

Transcript of Macquarie Power & Infrastructure Income Fund (MPT.UN) 2008 Investor Day November 20, 2008

Participants

Greg Smith, President & CEO
Sarah Borg-Olivier, VP Investor Relations
David Butters, President, Association of Power Producers of Ontario
David McFadden, Chair, National Energy & Infrastructure Group, Gowlings
David Cutler, CEO, Leisureworld

Presentation

Sarah Borg-Olivier – MPT – VP Investor Relations

Right, well good afternoon everybody and welcome to Macquarie Power & Infrastructure Income Fund's 2008 Investor Day. We really appreciate you taking the time to join us here this afternoon and hope that you will find it to be a valuable use of your time. I would also like to extend a warm welcome to those listening in via the live webcast that we have today. We will be posting an archive of today's events along with the transcript on our website with the presentation slides and that is at www.macquarie.com/mpt.

The Macquarie team is here today and I am sure you have had a chance to speak with many of them including Greg Smith the Fund's President and Chief Executive Officer, Harry Atterton our Vice President and Chief Financial Officer and Rob Roberti who oversees our power infrastructure portfolio. We are also joined by some of our asset managers and I will ask them each to briefly stand which they may not like, but I am going to ask them to do so anyway, as I call their names. Denis Hegarty is the Plant Manager at our Erie Shores Wind Farm and that is located in Port Burwell, Ontario, just on the North shore of Lake Erie, thank you Dennis. David Cutler is the Chief Executive Officer of Leisureworld. David is standing at the back of the room there, for those of you who haven't had a chance yet to say hello and Martin Liddell is the Chief Financial Officer of Leisureworld. Thank you, Martin. And finally, we are especially pleased to have special guest speakers with us today. David Butters is the President of the Association of Power Producers of Ontario. He will be sharing his insight into Ontario's power supply mix and the role and outlook for non-utility generators in the Province, and David McFadden is the Chair of the National Energy and Infrastructure Group at Gowlings and he is also a director of the Canadian Council for Public-Private Partnerships. He is going to be discussing Canada's infrastructure deficit and the increasing role of public-private partnerships in meeting infrastructure investment needs. So thank you very much to both of you for being here, we really appreciate it.

There is an agenda in your event book along with copies of the presentations and the biographies for each of our guests. We are going to start today with Greg Smith. He will be kicking off with an overview of how MPT is positioned in the current economic

and market environment, the merits of investing in infrastructure and our priorities and outlook for the year ahead. So we will have lots of time for questions and answers. I think we will save questions for Greg at the end of his presentation which will wrap up around 4:45 p.m. and then our guest speakers will take the stage at 5:00 and we will move forward from there. We do have cordless microphones available so if you do have a question, please raise your hand. That's really for the benefit of the webcast audience, so that they will be able to hear everything that is going on in the room.

And as a final note, I will just remind you today that over the course of our presentations we may be making forward-looking statements regard MPT's business, performance and outlook. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. There is a full disclaimer in your event book and I will ask you to refer to that as well as to the risk factors that are set out in our public filings including the Annual Information Form filed March 21st, 2008. So, with that out of the way, I will turn it over to Greg.

Greg Smith – President & CEO

Thank you Sarah, it is always a pleasure to have a disclaimer read before you come up and speak.

It is a pleasure to be here this afternoon and we do appreciate your interest and participation in today's events and we do look forward to speaking with you throughout the event and at the conclusion of today's event. Please take the time, and the asset managers are available for any questions or comments that you have for them.

The key takeaway from today's event is that MPT's portfolio and financial position are stable and we have a positive outlook for the both the short term and for the long term.

I will be focusing on three areas in my presentation. First, I will discuss MPT's stability throughout the economic cycle, the merits of investing in infrastructure as an asset class and why it is important to include infrastructure in any investment portfolio. Second, I will outline our management philosophy and priorities in 2009 and beyond. And then third, I will provide guidance for each of our assets for the year ahead.

MPT is a pure play infrastructure investment opportunity and that makes us unique in the Canadian marketplace. Moreover, we have high quality, long life assets and a solid financial position which further sets us apart. We focus on essential infrastructure assets that operate in a regulated or contractually-defined marketplace. That ensures very predictable cash flows, stable cash flows that typically grow in line with inflation. It also means that high barriers to entry exist, such as planning restrictions, the availability of land or the high cost of new development.

All of our power infrastructure assets operate under long-term contracts with credit worthy customers. That's a key cash flow driver for MPT's cash-flow predictability. The average remaining term of our PPA is approximately 11 years.

Our social infrastructure asset which is Leisureworld, a provider of long term care, operates within a regulated environment. In addition, about 60% of Leisureworld's revenue is derived from the government through our clearly defined funding formula. The government also determines and controls the supply of long term care beds and that helps ensure high and stable occupancy, which is a key cash-flow driver for Leisureworld.

Overall, our portfolio is well-diversified by asset type, fuel source and geography. By definition, infrastructure assets meet critical community needs. That means consistent, inelastic demand for the services that they provide. All these factors help ensure the stability of our cash flow throughout the economic cycle, which is particularly important in today's market environment.

It is worth noting that all infrastructure assets are not created equal. Utility or utility-like assets have different characteristics than other type of infrastructure assets, such as seaports or airports, and they are distinct in terms of risk and return profiles. MPT is at the lower end of this risk spectrum with our focus on regulated or contractually regulated assets. We typically look for post-tax returns of at least 10% -14% on our investments, which is about what you would expect from a utility.

Infrastructure is traditionally a defensive sector for all the reasons I have just mentioned. In fact, infrastructure assets typically have a low correlation to equities and bonds and that is due to the essential nature of the service provided and the resulting stable long duration cash flows, which act as a hedge against inflation. This is what makes infrastructure an excellent diversification tool. Looking at this 14-year analysis, you can see that the correlation of infrastructure to equity measures 0.6. For bonds it is 0.26. So infrastructure shows a low correlation with other asset classes. And that correlation decreases over time.

Now this slide shows that infrastructure has characteristics of both bonds and equities. It has a long investment horizon and provides stable, fixed income in a manner similar to that of bonds. But infrastructure provides an equity-like return along with the potential for capital appreciation over time. As you can see here, infrastructure has generated higher returns than equities. From 1995 to mid 2008, infrastructure generated an average annual real return of 7.67% compared with 3.81% for bonds and 5.99% for global equities.

And while the listed infrastructures space has been affected by the recent market turmoil, as you can see in this graph, the Macquarie Global Infrastructure Index is continuing to outperform the broader equities market. This index was launched in 2003 and is designed to benchmark infrastructure performance on a global basis. Over time, infrastructure provides a similar return to that of equity but at a lower volatility. That suggests that by adding infrastructure to your portfolio, you will significantly reduce to the overall risk of the portfolio.

This table shows the risk-return levels for a diversified portfolio. It is clear that a portfolio that includes infrastructure has a lower standard of deviation than a portfolio without it.

That is not to suggest that investing in infrastructure is without risk. But the risks are typically more readily identifiable or can be mitigated. Revenue is mitigated through long-term contracts. Political risk is mitigated by investing in jurisdictions in which we are familiar with, and interest rate risk is managed through the limited use of short-term debt.

As an infrastructure focused fund, we believe that over the long term, MPT will exhibit lower volatility than the broader equity market. That is due to the defensive characteristics and traditionally lower risk profile of the types of infrastructure assets that we invest in.

Notably, Standard & Poor's recently reiterated its stability rating of SR-2 for the Fund, which clearly underlines the strength of our cash-flow profile and the capital structure. Specifically, S&P cited:

- Our long-term PPAs;
- Our price stability with indexed electricity prices;
- The proven and efficient power generation technology that is used at each of our facilities; and
- The high occupancy levels and government funding at Leisureworld.

The nature of MPTs assets means that they are relatively low-risk investments. This profile is complemented by a conservative management style and capital structure that is guided by our rigorous risk-management principles and requirements.

Each asset in our portfolio undergoes a detailed financial analysis to determine the appropriate debt level for its business based on its operating environment, its cash flow and its risk profile. We conduct a thorough sensitivity analysis to ensure there is sufficient headroom under various down-side scenarios, and we actively manage our debt level through ongoing monitoring of each asset's performance. We make appropriate adjustments to the debt profiles as necessary for example, by putting interest rate hedges in place.

We also have non-recourse debt structure. The debt at each of the assets is non-recourse to MPT, MPT's unitholders and each other MPT asset. Our long-term debt includes: a \$35 million term debt for Cardinal that matures in 2011; \$75 million drawn on the CPOT facility, which matures in June 2010; about \$114 million of project debt for Erie Shores, which is in three tranches that mature in 2011 and two in 2026; and about \$38.9 million of 6.7% convertible unsecured subordinated debentures which are due on September 31st 2010. Leisureworld has \$310 million of 4.8% senior secured debentures due on November 24th, 2015 as well as a \$75 million term loan, of which \$15 million is an equity bridge in relation to the acquisition of the seven new homes acquired in early 2008. This \$15 million is due to be repaid in January 2009 and it will be funded by equity injections from MPT utilizing our cash position and by our sister fund, Macquarie International Infrastructure Fund, which owns the other 55% of Leisureworld. The balance of the \$60 million matures on January 31st 2011.

So as you can see, we have no refinancing requirement in 2008 and 2009 and very little short-term exposure for our debt facilities. We are also comfortably within our various debt covenants, to which we must adhere. Moreover, at the end of the third quarter, we had a positive working capital position of \$52.3 million in cash and short-term investments of \$53.2 million, including fully funded maintenance and capital reserves.

Our goal is to match the cash-flow profile of our assets and the life of our PPAs with investment grade debt, which minimizes financial risk. At quarter end, our debt to capitalization ratio was 42.8%, which is conservative relative to the low-risk profile of our assets.

This low-risk model is enhanced by the operational expertise that we bring to the fund through our relationship with the Macquarie group. MPT is managed by a wholly owned subsidiary of Macquarie Group Limited. Macquarie is the leader in the financing and management of infrastructure assets with more than 116 assets in various sectors globally. That represents equity under management of approximately

\$50 billion in power and renewable energy, water utilities, transportation such as roads, airports and ports, media and communication and health care facilities.

Macquarie's team has a breadth and depth of expertise and numbers more than 1,100 advisory and deal origination as well as more than 700 employees engaged in asset management. MPT has access to a robust pipeline of potential investments and co-investment opportunities.

Macquarie's value add filters down to each individual asset in our portfolio. We work closely with the business managers on key value drivers, such as capital investments and business planning, risk-management, tack-on acquisitions, financing and tax strategy and development projects.

Finally, MPT's Board is comprised of a majority of independent trustees with considerable business, finance and industry knowledge. This ensures that MPT's strategy is aligned with the short- and long-term interests of unitholders at all times.

Now I would like to spend some time talking about our priorities in 2009. I will be speaking about events or factors that will occur in the future and given the number of years that we are looking out, there are a number of uncertainties that you should be aware. These uncertainties will increase the further ahead we look from where we are today, and you should refer to the risk factors set out in our public filings, particularly our 2008 annual information form. But while we are doing what we can to paint a picture for you about how the fund will be positioned in those years ahead, you should be aware that they could be subject to change.

MPT is clearly operating from a position of strength but we do face two realities in the next few years. The first reality is that income funds will become taxable in a manner similar to corporations under federal legislation for specified flow-through entities (SIFTs) commencing in 2011. The second reality is that we will be experiencing a significant cash-flow impact when Cardinal's PPA expires in 2014.

These realities aren't new and will be of no surprise to you, but I think it is helpful to discuss how they guide our decision making about short- and long-term capital deployment and how we propose to preserve and create unitholder value in the years ahead.

In 2011, SIFT taxation will apply to all income funds and MPT is no exception. The current SIFT rate is 29.5% and it applies to taxable income rather than distributable cash. We currently have \$310 million in tax shield, much of which we acquired with Erie Shores, which we can apply to reduce the amount of MPT's taxable income in the years following 2011.

Based on current information, we believe that it is reasonable to expect that SIFT tax will reduce the amount of cash available for distribution by approximately 10% - 20% in the years 2011 to 2014 with the impact in 2011 likely to be at the lower end of that range. This range does not include the potential impact on available tax balances resulting from additional acquisitions between now and 2011. It also assumes our current business will continue to operate as expected and that there are no changes to the current tax rates.

As you can see here, since 2004 the contribution of Cardinal to MPT's total cash flow has diminished with the addition of new assets to the portfolio. From 100% of cash flow in 2004, four years later Cardinal only accounts for approximately 49% of our distributable cash.

We believe that the long-term outlook for non-utility generators such as Cardinal is improving, which David Butters will say more on in a few minutes. Each year we gain more clarity on Cardinal's expected operating and cash flow profile. We believe the facility is positioned for a long economic life.

The Ontario Power Authority has recently signed tolling agreements with a number of other gas and cogeneration facilities. As a result, we currently believe that it is most likely that Cardinal will operate as an intermediate or peaking plant under a tolling arrangement post-PPA. Given that Cardinal operates under such a tolling arrangement, and assuming that we enter into a energy supply agreement with Casco that provides similar benefits and economics to what Casco receives today, we believe that it is realistic to expect that Cardinal's cash-flow could be approximately 40% - 60% less in 2015 than it is now.

This degree of impact represents about a 30% decrease in MPT's cash available for distributions. I should emphasize this forecast is in the absence of any acquisitions between now and 2015.

So it is reasonable to expect that SIFT taxation and Cardinal's expected new operating profile will have a 40-50% impact on the Fund's available as cash available for distribution. Again, that is without any further acquisitions to extend our cash-flow profile. And that's why we are committed to continue to grow and diversify the Fund, whether it is additional power or social infrastructure assets or new categories of infrastructure that would round out our portfolio and lengthen our cash flow profile.

We have six years to go until 2015 so it is a long way away. To date we have made excellent progress in diversifying MPT. Moreover, unlike other income funds, the SIFT legislation has not impaired our business model or our strategy as demonstrated by our acquisition of Clean Power. In addition, we have the financial strength to prudently execute on our diversification strategy even in today's economic environment. I am confident that MPT can successfully transition through these challenges while enhancing unitholder value.

A key advantage that we bring to this task is discipline, which is generally part of our operating philosophy as well as a requirement ingrained by the income trust model. When you are required to pay out a majority of your cash flow, you simply have to be a prudent and consistent manager. It's essential to preserving the trust of the market and investors and it is that trust that allows you to access the capital needed for future growth. What this really means is that investors have a say in how we grow and how much capital we will have to grow with. Our discipline has served the Fund and its unitholders well over the years. We have historically maintained a payout ratio between 85% and 95% while providing for increasing distributions and growth in value through the acquisition of Leisureworld and Clean Power. Both of these transactions significantly improved our long-term cash flow profile.

Another important strength lies within the nature of our regulated and contractually-regulated infrastructure assets, which provide:

- Stable cash flow throughout the economic cycle, and accordingly, a strong yield to investors;
- Total capital appreciation over time, which leads to tax-advantaged capital gains; and

- An attractive tax shield, by virtue of the capital-intensive nature of the construction or commissioning period for infrastructure assets.

Collectively, these attributes give MPT an inherently stable foundation from which to drive unitholder value as we pursue our long-term goal.

That goal has always been to deliver a sustainable yield that is a 300 to 500 basis-point spread over Government of Canada bonds --- so that's in the 7.5% to 9.5% range. At the same time, we seek to provide a total post-tax, investment-grade levered equity return to investors of 10% to 14%.

I want to underline that MPT is committed to and expects to continue providing a high distribution to unitholders. That's a priority.

But given the realities before us, we must balance this priority with maintaining the capital and flexibility to complete acquisitions. As I mentioned earlier, since our IPO in 2004 we have achieved an average payout ratio of about 89%, which has given us the flexibility to pursue additional investments while maintaining our priority of high distributions to unitholders.

Growth through acquisitions will help to stabilize MPT's long-term cash flow post 2014, thereby enabling us to meet our goal of a high and sustainable distribution level.

Another use of capital that we will continue to evaluate is a unit buyback program.

While our internal dialogue on this subject is ongoing, it is difficult to launch a buyback while in the midst of pursuing growth opportunities. As we have said, we remain active on the growth front. The regulated and contractual nature of the assets that we seek to invest in mean that it can take six or nine months or longer to complete an acquisition. While many of these opportunities may not come to fruition, we think it's important at this point in time to keep the door open.

We're obviously disappointed with MPT's unit price, given that the stability of our underlying cash flow has not changed. In our view, our unit price reflects the absence of liquidity in the market rather than the value being implied for our portfolio.

We recognize that unit buybacks can have a positive psychological impact on the market. But we think it's equally prudent to maintain our discipline and long-term focus on the realities and goals that I've outlined today.

Moreover, in our view a buyback program was and is not likely to effectively counter current macroeconomic conditions and the evaporation of billions of dollars in liquidity, which is at the root of the volatility on the Toronto Stock Exchange and other markets globally.

That being said, we will continue to regularly evaluate a buyback and have the dialogue with our Board of Trustees in the context of other market opportunities and the drivers of MPT's valuation.

As liquidity returns to both the debt and equity markets, we expect that MPT's unit price will likewise more accurately reflect the net asset value of our underlying portfolio. I want to emphasize that the Board of Trustees would clearly re-evaluate both our acquisition strategy as well as the role of a unit buyback program in our value creation plan should MPT's unit price not improve with the normalization of market conditions.

Against this backdrop, our priority for 2009 is to position and strengthen the Fund in a controlled and selective manner. We intend to grow through the pre-SIFT environment so that we can position MPT as a leading infrastructure investment vehicle that provides a combination of high income, safety and capital growth. We expect to build momentum within the next two years as we approach 2011, prudently and while providing a strong yield, so that we can position the Fund ahead of taxation. I should also note that we have every intention of preserving the tax advantage status that our distributions will enjoy between now and 2011.

MPT has more than \$100 in cash and acquisition facilities available to pursue growth opportunities, so a small to mid-sized transaction is certainly feasible and we believe that there are some attractive opportunities available that will meet our investment and return criteria.

Public sector investment in Canada's infrastructure has failed to keep to pace with economic and demographic growth. Infrastructure decay has a very real human and community impact, and over time, it hurts the country's ability to grow and to compete. This chart shows how closely the competitiveness of a country is tied to the quality of its infrastructure. Infrastructure here includes transportation, energy, information and communication technology and it is measured against the world competitiveness ranking assigned by the World Economic Forum. As you can see, there is a linear relationship between the quality of a country's infrastructure and its economic competitiveness. That can have a direct impact on a country's ability to grow and that is why infrastructure maintenance and renewal is a top priority for governments.

The Canadian Council for Public-Private Partnerships is predicting an infrastructure deficit of \$1 trillion in 60 years if the current level of underinvestment is allowed to continue. This growing deficit is spreading across various sectors, including transportation, bridges, water and wastewater. That means the need for investment dollars is urgent and increasing which spells an opportunity for an investor like MPT.

Apart from additional power or social infrastructure assets, MPT has the ability to participate in other infrastructure categories that offer a similar risk profile to our existing assets. That includes through P3s, which David McFadden will say more on in a minute. It is also important to note that we have not used any of the room available to us under the SIFT legislation to increase the size of the Fund, which gives us flexibility in the types of transactions we can consider.

Looking ahead at 2009, we expect continuing stable performance from our existing portfolio.

Cardinal will experience lower revenue in 2009. This reflects Cardinal's planned hot gas inspection, which will require approximately 12 days of outage. Maintenance and capital expenditures at all of our power facilities are planned for and fully funded so there will be no impact on distributable cash from these expenditures. 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. Combining these items, we expect cash flow from Cardinal to be lower on a year-over-year basis.

Our renewable power assets have all demonstrated resource availability as well as reliability and all have a low cost structure.

At Erie Shores, we are now calling for annual long term production 249,800 MWh, which represents a 1.7% increase over our previous guidance reflecting two years of



on-site wind energy production data. We continue to expect the hydro facilities to produce average long-term annual production of 166,360 MWh. We are closely tracking the continuing performance of these facilities and expect that operational initiatives we are currently implementing could improve upon that average in future years.

Whitecourt completed its major maintenance in the second quarter of 2008. Major maintenance at this facility is completed on a seven-year cycle. In 2009, we expect four days of outage in both the spring and fall for regular ongoing maintenance work which will result in approximately eight days of outage in total. We expect the facility to achieve annual availability of approximately 96% and to deliver a slightly higher production, which reflects the reduced maintenance activity as well as some improvements made during the major maintenance program.

All of our power assets are environmentally sound and appear to be well situated under the federal government's new greenhouse gas legislation. While final legislative details are not yet available, our analysis based on the current information available suggests that our assets will be net receivers of carbon offset credits, which could create a new source of value within our portfolio going forward.

And finally, at Leisureworld, we expect to maintain full occupancy and to continue to attract more residents to private accommodation, which is an important driver of operating profitability. We do not currently expect there to be a change in Leisureworld's distribution policy for 2009. A key area for focus for Leisureworld will be on continuing to enhance the quality of care and accommodation for our residents. We are also continuing to work with the Ministry of Health and Long-Term Care on approval for the Good Samaritan acquisition.

For the Fund, based on our current portfolio and barring any significant external factors or growth initiatives, we expect to achieve a payout ratio of approximately 100% in 2009. We expect the return on capital portion for distributions in 2009 to be approximately 50%.

In summary, with MPT investors have unique access to Canada's evolving infrastructure market. Investors benefit from stable, long-term and inflation-indexed cash flow that these assets generate throughout various economic cycles.

MPT has significant financial strength and flexibility to further increase the size and value of our portfolio, which will mitigate the cash flow impact of the SIFT taxation and expiry the Cardinal PPA in 2014.

While we can't control what opportunity will come to fruition first, we are taking a total portfolio approach and looking at greenfield, brownfield and existing assets. Our focus is on building a portfolio that can sustain a high yield while delivering capital growth. We know that a high yield is important to our investors and we will make sure that we are positioned to provide it in a post-SIFT environment.

With MPT's proven experience and ability to tap the global resources of the Macquarie group, I personally believe that MPT is positioned to be a leading infrastructure investment vehicle in Canada.

Now before we hear from our guest speakers, I would be pleased to take any questions that you may have.



Sarah Borg-Olivier – VP Investor Relations

Any questions?

<Q>: Do you have any concerns about the expiry of the Cardinal lease in 2015 and the ability to re-do that lease on terms similar to those that exist today?

Greg Smith – President & CEO

It is something that we are working towards and we are dialogue with Casco. We did a lot of due diligence when we first acquired Cardinal when we stepped in as manager in 2004. The best way to understand it is that there is a natural benefit for Casco as much as there is for ourselves in being associated with each other and providing them with steam and heat under energy supply agreement. We can provide them with steam and heat for their facility in a much more cost effective or economically advantageous way than they can provide on their own, so they need us as much as or more than we need them in terms of the facility.

So it is a naturally mutually beneficial relationship that we have with Casco. There has always been discussion about Casco not being there in the future. We would actually make additional economic benefit, or more revenue, if we sold more power and provided them less steam. So if Casco were to go away, we would be economically better off. There is a good relationship with Casco, it is an economic advantage for them to have us provide them with steam and heat. So I expect that the lease in the energy supply agreement will be renewed in conjunction with the PPA.

Sarah Borg-Olivier – MPT – VP Investor Relations

Any other questions.

<Q>: Can you comment on the occupancy levels of Leisureworld and whether you foresee a current economic tsunami, whether problems will arise in 2009?

Greg Smith – President & CEO

I am happy to comment on it and I am always happy for David Cutler to step in and comment on it as well given as he is in the room.

One of the great advantages of long-term care versus retirement homes is occupancy is really not a consideration that is high on our priority list. The government controls the number of beds in Ontario and the demand for long-term care is really driven by a need for care that is not subject to economic fluctuations. It is 24/7 care. So if you are not in a long-term care home, you would be in a hospital. It costs the government about \$450 a day to house somebody in a hospital to look after their needs and it costs them about \$174 a day to house them in a long-term care home and to look after their needs and create a more caring and home-like environment for them. So the quality of care is better, it's a more home like environment and it's economically better off for the province, and that is why there is a long waiting list for the supply of beds in the Province of Ontario.

So our occupancy level is above 98%. Across all long-term care homes in Ontario, if you look at each of the regions, the occupancy levels are above 98%, close to 99%, in fact, there is a waiting list for each of the homes. So it is something that we monitor

but given the nature of the environment, it is not a concern that we focus on. And that is why we like long-term care versus retirement homes. Retirement homes are based on economic demand and need. Long-term care is based on health so it is not volatile like economic or market conditions. David is there anything that you would like to add to that. You will probably want the mic.

David Culter – Leisureworld – CEO

As of today in the Province, there are about 20,000 people on wait lists and if one had to read the press you would see that, for example, doctors in Sudbury are threatening to go on strike because they are having to cancel surgeries because there are so many long-term care residents occupying acute care beds. So the wait lists are becoming extreme again and there is pressure on government to find a solution. Our homes are operating very close to the 99% mark and you have to achieve 97% to receive 100% funding and we are doing that easily.

Greg Smith – President & CEO

Just before you ask for another question, but just the follow-on to that I would say you know, as we move into 2009 and 2010, if I had to look ahead --- given all the disclaimers that I have already stated earlier ---- I would see that the government would start issuing new licenses, there is just that much demand for it and I think that is where we get some more organic growth opportunity for Leisureworld.

Sarah Borg-Olivier – VP Investor Relations

Any more questions? Do you have a followup?

<Q>: Has your parent company been under stress in these financial markets and do you see any change in direction in terms of the parent company at some stage? I know I attended one of your annual meetings and you had the director, the lady from New York, who was a specialist, I think she is gone now. What kind of direction change do you see the parent company?

Greg Smith – President & CEO

Maybe I will comment in sort of general because it is probably more difficult for me to comment directly on the Macquarie Group.

Macquarie Group actually just released its semi-annual results this week and reported half-year of just in excess of \$600 million, which is a very strong result given the economic climate. I think it is probably one of the few diversified financial institutions globally that actually reported a positive net income versus a negative net income. Last year, it also had a positive net income of about \$1.8 billion. While the income level is slightly down this year, it is actually in a very strong financial position. It never got involved in the subprime mortgages or cross-financial institution lending. It is a diversified financial institution as opposed to a pure investment bank that you see and read about in the U.S. And so it is on a very strong financial footing. Its business model has always been to be a diversified financial institution, very strong on the asset management front and has over \$230 billion of assets under management, over \$50 billion of which are in the infrastructure field. I don't see that business model changing in the near- or the long-term future.

Sarah Borg-Olivier – VP Investor Relations

Okay, we'll go to Michael here.

<Q>: Hi, how do you balance your long term goal of sustainable yield, you are looking at 300-500 basis points over government of Canada bonds, 7½ and 9½% yield, currently you are over 20%, and you know, you have got the 2011 and the 2014 events coming, you are yielding much higher now....how do you think about that in terms of sustainable distributions? Will you adjust the distribution as time goes on?

Greg Smith – President & CEO

Probably the first thing I should probably mention is that obviously our distribution policy is guided by our Board of Trustees. They meet on a regular basis to determine the acquisitions of the Fund and the distribution policy for the Fund and they will continue to do that and set it as we go forward.

What I was trying to do this afternoon was sort of paint a picture for you so you understood what some of the key variables are that we are looking at, some of the challenges that we are facing and some of the strengths that we have as a company to deal with those challenges. I think as we look right through 2011 and 2015 we're not going to be able to maintain the distribution levels that we currently have but what we have recognized is that high distributions are really important to our investors and that is a key consideration for management and for the Board of Trustees in any decision as we move forward, including the decision to potentially convert into a dividend-paying corporation. So what we have tried to do is give enough transparency to our investors to allow them to understand what the Board of Trustees is thinking and hopefully that transparency is helpful to our investors.

What I wanted to do is provide the general framework of what you would see for infrastructure assets and there are now starting to appear a number of publicly-traded infrastructure funds --- Brookfield being one that is more known in Canada and may be a little less known globally --- but infrastructure assets when you start to combine the strong pipeline of opportunities in the greenfield space as well as all the mature assets or the brownfield assets that currently exist in the marketplace. If you build a good diversified portfolio to create the diversity by both geography, fuel types and the sectors within infrastructure that are contractually or regulatory defined, you start to see that natural 7½% to 9½% yield base and you start to see a total return of 10-14%.

If you look at the utility space in Canada, which is probably the best next comparison group, ROEs in most provinces are around 8.6% to 8.9% ROE allocation. Then they manage their business through growth and other initiatives to provide low double-digit returns and that is what we have seen depending on where the stock price is trading, you get a total return of 12% -14%. I haven't looked in the past month, but that has historically been the general framework.

Infrastructure assets, because of how similar the contracted assets are, or because they are regulatory-defined like Leisureworld, you get that same kind of return profile. And so that is a long-term picture. Now when you talk about percentage returns, you have to sort of then look at what your unit price is trading at and things like that, so you can't sort of take the math and cross it because we are undervalued from what

net asset value would be where we are currently trading. But it helps you give you a picture of what we're thinking as we move forward.

And I think the strength of infrastructure assets is that they are high yielding by nature – they are very stable and they have high tax shields. Whether I build a new power plant or I build a highway or I have a water/wastewater or I build a new long-term care home, I have a high tax shield that comes with it, so being taxable on the portfolio has some impact but 10%-20% is sort of the range that we come back which is going to mitigate that tax impact more than a traditional corporation. So we can very well compete in that environment very successfully.

So what I have tried to do is paint the picture. We can't maintain the distributions at the current level but we are committed to maintaining high distribution levels for the benefit of our investors.

Sarah Borg-Olivier – VP Investor Relations

Do we have another question down here, Michael?

<Q>: Do you have any difficulty of raising financing in the current market? When you talk about acquisitions, should we assume that any acquisition would be in and around the \$100 million range?

Greg Smith – President & CEO

I think in this environment, that is why we pointed to small and mid-sized acquisitions in my remarks as I think the \$100 million of availability would be the appropriate size for the equity cheque that MPT would look at in this environment. So I think at the current share price, it would be extremely dilutive for us to be doing a unit transaction or a share transaction. So I would say that our guidance of our acquisition level will reflect the size of the capital we have available. I would hope that when the markets do normalize, that our unit price will move back towards net asset value and reflect and give us the ability to continue our diversification strategy for MPT.

<Q>: Are you happy with your current capital structure?

Greg Smith – President & CEO

One of the things we did when we bought Clean Power was actually to set up the acquisition line of \$75 million plus our strong cash resources of about \$50 million to pursue acquisitions.

If I go back through the history of MPT, we had Goodale who came up with an announcement in the fourth quarter of 2005 and then the following year Flaherty came up with an announcement in the fourth quarter. And at both times we were pursuing an acquisition. What sort of happens then is if you have to raise money, like we do today, if I was pursuing an acquisition of \$100 million range, and I have to tap the equity market, I have to put that acquisition on hold.

What we tried to do when we purchased Clean Power is create some predictability in our ability to pursue a growth strategy while maintaining a fiscally prudent capital position. So when I look at the capitalization ratio of MPT at about 42.8%, that's a

very conservative ratio. So when you look at a Toronto Stock Exchange-listed company, the average leverage rate on a Toronto Stock Exchange company was about 62% --- I'm going back about 6 months --- so we're more conservatively leveraged than most publicly-traded companies. If you look at infrastructure companies, with the high stability of their cash flow and the predictability of their cash flow, 42.8% is a very conservative ratio. So I am very comfortable that we have this room and stability to grow in a prudent and controlled manner.

Sarah Borg-Olivier – VP Investor Relations

Was there anybody else that had a question?

Greg Smith – President & CEO

Did yours get answered? I saw your hand go down.

Sarah Borg-Olivier – VP Investor Relations

Any more questions at this point then? No?

Greg Smith – President & CEO

That's great, thank you very much.

And so at this time, I would be pleased to introduce Dave Butters. Dave has served as President for the Power Association Producers of Ontario since 2004. APPrO is a non-profit advocacy organization that represents 100 companies involved in the generation of electricity in Ontario. David has been involved and active in the energy sector for many years. Prior to joining APPrO, he was Vice President of Public Affairs and Director of the Canadian Energy Asset Group for Hill & Knowlton Canada, where his clients included Bruce Power, Transalta and Toronto Hydro, among others. APPrO's objective is to ensure that power generators can operate successfully in the Ontario marketplace and compete successfully in generation procurement processes. Under David's guidance, APPrO is an effective voice for power producers in the province of Ontario as Ontario's electricity market continues its evolution.

Today, David will share his insights on Ontario's supply mix, and role and outlook for non-utility generators. Please join me in welcoming David Butters.

David Butters – APPrO – President

Thank you, Greg, and thank you for the opportunity to address this group. I hope it is not going to be too dry. Electricity is something that is usually important, can't do without it, but most people pay not attention to it --- except people like me and I get excited about it.

I should also add that Greg sits on the board of APPrO. We have about 11 major generator members and most of those generators, I think five of them, have NUG facilities so the NUG issue is an important issue for all APPrO members.

But first I wanted to just give you a sense of what I would like to cover. I don't need to talk much about APPrO I don't think because Greg's already covered that. What I do want to do is talk about the non-utility generators, put them in context, tell you a little bit about where we think this issue is going. There was some discussion about follow-

on contracts, I can hopefully give you a little bit of information or insight about that. Anything I say, my disclaimer is that there is a lot of change going on in the Ontario electricity sector and I can only give you glimpses and my own views and none of this is absolutely certain.

First of all, there are nearly 90 non-utility generators in operation. Most of them are very small. The vast majority are small hydroelectricity facilities and so forth. They have been around since the early 1990s and they have PPA durations of anywhere from 15 to 50 years. The hydroelectricity ones have the longer ones. The gas-fired or biomass facilities have shorter PPA durations. The total capacity is something over 1,600 MW.

That's not a lot of capacity when you think about the total capacity of the Ontario electricity system which is about 31,000 MW. I'm not sure what the math is there but it is a small portion. But what is interesting about this is that the largest chunk of that 1,600 MW, about 1,200 MW, is represented by APPrO members so that would be --- I have got a chart on the following slide which will give you some indication.

Most of the projects, the ones that we are going to talk about, the largest NUG facilities, are either natural gas or biomass. Most of them provide steam or other thermal energy to industrial hosts of some kind or other. They don't employ piles of people but those people they do employ are highly skilled technical people, tech operators and so forth and they also support industry, like Casco and other industries throughout the province and they stretch across the province from Windsor through to Cardinal and up as far as Calstock and places in Northern Ontario.

I think the important point is that they do bring real value, not just to the electricity system but also to the Ontario economy. They are mostly not dispatchable, so they are not called on by the independent electricity system operator largely because they are cogeneration and so forth, but they do have important reliability aspects as well to consider. Not only they create value but they are important to Ontario's electricity liability.

The other thing that is important to think about in terms of the reliability, these are very high availability facilities so generally they are running somewhere around 90% of the available time that they have to run so they are important in that respect.

And this is just a chart which is very hard to read if you are sitting at the back, I'm sure. But I put Cardinal up at the top there. You can see that there are about 15 non-utility generator facilities, about 1,215 MW, and as you can see here, they are spread across the province. Most of them are relatively small in power plant sizes and as I said, most of them are cogeneration. There are some interesting ones that are enhanced combined cycle gas turbines. These are of course facilities which they acquired from TransCanada a few years ago and they are actually on the TransCanada mainline. They use waste heat from the mainline compressors.

There are a number of issues with the non-utility generator contracts. Typically, the gas supply contracts for the facilities expire before the PPAs do, anywhere from five to two years, that's typical. A number of gas contracts have already expired. What's

happened is that the owners of the facilities have been able to enter into some bridging contracts with the Ontario Electricity Finance Corporation to make sure that they are in essence kept whole between the expiry of the gas contract and the expiry of the PPA.

But the real issue is that the PPAs are about to start expiring in 2012 --- 2014 for Cardinal --- and then through to 2020. So what the question really is, what to do with these facilities when those contracts expire. While 2012/2014 seems like a relatively long period of time away, in the electricity generation sector, that is just really around the corner if you think about all the important issues, what do we do about future outages, what about capital expenditures that we might have to make to make these plants adapt to changing circumstances, the Ontario electricity system. Those are important issues. The other issue that I think is important to note here is that the current market would not provide sufficient revenue to recover the cost of and return on capital for these assets. So this is why we have the Ontario Power Authority because the cost of new entry is above what the hourly Ontario energy prices buy so you need a counterparty.

So our view at APPRO is that we need follow-on contracts for these facilities, for them to continue to be economic and to be available to support Ontario's electricity reliability. I can say here, and I know this is important because five of my members have such facilities that managements has realigned with its board as a necessity to deal with this issue; part of my incentive package actually.

And I think it is important to say here that the government does recognize the importance of dealing with these facilities. The OPA has said in the Integrated Power System Plan, which is currently, I guess the right word would be in abeyance --- the proceeding has been adjourned as a result of a directive by the Minister in September to take a look at some additional renewable and distributed generation resources and some other issues --- but what they say, what the OPA has said here is that there also a number of gas-fired generators, known as non-utility generators or NUGs which are assumed to operated as baseload resources because of the contractual terms of their current contracts. The plan that is the IPSP assumes that for the NUG contracts that expire by 2015, the associated capacity will continue... this goes to a comment that I think that Greg made in his presentation...to meet intermediate and peaking load requirements depending on whether the NUGs are combined cycle gas turbines. Most cycle gas turbines, so if you are a CCGT, you could certainly meet intermediate demands. If you are a single cycle and I think there is only one single cycle NUG, you are probably more suited to reacting to peaking need. So what we are looking for in the future are resources that are better matched to system needs.

Now this is the chart that comes from...and I hope you can read it...that comes from the Integrated Power System Plan. If you are on the webcast, it is exhibit D-8-1, figure 3. I'm not quite sure what page that is, there are over 7,000 pages in the IPSP so it might be difficult to find it, but what it basically shows is that the, all the accounted for gas-fired generation currently in the province will be needed well beyond 2010. So when we look at what is required going out, we are seeing a dip in demand right now but if you take the longer term view and you look at the delta between the growth in demand, what we are looking at in terms of new supply and

what the province hopes to achieve from a conservation and demand management with a very, very aggressive target, these facilities are obviously well-placed both in terms of system need and as an insurance policy or conservation or demand management. It is hard to know really how conservation or demand management might actually work given the extremely low price that we have for electricity in the Province today, so that is probably prudent.

AAPRO's position has been all along and continues to be that these are fundamentally good assets which provide important economic and system benefits. I have listed some of them here. There are no or limited licensing and permitting requirements minimizing so-called NIMBY issues. We have seen a lot of this in places like Northern York region. South West GTA, where there are proposals to build quite large gas-fired peaking facilities, tremendous local opposition to that so these places exist already, and they are well-positioned. They have limited environmental issues. They are cost effective when compared to new ones. They improve system reliability. They can add to system reliability if they are configured to do that. They continue to support, continued employment industry, host that economic activity and they have environmental benefits because largely they are mostly cogeneration. Cogeneration is a very efficient way of burning natural gas. Efficiencies are much higher than in combined cycle gas turbines so they are very efficient.

And what we have been discussing with the province is that we should start to negotiate follow-on arrangements to ensure that these facilities remain in operation. That goes back to my comment earlier that 2014 is really just around the corner and by the time you take into account major outages and other kinds of issues, it is going to take some time to put these arrangements in place.

What we are looking for is a Ministerial directive. The Electricity Restructuring Act allows the Minister to direct the Ontario Power Authority to do certain things. That only holds as long as there is no approved integrated power system plan. So once the IPSP is approved by the Ontario Energy Board, the Minister's directive authority disappears. We don't know when the IPSP will be approved, if ever. As I said earlier, the hearing has been adjourned. It probably won't come back until March and we don't know how long that is going to go. So in the interim, our view is the Minister should proceed by way of directive. That process would be to direct the OPA to develop a NUG follow-on procurement process for those facilities willing to negotiate with the OPA and that the contracts should be based on the core contract frame that the OPA has already developed.

When they started out they had really only two ways, they had a renewable energy supply contract and they had a clean energy supply contract. They have advanced their contract suite, if you will, of instruments to include combined heat and power, peaking power and so forth. So they have become much more sophisticated in the way in which they can deal with the unique characteristics of these facilities. And so we would hope that, whatever that directive might look like, it would allow the OPA and these facilities quite a large degree of flexibility in how the contracts were to be negotiated.

I think it goes without saying, as an industry advocacy group we have been lobbying extremely hard. This has been on the top two issues for me in 2008, and hopefully I am going to get one of my top issues off the plate this year and so this will then move up to the top as being indisputably number one.

We have had many discussions with the Ontario Power Authority, the Ministry of Energy and Infrastructure, the Premier's Office, the Ontario Electricity Financing Corporation which is the current contract holder, or the counterparty I should say. The OPA has --- and I would say there is a good understanding amongst those parties of the need to address this issue. There is a good understanding that these are good assets and are important to the system. The OPA has hired two consultants who are currently working on this issue. One of them, his job is to look at the contract structure and the variety, how the variety of these 15 facilities would be met by whatever kind of contract structure might be appropriate, and they have also hired another consultant to look at the location of the facilities in terms of their ability to provide system reliability enhancements with sections of additional system ramp peaking and so forth. And those discussions are all ongoing now. I can't give you any time horizons on this. What I can say is that with the IPSP adjourned it is a little unclear right now what the priorities are going to be. The OPA is currently working very hard to address the minister's most recent directive, which is basically said we need more renewables faster. So there's a question of capacity on the part of the OPA to deal with this even if we get an arrangement, but we will continue work on it.

The next slide I won't read, there's just a quote from the previous minister, which said yes, we understand this is really important and we are prepared to deal with that, but we're not going to give you any time lines, keep working with us.

I wanted to touch on one other issue because it was also in Greg's presentation, that's the issue of gas transportation tolls. These are transportation tolls on the TransCanada Mainline. These facilities, when they were built, entered into long-term gas transportation arrangements and the contracts do not have a significant transportation escalator, so if costs go up, transportation tolls go up, that comes out of distributions. There was a significant decline in TransCanada's throughput up on the mainline in 2008. That led to increases in the tolls. It's a very simple formula and I always get this mixed up as to whether it's cost divided by throughput or throughput divided by cost but whichever one gives you the higher number of through put goes down is the right one. So if throughput declines --- and this is regulated by the National Energy Board as a very simple rate formula --- the total is higher. It went from \$1.09 at the beginning of 2008 to about \$1.40 over the course of the year.

We've been working very closely with our non-utility generator members, including Cardinal, to try to resolve this. The challenge is that if we're in the middle of a five-year settlement agreement with the parties, and so the shippers include not only utility generators like Cardinal but also gas marketers like Husky, Tenaska and people like that, the upstream producers are the Canadian Association Petroleum producers, industrial gas users, so a very, very diverse group of people with very, very diverse interests. The settlement agreement and I can't really talk about the settlement agreement because it's all subject to nondisclosure but essentially, all of the issues that arise on the operation of the Canadian mainline are discussed at a thing called

the Tolls Task Force. It meets on a regular basis and it tries to work out, in the context of the settlement agreement, you know, suitable compromises that can be reached. The alternative is if you can't reach a compromise you litigate it at the National Energy Board, which is a very time costly and time consuming exercise.

But what we're trying to do is to get the tolls, try to get a level of predictability and stability in tolls so that our members can actually have a better idea of what they will be paying for gas transportation, obviously these things go up and go down, I think we're making some progress in that area. But it is a work in progress. The most current prediction is that gas flow will be lower on the TransCanada mainline this year than it was last year. Three parts to that --- demand destruction in Eastern Canada, lower production from the Western Canadian sedimentary basin, we may even see that drop a bit lower as the new Alberta royalties kick in. The whole economic climate is difficult to predict and we have more gas flowing out of the U.S. from shales and so forth. So all of this is having a negative impact on TransCanada but we're pretty certain that tolls will be lower than the final toll for 2008, I don't know what it'll ultimately be at but it could be, probably somewhere between a \$1.25 and \$1.30 would be reasonable.

I think I covered this slide, really. One of the things that we're looking at as we work through all of this is...we actually think that the regulatory model that TransCanada operates under as part of the National Energy Board's review is fundamentally broken and it probably needs review, the question is at what time, what's the appropriate time to do that. That's a very complicated discussion that is certainly not something that I'm sure you don't want me to go into today and I wouldn't want to but, the longer term is that that regulatory model probably has to be looked at. Then there are other issues as well, you know, this concept of used and useful assets. The TransCanada mainline is a \$7 billion asset --- if it's not being used and useful then you know what happens is that people who are stuck on the system, the shippers who are stuck on the system, wind up paying more and more of the cost and clearly is unsupportable. So at what point do you, have to insist that the shareholder takes a haircut too. That's a pretty significant issue.

And hopefully there are other things that will happen, you know, we'll see some turnaround in the economy, and that we'll see different, more gas coming on but, you know, new gas flowing on TransCanada is a fairly long term proposition. So it's really that we're just trying to be really flexible and see how we can get to more toll stability. I think I've covered everything, I think I have used up my time but I'm happy to answer any questions that you might have at this time.

Sarah Borg-Olivier – VP Investor Relations

Are there any questions for David?

<Q>: Greg talked about a reduction at the end of his contract of 40-50% of cash flow, are your other members on their expiry of their PPAs, are they, there's been some that have expired, have they experienced that, is that what your other members are expecting in their experience as well?

David Butters – APPrO – President

I think most, yeah, most members, most of these NUGs expire after the 2014 date but they're all looking at the same issues, most of them are in similar funds. So the fundamental issue is the same, you know Northland Power have theirs in a fund, Epcors are in a fund...it's similar for everybody and I can't speak to the specifics because I, you know, I don't have those at my fingertips.

Sarah Borg-Olivier – VP Investor Relations

Are there any other questions for David?

<Q>: Just summarizing, are you telling me that the renewal of all of these contracts is delayed by a massive bureaucratic quagmire?

David Butters – APPrO – President

There are a couple of issues. One is that they don't all expire at the same time. Some of them expire a long way out, but they seem to be in the same bucket by the government.

So the government's challenge is and our challenge is how to convince them to deal with this in a timely fashion. Given all the other things that are on their plate in terms of new contracts and so forth it's challenging. Is it a bureaucratic quagmire, I don't know that I'd call it a bureaucratic quagmire, I think it's really kind of allocation of resources is probably the biggest issue. This is my view --- the classic government solution is to push things out, you know, rather than deal with them today, push them down and out to another day. Not one of these contracts expires in the current mandate of this government. So you're always battling the sense of why should I deal with it today, I'll deal with it tomorrow or the next mandate.

So constructing a case that these are important assets that they have significant benefits, that they're probably going to be needed to support the kind of increased renewable power, wind energy and so forth, those are all compelling and it's just a question of Chinese water torture treatment --- the squeaky wheel gets the grease. We're just trying to be a squeaky wheel here.

Sarah Borg-Olivier – VP Investor Relations

Are there any other questions for David? Thank you, David.

David Butters – APPrO – President

Thank you.

Greg Smith – MPT - President & CEO

Thank you, David. I think what you heard there from David, if I can sort of summarize a little bit, is there is a strong need for NUGs in Ontario and it's not just can we provide power and get a new contract but they're actually needed and you sort of heard it does take time to movement a government to actually create an agreement. In Canada, it's not unusual for the government or regulatory approval process to take 1-2 years and so it's important that we table issues soon so that we can make some progress well ahead of the 2014 expiry date. So it is six years away, we are working well in advance and that's why the issue is important, but as I say, the closer we get to 2014, the more and more information we have. The positive thing from our standpoint

is that the economic value and the certainty around that economic value continues to increase the closer we get to 2014. So David, thank you very much for your presentation, and please join me in thanking David.

Now I'm please to introduce David McFadden, another David. David is the Chair of Gowlings' National Energy and Infrastructure Industry Group, where he acts for corporations, municipalities and utilities involved in the generation, distribution, marketing and financing of energy. He has also acted as counsel in a variety of infrastructure projects, including toll highways and tunnels, light rail systems and health care facilities.

In addition, David serves on the Board of Directors of the Canadian Council for Public-Private Partnerships. He is also a former Member of Ontario's parliament.

David has played a key role in a number of initiatives relating to the power industry. Notably, in 2003 he was appointed by the Government of Canada to serve as a member of the Electric System Working Group, a joint Canada-U.S. task force that was established to investigate the power blackout that occurred in Ontario and the northeast United States in August 2003.

He has also been an active advocate on enhancing Canadian infrastructure, and was instrumental in creating the Toronto Board of Trade's Infrastructure Task Force. Over the years, he has been involved in the development and management of a number of infrastructure organizations and projects, including as a director and Chair of the Audit Committee of 407 International Inc., which operates and manages Highway 407.

Today David will discuss Canada's infrastructure deficit and the increasing role of public-private partnerships in meeting infrastructure investment needs. Please join me in welcoming David McFadden.

David McFadden – Chair, Gowlings' National Energy and Infrastructure Practice Group

Thank you very much, Greg, and good afternoon.

Does anyone here believe we don't have an infrastructure deficit in Canada? If anybody believes we don't, we'll have to spend a bit of the time going through this. The deficit is reflected in a number of different ways...gridlock on the road systems. Look at that, the top left hand corner, that's a common sight on Highway 401 or on the Don Valley Parkway, QEW, you name it, and how do you like the 400 as you're going up north there or south? In Toronto, we lose between 25% - 30% of all the water that goes to water treatment --- it leaks out of the system into the ground because our pipes are old and are leaking, 25% to 30% --- that goes right onto your bill. That goes right onto your bill. So you're paying for a lot of stuff that you never get, it just sort of goes away somewhere.

Crowded and inadequate healthcare facilities...we've heard a little bit of discussion about that already today, but as there's another example and that's rife throughout Ontario although there are obviously some significant moves to improve that and I'm coming on that in a minute. Congested boarder crossings --- how do you like getting

across the border at certain times of the week and the day? But more than that what is really hurtful is that the trucks are backed up. One of the biggest single risks I think to the future of manufacturing in Ontario is our inability to get just-in-time manufactured parts and components across the border of the United States where they're needed. You can talk about terrorists all you want but if you can't get things across in a timely way who's going to keep a plant in Canada? Border crossings are vital to us.

Inadequate electricity transmission systems...I have had the opportunity to investigate two power failures: one was the big one in 2003 here in North America; the other was in Jamaica in 2006-2007. One thing you get across is that if the electricity system is not operating properly, if the transmission system doesn't function, you can't run anything approaching any kind of a modern economy. The fact is that in Ontario we've badly under-invested in our transmission system as have a number of other provinces and states in the United States. This is also a risk to our economy. Finally, we've got things like overloaded courthouses, jails and so on that is really begging the question as to our ability even to run our justice system. That runs straight to the heart of our whole civil society.

So infrastructure deficit, we're not just talking about it's nice to get around faster but it's running right to the core of our economy and how we operate.

Now the question is, how did we get into this position? I mean, was there a bunch of malingerers, people with malice who just sat there wanting to screw up society? Some people who have a negative view of politicians believe they're that bad, but in reality it happened because we changed our spending priorities.

If you go back to the 1950s, the spending priority of the Ontario government was infrastructure. That's when the 400 highway system got started, with its 401, 400, QEW was expanded in the 50s and the early 60s. In fact, if you look back politically the number one job to have in the government would be the Minister of Highways. That was the big job because that brought you connected to every part of Ontario. You were responsible for all of the King's highways and the Queen's highways that were being built along with the 400 various highways. And that was true all over Canada. Politics were huge in the highway area.

Then things changed when we got into the 60s, people moved their priorities away from infrastructure and headed into education. So as the 60s moved on, education overtook highways as the number one spending portfolio in government. I could take Ontario as an example --- Bill Davis was the Minister of Education, Colleges and Universities. We had a massive spending program through the 60s and the 70s in terms of elementary and secondary schools but also our colleges and universities. In fact, the whole community college system started then. So you had a tremendous move that was all part of our education infrastructure. But that tended to move at the expense of highways.

Well, then as we worked through the 70s and the Canada Health Act and Medicare moved out, healthcare overtook education as we got into the 80s and suddenly healthcare became the number one spending item, to the point now where 50% of

every single tax dollar is going into healthcare. It's crowding everything else out. If you add healthcare and education you don't have an awful lot left.

So where does infrastructure fit into this and how many governments will actually tell people that they're going to divert \$5 billion out of healthcare to improve that so people can get around faster? Think about it. What government is ever going to do that? What they're trying to do is contain healthcare, they're not talking about cutting it. And containing it simply means trying to keep it within inflation if you can but they can't. So this [infrastructure situation] is the result of a change of priorities. It's not a result of malice at all --- perhaps a lack of foresight --- but it's certainly not malice, just a change of priorities by society.

Now, the cost of the infrastructure deficit...I'd say you can package the cost into two areas. One is our quality of life. Think of how much time you have to spend trying to get somewhere....The father that can't get home to be at a practice because he's tied up on the QEW. The people who are trying or having to leave their homes at 6-6:30 in the morning to manage to get to their job by 8:00 or 8:30 because otherwise they're going to be late. It just runs through our whole society. Our quality of life is being badly damaged by our infrastructure deficit and I think it's now finally dawning on people how serious that's becoming in terms of their personal life.

Now if you add to that the economic issue, you've got something very serious. I know the Toronto Board of Trade annually does a survey of members and what they think are the number one issues they're facing. And one of the telling questions is what is the main thing do you think is a challenge in terms of staying or investing in Toronto? And consistently among the Board of Trade Members they mention transportation. You can't get goods around. Staff are hard to get because they don't want to come into Toronto --- it takes too long to get in to go to their work. Trucks can't stop, they can't move, it takes forever to get anywhere.

But beyond the Board of Trade, one of the interesting things was, and this is about two years ago now, the Governor of the Bank of Canada came to speak at the opening session of The Canadian Council for Public-Private Partnerships' annual conference. The Governor had never appeared before; in fact, he requested the spot and no one could figure out why does the Governor want to come to speak about P3s? What he came to say was that he had reached the conclusion that a major impact now on the competitiveness of Canada economically was our failure to invest in infrastructure and that we had to get investing. It had gotten so far that the Bank of Canada recognized that. So it's a quality of life issue and it an economic competitiveness issue.

Metrolinx, which is the agency that has been tasked by the Premier to develop a plan to deal with transportation in the GTA, had a study done on the economic impact of gridlock. And the study concluded --- and it was done by an American consulting firm that came up here, a very well known renowned firm --- that the cost to the Ontario economy, the Canadian economy, was \$6.3 billion a year as a result of congestion --- \$6.3 billion. To put that in context, they said that the cost per capita in Toronto of gridlock and congestion was higher than in New York or Chicago. You don't think that doesn't hurt the competitiveness of Toronto in terms of its ability to function and more

generally this province? So there's real cost in the failure to invest in this infrastructure.

Now, what's the level of spend to get us out of this hole. Well, if you have a look at it, in federation municipalities or Canadian municipalities in the study released a number of months ago said that at the municipal level they felt that \$120 billion was needed to deal with the infrastructure deficit on roads, sewer systems, things of that nature.

Now there are all kinds of studies and Greg in his presentation mentioned what was looked on in the next 50 years, but the view right now is in order to get ourselves right sided, the amount of investment in Canada is in the \$200-300 billion level at least. So you've got \$120 million of municipal, you've got at least that number if not more outside. And what I would point out is that excludes energy infrastructure, which is pipelines or electricity transmission distribution, here we are talking about more solid physical assets.

The question is do Canadians recognize this? One of the things that's interesting is that Canadians are actually ahead of their politicians, quite a bit ahead of their politicians.

The Canadian Council for Public Private Partnerships starting in 2004 has hired Environics to do annually a benchmark study of Canadian views on infrastructure spending and public private partnerships. In the last survey, the last published one, there's a new one that's going to be released on Monday, but the last one that was done in September/October 2007 indicated that 88% of Canadians agreed with the statement that governments are having trouble keeping pace with demand for new and improved public infrastructure services --- 88%. There aren't many questions where you get that many Canadians all agreeing on anything --- 88%. Now, 63% of Canadians believe that it's time to allow the private sector to deliver these services in partnership with governments. So there is a bit of a drop off, not all Canadians are 100% on that, but 63%. Can you imagine if you were a political leader and got 63% support? Obama got barely 53% and that was looked on as a vast success. We're talking here about 63% [of Canadians] believe it's about time.

Now, here's quite a telling one. Some of the union movement, not all by any means, but a vocal group in the union movement are absolutely opposed to any private sector working with government on dealing with this --- absolutely opposed. In our survey, 61% of union households support a public-private partnership arrangement to deal with infrastructure. And the interesting thing is, there's almost no difference between union households that are involved with the public sector versus the private sector. Well, the union households are in line even with everybody else in terms of understanding the need to mobilize all the resources we can.

Now what's the role of public private partnerships in trying to meet this infrastructure need? Fundamentally, the role of P3s is to mobilize private sector expertise, management and financial capability to deliver infrastructure. But you want to mobilize all parts, not just the money, not just the expertise --- what we want to do, is you need to mobilize all parts if we're going to maximize the benefit. Now, one of the important things that's increasingly coming to the fore now though, given the

economic circumstances, is by spreading out the financial commitments, P3s allow governments to have infrastructure built without incurring rising deficits or increasing taxes to do it, you spread the obligation out. Now obviously this was even more true over the last several years than it is today because we're facing a serious financial crunch. But you could arguably say that it's even more true today given the concerns that governments are going to be confronted with in this winter with welfare payments sky rocketing and rapid social issues they're going to be facing aside from with anything to do with infrastructure.

Now, overall when you look at the record of P3s, in Canada they've had a commendable record of delivering projects on time and on budget. One of the best examples of that was a Macquarie project in Edmonton where the Southeast Edmonton ring road was officially opened last year and that project came in slightly ahead of time and on budget. And that has been a tendency right across Canada.

Now, what's the current P3 activity in Canada? Today there are some 76 projects moving ahead in one way or another across the country, 26 are now in the proposal stage, 50 have reached financial close and are now in various stages of development.

Now, what are the types of projects? They cover an incredible range. Healthcare facilities in British Columbia, Ontario and Quebec; roads and bridges in BC, Alberta, Quebec and New Brunswick; rapid transit in British Columbia; schools in Alberta, New Brunswick and Nova Scotia; port facilities and detention centres in Ontario and New Brunswick; water treatment in BC and Ontario; and recreation and cultural centres in Quebec and Ontario. There's just a tremendous variety of projects that are already on the drawing board.

Now, what's the future spend? As I've indicated before, I think spending on infrastructure in general will accelerate over the next several years as a result of the need for a broad range of infrastructure renewal and development, but, just as important in today's environment, the need to foster economic growth and jobs in light of the mounting economic recession.

You may have seen this in the newspaper, but at the conclusion of the First Minister's meeting on November 10th, Minister Harper stated we all agreed --- and this is one thing all the territories and provinces agreed --- they all agreed that we should see infrastructure funding accelerated and within that will be public private partnerships. The Federal Government and most of the provinces now are getting committed to doing that.

Governments throughout the world have also announced increased infrastructure spending in the last month to deal with the mounting economic challenges. China of course has been the granddaddy of them all, they're putting over \$500 billion into spending to deal with the current downturn but a big chunk of that is going to infrastructure. But they're not alone --- Australia, Mexico, the UK, you name it, countries around the world are moving into infrastructure spending and are looking at how to mobilize private sector expertise and resources.

To give you an example of the interest in this, the Canadian Council for Public-Private Partnerships is having its annual conference next Monday and Tuesday here in Toronto. They're having a record number of delegates coming, there's over 900 people coming from 10 countries around the world besides Canada. There are 100 people actually coming from the United States, where before we had nobody coming from the United States. It's quite a remarkable turnout and it's an indication that people are getting together and trying to move, to get something moving, even to accelerate the pace from where we are now.

Now, what can we expect in terms of P3 activity in Canada over the next little while? Well, I think we can expect to see accelerated levels of P3 activity in healthcare and transportation which is ongoing from where we are now. I think you can expect to see new and expanded areas of P3 activity in border crossings and in water and waste water facilities. The fact is that P3 activity is spreading broadly across Canada and increasing looking almost from coast to coast. There are a few gaps across the country, but basically federal, provincial and municipal governments are all moving into this area.

Now, you might ask what impact the current economic condition is going to have in terms of this activity? There's no doubt that the current economic downturn has created a new set of considerations and concerns for P3 projects in the infrastructure space. Obviously the first issue is availability of debt. The fact is that a number of major lenders of long-term debt have simply stopped lending. They're out of business, they've closed their doors. A number of potential funders of debt have said well, we're closed this year, come back again some time next year. Potentially, with some of those financial institutions, with the fact that various governments have bought significant positions in those banks, it's arguably those banks will stay in their home countries for a while because I don't see governments bailing them out so they can put their money in some other country. So I would expect that you're going to find some constriction. So debt availability no doubt is an issue. Debt has not disappeared. Canadian lifecos are investing, we're getting pension funds investing in there and there are international institutions looking at it, but nevertheless debt availability is a challenge that needs to be considered. Rising interest rates are certainly there and debt repricing is a constant issue for projects and is likely to remain one for the next few months.

And the final thing that really does come through is the financial strength and management capabilities of partners. There's going to be undoubtedly in projects a requirement for additional levels of equity that will of course go to the financial strength. Bonding availability, certainly, particularly backed by various financial institutions could become an issue and has shown up a bit.

So there are some problematic situations here. The market is dealing with it and it really gives a premium, though, to the companies that have the experience, the management capabilities and resources. They'll move ahead, the ones that are more marginal are going to have some problems.

Now, P3s in Canada, I think, represent a very attractive investment opportunity. Greg has already touched on that. They're good quality, tangible assets which have tended

to hold their value even in the really challenging economic conditions we face. I think if you look at portfolio investments I think that you'll see that the infrastructure assets have tended to hold their value pretty well. These projects tend to have generally predictable cash flow to service debt and to pay dividends to equity.

One of the great things that has happened in recent years as a result of the number of projects that are moving ahead, Canada has a growing number of proven financial construction and O&M players who know what they're doing. Now for a while there, that expertise tended to reside outside of Canada because we simply were not into P3 activity and in fact weren't doing a lot of infrastructure building. That's starting to change and there are some very, very capable companies that are in the field now that can deliver projects very capably on time and on budget.

The final thing I would point out, and obviously being here I should, but there's no, absolutely no question, that Macquarie has unequalled international expertise and resources in the P3 market and Canada is very fortunate that Macquarie has a very major operation in this country. That's being reflected not only in the Macquarie income fund, which you've heard all about today, but in other Macquarie activities. So Macquarie plays a major role in the Canadian infrastructure and P3 market and I have confidence will in the years to come. Now that completes my presentation and I'd welcome any questions or comments anybody might have.

Sarah Borg-Olivier – VP Investor Relations

Does anybody have any questions for David?

<Q>: David, Toronto has a major transportation undertaking...do you see any initiatives to get private money involved, just thinking about the TTC's major ambitions of the next years?

David McFadden – Chair, Gowlings' National Energy and Infrastructure Practice Group

My betting would be that as far as private investment...TTC has indicated so far it's not looking for private sector involvement, obviously private sector involvement in construction they would obviously on supply of cars and so on. But they're not right now indicating that they're looking to do that.

Metrolinx has indicated that they're looking at all avenues and certainly Metrolinx has a mandate from the province and I would expect that opportunities are going to come up there. I think that Rob McIsaac and his team have done a really good job in terms of coming up with a comprehensive review of what's needed and they're coming up with a financing plan. They've decided to go out with the need first and the kind of structure first, so that they can get people considering it and what's needed. But they have a whole investment strategy they're developing and I am certain that if they go ahead with that kind of program they're going to have to bring in private investment and I think they've indicated that they're going to look for whatever they can to try to develop avenues to mobilize private equity. What that'll be, I don't know, they're still working on it but I'm pretty certain that something will be happening on that in the next few years. As for TTC, I don't know, I mean they have not shown interest in it as yet.

<Q>: Any guess how long it'll take to...you know the First Ministers met and they said we all agree we want to do infrastructure, we want to increase the spend but with the lead time with engineering and planning, any guess at how long we'll start to see some of these projects come? And secondly, given the fact that the cost of equity and debt has increased dramatically, any guess on how it's going to get financed or how they'll solve those issues?

David McFadden – Chair, Gowlings' National Energy and Infrastructure Practice Group

Well, timing wise, I mean, obviously, all of the governments are going to be anxious to move these projects as rapidly as they can.

One of the good things is that we have in the pipeline right now a lot of projects that are at various stages, so that could be accelerated. Obviously, the ones that are now in construction will carry on, and as I pointed out, there are a couple of dozen that are in proposal stages right now. I would think that what you're going to see over the winter is an acceleration of projects right across Canada; a fair number will be P3s. How many, I don't know.

The issue around all of this, of course, is you've got environmental assessments and you've got a whole variety of regulatory things that at least some projects have to work through. What you would hope is they will accelerate this to get things moving. Some can move ahead quite rapidly, for example, healthcare facilities generally speaking are in demand and it's recognized that they don't have a lot of permitting and other requirements, they tend to be on existing sites or sites that are already zoned appropriately. Where you get into ones that take longer, obviously are roads, brand new roads. You've got the Mid-Peninsula corridor that has been under assessment now for, I guess, eight years. It's getting close to the end of that, so construction maybe could start on that in about two or three years' time, perhaps. But there are a lot that can move faster and I think that those are the ones that the governments are going to focus on along with the longer term ones, obviously, but detention centers, courthouses, things like that can move ahead pretty fast. As for the markets, I mean I think the sea is up, we've experienced it's gradually starting to dissipate a bit, banks are starting to obviously deal with each other, which is a good thing.

But I think that as things will move along over the next little while, you're going to have stability come back into the market. There is equity there that is available in Canada but also around the world that would look at coming into Canada. Certainly, we're not going to see the kind of leverage perhaps in deals that we've seen, but the one thing for sure in talking to financial institutions, I mean there is money but people are going to be a little careful in the immediate run. But you have to believe that has things move along, as the governments sort of push this and promote it, that there will be increasing levels of funding available. Probably won't see the same easier credit days that we did two to three years ago, but this will be one area where money will tend to flow. It will tend to flow here because it's socially needed, the governments will push it, I think you'll tend to see the types of commitments governments will make will encourage investing to come here, but I think you're going to see it here. I think the risk we have is you're not going to see major economic relief in this area this winter. It

can't happen that fast. But, I mean these aren't one-year deals so you know you'd expect to start seeing the flow of this probably more you know in the winter of 2010, and maybe 2009.

<Q>: Thank you.

Sarah Borg-Olivier – VP Investor Relations

Are there any other questions for David? Alright, thank you, David.

Greg Smith – President & CEO

Thank you, David. You paint a very exciting and interesting picture of the P3 market and the infrastructure market across Canada. As we look at the opportunities that are going to come forward in the next few years, it's going to be like drinking from a fire hose. We used to refer to infrastructure as investing in things that are extremely boring to barely interesting, and in today's marketplace being stable and predictable is a good thing, so boring --- boring's good today. I'd like to extend a special thanks to both David Butters and David McFadden for joining us today and sharing their thoughts and remarks with us. Thank you very much.