was designated for major maintenance, capital expenditure or general reserves.

As at December 31, 2007, the following funds were available:

($000s unless otherwise noted)	Credit Limits	Amounts Authorized or Drawn	Available
Cardinal credit facility	50,000	35,000	15,000
CPOT credit facility (i)	150,000	62,533	87,467

(i) Included in the amounts authorized or drawn are three letters of credit totalling $2,533 and a $10,000 unsecured guarantee provided to the lenders under the Tranche C loan for Erie Shores.

With the continued funding of major maintenance and capital expenditure reserves, the Fund believes it has more than sufficient funds to meet all anticipated maintenance and capital requirements for 2008.

($000s unless otherwise noted)	**Year Ended Dec. 31, 2007**	Year Ended Dec. 31, 2006
Major maintenance reserve	**10,966**	2,219
Capital expenditure reserve	**2,662**	1,055
General reserve	**5,000**	3,000
Total reserve accounts	**18,628**	6,274
Other cash and cash equivalents	**3,306**	5,868
Total cash and cash equivalents	**21,934**	12,142

Related party transactions

MPML provides management services to Cardinal, LTC Holding LP, the Fund, the Trust and CPOT under management agreements that expire on April 30, 2024. MPML provides the Fund and the Trust with certain administrative and support services. Annual management and administrative fees charged are escalated annually by the Consumer Price Index.

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.

MPML is entitled to be reimbursed for all reasonable costs and expenses incurred in carrying out such services as approved by the independent trustees.

For the year ended December 31, 2007, the Fund paid advisory fees in the amount of $4,830 to an affiliate of Macquarie Group Limited in connection with the acquisition of CPIF. These costs were capitalized as part of the cost of the acquisition.

Total fees charged to the Fund from MPML for the year are as follows:

($000s unless otherwise noted)	**Year Ended Dec. 31, 2007**	Year Ended Dec. 31, 2006
Management fees	**1,412**	1,065
Administrative fees	**106**	105
Incentive fees	**3,498**	1,847
Cost reimbursement (i)	**2,629**	1,393

(i) For the year ended December 31, 2007, $55 of cost reimbursement has been recorded in capital assets and $436 has been capitalized in connection with the acquisition of CPIF. The Manager receives reimbursement for cost of services provided to the Fund in relation to, but not limited to, administration, regulatory, finance, rent and information technology.

Seasonality

Since Cardinal has a long-term PPA with the OEFC 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 during the April to July period, which affects the Fund's operating results in that period. To partially offset this seasonality, Cardinal sells the excess natural gas not consumed. Exposure to fluctuations in the market prices of gas from these sales of surplus gas are partially hedged with gas swap contracts.

Electricity production generated by Erie Shores fluctuates with the natural wind speed and density in the area of the facility. During the autumn and winter periods, wind speed and density are generally greater than during the spring and summer periods.

A significant portion of electricity production generated by the Fund's hydro facilities fluctuates with the natural water flows of the respective watersheds. During the spring and autumn periods, water flows are generally greater than during the winter and summer periods.

Wawatay's and Dryden's PPAs with the OEFC have different pricing provisions for electricity produced, depending on the time of year. The OEFC pays higher rates for electricity during the months of October to March.

The PPA with Hydro Quebec relating to the Chapais facility also has different pricing provisions for electricity produced depending on the time of year. During the months of December to March, Hydro Quebec pays an additional capacity premium. This results in fluctuations in equity accounted income (loss) from long-term investments, but does not affect cash flows to the Fund.

The seasonality of wind speed and density, water flows, pricing provisions within the PPAs with the OEFC, and the PPA with Hydro Quebec may result in fluctuations in revenue and net income during the year.

The Fund maintains reserve accounts and free cash in order to offset the seasonality and other factors that may impact electricity production. Management believes that the active management of the reserve accounts and free cash is expected to be sufficient to maintain level monthly distributions to unitholders throughout the coming years.

Supplemental quarterly information

Selected Consolidated Financial Information of the Fund

($000s except for trust units and per trust unit amounts) For the quarters ended	**Dec. 31, 2007**	**Sept. 30, 2007**	**Jun. 30, 2007**	**Mar. 31, 2007**	Dec. 31, 2006	Sept. 30, 2006	Jun. 30, 2006	Mar. 31, 2006
Revenue	**41,823**	**30,432**	**21,587**	**28,969**	25,622	20,356	16,278	27,684
Net income (loss)	**34,677**	**(4,947)**	**(31,662)**	**7,358**	4,026	2,252	(1,473)	3,606
Cash flows from operating activities	**7,694**	**(2,567)**	**7,249**	**17,287**	6,853	(2,303)	2,206	14,288
Distributable cash (i)	**20,394**	**8,991**	**7,331**	**12,068**	10,003	6,947	6,308	10,800
Distributions declared to Unitholders	**12,869**	**12,882**	**9,454**	**7,737**	7,737	7,662	7,512	7,512
Basic net income (loss) per Unit	**0.694**	**(0.099)**	**(1.024)**	**0.245**	0.134	0.075	(0.049)	0.120
Diluted net income per Unit	**0.678**	**(0.099)**	**(1.024)**	**0.245**	0.134	0.075	(0.049)	0.120
Cash flows from operating activities per Unit	**0.154**	**0.051**	**0.234**	**0.575**	0.228	(0.077)	0.073	0.476
Distributable cash per Unit	**0.408**	**0.180**	**0.237**	**0.402**	0.333	0.231	0.210	0.359
Distributions declared per Unit (ii)	**0.257**	**0.257**	**0.257**	**0.257**	0.257	0.255	0.250	0.250

(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.

(ii) All unitholders were paid distributions equivalent to the amount shown.

Net income for the fourth quarter was $34,677 compared with $4,026 in the same period last year. The $30,651 increase reflected the impact of the net operating results from the newly acquired assets, a future income tax recovery of $18,801 (Q4 2006 – nil), a $4,110 (Q4 2006 – nil) gain on embedded derivatives for the quarter as well as improved contribution margin at the Cardinal facility due to lower outages in the quarter. Total power generation for the quarter was 562,595 MWh (2006 Q4 – 334,428 MWh), representing a 68% increase. This was offset by higher interest and administrative expenses compared with the same period last year.

Distributable cash for the quarter was $20,394 (2006 Q4 - 10,003). The Fund declared distributions to unitholders of $12,869 (2006 Q4 - $7,737), representing a payout ratio of 63% (2006 Q4 - 77%) for the quarter. The payout ratio was lower in the fourth quarter compared with the same period last year as a result of higher cash flows generated from the operations of the newly acquired assets as well as a $5,380 gain on the debtor repayment of the Fund's U.S. Wind Loan, offset by increased distributions due to an increase in the number of units outstanding as a result of the CPIF acquisition.

Subsequent events

On January 31, 2008, following receipt of regulatory approval from the MOHLTC, Leisureworld completed its acquisition of seven long-term care homes. The $67,000 transaction, plus transaction and home refurbishment costs, was financed through a $75,000 credit facility established by Leisureworld. MPT has committed to making an equity contribution of up to $6,750 within the next 12 months.

On January 31, 2008, Leisureworld signed an agreement to acquire the Good Samaritan Seniors Complex, consisting of a long-term care home and an attached retirement home, for approximately $11,100 plus transaction costs. Leisureworld has established a credit facility in connection with the acquisition and MPT has committed to making an equity contribution of up to $1,350 within the first 12 months following completion of the transaction. The acquisition is conditional upon regulatory approval from the MOHLTC.

Subsequent to year end, Cardinal entered into two gas swap agreements with an affiliate of Macquarie Group Limited. The gas swap contracts effectively 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 the periods from April 1, 2009 to October 31, 2009 and from April 1, 2010 to October 31, 2010.

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 2008, 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 2007. 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 $1,089 for electricity generated in prior periods. This amount will be recorded in the first quarter of 2008, consistent with the Fund's revenue recognition policy.

Contractual obligations and other commitments

Due to the acquisition of CPIF, there have been significant changes in the Fund's obligations and commitments since March 20, 2007, the date of the Fund's last Annual Information Form. The following describes the more significant contractual obligations and commitments of the Fund as at December 31, 2007.

($000s unless otherwise noted)	Effective Interest Rate	Maturing	As at Dec. 31, 2007	As at Dec. 31, 2006
Cardinal term loan (maturing May 16, 2011) (i)				35,000
BA	5.57%	June 13, 2008	**11,600**	–
BA	5.31%	August 28, 2008	**11,700**	–
BA	5.18%	December 12, 2008	**11,700**	–
			35,000	35,000
CPOT credit facility (maturing June 28, 2010) (ii)				
Revolver	Prime	June 28, 2010	**3,000**	–
BA – term loan	5.31%	June 4, 2008	**36,800**	–
BA – term loan	5.41%	June 4, 2008	**10,200**	–
			50,000	–
Erie Shores project debt (iii)				
Tranche A	5.96%	April 1, 2026	**68,988**	–
Tranche B	5.28%	April 1, 2016	**6,912**	–
Tranche C	5.05%	April 1, 2011	**40,000**	–
			115,900	–
			200,900	35,000
Less: Deferred financing fees				
CPOT credit facility (ii)			**(700)**	–
Total Debt, net of deferred financing fees			**200,200**	35,000
Less: Current portion of long-term debt			**(2,778)**	–
Total long-term debt			**197,422**	35,000

($000s unless otherwise noted)	Dec. 31, 2007	Dec. 31, 2006
Deferred financing fees amortized	**125**	–
Interest expense (iv)	**9,203**	1,621
Total interest expense	**9,328**	1,621
Less: Interest income	**(2,346)**	(647)
Net interest expense	**6,982**	974

(i) Cardinal has secured senior credit facilities in the amount of $50,000 comprised of: (a) a $35,000 term loan ("Term"); and (b) a $15,000 revolving loan ("Revolver") (collectively the "Cardinal credit facility"), of which $35,000 had been advanced on the Term and nil had been advanced on the Revolver as of December 31, 2007. Collateral for the Cardinal term loan 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. At maturity, the Cardinal facility can be replaced by a facility with similar terms and conditions and for successive periods of 364 days.

(ii) CPOT has unsecured senior credit facilities in the amount of $150,000 comprised of: (a) a $75,000 revolving loan (the "Revolver"); and (b) a $75,000 term loan (the "Term") (collectively the "CPOT credit facility"), of which $3,000 had been advanced on the Revolver and $47,000 has been advanced on the Term as of December 31, 2007. The amount available to be drawn under the Revolver at any time shall be reduced by a $10,000 unsecured guarantee provided to the lenders under the Tranche C loan to Erie Shores.

Within the CPOT credit facility, the Fund has committed three standby letters of credit totalling $2,533 for Erie Shores as of December 31, 2007. These consist of a $1,980 standby letter of credit in favour of the Ontario Power Authority under its PPA, a $550 standby letter of credit in favour of SunLife for Erie Shores' operating and maintenance reserve account under Erie Shores' project debt provisions and a $3 standby letter of credit in favour of the Independent Electricity System Operator.

Under the CPOT credit facility, CPOT is subject to certain financial and non-financial covenants, including limits on the ratio of consolidated debt to consolidated EBITDA and a minimum interest coverage ratio. Interest charged on any credit advances is based on the bank's prime rate or BAs plus an applicable margin based on the ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization and unrealized gains and losses of a predefined group of the Fund's assets.

(iii) Erie Shores has $115,900 non-recourse project financing consisting of: (a) a $68,988 fully amortizing loan ("Tranche A"); (b) a $6,912 fully amortizing loan ("Tranche B"); and (c) a $40,000 interest only loan ("Tranche C"). This financing is secured only by Erie Shores, with limited recourse to the Fund's other assets.

(iv) Interest expense is comprised of interest on long-term debt, convertible debentures and levelization amounts for the year.

The following table summarizes total payments required under each of the Fund's facilities in the next five years:

Year of Repayment	Cardinal Term Loan	CPOT Credit Facility	Erie Shores Project Debt	Total
2008	–	–	2,778	2,778
2009	–	–	2,942	2,942
2010	–	50,000	3,117	53,117
2011	35,000	–	43,302	78,302
2012	–	–	3,497	3,497
Thereafter	–	–	60,264	60,264

Convertible Debentures

The Fund has 6.75% convertible unsecured subordinated debentures ("the Debentures") outstanding due on December 31, 2010. The Debentures are convertible into trust units of the Fund at the option of the holder at a conversion price of $18.28 per trust unit. Interest is paid semi-annually in arrears on June 30 and December 31 computed on the basis of a 365-day year.

Levelization Amounts

The levelization liability relates to guaranteed and variable payments received from the OEFC in excess of the pre-agreed base rate as set out under the Wawatay and Dryden hydro facilities' PPAs. In accordance with the PPA relating to the Wawatay facility, the power purchaser, OEFC, makes guaranteed monthly cash payments over the period to July 2012. In addition, the PPA requires the OEFC to make variable cash payments based on actual electricity production. The levelization amounts recorded on the consolidated statement of financial position include interest accrued at a variable rate, which currently approximates 7.52% per annum.

Capital Leases

The Fund has a number of capital leases with terms ranging from four to six years, expiring between 2008 and 2012 and bearing interest rates from 6.6% to 7.1%. For the year ended December 31, 2007, the Fund recorded principal repayments of $122 and amortization on the lease obligation of $137. The carrying value as of December 31, 2007 was $736, of which $181 was classified as a short-term liability.

Electricity Supply Contracts

The Fund has agreements to sell substantially all electricity produced at its facilities, less the amount of electricity consumed in the operation of the facilities, to the various entities and government authorities expiring between 2014 and 2042. Rates for power sales are fixed through long-term PPAs and include escalation clauses.

Gas Purchase Contracts

Cardinal has entered into a long-term purchase agreement 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 natural gas equivalent to 80% of the contract maximum.

Leases

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 energy savings agreement currently expires on January 31, 2015 but can be extended by mutual agreement.

CPOT has hydro power lease agreements with the Provinces of Ontario and British Columbia with respect to lands, lands under water and water rights necessary for the operation of its hydro facilities. The payments with respect to these agreements vary based on actual power production. The terms of the hydro power lease agreements extend between 2023 and 2042.

Erie Shores has an easement agreement with each landowners for a term of 20 years with an option to renew for a further period of 20 years. Under the agreements Erie Shores is obligated to compensate the landowners the amount that is the greater of $5,000 per turbine per year; and the sum of $1,500 per turbine per year and 2% of Erie Shores' annual gross revenue from electricity sales attributable to all of the turbines sited upon the easement lands during the calendar year. These amounts are adjusted annually based on the changes in CPI.

Swap Contracts

CPOT has an interest rate swap contract on a notional amount of $20,000 to mitigate some of the refinancing risk associated with the Erie Shores project debt. Under the contract, CPOT will pay a fixed rate of 5.5% for a period of five years from December 1, 2011 to December 1, 2016. In return, CPOT will be paid a floating rate equal to the then current three-month BA rate.

Cardinal generally performs its major maintenance activities during the April to July period, which affects the Fund's operating results in that period. To partially offset this seasonality, Cardinal sells the excess natural gas not consumed through gas swap contracts. Gas swap contracts are also used to hedge against fluctuations in the price of excess gas sold under the gas mitigation clause of the gas purchase contract. 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. The contracts cover the sale of gas for the seven-month period from April to October 2008.

Operations, Management and Maintenance Agreements

CPOT has an Operations and Management agreement with Regional Power Inc. ("Regional") to operate and maintain the hydro facilities. The agreement has an initial 10-year term that expires on November 30, 2011 (the "Initial Term"), and is automatically renewable for two additional five-year terms (each a "Renewal Term") unless at the end of the Initial Term or the first Renewal Term as the case may be, Regional provides CPOT with written notice to the contrary 180 days prior to the expiry of the Initial Term or the first Renewal Term, respectively, subject to certain performance targets being met. Regional is to be paid a monthly management fee of $38, subject to annual adjustments for changes in the CPI. If actual operating cash flows from the hydro facilities exceed a predetermined reference cash flow in any year, Regional will also be entitled to incentive fees of 50% of any excess, to a maximum of $50. If actual operating cash flows from the hydro facilities are less than the predetermined reference cash flow in any year, Regional will pay CPOT 50% of the shortfall, to a maximum of $25. An amount equal to 50% of any additional shortfall, up to a maximum amount of $25 will be set off against any future incentive fees.

Whitecourt has an Operations and Management Agreement with Probyn Whitecourt Management Inc. ("PWMI") to operate and maintain the Whitecourt biomass facility. The agreement has an initial 10-year term which expires on November 30, 2011 (the "Initial Term"), and is automatically renewable for two additional five-year terms (each a "Renewal Term") unless at the end of the Initial Term or the first Renewal Term, as the case may be, PWMI provides the Fund with written notice to the contrary 180 days prior to the expiry of the Initial Term or the first Renewal Term, respectively, subject to certain performance targets being met. PWMI receives a monthly management fee of $33, subject to annual adjustments for changes to the CPI. Commencing in 2002 and for the Initial Term, PWMI's contract specifies annual incentives and penalties, to a maximum of 50% of any excess or shortfall in the Whitecourt facility's actual operating cash flow, compared with a predetermined reference cash flow for the year. The penalty clause sets the maximum annual cash payment to the Fund at $100, with any remaining penalty carried forward against future years' incentive fees.

Chapais has a management agreement with Probyn Power Services Inc. to operate and maintain the Chapais biomass facility until November 30, 2011. The Fund's portion of payments in respect of this agreement totalled $42 for the year ended December 31, 2007.

Erie Shores has a management service contract with Stapletonprice.com Limited to operate and maintain Erie Shores. The contract has been extended to and expires on February 28, 2008 and stipulates that Stapletonprice.com receive a monthly management fee of $41.

Under a fixed-price service and maintenance agreement, General Electric Canada ("GE Canada") provides operating and management services to Erie Shores. The annual obligation of the Fund under this agreement is $2,772 up to the period ending June 30, 2010. This obligation is subject to CPI increases on August 1 of every year as per the terms specified in the agreement. For the year ended December 31, 2007, the Fund paid $2,890 to GE Canada. Under a separate agreement, General Electric Company provides the project with four-year revenue reimbursement and performance guarantees.

Wood Waste Supply Agreements

The Whitecourt biomass facility has entered into long-term agreements to ensure an adequate supply of wood waste. The agreements expire in 2014.

Guarantees

As at December 31, 2007, the Fund has an unsecured guarantee in the amount of $10,000 to the lenders under the Tranche C loan to Erie Shores. This guarantee may be reduced from time to time by an amount equal to 75% of any releases from the escrow accounts established upon the disposition of GRS, in excess of a certain amount. At December 31, 2007, there has been no reduction in the guarantee amount.

The Fund also provides three guarantees relating to CPIF's former investment in GRS. As of December 31, 2007 no claims have been made on these guarantees.

Easements

Erie Shores has an easement agreement with the Town of Tillsonburg and the Corporation of the Municipality of Bayham for a term of 40 years commencing June 28, 2005. Under the agreement, Erie Shores is obligated to pay an annual amount that is the greater of $18,000; and 4% of the landowner compensation. Landowner compensation is the aggregate annual compensation in relation to the gross revenue from electricity sales received by each of the landowners on whose land a wind turbine is sited by Erie Shores. These amounts are adjusted annually based on changes in the CPI.

Outlook

Management anticipates that the Fund will continue to deliver stable performance in fiscal 2008, reflecting the quality and breadth of its portfolio.

MPT's portfolio is well diversified by asset type, geography and fuel source, which contributes to the stability of MPT's cash flow. Approximately 49% of MPT's distributable cash in 2008 is expected to be generated by Cardinal, 13% by

Erie Shores, 12% by the hydro facilities, 10% by MPT's biomass power plants and 16% by Leisureworld. This diversity significantly mitigates the seasonal impact of wind and hydrological conditions on MPT's performance.

In addition, all of the Fund's power assets are characterized by high availability, which reflects the quality of the plant operations and underlines the reliability of the Fund's cash flow.

Importantly, major maintenance costs at each of MPT's power plants are fully funded through MPT's major maintenance reserve account.

In 2008, Cardinal expects that continuing increases in gas transportation costs will more than offset the increase in the DCR, resulting in slightly lower cash flow for the year. Cardinal is scheduled to complete a combustion inspection in the second quarter of 2008, which typically requires a five-day outage. Cardinal's comprehensive maintenance program has been a key contributor to the plant's reliability, efficiency and profitability.

Erie Shores is expected to deliver annual production of approximately 245,600 MWh, subject to wind speed and density, which are typically greatest during the fall and winter months. Warranted plant availability of 97% is guaranteed by GE, including direct revenue reimbursement if that threshold is not met. Additionally, for the first four years of operations, GE Canada provides fixed-cost operations and maintenance services, which contributes to low, predictable operating costs. Erie Shores' annual maintenance, which typically requires approximately four to five days of outage, is targeted for a seasonally low period of the year.

The hydro facilities are expected to generate long-term average production of 166,360 MWh, which represents average actual historical production at each of the facilities. The hydro assets are located in the Arctic, Atlantic and Pacific watersheds, which mitigates the impact of fluctuating water flows on revenue. Water flows are typically strongest during the fall and spring months. Additionally, the PPAs at Wawatay and Dryden provide for higher electricity rates during the months of October to March. Mechanical and electrical inspections at the plants are typically scheduled for seasonally low periods.

Whitecourt is supported by a long-term fuel supply agreement that contributes to continuing reliable operations as well as a low cost structure. Whitecourt operates on a seven-year maintenance cycle and is scheduled to undergo major maintenance in May 2008, which is expected to require an outage of approximately 24 days.

At Leisureworld, a key focus will be integrating the seven long-term care homes acquired on January 31, 2008. This transaction is expected to contribute to the sustainability and predictability of Leisureworld's distributions to MPT. Another important priority will be on securing approval from the MOHLTC for Leisureworld's acquisition of the Good Samaritan Seniors Complex. At the same time, Leisureworld will seek to maximize occupancy across its homes and to increase the number of residents choosing preferred accommodation, which contributes to Leisureworld's operating profitability. As the third largest provider of long-term care in the province, Leisureworld is well positioned to capitalize on complementary acquisition opportunities and to execute its strategy to deliver high quality care and accommodation to Ontario's seniors.

For 2008, MPT anticipates achieving a payout ratio of approximately 95% to 100%, which provides for the continuing stability of distributions. Approximately 60% of the distributions paid to unitholders in 2008 are expected to be non-taxable as return of capital.

MPT's objective is to build a significant portfolio in North America that returns exceptional long-term value to unitholders. MPT's business is characterized by strong fundamentals and stable cash flow as well as a conservative capital structure. MPT has significant flexibility for continuing growth, including a $75,000 revolving credit facility to support further acquisitions. MPT will continue to evaluate and pursue growth opportunities that complement the cash flow profile of its assets, extend the average asset life of MPT's portfolio and deliver an attractive total return. These opportunities could include additional power infrastructure assets and consolidation within the power income fund space, more long-term care businesses and other categories of infrastructure, including through public-private partnerships.

Caution regarding forward-looking statements

Certain of the statements contained in this Annual Report (including the Management's Discussion and Analysis) are forward looking and reflect management's expectations regarding the Fund's future growth, results of operations, performance and business based on information currently available to the Fund. Forward-looking statements are provided as information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes.

These statements use forward-looking words, such as "anticipate", "continue", "expect", "may", "will", "estimate", "believe" or other similar words. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements and should not be relied upon as a prediction of future events. Although the Fund believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons, including risks associated with: the operational performance of the Fund's assets; power purchase agreements; fuel costs, supply and transportation; default under credit agreements; regulatory regime and permits; land tenure and related rights; government regulation and funding; acquisition-related risks; LTC home ownership and operation; minority interest; reliance on key personnel; default under Leisureworld's long-term debt and credit facility; labour relations and cost; the variability of distributions; unitholder liability; dependence on the Manager and potential conflicts of interest; insurance; and risks related to the environmental, health and safety regimes within which the Fund's assets operate. For more information, see "Risks and Uncertainties" and those risks described in the Fund's Annual Information Form.

Material factors or assumptions that were applied in formulating the forward-looking statements contained herein include the assumption that the business and economic conditions affecting the Fund's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates and that there will be no unplanned material changes to the Fund's facilities, equipment and contractual arrangements. These forward-looking statements reflect the expectations of the Fund as of the date of this Annual Report and, except as may be required by applicable law, the Fund does not undertake any obligation to publicly update or revise any forward-looking statements.

Risks and uncertainties

To effectively manage MPT's business and execute its strategy to create value for unitholders, the Manager analyzes all risks and uncertainties associated with the Fund's operations and objectives. These risks and uncertainties could have an adverse impact on MPT's business, operating results and financial condition, which could negatively affect MPT's ability to pay distributions to its unitholders.

MPT seeks to mitigate the risks and uncertainties that may affect its performance through a process of identifying, assessing, reporting and managing risks of significance. The Manager continuously monitors risks and uncertainties at both the Fund and asset level and reports annually to the Board of Trustees about risk management actions and plans. Every year, the Manager re-evaluates risks and addresses new risks resulting from operational changes or external factors.

The following information is a summary only of certain risk factors and is qualified in its entirety, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Report, the Fund's Annual Information Form and other filings with Canadian securities regulators, which are available on SEDAR at www.sedar.com.

Risks Related to Power Infrastructure

Operational Performance

MPT's revenue is proportional to the amount of electrical energy generated by its facilities. The facilities could be affected by premature wear or failure, due to defects in design, material or workmanship, or longer than anticipated down times for maintenance and repair. These risks are partially mitigated by routine and preventative maintenance, the design of each facility as well as the proven nature of the technologies employed.

The operation of each facility also depends on the availability or constancy of fuel or natural resources:

- The supply of gas required by Cardinal is contracted under a gas purchase agreement that expires on May 1, 2015;
- The biomass facilities have long-term agreements in place with substantial forest product operations for the supply of wood waste; and
- The wind and hydro facilities rely on wind speed and density and water flows, respectively.

There can be no assurance that the longer term availability of fuel for the Cardinal and biomass facilities will remain unchanged.

Erie Shores may be affected by abnormal weather conditions or changing wind patterns. Similarly, the hydro facilities may be significantly affected by hydrological conditions, such as low and high water flows within the watercourses on which the facilities are located. This risk to the hydro facilities is partially mitigated by the geographic diversification of the hydro facilities' location in three different watersheds.

Power Purchase Agreements

Most of the electricity that is generated by the Fund's facilities is sold to large utilities or creditworthy customers under long-term PPAs, which provide a specified rate for a defined period of time. In addition, the excess power capacity of some of the facilities may be sold in the open market, where prices paid for energy can vary.

As PPAs expire the facilities may not be able to renegotiate or enter into power sales contracts on terms that are commercially reasonable, if at all. If the facilities choose to sell the power they produce on the open market, the price they receive may not exceed the marginal cost of operations.

Fuel Costs, Supply and Transportation

Cardinal's gas purchase agreement expires on May 1, 2015. Whitecourt and Chapais have long-term contracts with substantial forest products companies to supply wood waste. Any interruption in supply could affect the ability of the biomass facilities to operate. Upon expiry of each of these fuel supply agreements, the Fund will have to renegotiate the agreements or enter into new fuel supply agreements, and may not be able to do so on terms that are similar to the current fuel supply agreements, if at all. The facilities are also dependent on the transportation of fuel to them. Any disruption to service could affect production at the facilities.

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 facility's requirements. The gas swap agreements could expose MPT to losses that could occur under various circumstances, such as the counterparty defaulting on its obligations under the gas swap agreements or if the gas swap agreements provide an imperfect hedge.

The wind and hydro facilities have no fuel costs but rely on the availability and constancy of wind and water resources, which could vary due to abnormal weather conditions.

Default Under Credit Agreements

Several of MPT's material subsidiaries have credit agreements in place that contain a number of standard financial and other covenants.

Cardinal's credit agreement expires in 2011. Upon the acquisition of CPIF, the Fund assumed an existing credit agreement, which expires in 2026, that had been established for non-recourse financing of the construction of Erie Shores Wind Farm. The Fund also established a new credit agreement for CPOT, which expires in 2010.

A failure by Cardinal, Erie Shores or CPOT to comply with their obligations under these credit agreements could result in a default, which, if not cured or waived, could result in the termination of distributions by these facilities and permit acceleration of the relevant indebtedness. There can be no assurance that assets of Cardinal, Erie Shores or CPOT would be sufficient to repay in full that indebtedness.

There can also be no assurance that Cardinal, Erie Shores or CPOT could:

- 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; or
- Refinance these credit agreements or obtain additional financing on commercially reasonable terms, if at all. Cardinal's and CPOT's credit agreements are, and future borrowings may be, at variable rates of interest, which exposes the Fund to the risk of increased interest rates.

Land Tenure and Related Rights

The facilities have various land tenure and resource access rights upon which they depend for their operation. There can be no assurance that these rights will not be challenged, and if challenged, whether such challenge will be successful. Furthermore, there can be no assurance that such rights will be able to be renegotiated or extended on commercially reasonable terms, if at all. At such time as any of these rights are successfully challenged or expire and cannot be renewed or renegotiated upon acceptable terms, the affected facility will likely be unable to continue to operate. In addition, in these circumstances there can be no assurance that the Fund or its subsidiaries will have the necessary financial resources or will be able to obtain the necessary financial resources to fund or cause to be funded any required restoration and remediation works.

Regulatory Regime and Permits

The performance of the facilities depends in part on a favourable regulatory climate. The regulatory regime in an applicable jurisdiction could be modified in a manner which adversely affects one or more of the facilities, including increases in taxes and permit fees. The failure to obtain all necessary approvals, licences or permits, including renewals or modifications could adversely affect the ability of the facilities to operate. The failure to operate the facilities in strict compliance with applicable regulations and standards may expose owners or operators of the facilities to claims, costs or possible enforcement actions. Any new law or regulation could require significant additional expenditures to achieve or maintain compliance. Hydro power facilities are granted water use rights by the government, which reserves the right to control and regulate water levels. Gas cogeneration and biomass facilities are subject to government regulations, including environmental regulations and/or approvals relating to the operations, biomass supply and wood ash disposal, as applicable. Erie Shores is highly regulated, including regulations and/or approvals relating to birds, mammals and other animals, and to noise. Government regulations and incentives currently have a favourable impact on wind facilities in Canada. Should the current governmental incentives be modified, Erie Shores may be adversely affected.

Risks Related to Social Infrastructure

Government Regulation and Funding

In Ontario, provincial legislation requires that all LTC homes be licenced. 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 endeavours to ensure compliance with all regulatory requirements applicable to its 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, there is a risk that funding agencies may in the future reduce the level of, or eliminate, such fees, payments or subsidies. It is also possible that such fees, payments, and subsidies may not 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.

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.

The *Long-Term Care Homes Act 2006* received Royal Assent on June 4, 2007 although it is expected to take 12 to 18 months before it can be enacted into law due to the number of regulations that need to be drafted. The *Long-Term Care Homes Act* contains a number of new provisions that could impact the operations of Leisureworld's homes. Among the new provisions are licence term limits for LTC homes according to class from 15 to 25 years and that licences can be revoked in cases of non-compliance.

Although many of its provisions are already in place in the Leisureworld homes, the *Long-Term Care Homes Act* could have an impact on Leisureworld's business.

Acquisition-related Risks

On January 31, 2008, Leisureworld completed the acquisition of seven LTC homes. There is a possibility that the anticipated benefits from the acquisition and future acquisitions will not be fully realized and that the costs or difficulties related to integrating the new LTC homes into Leisureworld's business will be greater than expected.

LTC Home Ownership and Operation

By investing indirectly in Leisureworld, the Fund is exposed to the general business risks inherent in the seniors' housing industry.

These risks include fluctuations in levels of occupancy and the inability to achieve economic accommodation funding or residency fees (including anticipated increases in such fees). This inability could result from, among other factors:

- Regulations controlling LTC funding;
- Regulations controlling rents for the retirement and independent living ("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 the Leisureworld homes or general economic conditions; and
- The imposition of increased or new taxes.

Other risks include health-related risks and disease outbreaks. As a result, there is no assurance that future occupancy rates at Leisureworld will be consistent with historical occupancy rates achieved.

Geographic Concentration

Leisureworld's business and operations are currently conducted in the Province of Ontario. If the Ontario market was to generally experience a decline in financial performance as a result of changes in local or regional economic conditions, such as the addition of new LTC homes, or an adverse change to the regulatory environment in Ontario, the market value of Leisureworld's LTC homes and the income generated from them 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 MGL, which has transferred the economic benefits of its ownership to MIIF. MIIF or any future holders of MGL's 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 the Fund 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.

Default under Leisureworld's Long-term Debt and Credit Facility

A portion of Leisureworld's cash flow is devoted to servicing its debt. There can be no assurance that Leisureworld will continue to generate sufficient cash flow from operations to meet required interest and principal payments on its 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 on the business, operating results and financial condition of Leisureworld. As well, Leisureworld's long-term debt and credit facility contain a number of standard financial and other covenants. 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, 2007, 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 and the Canadian Union of Public Employees. While Leisureworld has traditionally maintained positive labour relations, 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 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 wages 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

Changes in Federal Tax Policy for Flow-through Entities

On October 31, 2006, the federal government of Canada proposed a new tax regime for certain flow-through entities, including certain publicly-listed Canadian income trusts (such as the Fund) and partnerships, and distributions and allocations from these entities to their investors. Legislation to implement the proposed regime received Royal Assent on June 22, 2007. These rules apply a tax on certain income (other than taxable dividends) earned by subject entities, and treat the taxable distributions of such income received by unitholders of such entities as dividends.

The Fund and its unitholders will be subject to these rules. These rules generally do not apply until the 2011 taxation year for income trusts, the units of which were publicly traded prior to November 1, 2006, such as the Fund. However, the rules will apply immediately in any taxation year ending after 2006 if the trust does not comply with the "Normal Growth Guidelines", unless the excess growth arose as a result of a prescribed transaction.

The Fund estimates that these rules will, commencing on January 1, 2011, reduce the amount of cash available to the Fund to distribute to its unitholders. A reduction in distributions could adversely affect the value of the units, which could increase the cost to the Fund of raising capital in the public capital markets. There can be no assurance that the Fund will be able to reorganize its legal and tax structure to reduce the expected impact of these rules. In addition, there can be no assurance that the Fund will maintain its "grandfathered" status under these rules. Loss of grandfathered status could have a material and adverse effect on the value of the units. Furthermore, no assurance can be given that Canadian federal income tax law respecting the taxation of income trusts and other flow-through entities will not be further changed in a manner that adversely affects the Fund and its unitholders.

Variability of Distributions

The actual amount of cash distributions to unitholders depends on numerous factors, including the financial performance of the Fund's investments, 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

MPT's 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 and certain other provinces that is intended to provide unitholders in those provinces with limited liability. However, there remains a risk, which the Fund 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, and the businesses of the assets, 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 power or other infrastructure businesses. The management agreements, the administration agreement and the Fund'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 the Fund or its subsidiaries having to engage persons other than the Manager to provide acquisition and support services in respect of certain acquisitions or investments.

Insurance

MPT and Leisureworld maintain 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 Manager, the Fund and 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 on a commercially reasonable basis or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the Fund's or Leisureworld's assets or operations.

Environmental, Health and Safety

MPT's and Leisureworld's assets 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.

None of the Fund's and Leisureworld's assets, to the Fund'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.

Unitholder Dilution

The Fund's Declaration of Trust permits the issuance of an unlimited number of units on such terms as the Trustees determine without the approval of unitholders, who have no pre-emptive rights in connection with such issuances. In addition, the Fund is required to issue units (and contingency value receipts ["CVRs"]) upon conversion of the Debentures in accordance with their terms. The Fund may, in certain circumstances, determine to redeem outstanding Debentures for units or to repay outstanding principal or interest amounts by issuing additional units. Accordingly, holders of units may suffer dilution.

Nature of Units

Unitholders, as holders of units, do not have the statutory rights normally associated with ownership of shares of a corporation, including, for example, the right to bring "oppression" or "derivative" actions. The units represent a fractional interest in the Fund and do not represent a direct investment in the power infrastructure facilities or Leisureworld and should not be viewed by investors as direct securities of Cardinal LP, CPOT or LTC Holding LP.

Although the Fund's distribution policy is to make monthly distributions of its distributable cash to the extent amounts are received by the Fund, the units are not traditional fixed income securities. The Fund does not have a fixed obligation to make payments to unitholders and does not promise to return the initial purchase price of a unit on a certain date in the future. The Fund has the ability to reduce or suspend distributions if circumstances warrant. The Fund's ability to consistently make distributions to unitholders will fluctuate depending on the operations of its power and social infrastructure assets. In addition, unlike interest payments or an interest-bearing debt security, the Fund's cash distributions are composed of different types of payments (portions of which may be fully or partially taxable or may constitute non-taxable returns of capital). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax returns to unitholders. As result, a unitholder's rate of return over a defined period may not be comparable to the rate of return on a fixed income security that provides a "return on capital" over the same period.

Critical accounting policies and estimates

Adoption of New Accounting Policies

As required by the Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2007, the Fund adopted CICA Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865, Hedges. The principal changes in the accounting for financial instruments and derivatives due to the adoption of these accounting standards are described below.

Section 1530, Comprehensive Income and Section 3251, Equity

Section 1530 introduces a new concept of Comprehensive Income, which consists of Net Income and Other Comprehensive Income ("OCI"). OCI represents changes in unitholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale and unrealized foreign currency translation gains. The Fund's comprehensive income includes its proportionate share of Leisureworld's OCI. OCI includes the effective portion of the change in fair value of designated cash flow hedges of Leisureworld less any amounts reclassified to interest and other expenses in the period that the underlying hedged item is also recorded in interest and other expenses, net. Accumulated other comprehensive income ("AOCI") is included on the consolidated statement of financial position as a separate component of unitholders' equity.

Section 3855, Financial Instruments – Recognition and Measurement and Section 3861, Financial Instruments – Disclosure and Presentation

Financial Assets and Financial Liabilities

Under the new standards, financial assets and financial liabilities are initially recognized at fair value on initial recognition and their subsequent measurement is dependent on their classification. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Fund's designation of such instruments. The standards require that all financial assets be classified either as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities. Loans and receivables and other liabilities are measured at amortized cost using the effective interest method. Available for sale ("AFS") and held for trading ("HFT") financial instruments are measured at their fair value with changes in fair value recognized through earnings (HFT) or OCI (AFS). The Fund has designated each of its significant categories of financial instruments outstanding as of January 1, 2007 as follows:

Cash and cash equivalent	HFT
Accounts and loans receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities

Derivatives

Derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Except when designated as hedges, the change in fair value during the period is recognized in net income.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. Changes in fair value are recognized in net income. The Fund selected May 1, 2004 as the transition date for embedded derivatives, therefore only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. The Fund has determined that its gas purchase contract contains embedded derivatives requiring separation and measurement at fair value. The features requiring separation include mitigation options and electricity indexing features.

Derivative Contracts and Embedded Derivatives

As noted above, the Fund records certain derivative contracts and embedded derivatives at fair value. The determination of fair value involves estimates of many factors, including long-term views of forward energy prices in illiquid markets.

Transaction Costs

The Fund has elected to net transaction costs related to financial instruments classified as available-for-sale, held to maturity and loans and receivables against the related balance and amortize them over the expected life of the instrument using the effective interest method. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as held-for-trading are expensed.

During the year ended December 31, 2007, the Fund incurred $825 of transaction costs in respect of the CPOT credit facility, of which $125 has been expensed on the consolidated statement of operations.

Section 3865, Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting its discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

The Fund and its wholly-owned subsidiaries do not have any contracts that have been designated as hedges for accounting purposes as at December 31, 2007.

Impact of Adopting New Standard

The prospective adoption of these new standards resulted in changes in the accounting and presentation for financial instruments and hedging relationships as well as the recognition of certain transition adjustments that have been recorded in opening cumulative earnings or opening accumulated other comprehensive income as described below. The standards are applied retroactively but are presented prospectively and resulted in the following adjustment to the opening consolidated statement of financial position and the consolidated statement of unitholders' equity at January 1, 2007:

Consolidated Statement of Financial Position Category	Debit (Credit)
Investment in Leisureworld	1,832
Electricity supply and gas purchase contracts	(11,216)
Embedded derivative asset	17,000
Embedded derivative liability	(23,396)

Consolidated Statement of Unitholders' Equity Category	Debit (Credit)
Opening accumulated comprehensive income	(1,832)
Opening cumulative earnings	17,612

Sections 3862 and 3863, Disclosure and Presentation Requirements

Sections 3862 and 3863 provide guidance for additional required disclosures related to financial instruments. These sections provide guidance on what disclosure should be included in the financial statements related to items such as significance of financial instruments to the financial position and the performance of the Fund and the nature and extent of risks associated with financial instruments. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Fund plans to adopt these standards effective January 1, 2008. These standards will impact the Fund's disclosures provided but will not affect the Fund's consolidated results or financial position.

Section 1535, Capital Disclosures

This section requires an entity to disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Fund plans to adopt this standard effective January 1, 2008. This standard will impact the Fund's disclosures provided but will not affect the Fund's consolidated results or financial position.

Section 3031, Inventories

Section 3031 relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, and will be effective for the Fund as of this date. This standard is not expected to have a significant effect on the Fund's consolidated financial statements.

Use of Estimates and Measurement Uncertainty

The Fund 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 financial information contained in the consolidated financial statements has been prepared in accordance with GAAP, which require the Manager to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and note disclosure. Actual results could differ from the estimates and the differences could be significant.

The Manager makes significant accounting estimates that could be material to the financial statements in the application of the following accounting policies:

Fair Value Measurements

Estimates of fair value are made in the valuation of certain financial instruments, asset retirement obligations and also in determining the fair value of net assets acquired in a business combination. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data. These techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market data or transaction processes. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

Carrying Values of Goodwill and Other Long-lived Assets

Impairment reviews of the carrying value of long-lived assets require management to make estimates of future cash flows and business performance.

Future Income Tax

The determination of the future income tax balances of the Fund requires the Manager to make estimates of the reversal of existing temporary differences between the accounting and tax bases of assets and liabilities in future periods.

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. Management evaluates the operating and financial performance of its long-lived assets for potential impairment in accordance with Section 3063, Impairment of Long-Lived Assets. If an asset is determined to be impaired, the asset is written down to its fair value. An impairment loss is recognized when the fair value of the asset is less than the carrying amount. Fair value is based on estimates of future cash flows. The determination of fair value requires management 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 2007 continues to support the carrying value of the Fund's long-lived assets.

Asset Retirement Obligation

The Fund recognizes a liability for the present value of the expected future costs of retirement of the Cardinal, Erie Shores and hydro power (Sechelt, Hluey Lakes, Wawatay and Dryden) plants. 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 the facility's current credit standing. Determining asset retirement obligations requires estimating the life of the related asset and the costs of activities such as demolition, dismantling, restoration and remedial work based on present-day methods and technologies. These estimates are reviewed each fiscal year and adjusted prospectively if required.

Long-term Investments

The Fund has significant influence over its investments in Leisureworld and Chapais. The equity method of accounting is used to account for these investments. Under the equity method, the cost of the investment is adjusted by the Fund's proportionate share of operations and reduced by any distributions payable to the Fund.

Maintenance and Repairs

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

Useful Life of Capital Assets

Capital assets are amortized for accounting purposes over their estimated useful lives of three to 35 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.

Interest Rate Risk

The Fund is exposed to interest rate risk arising from fluctuations in interest rates on its long-term debt and currently has an interest rate swap contract on a notional amount of $20,000 to mitigate some of the refinancing risk associated with Erie Shores' project debt. Management believes that the financial impact of interest rate fluctuations would not be significant.

Credit Risk

Financial instruments that potentially subject the Fund to concentrations of credit risk consist of cash, accounts and loans receivable and swap contracts. The Fund deposits its cash with reputable financial institutions and therefore management believes the risk of loss is remote. For the year ended December 31, 2007, over 75% of the Fund's total accounts receivable relate to sales to the OEFC. Since the OEFC is a government authority, management does not believe there to be any significant credit risk. Credit risk concentration with respect to trade receivables is limited due to the Fund's customer base being predominately government authorities. At year end, the Fund had loans receivable from Chapais. Provisions have been recorded against these loans to record them at net realizable value. Counterparties to the Fund's interest rate and gas swap contracts are major financial institutions that have been accorded investment grade ratings by a primary rating agency, therefore management believes there is minimal credit risk associated with its swap contracts.

Currency Risk

As at December 31, 2007, the Fund only operates in Canada and has no significant risk from changes in foreign currency rates.

Non-GAAP performance measures

Distributable cash, payout ratio and contribution margin are not recognized performance measures under GAAP. Canadian open-ended trusts, such as MPT, use distributable cash, payout ratio and contribution margin as indicators of financial performance. Distributable cash, payout ratio and contribution margin may differ from similar computations as reported by other entities and, accordingly, may not be comparable to distributable cash, payout ratio and contribution margin as reported by such entities. The Manager believes that distributable cash, payout ratio and contribution margin are useful supplemental measures that may assist investors in assessing financial performance.

Distributable cash 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. Contribution margin can be defined as revenue net of direct operating expenses.

The CICA has released interpretive guidance on distributable cash for income trusts and other flow-through entities that recommends standardized calculation and reporting of distributable cash. In July 2007, the Canadian Securities Administrators announced their amendments to National Policy 41-201 – Income Trusts and Other Indirect Offerings.

Distributable cash is based on cash flows from operating activities, the GAAP measure reported in MPT's consolidated statement of cash flow and adjusted for changes in the reserve accounts, working capital, non-discretionary receipts and payments, and distributions received from Leisureworld. Change in working capital is adjusted to remove the impact of fluctuations due to timing of billings.

The OEFC is the Fund's primary customer and accounts for over 70% of revenue. The OEFC bills the Fund once every month. As there are only 12 payments during the year, 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.

Disclosure controls and procedures

The Fund's Chief Executive Officer and Chief Financial Officer, on behalf of the Fund's Board of Trustees, are required by the provincial securities regulators to certify annually that they have designed, or caused to be designed, the Fund's disclosure controls and procedures, as defined in Multilateral Instrument 52-109, and 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 the Fund is required to disclose is recorded, processed and reported within the timeframes specified by such securities regulators.

The Fund's disclosure policy was approved by the Board of Trustees and adopted by the Fund in December 2005. The Board of Trustees, which is responsible for oversight of this policy, also developed structured operating routines involving senior management of the Fund's operating entities to enforce the importance of disclosure controls and procedures. Accordingly, it is now written policy that information must be forwarded to the CEO and the CFO on a timely basis so they are able to make decisions regarding required external disclosures. This process, which existed before 2005, has now been documented in the Fund's written operating procedures and is effective.

The CEO and CFO have concluded that the Fund's disclosure controls and procedures were effective as of December 31, 2007 to ensure that information required to be disclosed in reports that the Fund files or submits under Canadian securities legislation is recorded, processed, summarized and reported within applicable time periods.

Internal Controls Over Financial Reporting

The Fund's management, under the supervision and with the participation of the Fund's CEO and CFO, has designed internal controls over financial reporting, as defined under Multilateral Instrument 52-109 of the Canadian Securities Administrators.

The purpose of internal controls over financial reporting is to provide reasonable assurance regarding the reliability of financial reporting, in accordance with GAAP, focusing in particular on controls over information contained in the annual and interim financial statements. The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

Changes in Internal Control over Financial Reporting

During the most recent period, aside from the implementation of new controls relating to new accounting policies and the acquisition of CPIF, there were no changes in the Fund's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

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 comprised 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
President and Chief Executive Officer

(Signed)

Harry Atterton
Vice President, Chief Financial Officer and Secretary

Toronto, Canada
February 26, 2008

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, 2007 and 2006 and the consolidated statements of operations, comprehensive income, unitholders' equity and cash flows for the years then ended. These consolidated 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 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, 2007 and 2006 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, Licensed Public Accountants

Toronto, Canada
February 26, 2008

Consolidated statement of financial position

As at December 31

($000s unless otherwise noted)	2007	2006
Current assets		
Cash and cash equivalents (note 5)	21,934	12,142
Accounts receivable	25,516	18,021
Inventory	1,055	191
Prepaid expenses and borrowing costs	5,048	1,634
Current portion of loans receivable (note 6)	641	–
Deferred charges	442	–
Cash in escrow related to GRS (note 22)	5,695	–
	60,331	31,988
Loans receivable (note 6)	7,612	–
Long-term investments (notes 4 and 7)	67,428	77,592
Capital assets (note 8)	432,311	134,603
Electricity supply and gas purchase contracts (notes 4 and 9)	87,821	35,186
Water rights (note 9)	71,928	–
Embedded derivative asset (notes 4 and 21)	17,718	–
Future income tax asset (note 14)	10,509	–
Goodwill	42,294	18,023
Total assets	797,952	297,392
Current liabilities		
Accounts payable and accrued liabilities (note 19)	15,730	10,258
Distributions payable (note 17)	4,289	2,579
Current portion of long-term debt (note 10)	2,778	–
Current portion of capital lease obligations (note 11)	181	–
Swap contracts at fair value (note 21)	475	–
Accounts payable and accrued liabilities related to GRS (note 22)	5,695	–
	29,148	12,837
Long-term debt (note 10)	197,422	35,000
Convertible debentures (note 12)	38,918	–
Levelization amounts (note 13)	18,262	–
Capital lease obligations (note 11)	555	–
Future income tax liability (note 14)	79,517	–
Embedded derivative liability (notes 4 and 21)	13,658	–
Swap contracts at fair value (note 21)	662	1,507
Liability for asset retirement (note 15)	1,475	1,161
Electricity supply and gas purchase contracts (note 9)	11,418	–
Total liabilities	391,035	50,505
Unitholders' equity (notes 16 and 17)	406,917	246,887
Total liabilities and Unitholders' equity	797,952	297,392

Commitments and contingencies (note 20)

See accompanying notes to the consolidated financial statements.

Consolidated statement of unitholders' equity and comprehensive income

For the Year Ended December 31

($000s unless otherwise noted)	Unitholders' Capital	Class B Exchangeable Units	Accumulated Other Comprehensive Income (Loss)	Cumulative Earnings (Loss)	Total Accumulated Comprehensive Income (Loss)	Cumulative Distributions	Total
Balance, December 31, 2005	253,460	35,500	–	15,606	15,606	(35,683)	268,883
Recovery of costs incurred in relation to subscription receipts offering	16	–	–	–	–	–	16
Net income for the year	–	–	–	8,411	8,411	–	8,411
Distributions declared to Unitholders for the year	–	–	–	–	–	(30,423)	(30,423)
Balance, December 31, 2006, as reported	253,476	35,500	–	24,017	24,017	(66,106)	246,887
Opening transitional adjustment on adoption of new accounting standards:							
Equity share of other comprehensive income of Leisureworld (note 4)	–	–	1,832	–	1,832	–	1,832
Fair value of embedded derivatives (note 4)	–	–	–	(17,612)	(17,612)	–	(17,612)
Adjusted balance, December 31, 2006	253,476	35,500	1,832	6,405	8,237	(66,106)	231,107
Net income for the year	–	–	–	5,426	5,426	–	5,426
Equity share of other comprehensive loss of Leisureworld (note 7)	–	–	(204)	–	(204)	–	(204)
Distributions declared to Unitholders for the year (note 17)	–	–	–	–	–	(42,942)	(42,942)
Trust unit issuance – net of issuance costs of $400 (note 2 and 16)	214,272	–	–	–	–	–	214,272
Trust units redeemed (note 16)	(742)	–	–	–	–	–	(742)
Balance, December 31, 2007	467,006	35,500	1,628	11,831	13,459	(109,048)	406,917

See accompanying notes to the consolidated financial statements.

Consolidated statement of operations

For the Year Ended December 31

($000s, unless otherwise noted)	2007	2006
Revenue	**122,811**	89,940
Costs and expenses		
Operating costs	**69,860**	59,670
Administrative expenses	**9,777**	7,163
Depreciation and amortization	**19,917**	12,541
	99,554	79,374
	23,257	10,566
Unrealized gain on swap contracts (note 21)	**523**	1,520
Unrealized gain on embedded derivative instruments (note 21)	**10,456**	–
Foreign exchange loss	**(1,129)**	–
Net interest expense (note 10)	**(6,982)**	(974)
Equity accounted loss from long-term investments (note 7)	**(1,442)**	(2,701)
Gain on debtor repayment of loan receivable (note 6)	**5,380**	–
Income before income taxes	**30,063**	8,411
Current income tax expense	**(5)**	–
Future income tax expense (note 14)	**(24,632)**	–
Net income	**5,426**	8,411
Basic and diluted weighted average number of trust units and Class B exchangeable units outstanding (“Unit”)	**40,333**	30,048
Basic and diluted income per Unit	**0.135**	0.280

See accompanying notes to the consolidated financial statements.

Consolidated statement of comprehensive income

For the Year Ended December 31

($000s, unless otherwise noted)	2007	2006
Net income	**5,426**	8,411
Equity share of other comprehensive loss of Leisureworld for the year (note 7)	**(204)**	–
Total comprehensive income for the year	**5,222**	8,411

See accompanying notes to the consolidated financial statements.

Consolidated statement of cash flow

For the Year Ended December 31

($000s, unless otherwise noted)	2007	2006
Cash flows from operating activities:		
Net income	5,426	8,411
Add back:		
Depreciation and amortization	19,917	12,541
Unrealized gain on swap contracts (note 21)	(523)	(1,520)
Unrealized gain on embedded derivative instruments (note 21)	(10,456)	–
Unrealized foreign exchange loss	1,067	–
Future income tax expense (note 14)	24,632	–
Premium on convertible debentures (note 12)	158	–
Unpaid interest on levelization amounts	320	–
Amortization of deferred financing costs	125	–
Accretion of asset retirement obligations (note 15)	79	53
Equity accounted loss from long-term investments	1,442	2,701
Gain on debtor repayment of loan receivable (note 6)	(5,380)	–
Non-cash changes in working capital		
Decrease (increase) in accounts receivable	475	(380)
Decrease (increase) in inventory	52	(98)
Increase in prepaid expenses	(2,340)	(360)
Decrease in accrued interest on loans receivable	516	–
Increase in deferred charges	(442)	–
Decrease in accounts payable and accrued liabilities	(5,405)	(304)
Total cash flows from operating activities	**29,663**	21,044
Cash flows from investing activities:		
Repayment on loans receivable	295	–
Net cash acquired on acquisition	14,133	–
Proceeds from debtor repayment of loan receivable (note 6)	22,125	–
Transaction costs paid from acquisition	(13,233)	–
Distributions received from long-term investments (note 7)	10,350	10,350
Investment in capital assets (note 8)	(370)	(783)
Total cash flows from investing activities	**33,300**	9,567
Cash flows from financing activities:		
Trust unit issuance costs (note 16)	(400)	–
Proceeds from long-term debt	72,075	16
Repayment of long-term debt	(64,447)	–
Redemption of convertible debentures (note 12)	(15,961)	–
Redemption of units (note 16)	(742)	–
Repayment of lease obligations	(122)	–
Repayment of levelization amounts	(252)	–
Distributions paid to former CPIF Unitholders	(2,090)	–
Distributions paid to Unitholders (note 17)	(41,232)	(30,223)
Total cash flows from financing activities	**(53,171)**	(30,207)
Increase in cash and cash equivalents	**9,792**	404
Cash and cash equivalents, beginning of period	12,142	11,738
Cash and cash equivalents, end of period	**21,934**	12,142
Supplemental information:		
Interest paid	9,440	1,885
Taxes paid	5	–

See accompanying notes to the consolidated financial statements.

December 31, 2007 (in thousands of dollars except for Trust Units and per Trust Unit amounts)

Note 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 plan 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. On June 27, 2007, the Fund acquired a 100% interest in Clean Power Income Fund ("CPIF"), an open-ended investment trust that had indirect investments in power infrastructure assets employing technologies in wind, hydro and biomass. As of December 31, 2007, the Fund indirectly owns the CPIF investments through a 100% interest in Clean Power Operating Trust ("CPOT"), which includes an indirect 31.3% interest in one of the two classes of preferred shares of Chapais Électrique Limitée ("Chapais").

Macquarie Power Management Ltd. ("MPML" or the "Manager") is an indirect wholly-owned subsidiary of Macquarie Group 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, MPT LTC Holding LP ("LTC Holding, LP"), and CPOT in accordance with management agreements.

Note 2.
Acquisition

On June 27, 2007, the Fund acquired all the issued and outstanding trust units of CPIF through a unit-for-unit exchange whereby the Fund issued 0.5581 trust units in exchange for each unit of CPIF. The Fund has designated April 18, 2007 as the effective date in determining the value of the consideration given for accounting purposes. This is the date on which the support agreement between the Fund and CPIF was agreed and executed. Direct and incremental costs in the amount of $16,367 were incurred by the Fund in connection with the acquisition and have been capitalized as part of the cost of the transaction. The Fund has accounted for the transaction using the purchase method, with earnings from CPIF operations included in the consolidated financial statements.

Goodwill in the amount of $24,271 has been recognized as the difference between the fair value of assets and liabilities acquired and the consideration paid. The purchase price allocation has been adjusted based on the best information available as at the reporting date and reflects the final allocation of purchase price to the fair value of net assets acquired.

The purchase price has been allocated to net assets acquired as follows:

Net asset acquired	
Cash and cash equivalents	14,133
Cash in escrow related to GRS	6,796
Accounts receivable and other	8,487
Inventory	916
Prepaid expenses	1,075
Loans receivable	26,359
Capital assets	311,653
Power purchase agreements	69,202
Water rights	73,018
Future income tax asset	2,867
Goodwill	24,271
Accounts payable and accrued liabilities	(9,834)
Accounts payable and accrued liabilities related to GRS	(6,796)
Convertible debentures	(54,721)
Long-term debt	(157,447)
Levelization amounts	(18,194)
Liability for asset retirement	(235)
Future income tax liability	(47,243)
Capital lease obligations	(858)
Interest rate swap contract	(153)
Power purchase agreements	(12,257)
	231,039
Consideration	
Issuance of units (20,006,674 at $10.73 per unit)	214,672
Acquisition costs	16,367
	231,039

Note 3.
Summary of significant accounting policies

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

Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows of the Fund as at December 31, 2007 and 2006 and for all periods presented, have been included. These consolidated financial statements should be read in conjunction with the Annual Information Form, dated March 20, 2007, 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"), LTC Holding LP, and CPOT, all of which are 100% owned subsidiaries of the Fund. The Fund accounts for these investments using the consolidation method of accounting. All intercompany balances and transactions have been eliminated upon consolidation.

The Fund, through its wholly owned subsidiaries, uses the equity method to account for its interest in Leisureworld and Chapais.

Revenue Recognition

Revenue derived from the sale of electricity, power and steam is recognized when delivered to the customer and priced in accordance with the provisions of the applicable power and steam sales agreements. Certain Power Purchase Agreements ("PPA") provide 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. Revenue derived from power sales of Whitecourt to the Power Pool of Alberta in excess of the volume as stipulated in the PPA is recorded at the average power pool rate for the month in which the electrical power is delivered.

Use of Estimates and Measurement Uncertainty

The financial information contained in the consolidated financial statements has been prepared in accordance with GAAP, which require the Manager to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and note disclosure. Actual results could differ from the estimates and the differences could be significant.

The Manager makes significant accounting estimates that could be material to the consolidated financial statements in the application of the following accounting policies:

Fair Value Measurements

Estimates of fair value are made in the valuation of certain financial instruments, asset retirement obligations and also in determining the fair value of net assets acquired in a business combination. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data. These techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market data or transaction processes. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

Carrying Values of Goodwill and Other Long-lived Assets

Impairment reviews of the carrying value of long-lived assets require management to make estimates of future cash flows and business performance.

Future Income Taxes

The determination of the future income tax balances of the Fund requires the Manager to make estimates of the reversal of existing temporary differences between the accounting and tax bases of assets and liabilities in future periods.

Loans Receivable

The Fund has interest bearing financial assets that consist of a series of loans receivable from Chapais. These loans bear interest at rates ranging from 0% to 10.8% and mature in December 2015. These financial assets are carried at amortized cost on the consolidated statement of financial position and are intended to be held to maturity.

Long-term Investments

The Fund has significant influence over its investment in Leisureworld and Chapais. The equity method of accounting is used to account for these investments. Under the equity method, the cost of the investment is adjusted by the Fund's proportionate share of income and reduced by any distributions payable to the Fund.

Deferred Charges

Deferred charges include bid costs. Bid costs are expensed as incurred, until such time as there is a high probability that a bid will be successful. At the time when success is deemed to be probable, bid costs are deferred until the closing of the transaction at which time they are capitalized to the cost of the investment or recovered from the investment.

Capital Assets

Capital assets have been recognized at the cost of acquisition and are included in the consolidated statement of financial position. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Property and plant	20 to 35 years
Equipment and vehicles	five to 15 years

Direct costs incurred relating to the construction of assets and betterments that materially extend the life of the assets are capitalized.

Maintenance and Repairs

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

Impairment of Long-lived 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 and Water Rights

Electricity supply and gas purchase contracts and water rights 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 fair value of the contracts and water rights originally acquired is amortized over their estimated useful lives 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.

Asset Retirement Obligations

The Fund recognizes a liability for the future retirement obligations associated with its operating plants. 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

As recommended by the CICA, the Fund has applied Emerging Issues Committee (EIC) abstract number 151- "Exchangeable Securities Issued by Subsidiaries of Income Trusts", 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, MPT LTC Holding LP, Clean Power LP, Whitecourt Power LP ("Whitecourt"), Erie Shores Wind Farm LP ("Erie Shores") and Clean Power Management LP, as partnerships, are not subject to income taxes. Their income is allocated to and included in computing the income of its partners and the Trust. Under the terms of the Income 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.

Through the acquisition of CPIF, the Fund indirectly acquired a number of incorporated entities, including Whitecourt Power Corp., Clean Power Income Fund (Alberta) Inc., PEET Canadian Holdings Inc., PEET U.S. Holdings Inc., Erie Shores Wind Farm General Partner Inc., 2073991 Ontario Inc., CPOT Holdings Corp., 2079905 Ontario Inc., Erie Shores Wind Farm II GP Inc., 20140028 Ontario Inc., Clean Power Management GP Inc. and Eagleriver Power Services Inc., that are subject to corporate income taxes as computed under the Income Tax Act or the U.S. Internal Revenue Code, as applicable, and are accounted for in accordance with CICA Handbook Section 3465.

With the exception of the entities listed above, the Fund, the Trust and CPOT will not be subject to income taxes in 2007. Accordingly, no provision for current income taxes has been recorded by the Fund or the Trust or CPOT.

On October 31, 2006, the Government of Canada announced a Tax Fairness Plan that proposed changes to the way income trusts are taxed. Under legislation that was passed on June 22, 2007, the Fund will be required to pay taxes starting in 2011. The Fund has adopted the liability method of tax allocation, whereby future tax assets and liabilities have been recorded based on differences between the financial reporting and tax bases of assets and liabilities expected to reverse after 2010 using the substantively enacted tax rates that will be in effect when the differences are expected to reverse.

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 of its power generating investments as at December 31, 2007 and should continue to consolidate.

Basic and Diluted Income per Unit

Basic income per unit is established by dividing net income, by the weighted average number of trust units and Class B exchangeable units. Diluted income per unit is computed in a similar manner as the basic income per unit but reflects the dilutive effect of convertible debenture units. Units are excluded from the computation of diluted net income per unit if their effect is anti-dilutive.

Note 4.
New accounting pronouncements

As required by the CICA, on January 1, 2007, the Fund adopted Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. The principal changes in the accounting for financial instruments and derivatives due to the adoption of these accounting standards are described below:

Section 1530, Comprehensive Income and Section 3251, Equity

Section 1530 introduces the concept of Comprehensive Income, which consists of Net Income and Other Comprehensive Income ("OCI"). OCI represents changes in Unitholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale and unrealized foreign currency translation gains. The Fund's comprehensive income includes its proportionate share of Leisureworld's OCI. OCI includes the effective portion of the change in fair value of designated cash flow hedges of Leisureworld less any amounts reclassified to interest and other expenses, net, in the period that the underlying hedged item is also recorded in interest and other expenses, net. Accumulated other comprehensive income ("AOCI") is included on the consolidated statement of Unitholders' equity and comprehensive income as a separate component of Unitholders' equity.

Section 3855, Financial Instruments – Recognition and Measurement and Section 3861, Financial Instruments – Disclosure and Presentation

Financial Assets and Financial Liabilities

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Fund's designation of such instruments. The standards require that all financial assets be classified either as held-for-trading ("HFT"), available-for-sale ("AFS"), held-to-maturity, loans and receivables or other liabilities. Loans and receivables and other liabilities are measured at amortized cost using the effective interest method. AFS and HFT financial instruments are measured at their fair value with changes in fair value recognized through earnings (HFT) or OCI (AFS). The Fund has designated each of its significant categories of financial instruments outstanding as of January 1, 2007 as follows:

Cash and cash equivalents	HFT
Accounts and loans receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities

Derivatives

Derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Except when designated as hedges, the change in fair value during the period is recognized in the consolidated statement of operations. At December 31, 2007, the Fund's derivatives include gas swap contracts and an interest rate swap contract (see note 21).

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. The Fund selected May 1, 2004 as the transition date for embedded derivatives, therefore only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. The Fund has determined that Cardinal's gas purchase contract contains embedded derivatives requiring separation and measurement at fair value. The features requiring separation include mitigation options and electricity indexing.

Transaction Costs

The Fund has elected to defer and amortize transaction costs relating to financial instruments classified as available-for-sale, held-to-maturity and loans and receivables and amortize them over the expected life of the instrument using the effective interest method. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as held-for-trading are expensed.

Section 3865, Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

The Fund does not have any derivatives that have been designated as hedges for accounting purposes as at December 31, 2007.

Determination of Fair Value

As described above, the new standards require some financial instruments to be presented at fair value. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When independent prices are not available, fair values are determined by using valuation techniques, which refer to observable market data. These techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market data or transaction processes. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

Impact of Adopting New Standard

The adoption of these new standards resulted in changes in the accounting and presentation for financial instruments and hedging relationships as well as the recognition of certain transition adjustments that have been recorded in opening cumulative earnings or opening AOCI as described below. The adoption of the new standards, applied retroactively but presented prospectively, resulted in the following adjustments to the opening consolidated statement of financial position and consolidated statement of Unitholders' equity at January 1, 2007:

Consolidated Statement of Financial Position Category	Debit (Credit)
Investment in Leisureworld	1,832
Electricity supply and gas purchase contracts	(11,216)
Embedded derivative asset	17,000
Embedded derivative liability	(23,396)

Consolidated Statement of Unitholders' Equity Category	Debit (Credit)
Opening accumulated other comprehensive income	(1,832)
Opening cumulative earnings	17,612

Sections 3862 and 3863, Disclosure and Presentation Requirements

Sections 3862 and 3863 provide guidance for additional required disclosures relating to financial instruments. These sections provide guidance on what disclosure should be included in the consolidated financial statements relating to items such as significance of financial instruments to the financial position and the performance of the Fund and the nature and extent of risks associated with financial instruments. The new standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2007. The Fund plans to adopt these standards effective January 1, 2008. These standards will impact the Fund's disclosures but will not affect the Fund's consolidated results or financial position.

Section 1535, Capital Disclosures

This section requires an entity to disclose information that enables users of its consolidated financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2007. The Fund plans to adopt this standard effective January 1, 2008. This standard will impact the Fund's disclosures but will not affect the Fund's consolidated results or financial position.

Section 3031, Inventories

Section 3031 relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, and will be effective for the Fund as of this date. This standard is not expected to have a significant effect on the Fund's consolidated financial statements.

Note 5.
Cash and cash equivalents

Cash and cash equivalents comprise highly liquid investments with original maturities of less than 90 days. As at December 31, 2007 and 2006, cash and cash equivalents were designated as follows:

	Dec. 31, 2007	Dec. 31, 2006
Major maintenance reserve	**10,966**	2,219
Capital expenditure reserve	**2,662**	1,055
General reserve	**5,000**	3,000
Total reserve accounts	**18,628**	6,274
Other cash and cash equivalents	**3,306**	5,868
Total cash and cash equivalents	**21,934**	12,142

Note 6.
Loans receivable

The Fund has loans receivable from Chapais with a principal amount of $13,873 at December 31, 2007. There are three tranches to the loans, bearing interest ranging from 0% to 10.8%. The loans mature in December 2015.

Upon the acquisition of CPIF, the Fund recorded the loans receivable at a fair value of $8,548, which was below book value. Included in accounts receivable is accrued interest on the loans receivable in the amount of $69 (2006 – nil).

	Dec. 31, 2007	Dec. 31, 2006
Chapais loans receivable	**8,253**	–
Less: Current portion	**(641)**	–
Total long-term loans receivable	**7,612**	–

The following table summarizes total principal payments due on the Chapais loans receivable in the next five years:

Year	Repayment Amount
2008	641
2009	713
2010	794
2011	884
2012	984
Thereafter	9,857
Total	13,873

On December 7, 2007, the Fund completed a termination agreement with Caithness Western Wind Holdings LLC (“Caithness”), whereby Caithness repaid the U.S. Wind Loan from the Fund for total proceeds of US$22,000 (CAD$22,125). The Fund realized a gain of $5,380 on the repayment. Interest of $378 was received during the fourth quarter up to and including the date of repayment.

Note 7.
Long-term investments

Long-term investments consist of the Fund's investments in Leisureworld and Chapais. The changes in these investments are as follows:

	Dec. 31, 2007	Dec. 31, 2006
Leisureworld		
Opening balance	**77,592**	90,643
Transitional adjustments on adoption of CICA 3855	**1,832**	–
Adjusted opening balance – January 1	**79,424**	90,643
Equity accounted loss for the year	**(1,286)**	(2,701)
Equity share of other comprehensive income for the year	**(204)**	–
Distributions received in the year	**(10,350)**	(10,350)
Ending balance	**67,584**	77,592
Chapais		
Opening balance	**–**	–
CPIF acquisition	**–**	–
Equity accounted loss for the year	**(156)**	–
Ending balance	**(156)**	–
Total	**67,428**	77,592

Note 8.
Capital assets

Dec. 31, 2007	**Cost**	**CPIF Acquisition**	**Accumulated Amortization**	**Net Book Value**
Land	**–**	**235**	**–**	**235**
Equipment and vehicles	**587**	**1,097**	**(254)**	**1,430**
Property and plant	**154,951**	**310,321**	**(34,626)**	**430,646**
Total	**155,538**	**311,653**	**(34,880)**	**432,311**

Dec. 31, 2006	Cost	Accumulated Amortization	Net Book Value
Land	–	–	–
Equipment and vehicles	356	(52)	304
Property and plant	154,812	(20,513)	134,299
Total	155,168	(20,565)	134,603

Note 9.
Intangible assets and liabilities

Electricity supply and gas purchase contracts	Cost	Accumulated Amortization	**Dec. 31, 2007 Net Book Value**	Dec. 31, 2006 Net Book Value
Opening balance	48,000	(12,814)	**35,186**	39,986
Transitional adjustment	(15,300)	4,084	**(11,216)**	–
CPIF acquisition	69,202	–	**69,202**	–
Depreciation and amortization	–	(5,351)	**(5,351)**	(4,800)
Ending balance	101,902	(14,081)	**87,821**	35,186

Electricity supply and gas purchase contracts	Cost	Accumulated Amortization	**Dec. 31, 2007 Net Book Value**	Dec. 31, 2006 Net Book Value
Opening balance	–	–	**–**	–
CPIF acquisition	(12,257)	–	**(12,257)**	–
Depreciation and amortization	–	839	**839**	–
Ending balance	(12,257)	839	**(11,418)**	–

Water rights	Cost	Accumulated Amortization	**Dec. 31, 2007 Net Book Value**	Dec. 31, 2006 Net Book Value
Opening balance	–	–	**–**	–
CPIF acquisition	73,018	–	**73,018**	–
Depreciation and amortization	–	(1,090)	**(1,090)**	–
Ending balance	73,018	(1,090)	**71,928**	–

Note 10.
Long-term debt

	Effective Interest Rate	Maturing	Dec. 31, 2007	Dec. 31, 2006
Cardinal term loan				
(maturing May 16, 2011) (i)				35,000
BA	5.57%	June 13, 2008	11,600	–
BA	5.31%	August 28, 2008	11,700	–
BA	5.18%	December 12, 2008	11,700	–
			35,000	35,000
CPOT credit facility				
(maturing June 28, 2010) (ii)				–
Revolver	Prime	June 28, 2010	3,000	–
BA – term loan	5.31%	June 4, 2008	36,800	–
BA – term loan	5.41%	June 4, 2008	10,200	–
			50,000	–
Erie Shores project debt (iii)				
Tranche A	5.96%	April 1, 2026	68,988	–
Tranche B	5.28%	April 1, 2016	6,912	–
Tranche C	5.05%	April 1, 2011	40,000	–
			115,900	–
			200,900	35,000
Less: Deferred financing fees				
CPOT credit facility (ii)			(700)	–
Total debt, net of deferred financing fees			200,200	35,000
Less: Current portion of long-term debt			(2,778)	–
Total long-term debt			197,422	35,000

	Dec. 31, 2007	Dec. 31, 2006
Deferred financing fees amortized	125	–
Interest expense (iv)	9,203	1,621
Total interest expense	9,328	1,621
Less: Interest income	(2,346)	(647)
Net interest expense	6,982	974

(i) Cardinal has secured senior credit facilities in the amount of $50,000 comprised of: (a) a $35,000 term loan ("Term"); and (b) a $15,000 revolving loan ("Revolver") (collectively the "Cardinal credit facility"), of which $35,000 has been advanced on the Term and nil has been advanced on the Revolver as of December 31, 2007. Collateral for the Cardinal term loan 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. At maturity, the Cardinal facility can be replaced by a facility with similar terms and conditions and for successive periods of 364 days.

(ii) CPOT has unsecured senior credit facilities in the amount of $150,000 comprised of: (a) a $75,000 revolving loan (the "Revolver"); and (b) a $75,000 term loan (the "Term") (collectively the "CPOT credit facility"), of which $3,000 has been advanced on the Revolver and $47,000 has been advanced on the Term as of December 31, 2007. The amount available to be drawn under the Revolver at any time shall be reduced by a $10,000 unsecured guarantee provided to the lenders under the Tranche C loan to Erie Shores.

Within the CPOT credit facility, the Fund has committed three standby letters of credit totalling $2,533 for Erie Shores as of December 31, 2007. These letters of credit consist of a $1,980 standby letter of credit in favour of the Ontario Power Authority under its PPA, a $550 standby letter of credit in favour of SunLife for Erie Shores' operating and maintenance reserve account under Erie Shores' project debt provisions and a $3 standby letter of credit in favour of the Independent Electricity System Operator.

Under the CPOT credit facility, CPOT is subject to certain financial and non-financial covenants, including limits on the ratio of consolidated debt to consolidated EBITDA and a minimum interest coverage ratio. Interest charged on any credit advances is based on the bank's prime rate or BAs plus an applicable margin based on the ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization and unrealized gains and losses of a predefined group of the Fund's assets.

(iii) Erie Shores has non-recourse project financing of $115,900, consisting of: (a) a $68,988 fully amortizing loan ("Tranche A"); (b) a $6,912 fully amortizing loan ("Tranche B"); and (c) a $40,000 interest only loan ("Tranche C"). This financing is secured only by Erie Shores, with limited recourse to the Fund's other assets.

(iv) Interest expense is comprised of interest on long-term debt, convertible debentures and levelization amounts for the year.

The following table summarizes total payments required under each of the Fund's facilities in the next five years:

Year of Repayment	Cardinal Term Loan	CPOT Credit Facility	Erie Shores Project Debt	Total
2008	–	–	2,778	2,778
2009	–	–	2,942	2,942
2010	–	50,000	3,117	53,117
2011	35,000	–	43,302	78,302
2012	–	–	3,497	3,497
Thereafter	–	–	60,264	60,264
	35,000	50,000	115,900	200,900

Note 11.
Capital leases

The Fund has a number of capital leases with terms ranging from four to six years, expiring between 2008 and 2012 and bearing interest rates from 6.6% to 7.1%. For the year ended December 31, 2007, the Fund recorded principal repayments of $122 and amortization on the lease obligations of $137. The carrying value of the capital leases as of December 31, 2007 was $736, of which $181 is classified with current liabilities.

The following table summarizes total principal and interest payments on the Fund's capital leases for the next five years:

Year	Annual Payment	Interest	Principal
2008	227	46	181
2009	221	32	189
2010	140	22	118
2011	133	13	120
2012	133	5	128
Total	854	118	736

Note 12.
Convertible debentures

The Fund has 6.75% convertible unsecured subordinated debentures ("the Debentures") outstanding due on December 31, 2010. On August 2, 2007, the Fund purchased $15,961 of debentures consisting of a principal amount of $15,803 and a premium of $158, which were put by the debenture holders. During the year, total interest expense on the Debentures was $1,609 (2006 – nil). The Debentures are convertible into trust units of the Fund at the option of the holder at a conversion price of $18.28 per trust unit. The Fund has determined that the fair value of this conversion option is minimal and as a result, the total amount of the convertible debentures have been classified as a liability. Interest is paid semi-annually in arrears on June 30 and December 31 computed on the basis of a 365-day year. As of December 31, 2007, the total principal amount and accrued interest outstanding on the Debentures was $38,918. The effect of potential conversion of the Debentures has not been included in the determination of diluted earnings per unit as conversion is anti-dilutive.

Note 13.
Levelization amounts

The levelization liability relates to guaranteed and variable payments received from the OEFC in excess of the pre-agreed base rate as set out under the Wawatay and Dryden hydro facilities' PPAs.

In accordance with the PPA relating to the Wawatay facility, the power purchaser, OEFC, makes guaranteed monthly cash payments over the period to July 2012. In addition, the PPA requires the OEFC to make variable cash payments based on actual electricity production. In accordance with the PPA relating to Dryden, the guaranteed monthly cash payments made by the OEFC ended in October 2005. As there was still a balance outstanding under the levelization amount, payments will be made based on actual generation up to 100% of the target generation per the PPA at a variable rate. To the extent that the variable cash payments are less than the revenue recorded, based on the established rate disclosed in the Dryden PPA (the "Base Rate"), the Fund will record a reduction in the levelization amount. After the levelization amount is eliminated, payments under the Dryden PPA will be based on actual generation at the Base Rate.

The levelization amounts recorded on the consolidated statement of financial position include interest accrued at a variable rate, which currently approximates 7.52% per annum. Included in the levelization amounts, as at December 31, 2007, is accumulated accrued interest of $7,978. As at December 31, 2007, the levelization amounts associated with the Wawatay and the Dryden facilities are $17,949 and $313, respectively.

Note 14.
Future income tax

On June 22, 2007, the government's tax proposals pertaining to taxation of distributions paid by income trusts and changes to the personal tax treatment of trust distributions was passed into law. Applicable starting 2011, the new legislation results in a two-tiered tax structure similar to that of corporations whereby the taxable portion of distributions will be subject to income tax payable by the Fund while taxable Canadian Unitholders will receive the favourable tax treatment on distributions currently applicable to qualifying dividends. The Fund has recognized future income tax assets and liabilities based on temporary differences between the accounting and tax bases of existing assets and liabilities. The future income tax assets and liabilities have been calculated for all entities consolidated into the Fund and for the proportionate share of all equity accounted investments of the Fund.

Effective December 14, 2007, a reduction in the federal corporate income tax rates was substantively enacted. The tax rates applicable to the Fund are 29.5% in 2011 and 28% for 2012 and thereafter.

The impact of this new legislation resulted in the Fund recognizing a future income tax expense of $24,632 in the year. The tax effect of temporary differences is as follows:

Future income tax asset	Dec. 31, 2007
Capital loss carry-forwards	15,100
Loan premium and deferred financing costs	317
Non-capital loss carry-forwards	168
Debt retirement	2,742
Levelization amounts	4,374
Deferred gains	197
Asset retirement obligations	413
Capital assets	936
Intangibles	1,530
Total	25,777
Less: Valuation allowance (i)	(15,268)
Future income tax asset	10,509

(i) The Fund records a valuation allowance to the extent the future tax asset exceeds the amount that is more likely than not to be realized.

Future income tax liability	Dec. 31, 2007
Capital assets	(40,289)
Intangible assets	(38,091)
Financial instruments	(1,137)
Future income tax liability	(79,517)

As at December 31, 2007, certain entities consolidated into the Fund have accumulated aggregate non-capital losses of approximately $551 and capital losses of $107,860 that may be used to reduce taxable income in the future.

These tax loss carry-forwards expire as follows:

$551 non-capital losses	2025 – 2027
$107,860 capital loss	no expiry date

The provision for income taxes on the consolidated financial statements reflects an effective tax rate that differs from the statutory rate for the following reasons:

	Dec. 31, 2007	Dec. 31, 2006
Net income before taxes	**30,063**	8,411
Income tax payable at 46.41%	**13,952**	3,904
Income distributed to Unitholders	**(13,952)**	(3,904)
Impact of tax post-2010	**77,235**	–
Impact of tax rate reductions	**(8,940)**	–
Future tax on temporary differences acquired on CPIF acquisition	**(44,376)**	–
Other	**718**	–
	24,637	–

Note 15.
Liability for asset retirement

In addition to recognizing a liability for the future retirement obligations associated with the Cardinal plant, the Fund also recognized a liability for Erie Shores and the hydro facilities on June 27, 2007 upon the acquisition of CPIF. The carrying value of these obligations is based on estimated cash flows ranging from $146 to $2,100 required to settle the obligations in present day costs. The timing of settlement is based on probability weighted scenarios ranging in time from 2014 to 2042. Inflation rates ranging from 2.0% to 2.2% are assumed to estimate the cash flows in the future. A credit-adjusted risk-free rate ranging from 5.9% to 6.4% is used to discount the future cost of the liabilities.

An assessment of the expected costs associated with these liabilities is performed annually. As at the date of the last assessment, June 30, 2007, the expected present value of the retirement obligations was $1,432 and confirmed that the estimates used and obligations recorded continue to be appropriate and reasonable. As of December 31, 2007, the Fund has recorded a liability of $1,475 (2006 – $1,161) in the consolidated statement of financial position in respect of these retirement obligations. Accretion of $79 (2006 – $53) has been taken in the year and will continue until the date of expected settlement of the retirement obligations.

Note 16.
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 a 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 prior ten days; and

(ii) 100% of the closing price of the units on the redemption date.

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, the Fund issued 20,006,674 units in connection with the acquisition of CPIF for a total value of $214,672 and incurred issuance costs of $400. In addition, 83,230 units were redeemed by the Fund for a total cost of $742 (2006 – nil) in accordance with the conditions set out above. In total, 46,722,439 units remained outstanding at December 31, 2007 (2006 – 26,798,995).

The Fund also has 3,249,390 Class B exchangeable units outstanding as of year end. 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 the distribution reinvestment plan without the consent of the Fund until the 10th anniversary of the Acquisition Closing Date of October 18, 2005. Each Class B exchangeable unit will convert into units of the Fund on the 10^{th} 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 they receive on exchange of their Class B exchangeable units until they, together, hold 1% or less of the aggregate outstanding units.

Note 17.
Distributions to Unitholders

Distributions to Unitholders are paid one month in arrears. Prior to the April 2007 distribution payment, distributions were paid on the last business day of each month. Beginning with the April 2007 distribution payment, in order to facilitate a distribution reinvestment plan introduced in that month, distributions are paid on the first business day following the 14^{th} of each month. The following distributions have been declared to Unitholders, including Class B exchangeable units, for the year ended December 31, 2007:

Period of distribution	Date of payment	Amount declared	Amount declared (per unit)[i]
January 1 to 31, 2007	February 28, 2007	2,579	0.08583
February 1 to 28, 2007	March 30, 2007	2,579	0.08583
March 1 to 31, 2007	April 16, 2007	2,579	0.08583
April 1 to 30, 2007	May 15, 2007	2,579	0.08583
May 1 to 31, 2007	June 15, 2007	2,579	0.08583
June 1 to 30, 2007	July 16, 2007	4,296	0.08583
July 1 to 31, 2007	August 15, 2007	4,296	0.08583
August 1 to 31, 2007	September 17, 2007	4,296	0.08583
September 1 to 30, 2007	October 15, 2007	4,290	0.08583
October 1 to 31, 2007	November 15, 2007	4,290	0.08583
November 1 to 30, 2007	December 17, 2007	4,290	0.08583
December 1 to 31, 2007	January 15, 2008	4,289	0.08583
Year ended December 31, 2007		42,942	1.02996

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.

Note 18.
Segmented information

The Fund's presentation of reportable segments is based on how management has organized the business in making operating and capital allocation decisions and assessing performance. The Fund operates in one geographical segment, Canada and has two reportable segments:

(i) Power infrastructure, which consists of the Fund's investment in Cardinal and the power infrastructure assets acquired from CPIF, which include wind, hydro and biomass assets; and

(ii) Social infrastructure, which consists of the Fund's 45% indirect ownership of Leisureworld.

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

Revenue, net income and total assets by reportable segment are as follows:

	Year Ended December 31, 2007				Year Ended December 31, 2006			
	Power	**Social**	**Fund**	**Total**	Power	Social	Fund	Total
Revenue	**122,811**	**–**	**–**	**122,811**	89,940	–	–	89,940
Net income (loss)	**38,272**	**(2,030)**	**(30,816)**	**5,426**	17,199	(3,201)	(5,587)	8,411
Total assets	**723,614**	**67,586**	**6,752**	**797,952**	218,693	77,592	1,107	297,392
Additions to capital assets	**315**	**–**	**55**	**370**	783	–	–	783
Depreciation and amortization of capital assets	**14,310**	**–**	**5**	**14,315**	7,741	–	–	7,741
Gain on debtor repayment of loan receivable	**5,380**	**–**	**–**	**5,380**	–	–	–	–
Goodwill	**18,023**	**–**	**–**	**18,023**	18,023	–	–	18,023
Goodwill related to CPIF acquisition	**24,271**	**–**	**–**	**24,271**				
Interest expense	**5,719**	**–**	**3,609**	**9,328**	1,621	–	–	1,621
Future income tax expense (recovery)	**669**	**–**	**(25,301)**	**(24,632)**	–	–	–	–
Current income tax expense	**–**	**–**	**(5)**	**(5)**	–	–	–	–

Note 19.
Related party transactions

MPML provides management services to Cardinal, LTC Holding LP, the Fund, the Trust and CPOT under management agreements that expire on April 30, 2024. MPML provides the Fund and the Trust with certain administrative and support services. Annual management and administrative fees charged are escalated annually by the Consumer Price Index.

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.

MPML is entitled to be reimbursed for all reasonable costs and expenses incurred in carrying out such services as approved by the independent trustees.

During the year ended December 31, 2007, the Fund paid advisory fees in the amount of $4,830 to an affiliate of Macquarie Group Limited in connection with the acquisition of CPIF. These costs were capitalized as part of the cost of the acquisition.

Total fees charged to the Fund from MPML for the year are as follows:

	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2006
Management fees	**1,412**	1,065
Administrative fees	**106**	105
Incentive fees	**3,498**	1,847
Cost reimbursement [i]	**2,629**	1,393

(i) For the year ended December 31, 2007, $55 of cost reimbursement has been recorded in capital assets and $436 has been capitalized in connection with the acquisition of CPIF. The Manager receives reimbursement for cost of services provided to the Fund in relation to, but not limited to, administration, regulatory, finance, rent and information technology.

All related party transactions have been measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

Included in accounts payable and accrued liabilities on the consolidated statement of financial position is $4,780 of amounts payable to MPML as of December 31, 2007.

Note 20.
Commitments and contingencies

The Fund, either directly or indirectly, through its subsidiaries has entered into various contracts and commitments as of December 31, 2007 as described below:

Electricity Supply Contracts

The Fund has agreements to sell substantially all electricity produced at its facilities, less the amount of electricity consumed in the operation of the facilities, to the various entities and government authorities expiring between 2014 and 2042. Rates for power sales are fixed through long-term PPAs and include escalation clauses.

Swap Contracts

Cardinal has 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 effectively require Cardinal to make variable payments to the counterparties 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 the period from April 1, 2008 to October 31, 2008.

CPOT has an interest rate swap contract on a notional amount of $20,000 to mitigate some of the refinancing risk associated with the Erie Shores project debt. Under the contract, CPOT will pay a fixed rate of 5.5% for a period of five years from December 1, 2011 to December 1, 2016. In return, CPOT will be paid a floating rate equal to the then current three-month BA rate.

Leases

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. All other lease commitments have been disclosed in Note 11.

CPOT has hydro power lease agreements with the Provinces of Ontario and British Columbia with respect to lands, lands under water and water rights necessary for the operation of its hydro facilities. The payments with respect to these agreements vary based on actual power production. The terms of the hydro power lease agreements for Sechelt, Hluey Lakes, Wawatay and Dryden extend to 2025, 2030, 2042 and 2023, respectively.

Erie Shores has an easement agreement with each of the landowners for a term of 20 years with an option to renew for a further period of 20 years. Under the agreements Erie Shores is obligated to compensate the landowners in the amount that is the greater of:

(i) $5,000 per turbine per year; and

(ii) The sum of $1,500 per turbine per year and 2% of Erie Shores’ annual gross revenue from electricity sales attributable to all of the turbines sited upon the easement lands during the calendar year.

These amounts are adjusted annually based on changes in the CPI.

Operations, Management and Maintenance Agreements

CPOT has an Operations and Management agreement with Regional Power Inc. (“Regional”) to operate and maintain the hydro facilities. The agreement has an initial 10-year term that expires on November 30, 2011 (the “Initial Term”), and is automatically renewable for two additional five-year terms (each a "Renewal Term") unless at the end of the Initial Term or the first Renewal Term as the case may be, Regional provides CPOT with written notice to the contrary 180 days prior to the expiry of the Initial Term or the first Renewal Term, respectively, subject to certain performance targets being met. Regional is to be paid a monthly management fee of $38, subject to annual adjustments for changes in the CPI. Commencing in 2002 and for the Initial Term, if actual operating cash flows from the hydro facilities exceed a predetermined reference cash flow in any year, Regional will also be entitled to incentive fees of 50% of any excess, to a maximum of $50. If actual operating cash flows from the hydro facilities are less than the predetermined reference cash flow in any year, Regional will pay CPOT 50% of the shortfall, to a maximum of $25. An amount equal to 50% of any additional shortfall, up to a maximum amount of $25 will be set off against any future incentive fees.

Whitecourt has an Operations and Management Agreement with Probyn Whitecourt Management Inc. ("PWMI") to operate and maintain the Whitecourt biomass facility. The agreement has an initial 10-year term which expires on November 30, 2011 (the "Initial Term"), and is automatically renewable for two additional five-year terms (each a "Renewal Term") unless at the end of the Initial Term or the first Renewal Term, as the case may be, PWMI provides the Fund with written notice to the contrary 180 days prior to the expiry of the Initial Term or the first Renewal Term, respectively, subject to certain performance targets being met. PWMI receives a monthly management fee of $33, subject to annual adjustments for changes to the CPI. Commencing in 2002 and for the Initial Term, PWMI's contract specifies annual incentives and penalties, to a maximum of 50% of any excess or shortfall in the Whitecourt facility's actual operating cash flow, compared with a predetermined reference cash flow for the year. The penalty clause sets the maximum annual cash payment to the Fund at $100, with any remaining penalty carried forward against future years' incentive fees.

Chapais has a management agreement with Probyn Power Services Inc. to operate and maintain the Chapais biomass facility until November 30, 2011. The Fund's portion of payments in respect of this agreement totalled $42 for the year ended December 31, 2007.

Erie Shores has a management service contract with Stapletonprice.com Limited to operate and maintain Erie Shores. The contract has been extended to and expires on February 28, 2008 and stipulates that Stapletonprice.com receive a monthly management fee of $41.

Under a fixed-price service and maintenance agreement, General Electric Canada ("GE Canada") provides operating and management services to Erie Shores. The annual obligation of the Fund under this agreement is $2,772 up to the period ending June 30, 2010. The fixed price under the agreement is the sum of $42 per turbine per year subject to CPI increases on August 1 of every year as per the terms specified in the agreement. For the year ended December 31, 2007, the Fund paid $2,890 to GE Canada.

Under a separate agreement, General Electric Company ("GE") provides the project with four-year revenue reimbursement and performance guarantees.

Gas Purchase Contracts

Cardinal has long-term purchase agreements for natural gas and gas transportation that expire in 2015 and 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.

Wood Waste Supply Agreements

The Whitecourt biomass facility has entered into long-term agreements to ensure an adequate supply of wood waste. The agreements expire in 2014.

Guarantees

As at December 31, 2007, the Fund has an unsecured guarantee in the amount of $10,000 to the lenders under the Tranche C loan to Erie Shores discussed in Note 10. This guarantee may be reduced from time to time by an amount equal to 75% of any releases from the escrow accounts established upon the disposition of GRS (see Note 22), in excess of a certain amount. At December 31, 2007, there has been no reduction in the guarantee amount.

From the date of CPOT's investment in GRS on October 31, 2002, it provided three guarantees relating to the former investment in GRS. Two of these were in favour of a municipality, guaranteeing GRS's obligations under the relevant PPAs with the municipality. The other guarantee was in favour of a lessor of one of the sites upon which one of GRS's projects operated, guaranteeing GRS's obligations under the relevant lease. The municipality and the lessor both have policies of not relieving guarantors from their guarantees for periods in which they were invested in the underlying projects. CPOT has received indemnification from Fortistar Renewable Group LLC for the period commencing on the sale of GRS to Fortistar on September 15, 2006. No claims have been made on these guarantees.

Easements

Erie Shores has an easement agreement with the Town of Tillsonburg and the Corporation of the Municipality of Bayham for a term of 40 years commencing June 28, 2005. Under the agreement, Erie Shores is obligated to compensate the Town of Tillsonburg and the Municipality of Bayham an annual amount that is the greater of:

(i) $18,000; and

(ii) 4% of the landowner compensation. Landowner compensation is the aggregate annual compensation in relation to the gross revenue from electricity sales received by each of the landowners on whose land a wind turbine is sited by Erie Shores.

These amounts are adjusted annually based on changes in the CPI.

Note 21. Financial instruments

Financial instruments consist primarily of temporary cash investments, accounts receivable, loans receivable, current and long-term liabilities, gas swap and interest rate swap contracts and embedded derivatives.

The Fund invests its cash balances in financial instruments of highly rated financial institutions and government securities.

A substantial portion of the Fund's trade receivables are from the OEFC and the associated credit risks are deemed to be limited. The Fund's loans receivable are measured at amortized cost using the effective interest method with fair values that approximate carrying values.

The fair value of the Fund's long-term debt changes as interest rates change. The fair value of the floating rate debt approximates its carrying value. The Fund's convertible debentures, including capitalized transaction costs, and levelization amounts are recorded at amortized cost using the effective interest method.

As of December 31, 2007, the Fund recorded a liability of $1,137 in relation to its gas and interest rate swap contracts, of which $475 is short term (2006 – liability of $1,507).

The Fund's gas swap contracts effectively fix the revenue derived from the sales of excess gas. These contracts mitigate exposure to natural gas price fluctuations from sales of excess natural gas volumes in 2008. They do not meet the effectiveness criteria for hedge accounting and accordingly, the fair value of these contracts has been reflected in these consolidated financial statements. As at December 31, 2007, the estimated liability to the Fund was $475 (2006 – liability of $1,507).

The Fund has an interest rate swap contract on a notional amount of $20,000 to mitigate some of the refinancing risk associated with the Erie Shores project debt. Under the contract, the Fund will pay a fixed rate of 5.5% for a period of five years from December 1, 2011 to December 1, 2016. In return, the Fund will be paid a floating rate equal to the then current three-month BA rate. Any changes in the fair value of this contract are reported in the consolidated statement of operations. As of December 31, 2007, the estimated liability in respect of this interest rate swap was $662 (2006 – nil).

The amounts included in the consolidated statement of operations in respect of these swaps are as follows:

	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2006
Unrealized gain on gas swap contracts	**1,032**	1,520
Unrealized loss on interest rate swap contract	**(509)**	–
Total unrealized gain on swap contracts	**523**	1,520

The Fund has determined that its gas purchase contract contains embedded derivative features, which include mitigation options and electricity indexing features requiring separation and measurement at fair value. The fair value of these embedded derivatives requires significant judgement based on management's estimates and assumptions. The major assumptions that impact the value of the reported asset and liability include forecasts to 2015 for gas prices and volatility, foreign exchange, the OEFC's DCR, gas volumes and sales, fixed and variable gas transportation costs. Changes in one or a combination of these estimates can have a significant impact on the fair value of the embedded derivatives given the volume of gas and length of contract involved. As new information becomes available, management may choose to revise these estimates and in particular where there is an absence of reliable observable market data.

As at December 31, 2007, the embedded derivative asset and liability that have been recorded at fair value are $17,718 and $13,658, respectively.

Changes in the fair value of these financial instruments during the year have been recorded in the consolidated statement of operations for the year as follows:

	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2006
Unrealized gain on embedded derivative asset	718	–
Unrealized gain on embedded derivative liability	9,738	–
Total unrealized gain on embedded derivative instruments	10,456	–

Interest Rate Risk

The Fund is exposed to interest rate risk arising from fluctuations in interest rates on its long-term debt and currently has an interest rate swap contract on a notional amount of $20,000 to mitigate some of the refinancing risk associated with Erie Shores' project debt. Management believes that the financial impact of interest rate fluctuations would not be significant.

Credit Risk

Financial instruments that potentially subject the Fund to concentrations of credit risk consist of cash, accounts and loans receivable and swap contracts. The Fund deposits its cash with reputable financial institutions and therefore management believes the risk of loss is remote. For the year ended December 31, 2007, over 75% of the Fund's total accounts receivable relate to sales to the OEFC. Since the OEFC is a government authority, management does not believe there to be any significant credit risk. Credit risk concentration with respect to trade receivables is limited due to the Fund's customer base being predominately government authorities. At year end, the Fund had loans receivable from Chapais. Provisions have been recorded against these loans to record them at net realizable value. Counterparties to the Fund's interest rate and gas swap contracts are major financial institutions that have been accorded investment grade ratings by a primary rating agency, therefore management believes there is minimal credit risk associated with its swap contracts.

Currency Risk

As at December 31, 2007, the Fund only operates in Canada and has no significant risk from changes in foreign currency rates.

Note 22.
Cash in escrow and liabilities related to GRS

On September 15, 2006, CPIF completed the sale of its investment in GRS. Pursuant to the purchase and sale agreement, US$7,593 of the proceeds was deposited into an escrow account for ongoing legacy issues regarding GRS operations. The only significant issue outstanding at this time relates to a dispute surrounding the methodology used by one of GRS's customers, Commonwealth Edison Company, to calculate the rate under the PPA. The amount that remains in escrow represents the maximum exposure to the Fund relating to this issue and has been accrued at December 31, 2007. These escrowed funds, or a portion thereof, will be payable if certain conditions are met. In addition, should the dispute be resolved fully in the favour of GRS, the Fund may be entitled to the refund of additional amounts that were paid prior to closing, totalling US$2,300, less certain royalties.

The Fund has not recognized any of the escrowed amounts or the potential refund of amounts previously paid as a gain at December 31, 2007 because realization by the Fund has not been reasonably assured. Upon the acquisition of CPIF, Unitholders of CPIF received one contingency value receipt ("CVR") for each CPIF unit. Each CVR entitles the holder, subject to certain conditions, to a payment of up to approximately $0.19 provided that if refunds are received from Commonwealth Edison Co., the maximum amount payable under the CVR will increase. The CVRs represent the right to receive an amount equal to 80% of the amount of the US$7,593 escrowed funds that were set aside by CPIF in connection with its sale of GRS in 2006 and any refunds received from Commonwealth Edison Co., after reduction for certain claims and costs and after specified adjustments.

Note 23.
Economic dependence

For the year, approximately 82.2% (2006 – 98.7%) of the Fund's revenue was derived from the sale of electricity to the OEFC. Approximately 76.2% (2006 – 97.3%) of the accounts receivable balance was due from the OEFC relating to electricity sales.

For the year, approximately 75.4% (2006 – 79.3%) of the Fund's operating costs were from the purchase of gas from Husky Energy Marketing Inc. ("Husky") under a long-term gas purchase contract. Approximately 31.2% (2006 – 43.7%) of the trade payables and accrued liabilities at year end are payable to Husky relating to gas purchases.

Note 24.
Subsequent events

On January 31, 2008, following receipt of regulatory approval from the Ontario Ministry of Health and Long-Term Care ("MOHLTC"), Leisureworld completed its acquisition of seven long-term care homes. The $67,000 transaction, plus transaction and anticipated refurbishment costs, was financed through a $75,000 credit facility established by Leisureworld. MPT has committed to making an equity contribution of up to $6,750 within the next 12 months.

On January 31, 2008, Leisureworld signed an agreement to acquire the Good Samaritan Seniors Complex, consisting of a long-term care home and an attached retirement home, for approximately $11,100 plus transaction costs. Leisureworld has established a credit facility in connection with the acquisition and MPT has committed to making an equity contribution of up to $1,350 within the first 12 months following completion of the transaction. The acquisition is conditional upon regulatory approval from the MOHLTC.

Subsequent to year end, Cardinal entered into two gas swap agreements with an affiliate of Macquarie Group Limited. The gas swap contracts effectively 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 the period from April 1, 2009 to October 31, 2009 and from April 1, 2010 to October 31, 2010.

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 2008, 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 2007. 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 $1,089 for electricity generated in prior periods. This amount will be recorded in the first quarter of 2008, consistent with the Fund's revenue recognition policy.

Distribution policy

Macquarie Power & Infrastructure Income Fund distributes its available cash to unitholders through monthly cash distributions.

Distributions are generally declared each month, approximately eight business days prior to the last business day of the month. Unitholders of record on the last business day of that month are entitled to the distribution. Distribution payments are made on or about the 15th or next business day of the following month.

MPT's distribution policy is determined and evaluated periodically by the Fund's Board of Trustees. Information about MPT's historical distributions per unit is available at www.macquarie.com/mpt.

Distribution Reinvestment Plan (DRIP)

MPT's 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 Canadian broker or investment advisor. Unitholders who are residents in 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 payment 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 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 acquired under the DRIP are purchased on the Toronto Stock Exchange at prevailing market prices. Units are then distributed among DRIP participants at the average weighted cost, excluding any brokerage commissions, of all units purchased on behalf of participants in the DRIP. The units are purchased over a period of five trading days following the distribution payment date.

How to Enrol in the DRIP

To participate in MPT's DRIP, 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.

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 otherwise be payable on such distributions. If applicable, non-resident tax will be deducted.

Benefit of the DRIP to Unitholders

The DRIP allows unitholders to continue investing in MPT in an incremental and affordable manner, and to improve their total return from holding units. There are no commissions, service charges or brokerage fees associated with participating in the DRIP.

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

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 of terms

Annual long-term average production

An average production figure that is based on the actual electricity production of a facility since the start of full operations.

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.

Biomass energy

Biomass energy is generated by the burning of biomass (wood waste) in a boiler that produces high-pressure steam. The steam is introduced into a steam turbine where it flows over a series of turbine blades, causing the turbine to rotate. The turbine is connected to an electric generator that produces electricity.

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 Customer Rate (DCR)

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

Hydro power

Hydro power facilities convert the natural flow of water into electricity. The amount of electricity that a hydro power facility can produce depends on the quantity of water passing through a turbine and on the height from which the water falls.

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.

Megawatt hour (MWh)

This is a measure of energy production or consumption equal to one million watts produced or consumed in one hour (total amount of power required to light 10,000 100-watt light bulbs).

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.

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.

Wind energy

The wind generates electricity by making use of wind turbines that face the prevailing wind direction. When the wind blows, large rotor blades on the wind turbines are rotated, generating energy that is then converted to electricity.

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.

Macquarie Power & Infrastructure Income Fund

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Chair, Independent Trustee

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Manager-appointed Trustee

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President and Chief Executive Officer

Harry Atterton
Vice President, 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:
Trust Units: MPT.UN
Debentures: MPT.DB

Stability Rating

Standard & Poor's: SR-2

Transfer Agent and Registrar

Computershare Investor Services Inc.
1500 University Street, Suite 700
Montreal, Quebec H3A 3S9

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 or (416) 607-5009 if you wish to join MPT's email list to receive news releases, or if you are seeking additional financial information or investor presentations or publications.

Annual Meeting of Unitholders

Wednesday, April 9, 2008
9 a.m. ET
TSX Broadcast Centre Gallery
130 King Street West
Toronto, Ontario

Website

Visit our website at www.macquarie.com/mpt for information about MPT's business and to access investor materials, including annual and quarterly financial reports, and recent news and investor presentations, including a webcast of the annual general meeting.

Quarterly Unit Trading Summary ($)

Quarter	Q4 07	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06	Q4 05	Q3 05	Q2 05	Q1 05
Low (Intraday)	**8.35**	**9.17**	**10.30**	**10.03**	8.50	10.00	9.96	10.06	9.00	10.80	10.70	10.11
Low (Daily Close)	**8.50**	**9.50**	**10.31**	**10.18**	8.99	10.06	9.97	10.07	9.30	10.85	10.70	10.35
Close	**9.43**	**10.05**	**10.52**	**10.66**	10.05	11.45	10.22	10.75	10.28	11.04	11.35	10.89
High (Intraday)	**10.05**	**11.00**	**11.38**	**11.96**	11.74	11.05	11.49	11.50	11.03	12.00	12.07	12.50
High (Daily Close)	**10.05**	**10.78**	**11.37**	**11.90**	11.69	11.45	10.93	11.50	10.76	12.00	12.00	11.90

Important Notice

Macquarie Power & Infrastructure Income Fund ("MPT" or 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 Group Limited ("MGL"), an Australian public company listed on the Australian Stock Exchange.

Investments in the Fund are not liabilities of MGL and are subject to investment risk, including possible delays in redemption and loss of income and equity invested. None of MPT, MPML or any MGL entity guarantees the performance of MPT, distributions from MPT or the repayment of capital from MPT.

MPML, as the Manager of the Fund, is entitled to certain fees for so acting (see Related Party Transactions). MGL 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 investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment advisor if necessary.

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Why invest in MPT?

- stable cash flow
- excellent growth potential
- attractive total return

Macquarie Power & Infrastructure Income Fund

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