MACQUARIE POWER INCOME FUND
FINANCIAL REPORT, 30 SEPTEMBER 2004

MACQUARIE

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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 of 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 three months ended,
September 30, 2004 (the "Quarter")
and the five months ended,
September 30, 2004 (the "Year to Date")

This report for the Macquarie Power Income Fund (the "Fund") summarizes the financial results for the quarter ended and year to date, September 30, 2004. This discussion and analysis of the Fund's consolidated operating results, cash flow and financial position presented herein 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 ("FOFI") 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 November 8, 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"). On the basis of revenue and EBITDA, the operating results for the consolidated entity are virtually 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 quarter ended and year to date, September 30, 2004 to the same periods of the previous year and to the Financial Forecast for the current year contained in the Fund's prospectus dated April 19, 2004. In both cases, the data have been adjusted to reflect the results for the comparable interim period. 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 prior to listing on April 30, 2004 from the proceeds of the issue of the trust units.

Accounting estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions (see Note 3 to the 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.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The performance of the Fund for the quarter ended and year to date, September 30, 2004 improved against expectations. The analysis which follows explains these improvements.

(in millions of dollars, except per unit amounts)	Three months ended September 30, 2004	Five months ended September 30, 2004
Revenue from energy sales	$18.7	$31.6
EBITDA [(i)]	4.4	7.8
Depreciation and amortization	3.1	5.2
Financing expenses	0.4	0.6
Net income	0.9	2.0
Per trust unit ($)	*0.041*	*0.092*
Cash flow from operations before changes to non-cash working capital items	4.4	7.6
Distributable cash [(i)]	3.6	6.3
Per trust unit ($)	*0.170*	*0.298*
Distributions declared to Unitholders	5.0	8.4
Per trust unit ($)	*0.238*	*0.398*
Total assets	231.3	231.3
Long term debt	35.0	35.0
Number of trust units outstanding (millions)	21.2	21.2
Sale of electricity (000s MWh)	297.9	506.5
Sale of steam (000s lbs)	150.1	259.2

[(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 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.

RESULTS vs. PRIOR YEAR

The following table summarizes comparable data for 2003 and the discussion that follows summarizes current year performance compared to the prior year.

Prior Year Results	Three months ended September 30, 2003 ($millions)	Five months ended September 30, 2003 ($millions)
Revenue from energy sales	15.9	27.8
EBITDA	3.4	6.5
Sale of electricity (000s MWh)	255.9	449.4
Sale of steam (000s lbs)	158.8	272.5

Revenue

For the quarter ended, the Fund generated revenue of $18.7 million compared to $15.9 million for the corresponding period in 2003. For the year to date, the Fund generated revenue of $31.6 million compared to $27.8 million for the corresponding period in 2003. These positive variances of $2.8 million and $3.8 million respectively are primarily due to higher volumes of electricity sold during the respective periods. Approximately 47,000 additional MWh were sold in the current year to date since curtailment of energy production was less than in 2003. In addition, the power rates in 2004 are higher than those of 2003, following increases in the Direct Customer Rate ("DCR") contained in Cardinal's power purchase agreement with the Ontario Electricity Financial Corporation ("OEFC").

EBITDA

The total EBITDA generated by the Fund during the quarter ended and year to date was $4.4 million and $7.8 million respectively, an increase of $1.0 million and $1.3 million over the same periods in 2003. These positive variances arose from the additional revenue discussed above, offset by the direct costs associated with higher production volumes.

RESULTS vs. FUTURE ORIENTED FINANCIAL INFORMATION ("FOFI")

The following table summarizes the expected results for 2004 per the FOFI and the discussion that follows summarizes current year performance compared to the FOFI.

FOFI for 2004 (per prospectus)	Three months ended September 30, 2004 ($millions)	Five months ended September 30, 2004 ($millions)
Revenue from energy sales	18.1	30.9
EBITDA	3.0	5.8
Depreciation and amortization	3.1	5.2
Financing expenses	0.4	0.7
Net income	(0.2)	0.0
Cash flow from operations before changes to non-cash working capital items	2.9	5.2
Distributable cash	2.7	4.8
Sale of electricity (000s MWh)	255.0	449.5
Sale of steam (000s lbs)	163.4	273.2

Revenue

The actual revenue during the quarter ended and year to date was higher than the FOFI by $0.6 million and $0.7 million respectively. These variances were attributable to higher sales volume and to higher power rates than were contemplated at the time of the FOFI.

EBITDA

The EBITDA for the quarter ended and year to date were $1.4 million and $2.0 million higher than for the same periods in the FOFI. In addition to the increases in revenue explained above, EBITDA improvements arose because of differences caused by shifting preparatory work required for major maintenance activities in 2006. Preparatory work that was originally scheduled for the current quarter in 2004 has been deferred to upcoming quarters. This will not affect the reliability and availability of the Plant nor the timing of major maintenance planned for 2005 and 2006. A reconciliation of Net Income to EBITDA is presented below in the section titled "Additional information about non-GAAP performance measures."

Depreciation, amortization and Net Income

Depreciation and amortization was approximately equal to the FOFI at $3.1 million for the quarter and $5.2 million for the year to date. The Fund's Net Income of $0.9 million for the quarter and $2.0 million for the year to date represent improvements over a net loss of $(0.2) million for the quarter and net income of $0.0 for the year to date in the FOFI. The improvement is the result of revenue improvements and adjustments for the maintenance program differences discussed above.

Financing expenses

Financing expenses amounted to $0.4 million for the quarter ended and $0.6 million for the year to date, both marginally lower than the FOFI. This decrease is due to overall reduced borrowing costs over those included in the FOFI.

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 9 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 $0.7 million at September 30, 2004 is included in Prepaid Expenses and Borrowing Costs in the Statement of Financial Position.

Cash flows

During the quarter, cash flow from operations before changes to non-cash working capital items totalled $4.4 million as compared to $2.9 million in the FOFI. For the year to date, this amount totalled $7.6 million compared with $5.2 million in the FOFI. These positive variances reflect the improved profitability of the power station. Of the $7.6 million in cash flow from operations before changes to non-cash working capital items, generated in the year to date, $6.8 million was distributed to Unitholders, $1.1 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 September 30, 2004, cash and cash equivalents totalled $10.0 million after net allocations of $0.8 million to the major maintenance reserve and $0.1 million to the capital expenditure reserve for the year to date. The breakdown of cash and cash equivalents is as follows:

	($millions)
Major maintenance reserve	3.8
Capital expenditure reserve	1.1
General reserve	3.0
Other cash and cash equivalents	2.1
Cash and cash equivalents	10.0

Long term assets and liabilities were stable during the period. As at September 30, 2004, Unitholders' equity was $188.4 million, reflecting a small decline during the quarter due to the difference between net income and distributions to Unitholders declared to date. 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 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.

The following table reconciles EBITDA to Net Income:

	Quarter Ended September 30, 2004 ($millions)	Year to Date September 30, 2004 ($millions)
Net income	0.9	2.0
Net interest expense	0.4	0.6
Depreciation and amortization	3.1	5.2
EBITDA	4.4	7.8

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. 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.

The following is a reconciliation of distributable cash[1]:

	Quarter Ended September 30, 2004 ($millions)	Year to Date September 30, 2004 ($millions)
Net income for the period	0.9	2.0
Add:		
Depreciation and amortization and non-cash accretion of interest on decommissioning liability	3.2	5.2
Release from major maintenance reserve account	0.1	0.1
Release from capital expenditure reserve account	0.1	0.1
Less:		
Allocation to major maintenance expenditure reserve account	(0.6)	(1.0)
Allocation to capital expenditure reserve account	(0.1)	(0.2)
Distributable cash for the period	3.6	6.3
Distributable cash per unit for the period ($)	0.170	0.298

GENERAL ITEMS

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 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 power station sells the excess gas not consumed at prevailing market prices through a gas

[1] Amounts may not add due to rounding.

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.

Related party transactions

During the quarter the Fund incurred management fees and administrative fees to MPML of $144,832 and $25,188 respectively. For the year to date the Fund incurred management fees and administrative fees to MPML of $242,437 and $42,163 respectively. These amounts are in line with the terms of the Management and Administration agreements in place.

Revision to opening Balance Sheet

During the quarter, the April 30, 2004 Opening Balance Sheet of the Fund was revised for two reasons[2]:
(i) to reflect additional payables and receivables identified since the June 30, 2004 Financial Report but that related to a period prior to April 30, 2004. This had no effect on the net assets of the Fund; and
(ii) to revise estimates of issue costs, made at the time of the acquisition of Cardinal, to reflect actual costs incurred. This increased, by approximately $465,000, both the Unitholders' Equity of the Fund and the amount of goodwill recorded in the Balance Sheet.

Trust units on issue

At September 30, 2004, the Fund had 21.2 million trust units outstanding. There were no changes to trust units outstanding during the quarter.

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.

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.

Outlook for the remainder of 2004

The Fund's performance for the year to date exceeded the FOFI 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 and the Fund has no significant exposure to foreign currency. The Cardinal Power Station continues to operate efficiently and management is confident that given the factors mentioned above, the Fund will generate the cash flows necessary to support the existing level of its cash distributions. The Fund continues to seek investment opportunities that would be accretive to Unitholder distributions.

[2] See Note 2 to the financial statements.

Macquarie Power Income Fund
Consolidated Statement of Financial Position
(Unaudited)

	September 30, 2004 ($000s)	June 30, 2004 ($000s)
Current Assets		
Cash and cash equivalents (note 4)	9,973	8,619
Accounts receivable	5,926	7,155
Inventory	82	90
Prepaid expenses and borrowing costs	1,402	2,041
Total Current Assets	17,383	17,905
Property, plant and equipment (note 5)	149,919	151,725
Contracts (note 5)	45,992	47,200
Goodwill (note 2)	18,023	17,558
Total Assets	231,317	234,388
Current Liabilities		
Trade payables and accrued expenses	5,707	5,118
Distributions payable	1,676	1,676
Total Current Liabilities	7,383	6,794
Long term debt (note 7)	35,000	35,000
Liability for asset retirement	508	481
Total Liabilities	42,891	42,275
Unitholders' Equity	188,426	192,113
Total Unitholders' Equity and Liabilities	231,317	234,388

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
(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 in relation to 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 declared 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
Revision to estimate of costs incurred in relation to the Initial Public Offering	465	-	-	465
Net income for the quarter ended, September 30, 2004	-	876	-	876
Distributions declared to Unitholders for the quarter ended, September 30, 2004 (note 10)	-	-	(5,028)	(5,028)
Closing balance at September 30, 2004	194,907	1,954	(8,435)	188,426

Information for the comparative reporting period to September 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 Statements of Income
(Unaudited)

	Quarter Ended September 30, 2004 ($000s)	Year to Date September 30, 2004 ($000s)
Revenue	18,650	31,592
Cost and expenses		
Operating costs	13,986	23,344
Administrative expenses	287	476
Depreciation and amortization	3,134	5,209
	17,407	29,029
Income from operations	1,243	2,563
Net interest expense	367	609
Net income for the period	876	1,954
Weighted average number of trust units outstanding (units)	21,168,997	21,168,997
Basic and diluted earnings per trust unit ($)	0.041	0.092

Information for the comparative reporting period to September 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 Statements of Cash Flows
(Unaudited)

	Quarter Ended September 30, 2004 ($000s)	Year to Date September 30, 2004 ($000s)
Cash flows from operating activities:		
Net income	876	1,954
Add back:		
Depreciation and amortization	3,134	5,209
Amortization of prepaid borrowing costs	375	442
Accretion of asset retirement liability	27	27
Non-cash changes in working capital		
Decrease in trade receivables	1,229	788
Decrease in inventory	8	54
Decrease (increase) in prepaid expenses	264	(678)
Increase in trade payables	589	228
Total cash flows from operating activities	6,502	8,024
Cash flows from investing activities:		
Cash paid in relation to the acquisition of Cardinal Power of Canada, L.P. net of cash acquired	(465)	(219,943)
Investment in fixed assets	(120)	(120)
Total cash flows from investing activities	(585)	(220,063)
Cash flows from financing activities:		
Cash proceeds received from the Initial Public Offering	-	211,690
Costs recovered (paid) in relation to the Initial Public Offering	465	(16,783)
Cash proceeds received from the issue of the Term Loan	-	35,000
Prepayment of borrowing costs and interest	-	(1,136)
Distributions paid to Unitholders	(5,028)	(6,759)
Total cash flows from financing activities	(4,563)	222,012
Net increase in cash and cash equivalents	1,354	9,973
Cash and cash equivalents at the beginning of period	8,619	-
Cash and cash equivalents at the end of period	9,973	9,973

Information for the comparative reporting period to September 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, 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[3], 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 $229.4 million as initially estimated has been revised to $229.9 million based on a change in estimates and provisionally allocated to the assets and liabilities of Cardinal as follows:

	Original Estimate ($000s)	Revised Estimate ($000s)
Assets		
Cash and cash equivalents	9,964	9,964
Accounts receivable	6,561	6,714
Inventory	136	136
Prepaid expenses	21	30
Total Current Assets	16,682	16,844
Property, plant and equipment	153,000	153,000
Contracts	48,000	48,000
Goodwill	17,558	18,023
Total Assets	235,240	235,867
Liabilities		
Trade payables and accrued expenses	(5,317)	(5,479)
Total Current Liabilities	(5,317)	(5,479)
Liability for asset retirement	(481)	(481)
Total Liabilities	(5,798)	(5,960)
Total Purchase Price	229,442	229,907
Less: Cash acquired	(9,964)	(9,964)
Amount Paid Net of Cash Acquired	219,478	219,943

3. Revised from the June 30, 2004 Financial Report to reflect a change in estimated issue costs.

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 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. Management estimates are used primarily in two areas: sales volume 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 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 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 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 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 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 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, 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.

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.

4. Cash and Cash Equivalents

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

	($000s)
Major maintenance reserve	3,838
Capital expenditures reserve	1,045
General reserve	3,000
Total reserve accounts	7,883
Other cash and cash equivalents	2,090
Cash and cash equivalents	9,973

5. Property, plant and equipment and intangible assets

	Property, Plant and Equipment ($000s)	Contracts ($000s)	Total ($000s)
Acquisition cost	153,000	48,000	201,000
Depreciation for the two months ended, June 30, 2004	(1,275)	(800)	(2,075)
Balance at June 30, 2004	151,725	47,200	198,925
Depreciation for the quarter ended, September 30, 2004	(1,926)	(1,208)	(3,134)
Purchases of fixed assets during the quarter	120	-	120
Total	149,919	45,992	195,911

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 September 30, 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. 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 ($000s)	Maturity	All-in Rate
$11,700	December 13, 2004	4.1%
$11,700	March 14, 2005	4.4%
$11,600	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 September 30, 2004, the unamortized portion of the capitalized borrowing costs totaled $0.7 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 September 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.

The following is a reconciliation of distributable cash for the quarter and year to date:

	Three months ended September 30, 2004 ($000s)	Five months ended September 30, 2004 ($000s)
Net income for the period	876	1,954
Add:		
Depreciation and amortization	3,134	5,209
Non-cash accretion of interest on decommissioning liability	27	27
Release from major maintenance reserve account	113	130
Release from capital expenditure reserve account	120	120
Less:		
Allocation to major maintenance reserve account	(581)	(968)
Allocation to capital expenditure reserve account	(99)	(165)
Distributable cash for the period	3,590	6,307
Distributable cash per unit for the period ($)	0.170	0.298

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 declared to Unitholders for the year to date, September 30, 2004:

Period of distribution	Date of payment	Amount declared ($000s)	Amount declared ($ per unit)
April 30 to May 31, 2004	June 30, 2004	1,731	0.08177
June 1 to June 30, 2004	July 31, 2004	1,676	0.07917
Two months ended, June 30, 2004		3,407	0.16094
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
Quarter ended, September 30, 2004		5,028	0.23751
Year to date, September 30, 2004		8,435	0.39845

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 quarter, the Fund incurred management fees and administrative fees to MPML of $144,832 and $25,188 respectively. For the year to date the Fund incurred management fees and administrative fees to MPML of $242,437 and $42,163, 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 up to 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). The fair value of this derivative at September 30, 2004 is estimated to be a liability to the Fund of $1.1 million.

14. Economic dependence

For the year to date, approximately 98.8% of the Fund's revenue was derived from the sale of electricity to OEFC. Approximately 95.4% of the September 30, 2004 accounts receivable balance was due from OEFC relating to electricity sales.

For the year to date, approximately 83.6% 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 61.9% of the September 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

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EXCHANGE LISTING:

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