Why invest in infrastructure?

MACQUARIE POWER & INFRASTRUCTURE INCOME FUND
ANNUAL REPORT 2008

MACQUARIE

Financial highlights

($000s except for per trust unit amounts)	**Year ended December 31, 2008**	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Total revenue	**150,423**	122,811	89,940	90,235
Net income	**(26,534)**	5,426	8,411	8,372
Cash flow from operating activities	**50,516**	29,663	21,044	20,230
Distributable cash (i)	**52,243**	48,785	34,058	25,989
Per diluted unit	**1.046**	1.210	1.133	1.117
Distributions to unitholders	**52,454**	42,942	30,423	22,220
Per diluted unit (ii)	**1.050**	1.030	1.012	0.950
Payout ratio (iii)	**100%**	88%	89%	85%
Total assets	**737,387**	797,952	297,392	320,404
Total long-term liabilities	**383,516**	361,887	37,668	38,580

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

Operating highlights

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Power Infrastructure				
Sale of electricity (MWh)	**2,084,376**	1,687,059	1,227,214	1,282,051
Sale of steam (M lbs)	**719,453**	697,620	676,014	683,337
Social Infrastructure				
Average total occupancy (%)	**98.4**	98.4	95.3	93.5
Average private occupancy (%)	**92.9**	83.2	79.0	78.3

Macquarie Power & Infrastructure Income Fund's (MPT or the Fund) diversified portfolio of infrastructure assets represents a unique opportunity for investors to participate in Canada's growing infrastructure sector. Our portfolio currently includes gas cogeneration, wind, hydro and biomass power generation facilities, representing approximately 350 megawatts (MW) of installed capacity, and a 45% investment in Leisureworld Senior Care LP, the third largest provider of long-term care (LTC) in the province of Ontario.

MACQUARIE

Why invest in MPT?

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CFO message

MPT's diversified portfolio helped to mitigate the impact of seasonal fluctuations in our business in 2008.

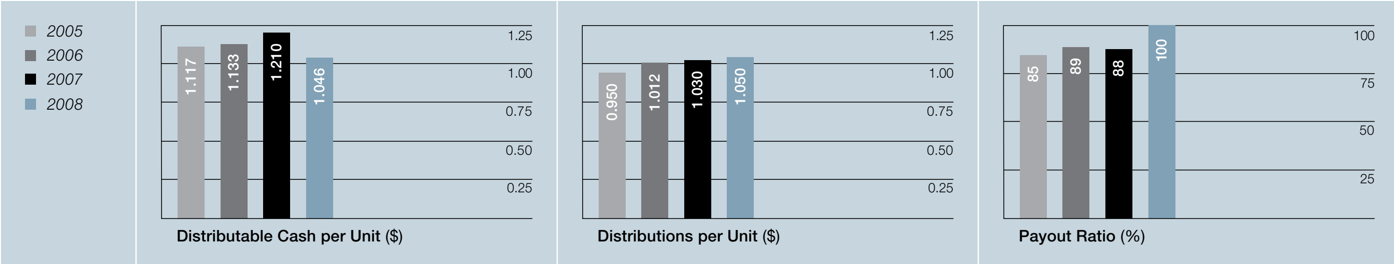
Harry Atterton
Vice President, Chief Financial Officer and Secretary

MPT's fiscal 2008 performance was stable, reflecting the diverse mix and inherent characteristics of our infrastructure businesses.

Our portfolio is diversified by asset type, fuel source and geography, which helped us in 2008 to manage through the seasonal fluctuations that are a natural part of our business. While we experienced lower water flows at the Wawatay hydro facility and a greater number of outages at the Whitecourt facility than in 2007, these factors were offset by higher power prices at Cardinal and increased production at Erie Shores where the wind speed was particularly strong.

Our businesses are further characterized by the essential nature of the service they provide, which results in stable demand throughout the economic cycle. Our power facilities operate under long-term contracts with creditworthy customers and have a weighted average term remaining of approximately 11 years. Leisureworld provides 24/7 care in a regulated environment where at least 60% of revenue is derived directly from the Ontario government.

As a result, in 2008 we provided stable distributions to unitholders of $1.05 per unit and met our targeted payout ratio of 100%. A full discussion of our financial performance is provided beginning on page 6 of this report.



The Fund's financial position at year end was strong, with positive working capital of $51.9 million and cash and short-term investments also of $51.9 million, including fully funded maintenance and reserve accounts in the amount of $17.1 million.

We also remained conservatively leveraged, reflecting a rigorous approach to risk management. Each asset in our portfolio undergoes a detailed financial analysis to determine the appropriate debt level for a business based on its operating environment, cash flow and risk profile. Thorough sensitivity analyses are conducted to ensure that there is sufficient headroom under various downside scenarios. We actively manage our debt level through ongoing monitoring of each asset's performance. In addition, we have a non-recourse debt structure, so that debt at each asset is non-recourse to MPT, MPT's unitholders and other MPT assets.

MPT's debt to capital ratio at year end was 46.4%, which is conservative relative to the low risk profile and long life of our assets. Our long-term debt includes:

- $75 million on the CPOT credit facility, which matures in June 2010;
- About $38.9 million outstanding of 6.75% convertible unsecured subordinated debentures, which are due on December 31, 2010;
- A $35 million term loan for Cardinal, which matures in 2011; and
- Approximately $113 million in project debt for Erie Shores in three tranches that mature in 2011 and 2026, respectively.

We have no refinancing requirements for 2009 and at the individual asset level we have very little short-term exposure for our debt facilities. In addition, MPT is comfortably within the various debt covenants to which it must adhere.

As we enter 2009, MPT is in a solid position. Our top priority this year is on continuing to enhance the performance of our portfolio through incremental efficiency improvements. Guidance for each of our businesses is provided starting on page 23 of this report. We currently expect to maintain a distribution to unitholders of $1.05 per unit, barring any significant external factors or growth initiatives, representing a payout ratio of approximately 100%. The return of capital portion of distributions in 2009 is expected to be approximately 50%.

While we continue to see a steady deal flow in 2009, we are being selective in what growth opportunities we assess and choose to pursue given the challenging market climate and longer time horizon required to bring deals to a successful close. We have approximately $100 million available in cash and acquisition facilities, which would enable us to complete a small- to mid-sized transaction if the right opportunity arises.

Another important commitment for management in 2009 is to develop a specific strategy to address the impact of federal taxation of Specified Investment Flow-Through Entities (SIFTs), including MPT, in 2011. We expect that 2010 will be a transitional year for our portfolio and capital structure as we seek to position the Fund for 2011, most likely as a high dividend-paying corporation.

While MPT will become taxable in 2011, we currently have approximately $319 million in tax shield – much of which we acquired with Erie Shores – that can be applied to reduce the amount of MPT's taxable income in the years following 2011. Regardless of MPT's structure, our regulated and contractually defined businesses offer predictable cash flow throughout the economic cycle as well as the potential for total capital appreciation over time.

As we look to the future, a key competitive strength for MPT is the relationship between MPT and Macquarie Group Limited (MGL). MGL is a recognized leader in the financing and management of infrastructure businesses with 118 assets in various sectors globally. This represents equity under management of approximately $45 billion in assets including power and renewable energy; water utilities; transport such as roads, airports and ports; media and communications; and health care facilities. Through this relationship, we have access to a robust pipeline of potential investments and co-investments. We also gain specialized expertise that filters down to each individual asset in our portfolio, where we work closely with our businesses on key value drivers such as capital investments and business planning, risk management, tack-on acquisitions, financing and tax strategy, and development projects.

In closing, we are managing our portfolio well in the current environment and expect relatively stable performance in 2009 due to the underlying reliability of our cash flows. We greatly appreciate your continuing support.

Sincerely,

(signed)

HARRY ATTERTON

Vice President, Chief Financial Officer
and Secretary

our responsibility to stakeholders

As physical assets that provide an essential service, our infrastructure businesses have an impact on 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.

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 system 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 reports 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.

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 2008. 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 2008, Cardinal's 18 employees received a total of 1,241 hours of safety and technical training, an average of 69 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.

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 and holds weekly safety meetings for all workers on site. 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 2008, Erie Shores, which has emerged as an important community attraction, contributed funding to Norfolk County to support the development of a wind turbine viewing area for tourists that features wind power information boards and a safe parking area. In addition, Erie Shores hosts a number of facility tours annually for industry associations, business groups, media and students. These tours are aimed at building and broadening knowledge of wind power in Canada and promoting the region's leadership in embracing wind power.

Hydro Power 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 2008, operators received a total of 225 hours of training, an average of 25 hours per operator. There was no lost time due to injuries.

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 debris.

All of MPT's hydro power facilities have earned the federal government's EcoLogo™ certification, evidence of their high environmental standards and contribution.

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 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 2008, Whitecourt's 33 employees received a total of approximately 840 hours of training, an average of approximately 25 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 2008, Chapais' 26 employees received approximately 509 hours of training, an average of 20 hours per employee. During the year, there was no lost time due to injuries.

Leisureworld

Leisureworld's focus on the quality of care includes a commitment to ensuring a safe environment for residents, family members, visitors, volunteers and employees. Leisureworld provides extensive education and training for its approximately 5,000 employees. In 2008, Leisureworld provided a total of 9,119 hours of training across 83 topics related to resident care and staff development, including dementia care, infection control, fall prevention, customer service excellence and effective communications. This compares with the 10 topics mandated for LTC homes by the Ontario Ministry of Health and Long-Term Care (MOHLTC).

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.

In 2008, Leisureworld launched an annual Award of Excellence program to honour and recognize employees that exemplify, reinforce and promote Leisureworld's core values of Commitment, Communication, Teamwork, Respect and Learning. Each award winner received a monetary award, a commemorative statuette and a certificate. A donation was also made in each winner's name to a charity of their choice. The worthy organizations selected this year included Young Singers, the Children's Wish Foundation, Integra Foundation, the Alzheimer Society of York Region, Sick Kids Hospital Foundation, and Toronto General & Western Hospital Foundation – Adult Congenital Heart Disease Fund.

At a corporate level, Leisureworld contributes annually to the Alzheimer Society of Ontario's annual Walk for Memories. Employees across Leisureworld's 26 homes raise additional funds for this cause.

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, 2008.

management's discussion and analysis

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") and a subordinated debt interest in Chapais Énergie, Société en Commandite ("CHESEC"), a subsidiary of 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 25, 2009. 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, 2008 (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 Caution Regarding Forward-looking Information in this MD&A.

MD&A
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Mission

MPT's objective is to deliver to unitholders sustainable income as well as the potential for capital growth. This is to be achieved by actively managing a high quality portfolio of essential infrastructure assets in North America, particularly Canada, as well as through additional strategic acquisitions that will further diversify the portfolio, lengthen the average life of our assets, and extend MPT's cash flow profile.

Infrastructure assets provide services that meet critical, long-term community needs, such as power generation, electricity transmission, roads and transportation systems, water systems, health care and long-term care. MPT is focused on regulated or contractually defined infrastructure assets, which enjoy a stronger competitive position and lower risk profile and typically generate stable cash flow throughout the economic cycle.

Fiscal 2008 overview

MPT delivered stable distributions to unitholders of $1.05 per unit in 2008 and met its targeted payout ratio of 100%. Fifty-eight per cent of distributions to unitholders in fiscal 2008 were non-taxable as a return of capital.

MPT's fiscal 2008 performance reflects the resilience of its regulated and contractually defined infrastructure assets throughout the economic cycle.

It also reflects the inherent stability of a portfolio that is diversified by asset type, fuel source and geography. While the Fund benefited from higher power prices at Cardinal and increased production at Erie Shores, we experienced lower water flows at the Wawatay hydro power facility, particularly in the fourth quarter of the year due to colder than normal temperatures, as well as increased outages at Whitecourt. In the second quarter, Whitecourt completed its major maintenance program, which is conducted every seven years, and also required outages for repairs in the fourth quarter of the year. Major maintenance costs at each of MPT's power plants are fully funded through MPT's major maintenance reserve account.

MPT ended the year in a strong financial position. As of December 31, 2008, MPT had positive working capital of $51,874 and cash on hand and short-term investments totalling $51,904, of which $17,101 was designated to major maintenance, capital expenditure or general reserve accounts. The Fund's debt to capital ratio was 46.4%, which is conservative relative to the low risk profile and long life of our assets. In addition, the Fund has no refinancing requirements in 2009 and remains within the debt covenants to which it must adhere.

During the fourth quarter of 2008, the Fund determined that the carrying value of goodwill relating to its power infrastructure assets was impaired. Globally, the economic crisis has resulted in a significant revaluation of assets, including infrastructure assets. While the Fund's portfolio continues to generate stable cash flow, the Fund has not been immune to the turbulence in global capital markets, as evidenced by the Fund's unit price performance in the last quarter of 2008. As a result, as of December 31, 2008 the Fund recognized a goodwill impairment charge of $43,279 due to the revaluation of its assets, which is reflective of the decline in the Fund's market valuation relative to the book value of its equity. This non-cash charge has no impact on the Fund's liquidity, the stability of cash flow from operations or distributable cash.

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"), one of the world's largest and most experienced owners and managers of infrastructure and related assets in 26 countries.

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

Power infrastructure

MPT's power assets are diversified by fuel source and have a weighted average remaining Power Purchase Agreement ("PPA") term of approximately 11 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 LP ("Erie Shores")	100%(i)	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(ii)	100%	ON	3 MW	OEFC	2020	n/a
Biomass						
Whitecourt Power LP ("Whitecourt")	100%	AB	28 MW	TransAlta Utilities Corp. ("TransAlta")	2014	2016
Chapais(iii)		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) One of the wind turbines is owned by a local landowner. Erie Shores maintains operational and managerial control of this wind turbine.
(ii) Comprised of the Wainwright, Eagle River and McKenzie Falls hydro power stations.
(iii) The Fund has a 31.3% interest in one of the two classes of preferred shares of Chapais and holds a 24.8% interest in Tranche A and B debt and a 50% interest in Tranche C debt all issued by CHESEC.

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. Leisureworld owns or manages 26 LTC homes in the Province of Ontario. Leisureworld's LTC portfolio is comprised of the following:

Beds by Class(i)	Number of Beds	Percentage of Portfolio
New or A	2,260	52.4%
B	299	6.9%
C	1,755	40.7%
Total	**4,314**	**100.0%**

(i) All of Leisureworld's Class A homes are designated as new homes and qualify for capital funding of $10.35 per day, per bed. These 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.

Leisureworld also owns one retirement home, representing 29 beds, and one independent living home, representing 53 beds. In addition, Leisureworld operates two related businesses, Preferred Health Care Services ("PHCS"), which provides professional nursing and personal support services for both community-based home care and LTC homes, and Ontario Long-Term Care Providers, which provides purchasing services to Leisureworld's LTC homes.

On February 1, 2008, Leisureworld agreed to acquire the Good Samaritan Seniors Complex ("Good Samaritan") for approximately $11 million, plus transaction costs, subject to approval by the Ministry of Health and Long-Term Care ("MOHLTC"). On March 16, 2009, which was the outside date to close the Good Samaritan transaction, the agreement was terminated in accordance with its terms as MOHLTC approval had not yet been obtained by that date.

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 by MPT's assets 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 the Ontario Ministry of Finance, the number of people aged 65 years and older will nearly double to about 3.5 million, or 21.4% of the province's population, in 2031 up from 1.6 million, or about 12.9% of the population, currently. Across the province, the average occupancy of long-term care homes is approximately 99%. Moreover, there are approximately 24,000 individuals on waiting lists for accommodation.

Demand for long-term care is also supported by a favourable regulatory and funding model. LTC operators must be licenced by the government, 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") has estimated 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 current levels of spending. 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 sustainably high income as well as capital growth by pursuing the following strategy:

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 throughout the economic cycle. These assets could include electricity generation and distribution, water or 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.

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 generally high availability, which reflects the quality of plant operations and underlines the reliability of MPT's cash flow. Cardinal's five-year average availability, excluding the major maintenance year in 2006, is 97.2%. Five-year average availability at the Whitecourt biomass facility and at the hydro facilities is 94.3% and 98.1%, respectively.

Availability of 97% 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 96% 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. The remaining 4%, 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 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 typically high production periods. From October to March, Cardinal's PPA contains higher power rates. In addition, Wawatay's and Dryden's PPAs contain higher rates for electricity during the months of October to March.

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 a long-term gas purchase contract with Husky Energy Marketing Inc. ("Husky Marketing") that expires in 2015. 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 currently supplied under a long-term agreement by Millar-Western Pulp Ltd. ("Millar-Western"). Millar-Western is required to pay the full cost of replacement fuel for Whitecourt if it does not deliver the minimum quantity of wood waste.

Erie Shores has no fuel costs. Similarly, MPT's hydro assets have minimal direct 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, 2008, MPT's reserves for maintenance, capital and general expenditures totalled $17,101.

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 accommodation. A minimum of 60% of revenue from Leisureworld's LTC homes is received from the MOHLTC. Over the past 10 years, government funding of Leisureworld's LTC homes has increased in excess of the consumer price index.

Leisureworld 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 private accommodation. 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 Accreditation Canada.

In 2007, the MOHLTC committed to a capital renewal program that will provide additional funding to operators to upgrade the province's 35,000 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 in the years ahead.

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 record of increasing capacity and occupancy. 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%.

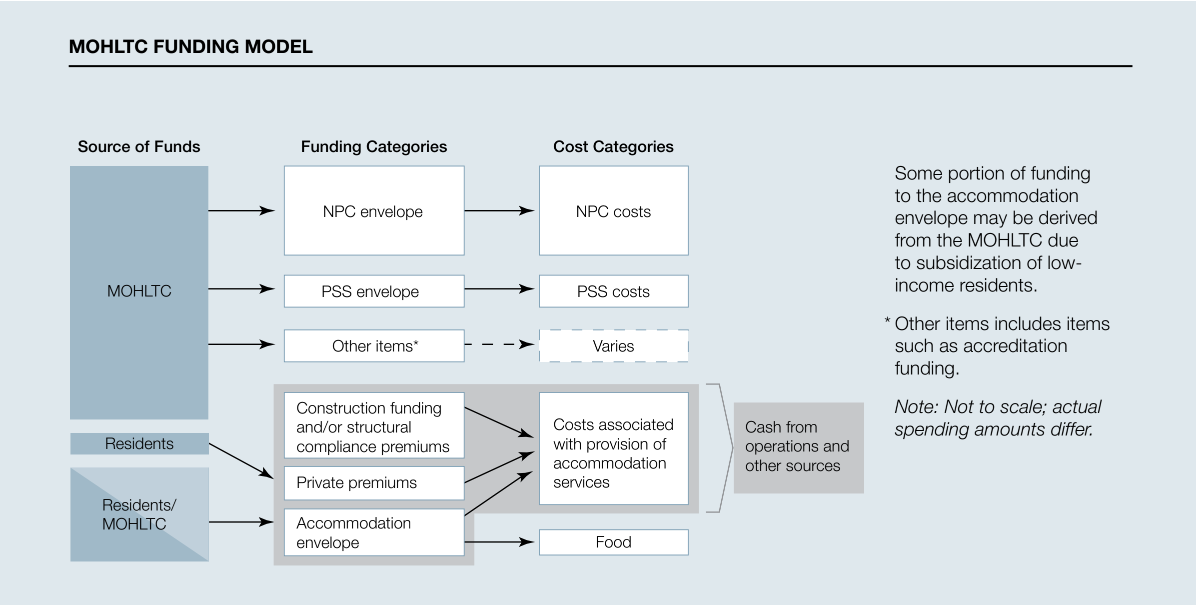

Figure 1

Optimization of private accommodation mix increases operating profitability

An LTC home that provides basic accommodation for at least 40% of residents may offer the remaining residents private accommodation at a regulated premium. The LTC home operator retains the premiums collected for such accommodation, which typically increases revenue and enhances profitability. The premium for a private room is currently $18 per day. At year end, approximately 33.5% of the beds in Leisureworld's portfolio were designated as private accommodation. Private bed average total occupancy for 2008 was 92.9%.

Disciplined cost management is key to operating profitability

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

Capability to deliver results

Management expects MPT's portfolio to generate stable distributions to unitholders in 2009, barring any significant external factors or growth initiatives.

MPT's power and social infrastructure businesses operate in sectors where there are high barriers to entry and generate predictable cash flow throughout the economic and market cycles.

MPT's operations generate sufficient cash flow to fund capital expenditures and distributions to unitholders. In 2008, MPT's operating activities generated $50,516 in cash. As at December 31, 2008, MPT had positive working capital of $51,874 and cash on hand and short-term investments totalling $51,904, of which $17,101 was designated to major maintenance, capital expenditure or general reserves.

In addition, MPT has approximately $100 million in cash and acquisition facilities to pursue appropriate growth opportunities. We expect to continue to diversify our portfolio in the years ahead and to lengthen the average life of our assets, thereby extending MPT's long-term cash flow profile.

Finally, 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 2,000 advisory professionals who source infrastructure investment opportunities and more than 700 infrastructure asset management professionals. This market presence and proven, specialized expertise give MPT valuable insight into the financing and management of infrastructure assets as well as access to potential investment opportunities.

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.

Consolidation and comparison of operating results

The following discussion and analysis compares the actual results of the Fund for the year ended December 31, 2008 with the results as at and for the year ended December 31, 2007. Results for the Fund's wind, hydro and biomass power facilities have been included in the comparative figures from June 27, 2007, the date of acquisition of Clean Power Income Fund ("CPIF"). All amounts have been expressed in thousands of Canadian dollars unless otherwise stated.

Selected consolidated financial and operating information of the Fund

($000s except for trust units and per trust unit amounts)	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Revenue	**150,423**	122,811
Income before the following:	**26,080**	23,257
Unrealized gain (loss) on swap contracts	**(4,228)**	523
Unrealized gain on embedded derivative instruments	**9,841**	10,456
Net interest expense	**(12,911)**	(6,982)
Impairment of goodwill	**(43,279)**	–
Equity accounted income (loss) from long-term investments	**94**	(1,442)
Foreign exchange loss	**(54)**	(1,129)
Gain on sale of capital assets	**10**	–
Gain on debtor repayment of loan receivable	**–**	5,380
Income (loss) before income taxes	**(24,447)**	30,063
Current income tax recovery (expense)	**10**	(5)
Future income tax expense	**(2,097)**	(24,632)
Net income (loss)	**(26,534)**	5,426
Basic and diluted net income (loss) per Unit	**(0.531)**	0.135
Cash flows from operating activities	**50,516**	29,663
Distributable cash(i)	**52,243**	48,785
Per Unit	**1.046**	1.210
Distributions declared to Unitholders	**52,454**	42,942
Per Unit(ii)	**1.050**	1.030
Payout ratio(iii)	**100.4%**	88.0%
Basic and diluted weighted average number of trust units and Class B exchangeable units outstanding ("Units")	**49,960**	40,333
Total assets	**737,387**	797,952
Total long-term liabilities	**383,516**	361,887
Sale of electricity (MWh)(iv)	**2,084,376**	1,687,059
Sale of steam (M lbs)	**719,453**	697,620
Average total occupancy	**98.4%**	98.4%
Average private occupancy	**92.9%**	86.3%

(i) See Distributable Cash and Payout Ratio for a reconciliation of distributable cash to cash flows from operating activities for the quarter. 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) The sale of electricity for the year ended December 31, 2008 includes full production from Chapais of 221,401 MWh (2007 – 218,955 MWh). The Fund accounts for its investment in Chapais using the equity method; therefore, Chapais' operating results do not impact the Fund's revenue for the year.

Revenue

Revenue for the year ended December 31, 2008 was $150,423 compared with $122,811 in the prior year. The $27,612 increase mainly reflected a full year of operating results from the CPIF assets acquired in June 2007 as well as higher power prices at Cardinal under the PPA as a result of continued increases in the Direct Customer Rate ("DCR"). This was offset by lower production at Cardinal as the facility increased gas mitigation to capitalize on favourable spot market prices for gas during the year. Total annual power generation was 2,084,376 MWh (2007 – 1,687,059 MWh), which reflected a 23.6% increase from the prior year.

Income Before the Following

Income before unrealized gains and losses on swap contracts and embedded derivatives, net interest expense, impairment of goodwill, income or loss from equity accounted investments, foreign exchange, gain on sale of capital assets and income taxes was $2,823 higher than the same period last year. The increase was mainly attributable to a full year of operating results from the CPIF assets as well as higher power prices at Cardinal, which were partially offset by increased gas transportation costs and higher depreciation and administration expenses. Depreciation for the year was higher due to the CPIF acquisition in 2007, which resulted in higher depreciable assets. Administrative expenses increased by $1,205 primarily due to higher other administrative expenses as a result of increased business development activities in the year. Management fee and cost reimbursement expenses were also higher, as the Fund required more support services in finance and asset management following the CPIF acquisition. This was partially offset by lower incentive fees. The following table summarizes major administrative expense categories for the year.

($000s unless otherwise noted)	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Management fees	**1,765**	1,412
Administrative fees	**108**	106
Cost reimbursement[(i)]	**3,245**	2,138
Incentive fees	**1,602**	3,498
Other administrative expenses	**4,262**	2,623
Administrative expenses	**10,982**	9,777

(i) The cost reimbursement expense for the year ended December 31, 2008 included $108 of cost reimbursement that was capitalized as deferred charges in the prior year and expensed in the current year and excluded $130 of cost reimbursement that was capitalized to deferred charges and capital assets in the current year. 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 (Loss) on Swap Contracts

The fair value of the Fund's swap contracts has been recorded on the consolidated statement of financial position for the year ended December 31, 2008. The movement in the gas swaps in the year was primarily due to maturity of the 2008 contracts, partially offset by higher forward gas prices as of December 31, 2008. Movement in the fair value of the interest rate swaps was mainly attributable to five new interest rate swaps the Fund entered into during 2008 as well as a lower forward interest rate forecast. Since these swap contracts are not designated for hedge accounting, the movement in the fair value of these contracts has been reflected in the consolidated statement of operations as follows:

($000s unless otherwise noted)	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Unrealized gain on gas swap contracts	**1,025**	1,032
Unrealized loss on interest rate swap contracts	**(5,253)**	(509)
Total unrealized gain (loss) on swap contracts	**(4,228)**	523

Unrealized Gain on Embedded Derivative Instruments

As at December 31, 2008, the embedded derivative asset and liability recorded at fair value were $20,392 (2007 – $17,718) and $6,491 (2007 – $13,658), respectively. For the year ended December 31, 2008, the fair value of the embedded derivative asset increased mainly as a result of higher forward gas prices as of December 31, 2008. The fair value of the embedded derivative liability decreased as a result of a lower forward DCR forecast. The movement in the fair value of these embedded derivatives has been reflected in the consolidated statement of operations as follows:

($000s unless otherwise noted)	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Unrealized gain on embedded derivative asset	**2,674**	718
Unrealized gain on embedded derivative liability	**7,167**	9,738
Total unrealized gain on embedded derivative instruments	**9,841**	10,456

Net Interest Expense
Net interest expense was $12,911 compared with $6,982 in the prior year. Higher net interest expense in the year was primarily due to higher borrowings compared with the same period last year as a result of the CPIF acquisition as well as lower interest income on loans receivable, partially offset by lower interest expense on the Fund's floating rate debt. In the fourth quarter of 2007, the amount outstanding on the loans ("U.S. Wind Loan") to Caithness Western Wind Holdings LLC ("Caithness") was fully repaid by the debtor, thereby eliminating a source of interest income. Interest expense on floating rate debt was also lower as a result of lower prevailing interest rates than in the same period last year.

Impairment of Goodwill
As discussed further under Critical Accounting Policies, during the fourth quarter, management determined that the carrying value of goodwill relating to the power infrastructure reporting unit was impaired. As a result, a goodwill impairment of $43,279 was recognized on the consolidated statement of operations for the year ended December 31, 2008. This non-cash charge has no impact on the Fund's liquidity, the stability of cash flow from operations or distributable cash. No other impairment provisions were determined to be necessary for the Fund's other long-lived assets.

Equity Accounted Income (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 of Chapais, which are accounted for using the equity method. Included in the consolidated statement of operations for the year ended December 31, 2008 is the equity accounted loss of $62 (2007 – loss of $1,286) from Leisureworld and the equity accounted income of $156 (2007 – loss of $156) from Chapais.

Gain on Debtor Repayment of Loan Receivable
The gain on debtor repayment of loan receivable in the prior year relates to a termination agreement that the Fund entered into with Caithness on December 7, 2007, whereby Caithness repaid the U.S. Wind Loan from the Fund for total proceeds of US$22,000 (C$22,125). The Fund realized a gain of $5,380 on the repayment.

Income Taxes
As a result of amendments to the *Income Tax Act (Canada)* ("the Tax Act") that became law on June 22, 2007, 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, 2008, the Fund recorded a future income tax expense of $2,097 (2007 – expense of $24,632) in the consolidated statement of operations in respect of these assets and liabilities. The lower future income tax expense in 2008 reflected a one-time charge to the consolidated statement of operations in the prior year for the initial recognition of future income tax assets and liabilities as a result of the requirements under the Tax Act that came into effect in June 2007.

Cash Flows from Operating Activities
Cash flows from operating activities for the year increased by $20,853 from the same period last year. The increase was primarily due to an increase in earnings before non-cash expense items for the reasons described previously and changes in working capital, partially offset by higher net interest expense in the year.

Distributable Cash and Payout Ratio
Distributable cash and payout ratio are not recognized performance measures under GAAP. The Fund believes that distributable cash and payout ratio are useful supplemental measures that may assist investors in assessing the Fund's financial performance. 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, and adjusted for changes in the reserve accounts, non-discretionary receipts and payments and distributions received from Leisureworld. In addition, the impact of changes in working capital is excluded (the movements in trade-related current assets and liabilities, excluding cash) 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. Payout ratio is defined as distributions declared as a proportion of distributable cash.

The nature of power infrastructure assets requires scheduled maintenance programs 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 scheduled receipts and payments are made according to the Fund's investment and financing decisions regarding ongoing commitments.

The Fund continues to calculate and measure distributable cash excluding changes in working capital. The OEFC, the Fund's primary customer, is billed once monthly. As there are only 12 payments each year, the timing of each payment has a significant impact on the Fund's working capital. Monthly payments are received at month end or on the first business day following a month end, which could result in a situation where two bills are paid in the same month. Such circumstances could cause significant fluctuation in working capital, distributable cash and payout ratio that are not reflective of the Fund's ongoing distributable cash or stability of operations.

For the year ended December 31, 2008, distributions to unitholders exceeded distributable cash by 0.4%. The Fund makes monthly distributions at a constant amount per unit during the year. Given seasonal fluctuations in the business, it is possible for 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 approximate distributions paid to unitholders.

In any given period, the amount of distributions declared may exceed the net income of the Fund as a result of non-cash charges, most significantly, amortization and non-cash movements in future income taxes, swap contracts, embedded derivative balances as well as impairment charges. Except for allocations to capital expenditure and major maintenance reserve accounts, the Fund does not retain additional amounts for these movements as they do not require periodic investments to maintain existing levels of activity. The amount of distributions declared may also exceed cash flows from operating activities and net income in any given period as a result of distributions received from Leisureworld.

($000s except for trust units and per trust unit amounts)	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Cash flows from operating activities	**50,516**	29,663
Maintenance of productive capacity:		
Release from major maintenance reserve account	**3,400**	980
Allocation to major maintenance reserve account	**(2,225)**	(2,726)
Allocation to capital expenditure reserve account	**(850)**	(719)
	50,841	27,198
Other adjustments:		
Scheduled repayment of debt	**(2,431)**	(1,582)
Scheduled receipt of loans receivable	**641**	295
Gain on debtor repayment of loan receivable	**–**	5,380
Distributions received from Leisureworld	**10,350**	10,350
Changes in working capital	**(7,158)**	7,144
Distributable cash for the year (i)	**52,243**	48,785
Per Unit	**1.046**	1.210
Distributions declared to Unitholders	**52,454**	42,942
Per Unit (ii)	**1.050**	1.030
Payout ratio (iii)	**100.4%**	88.0%
Basic and diluted weighted average number of Units outstanding	**49,960**	40,333

(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, 2008, distributable cash was $52,243 compared with $48,785 in the prior year. The Fund declared distributions to unitholders of $52,454 (2007 – $42,942), representing a payout ratio of 100.4% (2007 – 88.0%). The payout ratio for 2008 was higher than in the prior year, primarily due to the $5,380 gain on repayment of the U.S. Wind Loan in 2007. Excluding the impact of the repayment, the 2007 payout ratio was approximately 99%. The higher payout ratio in 2008 reflected higher distributions declared in the year as well as lower operating cash flows from Cardinal due to increased gas transportation costs. This was partially offset by a full year of operating cash flows from the CPIF assets. Distributions declared in the year were higher due to an increase in distributions to unitholders of $0.02 per unit starting January 1, 2008.

Highlights by operating segment

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

($000s unless otherwise noted)	Year ended December 31, 2008 Power	Social	Total	Year ended December 31, 2007 Power	Social	Total
Revenue	**150,423**	**–**	**150,423**	122,811	–	122,811
Operating expenses	**84,454**	**–**	**84,454**	69,860	–	69,860
Contribution margin(i)	**65,969**	**–**	**65,969**	52,951	–	52,951
Interest income on loans receivable(ii)	**793**	**–**	**793**	1,368	–	1,368
Depreciation and amortization on capital assets	**21,085**	**–**	**21,085**	14,310	–	14,310
The Fund's pro rata share of equity accounted income (loss)	**156**	**(62)**	**94**	(156)	(1,286)	(1,442)
Gain on debtor repayment of loan receivable	**–**	**–**	**–**	5,380	–	5,380
Sale of electricity (MWh)(iii)	**2,084,376**	**–**	**2,084,376**	1,687,059	–	1,687,059
Sale of steam (M lbs)	**719,453**	**–**	**719,453**	697,620	–	697,620
Average total occupancy	**–**	**98.4%**	**98.4%**	–	98.4%	98.4%
Average private occupancy	**–**	**92.9%**	**92.9%**	–	86.3%	86.3%

(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.
(ii) The Fund's interest income consists of interest earned on Chapais and the U.S. Wind Loan. This amount is included in net interest expense on the consolidated statement of operations.
(iii) The sale of electricity for the year ended December 31, 2008 includes full production from Chapais of 221,401 MWh (2007 – 218,955 MWh). The Fund accounts for its investment in Chapais using the equity method, therefore Chapais' operating results do not impact the Fund's revenue for the year.

Power Infrastructure

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

Gas Cogeneration Power Operations:

($000s unless otherwise noted)	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Revenue	**99,777**	98,589
Operating expenses	**65,284**	61,547
Contribution margin(i)	**34,493**	37,042
Depreciation and amortization on capital assets	**7,839**	7,785
Sale of electricity (MWh)	**1,259,737**	1,291,876
Sale of steam (M lbs)	**719,453**	697,620

(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.

Revenue for the year was $1,188 higher than in 2007 due to continued increases in the DCR. This was partially offset by lower production as a result of more outage hours and the facility increasing curtailment to capitalize on favourable spot market prices for gas. The plant achieved an availability of 97.2% (2007 – 98.2%) and a capacity factor of 94.9% (2007 – 96.7%), with 240 hours (2007 – 150 hours) of outage and curtailment of 504 hours (2007 – 23 hours). Steam revenue of $1,108 (2007 – $1,074) reflected higher steam usage by Canada Starch Operating Company ("CASCO") during the year. Operating expenses were $3,737 higher than in 2007 primarily due to higher gas transportation costs, which were only partially offset by gas mitigation.

Wind Power Operations:

($000s unless otherwise noted)	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Revenue	**24,660**	10,301
Operating expenses	**5,437**	2,921
Contribution margin(i)	**19,223**	7,380
Interest income on loans receivable(ii)	**–**	937
Depreciation and amortization on capital assets	**8,293**	4,236
Gain on debtor repayment of loan receivable	**–**	5,380
Sale of electricity (MWh)(iii)	**253,927**	103,400

(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.
(ii) Interest income on loans receivable for the year ended December 31, 2007 consists of interest income on the U.S. Wind Loan, which was fully repaid in December 2007.
(iii) Sale of electricity for the year ended December 31, 2007 reflects operating results of Erie Shores from the date of acquisition. Total production of Erie Shores for the full year in 2007 was 243,423 MWh.

Revenue and operating expenses in 2008 reflected a full year of operating results from Erie Shores. Production increased by 4.3% to 253,927 MWh in 2008 (2007 – 243,423 MWh), reflecting a higher average wind speed. The wind farm achieved a capacity factor of 29.2% (2007 – 28.1%) and availability of 95.0% (2007 – 95.1%).

Hydro Power Operations:

($000s unless otherwise noted)	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Revenue	**12,705**	7,031
Operating expenses	**3,443**	1,878
Contribution margin(i)	**9,262**	5,153
Depreciation and amortization on capital assets	**2,174**	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.

Sale of electricity (MWh) Asset/Facility	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Sechelt	**80,656**	35,530
Hluey Lakes	**6,842**	3,372
Wawatay	**52,364**	38,766
Dryden	**22,921**	11,444
Sale of electricity(i)	**162,783**	89,112

(i) Sale of electricity for the year ended December 31, 2007 reflects operating results of the hydro power assets from the date of acquisition. Total production of the hydro facilities for the full year in 2007 was 174,300 MWh.

Revenue and operating expenses in 2008 reflected a full year of operating results from the hydro facilities. Overall production of 162,783 MWh at the hydro facilities in 2008 was approximately 6.6% lower than in 2007 due to lower water flows and availability. Water flows were lower as a result of colder than normal temperatures in 2008. In 2007, the hydro facilities also experienced better than historical average levels of hydrology. The facilities achieved an overall weighted average availability of 96.3% (2007 – 98.2%) and a capacity factor of 51.9% (2007 – 55.7%), reflecting 1,017 outage hours (2007 – 837 hours) due to repairs and maintenance at the Wawatay and Sechelt facilities.

Biomass Power Operations:

($000s unless otherwise noted)	Year ended December 31, 2008 Whitecourt	Chapais	Total Biomass	Year ended December 31, 2007 Whitecourt	Chapais	Total Biomass
Revenue	**13,281**	**–**	**13,281**	6,890	–	6,890
Operating expenses	**10,290**	**–**	**10,290**	3,514	–	3,514
Contribution margin[(i)]	**2,991**	**–**	**2,991**	3,376	–	3,376
Interest income on loans receivable	**–**	**793**	**793**	–	431	431
Depreciation and amortization on capital assets	**2,779**	**–**	**2,779**	1,175	–	1,175
The Fund's pro rata share of equity accounted income (loss)	**–**	**156**	**156**	–	(156)	(156)

(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.

Sale of electricity (MWh) Asset/Facility	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Whitecourt	**186,528**	97,508
Chapais	**221,401**	105,163
Sale of electricity[(i)]	**407,929**	202,671

(i) Sale of electricity for the year ended December 31, 2007 reflects operating results of the biomass power assets from the date of acquisition. Total production of the biomass facility for the full year in 2007 was 411,035 MWh. The Fund accounts for its investment in Chapais using the equity method; therefore, Chapais' operating results do not impact the Fund's revenue for the respective periods.

Whitecourt

Revenue and operating expenses in 2008 reflected a full year of operating results from Whitecourt. During the year, Whitecourt achieved an availability of 88.4% (2007 – 93.4%) and a capacity factor of 88.0% (2007 – 93.1%), which reflected 1,059 hours of outage (2007 – 462 hours) as the plant shut down to undertake a major maintenance overhaul of the turbine and boiler, which occurs every seven years. Lower power generation was partially offset by an increase in the average Alberta Power Pool price to $87.95 per MWh (2007 – $66.21). Approximately 14.3% of the plant's production was sold into the Alberta Power Pool in 2008.

Chapais

The Chapais facility achieved an availability of 93.4% (2007 – 94.8%), reflecting 588 hours (2007 – 458 hours) of outage. The plant achieved a capacity factor of 90.0% (2007 – 89.3%). The 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.

Social Infrastructure

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

($000s unless otherwise noted)	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Revenue	**248,732**	181,725
Operating expenses	**219,332**	155,121
Net loss	**(188)**	(2,859)
The Fund's pro rata share of equity accounted loss	**(62)**	(1,286)
Distributions paid to the Fund	**10,350**	10,350
Average total occupancy	**98.4%**	98.4%
Average private occupancy	**92.9%**	86.3%

For the year ended December 31, 2008, Leisureworld generated revenue of $248,732 compared with $181,725 in the prior year. This $67,007 increase was primarily due to the acquisition of seven LTC homes in January 2008 as well as increased occupancy of private accommodation and higher government funding rates, which were 3.6% greater than in the same period last year. Operating expenses were also higher, reflecting the seven additional homes and the increases in government funding, which resulted in increased staff and operating costs.

Net loss for the year ended December 31, 2008 was $188 compared with a net loss of $2,859 in the prior year. The variance was mainly due to the income contribution from the seven LTC homes, increases in accommodation funding rates, increases in private accommodation revenue and lower amortization charges. These positive variances were partially offset by an increase in net interest expense.

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, 2008.

($000s unless otherwise noted)	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Income (loss) before income taxes	**(24,447)**	30,063
Unrealized loss (gain) on swap contracts	**4,228**	(523)
Unrealized gain on embedded derivative instruments	**(9,841)**	(10,456)
Net interest expense	**12,911**	6,982
Impairment of goodwill	**43,279**	–
Equity accounted loss (income) from long-term investments	**(94)**	1,442
Foreign exchange loss	**54**	1,129
Gain on sale of capital assets	**(10)**	–
Gain on debtor repayment of loan receivable	**–**	(5,380)
	26,080	23,257
Add back:		
Administrative expenses	**10,982**	9,777
Depreciation and amortization	**28,907**	19,917
Contribution margin	**65,969**	52,951

Liquidity and financial resources

As previously noted, the Fund invests in long-life infrastructure assets. Demand associated with these assets is relatively stable across business cycles and most assets have long-term agreements to enhance revenue certainty. This mitigates some of the liquidity risk and uncertainties inherent in the current economic environment.

The Fund expects to meet all of its operating obligations in 2009 and to make distributions to unitholders from cash flows generated from operating activities and from distributions received from Leisureworld. As at December 31, 2008, the Fund had positive working capital of $51,874 (2007 – $30,393) and cash and short-term investments of $51,904 (2007 – $21,934), of which $34,803 (2007 – $3,306) was not designated for major maintenance, capital expenditure or general reserves. During the year, the Fund increased its drawdown on the CPOT credit facility to enhance the Fund's cash position, thereby facilitating its ability to take advantage of future market opportunities.

($000s unless otherwise noted)	**Dec 31, 2008**	Dec 31, 2007
Major maintenance reserve	**9,791**	10,966
Capital expenditure reserve	**2,310**	2,662
General reserve	**5,000**	5,000
Total reserve accounts	**17,101**	18,628
Other cash and cash equivalents	**29,716**	3,306
Total cash and cash equivalents	**46,817**	21,934
Short-term investments	**5,087**	–
Total cash and short-term investments	**51,904**	21,934

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 2009. As at December 31, 2008, the following funds were available under existing credit facilities:

($000s unless otherwise noted)	Credit Limits	Amounts Authorized or Drawn	Available
Cardinal credit facility (i)	50,000	36,983	13,017
CPOT credit facility (ii)	150,000	85,550	64,450

(i) Included in the amounts authorized or drawn under the Cardinal credit facility are two letters of credit totalling $1,983 for Erie Shores.
(ii) Included in the amounts authorized or drawn under the CPOT credit facility are a letter of credit for $550 and a $10,000 unsecured guarantee provided to the lenders under the Tranche C loan for Erie Shores.

Related party transactions

Under the terms of the various administration and management agreements for each of the Fund, the Trust, Cardinal, LTC Holding LP and CPOT, the Fund makes payments to the Manager for administrative and management services, incentive fees and cost reimbursement.

The following table summarizes total amounts recorded with respect to services provided by MPML:

($000s unless otherwise noted)	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Management fees	**1,765**	1,412
Administrative fees	**108**	106
Incentive fees	**1,602**	3,498
Cost reimbursement (i)	**3,267**	2,629

(i) $130 of cost reimbursement for the year ended December 31, 2008, was capitalized in deferred charges and capital assets. 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.

The Fund has gas swap agreements with an affiliate of MGL to hedge against fluctuations in the price of excess gas sold under the gas mitigation clause of Cardinal's gas purchase contract for the seven-month period from April to October for each of the years from 2009 to 2011. Each fiscal year, the gas swap contracts require Cardinal to make payments to MGL based on 436,814 MMBtu of gas at the market rate of natural gas in exchange for receiving payments based on 436,814 MMBtu of gas at a fixed price per MMBtu. The Fund's related party transaction policy requires that these transactions be carried out under normal arm's length commercial terms.

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

Seasonality

Since Cardinal has a long-term PPA with the OEFC and a gas purchase contract, 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 higher power rates during the six-month period from October to March (and lower rates from April to September), which is reflected in the variations in quarterly results.

In addition, Cardinal and Whitecourt generally perform their major maintenance activities during the April to July period, which affects the Fund's operating results during 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 the 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 flow of the respective watersheds. During the spring and autumn periods, water flows are generally greater than during the winter and summer periods.

As with the Cardinal PPA, 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 (and lower rates from April to September).

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 could result 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 expects that the reserve accounts and free cash will be sufficient to maintain monthly distributions to unitholders in 2009.

Supplemental quarterly information

Selected Consolidated Financial and Operating Information of the Fund

($000s except for trust units and per trust unit amounts) For the quarters ended	Dec 31, 2008	Sep 30, 2008	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007	Jun 30, 2007	Dec 31, 2007
Revenue	41,735	31,542	33,483	43,663	41,823	30,432	21,587	28,969
Net income (loss)	(36,560)	3,811	826	5,389	34,677	(4,947)	(31,662)	7,358
Cash flows from operating activities	9,836	8,549	17,240	14,891	7,694	(2,567)	7,249	17,287
Distributable cash (i)	14,705	9,839	11,201	16,498	20,394	8,991	7,331	12,068
Distributions declared to Unitholders	13,106	13,114	13,117	13,117	12,869	12,882	9,454	7,737
Basic and diluted net income (loss) per Unit	(0.732)	0.076	0.017	0.108	0.694	(0.099)	(1.024)	0.245
Cash flows from operating activities per Unit	0.197	0.171	0.345	0.298	0.154	0.051	0.234	0.575
Distributable cash per Unit	0.294	0.197	0.224	0.330	0.408	0.180	0.237	0.402
Distributions declared per Unit (ii)	0.262	0.262	0.262	0.262	0.257	0.257	0.257	0.257

(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) For the quarter ended December 31, 2008, all unitholders were paid distributions of $0.0875 per unit per month.

Revenue for the fourth quarter was $41,735 compared with $41,823 in the same period last year. This reflects a 3.0% decrease in power generation to 545,506 MWh (2007 – 562,595 MWh). The decrease was mainly due to increased outages at Whitecourt and lower water flows at the hydro facilities. This was partially offset by higher power prices at Cardinal under the PPA as a result of a 2.6% increase in the DCR and higher production at Erie Shores due to higher than average wind speed.

Net loss for the fourth quarter was $36,560 compared with a net income of $34,677 in the same period last year. The variance was primarily driven by a non-cash $18,801 income tax recovery, a $5,380 gain on repayment of the Fund's U.S. Wind Loan as well as a more positive movement in the fair value of gas swap contracts in the fourth quarter of last year combined with a $43,279 impairment loss of goodwill taken in 2008.

Distributable cash for the fourth quarter was $14,705 compared with $20,394 in the same period last year. The Fund declared distributions to unitholders of $13,106 (Q4 2007 – $12,869), representing a payout ratio of 89.1% (Q4 2007 – 63.1%) for the quarter.

The Fund's payout ratio for the quarter was higher compared with the same period last year as a result of the $5,380 gain on the repayment of the Fund's U.S. Wind Loan in the fourth quarter of 2007. Excluding the impact of this, the Fund generated lower cash flows in the quarter due to the reasons discussed above. Distributions declared in the quarter were also higher due to an increase in distributions to unitholders of $0.02 per unit on an annualized basis starting January 1, 2008. The quarterly payout ratio reflects the seasonal nature of the Fund's business.

Subsequent events

Effective January 5, 2009, Whitecourt Power Limited Partnership ("WPLP"), an indirect, wholly owned subsidiary of the Fund and the owner of the Whitecourt biomass facility, terminated the operations and maintenance agreement ("Agreement") for the facility. Services previously provided under the Agreement have been assumed by the facility's internal staff. The former service provider has informed WPLP that it disagrees with the basis upon which the Agreement was terminated and that it is considering its legal options. Management does not expect any costs that may be incurred with respect to this activity to be material.

On January 30, 2009, the Fund made an equity contribution of $6,750 into Leisureworld in connection with its acquisition of seven LTC homes on January 31, 2008. This amount maintains the Fund's 45% pro rata interest in Leisureworld.

Outlook

Management anticipates that MPT will continue to perform reliably in 2009, reflecting the quality and breadth of its portfolio and the predictability of its power and social infrastructure assets throughout the economic cycle.

MPT's portfolio is well diversified by asset type, geography and fuel source, which contributes to the stability of MPT's cash flow. Approximately 52.0% of MPT's distributable cash in 2009 is expected to be generated by Cardinal; 12.0% by Erie Shores; 12.0% by the hydro facilities; 6.0% by MPT's biomass plants; and 18.0% by Leisureworld. This diversity significantly mitigates the seasonal impact of wind and hydrological conditions on MPT's performance.

As a result, MPT expects to maintain stable distributions to unitholders of $1.05 per unit in 2009, barring any significant external events or growth initiatives, and to maintain a payout ratio of approximately 100%. Approximately 50% of distributions to unitholders in 2009 are expected to be non-taxable as a return of capital.

A priority in 2009 will be enhancing the performance of MPT's portfolio through incremental operational improvements. Selective growth opportunities that would increase the size and long-term value of the Fund will also remain an area of focus.

Cardinal

Cardinal is expected to generate lower revenue, which primarily reflects a planned hot gas path inspection that will require approximately 12 days of outage. In addition, Cardinal will continue to experience higher gas transportation costs, with the 2009 rate expected to be consistent with or below the average 2008 level of $1.31/gigajoule. As a result, cash flow from Cardinal will be slightly lower on a year-over-year basis.

Erie Shores

We expect Erie Shores to generate annual long-term production of 249,800 MWh, subject to wind speed and density, which are typically greatest during the fall and winter months. This represents a 1.7% increase over previous guidance, reflecting an independent assessment of Erie Shores' wind energy production based on two full years of actual operating data. Erie Shores expects to enhance its availability with a connection to a second transmission line, which will enable the facility to continue delivering its power to the grid during periods of outage on the existing Hydro One line.

Hydro Power Facilities

The hydro power facilities are expected to produce average long-term annual production of 166,360 MWh, which is in line with previous guidance. 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. A key efficiency initiative in 2009 is to automate the storage and release of water in the lake that serves the Sechelt facility, which will enable the facility to remotely control water flows, and, accordingly, maximize production.

Whitecourt

Whitecourt is continuing to address operational challenges identified in the fourth quarter of 2008, primarily a higher than normal vibration of the turbine, which is expected to result in approximately 12 days of outage in the first quarter of 2009. In addition, Whitecourt schedules regular maintenance work in the spring and fall periods, each of which typically requires four days of outage. Whitecourt plans to enhance and extend its spring 2009 maintenance program by 8 to 20 days to ensure that recent operating challenges are fully and successfully addressed. As a result, we expect a total of 28 to 40 days of outage in 2009. Whitecourt is expected to achieve an availability of approximately 86% to 90% for the year.

Subsequent to year end, in early February Millar-Western informed Whitecourt of its intention to reduce the scale of its operations as a result of the impact of the global economic crisis on its business. This may affect the volume of wood waste fuel that Millar-Western provides to Whitecourt. Under the terms of Whitecourt's wood waste fuel supply contract with Millar-Western, in the event that Millar-Western does not supply the minimum required quantity of wood waste it must pay Whitecourt's cost to source replacement fuel.

Leisureworld

Leisureworld's key focus will be on enhancing the quality of care and accommodation for residents. Leisureworld is expected to maintain full occupancy and to continue to attract more residents to private accommodation, which contributes to operating profitability. Management currently expects that Leisureworld's distribution policy will be maintained for fiscal 2009. With its critical mass, 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.

Growth Opportunities

MPT's goal is to provide unitholders with steady income as well as an attractive total return on their investment, which necessarily includes growing the portfolio through acquisitions that meet its investment and return criteria.

Through appropriate acquisitions, MPT can further diversify its portfolio and lengthen the average life of its assets, thereby extending the stability of its long-term cash flow profile. The addition of new assets will position the Fund to mitigate the impact of both the federal government's taxation of Specified Investment Flow-Through Entities ("SIFTs"), which will result in the taxation of income funds in a manner similar to corporations commencing in 2011, as well as the expiry of Cardinal's power purchase agreement in 2014.

These growth opportunities could include: power generation, particularly in the renewable energy sector; electricity transmission and distribution; additional long-term care homes; and other essential infrastructure assets such as water distribution, schools, hospitals and roads, including through P3s where a robust pipeline of opportunities is coming to market. MPT has the knowledge and track record to capitalize on opportunities as well as the financial flexibility for growth, including approximately $100 million in cash and acquisition facilities as at December 31, 2008.

Outlook for 2011

With its Board of Trustees, MPT is continuing to evaluate how to maximize long-term value for unitholders in 2011, which includes assessing market receptiveness to possible new structures as well as the Fund's ability to efficiently access capital in the future. While a range of options are possible, MPT's analysis to date suggests that conversion to a dividend-paying corporation in 2011 is the most likely approach. The Fund currently intends to maintain the tax-advantaged status of its distributions between now and 2011.

Over the course of 2009, management expects to develop a specific strategy to address the impact of SIFT taxation on the Fund. We anticipate that 2010 will be a transitional year as we seek to position the Fund's portfolio and capital structure for 2011. Our goal is to maintain a high quality portfolio of infrastructure assets that will sustain an attractive yield in the post-SIFT environment while creating the potential for capital appreciation.

Caution regarding forward-looking information

Certain statements in the following discussion and analysis may constitute "forward-looking" statements, which involve known and unknown risks, uncertainties and other factors that may cause the actual results to be materially different from any future results expressed or implied by such forward-looking statements. When used in the following discussion and analysis, such statements use such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this discussion and analysis. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not such results will be achieved. The forward-looking statements contained in this discussion and analysis are based on information currently available and what the Fund currently believes are reasonable assumptions, including the material assumptions for each of the Fund's assets set out in the Fund's 2008 Annual Report under the headings "Outlook," as updated in subsequently filed quarterly Financial Reports of the Fund. However, the Fund cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this discussion and analysis and the Fund does not undertake to update any forward-looking information that may be made from time to time by or on its behalf, except as required under applicable securities legislation.

The forward-looking information contained in this discussion and analysis is presented for the purposes of assisting investors and analysts in understanding the Fund's financial position and our stated priorities and objectives may not be appropriate for other purposes. The Fund cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, risks associated with: the operational performance of the Fund's assets; power purchase agreements; fuel costs, supply and transportation; default under credit agreements; land tenure and related rights; regulatory regime and permits; government regulation and funding; the ability to complete future acquisitions; LTC home ownership and operation; minority ownership interest in Leisureworld; default under Leisureworld's 2015 notes and credit facility; labour relations and cost; changes in federal tax rules for flow-through entities; the variability of distributions; geographic concentration and non-diversification; unitholder liability; dependence on Macquarie Power Management Ltd., the manager of the Fund, and potential conflicts of interest; insurance; and risks related to the environmental, health and safety regimes within which the Fund's assets operate; unitholder dilution; and nature of units. The risks and uncertainties described above are not exhaustive and other events and risk factors, including risk factors disclosed in Fund's filings with Canadian securities regulatory authorities, could cause actual results to differ materially from the results discussed in the forward-looking statements.

Contractual obligations and other commitments

The following describes the significant contractual obligations and commitments of the Fund as of December 31, 2008:

Long-term Debt

($000s unless otherwise noted)	Effective Interest Rate	Maturity	**Dec 31, 2008**	Dec 31, 2007
Cardinal credit facility [i]	2.31% – 2.72%	May 16, 2011	**35,000**	35,000
CPOT credit facility [ii]	2.44% – 2.86%	June 26, 2010	**75,000**	50,000
Erie Shores project debt [iii]				
Tranche A	5.96%	April 1, 2026	**66,873**	68,988
Tranche B	5.28%	April 1, 2016	**6,249**	6,912
Tranche C	5.05%	April 1, 2011	**40,000**	40,000
			113,122	115,900
			223,122	200,900
Less: Deferred financing fees				
CPOT credit facility			**(441)**	(700)
Total debt, net of deferred financing fees			**222,681**	200,200
Less: Current portion of long-term debt			**(2,942)**	(2,778)
Total long-term debt			**219,739**	197,422

(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, 2008. Advances under the Cardinal credit facility are made in the form of a series of three-month BAs. Interest paid is based on the then current BA rate plus a stamping fee based on Cardinal's ratio of consolidated debt to earnings before interest, taxes, depreciation and amortization and unrealized gains and losses ("EBITDA"). Collateral for the Term 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 a minimum interest coverage ratio. At maturity, the Cardinal credit facility can be replaced by a facility with similar terms and conditions and for successive periods of 364 days. The Fund has interest rate swap contracts in place on a notional amount of $35,000 to mitigate its interest rate risk on the Term until maturity.
As of December 31, 2008, under the Cardinal credit facility, the Fund has committed to two standby letters of credit totalling $1,983. These consist of a $1,980 standby letter of credit in favour of the Ontario Power Authority under its Erie Shores' PPA, and a $3 standby letter of credit in favour of the Independent Electricity System Operator.

(ii) CPOT has unsecured senior credit facilities in the amount of $150,000 comprised of: (a) a $75,000 three-year revolving loan ("Revolver"); and (b) a $75,000 three-year term loan ("Term") (collectively the "CPOT credit facility"), of which $75,000 had been advanced on the Term and $nil has been advanced on the Revolver as of December 31, 2008. Advances under the CPOT credit facility are made in the form of a series of one and three-month BAs. Interest paid is based on the then current BA rate plus a stamping fee based on CPOT's ratio of consolidated debt to EBITDA and a minimum interest coverage ratio. Under the CPOT credit facility, CPOT is subject to certain financial and non-financial covenants, including limits on the amount of leverage and a minimum interest coverage ratio. The Fund has interest rate swap contracts in place on a notional amount of $50,000 to mitigate some of its interest rate risk on this facility until maturity.
As of December 31, 2008, under the CPOT credit facility, the Fund has committed to one standby letter of credit in the amount of $550 in favour of Sun Life for Erie Shores' operating and maintenance reserve account under Erie Shores' project debt provisions. The amount available to be drawn under the Revolver at any time shall also be reduced by the $10,000 unsecured guarantee provided to the lenders under the Tranche C loan to Erie Shores.

(iii) The Fund has a loan of $113,122 non-recourse project financing for Erie Shores, consisting of: (a) a $66,873 fully amortizing loan ("Tranche A"); (b) a $6,249 fully amortizing loan ("Tranche B"); and (c) a $40,000 interest only loan ("Tranche C"). This financing was borrowed by Erie Shores and is secured only by Erie Shores, with no recourse to the Fund's other assets.

As of December 31, 2008, the Fund has interest rate swap contracts on a notional amount of $85,000 to mitigate its interest rate risk on the Cardinal and CPOT credit facilities until maturity. Under each agreement, the Fund will pay a fixed rate in return for a floating rate equal to the then current three-month BA rate.

The terms of the swap agreements are as follows:

Interest rate swap	Maturity	National Amount	Fixed Rate (i)
Cardinal	May 16, 2011	11,700	3.39%
	May 16, 2011	11,600	3.39%
	May 16, 2011	11,700	3.41%
CPOT	June 26, 2010	10,000	3.04%
	June 28, 2010	40,000	3.07%

(i) The fixed rates on the swap agreements exclude the stamping fees on the BAs under the Cardinal and CPOT credit facilities.

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

Year of Repayment	Cardinal Credit Facility	CPOT Credit Facility	Erie Shores Project Debt	Total
2009	–	–	2,942	2,942
2010	–	75,000	3,117	78,117
2011	35,000	–	43,302	78,302
2012	–	–	3,497	3,497
2013	–	–	3,705	3,705
Thereafter	–	–	56,559	56,559
	35,000	75,000	113,122	223,122

($000s unless otherwise noted)	**Year ended Dec 31, 2008**	Year ended Dec 31, 2007
Deferred financing fees amortized	**259**	125
Interest on debt	**14,629**	9,203
Total interest expense	**14,888**	9,328
Less: Interest income	**(1,977)**	(2,346)
Net interest expense	**12,911**	6,982

Swap Contracts

Cardinal has gas swap contracts for the seven-month period from April to October in the years 2009 to 2011. Each fiscal year, these contracts require Cardinal to make payments to the counterparties based on 436,814 MMBtu of gas at the then market rate of natural gas in exchange for receiving payments based on 436,814 MMBtu of gas at a fixed price per MMBtu.

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 5.63% for a period of five years following the maturity of the Erie Shores project debt 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.

During the year, the Fund entered into five new interest rate swap contracts on a notional amount of $85,000 to mitigate its interest rate risk on the Cardinal and CPOT credit facilities until maturity. Under each agreement, the Fund will pay a fixed rate in return for a floating rate equal to the then current three-month BA rate.

None of the swap contracts above have been designated for hedge accounting.

Leases

Cardinal leases the site on which the facility 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 may be extended by up to two years at the option of Cardinal.

CPOT has 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 lease agreements extend between 2023 and 2042.

The Fund has capital leases with terms ranging from four to six years, expiring between 2010 and 2012 and bearing interest rates from 6.6% to 7.0%. The following table summarizes total principal and interest payments on the Fund's capital leases for the next four years:

Year	Annual Payment	Interest	Prinicipal
2009	221	33	188
2010	141	22	119
2011	133	13	120
2012	133	5	128
Total	628	73	555

Electricity Supply Contracts
The Fund has PPAs expiring between 2014 and 2042 to sell substantially all electricity produced at its facilities, less the amount of electricity consumed in the operation of the facilities, to creditworthy customers including government agencies. Rates of power sales are fixed in the PPAs and most include escalation clauses.

Steam Supply Contract
Under the terms of an energy savings agreement between Cardinal and CASCO, the facility can sell up to 723 million pounds of steam per year to CASCO for its plant operations. The energy savings agreement matures on January 31, 2015, but may be extended by up to two years at the option of Cardinal.

Wood Waste Supply Agreement
The Whitecourt biomass facility has entered into a long-term agreement to ensure an adequate supply of wood waste. The agreement expires in 2016.

Gas Purchase Contract
Cardinal has a long-term purchase agreement for natural gas that expires on May 1, 2015. The minimum purchase commitment for natural gas under the agreement is 9,289,104 MMBtu per year through to expiration in 2015, which is equivalent to 80% of the contract maximum.

Operations, Management and Maintenance Agreements
CPOT has an Operations and Management agreement with Regional Power Inc. ("Regional") to operate and maintain the hydro facilities, expiring on November 30, 2011 with automatic renewal terms. Regional is paid a monthly management fee and is eligible for an annual incentive fee.

As of December 31, 2008, Whitecourt had an Operations and Management Agreement ("Agreement") with Probyn Whitecourt Management Inc. ("PWMI") to operate and maintain the Whitecourt biomass facility. PWMI was paid a monthly management fee and was eligible for an annual incentive fee. Effective January 5, 2009, the Agreement was terminated and PWMI no longer provides operations and management services to the Fund. No business impact is expected as the Fund has internalized the management of Whitecourt.

Chapais has a management agreement with Probyn Power Services Inc. ("PPSI") expiring on November 30, 2011 to operate and maintain the Chapais biomass facility. PPSI receives a monthly management fee.

Under a fixed-price service and maintenance agreement that expires on July 25, 2010, General Electric Canada provides operating and management services to Erie Shores. Under a separate agreement, General Electric Company agreed to provide the project with a four-year revenue reimbursement and performance warranty commencing July 26, 2006.

Guarantees
As at December 31, 2008, the Fund had 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 CPIF's disposition of Gas Recovery Systems, LLC ("GRS") prior to the acquisition by the Fund, in excess of a certain amount. At December 31, 2008, there had been no reduction in the guarantee amount.

The Fund also provides three guarantees relating to CPIF's former investment in GRS. As at December 31, 2008, no claims have been made on these guarantees.

Climate change and the environment

The Fund's assets are subject to a complex and increasingly stringent environmental, health and safety regime, which includes environmental laws, regulations and guidelines at the federal, provincial and local levels. As the Fund's electricity generation business emits carbon dioxide ("CO_2"), it must also comply with emerging federal and provincial requirements, including programs to offset emissions. The Fund complies, in all material respects, with current federal, provincial and local environmental legislation and guidelines.

Federal Requirements

On March 10, 2008, the Canadian federal government released a broad framework for the regulation of greenhouse gas emissions and air pollution entitled *Turning the Corner: Taking Action to Fight Climate Change*, in which it established the structure of greenhouse gas ("GHG") targets and compliance mechanisms for the years 2010 to 2020. While it is anticipated that the federal government will release draft regulations in 2009 to be finalized for implementation on January 1, 2010, recent public statements made by the federal Minister of Environment indicate that the proposed federal framework will likely be amended to reflect a common North American approach to GHG management, including the implementation of a North American-wide cap-and-trade system.

The current proposed federal framework calls for an 18% reduction in GHG emission intensity for existing facilities, increasing by 2% per year until 2020, at which point a 20% absolute reduction will be required. Some other elements of the plan include:

- the ability for electricity companies to comply based on their corporate emissions intensity rather than on a plant-by-plant basis;
- the favourable treatment of cogeneration facilities such that only modest reductions are required;
- the establishment of a technology fund designed to allow companies investing in transformative technologies to use those funds for compliance purposes. Firms can comply with the plan by investing $15.00/tonne into the fund from 2010 to 2012, $20.00/tonne in 2013 and increasing by the rate of nominal GDP growth in each subsequent year;
- the ability of firms to obtain offset credits for compliance purposes; and
- the intent to establish a Clean Electricity Task Force to determine where additional reductions from the sector can be found.

The approach outlined in the framework is designed to provide an incentive for high-efficiency cogeneration. This is achieved by treating the baseline for cogeneration as equal to the emission levels if the electricity and heat were produced separately. For the heat component, the baseline will be equivalent to a stand-alone conventional boiler at 80% efficiency. Existing facilities would face a target in 2010 of 18% below this baseline, with 2% continuous improvement thereafter. For the electricity component, the baseline intensity would be that of natural gas combined cycle generation, or 0.418 tonne/MWh, with no further reduction requirement. All current equipment at Cardinal is designed to produce emissions below these applicable standards.

As part of this framework, on June 29, 2008, the federal government subsequently released its *Credit for Early Action Program*, which is designed to recognize and provide a limited number of carbon credits to certain facilities that took steps to reduce their greenhouse gas emissions between 1992 and 2006 and that will likely find themselves subject to mandatory greenhouse gas reductions. Credits will be available for reductions of CO_2, methane ("CH_4") and nitrous oxide ("NOx"), among other gases. The Fund has determined that no projects carried out at its facilities during this period of time are eligible to earn credits under the *Credit for Early Action Program*.

Numerous design details of the federal framework are yet to be released and the coordination of this approach with provincial plans has not yet been negotiated. As a result, at this time the Fund cannot estimate the full impact of this framework on its operations. The Fund's exposure to evolving GHG regulations is mitigated by various clean technology initiatives and a growing portfolio of renewable power generation facilities, which could create viable GHG offset credits provided that the Fund's assets meet the applicable eligibility requirements under the federal offset program.

Concurrently, the federal government is developing a parallel framework for managing air pollutant emissions such as NOx, sulphur oxides, volatile organic compounds and particulate matter. Specific caps on pollutants for each sector, including electricity generation, are expected to be set in 2009 and are currently scheduled to come into effect between 2012 and 2015. It is anticipated that the electricity generation sector will also experience tighter caps on mercury emissions. Until the federal government announces the targets and compliance mechanisms for these air pollutants, the Fund cannot estimate the impact of such targets and compliance mechanisms on its operations.

Provincial Requirements

Alberta's government enacted the Specified Gas Emitters Regulation for GHG reductions in 2007. The Whitecourt biomass facility emits less than 100,000 tonnes of CO_2 annually, which is the threshold for the Alberta legislation.

Ontario legislation that came into effect in 2004 introduced a cap-and-trade system with respect to NOx emissions. Under this system, facilities subject to the legislation receive a maximum yearly emission compliance limit, which may be achieved by source emission control or reduction, or by trading NOx allowances. For 2007, Cardinal received 984 tonnes of NOx allowances based on actual generation in 2005. Cardinal expects to retire 369 tonnes of NOx allowances for 2007, leaving a cumulative allowance balance of 3,066 tonnes. NOx emissions from Cardinal's existing generating equipment fall below the levels mandated by legislation.

On June 2, 2008, the Ontario and Quebec governments announced a memorandum of understanding on a regional cap-and-trade system to reduce GHG emissions. Further, on July 18, 2008, the Ontario government announced that it had joined the Western Climate Initiative ("WCI"), an organization that also includes British Columbia ("B.C."), Quebec, Manitoba and seven

U.S. states. The WCI seeks to develop regional strategies to address climate change, including setting an overall regional goal to reduce GHG emissions and the design of a market-based mechanism to help achieve the reduction goal.

Ontario's *Climate Action Plan*, which was released in August 2007, sets out GHG emission reduction targets of 6% by 2014 and 15% by 2020 from 1990 levels across a range of sectors, including electricity generation. As a member of the WCI, Ontario will implement a cap-and-trade system as part of its strategy to reduce GHG emissions. The Ontario government has indicated that it intends to have a cap-and-trade system in place by 2010 for large emitters (which include facilities emitting more than 100,000 tonnes of CO_2 per year) and once the WCI cap-and-trade system begins trading as anticipated on January 1, 2012, Ontario's trading system will be linked to the WCI system. On December 10, 2008, the Ontario Ministry of the Environment and the Ministry of Economic Development launched a consultation process on Ontario's cap-and-trade program which will continue through early 2009. The Cardinal facility may be captured by the Ontario cap-and-trade regime as it emits in excess of 100,000 tonnes of CO_2 per year.

In B.C., the provincial government introduced legislation in April 2008 to create a cap-and-trade system for GHGs. This enabling legislation provides the framework for the province to participate in the WCI's cap-and-trade system. The details of B.C.'s cap-and-trade system will be developed in conjunction with the WCI, which released its draft design recommendations for the WCI's regional cap-and-trade program (the "WCI Program") in September 2008. The WCI Program limits the use of offsets as a compliance mechanism to 49% of total emission reductions from 2012 to 2020. It is anticipated that the WCI Program will start trading on January 1, 2012. The existence of the WCI Program is expected to increase liquidity for carbon instruments across its member jurisdictions and create potential opportunities for eligible Fund assets to generate offset credits.

The details of these agreements and the impact on emitting entities have not yet been determined. Moreover, it is not yet clear how these initiatives would coordinate with federal and other provincial plans. As a result, at this time the Fund cannot estimate the impact of these agreements on its operations.

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. It is qualified in its entirety and must be read in conjunction with the detailed information appearing elsewhere in this Annual Report, MPT'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 regular, comprehensive routine and preventative maintenance, the design of each facility as well as the proven nature of the technologies employed.

The operational performance of the wind power and hydro power facilities depends upon wind speed and density and water flows, respectively. This risk is partially offset by the geographic diversification of the hydro facilities 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. Additionally, 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 supply 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

The natural gas required by Cardinal is supplied under a gas purchase agreement which expires on May 1, 2015. Upon expiry of the gas purchase agreement, Cardinal will have to renegotiate the agreement or enter into a new gas supply agreement, and may not be able to do so on terms that are similar to the gas purchase agreement, if at all. The plant is also dependent on the transportation of natural gas to it. Any disruption to service could affect production at the facility. In addition, any further increase in the cost of transportation of gas, which is regulated by the National Energy Board, could result in higher operating costs.

Cardinal uses gas swap agreements to mitigate the effect of gas price fluctuations on the net proceeds that Cardinal receives for natural gas in excess of the plant's requirements. The gas swap agreements could expose MPT to losses that could occur under various circumstances, such as the counterparty defaulting on its obligations under the gas swap agreements or if the gas swap agreements provide an imperfect hedge.

Whitecourt and Chapais have long-term contracts with substantial forest products companies to provide a majority of their wood waste fuel requirements. Any interruption in supply could affect the ability of the biomass facilities to operate. Upon the expiry of each of these fuel supply agreements, MPT 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. There can be no assurance as to the supply or price of wood waste available on the open market at the time of expiry of the supply agreements. Furthermore, the biomass power facilities depend on the transportation of fuel to them. Any disruption in the supply of wood waste or an increase in fuel transportation cost could affect production at the facilities, and accordingly, distributable cash.

A portion of the wood waste fuel requirements for each of the biomass power facilities is obtained at spot prices from local suppliers. There can be no assurance as to the continued supply or price of such fuel on the open market.

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.

Contract Performance

The amount of distributable cash available for distribution to unitholders is highly dependent upon the parties to the various agreements relating to the power facilities fulfilling their contractual obligations, particularly OEFC under various PPAs, Husky Marketing under the Cardinal GPA, and Millar-Western under its wood waste supply agreement for Whitecourt. An inability or failure by any such party to meet its contractual commitments could have an adverse impact upon the business, operating results and financial condition of one or more of the power infrastructure facilities, which could, in turn, adversely affect the Fund's results and the Fund's ability to pay distributions to unitholders.

Default Under Credit Agreements

MPT has credit agreements in place that contain a number of standard financial and other covenants:

- The Cardinal credit agreement expires in 2011;
- The Erie Shores credit agreement expires in 2026; and
- The CPOT credit facility expires in 2010.

A failure by Cardinal, Erie Shores or CPOT to comply with their obligations in 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 the assets of Cardinal, Erie Shores or CPOT would be sufficient to repay in full that indebtedness.

There can be no assurance that Cardinal, Erie Shores or CPOT will generate sufficient cash flow from operations or that future distributions will be available in amounts sufficient to pay outstanding indebtedness, or to fund any other liquidity needs. In addition, there can be no assurance that the Fund will be able to 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 Fund's 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 on 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 Fund's facilities in part depends on a favourable regulatory climate. This means that:

- changes in a particular regulatory regime could adversely affect 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; and
- 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 facilities are highly regulated as water rights are generally granted by governments that reserve the rights to control water levels. The Cardinal facility and the biomass facilities are subject to environmental regulations and/or approvals relating to their operations, which, for the biomass facilities, include biomass supply and wood ash disposal. Erie Shores is subject to 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 power facilities in Canada. Erie Shores could be adversely affected if the current governmental incentives are modified.

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, which could lead to the MOHLTC imposing sanctions (such as limiting admissions to the applicable LTC home), which could have an impact on Leisureworld's LTC business.

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*, which received Royal Assent on June 4, 2007, has not yet been enacted into law due to the number of regulations that must be drafted, a process that is expected to continue through 2009. 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.

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:

- regulations controlling LTC funding;
- regulations controlling rents for the retirement and independent living homes;
- possible future changes in labour relations;
- increases in labour, other personnel costs and other operating costs;
- competition from or oversupply of other similar properties;
- changes in conditions of Leisureworld or general economic conditions; and
- the imposition of increased or new taxes.

This inability could also arise from the effects of 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.

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. MGL or any future holders of its 55% interest may have different objectives than those of MPT for Leisureworld. As a result, Leisureworld's ability to generate cash and to pay distributions to the Fund could be adversely affected by certain actions of the indirect majority owner of Leisureworld.

Default Under Leisureworld's 2015 Notes, Credit Facility and the Counsel Acquisition 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 the 2015 notes, the Counsel acquisition facility 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 2015 notes, the Counsel acquisition facility and the 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, 2008, Leisureworld employed, directly and indirectly, approximately 5,000 people.

All of the Leisureworld LTC homes are currently unionized with approximately 80% of employees represented by unions, including the Service Employees International Union, the Ontario Nurses Association, the Christian Labour Association of Canada, the Canadian Union of Public Employees and the Canadian Auto Workers. 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 potion 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 Specified Investment Flow-through Entities

On October 31, 2006, the federal government of Canada proposed a new tax regime for certain specified investment flow-through entities, of SIFTs, 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 allowed guidelines ("Guidelines") for growth issued by the federal Ministry of Finance under the legislation's "safe harbour" limits.

These Guidelines provide that the rules will not apply prior to 2011 in respect of any SIFT that would otherwise have qualified for deferral whose equity capital grows as a result of issuances of new equity in any year prior to 2011 by an amount that does not exceed the greater of $50 million and an objective safe harbour amount. New equity includes trust units, debt that is convertible into trust units and potentially other substitutes for such equity. The safe harbour amount is based on a percentage of the SIFT's market capitalization as of the end of trading on October 31, 2006, measured in terms of the value of a SIFT's issued and outstanding publicly traded units, excluding debt, options or other interests that were convertible into units of the SIFT.

Prior to the revision of the Guidelines on December 4, 2008, the safe harbour percentages of the October 31, 2006 benchmark were 40% for the period from November 1, 2006 to the end of 2007 and 20% for each of 2008, 2009 and 2010. The safe harbour amounts are cumulative. With the December 4, 2008 revision of the Guidelines, the safe harbour amount for each of 2009 and 2010 is accelerated so that new equity may be raised at any time before 2011 equal to the balance of the October 31, 2006 benchmark.

Based on discussions the Fund's external legal counsel had with an official of the Federal Department of Finance, the October 31, 2006 benchmark following a merger of two or more SIFTs, each of which was publicly traded on October 31, 2006, is the combined market capitalization of those SIFTs as of the end of trading on October 31, 2006 (measured as described above). The Guidelines contain exceptions from the safe harbour limits for mergers of two or more SIFTs, each of which was publicly traded on October 31, 2006 and state that these mergers would not be considered undue expansion, to the extent that there is no net addition to equity as a result of the merger.

The Fund estimates that the SIFT rules, commencing on January 1, 2011, will 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.

Other Tax-Related Risks
On October 31, 2003, the Department of Finance announced a tax proposal (the "October 31 Proposal") relating to the deductibility of losses under the Tax Act, which is proposed to apply to taxation years beginning after 2004. Under the October 31 Proposal, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. On February 23, 2005, the Minister of Finance announced that an alternative proposal to replace the October 31 Proposal would be released at an early opportunity. No such alternative proposal has been released to date. There can be no assurance that such alternative proposal will not directly or indirectly adversely affect the Fund with after-tax returns to unitholders being reduced as a result.

The Tax Act currently provides that, in order for the Fund to qualify as a mutual fund trust, it may not, at any time, reasonably be considered to be established or maintained primarily for the benefit of non-resident persons unless, at all times, all or substantially all of the property is property other than "taxable Canadian property" within the meaning of the Tax Act. If certain tax proposals, released on September 16, 2004 (the "September 16 Proposals") are enacted as proposed, the Fund would cease to qualify as a mutual fund trust for purposes of the Tax Act if, at any time, the fair market value of all units held by non-residents or partnerships which are not "Canadian partnerships" for the purpose of the Tax Act is more than 50% of the fair market value of all issued and outstanding units, unless no more than 10% (based on fair market value) of the Fund's property is at any time taxable Canadian property and certain other types of specified property. These proposals did not provide for any means of rectifying the loss of mutual fund trust status. On December 6, 2004, the Minister of Finance suspended implementation of the September 16 Proposals pending further discussion with the private sector. Included in Bill C-52, which received Royal Assent on June 22, 2007, was an amendment to the then current provision such that a trust will be deemed not to be a mutual fund trust after any time when it can be reasonably considered that the trust was established or maintained primarily for the benefit of non-resident persons, unless at that time all or substantially all of its property is property other than taxable Canadian property. It is not clear whether this amendment supersedes the September 16 Proposals.

There can also be no assurance that income tax laws and the tax treatment of "mutual fund trusts" will not be changed in a manner which adversely affects unitholders. In addition, adverse tax consequences may arise to unitholders and to the Fund in the event that the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, including potential liability for Part XII.2 taxes under the Tax Act.

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. As well, the establishment of reserves for expenses could adversely affect cash distributions. 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.

Geographic Concentration and Non-Diversification
Cardinal, Erie Shores, and the Dryden and Wawatay hydro facilities are all located in the Province of Ontario. In addition, all of the business and operations of Leisureworld are currently conducted in the Province of Ontario. If the Ontario market was to generally experience a severe decline in financial performance as a result of changes in local or regional economic conditions or an adverse change to the regulatory environment in Ontario, the market value of Cardinal and the other power infrastructure facilities located in Ontario or the Leisureworld homes, as applicable, the income generated from them and the overall financial performance of the Fund could be negatively affected.

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, Alberta, and Quebec 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 invested, directly or indirectly, in a variety of other companies or entities involved in owning, managing, advising on or being otherwise engaged in the power business or other infrastructure businesses. The management agreements, the administration agreement, the Trust's Declaration of Trust, and 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 at all times insurance coverage in respect of potential liabilities and the accidental loss of value of their assets from risks, in amounts, with such insurers, and on such terms as the Trustees and the directors of Leisureworld consider appropriate, taking into account all relevant factors including the practices of owners of similar assets and operations.

However, not all risk factors are covered by such insurance, and no assurance can be given that insurance will be consistently available on an economic 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 and Leisureworld's assets or operations.

Environmental, Health and Safety
MPT'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 assets, to the Fund's or the Manager's knowledge, has been notified of any such civil or regulatory action in regard 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 ("CVR")) 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 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 as 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 a 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

The audited consolidated financial statements have been prepared in accordance with GAAP. The significant accounting policies are described in note 2 to the consolidated financial statements. The critical accounting policies and estimates are detailed below:

Use of Estimates and Measurement Uncertainty
The financial information contained in the consolidated financial statements has been prepared in accordance with GAAP, which requires 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
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.

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. These estimates are based on assumptions that are sensitive to change, which may have a significant impact on the valuations performed.

Carrying Values of Goodwill and Other Long-lived Assets
Impairment reviews of the carrying value of goodwill and other long-lived assets require management to make estimates of fair value, discounted future cash flows and business performance.

Goodwill is tested for impairment on an annual basis and between annual tests when events or circumstances indicate a potential impairment. Management reviews goodwill for impairment annually during our second quarter. In the fourth quarter of 2008, management conducted an additional impairment test of goodwill due to the decline in the Fund's unit price as discussed more fully in the notes to the consolidated financial statements. As a result of this testing, the Fund recorded a $43,279 goodwill impairment in 2008. There was no impairment of goodwill in 2007 or 2006.

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.

Adoption of New Accounting Standards
On January 1, 2008, the Fund adopted four new accounting and disclosure standards that were issued by The Canadian Institute of Chartered Accountants ("CICA"): Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 3031, Inventories. The principal changes due to the adoption of these accounting standards are described below:

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. Disclosures required as a result of adopting this section can be found in note 22 to the consolidated financial statements.

Sections 3862 and 3863, Disclosure and Presentation Requirements
Sections 3862 and 3863 provide guidance for additional required disclosures relating to financial instruments. These sections replaced Section 3861, Financial Instruments – Disclosure and Presentation and 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 disclosure requirements of these sections are addressed in note 20 to the consolidated financial statements.

Section 3031, Inventories
Section 3031 relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories.

The adoption of this new standard resulted in the reclassification of spare parts for capital assets from inventory with the following impact on the opening financial position:

`	Dec 31, 2007 As reported	Dec 31, 2007 Restated
Inventory	1,055	265
Capital assets	432,311	433,101

New Pronouncements
Section 3064, Goodwill and Intangible Assets and Section 1000, Financial Statement Concepts
The CICA issued a new accounting standard, Section 3064, Goodwill and Intangible Assets, which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset and as a result, certain costs previously capitalized will be expensed as incurred. Section 1000, Financial Statement Concepts was also amended to provide consistency with the new standard. The new standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2008. The Fund plans to adopt these standards effective January 1, 2009. These standards are not expected to have a material effect on the Fund's consolidated financial statements.

International Financial Reporting Standards ("IFRS")
In 2005, the Accounting Standards Board ("AcSB") announced that accounting standards in Canada are to be converged with IFRS. In February 2008, the AcSB confirmed that the use of IFRS will be required by January 1, 2011 with appropriate comparative data from the prior year for all Canadian publicly accountable enterprises. Under IFRS, there are significantly more disclosure requirements, especially for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are differences in accounting policy that must be addressed.

MPT commenced its IFRS conversion project in 2008 by establishing a formal project governance structure and a detailed conversion plan. The governance structure includes a working group as well as a steering committee consisting of senior management, finance, operations, legal and investor relations staff. Progress reports are being provided to senior management and the Audit Committee of the Fund's Board of Trustees on a regular basis.

MPT's conversion plan consists of three phases: diagnostic, design and implementation. During the fourth quarter of 2008 management completed the diagnostic phase, which involved reviewing the major differences between Canadian GAAP and IFRS relevant to the Fund, identifying accounting policy choices permitted under IFRS and making preliminary implementation decisions. In this phase, management also made an initial assessment of the impact of the required changes on the existing accounting systems and internal controls and the potential magnitude of the financial statement adjustments.

As this time, management has determined that the differences with the highest potential impact on the Fund's consolidated financial statements include the treatment of capital assets, equity with redeemable features and the initial adoption of IFRS under the provision of IFRS 1, First-time Adoption of IFRS.

The Fund is now in the second phase of the conversion project, which involves the selection of IFRS policies and transition elections and the quantification of the impact of IFRS on the Fund's consolidated financial statements. In doing so, the Fund's objective is not only to be IFRS compliant but to provide the most meaningful and transparent information to its unitholders and other stakeholders.

The Fund will continue to review all proposed and continuing projects of the International Accounting Standards Board ("IASB") to determine their impact on the Fund, and will continue to invest in training and resources throughout the transition period to facilitate a timely and meaningful conversion.

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 recommend 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 flows 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, which could result in a situation where two invoices are paid in the same month. Such circumstances could cause a 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.

Controls and procedures

The Fund's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on behalf of the Fund's Board of Trustees, are required by various 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 the Canadian Securities Administrators' Multilateral Instrument 52-109 ("MI 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 time frames 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, 2008 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 of and with the participation of the CEO and CFO, have designed internal controls over financial reporting, as defined in MI 52-109. The purpose of internal controls over financial reporting is to provide reasonable assurance regarding the reliability of the Fund's financial reporting, in accordance with GAAP, focusing in particular on controls over information contained in the audited annual and unaudited interim consolidated financial statements. The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

There were no changes made in the Fund's internal controls over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

As of December 31, 2008, the Fund's management has assessed the effectiveness of the Fund's internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on this assessment, management has determined that the Fund's internal control over financial reporting was effective as of December 31, 2008.

Management's responsibility for financial statements

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 25, 2009

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, 2008 and 2007 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, 2008 and 2007 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 25, 2009

Consolidated statement of financial position

($000s unless otherwise noted)	Dec 31, 2008	Dec 31, 2007 Restated – note 2
Current Assets		
Cash and cash equivalents (notes 3 and note 20)	46,817	21,934
Short-term investments (notes 3 and 20)	5,087	–
Accounts receivable (note 18)	18,309	25,516
Inventory (note 2)	211	265
Prepaid expenses	2,421	5,048
Current portion of loans receivable (note 4)	713	641
Current portion of swap contracts at fair value (note 20)	369	–
Deferred charges	99	442
Cash in escrow related to GRS (note 21)	6,088	5,695
	80,114	59,541
Loans receivable (note 4)	6,899	7,612
Long-term investments (note 5)	55,328	67,428
Capital assets (notes 2 and 6)	413,527	433,101
Intangible assets (note 7)	150,315	159,749
Embedded derivative asset (note 20)	20,392	17,718
Swap contracts at fair value (note 20)	181	–
Future income tax asset (note 13)	10,631	10,509
Goodwill (note 8)	–	42,294
Total Assets	737,387	797,952
Current Liabilities		
Accounts payable and accrued liabilities (note 18)	12,657	15,730
Distributions payable	4,368	4,289
Current portion of long-term debt (note 9)	2,942	2,778
Current portion of capital lease obligations (note 10)	188	181
Current portion of swap contracts at fair value (note 20)	1,997	475
Accounts payable and accrued liabilities related to GRS (note 21)	6,088	5,695
	28,240	29,148
Long-term debt (note 9)	219,739	197,422
Convertible debentures (note 11)	38,918	38,918
Levelization amounts (note 12)	19,581	18,262
Capital lease obligations (note 10)	367	555
Future income tax liability (note 13)	82,866	79,517
Embedded derivative liability (note 20)	6,491	13,658
Swap contracts at fair value (note 20)	3,918	662
Liability for asset retirement (note 14)	1,848	1,475
Electricity supply and gas purchase contracts (note 7)	9,788	11,418
Total Liabilities	411,756	391,035
Unitholders' Equity (notes 15 and 16)	325,631	406,917
Total Liabilities and Unitholders' Equity	737,387	797,952

Commitments and Contingencies (note 19)
Subsequent Events (note 24)

See accompanying notes to the consolidated financial statements.

Consolidated statement of unitholders' equity

($000s unless otherwise noted)	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Unitholders' Capital		
Opening balance	**467,006**	253,476
Trust unit issuance – net of issuance costs of 400	**–**	214,272
Trust units redeemed (note 15)	**(309)**	(742)
Ending balance	**466,697**	467,006
Class B Exchangeable Units	**35,500**	35,500
Accumulated Other Comprehensive Income		
Opening balance	**1,628**	1,832
Equity share of other comprehensive loss of Leisureworld (note 5)	**(1,989)**	(204)
Ending balance	**(361)**	1,628
Cumulative Earnings		
Opening balance	**11,831**	6,405
Net income (loss) for the year	**(26,534)**	5,426
Ending balance	**(14,703)**	11,831
Total Comprehensive Income (loss)	**(15,064)**	13,459
Cumulative Distributions		
Opening balance	**(109,048)**	(66,106)
Distributions declared to Unitholders for the year (note 16)	**(52,454)**	(42,942)
Ending balance	**(161,502)**	(109,048)
Total Unitholders' Equity	**325,631**	406,917

See accompanying notes to the consolidated financial statements.

Consolidated statement of operations

($000s unless otherwise noted)	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Revenue	**150,423**	122,811
Costs and Expenses		
Operating expenses	**84,454**	69,860
Administrative expenses	**10,982**	9,777
Depreciation and amortization	**28,907**	19,917
	124,343	99,554
	26,080	23,257
Unrealized gain (loss) on swap contracts (note 20)	**(4,228)**	523
Unrealized gain on embedded derivative instruments (note 20)	**9,841**	10,456
Net interest expense (notes 9 and 20)	**(12,911)**	(6,982)
Impairment of goodwill (note 8)	**(43,279)**	–
Equity accounted income (loss) from long-term investments (note 5)	**94**	(1,442)
Foreign exchange loss	**(54)**	(1,129)
Gain on sale of capital assets (note 6)	**10**	–
Gain on debtor repayment of loan receivable	**–**	5,380
Income (loss) before income taxes	**(24,447)**	30,063
Income taxes:		
Current income tax recovery (expense)	**10**	(5)
Future income tax expense	**(2,097)**	(24,632)
Total income tax expense (note 13)	**(2,087)**	(24,637)
Net Income (loss)	**(26,534)**	5,426
Basic and diluted weighted average number of trust units and Class B exchangeable units outstanding (“Unit”)	**49,960**	40,333
Basic and diluted net income (loss) per Unit	**(0.531)**	0.135

Consolidated statement of comprehensive income

($000s unless otherwise noted)	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Net income (loss)	**(26,534)**	5,426
Equity share of comprehensive loss of Leisureworld (note 5)	**(1,989)**	(204)
Total comprehensive income (loss)	**(28,523)**	5,222

See accompanying notes to the consolidated financial statements.

Consolidated statement of cash flows

($000s unless otherwise noted)	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Cash flows from operating activities:		
Net income (loss)	**(26,534)**	5,426
Add back:		
Depreciation and amortization	**28,907**	19,917
Unrealized (gain) loss on swap contracts (note 20)	**4,228**	(523)
Unrealized gain on embedded derivative instruments (note 20)	**(9,841)**	(10,456)
Impairment of goodwill (note 8)	**43,279**	–
Equity accounted (income) loss from long-term investments (note 5)	**(94)**	1,442
Foreign exchange loss	**–**	1,067
Gain on sale of capital assets (note 6)	**(10)**	–
Gain on debtor repayment of loan receivable	**–**	(5,380)
Future income tax expense (note 13)	**2,097**	24,632
Premium on redemption of convertible debentures (note 11)	**–**	158
Unpaid interest on levelization amounts	**972**	320
Amortization of deferred financing costs	**259**	125
Accretion of asset retirement obligations (note 14)	**95**	79
Non-cash changes in working capital:		
Decrease in accounts receivable	**7,207**	991
Decrease in inventory	**54**	52
Decrease (increase) in prepaid expenses	**2,627**	(2,340)
Decrease (increase) in deferred charges	**343**	(442)
Decrease in accounts payable and accrued liabilities	**(3,073)**	(5,405)
Total cash flows from operating activities	**50,516**	29,663
Cash flows from investing activities:		
Purchase of short-term investments	**(5,087)**	–
Proceeds from sale of capital assets	**10**	–
Net cash acquired on acquisition	**–**	14,133
Transaction costs paid from acquisition	**–**	(13,233)
Receipt of loans receivable	**641**	295
Proceeds from debtor repayment of loan receivable	**–**	22,125
Distributions received from long-term investments (note 5)	**10,350**	10,350
Investment in capital assets	**(1,251)**	(370)
Total cash flows from investing activities	**4,663**	33,300
Cash flows from financing activities:		
Trust unit issuance costs	**–**	(400)
Proceeds from debt issuance	**25,000**	72,075
Repayment of debt	**(2,778)**	(64,447)
Redemption of convertible debentures (note 11)	**–**	(15,961)
Redemption of units (note 15)	**(309)**	(742)
Repayment of capital lease obligations	**(181)**	(122)
Proceeds from (repayment of) levelization amounts	**347**	(252)
Distributions paid to former CPIF Unitholders	**–**	(2,090)
Distributions paid to Unitholders	**(52,375)**	(41,232)
Total cash flows from financing activities	**(30,296)**	(53,171)
Increase in cash and cash equivalents	**24,883**	9,792
Cash and cash equivalents, beginning of year	**21,934**	12,142
Cash and cash equivalents, end of year	**46,817**	21,934
Supplemental information:		
Interest paid	**11,845**	9,440
Taxes paid	**7**	5

See accompanying notes to the consolidated financial statements.

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 a 100% interest in Cardinal Power of Canada LP ("Cardinal"). Cardinal is a 156-megawatt, gas-fired combined cycle cogeneration plant located in Cardinal, Ontario. On October 18, 2005, the Fund acquired an indirect 45% interest in Leisureworld Senior Care LP ("Leisureworld"), a long-term care ("LTC") provider in Ontario. 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. 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") and a subordinated debt interest in Chapais Énergie, Société en Commandite ("CHESEC"), a subsidiary of Chapais.

Macquarie Power Management Ltd. ("MPML" or the "Manager") is an indirect wholly owned subsidiary of Macquarie Group Limited ("MGL"), 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. 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, 2008 and 2007 and for all periods presented, have been included. These consolidated financial statements should be read in conjunction with the Annual Information Form, which is filed electronically on SEDAR at www.sedar.com.

In addition to the Fund, these consolidated financial statements include the assets and liabilities and results of operations of the Trust, Cardinal Power Inc. ("Cardinal GP"), Cardinal, MPT LTC Holding Ltd. ("LTC GP"), 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 interests 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.

Loans Receivable

The Fund has interest bearing financial assets that consist of a series of loans receivable from Chapais. 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 net income and other comprehensive 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 highly 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, plant and equipment	20 to 35 years
Mobile equipment and vehicles	five to 15 years
Equipment and furniture	three to eight years
Computer software	three to five 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 as an expense 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") 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 when events or circumstances arise that would indicate a potential impairment.

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 are 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 an indication of impairment arises. An impairment loss is recognized when the fair value of goodwill is less than its carrying amount.

The impairment test for goodwill involves comparing the fair value of the Fund's reporting units to their carrying amounts, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, a second step is required to measure the goodwill impairment loss. This step compares the implied fair value of the reporting unit's goodwill to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Any subsequent recoveries in the estimated fair values of goodwill can not be recorded. The fair values calculated in these impairment tests are determined using discounted cash flow models involving assumptions that are based upon what management believes a hypothetical marketplace participant would use in estimating fair value.

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. A reassessment of the expected costs associated with these liabilities is performed annually in the second quarter of each year. The liability accretes until the date of expected settlement of the retirement obligations.

Exchangeable Securities

The Fund applies 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, LTC Holding LP, Clean Power LP, Whitecourt Power LP ("Whitecourt"), Erie Shores Wind Farm LP ("Erie Shores"), 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 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., and PEET U.S. Holdings Inc., that are subject to corporate income taxes as computed under the 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 2008. 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.

Leisureworld, in which the Fund holds an indirect 45% equity interest, is not publicly traded, and as such, is not expected to be affected by the provisions of Bill C-52, Budget Implementation Act, 2007, which received Royal Assent on June 22, 2007, and calls for the taxation of specified investment flow-through ("SIFT") entities commencing January 1, 2011. However, there may be a possible technical interpretation of the legislation under which Leisureworld could be viewed as a SIFT. Management does not believe this to be the intent of the legislation and one of the proposed technical amendments to the legislation released on December 20, 2007 supports the fact that Leisureworld is not a SIFT. Accordingly, Leisureworld has not recorded any future income taxes on differences between the financial reporting and tax bases of Leisureworld assets and liabilities.

As Leisureworld is organized as a limited partnership, its tax attributes flow-through to the Fund and the Fund has recorded its share of Leisureworld's future tax assets and liabilities expected to reverse after 2010 in its consolidated statement of financial position.

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 the power generating assets owned by the Fund as at December 31, 2008 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. The convertible debenture units are anti-dilutive as of December 31, 2008.

Comprehensive Income

Other comprehensive income ("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 in the consolidated statement of financial position as a separate component of Unitholders' equity.

Financial Instruments

Financial Assets and Financial Liabilities

The Fund's financial assets and financial liabilities have been classified based on the purpose for which the financial instruments were acquired or issued, their characteristics and the Fund's designation of such instruments. Loans and receivables and other liabilities are measured at amortized cost using the effective interest method. Held-for-trading ("HFT") financial instruments are measured at their fair value with changes in fair value recognized in the consolidated statement of operations. The Fund has designated each of its significant categories of financial instruments outstanding as of December 31, 2008 as follows:

Cash and cash equivalents	HFT
Short-term investments	HFT
Accounts and loans receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Levelization amounts	Other liabilities
Convertible debentures	Other liabilities
Long-term debt	Other liabilities

Derivatives

The Fund's 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, 2008, the Fund's derivatives include gas swap contracts and interest rate swap contracts (see note 20).

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 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 indexing features.

Transaction Costs
The Fund has elected to defer and amortize transaction costs relating to financial instruments classified as 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 HFT are expensed.

Hedges
The Fund does not have any derivatives that have been designated as hedges for accounting purposes as of December 31, 2008.

Use of Estimates and Measurement Uncertainty
The financial information contained in these consolidated financial statements has been prepared in accordance with GAAP, which requires the Manager to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and note disclosures. 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
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.

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. These estimates are based on assumptions that are sensitive to change, which may have a significant impact on the valuations performed.

Carrying Values of Goodwill and Other Long-lived Assets
Impairment reviews of the carrying value of goodwill and other long-lived assets require management to make estimates of fair value, discounted future cash flows and business performance. Refer to note 8 for results of the goodwill impairment review performed in the year.

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.

Adoption of New Accounting Standards
On January 1, 2008, the Fund adopted four new accounting and disclosure standards that were issued by the CICA: Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 3031, Inventories. The principal changes due to the adoption of these accounting standards are described below:

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. Disclosures required as a result of adopting this section can be found in note 22.

Sections 3862 and 3863, Disclosure and Presentation Requirements
Sections 3862 and 3863 provide guidance for additional required disclosures relating to financial instruments. These sections replaced Section 3861, Financial Instruments – Disclosure and Presentation and 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 disclosure requirements of these sections are addressed in note 20.

Section 3031, Inventories
Section 3031 relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The adoption of this new standard resulted in the reclassification of spare parts to capital assets from inventory with the following impact on the opening financial position:

`	Dec 31, 2007 As reported	Dec 31, 2007 Restated
Inventory	1,055	265
Capital assets	432,311	433,101

New Pronouncements

Section 3064, Goodwill and Intangible Assets and Section 1000, Financial Statement Concepts
The CICA issued a new accounting standard, Section 3064, Goodwill and Intangible Assets, which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset and as a result, certain costs previously capitalized will be expensed as incurred. Section 1000, Financial Statement Concepts was also amended to provide consistency with the new standard. The new standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2008. The Fund plans to adopt these standards effective January 1, 2009. These standards are not expected to have a material effect on the Fund's consolidated financial statements.

Note 3.
Cash and cash equivalents and short-term investments

Cash and cash equivalents are comprised of highly liquid investments with original maturities of 90 days or less. The Fund also has short-term investments consisting of a $5,000 Bankers' Acceptance ("BA"), maturing on July 6, 2009. As of December 31, 2008, the carrying value of the investment was $5,087, including accrued interest.

Total cash and short-term investments have been designated as follows:

	Dec 31, 2008	Dec 31, 2007
Major maintenance reserve	**9,791**	10,966
Capital expenditure reserve	**2,310**	2,662
General reserve	**5,000**	5,000
Total reserve accounts	**17,101**	18,628
Other cash and cash equivalents	**29,716**	3,306
Total cash and cash equivalents	**46,817**	21,934
Short-term investments	**5,087**	–
Total cash and short-term investments	**51,904**	21,934

Note 4.
Loans receivable

As of December 31, 2008, the Fund has loans receivable from Chapais with a principal amount of $13,232 (2007 – $13,873). There are three tranches to the loans, bearing interest ranging from 0% to 10.8%. Upon acquisition of CPIF, the Fund recorded these loans at their fair value of $8,548, which was below face value. Included in accounts receivable is accrued interest on the loans receivable in the amount of $63 for the year ended December 31, 2008 (2007 – $69).

	Dec 31, 2008	Dec 31, 2007
Chapais loans receivable	**7,612**	8,253
Less: Current portion	**(713)**	(641)
Total long-term loans receivable	**6,899**	7,612

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

Year	Repayment Amount
2009	713
2010	794
2011	884
2012	984
2013	1,096
Thereafter	8,761
Total	13,232

Note 5.
Long-term investments

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

	Dec 31, 2008	Dec 31, 2007
Leisureworld		
Opening balance	**67,584**	79,424
Equity accounted loss	**(62)**	(1,286)
Equity share of other comprehensive loss	**(1,989)**	(204)
Equity share of future income taxes	**145**	–
Distributions received	**(10,350)**	(10,350)
Ending balance	**55,328**	67,584
Chapais		
Opening balance	**(156)**	–
Equity accounted income (loss)	**156**	(156)
Ending balance	**–**	(156)
Total	**55,328**	67,428

Note 6.
Capital assets

	December 31, 2008			December 31, 2007 (Restated – note 2)		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Land	**235**	**–**	**235**	235	–	235
Computer software	**136**	**(34)**	**102**	87	(5)	82
Equipment and vehicles	**3,273**	**(987)**	**2,286**	2,387	(249)	2,138
Property and plant	**465,787**	**(54,883)**	**410,904**	465,272	(34,626)	430,646
Total	**469,431**	**(55,904)**	**413,527**	467,981	(34,880)	433,101

During the year, the Fund recognized a $10 gain on the sale of capital assets, which were fully depreciated with a cost and accumulated amortization of $35. In addition, the Fund retired another $44 of fully depreciated assets in the year as they were no longer in use.

Note 7.
Intangible assets and liabilities

	December 31, 2008			December 31, 2007		
Electricity supply and gas purchase contracts	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Opening balance	**101,902**	**(14,081)**	**87,821**	48,000	(12,814)	35,186
Transitional adjustment	**–**	**–**	**–**	(15,300)	4,084	(11,216)
CPIF acquisition	**–**	**–**	**–**	69,202	–	69,202
Depreciation and amortization	**–**	**(7,317)**	**(7,317)**	–	(5,351)	(5,351)
Ending balance	**101,902**	**(21,398)**	**80,504**	101,902	(14,081)	87,821

	December 31, 2008			December 31, 2007		
Electricity supply and gas purchase contracts	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Opening balance	**(12,257)**	**839**	**(11,418)**	–	–	–
CPIF acquisition	**–**	**–**	**–**	(12,257)	–	(12,257)
Depreciation and amortization	**–**	**1,630**	**1,630**	–	839	839
Ending balance	**(12,257)**	**2,469**	**(9,788)**	(12,257)	839	(11,418)

	December 31, 2008			December 31, 2007		
Water rights	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Opening balance	**73,018**	**(1,090)**	**71,928**	–	–	–
CPIF acquisition	**–**	**–**	**–**	73,018	–	73,018
Depreciation and amortization	**–**	**(2,117)**	**(2,117)**	–	(1,090)	(1,090)
Ending balance	**73,018**	**(3,207)**	**69,811**	73,018	(1,090)	71,928

Note 8.
Goodwill

As described in note 2, goodwill is tested annually in the second quarter for impairment or more frequently if events or changes in circumstances warrant a reassessment of the recoverability of the carrying value of goodwill prior to the required annual impairment test. The annual goodwill impairment test performed in the second quarter supported the carrying value of goodwill.

Management considers the relationship between the Fund's market capitalization and its book value, among other factors, when reviewing for indicators of impairment. General market and economic uncertainty in the fourth quarter contributed to significant volatility in MPT's unit price. Accordingly, at December 31, 2008, the Fund's market capitalization was significantly below the book value of its equity, indicating a potential impairment of goodwill. As a result, management determined that it was appropriate to perform a goodwill impairment test at year end.

The goodwill impairment test performed involved comparing the estimated fair value of each reporting unit to the carrying value that is recorded on the Fund's consolidated statement of financial position and then determining the implied value of goodwill (see note 2).

Based on this test, management has determined that the entire carrying value of goodwill relating to the power infrastructure segment was impaired. As a result, a goodwill impairment of $43,279 was recognized on the consolidated statement of operations for the year ended

December 31, 2008. This non-cash charge has no impact on the Fund's liquidity, the stability of cash flow from operations or distributable cash. Other long-lived assets within the reporting units were reviewed for impairment and no other impairment provisions were determined to be necessary.

The valuation approach uses estimates and assumptions that are sensitive to change, which include appropriate equity risk premiums, weighted average costs of capital, and comparable company market multiples.

When developing these estimates and assumptions, management considers economic, operational and market conditions that could impact the estimated fair value of the reporting units. Changes in these estimates and assumptions may have a significant impact on the fair value of the reporting units.

Note 9. Long-term debt

	Effective Interest Rate	Maturity	**Dec 31, 2008**	Dec 31, 2007
Cardinal credit facility (i)	2.31 – 2.72%	May 16, 2011	**35,000**	35,000
CPOT credit facility (ii)	2.44 – 2.86%	June 26, 2010	**75,000**	50,000
Erie Shores project debt (iii)				
Tranche A	5.96%	April 1, 2026	**66,873**	68,988
Tranche B	5.28%	April 1, 2016	**6,249**	6,912
Tranche C	5.05%	April 1, 2011	**40,000**	40,000
			113,122	115,900
			223,122	200,900
Less: Deferred financing fees				
CPOT credit facility			**(441)**	(700)
Total debt, net of deferred financing fees			**222,681**	200,200
Less: Current portion of long-term debt			**(2,942)**	(2,778)
Total long-term debt			**219,739**	197,422

(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, 2008. Advances under the Cardinal credit facility are made in the form of a series of three-month BAs. Interest paid is based on the then current BA rate plus a stamping fee based on Cardinal's ratio of consolidated debt to earnings before interest, taxes, depreciation and amortization and unrealized gains and losses ("EBITDA"). Collateral for the Term 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 a minimum interest coverage ratio. At maturity, the Cardinal credit facility can be replaced by a facility with similar terms and conditions and for successive periods of 364 days. The Fund has interest rate swap contracts in place on a notional amount of $35,000 to mitigate its interest rate risk on the Term until maturity.
As of December 31, 2008, under the Cardinal credit facility, the Fund has committed to two standby letters of credit totalling $1,983. These consist of a $1,980 standby letter of credit in favour of the Ontario Power Authority under its Erie Shores' PPA, and a $3 standby letter of credit in favour of the Independent Electricity System Operator.

(ii) CPOT has unsecured senior credit facilities in the amount of $150,000 comprised of: (a) a $75,000 three-year revolving loan ("Revolver"); and (b) a $75,000 three-year term loan ("Term") (collectively the "CPOT credit facility"), of which $75,000 had been advanced on the Term and $nil has been advanced on the Revolver as of December 31, 2008. Advances under the CPOT credit facility are made in the form of a series of one and three-month BAs. Interest paid is based on the then current BA rate plus a stamping fee based on CPOT's ratio of consolidated debt to EBITDA and a minimum interest coverage ratio. Under the CPOT credit facility, CPOT is subject to certain financial and non-financial covenants, including limits on the amount of leverage and a minimum interest coverage ratio. The Fund has interest rate swap contracts in place on a notional amount of $50,000 to mitigate some of its interest rate risk on this facility until maturity.
As of December 31, 2008, under the CPOT credit facility, the Fund has committed to one standby letter of credit in the amount of $550 in favour of Sun Life for Erie Shores' operating and maintenance reserve account under Erie Shores' project debt provisions. The amount available to be drawn under the Revolver at any time shall also be reduced by the $10,000 unsecured guarantee provided to the lenders under the Tranche C loan to Erie Shores.

(iii) The Fund has a loan of $113,122 non-recourse project financing for Erie Shores, consisting of: (a) a $66,873 fully amortizing loan ("Tranche A"); (b) a $6,249 fully amortizing loan ("Tranche B"); and (c) a $40,000 interest only loan ("Tranche C"). This financing was borrowed by Erie Shores and is secured only by Erie Shores, with no recourse to the Fund's other assets.

As of December 31, 2008, the Fund has interest rate swap contracts on a notional amount of $85,000 to mitigate its interest rate risk on the Cardinal and CPOT credit facilities until maturity. Under each agreement, the Fund will pay a fixed interest rate in return for a floating interest rate equal to the then current three-month BA rate.

The terms of the swap agreements are as follows:

Interes rate swap	Maturity	Notional Amount	Fixed Rate (i)
Cardinal	May 16, 2011	11,700	3.39%
	May 16, 2011	11,600	3.39%
	May 16, 2011	11,700	3.41%
CPOT	June 26, 2010	10,000	3.04%
	June 28, 2010	40,000	3.07%

(i) The fixed rates on the swap agreements exclude the stamping fees on the BAs under the Cardinal and CPOT credit facilities.

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

Year of Repayment	Cardinal Credit Facility	CPOT Credit Facility	Erie Shores Project Debt	Total
2009	–	–	2,942	2,942
2010	–	75,000	3,117	78,117
2011	35,000	–	43,302	78,302
2012	–	–	3,497	3,497
2013	–	–	3,705	3,705
Thereafter	–	–	56,559	56,559
	35,000	75,000	113,122	223,122

	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Deferred financing fees amortized	**259**	125
Interest on debt	**14,629**	9,203
Total interest expense	**14,888**	9,328
Less: Interest income	**(1,977)**	(2,346)
Net interest expense	**12,911**	6,982

Note 10.
Capital lease obligations

The Fund has capital leases with terms ranging from four to six years, expiring between 2010 and 2012 and bearing interest rates from 6.6% to 7.0%. For the year ended December 31, 2008, the Fund recorded amortization of $217 (2007 – $137) and repaid $181 (2007 – $122) on the capital leases. The carrying value of the capital leases as of December 31, 2008 was $555 (2007 – $736), of which $188 (2007 – $181) is classified as a short-term liability.

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

Year of Repayment	Annual Payment	Interest	Principal
2009	221	33	188
2010	141	22	119
2011	133	13	120
2012	133	5	128
Total	628	73	555

Note 11.
Convertible debentures

The Fund has 6.75% convertible unsecured subordinated debentures ("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 in each year and computed on the basis of a 365-day year. 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 in connection with the CPIF acquisition. During the year, total interest expense on the Debentures was $2,627 (2007 – $1,609). As of December 31, 2008, the total principal amount and accrued interest outstanding on the Debentures were $38,918 (2007 – $38,918) and $nil (2007 – $nil), respectively.

Note 12.
Levelization amounts

As of December 31, 2008, the levelization liability relates to payments received from the Ontario Electricity Financial Corporation ("OEFC") in excess of the pre-agreed base rate as set out under the PPA for the Wawatay hydro facility. In accordance with the PPA, the OEFC is required to make monthly guaranteed payments as well as variable payments based on actual electricity production. To the extent that these payments exceed the revenue recorded in a given month, the Fund records an increase in the levelization amounts. To the extent that these payments were less than the revenue recorded, the Fund records a reduction in the levelization amounts.

As of December 31, 2008, the levelization amounts recorded on the consolidated statement of financial position were $19,581 (2007 – $18,262) including accrued interest of $8,577 (2007 – $7,978). Interest on the levelization amounts is accrued at a prescribed variable rate, which currently approximates 7.35% per annum.

Note 13.
Future income taxes

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 were passed into law. Applicable starting in 2011, the taxable portion of distributions will be subject to income tax by the Fund while taxable Canadian Unitholders will receive the favourable tax treatment on distributions currently applicable to qualifying dividends. For the year ended December 31, 2008, the Fund recognized a future income tax expense of $2,097 (2007 expense of $24,632). The tax effect of these temporary differences is as follows:

Future income tax asset	**Dec 31, 2008**	Dec 31, 2007
Capital loss carry-forwards	**15,602**	15,100
Loan premium and deferred financing costs	**634**	317
Non-capital loss carry-forwards	**9,084**	7,084
Debt retirement	**2,742**	2,742
Levelization amounts	**4,374**	4,374
Deferred gains	**189**	197
Asset retirement obligations	**517**	413
Capital assets	**884**	936
Intangible assets	**1,290**	1,530
Total	**35,316**	32,693
Less: Valuation allowance[(i)]	**(24,685)**	(22,184)
Future income tax asset	**10,631**	10,509

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

Future income tax liability	**Dec 31, 2008**	Dec 31, 2007
Capital assets	**(40,636)**	(40,289)
Intangible assets	**(37,997)**	(38,091)
Equity investments	**(130)**	–
Loan premium and deferred financing costs	**(211)**	–
Financial instruments	**(3,892)**	(1,137)
Future income tax liability	**(82,866)**	(79,517)

As of December 31, 2008, certain entities consolidated into the Fund have accumulated aggregate non-capital and capital losses of approximately $27,210 and $110,635 (2007 – $20,891 non-capital loss and $107,860 capital loss), respectively that may be used to reduce taxable income in the future. The non-capital losses consist of $24,992 (2007 – $20,340) deductible under U.S. tax.

These tax loss carry-forwards expire as follows:

$2,218 non-capital losses	2025 – 2028 deductible under Canadian tax
$24,992 non-capital losses	2023 – 2027 deductible under U.S. tax
$110,635 capital loss	no expiry date

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

	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Income (loss) before income taxes	**(24,447)**	30,063
Income tax payable at 46.41%	**(11,346)**	13,952
Reversal of goodwill impairment	**20,086**	–
Income distributed to Unitholders	**(8,740)**	(13,952)
Income tax related to Leisureworld acquisition	**(145)**	–
Impact of tax post-2010	**1,918**	77,235
Impact of tax rate reductions	**–**	(8,940)
Future tax on temporary differences acquired on CPIF acquisition	**–**	(44,376)
Other	**314**	718
Total income taxes	**2,087**	24,637

Note 14.
Liability for asset retirement

The Fund recognizes a liability for the future retirement obligations associated with its Cardinal, Erie Shores and hydro facilities. The carrying value of these obligations is based on probability weighted scenarios and estimated cash flows ranging from $nil to $2,513 required to settle these obligations in present day costs (2007 – $146 to $2,100). The timing of expected settlement dates ranges from 2014 to 2042. Inflation rates assumed to estimate the cash flows in the future range from 2.0% to 2.6%. A credit-adjusted risk-free rate ranging from 5.3% to 5.8% is used to discount the future cost of these liabilities.

An assessment of the expected costs associated with these liabilities is performed annually in the second quarter of each year or more frequently if events or changes in circumstances warrant a reassessment. As at the date of the last assessment, June 30, 2008, an adjustment of $278 (2007 – $235) was recorded to increase the asset retirement obligation liability to its new estimate. Accretion of $95 (2007 – $79) has been taken in the year ended December 31, 2008 in the consolidated statement of operations and will continue until the date of expected settlement of the retirement obligations.

Note 15.
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 ended December 31, 2008, 50,245 units were redeemed for a total cost of $309 (2007 – $742). In total, 46,672,194 units remain outstanding as at December 31, 2008 (2007 – 46,722,439 units). In addition, LTC Holding LP had 3,249,390 Class B exchangeable units outstanding as at December 31, 2008 (2007 – 3,249,390 units). Each exchangeable unit is exchangeable into one unit of the Fund. The Class B exchangeable units are eligible to receive distributions under the same terms and conditions as units of the Fund.

The holders of the Class B exchangeable units cannot acquire any additional units of the Fund (other than pursuant to the exchange of the Class B exchangeable units or pursuant to a distribution reinvestment plan) 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 10th anniversary of the Acquisition Closing Date unless converted earlier at the option of the Unitholders. The Class B exchangeable Unitholders cannot sell more than 5% of the aggregate outstanding trust units in any four-month period and are not eligible to vote with any units they receive on exchange of their Class B exchangeable units until they, together, hold 1% or less of the aggregate outstanding units.

Note 16.
Distributions to Unitholders

Distributions to Unitholders are paid one month in arrears on or about the first business day following the 14th day of each month. Total distributions declared to Unitholders, including Class B exchangeable units, for the year ended December 31, 2008 were $52,454 (2007 – $42,942). Any income of the Fund that is applied to cash redemptions of units or is otherwise unavailable for cash distribution may 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 17.
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 performance of these segments is evaluated by the Manager primarily on revenue, net income and operating cash flows.

The Fund operates in one geographic segment, Canada, and has two reportable segments:

(i) Power infrastructure, which consists of the Fund's investments in gas cogeneration, wind, hydro and biomass assets; and

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

	Year ended December 31, 2008				Year ended December 31, 2007			
	Power	**Social**	**Fund**	**Total**	Power	Social	Fund	Total
Revenue	**150,423**	**–**	**–**	**150,423**	122,811	–	–	122,811
Net income (loss)	**(15,008)**	**(1,226)**	**(10,300)**	**(26,534)**	38,272	(2,030)	(30,816)	5,426
Total assets	**672,305**	**55,384**	**9,698**	**737,387**	723,614	67,586	6,752	797,952
Additions to capital assets	**1,202**	**–**	**49**	**1,251**	315	–	55	370
Depreciation and amortization of capital assets	**21,085**	**–**	**18**	**21,103**	14,310	–	5	14,315
Gain on debtor repayment of loan receivable	**–**	**–**	**–**	**–**	5,380	–	–	5,380
Goodwill	**–**	**–**	**–**	**–**	42,294	–	–	42,294
Net interest expense	**10,284**	**–**	**2,627**	**12,911**	5,375	–	1,607	6,982
Future income tax recovery (expense)	**98**	**–**	**(2,195)**	**(2,097)**	669	–	(25,301)	(24,632)
Current income tax recovery (expense)	**15**	**–**	**(5)**	**10**	–	–	(5)	(5)

Note 18. 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 ("CPI").

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.

The following table summarizes total amounts recorded with respect to services provided by MPML:

	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Management fees	**1,765**	1,412
Administrative fees	**108**	106
Incentive fees	**1,602**	3,498
Cost reimbursement[i]	**3,267**	2,629

(i) $130 of cost reimbursement for the year ended December 31, 2008, was capitalized in capital assets and deferred charges. 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 was $2,449 (2007 – $4,780) of amounts payable to MPML as of December 31, 2008.

Included in accounts receivable on the consolidated statement of financial position was $1,583 (2007 – $nil) of amounts receivable from Macquarie Capital Group Limited as of December 31, 2008.

The Fund has gas swap agreements with an affiliate of MGL to hedge against fluctuations in the price of excess gas sold under the gas mitigation clause of Cardinal's gas purchase contract for the seven-month period from April to October for each of the years from 2009 to 2011. The gas swap contracts require Cardinal to make payments to an affiliate of MGL based on 436,814 MMBtu of gas at the then market rate of natural gas in exchange for receiving payments based on 436,814 MMBtu of gas at a fixed price per MMBtu. These transactions were carried out under normal arm's length commercial terms.

Note 19. Commitments and contingencies

The Fund, either directly or indirectly through its subsidiaries, has entered into various contracts and commitments as of December 31, 2008 as described below:

Swap Contracts

Cardinal has gas swap contracts for the seven-month period from April to October in the years 2009 to 2011. Each fiscal year, these contracts require Cardinal to make payments to the counterparties based on 436,814 MMBtu of gas at the then market rate of natural gas in exchange for receiving payments based on 436,814 MMBtu of gas at a fixed price per MMBtu.

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 5.63% for a period of five years following the maturity of the Erie Shores project debt 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.

During the year, the Fund entered into five new interest rate swap contracts on a notional amount of $85,000 to mitigate its interest rate risk on the Cardinal and CPOT credit facilities until maturity. Under each agreement, the Fund will pay a fixed rate in return for a floating rate equal to the then current three-month BA rate.

None of the swap contracts above have been designated for hedge accounting.

Electricity Supply Contracts

The Fund has agreements expiring between 2014 and 2042 to sell substantially all electricity produced at its facilities, less the amount of electricity consumed in the operation of the facilities, to creditworthy customers including government agencies. Rates for power sales are fixed through long-term power purchase agreements ("PPAs") and most include escalation clauses.

Steam Supply Contract

Under the terms of an energy savings agreement between Cardinal and the Canada Starch Operating Company Inc. ("CASCO"), the facility can sell up to 723 million pounds of steam per year to CASCO for its plant operations. The energy savings agreement matures on January 31, 2015, but may be extended by up to two years at the option of Cardinal.

Wood Waste Supply Agreement

The Whitecourt biomass facility has entered into a long-term agreement to ensure an adequate supply of wood waste. The agreement expires in 2016.

Gas Purchase Contracts

Cardinal has a long-term purchase agreement for natural gas that expires on May 1, 2015. The minimum purchase commitment for natural gas under the agreement is 9,289,104 MMBtu per year through to expiration in 2015, which is equivalent to 80% of the contract maximum.

Leases

Cardinal leases the site on which the facility 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 lease agreements with the Provinces of Ontario and British Columbia with respect to certain 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 lease agreements for Sechelt, Hluey Lakes, Wawatay and Dryden extend to 2025, 2030, 2042 and 2023, respectively.

Operations and Management 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, and is automatically renewable for two additional five-year terms 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 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 is also 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.

As of December 31, 2008, Whitecourt had an operations and management agreement with Probyn Whitecourt Management Inc. ("PWMI") to operate and maintain the Whitecourt biomass facility. The agreement had an initial 10-year term, which expires on November 30, 2011, and was automatically renewable for two additional five-year terms unless at the end of the initial term or the first renewal term, as the case may be, PWMI provided 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. During the year, PWMI received a monthly management fee.

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 $77 (2007 – $42) for the year ended December 31, 2008.

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 each year as per terms specified in the agreement. For the year ended December 31, 2008, the Fund paid $2,940 (2007 – $2,890) to GE Canada.

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

Guarantees

As at December 31, 2008, 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 Gas Recovery Systems, LLC ("GRS"), in excess of a certain amount. At December 31, 2008, there had 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 ("Fortistar") for the period commencing on the sale of GRS to Fortistar on September 15, 2006. No claims have been made on these guarantees.

Note 20.
Financial instruments

Financial instruments primarily consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, distributions payable, loans receivable, long-term debt, convertible debentures, levelization amounts and gas and interest rate swap contracts. The Fund also has embedded derivatives on one of its commodity contracts.

Financial Instruments Designated as Held-for-trading
Cash and Cash Equivalents, Short-term Investments and Cash in Escrow Related to GRS
The Fund invests its cash and cash in escrow balances in financial instruments of highly rated financial institutions and government securities with original maturities of 90 days or less.

The Fund also has short-term investments consisting of a $5,000 BA, maturing on July 6, 2009. This investment is with a highly rated Canadian financial institution, bearing interest at a rate of 3.57%. As of December 31, 2008, the carrying value of the investment of $5,087, including accrued interest, approximates its fair value.

Loans and Receivables
Accounts Receivable
The Fund's accounts receivable consist of trade and interest receivable recorded at fair value. A substantial portion of the Fund's accounts receivable is from the OEFC and the associated credit risks are deemed to be minimal.

Loans Receivable
The Fund's loans receivable are measured at amortized cost using the effective interest method.

Other Liabilities
Accounts Payable, Distributions Payable and Accounts Payable and Accrued Liabilities Related to GRS
The Fund's accounts payable and distributions payable are short-term liabilities with carrying values that approximate their fair values. As of December 31, 2008, the Fund has recorded accounts payable and accrued liabilities relating to GRS equal to the amount that was held in escrow. The carrying value of these liabilities approximates their fair value.

Long-Term Debt, Convertible Debentures, Levelization Amounts and Capital Lease Obligations
The Fund's long-term debt, convertible debentures, levelization amounts and capital lease obligations are recorded at amortized cost using the effective interest method.

Financial Instruments Classified as Held-for-trading
Swap Contracts
The Fund has gas and interest rate swap contracts outstanding as of December 31, 2008. Total amounts recorded in respect of these contracts are as follows:

The Fund's gas swap contracts effectively fix some of the revenue derived from the sales of excess gas. These contracts mitigate exposure to natural gas price fluctuations from sales of excess natural gas in the years from 2009 to 2011. They do not meet the effectiveness criteria for hedge accounting and accordingly, changes in the fair value of the contracts are reflected in the consolidated statement of financial position. The estimated asset with respect to the gas swaps as at December 31, 2008 was $550, of which $369 is short-term (2007 – liability of $475).

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 this contract, the Fund will pay a fixed rate of 5.63% for a period of five years following the maturity of the Erie Shores project debt from December 1, 2011 to December 1, 2016. In return, the Fund will receive a floating rate equal to the then current three-month BA rate. As of December 31, 2008, the estimated liability with respect to the interest rate swap was $2,793 (2007 – $662).

During the year, the Fund entered into five new interest rate swap contracts on a notional amount of $85,000 to mitigate its interest rate risk on the Cardinal and CPOT credit facilities until maturity. Under each agreement, the Fund will pay a fixed rate in return for a floating rate equal to the then current three-month BA rate. Since these swap contracts have not been designated for hedge accounting, their fair values are reported in the consolidated statement of operations for the year ended December 31, 2008. As of December 31, 2008, the Fund recorded a liability of $3,122 (2007 – $nil) with respect to these interest rate swaps of which $1,997 is short-term.

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

	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Unrealized gain on gas swap contracts	**1,025**	1,032
Unrealized loss on interest rate swap contracts	**(5,253)**	(509)
Total unrealized gain (loss) on swap contracts	**(4,228)**	523

Embedded Derivatives

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. As of December 31, 2008, the embedded derivative asset and liability that have been recorded at fair value were $20,392 (2007 – $17,718) and $6,491 (2007 – $13,658), respectively. Changes in the fair value of these financial instruments during the year have been recorded in the consolidated statement of operations as follows:

	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Unrealized gain on embedded derivative asset	**2,674**	718
Unrealized gain on embedded derivative liability	**7,167**	9,738
Total unrealized gain on embedded derivative instruments	**9,841**	10,456

Determination of Fair Value

The carrying values of cash and cash equivalents, short-term investments, cash in escrow related to GRS, accounts receivable, accounts payable and accrued liabilities, distributions payable and accounts payable and accrued liabilities related to GRS approximate their fair value due to their short-term nature.

The fair value of the Fund's loans receivable will differ from their carrying value due to changes in interest rates and the underlying risk associated with the debtor. It is determined using a discounted cash flow analysis.

The carrying value of the Fund's capital leases approximates their fair value.

The fair value of the Fund's floating rate debt and levelization amounts approximate their carrying values. The fair value of the Fund's fixed rate debt is determined through the use of a discounted cash flow analysis using relevant risk-free bond rates plus an applicable risk premium.

The fair value of the Fund's convertible debentures is obtained through multiplying the current market price per debenture unit by the number of convertible units outstanding as at the period end. The Fund pays a fixed 6.75% rate of interest on these convertible debentures and therefore is not subject to market fluctuations on interest rates.

The fair value of the Fund's gas swap contracts fluctuates with changes in market interest rates and prices for natural gas. Therefore, a forward gas price and interest rate curve is used in a discounted cash flow analysis to determine their fair value.

The fair value of the Fund's interest rate swap contracts fluctuates with changes in market interest rates. For the year ended December 31, 2008, a discounted cash flow analysis based on a forward interest rate curve was used to determine their 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 that refer to observable market data. The determination of the fair value of the Fund's embedded derivatives requires the use of option pricing models involving significant judgment 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, and fixed and variable gas transportation costs. Changes in one or a combination of these estimates may 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.

The following table provides a comparison of carrying and fair value for each classification of financial instrument as of December 31, 2008:

	Dec 31, 2008		Dec 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial instruments designated as held-for-trading:				
Cash and cash equivalents	46,817	46,817	21,934	21,934
Short-term investments	5,087	5,087	–	–
Cash in escrow related to GRS	6,088	6,088	5,695	5,695
	57,992	57,992	27,629	27,629
Loans and receivables:				
Accounts receivable	18,309	18,309	25,516	25,516
Loans receivable	7,612	8,462	8,253	9,005
	25,921	26,771	33,769	34,521
Other liabilities:				
Accounts payable and accrued liabilities	(12,657)	(12,657)	(15,730)	(15,730)
Distributions payable	(4,368)	(4,368)	(4,289)	(4,289)
Capital lease obligations	(555)	(555)	(736)	(736)
Long-term debt(i)	(223,122)	(227,379)	(200,900)	(199,319)
Levelization amounts	(19,581)	(19,581)	(18,262)	(18,262)
Convertible debentures	(38,918)	(35,026)	(38,918)	(38,237)
Accounts payable and accrued liabilities related to GRS	(6,088)	(6,088)	(5,695)	(5,695)
	(305,289)	(305,654)	(284,530)	(282,268)
Financial instruments classified as held-for-trading:				
Gas swap contracts	550	550	(475)	(475)
Interest rate swap contracts, net	(5,915)	(5,915)	(662)	(662)
Embedded derivative asset	20,392	20,392	17,718	17,718
Embedded derivative liability	(6,491)	(6,491)	(13,658)	(13,658)
	8,536	8,536	2,923	2,923

(i) The carrying value of long-term debt as of December 31, 2008 excludes deferred financing fees of $441 (2007 – $700).

Income and Expenses from Financial Instruments

	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Financial instruments designated as held-for-trading:		
Interest income on cash and short-term investments(i)	1,184	978
Loans and receivables:		
Interest income from loans receivable(i)	793	1,368
Other liabilities:		
Interest expense on long-term debt(i)	(10,947)	(7,053)
Interest expense on levelization amounts(i)	(1,314)	(666)
Interest expense on convertible debentures(i)	(2,627)	(1,451)
Put premium on convertible debentures(i)	–	(158)
Financial instruments classified as held-for-trading:		
Unrealized gain on gas swap contracts	1,025	1,032
Unrealized loss on interest rate swap contracts	(5,253)	(509)
Unrealized gain on embedded derivative asset	2,674	718
Unrealized gain on embedded derivative liability	7,167	9,738

(i) Net interest expense for the year ended December 31, 2008 of $12,911 (2007 – $6,982) includes interest income from loans receivable and cash balances, offset by interest expense on long-term debt, levelization amounts and convertible debentures.

Nature and Extent of Risks Arising from Financial Instruments

The following discussion is limited to the nature and extent of risks arising from financial instruments, as defined under CICA Section 3862.

The Fund's normal operating, investing and financing activities expose it to a variety of financial risks including market risk (including commodity price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Fund's overall risk management process is designed to identify, manage and mitigate business risk, which includes, among others, financial risk.

Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that the Fund is exposed to include gas and power prices (commodity risk), foreign currency exchange rates, interest rates, and other indices that could adversely affect the value of the Fund's financial assets, liabilities or expected future cash flows.

(i) Commodity price risk

Cardinal's gas purchase agreement protects Cardinal from exposure to changes in the market price of gas. This agreement expires on May 1, 2015. Upon expiry of the agreement, Cardinal will have to renegotiate the agreement or enter into a new agreement, and may not be able to do so on terms that are similar to the existing agreement, if at all.

While the excess power capacity of some of the facilities may be sold in the open market, thus exposing the assets to fluctuations in energy prices, most of the electricity that is generated at the facilities is sold to large utilities or creditworthy customers under long-term PPAs, which provide a specified rate for a defined period of time.

Cardinal uses gas swap agreements to mitigate the effect of gas price fluctuations on the net proceeds that Cardinal receives for the sale of natural gas in excess of the plant's requirements.

(ii) Interest rate risk

Interest rate risk arises as the fair value of future cash flows from a financial instrument can fluctuate because of changes in market interest rates. The Fund is exposed to interest rate risk on its floating rate debt and levelization amounts. Currently, the Fund has interest rate swap contracts on a notional amount of $105,000 to mitigate some of the risks associated with its long-term debt.

(iii) Foreign currency exchange risk

The Fund's exposure to foreign currency exchange risk is limited to the U.S. dollars held in its escrow account and accounts payable and accrued liabilities related to GRS.

Credit Risk

Financial instruments that potentially subject the Fund to concentrations of credit risk consist of cash and cash equivalents, accounts and loans receivable and swap contracts.

The Fund deposits its cash and holds its short-term investments with reputable financial institutions and therefore management believes the risk of loss to be remote. All short-term investments held by the Fund as of December 31, 2008 are invested at a credit rating of R1 or higher.

Credit risk concentration with respect to trade receivables is limited due to the Fund's customer base being predominantly government authorities. As of December 31, 2008, 55.3% (2007 – 76.2%) of the Fund's trade receivables relate to sales to the OEFC. Since the OEFC is a government authority, management does not believe there to be significant credit risk. As of December 31, 2008, the maximum exposure with respect to receivables from the OEFC was $10,087 (2007 – $19,397) and there are no accounts receivable that are past due.

The Fund has loans receivable from Chapais maturing in 2015. The Fund carries these loans receivable at amortized cost, having originally recorded them at fair value at acquisition. During the year, the Fund has recorded an allowance of $178 (2007 – $89) relating to interest receivable on Tranche B of the Chapais loans receivable as no interest payments have been received to date. As of December 31, 2008, the carrying value of the loans receivable was below their fair value.

The Fund's swap agreements could expose it to losses under certain circumstances, such as the counterparty defaulting on its obligations under the swap agreements or if the swap agreements provide an imperfect hedge. 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 to be low credit risks associated with its swap contracts.

Liquidity Risk

Liquidity risk is the risk that the Fund may encounter difficulties in meeting obligations associated with financial liabilities and commitments. The Fund has the following credit agreements in place relating to the power infrastructure facilities: the Cardinal credit agreement (expires in 2011), the Erie Shores credit agreement (expires in 2026) and the CPOT credit agreement (expires in 2010). These credit agreements contain a number of standard financial and other covenants.

A failure by Cardinal, Erie Shores or CPOT to comply with their obligations in 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.

In the event of default, there can 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 agreement is, and future borrowings may be, at variable rates of interest, which exposes the Fund to the risk of increased interest rates.

The following table summarizes the maturity dates for each of the Fund's financial liabilities as of December 31, 2008:

Financial Liabilities	Maturity	**Dec 31, 2008**	Dec 31, 2007
Accounts payable and accrued liabilities	Within 1 year	**12,657**	15,730
Distributions payable	Within 1 year	**4,368**	4,289
Capital lease obligations (i)	December 2012	**555**	736
Convertible debentures	December 2010	**38,918**	38,918
Levelization amounts (i)	June 2042	**19,581**	18,262
Swap contracts			
Gas swap (i)	October 2011	**–**	475
Interest rate swap on Cardinal credit facility (i)	May 2011	**1,715**	–
Interest rate swap on CPOT credit facility (i)	June 2010	**1,407**	–
Interest rate swap on ESWF project debt (i)	December 2016	**2,793**	662
Embedded derivative liability (i)	May 2015	**6,491**	13,658
Long-term debt			
Cardinal credit facility	May 2011	**35,000**	35,000
CPOT credit facility (ii)	June 2010	**75,000**	50,000
Erie Shores project debt			
Tranche A (i)	April 2026	**66,873**	68,988
Tranche B (i)	April 2016	**6,249**	6,912
Tranche C	April 2011	**40,000**	40,000

(i) These financial liabilities are repaid over the term to maturity and are not due on demand at maturity.
(ii) The carrying value of long-term debt as at December 31, 2008 excludes deferred financing fees of $441 (2007 – $700).

Sensitivity Analysis

Section 3862 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of changes in market variables (commodity prices, foreign exchange rates and interest rates) to the Fund's financial position and performance as a result of changes in the fair value of cash flows associated with the Fund's financial instruments. The sensitivity analysis provided below discloses the effect on profit or loss for the year ended December 31, 2008, assuming that a reasonably possible change in the relevant risk variable has occurred during the year and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or historical data.

The sensitivity analysis has been prepared based on December 31, 2008 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, the proportion of energy contracts that are financial instruments and the proportion of financial instruments in foreign currencies in place at December 31, 2008 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments under Section 3855.

The sensitivity analysis provided is hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Fund's actual exposure to market rates is constantly changing as the Fund's portfolio of commodity, debt, foreign currency and equity contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates, hedging strategies employed by the Fund or other mitigating actions that would be taken by the Fund.

Year ended December 31, 2008	Carrying Amount	Interest Rate Risk – 1% Income	Interest Rate Risk + 1% Income	Foreign Exchange Rate Risk – 10% Income	Foreign Exchange Rate Risk +10% Income
Financial Assets:					
Cash and cash equivalents (i)	46,817	(468)	468	–	–
Short-term investments (ii)	5,087	(50)	50	–	–
Cash in escrow related to GRS (iii)	6,088	(61)	61	609	(609)
Financial Liabilities:					
Long-term debt (iv)	223,122	1,100	(1,100)	–	–
Interest rate swap contracts (v)	5,915	(2,173)	2,423	–	–
Accounts payable and accrued liabilities related to GRS (iii)	6,088	61	(61)	(609)	609

(i) Cash and cash equivalents include deposits at call, which are at floating interest rates.
(ii) Short-term investments consist of the Fund's investment in a one-year BA for $5,000 plus accrued interest.
(iii) Cash in escrow and accounts payable and accrued liabilities related to GRS are denominated in US dollars.
(iv) Long-term debt includes $110,000 of floating rate debt. Carrying value of long-term debt excludes deferred financing fees of $441.
(v) As of December 31, 2008, the Fund has interest rate swap contracts on a notional amount of $105,000 to mitigate interest rate risk on the Cardinal and CPOT credit facility and some of the refinancing risk associated with the Erie Shores project debt. These swaps are recorded at fair value based on the use of a forward interest rate curve.

Year ended December 31, 2008	Carrying Amount	Natural Gas Price Risk – 10% Income	Natural Gas Price Risk + 10% Income	DCR Risk – 10% Income	DCR Risk +10% Income
Financial Assets:					
Embedded derivative asset (i)	20,392	(2,773)	2,779	118	(118)
Gas swap contracts (ii)	550	1,086	(1,086)	–	–
Financial Liabilities:					
Embedded derivative liability (i)	6,491	–	–	2,382	(2,404)

(i) The Fund has recorded an embedded derivative asset and liability relating to the gas mitigation option and electricity indexing features of Cardinal's gas purchase contract at fair value. The determination of fair value of these financial instruments requires the use of a number of variables including forward gas and DCR curves.
(ii) The Fund has gas swap contracts to mitigate its exposure to natural gas price fluctuations from sales of excess gas in the years from 2009 – 2011. The gas swap contracts are recorded at fair value based on the use of a forward gas curve.

Note 21.
Cash in escrow and liabilities related to GRS

As of December 31, 2008, the Fund has cash in escrow and liabilities related to GRS of $6,088. This amount represents the remaining net proceeds that were deposited into an escrow account for ongoing legacy issues regarding GRS operations, following the sale of CPIF's investment in GRS in 2006. The only significant issue outstanding at this time relates to a dispute surrounding the methodology used by one of GRS's customers, Commonwealth Edison Co., to calculate the rate under the PPA. The amount that remains in escrow represents the maximum exposure to the Fund relating to this issue. These escrowed funds, or a portion thereof, will be payable if certain conditions are met. In addition, should the dispute be resolved fully in 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, 2008 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 remaining amounts in escrow and any refunds received from Commonwealth Edison Co., after reduction for certain claims and costs and after specified adjustments.

Note 22.
Capital disclosure

The Fund defines its capital as its long-term debt, convertible debentures, levelization amounts, unitholders' equity, short-term investments and cash and cash equivalents.

The Fund's objectives when managing capital are to: (i) maintain a capital structure that provides financing options to the Fund when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity; (ii) maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and distribution payments; and (iii) to deploy capital to provide an appropriate investment return to its unitholders.

The Fund's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Fund may issue additional units, issue additional debt, issue debt to replace existing debt with similar or different characteristics, and adjust the amount of distributions paid to unitholders. The Fund's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Fund's needs and economic conditions at the time of the transaction.

The Board of Trustees of the Fund reviews the level of distributions paid to unitholders on a quarterly basis. As of December 31, 2008, the Fund is in compliance with all financial and non-financial covenants on its credit facilities. Collateral for the Cardinal term loan facility is provided by a first ranking hypothec covering the assets of Cardinal. As of December 31, 2008, the carrying value of the assets of Cardinal exceeds total amounts drawn on the Cardinal credit facility. The Erie Shores project debt is secured only by the assets of Erie Shores, with no recourse to the Fund's other assets. As of December 31, 2008, the carrying value of the assets of Erie Shores exceeds the total amount of project debt.

There were no changes in the Fund's approach to capital management during the year.

Note 23.
Economic dependence and credit risk

For the year, approximately 68.9% and 14.7% (2007 – 82.2% and 17.2%) of the Fund's revenue was derived from the sale of electricity to the OEFC and OPA, respectively. Approximately 55.3% (2007 – 76.2%) of the accounts receivable balance was due from the OEFC and 18.3% (2007 – 9.0%) was due from the OPA relating to electricity sales.

For the year, approximately 65.0% (2007 – 75.4%) of the Fund's operating expenses were from the purchase of gas from Husky Energy Marketing Inc. ("Husky") under its gas purchase contract. Approximately 48.3% (2007 – 31.2%) of the trade payables and accrued liabilities are payable to Husky relating to gas purchases.

Note 24.
Subsequent events

Effective January 5, 2009, Whitecourt Power Limited Partnership ("WPLP"), an indirect wholly owned subsidiary of the Fund and the owner of the Whitecourt biomass facility, terminated the operations and maintenance agreement ("Agreement") for the facility. Services previously provided under the Agreement have been assumed by the facility's internal staff. The former service provider has informed WPLP that it disagrees with the basis upon which the Agreement was terminated and that it is considering its legal options. Management does not expect any costs that may be incurred with respect to this activity to be material.

On January 30, 2009, the Fund made an equity contribution of $6,750 into Leisureworld in connection with its acquisition of seven LTC homes on January 31, 2008. This amount maintains the Fund's 45% pro rata interest in Leisureworld.

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.

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 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 must 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

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.

Hydrology
The effect of precipitation and evaporation upon the occurrence and distribution of water in streams, lakes, and on or below the land surface.

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.

Outage
A period of time when a plant does not produce any electricity.

Payout ratio
Declared distributions to unitholders as a percentage of distributable cash.

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.

Watershed
A drainage basis where water from rain or snow melt drains downhill into a body of water, such as a river, lake, reservoir, wetland, sea or ocean. The drainage basin includes both the streams and rivers that convey the water as well as the land surfaces from which water drains into those channels.

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

Management

Gregory J. Smith
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

Transfer Agent and Registrar

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Contact Investor Relations 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

Thursday, May 7, 2009
10 a.m. ET
Toronto Board of Trade
First Canadian Place
100 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 08**	**Q3 08**	**Q2 08**	**Q1 08**	Q4 07	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Low (Intraday)	**3.95**	**5.51**	**8.02**	**7.90**	8.35	9.17	10.30	10.03	8.50	10.00	9.96	10.06
Low (Daily Close)	**4.00**	**5.82**	**8.11**	**7.95**	8.50	9.50	10.31	10.18	8.99	10.06	9.97	10.07
Close	**4.79**	**6.30**	**8.20**	**8.53**	9.43	10.05	10.52	10.66	10.05	11.45	10.22	10.75
High (Intraday)	**6.30**	**8.20**	**8.99**	**9.50**	10.05	11.00	11.38	11.96	11.74	11.05	11.49	11.50
High (Daily Close)	**6.19**	**8.15**	**8.93**	**9.50**	10.05	10.78	11.37	11.90	11.69	11.45	10.93	11.50
Volume (average daily)	**150,761**	**101,392**	**96,293**	**87,832**	77,893	168,081	155,410	55,128	72,286	47,494	37,486	81,508
Volume (total quarterly)	**9,497,967**	**6,387,715**	**6,162,764**	**5,445,563**	4,907,286	10,421,049	9,790,829	3,528,217	4,481,723	2,944,603	2,361,641	5,216,495

www.macquarie.com/mpt

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This annual report is printed on paper that is certified by the Forest Stewardship Council (FSC). The FSC is an international non-profit organization that supports environmentally appropriate, socially beneficial and economically viable management of the world's forests.

Why invest in MPT?

- Our infrastructure assets generate long-term cash flow linked to measures of economic growth, providing investors with a hedge against inflation
- MPT has a relatively low risk profile throughout the economic and market cycle
- We have significant financial strength and flexibility to further diversify the size and increase the value of our portfolio