

# MACKENZIE MASTER LIMITED PARTNERSHIP

---

## **Annual Report**

December 31, 2011

### **A NOTE ON FORWARD-LOOKING STATEMENTS**

*This report may contain forward-looking statements that reflect our current expectations or forecasts of future events. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", "preliminary", "typical" and other similar expressions. In addition, these statements may relate to future corporate actions, future financial performance of a fund or a security and their future investment strategies and prospects. Forward-looking statements are inherently subject to, among other things, risks, uncertainties and assumptions that could cause actual events, results, performance or prospects to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and assumptions include, without limitation, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, the volatility of global equity and capital markets, business competition, technological change, changes in government regulations, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events and the ability of Mackenzie to attract or retain key employees. The foregoing list of important risks, uncertainties and assumptions is not exhaustive. Please consider these and other factors carefully and do not place undue reliance on forward-looking statements. The forward-looking information contained in this report is current only at the time of writing this report. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.*

# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

---

<b>General Partner</b>	MMLP GP Inc.
<b>Registrar and Transfer Agent</b>	Mackenzie Financial Corporation 180 Queen Street West, Toronto, Ontario M5V 3K1 Tel: (416) 922-5322 or toll free 1-800-387-0614
<b>Year-End</b>	December 31
<b>Toronto Stock Exchange Listing Symbol</b>	MKZ.UN

## Table of Contents

Business of the Master LP .....	1
Management's Discussion and Analysis .....	2
General Partner's Report .....	7
Auditors' Report .....	7
Financial Statements .....	8
Notes to the Financial Statements .....	9
Value of Distributed Securities .....	12
Movement in Value of Distributed Securities .....	13
Percentage Change in Value of Distributed Securities .....	13

# MACKENZIE MASTER LIMITED PARTNERSHIP

---

Annual Report | December 31, 2011

---

## **ANNUAL REPORT**

### **TO THE LIMITED PARTNERS OF MACKENZIE MASTER LIMITED PARTNERSHIP (THE “MASTER LP”)**

#### **BUSINESS OF THE MASTER LP**

The Master LP was formed by the consolidation of eight Mackenzie Financial Corporation (“Mackenzie”) retail limited partnerships: Industrial Horizon Partnerships 1987, 1988, 1989, 1990, 1992, 1992-II, 1993 and Mackenzie Limited Partnership 1994 (collectively the “Partnerships”). The Partnerships were formed to pay selling commissions to financial advisors who sold redemption charge securities of Mackenzie mutual funds (the “Funds”) for specified periods between 1987 and 1994. “Redemption Charge Securities” are securities of a fund for which investors are, under certain circumstances, required to pay a charge on redemption. Throughout this report, the securities for which the Partnerships paid selling commissions are referred to as “Distributed Securities”.

In return for paying selling commissions, the Partnerships received Distributor fees income and Redemption fees income. As a result of the consolidation of the Partnerships into the Master LP, that income is now earned by the Master LP. The redemption charge periods for all of the Partnerships expired on December 31, 2001 and therefore, the Distributed Securities financed by these Partnerships no longer earn Redemption fees income.

#### **Distributed Securities**

Distributed Securities are the underlying assets of the Master LP. Distributed Securities include the original Redemption Charge Securities of the Funds purchased by an investor and any securities issued upon the automatic reinvestment of distributions from the Funds or transferred between Funds, which are deemed to have the same purchase date as the original securities purchased.

Owners of Distributed Securities may transfer their investment among the Funds without incurring a redemption charge. The investment continues to be included in Distributed Securities, and therefore the Master LP continues to receive the applicable Distributor fees income on these transferred Distributed Securities.

Changes in the total value of the Distributed Securities impacts the Distributor fees income. Increases in the total value of Distributed Securities caused by market appreciation of the Funds will increase Distributor fees income. Conversely, decreases in the total value of Distributed Securities due to market depreciation of or redemptions in the Funds will reduce Distributor fees income.

The market value of the Funds will change based on the performance of the underlying securities within the Funds, general market conditions and the ability of investors to transfer between Funds or redeem their Distributed Securities. Redemptions in the Funds are a function of Fund performance, expectation of investors about market conditions and the availability and competitiveness of alternative investments.

# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Value of Distributed Securities

The Canadian market, represented by the S&P/TSX Composite Total Return Index, returned -8.7% for the 12-month period ended December 31, 2011. The largest sectors that comprise the Canadian market – financials, energy and materials – were all weak and generated negative returns during the period; materials stocks significantly underperformed the broader index, returning -21.8%, while financials fared better, returning -2.8% as a group.

Outside of Canada, global markets represented by the MSCI World Index returned -2.9% and the U.S. market represented by the S&P 500 Index returned 4.4% (all in Canadian dollar terms) for the same 12-month period. The common theme across Canadian, U.S. and global markets was the relative outperformance of the traditionally defensive sectors (health care and consumer staples) against the backdrop of a volatile year due to the intensification of the Eurozone crisis during the latter half of the period. Among the major currencies, the U.S. dollar, the Japanese Yen and the British pound appreciated against the Canadian dollar, while the Euro weakened.

Fred Sturm, Mackenzie's Chief Global Investment Strategist, believes that broad political, economic, and market uncertainty peaked during the fourth quarter of 2011. While last year was mainly characterized by a barrage of increasingly concerning headlines, he believes 2012 will be a year of gradual healing as markets win supportive reflationary policy responses. He is of the view that as the markets come out of a frustrating 2011, which yielded disappointing results, a recovery from the receding gloomy sentiment can finally begin and prove to be a worthwhile go forward opportunity. This matters because it is unusual for stocks to outperform while estimates are still being downgraded. In 2008-2009 stocks bottomed and began to rise 3-6 months before revisions turned higher. He expects the markets are in a similar stage of the cycle where stocks are trading in a bottom range in advance of a correction and upturn. Stock market returns that were expected for 2011 may well be recovered over the next 12-18 months if the reacceleration takes hold.

In this environment, most of Mackenzie's equity, fixed income and balanced funds delivered negative returns over the previous 12-months. Several Mackenzie funds outperformed their benchmarks, most notably in the Canadian dividend and equity income category. However, several funds that focus on foreign markets did underperform their respective benchmarks primarily due to their holdings in the relatively more volatile small/mid cap equities and emerging markets.

The total value of Distributed Securities at December 31, 2011 was \$390 million, a decrease of \$116 million or 22.9% (2010: decrease of \$63 million or 11.2%). Of this change, a decrease of \$29 million or 5.6% (2010: increase of \$44 million or 7.7%) was attributable to investment performance, and a decrease of \$87 million or 17.3% in redemptions (2010: decrease of \$107 million or 18.9%).

For a detailed breakdown of the value of Distributed Securities and the changes during the period, see pages 12 through 13.

# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

## Distributor Fees Income

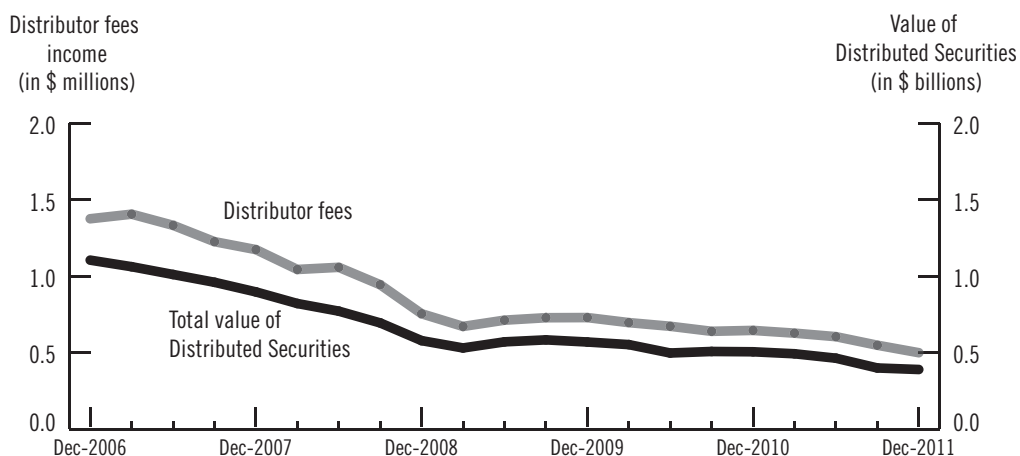
As the Master LP no longer earns Redemption fees income, its main source of income is Distributor fees earned on Distributed Securities.

Currently, the Master LP earns Distributor fees income equal to an average annual rate of 0.51% of the market value of the outstanding Distributed Securities (\$5.10 annually for every \$1,000 of Distributed Securities outstanding). The Distributor fees income is calculated each day the Toronto Stock Exchange is open for business and is paid monthly to the Master LP by Mackenzie.

Distributor fees income for the year ended December 31, 2011 was \$2.3 million (2010: \$2.7 million), a decrease of 14.1% from the previous year.

Distributor fees income is dependent upon the average net asset value of the Distributed Securities during the year and is not based on the ending value of the Distributed Securities. The monthly average net asset value of the Distributed Securities for the year ended December 31, 2011 was \$456 million (2010: \$522 million), a decrease of 12.6% from the monthly average net asset value of the Distributed Securities for the year.

The following chart shows the decline in the value of the Distributed Securities and the impact of this decline on Distributor fees income over the last five years.



We expect the number and value of Distributed Securities to continue to decline due to ongoing redemptions (as the redemption charge period has ended) and as a result we expect Distributor fees income to continue to decline perpetually until there are no remaining Distributed Securities or until the Master LP is terminated because it is no longer economically viable (when the expenses exceed the revenue). As the Distributor fees income declines, the general partner of the Master LP will continue to review the economic viability of continuing the Master LP.

## Interest Income

Interest income for the year ended December 31, 2011 was \$13,956 (2010: \$5,932). Interest income is earned by investing excess cash generated during the year in units of Mackenzie Sentinel Cash Management Fund, a money market fund managed by Mackenzie.

## Operating Expenses

Operating expenses for the year ended December 31, 2011 were \$0.14 million (2010: \$0.15 million), a decrease of 8.6% for the year. This decrease was primarily due to a decrease in securityholder reporting costs.

# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

## Summary of Financial Results

For the year ended December 31, 2011, taxable income is \$2.1 million and the increase in net assets from operations is \$1.5 million. Financial results for the years ended December 31, 2011, 2010 and 2009 are as follows:

Financial Results			
	2011	2010	2009
Value of Distributed Securities	\$389,979,173	\$505,953,891	\$569,503,460
Distributor fees income	\$2,281,803	\$2,656,440	\$2,843,927
Interest income	\$13,956	\$5,932	\$7,101
Expenses	\$165,328	\$164,915	\$140,566
Increase in net assets from operations	\$1,524,070	\$2,497,457	\$2,710,462
Total assets	\$2,238,741	\$2,565,298	\$2,760,793

Financial results on a per unit basis for the years ended December 31, 2011, 2010 and 2009 are as follows:

Per Unit Financial Results			
	2011	2010	2009
Value of Distributed Securities	\$62	\$81	\$91
Distributor fees income	\$0.36	\$0.42	\$0.45
Interest income	\$0.00	\$0.00	\$0.00
Expenses	\$0.03	\$0.03	\$0.02
Increase in net assets from operations	\$0.24	\$0.40	\$0.43

*Per unit information is calculated based on the number of Master LP units outstanding at the end of the year.*

## Liquidity and Market Performance of Units

The units of the Master LP are listed on the Toronto Stock Exchange. Since inception, the number of units issued and outstanding is 6,264,511 units and the Master LP does not participate in any buy-back program or have any trading restrictions on its units. During the year ended December 31, 2011, the average daily trading volume was approximately 7,939 units and the market price ranged from \$0.86 to \$1.25.

Market financials for the years ended December 31, 2011, 2010 and 2009 are as follows:

Market Financials			
	2011	2010	2009
Daily average trading volume (units)	7,939	6,430	5,615
High market price	\$1.25	\$1.30	\$0.80
Low market price	\$0.86	\$0.75	\$0.32
Close market price (December 31)	\$0.97	\$0.88	\$0.80
Return on investment <sup>1</sup>	12.8%	59.8%	95.24%

<sup>1</sup>The return on investment represents the total return of the units during the year and is calculated based on the opening and closing market price for the year, assuming the annual distribution paid by the Master LP was instead retained by the Master LP. The past performance of the Master LP is not necessarily an indication of how it will perform in the future.

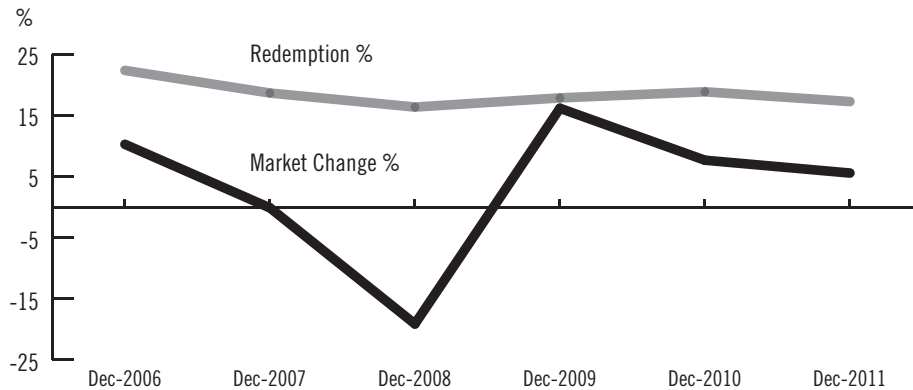
# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

## FUTURE PROSPECTS

The Master LP's income is dependent upon the level of redemptions and market value of the Distributed Securities. The level of redemptions in the Distributed Securities is a function of Fund performance, expectations of investors and the availability and competitiveness of alternative investments. Total market value of the Distributed Securities will change based on various factors including the mix of the Distributed Securities, the performance of the Funds and general market conditions.

The following chart shows the trend in redemptions and market performance of Distributed Securities over the last five years.



### Redemptions

The level of redemptions of the Distributed Securities were 18%, 19% and 17% in 2009, 2010 and 2011, respectively. Since January 2002, all Distributed Securities have been eligible for redemption without incurring a redemption charge. Because there is no longer a redemption fee associated with the Distributed Securities, there is less disincentive for an investor to redeem Distributed Securities. Historically, as redemption charge schedules expire, fund companies have experienced an increase in redemptions of securities previously subject to those schedules. Accordingly, we would expect redemption rates for the Distributed Securities to remain at or above current levels. A significant and prolonged market correction and/or underperformance of the Distributed Securities may also increase the redemption rate from its current level.

### Market Change

The value of Distributed Securities depreciated 22.9% over the past year. Market change of the Distributed Securities is affected by many factors including the various strategies utilized by the Funds, the geographic allocation of the Funds, specific investment selection by the fund managers and general market conditions. Although future market movements cannot be predicted, the fund managers are committed to adding value over the long term.

### Distributor Fees Income

Redemption rates (even when Distributed Securities were subject to redemption charges) have historically exceeded market appreciation of the Distributed Securities and we would expect the value of Distributed Securities and, therefore, Distributor fees income to continue to decline. While Mackenzie anticipates that the Master LP will continue to make its regular distributions, it does expect the amount of those distributions to continue to decline.

### Income Tax Legislation

On October 31, 2006, the Federal Minister of Finance announced proposals (the "Legislation") that changed the manner in which certain "specified investment flow-through entities" or "SIFTs" are taxed. These proposals were enacted on June 22, 2007. The Master LP is considered a SIFT under the Legislation and subject to these tax rules effective January 1, 2011. As a result, the Legislation changed the manner in which the Master LP and the Limited Partners are taxed beginning January 1, 2011.

Beginning in 2011, the Master LP is subject to entity level taxation, on its taxable non-portfolio earnings. Most of the income earned by the Master LP is taxable non-portfolio earnings. The tax payable by the Master LP is the combined provincial and federal tax rate applicable to income earned by Canadian public corporations. As all the income earned by the Master LP is attributable to Ontario, the applicable rate for 2011 is 28.25%.

The amount of the Master LP's income that is subject to this new tax, less the amount of such tax, is treated as taxable dividends when allocated to Limited Partners. These dividends are eligible dividends and Limited Partners are entitled to the enhanced gross-up and dividend tax credit if they are residents of Canada.

# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

## Income Tax Legislation (cont'd)

Limited Partners who are subject to the highest marginal rate of tax will receive an after-tax return from their now reduced allocations of income that is marginally lower than the after-tax return, if the pre-tax income of the Master LP had been allocated directly to and taxed in the hands of the Limited Partners. However, reduced allocations will be an absolute cost to Limited Partners in registered plans who would not benefit from characterization of the allocations as dividends. The impact on taxable Limited Partners and Limited Partners in registered plans receiving a \$100 distribution in 2011, is as follows:

	Taxable Limited Partners		Limited Partners in Registered Plans	
	Previous tax measures (b)	Tax measures effective Jan. 1, 2011 (c)	Previous tax measures	Tax measures effective Jan. 1, 2011
Pre-tax cash available for distribution	\$100.00	\$100.00	\$100.00	\$100.00
Tax payable by Master LP (a)	\$ –	(\$28.25)	\$ –	(\$28.25)
Cash available for distribution	\$100.00	\$71.75	\$100.00	\$71.75
Tax payable by the Limited Partner	\$40.41	(\$20.23)	\$ –	\$ –
Net cash to the Limited Partner	\$53.59	\$51.52	\$100.00	\$71.75

(a) Assumes a 28.25% combined tax rate which includes a 16.5% Federal tax rate and a 11.75% provincial tax rate.

(b) For Ontario-Resident individuals; assumes 2011 top marginal tax rate of 46.41%.

(c) For Ontario-Resident individuals; assumes 2011 top effective tax rate of 28.19% after enhanced dividend gross-up and dividend tax credit.

## Provision for income taxes

Provision for income taxes for the year ended December 31, 2011 was \$0.61 million (2010: nil) due to the enactment of the Legislation effective January 1, 2011 for the Master LP.

## HARMONIZED SALES TAX

The Governments of Ontario and British Columbia harmonized their provincial sales taxes with the federal goods and services tax effective July 1, 2010. Implementation of the harmonized sales tax increased the amount of taxes paid by the Master LP on its expenses, including but not limited to management fees and operating expenses.

## FUTURE ACCOUNTING STANDARDS

As previously confirmed by the Canadian Accounting Standards Board ("AcSB"), most Canadian publicly accountable entities adopted International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board, on January 1, 2011. However, the AcSB has allowed most investment funds to defer adoption of IFRS until fiscal years beginning January 1, 2014, and will issue their initial financial statements in accordance with IFRS, including comparative information, for the interim period ending June 30, 2014.

# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

## GENERAL PARTNER'S REPORT TO THE LIMITED PARTNERS

The accompanying financial statements and information in the Annual Report have been prepared by MMLP GP Inc., the General Partner of Mackenzie Master Limited Partnership (the "Master LP"). The General Partner is responsible for the integrity, objectivity and reliability of the data presented. This responsibility includes selecting appropriate accounting principles and making judgments and estimates consistent with Part V of the Canadian generally accepted accounting principles. The General Partner is also responsible for the development of internal controls over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors of the General Partner is responsible for reviewing and approving the financial statements, overseeing the General Partner's performance of its financial reporting responsibilities, reviewing the adequacy of internal controls over the financial reporting process and reviewing the audit process and financial reporting issues with the General Partner and external auditors.

KPMG LLP are the external auditors of the Master LP. They are appointed by the General Partner. The external auditors have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the partners their opinion on the financial statements. Their report is set out below.

On behalf of MMLP GP Inc.,  
General Partner



Charles R. Sims  
Chief Executive Officer  
March 7, 2012



Venkat Kannan  
Chief Financial Officer

## INDEPENDENT AUDITORS' REPORT TO THE PARTNERS OF MACKENZIE MASTER LIMITED PARTNERSHIP

We have audited the accompanying financial statements of Mackenzie Master Limited Partnership (the "Master LP"), which comprise the statements of net assets as at December 31, 2011 and 2010 and the statements of operations, retained earnings and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Part V of the Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

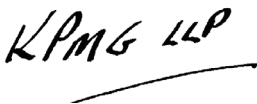
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Master LP's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Master LP's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Master LP as at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants  
Toronto, Canada  
March 7, 2012

# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

## STATEMENTS OF NET ASSETS

As at December 31

	2011	2010
	\$	\$
<b>Assets</b>		
Cash and investments (note 3)	2,080,407	2,350,342
Distributor fees receivable	158,334	214,956
<b>Total assets</b>	<b>2,238,741</b>	<b>2,565,298</b>
<b>Liabilities</b>		
Accrued expenses	108,310	67,841
Provision for income taxes	606,361	—
<b>Total liabilities</b>	<b>714,671</b>	<b>67,841</b>
<b>Net assets</b>	<b>1,524,070</b>	<b>2,497,457</b>
<b>Partners' Equity</b>		
General Partner	8,100	8,100
Limited partners	289,427,500	289,427,500
	289,435,600	289,435,600
Less: Issue expenses	(24,276,802)	(24,276,802)
Return of capital to partners	(265,158,798)	(265,158,798)
	—	—
Retained earnings	1,524,070	2,497,457
<b>Total partners' equity</b>	<b>1,524,070</b>	<b>2,497,457</b>
<b>Number of units issued and outstanding</b>	<b>6,264,511</b>	<b>6,264,511</b>
<b>Net assets per unit</b>	<b>0.24</b>	<b>0.40</b>

## STATEMENTS OF RETAINED EARNINGS

For the years ended December 31

	2011	2010
	\$	\$
<b>Balance – beginning of year</b>	<b>2,497,457</b>	<b>2,710,462</b>
Increase in net assets from operations	1,524,070	2,497,457
Distributions to partners	(2,497,457)	(2,710,462)
<b>Balance – end of year</b>	<b>1,524,070</b>	<b>2,497,457</b>

## STATEMENTS OF OPERATIONS

For the years ended December 31

	2011	2010
	\$	\$
<b>Income</b>		
Distributor fees	2,281,803	2,656,440
Interest	13,956	5,932
<b>Total income</b>	<b>2,295,759</b>	<b>2,662,372</b>
<b>Expenses</b>		
Management fees (note 4)	27,423	14,057
Operating expenses		
Administration	52,010	57,479
Audit fees	21,360	19,930
Legal fees	6,035	6,951
Securityholder reporting costs	58,500	66,476
Independent review committee fees	—	22
	137,905	150,858
<b>Total expenses</b>	<b>165,328</b>	<b>164,915</b>
<b>Increase in net assets from operations before income taxes</b>	<b>2,130,431</b>	<b>2,497,457</b>
Provision for income taxes (note 5)	606,361	—
<b>Increase in net assets from operations</b>	<b>1,524,070</b>	<b>2,497,457</b>
<b>Increase in net assets from operations per unit</b>	<b>0.24</b>	<b>0.40</b>

## STATEMENTS OF CASH FLOWS

For the years ended December 31

	2011	2010
	\$	\$
<b>Operating Activities</b>		
Increase in net assets from operations	1,524,070	2,497,457
Net change in non-cash items:		
Distributor fees receivable	56,622	26,827
Accrued expenses	40,469	17,510
Provision for income taxes	606,361	—
<b>Net cash provided by operating activities</b>	<b>2,227,522</b>	<b>2,541,794</b>
<b>Financing Activities</b>		
Distribution of income to partners	(2,497,457)	(2,710,462)
<b>Net cash used in financing activities</b>	<b>(2,497,457)</b>	<b>(2,710,462)</b>
<b>Net decrease in cash during the year</b>	<b>(269,935)</b>	<b>(168,668)</b>
Cash – beginning of year	2,350,342	2,519,010
<b>Cash – end of year</b>	<b>2,080,407</b>	<b>2,350,342</b>

Note: Cash is defined to include cash and investments.

The accompanying notes are an integral part of these financial statements.

# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

---

## NOTES TO FINANCIAL STATEMENTS

### 1. Organization of the Partnership

Mackenzie Master Limited Partnership (the “Master LP”) was formed under the laws of Ontario by registration under the *Limited Partnership Act* (Ontario) of a declaration of partnership on February 15, 1995 and is governed by a partnership agreement (the “Partnership Agreement”) also dated February 15, 1995. The general partner of the Master LP is MMLP GP Inc. (the “General Partner”), a wholly owned subsidiary of Mackenzie Financial Corporation (“Mackenzie”). Prior to September 1, 2010, Mackenzie Financial Services Inc., a wholly owned subsidiary of Mackenzie, was the general partner of the Master LP.

### 2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from such estimates.

#### a) Valuation

In accordance with the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862, Financial Instruments – Disclosures (“Section 3862”) all financial instruments measured at fair value are classified into one of three levels that distinguish fair value measurements by the inputs used for valuation. These classifications have been disclosed in Note 6.

#### b) Income recognition

Distributor fees income is calculated and recognized daily and paid to the Master LP monthly. Interest income is recognized on an accrual basis.

#### c) Selling commissions

Selling commissions paid by the Partnerships have been fully amortized.

#### d) Issue expenses

Issue expenses related to the initial offering of partnership units and expenses related to the consolidation of the Industrial Horizon Partnerships 1987, 1988, 1989, 1990, 1992, 1992-II, 1993 and Mackenzie Limited Partnership 1994 with the Master LP are recognized as a reduction of partners’ equity.

#### e) Net assets per unit

Net assets per unit is computed by dividing the net assets of the Master LP by the total number of units outstanding, as at the end of the period.

#### f) Increase in net assets from operations per unit

Increase in net assets from operations per unit in the Statements of Operations represents the increase in net assets from operations for the period, divided by the weighted average number of units outstanding during the period.

### 3. Investments

At December 31, 2011, the Master LP has invested \$1,829,702 (2010 – \$2,313,806) of excess cash in units of Mackenzie Sentinel Cash Management Fund (the “Money Market Fund”), a fund managed by Mackenzie.

### 4. Expenses of the Master LP

Pursuant to the Partnership Agreement, the General Partner is responsible for the management of the Master LP.

The General Partner will be reimbursed by the Master LP for expenses incurred on behalf of the Master LP. In addition, the General Partner receives a management fee equal to 15% of such amounts reimbursed. The General Partner has arranged with Mackenzie to provide transfer agent and administration services.

# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

## NOTES TO FINANCIAL STATEMENTS

### 5. Taxation

These financial statements include only the assets and liabilities of the Master LP and do not include the other assets and liabilities, including income taxes, of the partners.

On October 31, 2006, the Federal Minister of Finance announced proposals (the “Legislation”) that changed the manner in which certain “specified investment flow-through entities” or “SIFTs” are taxed. These proposals were enacted on June 22, 2007. The Master LP is considered a SIFT under the Legislation and subject to these tax rules effective January 1, 2011. As a result, the Legislation changed the manner in which the Master LP and the Limited Partners are taxed beginning January 1, 2011.

Effective January 1, 2011, the Master LP is subject to entity level taxation, on its taxable non-portfolio earnings. Most of the income earned by the Master LP is taxable non-portfolio earnings. The tax payable by the Master LP is the combined provincial and federal tax rate applicable to income earned by Canadian public corporations. As all the income earned by the Master LP is attributable to Ontario, the applicable rate for 2011 is 28.25%.

The amount of the Master LP’s income that is subject to this new tax, less the amount of such tax, is treated as taxable dividends when allocated to Limited Partners. These dividends are eligible dividends and Limited Partners are entitled to the enhanced gross-up and dividend tax credit if they are residents of Canada.

Limited Partners who are subject to the highest marginal rate of tax will receive an after-tax return from their now reduced allocations of income that is marginally lower than the after-tax return, if the pre-tax income of the Master LP had been allocated directly to and taxed in the hands of the Limited Partners. However, reduced allocations will be an absolute cost to Limited Partners in registered plans who would not benefit from characterization of the allocations as dividends.

The provision for income taxes for the Master LP for the year ended December 31, 2011 is \$606,361 (2010: nil).

### 6. Risk Associated with Financial Instruments

#### *i. Risk exposure and management*

The investment portfolio is comprised of the Money Market Fund, which pursues a steady flow of income while preserving investors’ capital. It achieves these objectives by investing mainly in very liquid money market securities and bonds that are issued by Canadian governments and corporations with maturities of up to one year. It also invests in floating rate notes and asset-backed securities. The Money Market Fund maintains a portfolio with a high credit quality and a weighted average term to maturity not exceeding 90 days.

Mackenzie, as manager of the Money Market fund, seeks to minimize potential adverse effects of risks on the Money Market Fund’s performance by employing professional, experienced portfolio advisors, by daily monitoring of the Money Market Fund’s positions and market events, and by diversifying the investment portfolio within the constraints of the investment objective. To assist in managing risks, Mackenzie also uses internal guidelines that identify the target exposures for each type of risk, maintains a governance structure that oversees the Money Market Fund’s investment activities and monitors compliance with the Money Market Fund’s stated investment strategy, internal guidelines, and securities regulations.

#### *ii. Liquidity risk*

Liquidity risk is the risk the Master LP will encounter difficulty in paying annual distributions and meeting its financial obligations as they come due. The Master LP invests all excess cash in redeemable units of the Money Market Fund, which must maintain at least 95% of its assets in liquid investments (i.e., cash and cash equivalents). The Money Market Fund also has the ability to borrow up to 5% of its net assets for the purposes of funding redemptions.

#### *iii. Interest rate risk*

The Master LP is indirectly exposed to the risk that the value of interest-bearing financial instruments held by the Money Market Fund will fluctuate due to changes in the prevailing levels of market interest rates. The Money Market Fund had minimal sensitivity to changes in interest rates due to the short-term nature of instruments held.

# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

## NOTES TO FINANCIAL STATEMENTS

### 6. Risk Associated with Financial Instruments (cont'd)

#### iv. Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Master LP. The Master LP has credit risk exposure through its investment in the Money Market Fund. The maximum exposure of the Money Market Fund to any one debt issuer was 27.8% (December 31, 2010 – 16.1%) of its net assets, representing 19.4% (December 31, 2010 – 14.9%) of the Master LP's net assets.

As of December 31, 2011 and 2010, debt securities by credit rating of the Money Market Fund are as follows:

Rating*	December 31, 2011	December 31, 2010
	Percent of Total Bonds (%)	Percent of Total Bonds (%)
AAA	25.6	47.8
AA	70.3	27.1
A	4.1	25.1
Total	100.0	100.0

Rating*	December 31, 2011	December 31, 2010
	Percent of Total Short-Term Notes (%)	Percent of Total Short-Term Notes (%)
R-1 (High)	100.0	100.0
Total	100.0	100.0

\* Credit ratings and rating categories are based on DBRS (or equivalent ratings issued by other approved credit rating organizations)

#### v. Fair Value Classification

The following fair value hierarchy is used to classify the Master LP's financial instruments:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the assets or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The Money Market Fund is classified as Level 1 under the fair value hierarchy.

### 7. Partner's Equity

The capital of the Master LP is divided into limited partnership units and as at December 31, 2011, 6,264,511 units are issued and outstanding (2010 – 6,264,511). All units are of the same class with equal rights and privileges, including equal participation in any distribution made by the Master LP, and the right to one vote at any meeting of the limited partners. No additional units of the Master LP can be issued and the units are non-redeemable. The General Partner manages the capital of the Master LP in accordance with the Partnership Agreement.

### 8. Future Accounting Standard

As previously confirmed by the Canadian Accounting Standards Board ("AcSB"), most Canadian publicly accountable entities adopted IFRS as published by the International Accounting Standards Board, on January 1, 2011. However, the AcSB has allowed most investment funds to defer adoption of IFRS until fiscal years beginning on or after January 1, 2014. Accordingly, the Master LP will adopt IFRS for its fiscal period beginning January 1, 2014, and will issue its initial financial statements in accordance with IFRS, including comparative information, for the interim period ending June 30, 2014.

# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

## VALUE OF DISTRIBUTED SECURITIES

As at December 31, 2011

(Unaudited)

	Net Asset Value	
	\$000's	%
<b>Canadian Equity Funds</b>		
Mackenzie Universal Canadian Value Class	72,532	18.6
Mackenzie Ivy Canadian Fund	43,698	11.2
Mackenzie Maxxum Dividend Growth Fund	21,401	5.5
Mackenzie Universal Canadian Growth Fund	14,756	3.8
Other Canadian Equity Funds	31,799	8.2
	184,186	47.2
<b>Foreign Equity Funds</b>		
Mackenzie Ivy Foreign Equity Fund	20,187	5.2
Mackenzie Universal North American Growth Class	11,483	2.9
Mackenzie Cundill Value Fund	9,614	2.5
Mackenzie Focus Fund	6,215	1.6
Other Foreign Equity Funds	26,449	6.8
	73,949	19.0
<b>Balanced Funds</b>		
Mackenzie Sentinel Income Fund	35,423	9.1
Mackenzie Ivy Growth & Income Fund	23,029	5.9
Mackenzie Saxon Balanced Fund	19,218	5.0
Mackenzie Universal Canadian Balanced Fund	4,589	1.2
Other Balanced Funds	17,474	4.5
	99,734	25.6
<b>Income Funds</b>		
Mackenzie Sentinel Bond Fund	14,470	3.7
Mackenzie Sentinel Corporate Bond Fund	9,946	2.6
Mackenzie Sentinel Registered Strategic Income Fund	1,342	0.3
Mackenzie Sentinel Short-Term Income Fund	946	0.2
Other Income Funds	2,003	0.5
	28,707	7.3
<b>Money Market Funds</b>		
Mackenzie Sentinel Money Market Fund	3,397	0.9
Other Money Market Funds	7	0.0
	3,403	0.9
<b>Total</b>	<b>389,979</b>	<b>100.0</b>

# MACKENZIE MASTER LIMITED PARTNERSHIP

Annual Report | December 31, 2011

## MOVEMENT IN VALUE OF DISTRIBUTED SECURITIES

For the period from January 1, 2008 to December 31, 2011

(Unaudited)

Period ending	Transfers \$000's	Redemptions \$000's	Market Change \$000's	Total \$000's	Per Unit \$
<b>Canadian Equity Funds</b>					
Dec/08				294,098	47
Dec/09	(23,463)	(44,144)	52,487	278,978	44
Dec/10	(1,841)	(45,776)	19,899	251,260	40
Dec/11	(2,783)	(37,547)	(26,744)	184,186	29
<b>Foreign Equity Funds</b>					
Dec/08				110,508	18
Dec/09	20,694	(22,738)	15,551	124,015	20
Dec/10	(7,906)	(22,456)	6,645	100,298	16
Dec/11	(2,642)	(17,574)	(6,133)	73,949	12
<b>Balanced Funds</b>					
Dec/08				131,474	21
Dec/09	(51)	(28,858)	21,569	124,134	20
Dec/10	8,287	(29,357)	14,864	117,928	19
Dec/11	4,912	(26,708)	3,602	99,734	16
<b>Income Funds</b>					
Dec/08				35,059	6
Dec/09	1,742	(4,819)	4,280	36,262	6
Dec/10	874	(7,412)	2,505	32,229	5
Dec/11	(151)	(4,320)	949	28,707	5
<b>Money Market Funds</b>					
Dec/08				8,037	1
Dec/09	1,078	(3,012)	11	6,114	1
Dec/10	586	(2,461)	–	4,239	1
Dec/11	663	(1,500)	1	3,403	1
<b>Total</b>					
Dec/08				579,176	93
Dec/09	–	(103,571)	93,898	569,503	91
Dec/10	–	(107,462)	43,913	505,954	81
Dec/11	–	(87,649)	(28,326)	389,979	62

## PERCENTAGE CHANGE IN VALUE OF DISTRIBUTED SECURITIES

For the year ended December 31, 2011

(Unaudited)

The percentage change in the value of the Distributed Securities is calculated based on the movement in the year as a percentage of the opening balance for each category.

Category	Transfers (%)	Redemptions (%)	Market Change (%)	Total Change (%)
Canadian Equity Funds	(1.1)	(15.0)	(10.6)	(26.7)
Foreign Equity Funds	(2.6)	(17.6)	(6.1)	(26.3)
Balanced Funds	4.2	(22.6)	3.1	(15.4)
Income Funds	(0.4)	(13.4)	2.9	(10.9)
Money Market Funds	15.7	(35.4)	0.0	(19.7)
<b>Total Movement</b>	<b>(0.0)</b>	<b>(17.3)</b>	<b>(5.6)</b>	<b>(22.9)</b>

