MACQUARIE POWER INCOME FUND

ANNUAL REPORT 2004

MPT/04

Contents

Corporate profile

Macquarie Power Income Fund

Macquarie Power Income Fund (the "Fund") is an unincorporated, limited purpose trust investing in energy and infrastructure assets. Its units were listed on the Toronto Stock Exchange on April 30, 2004 under the symbol MPT.UN.

The Fund's objective is to produce stable and predictable levels of cash for distribution to unitholders on a monthly basis. In the first two years, it is expected that a significant part of these distributions will be tax deferred for eligible unitholders.

The Fund's initial asset is Cardinal Power, one of the largest (156 MW) independent natural gas-fired cogeneration power facilities in Ontario, Canada. The Fund is targeting additional investments in proven power and infrastructure assets in accordance with rigorous investment and acquisition criteria and growth strategy objectives.

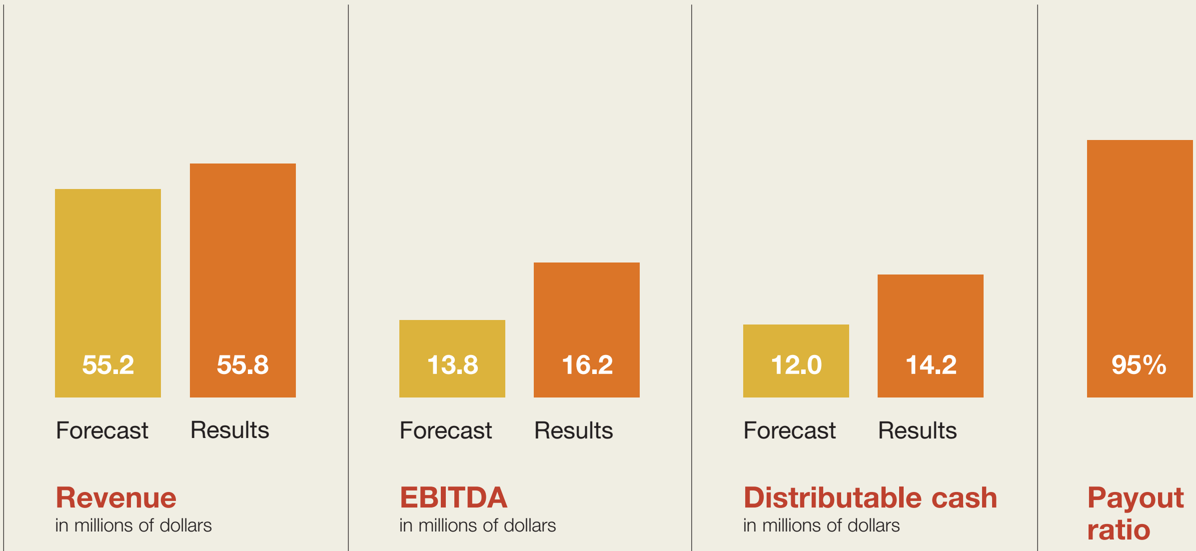
The Fund is managed by Macquarie Power Management Ltd. ("MPML"), a member of the Macquarie group, headquartered in Australia, one of the world's largest and most experienced managers of infrastructure with more than C$20.4 billion worth of equity under management as of December 31, 2004.

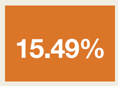
Important notice


S4B
LIMB
L2M
BROCKVILLE CHEMICALS JCT Q94
CARDINAL POWER RSS
A-BUS 115KV
LINKS UNDERGROUND TO OVERHEAD TRANSITION
CARDINAL POWER GIS
H-BUS 115KV

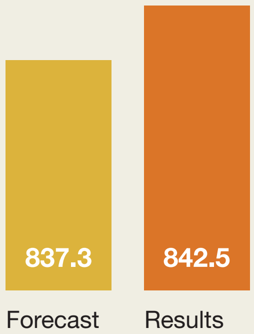
2004 Highlights

Period ended December 31, 2004

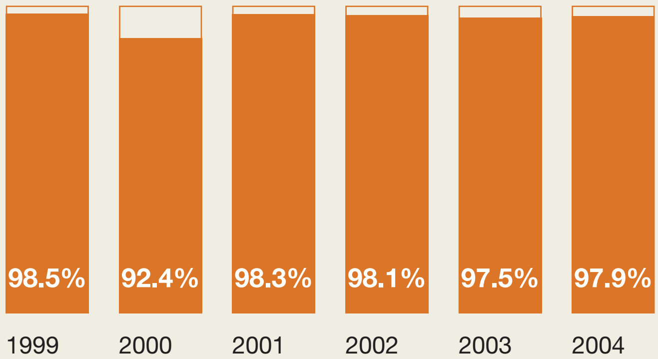




Total return



Sale of electricity
in thousands of MWh



Cardinal Power availability

Letter to unitholders

Derek Brown
Chair, Board of Trustees

Robert Rollinson
President and Chief Executive Officer

On behalf of the Board of Trustees, it gives us great pleasure to welcome our new unitholders and introduce the inaugural Macquarie Power Income Fund (TSX: MPT.UN) annual report, which covers the eight month financial period from April 30 to December 31, 2004.

2004 was a milestone year for us. At the end of April, we established the Fund through an Initial Public Offering ("IPO") on the Toronto Stock Exchange, raising gross proceeds of $211.7 million. The proceeds were used to acquire the assets and operations of our initial seed investment, the Cardinal Power Plant.

From the outset, our vision has been to create a high quality Canadian income fund that:

- delivers stable and sustainable distributions;
- has the organizational framework to maximize operational performance and profitably grow the fund; and
- incorporates a governance framework to safeguard the interests of our unitholders.

In its first eight months of operations, the Fund has established a positive track record and created a foundation for growth.

We are delighted with the Fund's performance and are committed to providing unitholders with an attractive return on investment

Fund performance

We are pleased to report that at the end of 2004 we have exceeded all of the financial and operational forecasts identified in the prospectus. Financially, we have achieved higher revenue and EBITDA, higher cash from operations and higher distributable cash, while fully funding our reserve accounts and increasing our available cash. These results have been achieved through a combination of revenue and cost measures.

On the revenue side, we have had higher electricity production over the initial eight months of the Fund's operation and higher electricity rates for the energy sold under our secure Power Purchase Agreement with Ontario Electricity Finance Corporation ("OEFC").

On the cost side, we have reduced our borrowing costs and achieved lower gas carriage costs. We have been examining all areas of our operations to improve the position for our unitholders.

As a result, EBITDA of $16.2 million has exceeded the prospectus forecast by $2.4 million and target monthly distributions of $0.07917 per unit have been met. The Fund declared a total of $13.5 million in distributions for the Period, of which a significant portion is expected to be tax deferred. The total return from the inception of the Fund to December 31, 2004 was over 15%.

The Fund's payout ratio was 95% for the eight month period ended December 31, 2004.

Ideal income fund assets

The Fund's ability to meet the expectations of its unitholders is underpinned by the solid performance of the underlying asset, the Cardinal Power Plant, a 156 megawatt combined cycle cogeneration power station fuelled by natural gas, located in Cardinal, Ontario.

The Cardinal facility has a solid and consistent operating performance track record. The facility's revenue is derived from long-term contractual arrangements with OEFC. That contract, combined with our ability to contain fuel costs under a long-term gas supply contract with Husky Energy Marketing Inc., facilitates the Fund's ability to generate stable revenue streams.

Responsible governance

In addition to sound financial performance, the Board of Trustees is committed to exemplary corporate governance. To this end, the Fund has developed a framework that establishes best business practices for the underlying assets, promotes accountability, transparency and integrity in our relationships with stakeholders and aligns our interests with those of our unitholders.

The Fund has in place a full and comprehensive governance, compliance and risk management framework, new accounting and reporting systems and strong financial controls. Further discussion of these guidelines can be found on page 9 of this report.

Value-adding relationships

The Manager of the Fund, Macquarie Power Management Limited (MPML), has worked closely with the Board of Trustees and Cardinal Power's management to add significant value to the Fund's operation. The Manager has access to the expertise of the Macquarie group which is one of the world's leading infrastructure managers. This enables the Fund to focus on enhancing the value of its current investment while having a strong relationship with professionals who identify and closely evaluate potential yield-enhancing acquisitions for the Fund's portfolio.

The value of solid assets

The Fund's investment in Cardinal Power is consistent with the Macquarie group's model of securing an initial high quality infrastructure asset as the basis for growth of the Fund.

The Fund's strategy is to invest in, develop and hold quality assets that accord with the Fund's defined criteria:

- the investment or acquisition will result in a sustainable increase in distributable cash;
- the asset must be high-quality with a long-life;
- the investment offers cash flows that support our SR-2 stability rating; and
- the acquisition must be approved by a majority of the Fund's Independent Trustees.

Outlook

The Board of Trustees and the Manager fully recognize the desirability of diversifying from a single asset-based fund and have been seeking suitable new investments for the Fund. As we pursue growth, we are acutely aware of the balance between increasing the asset base and the quality of any new investments. Both the Board of Trustees and management believe that investors in the Fund wish to retain investment quality. Accordingly, our main and immediate focus will be directed towards growth of the Fund and in doing this we will continue to ensure that all of our investment opportunities support our goals of seeking high quality income streams that support the sustainability of distributions for our unitholders.

In our first eight months of operations, we set out to demonstrate the strength of our operational and investment approach and to meet our commitments. We will remain steadfastly focused on continuing to deliver an attractive return for our unitholders.

The achievements to date and our financial position provide for a strong basis for the future of the Fund.

We would like to take this opportunity to thank Germain Lecours for his services as the Fund's Chief Financial Officer. Germain was instrumental in assisting in the development of the strong foundation we now have for the Fund. We appreciate Germain for his outstanding contribution. We wish him well for the future.

We also wish to welcome Harry Atterton as our new Chief Financial Officer and Noreen Flaherty as Corporate Secretary and General Counsel.

On behalf of the Board of Trustees and Management of the Macquarie Power Income Fund, we would like to thank all of our new unitholders for their support and the efforts of those who are directly and indirectly employed by us.

Derek Brown
Chair, Board of Trustees

Robert Rollinson
President and Chief Executive Officer

Cardinal Power

Overview

Cardinal Power, the Fund's initial asset, is a 156 MW combined cycle cogeneration power plant fuelled by natural gas, located alongside the St. Lawrence River in Cardinal, Ontario.

Commencing commercial operations in 1994, Cardinal Power is one of the largest independent facilities of its kind in the province of Ontario and has a proven track record of efficiently providing reliable electricity under a long-term Power Purchase Agreement (PPA) with Ontario Electricity Finance Corporation (OEFC) and Gas Purchase Agreement with Husky Energy Marketing Inc.

Steam generated by the facility is also sold under a long-term energy savings agreement to a customer located on land adjacent to Cardinal Power.

These agreements are instrumental to producing stable and predictable distributable cash.

Technology

Electricity produced at the facility is generated by proven gas-fired turbine technology. High and low pressure steam is recovered and generated by a heat recovery steam generator and by a Westinghouse steam turbine generator.

The major systems used by the facility in the generation of power primarily include:

- one Westinghouse W501 D5 DLN combustion turbine generator capable of producing approximately 110 MW nominal at design conditions with natural gas
- one Westinghouse steam turbine generator with a nominal rating of 50 MW.

Revenue Profile

The Cardinal facility has two main revenue streams:

Electricity sales

All electricity generated by the Cardinal facility (less the amount consumed in its operations) is sold exclusively to OEFC at contracted rates under a power purchase agreement.

Under the terms of the PPA, OEFC is obligated to make monthly payments for electricity delivered by Cardinal Power. Higher rates are received for electricity sold to OEFC during the winter than during the summer.

Payment rates under the PPA escalate in accordance with the Ontario Hydro Direct Customer Rate (DCR).

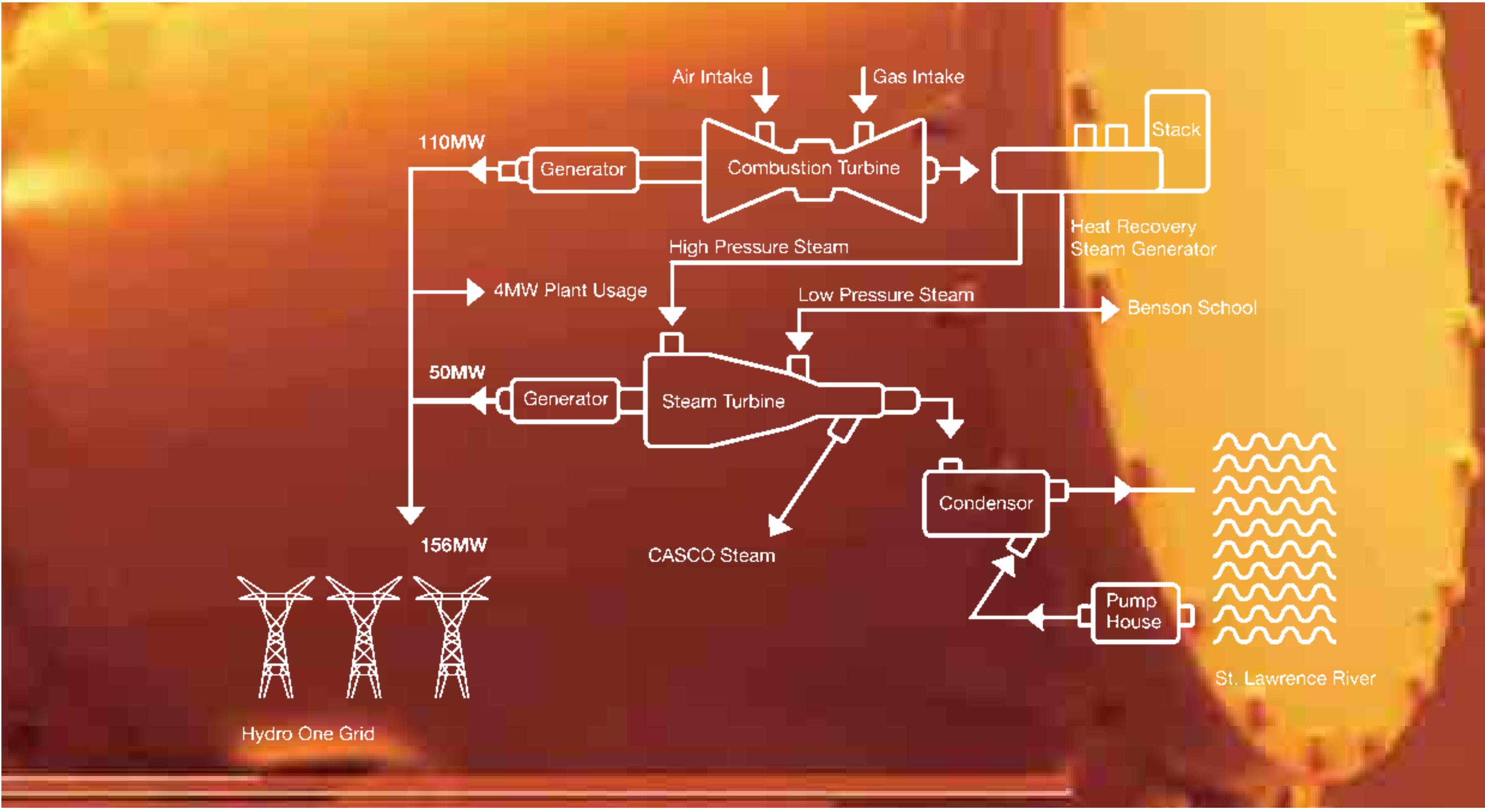
For the eight months ended December 31, 2004, electricity sale revenues represented approximately 98.8% of total revenue received by Cardinal Power.

Steam sales

Cardinal Power provides steam to Canada Starch Operating Company (CASCO), the largest corn refining plant in Canada. The CASCO facility is located adjacent to the Cardinal Power plant and purchases its steam requirements under a long-term Energy Savings Agreement with Cardinal.

Cardinal Power also provides heating steam to the nearby Benson School.

For the eight months ended December 31, 2004, steam sale revenues represented approximately 1.2% of total revenue received by Cardinal Power.



Key Agreements

In addition to the reliable operation of Cardinal Power, several agreements provide the basis for producing stable and predictable distributable cash.

Power Purchase Agreement

The PPA for the sale of electricity by the Cardinal facility to OEFC matures on December 31, 2013, and is automatically extended for successive one-year periods from year to year unless terminated by either party on one year's prior notice. Effectively therefore, the earliest the PPA may be ended is December 31, 2014.

The monthly payments for electricity delivered under the PPA are equal to the monthly electricity delivered by Cardinal during all hours (both on-peak and off-peak), multiplied by the energy rates, Energy "A" and Energy "B". These two rates increase annually by the greater of the DCR escalator and a percentage growth rate outlined in the terms of the PPA.

Energy Savings Agreement

An Energy Savings Agreement exists between the Cardinal facility and CASCO for the sale of steam and provision of compressed air by the Cardinal facility to the CASCO corn refining plant. The agreement establishes a sale price per 1,000 pounds of steam by the Cardinal facility which has increased annually since 1993 in accordance with a formula based on the Consumer Price Index.

The Energy Savings Agreement matures on January 31, 2015 and provides that by January 31, 2014, the parties will start negotiations with respect to a renewal term.

Gas Purchase Agreement

The natural gas required by Cardinal in its generation activities is supplied under a Gas Purchase Agreement with Husky Energy Marketing Inc. which expires on May 1, 2015.

The price of natural gas delivered under the Gas Purchase Agreement is tied to the DCR, with a guaranteed minimum 2% per annum escalator.

Gas Swap Contracts

Cardinal has entered into gas swap contracts to fix the revenue it receives from the sale of gas that becomes available when Cardinal is undergoing maintenance or when OEFC reduces its electricity requirement from Cardinal during summer months. This revenue is used to offset the overall gas costs for the plant. The gas swaps extend to 2008 and the counterparty is a Canadian Chartered Bank.

Environmental and social responsibility management

Macquarie Power Income Fund (the "Fund") recognizes that its current and future investments may involve both environmental and social responsibilities as a result of the services provided by such assets.

The Fund's environmental responsibility arises from the impact (both positive and negative) on natural resources by the operations of the Fund and its investments. The Fund's social responsibility arises from the impact (both positive and negative) on the community, customers, employees and investors by the operations of the Fund and its investments.

In late 2004 the Fund formalized its environmental and social responsibility management with the adoption of a board policy, which is outlined below.

In general, it is the Fund's policy to ensure compliance by its assets within the relevant regulatory framework and the standards under which an asset operates. The Fund's environmental and social responsibilities are managed throughout the investment process as follows:

- Asset acquisition due diligence
  Environmental and social responsibilities are considered as part of the acquisition due diligence process. Where they exist, regulatory obligations are viewed as minimum standards for environmental and social responsibility management post-acquisition.

  The policy outlines the key steps to be undertaken during the due diligence phase, including engaging an appropriate environmental expert consultant to identify issues and obligations relating to the asset.

- Ongoing asset management
  The Fund's ability to control or influence the ongoing environmental and social responsibility management at each asset differs based on its level of investment and the regulatory framework that governs those issues. Importantly, the regulatory framework and minimum standards are not controlled by the Fund or its assets.

  Regular asset board reporting enables compliance with environmental requirements to be monitored and environmental and social responsibility issues to be identified and resolved on a timely basis.

- Stakeholder reporting
  Environmental and social responsibility management are important. The Fund's policy is to report annually regarding environmental and social responsibility management, including a summary of its policy and key responsibilities, and a statement on regulatory compliance during the reporting period.

Key environmental and social responsibility factors

Following a review of the specific regulatory requirements, the Fund has identified its key environmental and social responsibility factors as:

- Resource use (water, energy and raw materials)
- Dangerous goods and hazardous materials
- Gaseous emission
- Climate change
- Noise
- Flora and fauna
- Heritage
- Waste
- Environmental monitoring and reporting
- Occupational health and safety
- Recruitment and employment compliance
- Community and stakeholder relations

Environmental and social responsibility-related regulatory requirements

The Fund is not aware of any significant breaches of relevant environmental and social responsibility-related regulatory standards by its asset during the period ended December 31, 2004.

During this first reporting period, Continuous Emissions Monitoring Equipment (CEMS) was installed at the Cardinal plant.

Macquarie Power Income Fund corporate governance statement

Legal framework

Macquarie Power Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established by the Fund Declaration of Trust on March 15, 2004 under the laws of the Province of Ontario. Macquarie Power Income Trust ("MPT") is an unincorporated, open ended, limited purpose trust established by the MPT Declaration of Trust on March 15, 2004 under the laws of the Province of Ontario. All of the MPT Units and MPT Notes are owned by the Fund, and MPT, in turn, holds an interest in Cardinal Power generating facility through its direct limited partnership interest in Cardinal Power of Canada, LP ("Cardinal LP") and its ownership of Cardinal Power Inc., the General Partner (the "GP") of Cardinal LP.

Cardinal LP is a limited partnership established by the Cardinal LP Agreement under the laws of the State of Delaware. The GP is a wholly–owned subsidiary of MPT.

The units of the Fund ("Units") are listed and trading on the Toronto Stock Exchange ("TSX"). An unlimited number of Units may be issued pursuant to the Fund Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund.

The Fund and MPT are administered by Macquarie Power Management Ltd. ("MPML" or the "Manager") through an administration agreement ("Administration Agreement"). MPML also provides certain management services to Cardinal LP for the facility and any future facilities through a management agreement (the "Management Agreement"). MPML is a wholly owned indirect subsidiary of Macquarie Bank Limited ("MBL"), an Australian public company listed on the Australian Stock Exchange.

The Fund has four trustees (the "Board" or "Trustees"), three of whom are independent, as defined under Section 1.4 of Multilateral Instrument 52-110 – Audit Committees ("MI 52-110"). During the term of the Administration Agreement, the Manager will be entitled to elect or appoint one Trustee. Each of the Trustees, other than the Manager's appointee, will be elected by holders of Units. Pursuant to the Fund Declaration of Trust, the MPT Units held by the Fund will be voted to cause the election as MPT Trustees of the same persons chosen by the holders of Units as Trustees of the Trust.

The Board is comprised of:

- **Mr. Derek Brown**
  Independent Trustee and Chair of the Board of Trustees
- **Mr. François Roy**
  Independent Trustee and Chair of Audit Committee
- **Mr. Patrick Lavelle**
  Independent Trustee and Chair of Governance Committee
- **Mr. Gregory Smith**
  Manager appointee

TSX Corporate governance standards

The TSX corporate governance guidelines are set out in Section 474 of the TSX Company Manual ("Standards"). The Standards are not prescriptive, however, listed entities are required to disclose the extent of their compliance with the Standards, and to explain why they have not adopted a Standard if they consider it inappropriate in their particular circumstances.

To assist investor understanding of the extent to which the Fund satisfies the Standards, this Statement discloses both the Fund's approach and MBL's Fund Management Activity Policy and the extent to which it supports and strengthens the Fund's compliance with each of the principles set out in the Standards. The Manager considers that the Fund and the Manager have conformed to the Standards to the extent consistent with the structure of the Fund and the terms of the agreements to which the Fund is party.

Macquarie Bank Limited Funds Management Activity Policy

To help safeguard the interests of investors, MBL has applied a governance framework to its specialist funds activities including the Fund. This framework is known as the Funds Management Activity Policy (the "MBL Fund Policy"). The framework addresses the fact that the interests of MBL may at times conflict with the interests of investors in the funds and thus, additional safeguards have been adopted to ensure the protection of the investors. The key elements of the MBL Fund Policy are:

– Related party transactions with MBL affiliated entities are clearly identified and governed by rules requiring they be undertaken on arm's length terms.

– Only independent directors make decisions about transactions which involve MBL or its affiliates as counterparties. MBL-related directors do not vote on related party matters.

– All related party transactions are tested by reference to whether they meet market standards. In particular, fee schedules and the terms of all mandates and conditions are subject to third party expert review.

– MBL has a separate Infrastructure and Specialized Funds division and staff who are dedicated to the funds management business. They serve the interests of security holders and the boards of the funds.

– All recommendations to fund boards are prepared by the funds' management staff and all information and analysis supporting the recommendations to the boards are reviewed or prepared by funds' management staff.

– Each listed fund has its own Managing Director or Chief Executive Officer.

– There is a "Chinese Wall" operating between the infrastructure funds management business and other parts of MBL.

The Fund Corporate Governance Statement

Stewardship of the Fund

The Fund Declaration of Trust provides, among other things, that the Trustees shall supervise the activities and manage the investments and affairs of the Fund. Responsibility for corporate governance and the internal working of the Fund rests with the Board of the Fund. The Board has adopted a formal mandate setting out its functions and matters that are delegated to management. The day-to-day operations and affairs of the Fund and its subsidiaries are administered by the Manager.

The Board is responsible for:

a. Oversight of the Fund's Corporate Governance

b. Monitoring of Financial Performance and Other Financial Reporting Matters

c. Policies and Procedures

d. Management of Communications and Reporting

Four full Board meetings are held each year. Non-scheduled meetings are called as required. Trustees are provided with board reports in advance of Board meetings, which contain information to enable informed discussion of all agenda items.

Strategic planning process

The Manager is responsible for the development of long term corporate strategy in accordance with the Administration Agreement, while the role of the Board is to review, question and validate, and ultimately to approve the strategies proposed by the Manager. The Board reviews the Fund's long term strategy annually.

Principal risks

In late 2004, the Board adopted a Risk Management Policy and Framework for the Fund. MPML assists the Fund in managing the risks of its operations, but ultimately, responsibility for the Fund's Risk Management Framework rests with the Board of the Fund. As part of the monitoring process, the Board is provided with the following information at scheduled board meetings:

a. Any proposed changes to the Risk Management Framework, key policies or reporting arrangements for approval;

b. Reports on exposures, non-compliance with key policies and general effectiveness of risk management systems when necessary;

c. Results of independent reviews of the control environment; and

d. Other information required by the Board from the Manager.

In addition to the Board's oversight role, MPML's operations fall within the Infrastructure and Specialized Funds division of MBL, which requires an independent periodic review to ensure a satisfactory control environment is in operation. The result of this audit is reported to the Board.

Succession planning
The Board requires succession planning to be periodically reported on to the Board by the Manager. This process includes, on a continuing basis, reports from the Manager as to anticipated or forthcoming changes in senior management personnel in the Manager.

Communications policy
The Fund has adopted an external communications policy based on the belief that investors, and the investment community generally, should be informed of all major business events that influence the Fund in a factual, timely and widely available manner and in compliance with the Fund's continuous disclosure obligations. The Fund has adopted external communication practices that include procedures for dealing with potentially price-sensitive material information which includes referral to both the CEO and General Counsel of the Manager for a determination as to disclosure required.

In particular, the Board approves all of the Fund's major communications including annual and quarterly reports. The Fund communicates with its stakeholders through a number of channels including its website and e-mail. This policy also includes procedures for communicating with analysts by conference calls.

Integrity of internal control
The Board, through its Audit Committee and external auditors, examines the effectiveness of the Fund's internal control processes and management information systems. The Board consults with management and external auditors of the Fund to ensure the integrity of these systems.

Trustee independence
Each of the members of the Board, other than the Manager's appointee, is independent of the Fund and its business, and all Board members are "outside directors", as defined in the Standards. Only the Manager's appointee is a "related director", as defined in the Standards. In order to be independent, the Board member must qualify as independent, as defined in MI 52-110, and as set out in the Fund's governance guidelines. MI 52-110 defines an independent trustee as a trustee who has no direct or indirect material relationship with the Fund ("Independent Trustee"). A material relationship is a relationship which could in the view of the Board reasonably interfere with the exercise of a Trustee's independent judgment. Specific examples of material relationships are set out in the governance guidelines, and include one who has been or is, or who's family member has been or is, an employee or Executive Officer of the Fund, and one who is affiliated with an internal or external auditor of the Fund.

Individual unrelated Trustees
As noted above, in determining the independence of a Trustee the Board has adopted the standards of independence required by MI 52-110. Each Board member has been evaluated to determine the extent of that member's independence through an analysis of each Board member's relationships with the Macquarie Power Income Group, consisting of the Fund, MPT, the GP, Cardinal LP, MPML, and MBL. As well, each of the Board members has been evaluated to determine whether he is "unrelated" on the basis of whether he is free from any interest other than as a holder of Units, which could, or could reasonably be perceived to, materially interfere with the member's ability to act in the best interests of the Fund. Three of the four Board members are independent and unrelated, while the fourth is appointed by the Manager.

The following guidelines apply to Trustee selection:

- Integrity.
- Particular expertise (sector and functional) and the degree to which they complement the skill set of the existing Board members.
- Reputation and standing in the capital markets.
- In the case of prospective Independent Trustees, actual (as prescribed by the above definition) and perceived independence from the Macquarie Power Income Group and MBL.

Board candidate identification

The Governance Committee is comprised entirely of Independent Trustees and is mandated to recruit and consider candidates for the Board and to make recommendations to the Board. Board members are encouraged to identify potential candidates. The Chair of the Board and the CEO of the Manager are consulted and have input in the process. An invitation to stand as a nominee for election to the Board will normally be made to a candidate by the Board through the Chair.

Assessing the Board's effectiveness

A review of the Board's performance is undertaken on an annual basis through a Board and committee evaluation as well as a peer review. The process is initiated by the Secretary of the Board, who submits evaluation questionnaires to the Trustees. Completed questionnaires are reviewed by the Chair of the Governance Committee who is given the opportunity to engage Board members in a discussion of any issues as disclosed in the evaluation questionnaires. The Chair develops a report for the Governance Committee for consideration at which time recommendations are developed for the Board to consider. The Board then takes any necessary action.

Orientation and education of Trustees

The Governance Committee is mandated to oversee an orientation and education program for new Board members, as well as ongoing educational opportunities.

Effective Board size

The maximum number of Board members permitted by the Fund's Declaration of Trust is ten, and the minimum is four. The Board has the ability to increase or decrease its size within the limits defined by the Fund Declaration of Trust. It is the view of the Board that this size of Board is sufficient to provide a diversity of expertise and opinions and allow effective committee organization, yet small enough to enable efficient meetings and decision–making and maximize full Board attendance. The Board will review its size if a change is recommended by the Governance Committee.

Compensation of Trustees

The Board reviews the compensation paid to the Trustees to ensure that it is competitive, aligns the interests of Trustees with those of unitholders and is consistent with the risks and responsibilities involved in being an effective Trustee.

Committees and outside Trustees

Pursuant to the Fund Declaration of Trust, there are two standing Board committees: (i) the Governance Committee; and (ii) the Audit Committee. This structure may change as the Board considers from time to time which of its responsibilities can best be fulfilled through detailed review of matters in committee. Each Committee operates according to a Board-approved written charter outlining its duties and responsibilities. The Board has determined that the Committees are composed entirely of independent and unrelated Trustees who are all outside directors.

Approach to corporate governance

The responsibilities of the Governance Committee include oversight with respect to Board composition and Trustee nominations, corporate governance, business and ethical conduct, Trustee orientation and continuing education, Board evaluations, Board operations, committee composition and Board independence.

Position descriptions
As noted above, the Trustees have full authority to supervise the activities and manage the investments and affairs of the Fund, in the manner contemplated by, and subject to the obligations by which they are bound as Trustees pursuant to the Fund Declaration of Trust. Accordingly, except for the Chair, the Trustees have not established position descriptions supplemental to the statements of their duties and responsibilities set out in the Declaration of Trust.

The responsibilities of the Manager with respect to the development of the business and overall strategy of the Fund are set forth in the annual management plan of the Fund. The Trustees also look to the Manager to identify matters which should be considered by the Trustees, to provide them with all information and documentation relevant to the Trustees' consideration of those issues and to remain alert to developments in the strategic environment in which the Fund operates. The Board oversees the activities of the Manager with a view to ensuring that officers of the Manager carry out their respective responsibilities in accordance with their fiduciary duties. The Governance Committee oversees and evaluates the compliance of the Manager with respect to its goals, objectives and responsibilities under the annual management plan of the Fund and the Administration Agreement on an annual basis and reports on the Committee's finding to the Board.

Board independence
The Chair of the Board, Derek Brown, is an Independent Trustee. The Board has a number of other structures and processes in place to facilitate the functioning of the Board independently of the Manager and MBL. The Board consists of a majority of Independent Trustees and its two committees are composed entirely of Independent Trustees. In addition, where thought appropriate, the Independent Trustees meet without the presence of the nominee of (or others related to) the Manager or MBL.

Audit committee
The Audit Committee, chaired by François Roy, is composed entirely of Independent Trustees. The responsibilities of the Audit Committee include oversight of the Fund's responsibilities with respect to financial reporting, including oversight of the engagement and work of the Fund's external auditors, the Fund's financial management and the integrity of the Fund's financial statements and financial reporting process. The Audit Committee meets with the Fund's external auditors quarterly. The Audit Committee is also responsible for overseeing management reporting and internal control systems.

Outside advisers
A Trustee is entitled to engage, at the expense of the Fund, a non-management independent advisor to assist on matters involving his or her responsibilities as a Trustee. The Trustee should advise the Chair of the Board of the nature of and reasons for requesting the external advice and a fee estimate, and if reasonable, will be authorized by the Chair.

Management's discussion and analysis

Introduction

This management's discussion and analysis ("MD&A") provides the reader with a financial overview of the operations of the Macquarie Power Income Fund (the "Fund") for the period ended December 31, 2004. The Fund closed its Initial Public Offering ("IPO") on April 30, 2004. This first financial period from April 30, 2004 to December 31, 2004 covers 246 days of operations (the "Period"). The MD&A should be read in conjunction with the audited consolidated financial statements dated December 31, 2004 and the consolidated statement of forecasted net income of the Fund for the year ended December 31, 2004 included in the prospectus of the Fund dated April 19, 2004. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Fund reports its results in Canadian dollars.

Measurement of performance

The Fund uses certain performance measures which are not defined terms under Canadian GAAP. The Fund measures earnings before interest, taxes, depreciation and amortization and unrealized gains and losses ("EBITDA") because this method allows management and readers of the financial statements to assess the operating and financial performance of the Fund's operations. Distributable cash is determined by the Fund as total cash flow from operations adjusted for non-cash changes in working capital, and adjusted for reserve allocations to and from major maintenance and capital expenditure accounts. Management believes that distributable cash is a useful supplemental measure that may assist investors in assessing performance. The payout ratio is defined as distributions declared as a proportion of distributable cash.

As EBITDA, distributable cash and payout ratio are not recognized measures under Canadian GAAP, they may differ from similar computations as reported by other entities and, accordingly, may not be comparable.

Corporate overview

The Fund, through its subsidiaries, operates a nominal net 156 megawatt, base load, combined cycle cogeneration plant (the "Facility"), fuelled by natural gas which is located in Cardinal, Ontario. The Facility is one of the largest independent natural gas cogeneration power producers in Ontario and was developed in the mid 1990's.

The electricity generated by the Facility, less the amount consumed in operations, is sold exclusively to Ontario Electricity Financial Corporation ("OEFC") at contracted rates under the Power Purchase Agreement. The Facility has minimum volume purchase requirements under the Gas Purchase Agreement. Gas swaps have been entered into to mitigate the effect of gas price fluctuations on the proceeds received for the sale of natural gas in excess of requirements. The Facility can curtail the production of electricity within certain parameters and sell the gas that would otherwise have been used to generate electricity on the spot market.

Summary of operating results

The discussion and analysis of the operating results for the Period reflects the consolidated operations of the Fund, Macquarie Power Income Trust (the "Trust") and Cardinal Power of Canada LP ("Cardinal"). On the basis of revenue and EBITDA, the operating results for the consolidated entity are comparable to those of Cardinal as a standalone entity. As such, it is possible to compare the consolidated results of the Fund in the current period to the operating results of the Cardinal facility to the same period in the prior year.

The actual results of the Fund for the Period have been compared to the forecast contained in the Fund's prospectus dated April 19, 2004 (the "FOFI"). Since the Period includes only eight months of activity, the actual data from the FOFI has been adjusted to reflect the results for the equivalent period (the "Forecast"). In addition, a comparison is also made to the actual results of the Fund for the Period to the same period of the previous year. Since the period ended December 31, 2004 includes only eight months of activity, the actual data from the previous year has been adjusted to reflect the results for the comparable interim period. The comparative numbers for 2003 have been restated to eliminate the impact of the levelization provisions contained in the Power Purchase Agreement that impacted revenue and EBITDA in 2003. These provisions are no longer in effect as the levelization liability was totally repaid prior to listing on April 30, 2004 from the proceeds of the issue of the trust units.

The Cardinal plant demonstrated high reliability and consistent output with an availability and a capacity load factor of 98.0% and 96.0%, respectively, for the Period.

Performance of the Fund
The performance of the Fund exceeded the Forecast for the Period. Presented below is selected consolidated financial and operating information.

(in millions of dollars, except per unit amounts)

	Period ended December 31, 2004	Forecast Period	Period ended December 31, 2003
Revenue	55.8	55.2	48.3
EBITDA(i)	16.2	13.8	13.7
Depreciation and amortization	8.3	8.3	(ii)
Unrealized gain on gas swap contracts	(0.2)	-	(ii)
Financing expenses	0.9	1.1	(ii)
Net income	7.2	4.4	(ii)
Per trust unit ($)	**0.342**	**0.207**	(ii)
Cash flow from operations before changes to non-cash working capital items	16.2	12.7	(ii)
Distributable cash(i)	14.2	12.0	(ii)
Per trust unit ($)	**0.669**	**0.569**	(ii)
Distributions declared to unitholders	13.5	-	(ii)
Per trust unit ($)	**0.636**	**-**	(ii)
Payout ratio(iii)	95.0%	-	(ii)
Number of trust units outstanding (millions)	21.2	21.2	(ii)
Sale of electricity (000s MWh)	842.5	837.3	736.7
Sale of steam (000s lbs)	440.3	452.0	455.3

(i) See "Additional information about non-GAAP performance measures" for a reconciliation of EBITDA and distributable cash to net income for the Period and cash flow from operations. EBITDA and distributable cash are not recognized measures under GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, EBITDA and distributable cash may not be comparable to similar measures presented by other issuers.

(ii) Financial results from the prior year have been presented only if relevant and comparable to the current period.

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

Revenue
For the Period, the Fund generated revenue of $55.8 million compared to $55.2 million and $48.3 for the Forecast and the period ended December 31, 2003, respectively. These positive variances of $0.6 million and $7.5 million are primarily due to higher power rates and, in the case of 2003, the sale of approximately an additional 106,000 megawatt hours of electricity. The volumes of electricity generated in the Period versus the period ended December 31, 2003 reflect lower curtailment of electricity production in 2004 than in the comparable period in 2003. Steam sales accounted for $0.7 million of revenue in the Period, which was in accordance with the Forecast and the period ended December 31, 2003.

Operating and administrative expenses

The Fund's operating and administrative expenses for the Period were $1.8 million less than Forecast. Approximately $1.0 million of the reduction related to lower fuel costs in comparison to forecast. Gas transmission rates were also lower than forecast. The remaining variance related primarily to a reduction in forecasted repairs and maintenance caused by shifting preparatory work for major maintenance activities to 2005. This preparatory work was scheduled in 2004 and has been deferred to 2005. This will not affect the reliability and availability of the plant nor the timing of major maintenance planned for 2005 and 2006.

Operating and administrative expenses for the Period were approximately $5.0 million higher than the period ended December 31, 2003. The variance is primarily related to increased gas costs in line with the higher production of electricity. This increase was somewhat offset by lower repair and maintenance costs.

EBITDA and Net income

The EBITDA generated by the Fund during the Period was $16.2 million compared to $13.8 million and $13.7 million for the Forecast and period ended December 31, 2003, respectively. The $2.4 million and $2.5 million in favourable variances arose from the additional revenue discussed above, offset by the reduction in direct costs associated with operations.

Net income for the Period was $2.8 million better than Forecast, reflecting the improvements at the EBITDA level combined with the reduced financing costs and the unrealized gain on the gas swap contracts.

A reconciliation of Net income to EBITDA is presented on page 18 of this report in the section titled "Additional information about non-GAAP performance measures".

Financing expenses

Financing expenses amounted to $0.9 million for the Period, marginally lower than the Forecast reflecting a focus on reducing the Fund's operating costs. The Fund has entered into a series of Banker's Acceptances ("BA") and has been successful in reducing borrowing costs while maintaining the flexibility with varying maturities.

During the Period, the Fund converted its term loan from a prime rate loan to a series of BAs. The result of these transactions was to fix the interest rate on the Fund's term loan for varying periods over the following 12 months. The all-in borrowing costs for the three BAs are fixed at 4.4% on $11.7 million to March 13, 2005, 4.6% on $11.6 million to June 13, 2005 and 4.5% on $11.7 million to December 16, 2005. These transactions partially protect the Fund against increases in interest rates, with a view to adding to the stability and predictability of the Fund's cash flows. The borrowing costs on these loans were paid at the inception date of the respective transactions and are amortized over the term of the respective maturities. The unamortized portion of the borrowing costs of $0.8 million at December 31, 2004 is included in prepaid expenses and borrowing costs in the Consolidated Statement of Financial Position.

Unrealized gain on gas swap contracts

At times, the Facility does not produce electricity, such as in cases where the Facility is shut down in order to perform scheduled maintenance. This will cause the Facility to have excess natural gas which it sells to mitigate the loss of revenue resulting from decreased electricity production. The sale of excess gas exposes Cardinal to gas price volatility for the excess gas volume caused by fluctuations in the market rates for gas.

To stabilize the cash flows from excess gas sales, Cardinal entered into 5 gas swap contracts in April 2004. Under the terms of the contracts, Cardinal receives fixed payments from a counterparty, in exchange for paying floating payments to the counterparty. These payments fluctuate based on the market prices of natural gas. The contracts are based on an estimated volume spread over the 7 month period from April until October. The contract volume can be adjusted to match the monthly profile of gas available for sale. The effect of the contracts is to fix the revenues Cardinal receives from the sale of excess gas. The contracts with the counterparty are a series of monthly contracts from April to October of each year and terminate by October 31, 2008. As a result, most of the revenue uncertainty with respect to the sale of excess gas has been removed.

A gain of $0.2 million was recorded for the Period to reflect the movement in fair value of certain of the contracts entered into for 2007 and 2008. This unrealized gain had no impact on the operating cash flows or distributable cash for the Period.

Quarterly financial information

The quarterly information provided below demonstrates the seasonal nature of the operations. There is higher demand for power in the fall and winter months than in spring and summer. The power rates reflect this seasonal demand and are higher in the winter months than in the summer. Additionally, the Facility performs the majority of its regularly scheduled maintenance activities in the summer months.

2004 (in millions of dollars, except per unit amounts)	**Q2** (April 30, 2004 to June 30, 2004)	**Q3**	**Q4**
Revenue	12.9	18.7	24.3
Net income	1.1	0.9	5.3
Net income per unit	0.051	0.041	0.249
Cash flow from operations per unit	0.069	0.203	0.396
Distributions declared per unit	0.161	0.238	0.238

2003 (in millions of dollars, except per unit amounts)	**Q2** (April 30, 2003 to June 30, 2003)	**Q3**	**Q4**
Revenue	11.9	15.9	20.5
Net income	(i)	(i)	(i)
Net income per unit	(i)	(i)	(i)
Cash flow from operations per unit	(i)	(i)	(i)
Distributions declared per unit	(i)	(i)	(i)

(i) Financial results from the prior year have been presented only if comparable to the current year.

Financial condition

Accounts receivable at December 31, 2004 were $8.8 million. Approximately 97% of this total was due from OEFC which has contracted payment dates of no longer than 35 days.

Property, plant and equipment had a carrying value of $148.2 million at December 31, 2004. There have been no significant capital expenditures since the formation of the Fund.

The electricity supply and gas purchase contracts are separately identifiable intangible assets and are amortized over ten years. The carrying value of these intangible assets is tested when events arise that indicate there may be a change in recoverability.

Goodwill of $18.0 million is not amortized. It is tested at least annually for impairment. The Manager will complete an impairment test in the first quarter of 2005 and does not anticipate that there will be a need to recognize a significant impairment loss in 2005.

Trade payables and accrued expenses amounted to $6.3 million of which approximately 75% of the balance is due to the Facility's supplier of gas.

Liquidity and Capital Resources

Cash flows

During the Period, cash flow from operations before changes to non-cash working capital items totalled $16.2 million compared with $12.7 million in the Forecast. The positive variance reflects the improved profitability of the Facility and deferral of certain maintenance activities to 2005. Of the $16.2 million in cash flow from operations before changes to non-cash working capital items generated in the Period, $11.8 million was distributed to unitholders, $1.7 million was used to pre-pay interest and effectively reduce interest rate volatility, and the balance was comprised primarily of changes to non-cash working capital.

Liquid assets and financial position

As at December 31, 2004, cash and cash equivalents totalled $10.9 million after net allocations of $1.3 million to the major maintenance reserve and $0.1 million from the capital expenditure reserve for the Period. Cash and cash equivalents have been allocated as follows:

(in millions of dollars)

	December 31, 2004
Major maintenance reserve	4.3
Capital expenditure reserve	0.9
General reserve	3.0
Other cash and cash equivalents	2.7
Cash and cash equivalents	**10.9**

The Fund also has a $15 million revolving operating loan available. As at December 31, 2004 there is no amount outstanding under the facility.

Long term assets and liabilities were stable during the Period. As at December 31, 2004, unitholders' equity was $188.7 million. Long term debt totalled $35.0 million or a ratio of debt to unitholders' equity of 0.19:1.00

Additional information about non-GAAP performance measures

EBITDA

To assess the operating performance of its assets, the Fund uses EBITDA, even though it is not a performance measurement under GAAP. EBITDA is a widely accepted financial indicator used by the capital markets to assess the performance of a company or an income fund, and its ability to generate cash through operations. Management believes that this is especially relevant for the Fund, which pays out virtually all of its cash flow in regular distributions. However, since EBITDA is not a measurement of performance under GAAP, it may not be comparable to similarly named measures used by other entities. Investors should not use EBITDA as an alternative for net income, an indicator of operating income or cash flows, or a measure of liquidity.

The following table reconciles EBITDA to Net income:

(in millions of dollars)

	Period ended December 31, 2004	Forecast Period
Net income	7.2	4.4
Net interest expense	0.9	1.1
Depreciation and amortization	8.3	8.3
Unrealized gain on gas swap contracts	(0.2)	-
EBITDA	**16.2**	**13.8**

Distributable cash

Distributable cash is not a recognized performance measurement under GAAP. Canadian open-ended trusts, such as the Fund, use distributable cash as an indicator of financial performance. Management believes that distributable cash is a useful measurement of financial performance. Distributable cash may differ from similar computations as reported by other entities and, accordingly, may not be comparable to distributable cash as reported by such entities. Distributable cash is not an alternative for cash flow from operations or a measure of liquidity.

The following is a reconciliation of distributable cash:

(in millions of dollars)

	Period ended December 31, 2004
Total cash flow from operations	14.7
Add:	
Release from major maintenance reserve account	0.2
Release from capital expenditure reserve account	0.4
Non-cash changes in working capital	0.7
Less:	
Allocation to major maintenance expenditure reserve account	(1.5)
Allocation to capital expenditure reserve account	(0.3)
Distributable cash for the Period	14.2
Distributable cash per unit for the Period (in dollars)	**$0.669**

Payout ratio

Payout ratio is not a recognized performance measurement under GAAP. Management believes that payout ratio is a useful indicator of Fund performance. The payout ratio may differ from similar computations as reported by other entities and, accordingly, may not be comparable. The Fund declared distributions to unitholders of $13.5 million for the Period. This represents a payout ratio of 95.0% for the Period. Payout ratio is defined as distributions declared as a percentage of distributable cash.

Trust units issued

At December 31, 2004, the Fund had 21.2 million trust units outstanding. There were no changes to trust units outstanding during the Period.

Tax treatment of distributions

In computing income for a given year, unitholders are required to include the pro-rata share of the Fund's income for tax purposes payable in that year by the Fund to the unitholders.

Related party transactions

For the Period, the Fund incurred management fees and administrative fees of $387,269 and $67,351 to MPML, respectively. Also, during the Period, the Fund recorded additional cost reimbursements to MPML of $189,199 and an incentive fee of $203,752. These fees have been approved by the Board of Trustees of the Fund and conform to the terms of the Management and Administration agreements in place.

Risks and uncertainties

Seasonality

Since Cardinal has long-term power sales and gas purchase contracts with fixed prices, its results are not significantly affected by fluctuations resulting from the market prices for electricity or the volatility in the price of natural gas. However, the power sales contracts contain lower power rates during the six-month period from April to September (and higher prices from October to March) to reflect differences in market demand between these two different segments of the year. In addition, the Facility generally performs its major maintenance during the April to September period, and as a result, the Fund's operating performance during this period is somewhat below that of the remainder of the year. To partially offset this seasonality, the Facility sells the excess gas not consumed at prevailing market prices through a gas resale agreement with its gas supplier. In addition, a cash balance of $2.0 million was included in the assets of Cardinal acquired by the Fund. This cash balance is intended to offset the seasonality in electricity demand and is expected to be sufficient to maintain level monthly distributions to unitholders throughout the year.

Accounting estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions (see Note 3 to the audited consolidated financial statements) that affect the reported amounts of assets and liabilities, disclosure of contingencies, and the reported amounts of revenues and expenses during the Period. Actual results could differ from those estimates.

Contractual obligations and other commitments

Management is of the opinion that there have been no significant changes in risks and uncertainties since April 19, 2004.

Assessment for 2004 and outlook for 2005

The Fund exceeded FOFI due to improvements in electricity prices, a reduction in gas transmission rates and a shift in preparatory maintenance work from 2004 to 2005. In the period since listing in April 2004, the Fund has established a firm foundation for the future with the introduction of a comprehensive suite of corporate governance policies and procedures, financial reporting and control procedures, financial systems and a business plan for future growth. Cardinal Power, the Fund's initial asset, has been operated and maintained to provide for stable and reliable performance in keeping with the requirements of the Fund.

In 2005, the Fund will continue to focus on identifying profitable investment opportunities to diversify its risk profile and enhance cash available for distribution to unitholders.

Forward looking information

The purpose of this discussion and analysis is to help the reader understand the financial performance of the Fund since its inception. Certain statements in this report may constitute "forward looking statements" and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund to be materially different from any performance or achievement expressed or implied by such "forward looking statements".

Management's responsibility for financial reporting

The consolidated financial statements are the responsibility of the management of Macquarie Power Income Fund and have been approved by the Fund's Board of Trustees. These consolidated financial statements have been prepared by the Manager in accordance with Canadian generally accepted accounting principles ("GAAP") and include amounts that are based on estimates and judgments. Financial information contained elsewhere in this Report is consistent with the consolidated financial statements.

Macquarie Power Income Fund maintains a system of internal controls that are designed to provide reasonable assurance that the financial records are reliable and accurate and form a proper basis for the preparation of financial statements.

The Board of Trustees of Macquarie Power Income Fund appointed an Audit Committee which is composed entirely of non-management and independent Trustees. The Audit Committee reviews the consolidated financial statements with management and the external auditors before the consolidated financial statements are submitted to the Board of Trustees for approval.

The external auditors, PricewaterhouseCoopers LLP, have audited the consolidated financial statements in accordance with Canadian GAAP. The following report of PricewaterhouseCoopers LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

Robert Rollinson
President and Chief Executive Officer

Harry Atterton
Chief Financial Officer

Toronto, Canada
March 1, 2005

Independent auditors' report

To the Unitholders of Macquarie Power Income Fund:

We have audited the consolidated statement of financial position of Macquarie Power Income Fund as at December 31, 2004 and the consolidated statements of income, unitholders' equity and cash flows for the period from April 30, 2004 to December 31, 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and the results of its operations and its cash flows for the period from April 30, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, Canada
January 28, 2005

Consolidated statement of financial position

As at December 31, 2004

(in thousands of dollars)	
Current assets	
Cash and cash equivalents (note 4)	10,883
Accounts receivable	8,753
Inventory	88
Prepaid expenses and borrowing costs	1,223
Total current assets	**20,947**
Property, plant and equipment (note 5)	148,240
Electricity supply and gas purchase contracts (note 5)	44,786
Gas swap contracts at fair value (note 12)	213
Goodwill (note 2)	18,023
Total assets	**232,209**
Current liabilities	
Trade payables and accrued expenses	6,336
Distributions payable	1,676
Total current liabilities	**8,012**
Long term debt (note 7)	35,000
Liability for asset retirement	517
Total liabilities	**43,529**
Unitholders' equity	**188,680**
Total unitholders' equity and liabilities	**232,209**

Information for the comparative reporting date of December 31, 2003 has not been provided as the Fund had not been formed at that time.
The financial statements should be read in conjunction with the accompanying notes included in this financial report.

Consolidated statement of Unitholders' equity

For the Period ended December 31, 2004

(in thousands of dollars)

	Cumulative unitholders' equity	Retained earnings	Cumulative distributions	Total
Opening balance at April 30, 2004	-	-	-	-
Units issued as part of the Initial Public Offering on April 30, 2004	211,690	-	-	211,690
Cost incurred in relation to the Initial Public Offering on April 30, 2004	(16,783)	-	-	(16,783)
Net income for the Period ended, December 31, 2004		7,236		7,236
Distributions declared to unitholders for the Period ended, December 31, 2004 (note 9)			(13,463)	(13,463)
Closing balance at December 31, 2004	**194,907**	**7,236**	**(13,463)**	**188,680**

Consolidated statement of income

For the Period ended December 31, 2004

(in thousands of dollars)

Revenue	55,848
Cost and expenses	
Operating costs	38,382
Administrative expenses	1,162
Depreciation and amortization	8,340
	47,884
Income from operations	7,964
Unrealized gain on gas swap contracts (note 12)	213
Net interest expense	(941)
Net income for the period	7,236
Weighted average number of trust units outstanding (units)	21,168,997
Basic and diluted earnings per trust unit ($)	0.342

The financial statements should be read in conjunction with the accompanying notes included in this financial report.

Consolidated statement of cash flows

For the Period ended December 31, 2004

(in thousands of dollars)

Cash flows from operating activities:	
Net income	7,236
Add back:	
Movement in fair value in gas swap contracts (note 12)	(213)
Depreciation and amortization	8,340
Amortization of prepaid borrowing costs	824
Accretion of asset retirement liability	36
Non-cash changes in working capital	
Decrease in trade receivables	(2,039)
Decrease in inventory	48
Increase in prepaid expenses	(360)
Increase in trade payables	857
Total cash flows from operating activities	14,729
Cash flows from investing activities:	
Cash paid in relation to the acquisition of Cardinal Power of Canada, LP net of cash acquired	(219,943)
Investment in fixed assets	(366)
Total cash flows from investing activities	(220,309)
Cash flows from financing activities:	
Cash proceeds received from the Initial Public Offering	211,690
Costs in relation to the Initial Public Offering	(16,783)
Cash proceeds received from the issue of the Term Loan	35,000
Prepayment of borrowing costs and interest	(1,657)
Distributions paid to unitholders	(11,787)
Total cash flows from financing activities	216,463
Net increase in cash and cash equivalents	10,883
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	**10,883**

The financial statements should be read in conjunction with the accompanying notes included in this financial report.

Notes to the consolidated financial statements

December 31, 2004

1. Organization

The Fund is an unincorporated, open-ended, trust established on March 15, 2004, under the laws of the Province of Ontario. The Fund issued two initial units on March 15, 2004 for cash proceeds of $20. An unlimited number of units may be issued pursuant to the trust indenture. The Fund began its operations on April 30, 2004 and indirectly acquired 100% of the equity of Cardinal. Cardinal is a 156 megawatt, natural gas-fired combined cycle cogeneration plant located in Cardinal, Ontario.

MPML, a 100% subsidiary company of Macquarie North America Ltd., provides administrative services to the Fund, in accordance with an administration agreement, and management services to Cardinal, in accordance with a management agreement.

Pursuant to an underwriting agreement dated April 19, 2004, the Fund issued 21.2 million units at a price of $10 each, for gross proceeds of $211.7 million. The Fund also redeemed the two initial units issued on March 15, 2004 at their original issue price. After paying the Initial Public Offering ("IPO") costs of $16.8 million, the net proceeds of $194.9 million from the issue of units and $35.0 million from the issue of the term loan were used to acquire 100% of the equity of Cardinal.

2. Business combinations

The acquisition of Cardinal has been accounted for using the purchase method. The total purchase price of $229.9 million has been allocated to the assets and liabilities of Cardinal as follows:

(in thousands of dollars)

	Revised estimate
Assets	
Cash and cash equivalents	9,964
Accounts receivable	6,714
Inventory	136
Prepaid expenses	30
Total current assets	16,844
Property, plant and equipment	153,000
Contracts	48,000
Goodwill	18,023
Total assets	235,867
Liabilities	
Trade payables and accrued expenses	(5,479)
Total current liabilities	(5,479)
Liability for asset retirement	(481)
Total liabilities	(5,960)
Total purchase price	229,907
Less: Cash acquired	(9,964)
Amount paid net of cash acquired	**219,943**

3. Significant accounting policies

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

Use of estimates

The financial information contained in the accompanying financial statements has been prepared in accordance with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from the estimates and the difference could be significant. Management estimates are used primarily in two areas: sales volumes are estimated to record accruals of revenue receivable in the last month of a reporting period; and natural gas volumes are estimated to record accruals of gas consumption and transportation costs in the last month of a reporting period. Also, sales of electricity are based on provisional power rates communicated by the Ontario Electricity Financial Corporation ("OEFC"). The agreement with OEFC provides that the provisional rates are used to settle electricity delivered from the plant during the year and finalized by OEFC subsequent to the year-end.

Basis of presentation

In addition to the Fund, these consolidated financial statements include the assets and liabilities and results of operations of the Trust, Cardinal Power Inc. (the "General Partner") and Cardinal, all of which are 100% owned subsidiaries of the Fund. All intercompany balances and transactions have been eliminated.

Contracts

Electricity supply and gas purchase contracts are separately identifiable intangible assets. The assets are presented in the Consolidated Statement of Financial Position and are recorded at their fair value at the date of acquisition. The contracts are amortized over their useful life of 10 years using the straight-line method.

Property, plant and equipment

Property, plant and equipment have been recognized at cost of acquisition and are included in the Consolidated Statement of Financial Position. Plant and equipment is depreciated over its useful life of 20 years using the straight-line method.

Goodwill

Goodwill is recorded at cost and is tested for impairment in the first quarter of each fiscal year or when indications of impairment arise. An impairment loss is recognized when the fair value of goodwill is less than its carrying amount.

Impairment of assets

The Fund evaluates the operating and financial performance of its long-lived assets for potential impairment in accordance with the Canadian Institute of Chartered Accountants (CICA) Accounting Recommendation 3063 "Impairment of long-lived assets." If an asset is determined to be impaired, the asset is written down to its fair value. The Fund reviews the fair value of long-lived assets in the first quarter of each fiscal year or as indicators of impairment arise.

Derivative instruments

The Fund uses swap contracts to manage its exposure to price fluctuations on sales of excess gas volumes.

The Fund has adopted Accounting Guideline 13, Hedging Relationships ("AcG 13") issued by the Canadian Institute of Chartered Accountants, which establishes the criteria for applying hedge accounting for derivative instruments. Derivatives which have been designated, and function effectively as hedges in accordance with AcG 13 are accounted for using hedge accounting principles. These require that the current period income or expense generated by the contracts is recognized during the period in which the underlying hedged transactions occur as adjustments to operating expenses.

Derivatives that do not qualify for hedge accounting are recorded in the Statement of Financial Position at fair value. Changes in fair value recorded in net income are reflected in the Consolidated Statement of Income.

Revenue recognition

Revenue from the sale of electricity and steam is recognized when delivered to the customer and priced in accordance with the provisions of the applicable power and steam sales agreements.

Maintenance and repairs

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

Income taxes
Under the terms of the Income Tax Act (Canada) (the "Tax Act"), Cardinal LP, as a partnership, is not subject to income taxes. Its income will be allocated to and included in computing the income of its partners, who are the General Partner and the Trust. Under the terms of the Tax Act, the Fund and the Trust are not generally subject to income tax to the extent their taxable income and taxable capital gains are distributed to unitholders. As the Fund and the Trust are contractually committed to distribute all or virtually all of their taxable income and taxable capital gains to unitholders, it is not likely that either entity will be subject to income taxes. Accordingly, no provision for income taxes has been recorded in the Fund or the Trust.

Net income per Unit
Net income per Unit is established by dividing net income, as determined above, by the Weighted Average Number of Units Outstanding during the period.

Recent accounting pronouncements – Consolidation of variable interest entities
Accounting guideline 15, Consolidation of Variable Interest Entities, of the CICA applies to certain entities that are subject to control on a basis other than ownership of voting interests and provides guidance for determining when such an entity should be consolidated. The guideline is applicable to annual and interim periods beginning on or after November, 2004. Management is currently evaluating the impact that this guideline may have on these financial statements.

4. Cash and cash equivalents

Cash and cash equivalents comprise liquid investments with original maturities of less than 90 days. At December 31, 2004 cash and cash equivalents reported in the Consolidated Statement of Financial Position have been allocated as follows:

(in thousands of dollars)

Major maintenance reserve	4,334
Capital expenditures reserve	897
General reserve	3,000
Total reserve accounts	8,231
Other cash and cash equivalents	2,652
Cash and cash equivalents	10,883

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

(in thousands of dollars)

	Property, plant and equipment	Electricity supply & gas purchase contracts
Acquisition cost	153,000	48,000
Depreciation for the eight months ended, December 31, 2004	(5,126)	(3,214)
Purchases of fixed assets during the eight months ended, December 31, 2004	366	-
Total	**148,240**	**44,786**

6. Bank credit facility

The Bank credit facility is a 364-day revolving operating loan for an amount of $15 million. At maturity, April 30, 2005, the loan can be replaced by a loan with similar terms and conditions and for successive periods of 364 days. Collateral for the facility is provided by a first ranking hypothec covering the assets of Cardinal. The utilization of the facility is subject to certain financial and non-financial covenants. Advances under the facility are made in the form of BAs or Prime Rate loans. In the case of BAs, interest is charged at the BA rate plus a stamping fee based on the Fund's ratio of consolidated total debt to consolidated EBITDA. In the case of Prime Rate loans, interest is charged at the bank's Prime Rate plus an applicable margin based on the same ratio. As at December 31, 2004, no amount is outstanding on the facility.

7. Long-term debt facility

The long-term debt facility is a 3-year term loan for an amount of $35 million maturing April 29, 2007. Collateral for the facility is provided by a first ranking hypothec covering the assets of Cardinal. Utilization of the facility is subject to certain financial and non-financial covenants. Advances under the facility are made in the form of BAs or Prime Rate loans. In the case of BAs, interest is charged at the BA rate plus a stamping fee based on the Fund's ratio of consolidated total debt to consolidated EBITDA. In the case of Prime Rate loans, interest is charged at the bank's Prime Rate plus an applicable margin based on the same ratio. At December 31, 2004, the interest on the Fund's long-term debt was fixed in the form of a series of BA loans as follows:

(in thousands of dollars)

Draw down amount	Maturity	All-in Rate
$11,700	March 13, 2005	4.4%
$11,600	June 13, 2005	4.6%
$11,700	December 16, 2005	4.5%

Borrowing costs, including interest, are paid at the inception of each BA loan. These costs are capitalized and amortized over the life of each respective loan. During 2004, the Fund prepaid $1,657,000 in borrowing costs. As at December 31, 2004, the unamortized portion of the capitalized borrowing costs totaled $833,000 and is included in the Consolidated Statement of Financial Position.

8. Units issued by the Fund

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

(i) 90% of the daily weighted average price per unit during the period of the last 10 days; and

(ii) an amount equal to either:

- (a) the closing price of the units on the date on which the units were tendered for redemption;
- (b) the average of the highest and lowest prices of units on the date on which the units were tendered for redemption; or
- (c) the average of the last bid and ask prices on the date on which the units were tendered for redemption.

The total amount payable in cash by the Fund in respect of such units and all other units tendered for redemption in the same calendar month shall not exceed $50,000 (provided that such limitation may be waived at the discretion of the Trustees of the Fund). In total, 21.2 million units were issued as at December 31, 2004.

9. Distributions to unitholders

Distributions to unitholders are paid on the last day of each month, one month in arrears. The following distributions have been declared to unitholders for the Period:

Period of distribution	Date of payment	Amount declared (in thousands of dollars)	Amount declared (per unit)
April 30 to May 31, 2004	June 30, 2004	1,731	0.08177
June 1 to 30, 2004	July 31, 2004	1,676	0.07917
July 1 to 31, 2004	August 31, 2004	1,676	0.07917
August 1 to 31, 2004	September 30, 2004	1,676	0.07917
September 1 to 30, 2004	October 31, 2004	1,676	0.07917
October 1 to 31, 2004	November 30, 2004	1,676	0.07917
November 1 to 30, 2004	December 31, 2004	1,676	0.07917
December 1 to 31, 2004	January 31, 2005	1,676	0.07917
Period ended December 31, 2004		13,463	0.63596

Any income of the Fund that is applied to cash redemptions of units or is otherwise unavailable for cash distribution will be distributed to unitholders in the form of additional units. Such additional units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

10. Related party transactions

MPML provides management services to Cardinal under a 20-year management agreement. A fee of $575,000 per annum is payable by Cardinal to MPML for the provision of these services, adjusted annually in line with the Consumer Price Index. MPML is entitled to seek reimbursement for all costs and expenses incurred in carrying out its management services. MPML may also earn an annual incentive fee equal to 25% of the amount by which the distributable cash per unit in a calendar year exceeds $0.95 multiplied by the weighted average number of units of the Fund outstanding for the relevant fiscal year or part thereof.

Pursuant to a 20-year administration agreement, MPML provides the Fund and the Trust with certain administrative and support services. MPML receives an annual fee of $100,000 for these services and is entitled to be reimbursed for all reasonable costs and expenses incurred in carrying out such services as approved by the independent Trustees.

During the Period, the Fund incurred management fees and administrative fees of $387,269 and $67,351 payable to MPML, respectively. In addition, the Fund incurred additional cost reimbursements to MPML of $189,199 and an incentive fee of $203,752.

11. Commitments and contingencies

Power purchase agreement

Cardinal has entered into an agreement to sell all electricity produced at its Facility, less the amount of electricity consumed in the operation of the Facility, to the OEFC until December 31, 2014.

Fuel supply contracts

Cardinal has entered into long-term purchase agreements for natural gas and gas transportation that expire on May 1, 2015 and October 31, 2014, respectively. Minimum commitments under such agreements are 9,289,104 MMBtu per year through to expiration in 2015. Under its long-term purchase agreement for natural gas, Cardinal is required to purchase a minimum volume of gas equivalent to 80% of the contract maximum, or the supplier is entitled to financial compensation from Cardinal.

Gas swap contracts

Cardinal has entered into gas swap contracts to hedge itself against fluctuations in the price of excess gas sold under the gas mitigation clause of the gas purchase agreement. The gas swap contracts require Cardinal to pay variable payments to the counterparty based on 436,814 MMBtu of gas at the market rate of natural gas in exchange for receiving fixed payments based on 436,814 MMBtu of gas at a fixed price per MMBtu until October 31, 2008. The contracts cover the sale of gas for the seven-month period from April to October. As at December 31, 2004, there were four years of contracts remaining.

Lease

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

Environmental commitments

Under regulations recently issued by the Ontario Ministry of Environment ("MOE"), Cardinal was required to install at its facility either Continuous Emission Monitors ("CEMS") or MOE Director-approved Predictive Emissions Monitors ("PEMS"). During the Period, Cardinal decided to implement a CEMS system, and the estimated capital cost of implementing the system is not expected to exceed $250,000. To date, $199,070 has been incurred and has been funded from cash balances reserved for capital expenditures.

In relation to the MOE requirement to implement emission monitoring, there was a period of 68 days during the calendar year 2004 that Cardinal did not comply with certain MOE requirements. Fines and penalties may be exigible. However, in the opinion of management, it is unlikely that the financial impact would be material.

12. Financial instruments

Financial instruments consist primarily of temporary cash investments, trade receivables, current liabilities and gas swap agreements. The fair value of the Fund's financial instruments included in current assets and current liabilities approximate the carrying amount due to their short-term maturities.

The Fund invests its cash balances in financial instruments of highly rated financial institutions and government securities. A substantial portion of its trade receivables are from a major electric utility and the associated credit risks are deemed to be limited.

The fair value of the Fund's long-term debt changes as interest rates change. The fair value of this debt approximates the carrying value due to the fact that the amounts advanced under the facility were made recently (refer to note 7).

The Fund has entered into gas swap contracts to fix the revenue derived from the sale of excess gas (refer to note 11). Two of these remaining contracts meet the effectiveness criteria for hedge accounting and accordingly, the fair value of these contracts has not been reflected in the financial statements. The fair value of these derivatives at December 31, 2004 is estimated to be a liability to the Fund of $652,000. However, the Fund intends to hold these contracts to maturity to mitigate exposure to gas price fluctuations from sales of excess gas volumes in 2005 and 2006.

There are two other gas swap contracts that do not meet the effectiveness criteria for hedge accounting and accordingly, the fair value of these contracts has been included in the Consolidated Statement of Financial Position with a corresponding unrealized gain recorded in the Consolidated Statement of Income. The fair value of these derivatives at December 31, 2004 is estimated to be an asset to the Fund of $213,000. The Fund intends to hold these contracts to maturity to mitigate exposure to gas price fluctuations from sales of excess gas volumes in 2007 and 2008.

13. Economic dependence

For the Period, approximately 98.8% of the Fund's revenue was derived from the sale of electricity to OEFC. Approximately 97.0% of the December 31, 2004 accounts receivable balance was due from OEFC relating to electricity sales.

For the Period, approximately 94.8% of the Fund's cost of goods sold derived from the purchase of gas from Husky Energy Marketing Inc. ("Husky") under a long-term Gas Purchase Agreement. Approximately 74.8% of the December 31, 2004 trade payables and accrued expenses was payable to Husky relating to gas purchases.

Board of Trustees

Derek Brown (Independent) Chair

Since 1996, Mr. Brown has been a Professor of Finance (adjunct) at the University of Toronto. Mr. Brown also has past experience as a Vice President and Director of RBC Dominion Securities and as a Commissioner of the Ontario Securities Commission.

Patrick J. Lavelle (Independent) Trustee

Mr. Lavelle has been the Chairman and Chief Executive Officer of Patrick J. Lavelle and Associates, a strategic management consulting firm, since its establishment in 1991 and he currently serves as Chairman of Union Energy Income Trust and Chairman of Westport Innovations Ltd. Mr. Lavelle also has experience from past positions as Chairman and Chief Executive Officer of Unique Broadband Systems Inc. and Chairman of Export Development Canada. In addition, Mr. Lavelle served a three year term as Chairman of the Board of the Business Development Bank of Canada.

François R. Roy (Independent) Trustee

From March 2000 to May 2003, Mr. Roy was the Chief Financial Officer of Telemedia Corporation, prior to which he was Executive Vice President and Chief Financial Officer of Quebecor Inc. Mr. Roy serves on the Board of MDC Partners Inc. and AFT Technologies Income Trust. Mr. Roy also serves on the Board of Advisors of Veronis Suhler Stevenson, a New York-based media merchant bank.

Gregory J. Smith (Macquarie Power Management Limited) Trustee

Since joining Macquarie North America Ltd. in October 2003, Mr. Smith has been Head of the Infrastructure and Specialized Funds division for Canada. Prior to this position, Mr. Smith was Managing Director of RBC Capital Partners - Mezzanine Fund. Mr. Smith also has past experience as the Chief Financial Officer of Saskatchewan Government Growth Fund Management Corporation.

Corporate and Unitholder Information

Macquarie Power Income Fund Board of Trustees

Derek Brown
Chair, Independent Trustee

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Independent Trustee

François R. Roy
Independent Trustee

Gregory J. Smith
Manager Trustee

Macquarie Power Management Limited

Robert Rollinson
President and Chief Executive Officer

Harry Atterton
Chief Financial Officer

Noreen Flaherty
Corporate Secretary/General Counsel

Auditors

PricewaterhouseCoopers LLP
Toronto, Ontario

Legal Counsel

Blake, Cassels & Graydon LLP
Toronto, Ontario

Standard & Poor's Stability Rating

The Fund has been assigned a stability rating of SR-2 by Standard & Poor's.

General Information

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Unitholder Information

Annual General Meeting of Unitholders
Thursday, April 14th at 11:00 a.m.
TSX Conference Centre
130 King Street West, Toronto, Ontario

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Trust Units

The trust units are listed on the Toronto Stock Exchange and trade under the symbol MPT.UN

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