

ALGONQUIN POWER

INCOME FUND

Report to Unitholders

On July 7, 1998, the Fund completed a public offering of an additional 6,058,697 Trust Units at \$10.65 per Trust Unit, for aggregate gross proceeds of \$64,545,123. The Fund used the net proceeds of the offering to indirectly acquire equity interests in an additional eleven hydroelectric facilities located in Quebec (3), New York State (2), New Hampshire (5) and Vermont (1) and will use the balance of such proceeds to acquire a facility in Newfoundland, once commissioned. The Fund now has interests in 28 hydroelectric generating facilities located in Ontario (5), Quebec (6), New York State (9), New Hampshire (7) and Vermont (1). During the three months ended September 30, 1998, the Fund received revenues from these 28 hydroelectric facilities.

Financial Results

	Nine months ended September 30, 1998
(expressed in thousands of dollars, except per unit amounts)	
Revenues	\$ 6,211
Net earnings	\$ 2,907
Distributable cash for the period	
Nine months ended September 30, 1998	\$ 6,528
Deficiency in distributable cash carried forward from December 31, 1997	(94)
	<u>\$ 6,434</u>
<i>Per unit</i>	\$ 0.64
Distribution declared to unitholders	\$ 6,111
<i>Per unit</i>	\$ 0.61
Number of units outstanding	14,090,472
Weighted average number of units outstanding	<u>10,051,341</u>

During the nine months ended September 30, 1998, the hydroelectric generating facilities in which the Fund holds an economic interest produced \$12,039,000 in revenues. The Fund records these revenues from the facilities as income from energy sales, interest, participation income and receipt of principal on notes.

In the Fund's most recent prospectus dated June 26, 1998, the Fund published a new forecast of distributable cash for various periods. Although not specifically indicated, the forecast distributable cash for 9 months is \$0.69 per unit. To September 30, the fund has distributed cash of \$0.61 per unit. The difference between the forecast and actual distributable cash can be attributed to two factors. Firstly, the fund has received revenues for approximately 8 months with September revenues still recorded as accounts receivable. Actual distributable cash received subsequent to the distribution date was \$0.05 per unit. Secondly, lower than forecasted revenues (primarily due to lower than average water flows partially mitigated by favourable exchange rates) account for the balance.

Current Developments

It is expected that the Fund will acquire its interest in the Newfoundland facility prior to year end as the facility is now nearing completion.

A distribution to Unitholders of \$0.20 per Unit was declared to Unitholders of record on September 30, 1998 for payment on October 15, 1998.

The Trustees have amended the Distribution Payment Dates for future distributions in order to better match distribution payments to Unitholders with payments received from the various utilities to which the Fund facilities sell electricity. The January 15, 1999 Payment Date will now become February 15, 1999.

The Trustees of the Fund have called a special meeting of Unitholders to be held on December 18, 1998 to amend the Declaration of Trust. The Trustees currently have limited power to borrow money on behalf of the Fund. This amendment, if approved, will give the Trustees greater flexibility to borrow money in order to acquire additional assets provided certain criteria are met, including, among other things, that such acquisitions meet the acquisition guidelines adopted by the Trustees from time to time and such acquisitions are anticipated to increase distributable cash per Unit. Debt incurred by the Fund will also be restricted such that the ratio of debt service costs to distributable cash does not exceed one to three. Any indebtedness may be secured by the assets of the Fund.

This increased flexibility will enable the Fund to consider acquisitions which could be financed initially through debt financing. It is the intention of the Fund to retire such indebtedness through the issuance of additional Units at an appropriate time.

Outlook

Although water flows have been below normal in Ontario and Quebec during the second and third quarters and revenues have been affected accordingly, flows closer to normal were experienced in the North Eastern United States during this time period. This geographic diversity, together with the favourable exchange rate, mitigated the impact to revenues due to the low flows in the Ontario and Quebec regions. Expenses continue to be in line with forecast; however, the Fund will require water flows to return to long term average conditions in order to meet its forecasted energy production.

The Fund, through its Manager, will continue to evaluate opportunities to acquire interests in hydroelectric generating facilities in Canada and the United States that meet the appropriate criteria.

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

R. Ian Bradley
Trustee

ALGONQUIN POWER INCOME FUND

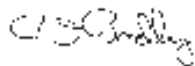
Consolidated Balance Sheet
(expressed in thousands of dollars)

	September 30, 1998 (unaudited)	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,178	\$ 418
Cash held for future acquisitions	4,309	—
Amounts receivable	1,377	535
Notes receivable — current portion	38	152
Prepaid expenses	302	24
	<u>9,204</u>	<u>1,129</u>
Notes receivable	60,655	16,852
Participation and other interests	2,582	—
Funds in escrow	—	41,554
Reserve funds	292	—
Capital assets, net of amortization	64,955	18,376
Deferred foreign exchange loss	—	37
	<u>\$ 137,688</u>	<u>\$ 77,948</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 956	\$ 1,275
Due to Algonquin group of companies	1,686	1,149
Cash distribution payable	2,818	—
Current portion of long-term liabilities	1,497	—
Income taxes payable	154	—
	<u>7,111</u>	<u>2,424</u>
Long-term liabilities	3,302	4,144
Deferred foreign exchange gain	374	—
	<u>10,787</u>	<u>6,568</u>
UNITHOLDERS' EQUITY		
Trust units	132,536	73,811
Deficit	(5,635)	(2,431)
	<u>126,901</u>	<u>71,380</u>
	<u>\$ 137,688</u>	<u>\$ 77,948</u>

Approved by the Trustees:



GEORGE L. STEEVES
Trustee

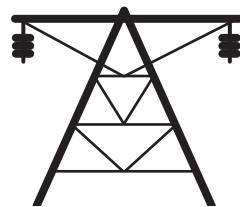


R. IAN BRADLEY
Trustee

ALGONQUIN POWER INCOME FUND

Consolidated Statement of
Operations and Deficit
(expressed in thousands of dollars)

	Nine Months Ended September 30, 1998 (unaudited)	From Date of Declaration of Trust, September 8, 1997, to December 31, 1997
Revenue		
Energy sales	\$ 3,179	\$ 44
Interest income and income from participation agreements	3,032	91
	<u>6,211</u>	<u>135</u>
Expenses		
Operating	1,246	22
Amortization	1,317	29
Debt arrangement and prepayment fees	—	2,259
Management fees	227	6
Operations supervisory fees	200	6
Administrative expenses	156	168
(Gain) loss on foreign exchange	(129)	2
	<u>3,017</u>	<u>2,492</u>
Earnings (loss) before interest expense	3,194	(2,357)
Interest expense	193	74
Earnings (loss) before income taxes	3,001	(2,431)
Income taxes	94	—
Net earnings (loss) for the period	2,907	(2,431)
Deficit, beginning of period	(2,431)	—
Cash distributions	(6,111)	—
Deficit, end of period	<u>\$ (5,635)</u>	<u>\$ (2,431)</u>



ALGONQUIN POWER
INCOME FUND

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Consolidated Statement of Changes
In Financial Position
(expressed in thousands of dollars)

	Nine Months Ended September 30, 1998 (unaudited)	From Date of Declaration of Trust, September 8, 1997, to December 31, 1997
Operating Activities		
Net earnings (loss)	\$ 2,907	\$ (2,431)
Items not affecting cash		
Earnings on funds held in escrow	(13)	—
Amortization of capital assets	1,245	29
Amortization of participation interests	72	—
Other amortization	(122)	—
Interest receivable on notes	(687)	—
Loss on early repayment of note payable	—	1,565
Cash generated from operations	<u>3,402</u>	<u>(837)</u>
Change in non-cash operating working capital	2,070	1,741
	<u>5,472</u>	<u>904</u>
Financing Activities		
Cash distributions	(6,111)	—
Issue of trust units	64,525	80,318
Expenses of trust units offerings	(5,800)	(6,507)
Issue of notes payable at date of acquisition	—	10,402
Repayment of long-term liabilities	(79)	(7,823)
	<u>52,535</u>	<u>76,390</u>
Investing Activities		
(Increase) in cash held for future acquisitions	(4,309)	—
Decrease (increase) in funds in escrow	41,567	(41,554)
(Increase) in reserve funds	(292)	—
Acquisition of notes receivable	(46,368)	(17,041)
Receipt of principal on notes receivable	3,763	—
Acquisition of operating entities	(46,954)	(18,281)
Acquisition of participation and other interests	(2,654)	—
	<u>(55,247)</u>	<u>(76,876)</u>
Increase in cash and cash equivalents	2,760	418
Cash and cash equivalents, beginning of period	418	—
Cash and cash equivalents, end of period	<u>\$ 3,178</u>	<u>\$ 418</u>