

Report to Unitholders

We are pleased to report on the results of the first quarter of 1998 for the Algonquin Power Income Fund (the "Fund"). The quarter was successful as we met the targets outlined in the Fund's prospectus dated December 11, 1997.

The Fund derives its income from energy sales and from interest and income from participation agreements associated with the Fund's hydroelectric generating facilities. During the first quarter, the Fund completed the acquisition of the Belleterre Hydroelectric Generating Facility and the Ste-Brigitte Hydroelectric Generating Facility. Pursuant to the purchase agreement however, the energy sales from these two Quebec facilities for the entire three months were received by the Fund and are included in this Report. The acquisition of the Long Sault Rapids Hydroelectric Generating Facility was not completed until April 17, 1998 and therefore, revenue from energy sales from that facility are not included in this quarter.

During the first quarter, the Fund received income from energy sales from four projects in Ontario, three projects in Quebec and two projects in New Hampshire. These nine facilities produced 13,545,727 kilowatt hours of electricity which was 92.2% of the first quarter forecast for energy production. Overall, these nine facilities did not meet the forecasted generation due to low river flow, primarily in the Quebec region, during this period. The Fund also received interest and principal payments on the Class A Note issued by the Trafalgar Companies. The Trafalgar Companies own the seven hydroelectric plants located in New York State. During this period, these seven generating facilities produced 10,559,760 kilowatt hours of electricity which was 118% of the forecast for energy production for this quarter. Overall, due to the geographical and hydrological diversity of the facilities, the Fund's generating facilities produced 102% of the forecasts for this quarter.

The operating and administrative expenses for the quarter are reasonable and in line with the forecast presented in the Fund's December 11, 1997 prospectus.

The Fund's distribution policy is to distribute by way of quarterly distributions all of its available cash received by the Fund less, among other things, expenses of the Fund. The Fund had a cash balance of \$1,593,000 as at March 31, 1998, an increase of \$1,175,000 from December 31, 1997. On March 19, 1998, the Fund announced a distribution of \$1,406,000 or 17.5¢ per trust unit to Unitholders of record on March 31, 1998. The Fund is on track to meet the forecasted distribution of 92.5¢ per trust unit for the 1998 fiscal year.

On May 22, 1998, the Fund filed a preliminary prospectus with the securities authorities in all provinces of Canada for a public offering of additional trust units of the Fund. The Fund intends to use the net proceeds from the offering to directly or indirectly acquire an equity interest in an additional 12 hydroelectric generating facilities located in Quebec (3), Newfoundland (1), New York State (2), New Hampshire (5) and Vermont (1). After completion of these acquisitions, the fund will hold an interest in 29 hydroelectric generating facilities having a total installed generating capacity of approximately 69 megawatts.

Respectfully submitted on behalf of the Trustees of the Algonquin Power Income Fund.

R. Ian Bradley
Trustee

ALGONQUIN POWER

INCOME FUND

Interim Report to Unitholders
Three Months Ended March 31, 1998

ALGONQUIN POWER INCOME FUND

CONSOLIDATED BALANCE SHEET

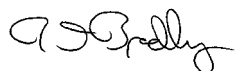
(expressed in thousands of dollars)

	March 31, 1998 (unaudited)	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,593	\$418
Amounts receivable	1,595	535
Notes receivable — current portion	114	152
Prepaid expenses	75	24
	<u>3,377</u>	<u>1,129</u>
Notes receivable	15,476	16,852
Funds in escrow	20,780	41,554
Capital assets, at cost	39,549	18,376
Deferred foreign exchange loss	97	37
	<u>\$79,279</u>	<u>\$77,948</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$1,262	\$1,275
Due to Algonquin group of companies	1,208	1,149
Cash distribution payable	1,406	—
Current portion of long-term liabilities	614	—
Income taxes payable	28	—
	<u>4,518</u>	<u>2,424</u>
Long-term liabilities	4,185	4,144
	<u>8,703</u>	<u>6,568</u>
UNITHOLDER'S EQUITY		
Trust units	73,676	73,811
Deficit	(3,100)	(2,431)
	<u>70,576</u>	<u>71,380</u>
	<u>\$79,279</u>	<u>\$77,948</u>

Approved by the Trustees:



GEORGE L. STEEVES
Trustee



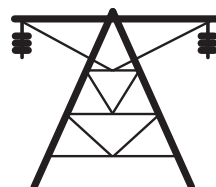
R. IAN BRADLEY
Trustee

ALGONQUIN POWER INCOME FUND

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

(expressed in thousands of dollars)

	From Date of Declaration of Trust, September 8, 1997, to December 31, 1997	From Date of Declaration of Trust, September 8, 1997, to December 31, 1997
	Three Months Ended March 31, 1998 (unaudited)	Three Months Ended March 31, 1997 (unaudited)
Revenue		
Energy Sales	\$962	\$44
Interest and rental income	758	91
	<u>1,720</u>	<u>135</u>
Expenses		
Operating	341	22
Amortization of capital assets	334	29
Debt arrangement and prepayment fees	—	2,259
Management fees	63	6
Operations supervisory fees	63	6
Administrative expenses	69	168
Loss on foreign exchange	4	2
	<u>874</u>	<u>2,492</u>
Earnings (loss) before interest expense	846	(2,357)
Interest expense	61	74
Earnings (loss) before income taxes	785	(2,431)
Income Taxes	48	—
Net earnings (loss) for the period	737	(2,431)
Deficit, beginning of period	(2,431)	—
Cash distributions	(1,406)	—
Deficit, end of period	<u>\$(3,100)</u>	<u>\$(2,431)</u>



ALGONQUIN POWER
INCOME FUND

ALGONQUIN POWER INCOME FUND

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(expressed in thousands of dollars)

	From Date of Declaration of Trust, September 8, 1997, to December 31, 1997	From Date of Declaration of Trust, September 8, 1997, to December 31, 1997
	Three Months Ended March 31, 1998 (unaudited)	Three Months Ended March 31, 1997 (unaudited)
Operating Activities		
Net earnings (loss)	737	\$(2,431)
Items not affecting cash		
Earnings on funds held in escrow	(13)	—
Amortization of capital assets	334	29
Other amortization	(12)	—
Loss on early repayment of notes payable	—	1,565
Cash generated from operations	1,046	(837)
Change in non-cash operating working capital	1,155	1,741
	<u>2,201</u>	<u>904</u>
Financing Activities		
Cash distributions	(1,406)	—
Issue of trust units	—	80,318
Expenses of trust units offering	(135)	(6,507)
Issue of notes payable at date of acquisition	—	10,402
Repayment of long-term liabilities	(79)	(7,823)
	<u>(1,620)</u>	<u>76,390</u>
Investing Activities		
Decrease (increase) in funds in escrow	20,787	(41,554)
Acquisition of notes receivable	—	(17,041)
Receipt of principal on notes receivable	594	—
Acquisition of operating entities	(20,787)	(18,281)
	<u>594</u>	<u>(76,876)</u>
Increase in cash and cash equivalents	1,175	418
Cash and cash equivalents, beginning of period	418	—
Cash and cash equivalents, end of period	<u>\$1,593</u>	<u>\$418</u>