

MACQUARIE POWER INCOME FUND
FINANCIAL REPORT, 30 JUNE 2004



MPF

Macquarie Power Income Fund (the "Fund") is not a trust company and is not registered under applicable legislation governing trust companies, as it does not carry on or intend to carry on the business of a trust company. The units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that act or any other legislation.

Macquarie Power Management Ltd. ("MPML") is the Manager of the Fund and is an indirect wholly-owned subsidiary of Macquarie Bank Limited, incorporated in Australia.

Investments in the Fund are not deposits with or other liabilities of Macquarie Bank Limited, or any entity in the Macquarie Bank Group and are subject to investment risk, including possible delays in repayment and loss or income and capital invested. Neither MPML, nor any member of the Macquarie Bank Group, guarantees the performance of the Fund, the repayment of capital or the payment of a particular rate of return on the Fund's units.

MPML, as the Manager of the Fund, is entitled to fees for so acting. Macquarie Bank Limited and its related corporations, together with their officers and directors may hold units in the Fund from time to time.

Macquarie Power Income Fund
Management's Discussion and Analysis
For the period April 30, 2004 to June 30, 2004

This is the initial report for the Macquarie Power Income Fund (the "Fund") for the interim period from April 30 to June 30, 2004. This discussion and analysis of the Fund's consolidated operating results, cash flow and financial position for the interim period ended June 30, 2004 should be read in conjunction with the consolidated financial statements and related notes contained in this financial report, as well as the pro forma consolidated financial statements for the year ended December 31, 2003 and the consolidated financial forecast of the Fund for the year ended, December 31, 2004 included in the prospectus of the Fund dated April 19, 2004. The information contained in this report reflects all material events up to August 9, 2004, the date on which this report was approved by the Board of Trustees.

All financial information has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This report also contains figures that are not performance measurements according to GAAP. For instance, the Fund measures earnings before interest, taxes, depreciation and amortization ("EBITDA") because this method allows management to assess the operating and financial performance of the Fund's operations. Additional information in the section dealing with non-GAAP measurements compares EBITDA figures with the most comparable financial performance indicators.

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".

Consolidation and comparison of operating results

The discussion and analysis of the operating results for the current period reflect the consolidated operations of Macquarie Power Income Fund, Macquarie Power Income Trust (the "Trust") and Cardinal Power of Canada L.P. ("Cardinal"). Since the Fund and the Trust had no transactions in the current period, the operating results for the consolidated entity are identical to those of Cardinal as a stand-alone 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 following discussion and analysis compares the actual results of the Fund for the interim period from April 30, 2004 to June 30, 2004 to those of the previous year and those included in the Financial Forecast contained in the Fund's prospectus dated April 19, 2004. In both cases, the data has been adjusted to reflect the results for the comparable interim period i.e. from April 30 to June 30, 2004. In addition, the comparative numbers for 2003 have been restated to eliminate the impact of the levelization provisions contained in the power purchase agreement which impacted revenue and EBITDA in 2003. These provisions are no longer in effect as the levelization liability was totally repaid on April 30, 2004 from the proceeds of the issue of the trust units.

Selected consolidated financial and operating information

(For the interim period April 30, 2004 to June 30, 2004)

The performance of the Fund for the period ending June 30, 2004 is in line with expectations as outlined in the prospectus.

(in millions of dollars, except per unit amounts)

Revenue from energy sales	\$12.9
EBITDA ⁽ⁱ⁾	3.4
Net income	1.1
<i>Per trust unit (\$)</i>	<i>0.051</i>
Distributable cash ⁽ⁱ⁾	2.7
<i>Per trust unit (\$)</i>	<i>0.128</i>
Distributions paid or payable to Unitholders	3.4
Total assets	234.4
Long term debt	35.0

(in millions)

Number of trust units outstanding	21.2
Sale of electricity (MWh)	0.2
Steam sales (MMlbs)	109.0

⁽ⁱ⁾ See "Additional information about non-GAAP performance measures" for a reconciliation of EBITDA and Distributable Cash to Net Income for the period. EBITDA and Distributable Cash are not recognized measures under Canadian GAAP and do not have a standardized meaning prescribed by Canadian GAAP. Therefore, EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers.

Revenue

For the interim period ended June 30, 2004, the Fund generated revenue of \$12.9 million compared to \$11.9 million for the corresponding period in 2003. The increase of \$1.0 million is due to a higher volume of electricity generated in 2004. In 2003, the power station was voluntarily curtailing electricity production and selling more excess gas at the then prevailing market prices. In addition, the power rates in 2004 are higher than those of 2003, following increases in the Direct Customer Rate ("DCR") escalator contained in Cardinal's power purchase agreement with the Ontario Electricity Financial Corporation ("OEFC"). When compared to the Financial Forecast, the actual revenue during the period in 2004 was equal to the forecasted amount of \$12.9 million. There were no major variances in either the amount of energy sold or in the unit selling price.

EBITDA

The total EBITDA generated by the Fund during the interim period was \$3.4 million, a decrease of \$0.1 million over the same period in 2003. This negative variance is attributable to the additional income generated in 2003 from the curtailment of electricity generation and the sale of the excess gas which was done during favourable natural gas markets. This was offset somewhat by a higher volume of energy sales and an increase in the price of electricity in 2004, as explained previously. The EBITDA for the reporting period in 2004 was \$0.8 million higher than that in the Financial Forecast for the same period. The power station's major maintenance shutdown has been scheduled for September of 2004. Approximately \$0.4 million of maintenance costs have been deferred from the reporting period into the next quarter. The balance of the favourable variance is the result of lower operating and administrative expenses. A reconciliation of Net Income to EBITDA is presented below in the section titled "Additional information about non-GAAP performance measures."

Seasonality

Since the Fund's power station has long-term power sales and gas purchase contracts with fixed prices, its results are not 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 power station 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 power station 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 LP 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.

Depreciation, amortization and Net Income

Depreciation and amortization was on forecast at \$2.1 million for the interim period. The Fund's Net Income for the period of \$1.1 million was \$0.9 million greater than in the Financial Forecast. The improvement is the result of increased energy revenues and lower maintenance and administrative expenses.

Financial expenses

Financial expenses amounted to \$0.2 million during the period, which was marginally lower than forecast. This decrease is due to overall reduced borrowing costs over those included in the Financial Forecast.

On June 16, 2004, the Fund converted its term loan from a prime rate loan to a series of Banker's Acceptances ("BA"). The result of this transaction was to fix the interest rate on the Fund's term loan for varying periods over the next 12 months. The all-in borrowing costs for the three BAs have been fixed at 4.1% on \$11.7 million to December 13, 2004, 4.4% on \$11.7 million to March 14, 2005, and 4.6% on \$11.6 million to June 13, 2005. This transaction partially protects the Fund against increases in interest rates over the next year, with a view to adding to the stability and predictability of the Fund's cash flow. The borrowing costs on these loans were paid at the date of the transaction and are amortized over the term of the respective maturities. The unamortized portion of the borrowing costs of \$1.1 million is included in Prepaid Expenses and Borrowing Costs in the Statement of Financial Position.

Cash flows

In the interim period, cash flow from operations before changes to non-cash working capital items totalled \$3.2 million as compared to \$2.3 million in the Fund's forecast. This increase of \$0.9 million is due to better operating results than forecasted. The net change to non-cash working capital items resulted in cash outflow of \$1.7 million and is attributable to an increase in prepaid expenses of \$0.9 million, an increase in trade accounts receivable of \$0.6 million and a decrease in trade payables of \$0.2 million. The Fund made cash distributions of \$1.7 million to Unitholders during the period, and declared further distributions of \$1.7 million. There were no new capital expenditures during the period.

Liquid assets and financial position

As at June 30, 2004, cash and cash equivalents totalled \$8.6 million after an allocation of \$0.4 million to the major maintenance reserve and \$0.1 million to the capital expenditure reserve. The breakdown of cash and cash equivalents is as follows:

	(\$millions)
Major maintenance reserve	3.4
Capital expenditure reserve	1.0
General reserve	3.0
Other cash and cash equivalents	1.2
	<hr/>
Cash and cash equivalents	8.6

Long term assets and liabilities were stable during the period. As at June 30, 2004, Unitholders' equity was \$192.1 million. Long term debt totalled \$35.0 million or a ratio of debt to Unitholder's equity of 0.18:1.00.

Trust units on issue

As at June 30, 2004, the Fund's capital contributions consisted of 21.2 million trust units outstanding.

Contractual obligations and other commitments

There were no significant changes in the Fund's obligations and commitments since April 19, 2004, the date of the Fund's prospectus.

Related party transactions

During the period the Fund paid management fees and administrative fees to MPML of \$95,833 and \$16,667 respectively. These amounts are in line with the terms of the Management and Administration agreements in place.

Accounting estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions 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.

Outlook for the remainder of 2004

The Fund's performance in its first reporting period exceeded the forecast in the prospectus dated April 19, 2004. The Fund's revenues and its primary operating cost, natural gas, are secured by long term contracts at fixed prices. In addition, the borrowing costs on its long term debt have been fixed for the remainder of 2004. The Cardinal power station continues to operate efficiently and management is confident that the Fund will continue to generate the operating results which underpin its cash distributions to Unitholders.

Risks and uncertainties

Management is of the opinion that there have been no significant changes in risks and uncertainties since April 19, 2004. Please refer to Risk Factors in the Fund's prospectus dated April 19, 2004.

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 investors to assess the performance of a company or a 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 companies. Investors should not use EBITDA as an alternative for Net income, an indicator of operating results or cash flows, or a parameter for measuring liquidity. This table reconciles EBITDA to Net Income:

	(\$millions)
Net income	1.1
Net interest expense	0.2
Depreciation and amortization	2.1
EBITDA	3.4

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. 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. Management believes that Distributable Cash is a useful supplemental measure that may assist investors in assessing performance.

Following is a reconciliation of distributable cash for the period from April 30, 2004 to June 30, 2004:

	(\$000s)
Net income for the period	1,078
Add:	
Depreciation and amortization	2,075
Release from major maintenance reserve account	17
Less:	
Allocation to major maintenance expenditure reserve account	(387)
Allocation to capital expenditure reserve account	(66)
Distributable cash for the period	<u>2,717</u>
Distributable cash per unit for the period (\$)	<u>0.128</u>

Macquarie Power Income Fund
 Consolidated Statement of Financial Position
 As at June 30, 2004
 (Unaudited)

	(\$000s)
Current Assets	
Cash and cash equivalents (note 4)	8,619
Accounts receivable	7,155
Inventory	90
Prepaid expenses and borrowing costs	2,041
Total Current Assets	<u>17,905</u>
Property, plant and equipment (note 5)	151,725
Contracts (note 5)	47,200
Goodwill (note 2)	17,558
Total Assets	<u>234,388</u>
Current Liabilities	
Trade payables and accrued expenses	5,118
Distributions payable	1,676
Total Current Liabilities	<u>6,794</u>
Long term debt (note 7)	35,000
Liability for asset retirement	481
Total Liabilities	<u>42,275</u>
Unitholders' Equity	<u>192,113</u>
Total Unitholders' Equity and Liabilities	<u>234,388</u>

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.

Macquarie Power Income Fund
Consolidated Statement of Unitholders' Equity
For the period April 30, 2004 to June 30, 2004
(Unaudited)

	Cumulative Unitholders' Equity (\$000s)	Retained Earnings (\$000s)	Cumulative Distributions (\$000s)	Total (\$000s)
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 during the Initial Public Offering	(17,248)	-	-	(17,248)
Unitholders' capital immediately after the Initial Public Offering	194,442	-	-	194,442
Net income for the period April 30 to June 30, 2004	-	1,078	-	1,078
Distributions paid and payable to unitholders for the period April 30 to June 30, 2004 (note 10)	-	-	(3,407)	(3,407)
Closing balance at June 30, 2004	194,442	1,078	(3,407)	192,113

Information for the comparative reporting period to June 30, 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.

Macquarie Power Income Fund
 Consolidated Statement of Income
 For the period April 30, 2004 to June 30, 2004
 (Unaudited)

	(\$000s)
Revenue	12,942
Cost and expenses	
Operating costs	9,358
Administrative expenses	188
Depreciation and amortization	2,075
	<u>11,621</u>
Income from operations	<u>1,321</u>
Net interest expense	243
	<u>1,078</u>
Net income for the period	<u>1,078</u>
Weighted average number of trust units outstanding (units)	<u>21,168,997</u>
Basic and diluted earnings per trust unit (\$)	<u>0.051</u>

Information for the comparative reporting period to June 30, 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.

Macquarie Power Income Fund
Consolidated Statement of Cash Flows
 For the period April 30, 2004 to June 30, 2004
 (Unaudited)

	(\$000s)
Cash flows from operating activities:	
Net income	1,078
Add back:	
Depreciation and amortization	2,075
Amortization of prepaid borrowing costs	67
Non-cash changes in working capital	
Increase in trade receivables	(594)
Decrease in inventory	46
Increase in prepaid expenses	(951)
Decrease in trade payables	(199)
Total cash flows from operating activities	1,522
Cash flows from investing activities:	
Cash paid in relation to the acquisition of	
Cardinal Power of Canada, L.P. net of cash acquired	(219,478)
Total cash flows from investing activities	(219,478)
Cash flows from financing activities:	
Cash proceeds received from the Initial Public Offering	211,690
Costs paid in relation to the Initial Public Offering	(17,248)
Cash proceeds received from the issue of the Term Loan	35,000
Prepayment of borrowing costs and interest	(1,136)
Distributions paid to Unitholders	(1,731)
Total cash flows from financing activities	226,575
Net increase in cash and cash equivalents	8,619
Cash and cash equivalents at the beginning of period	-
Cash and cash equivalents at the end of period	8,619

Information for the comparative reporting period to June 30, 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.

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, gas-fired combined cycle cogeneration plant located in Cardinal, Ontario.

MPML (the "Manager"), 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. 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 \$17.2 million, the net proceeds of \$194.4 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 \$229.4 million has been provisionally allocated to the assets and liabilities of Cardinal as follows:

	(\$000s)
Assets	
Cash and cash equivalents	9,964
Accounts receivable	6,561
Inventory	136
Prepaid expenses	21
Total Current Assets	<u>16,682</u>
Property, plant and equipment	153,000
Contracts	48,000
Goodwill	<u>17,558</u>
Total Assets	<u>235,240</u>
Liabilities	
Trade payables and accrued expenses	<u>(5,317)</u>
Total Current Liabilities	<u>(5,317)</u>
Liability for asset retirement	<u>(481)</u>
Total Liabilities	<u>(5,798)</u>
Total Purchase Price	229,442
Less: Cash acquired	<u>(9,964)</u>
Amount Paid Net of Cash Acquired	<u>219,478</u>

3. Significant accounting policies

The financial information contained in the accompanying financial statements has been prepared in accordance with Canadian GAAP, which require 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. The following is a summary of the significant accounting policies followed by the Fund.

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 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 its cost of acquisition and is included in the Statement of Financial Position as part of Capital assets. 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 at least annually 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 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.

Derivative instruments

The Fund uses a swap agreement to manage its exposure to price fluctuations on sales of 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, may be accounted for using hedge accounting principles. These require that the current period income or expense generated by the agreement 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 income statement.

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 income statement in the period they are incurred.

3. Significant accounting policies (continued)

Income taxes

Under the terms of the Income Tax Act (Canada) (the "Tax Act"), The Fund qualifies as a Mutual Fund Trust and 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.

4. Cash and Cash Equivalents

At June 30, 2004, cash and cash equivalents included the following:

	(\$000s)
Major maintenance reserve	3,370
Capital expenditures reserve	1,066
General reserve	3,000
Total reserve accounts	7,436
Other cash and cash equivalents	1,183
Cash and cash equivalents	8,619

5. Property, plant and equipment and intangible assets

	Acquisition Cost (\$000s)	Accumulated depreciation, amortization, and impairment write downs (\$000s)	Net carrying value as at June 30, 2004 (\$000s)
Property, plant and equipment	153,000	(1,275)	151,725
Contracts	48,000	(800)	47,200
Total	201,000	(2,075)	198,925

6. Bank credit facility

The Bank credit facility is a 364-day revolving operating loan for an amount of \$15 million. At maturity, 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 June 30, 2004, no draw downs had been made 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. 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. On June 16, 2004, Cardinal converted its term loan from a prime rate loan to a series of BA loans as follows:

Draw down amount	Maturity	All-in Rate
\$11.7 million	December 13, 2004	4.1%
\$11.7 million	March 14, 2005	4.4%
\$11.6 million	June 13, 2005	4.6%

Borrowing costs, including interest, on the BA loans were paid at the date of the conversion and amounted to \$1.1 million. These costs have been capitalized and are being amortized over the life of each respective BA loan. As at June 30, 2004, the unamortized portion of the capitalized borrowing costs totaled \$1.1 million and is included in the 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 June 30, 2004.

9. Distributable cash

The amount of cash distributed monthly is based on 100% of the Net Income of the Fund adjusted for non-cash transactions including depreciation and amortization, fluctuations in working capital and allocations to the reserve accounts. The distributable cash also takes into account additions to property, plant and equipment, and any other amount that the Trustees reasonably consider to be necessary to provide for the payment of any costs or expenses for the operation of the Fund and for reasonable reserves.

Macquarie Power Income Fund
Notes to the Consolidated Financial Statements
June 30, 2004 Financial Report
(Unaudited)

Following is a reconciliation of distributable cash for the period from April 30, 2004 to June 30, 2004:

	(\$000s)
Net income for the period	1,078
Add:	
Depreciation and amortization	2,075
Release from major maintenance reserve account	17
Less:	
Allocation to major maintenance expenditure reserve account	(387)
Allocation to capital expenditure reserve account	(66)
Distributable cash for the period	<u>2,717</u>
Distributable cash per unit for the period (\$)	<u>0.128</u>

10. Distributions to Unitholders

Distributions to Unitholders are paid on the last day of each month, one month in arrears.

The following distributions have been paid, or are payable, to Unitholders for the period ended June 30, 2004:

Period of Distribution	Date of payment	Amount distributed (\$000s)	Amount distributed (\$ per unit)
April 30 to May 31, 2004	June 30, 2004	1,731	0.08177
June 1 to June 30, 2004	July 30, 2004	1,676	0.07917

Any income of the Fund which 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.

11. Related party transactions

The Manager provides management services to Cardinal under a 20-year management agreement. A fee of \$575,000 per annum is payable by Cardinal to the Manager for the provision of these services, adjusted annually in line with the Consumer Price Index. The Manager is entitled to seek reimbursement for all costs and expenses incurred in carrying out its management services. The Manager 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, the Manager provides the Fund and the Trust with certain administrative and support services. The Manager 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 paid management fees and administration fees to the Manager of \$95,833 and \$16,667 respectively.

12. 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 million Btu 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 agreement

Cardinal has entered into a gas swap agreement which is a five-year fixed price gas swap contract for annual summer strips, 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 agreement requires Cardinal to sell the equivalent of 436,814 million Btu of gas per year at a fixed price of \$6.71 per million Btu for five years ending October 31, 2008. The swap covers the sale of gas for the seven-month period from April to October of 62,402 million Btu per month. The swap agreement requires Cardinal to pay the counterparty on the fifth day following settlement.

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 current period, Cardinal decided to implement CEMS systems, and the estimated capital cost of implementing this system is not expected to exceed \$250,000 and will be funded from the capital expenditure reserve account.

13. 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 a gas swap agreement which is a five-year fixed price gas swap contract to hedge itself against fluctuations in the price of excess gas sold (refer to note 12). These derivatives have been designated as a hedge and are not recorded on the balance sheet. The fair value of this derivative at June 30, 2004 is estimated to be a liability to the Fund of \$1 million.

14. Economic dependence

During the interim period, approximately 98.7% of the Fund's revenue was derived from the sale of electricity to OEFC. Approximately 88.1% of the June 30, 2004 accounts receivable balance was due from OEFC relating to electricity sales.

During the interim period, approximately 91.4% 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 contract. Approximately 72.8% of the June 30, 2004 trade payables and accrued expenses was payable to Husky relating to gas purchases.

ADDITIONAL INFORMATION

Additional information about the Fund, including the prospectus, dated April 19, 2004, is published on the SEDAR website (www.sedar.com) and the Macquarie Power Income Fund website (www.macquarie.com/mpt).

INVESTOR INFORMATION

TRANSFER AGENTS, REGISTRAR AND TRUSTEE
Computershare Trust Company of Canada
1500 University St. Suite 700, Montreal, QC H3A 3S9

FOR INVESTOR AND INVESTMENT ANALYST INQUIRIES PLEASE CONTACT:
Germain Lecours, Chief Financial Officer, Macquarie Power Management Ltd., (514) 594 5198

FOR MEDIA INQUIRIES PLEASE CONTACT:
Alex Doughty, Corporate Communications, Macquarie group, (212) 548 2740

EXCHANGE LISTING:
Macquarie Power Income Fund's units are listed on the Toronto Stock Exchange and trade under the symbol MPT.