
AUDITOR'S REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Algonquin Power Income Fund as at December 31, 1999 and 1998 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
March 10, 2000

Consolidated Balance Sheets
December 31, 1999 and 1998
(thousands of Canadian dollars)

	1999	1998
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,602	\$ 2,124
Accounts receivable	6,859	2,680
Notes receivable - current portion (note 5)	-	1,300
Prepaid expenses	363	168
Future income tax asset (note 11)	546	-
	<u>17,370</u>	<u>6,272</u>
Notes receivable (note 5)	13,681	59,539
Participation and other interests, net of amortization (note 6)	4,162	6,727
Capital assets, net of amortization (note 7)	287,241	62,558
Funds held in reserve	1,914	-
Future non current income tax asset (note 11)	719	-
Deferred financing fee	901	-
	<u>\$ 325,988</u>	<u>\$ 135,096</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6,366	\$ 1,086
Due to Algonquin Power Group	2,746	2,138
Cash distribution payable	5,765	3,170
Current portion of long-term liabilities (note 9)	3,194	1,922
Current income taxes payable	67	-
	<u>18,138</u>	<u>8,316</u>
Revolving credit facility (note 8)	6,911	-
Long-term liabilities (note 9)	73,880	2,836
Future income taxes payable (note 11)	21,838	-
UNITHOLDERS' EQUITY		
Trust units (note 2)	224,792	132,461
Deficit	(19,571)	(8,517)
	<u>205,221</u>	<u>123,944</u>
Commitments and contingencies (notes 12 and 16)	<u>\$ 325,988</u>	<u>\$ 135,096</u>

See accompanying notes to the consolidated financial statements

Approved by the Trustees:



George Steeves, Trustee



Kenneth Moore, Trustee

Consolidated Statements of Earnings and Deficit
Year ended December 31, 1999 and 1998
(thousands of Canadian dollars)

	1999	1998
REVENUE		
Energy sales	\$ 13,709	\$ 4,711
Interest income and income from participation agreements	5,652	3,492
	<u>19,361</u>	<u>8,203</u>
EXPENSES		
Operating	4,574	1,818
Amortization	3,809	1,982
Management fees	408	294
Operations supervisory fees	308	278
Administrative expenses	1,266	305
(Gain) loss on foreign exchange	264	(219)
	<u>10,629</u>	<u>4,458</u>
Earnings before interest expense	8,732	3,745
Interest expense	1,510	550
Earnings before income taxes	7,222	3,195
Provision for (recovery of) income taxes (note 11)		
Current income taxes	67	-
Future income taxes	(54)	-
	<u>13</u>	<u>-</u>
Net earnings	7,209	3,195
Deficit, beginning of year	(8,517)	(2,431)
Cumulative effect of adopting asset and liability method for income taxes (note 1(i))	204	-
Cash distributions (note 13)	(18,467)	(9,281)
Deficit, end of year	<u>\$ (19,571)</u>	<u>\$ (8,517)</u>
Net earnings per trust unit (note 14)	<u>\$ 0.37</u>	<u>\$ 0.29</u>

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows
Year ended December 31, 1999 and 1998
(thousands of Canadian dollars)

	1999	1998
OPERATING ACTIVITIES		
Net earnings	\$ 7,209	\$ 3,195
Items not affecting cash		
Amortization of capital assets	3,649	1,870
Amortization of participation interests	160	112
Other amortization	(52)	(73)
Distribution received in excess of equity income	23	-
Future income taxes	(54)	
Unrealized foreign exchange loss (gain)	568	(590)
	11,503	4,514
Changes in non-cash operating working capital	1,826	2,517
	13,329	7,031
FINANCING ACTIVITIES		
Cash distributions	(18,467)	(9,281)
Issue of trust units	99,848	64,525
Revolving credit facility	6,911	-
Expenses of trust units offerings	(7,517)	(5,875)
Financing fee	(999)	-
Repayment of long-term liabilities	(1,585)	(78)
	78,191	49,291
INVESTING ACTIVITIES		
Decrease in funds in escrow	-	41,554
Acquisition of notes receivable	(7,335)	(47,668)
Receipt of principal on notes receivable	3,861	3,756
Acquisition of operating entities	(83,013)	(45,433)
Acquisition of participation and other interests	-	(6,839)
	(86,487)	(54,630)
Effect of exchange rate differences on cash and cash equivalents	(62)	14
Increase in cash and cash equivalents	4,971	1,706
Cash and cash equivalents on consolidation of generating facilities (note 4)	2,507	-
Cash and cash equivalents, beginning of year	2,124	418
Cash and cash equivalents, end of year	\$ 9,602	\$ 2,124
Supplemental disclosure of cash flow information		
Cash paid during the year for interest expense	\$ 1,385	\$ 550
Cash paid during the year for income taxes	\$ -	\$ -

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements
December 31, 1999 and 1998
(in thousands of Canadian dollars except as noted)

Algonquin Power Income Fund (the Fund) is an open-ended, unincorporated Trust established pursuant to the Declaration of Trust dated September 8, 1997, as amended, under the laws of the Province of Ontario. The Fund's principal business activity is the ownership, directly or indirectly, of hydroelectric generating facilities.

The Fund is managed by Algonquin Management Inc. (AMI), a company wholly owned by the shareholders of Algonquin Power Corporation Inc. (APC). A subsidiary of APC, Algonquin Power Systems Inc., operates the hydroelectric facilities on a day-to-day basis. Algonquin Power Acquisition Partnership, a partnership ultimately owned by APC, provided consulting services to the Fund. Collectively, these entities are referred to as the Algonquin Power Group.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in Canada and include the consolidated accounts of its wholly-owned subsidiaries, as detailed in note 17 of these consolidated financial statements. All investments are wholly-owned, except Algonquin Power (Rattle Brook) Partnership. The Fund's 45% interest in this facility is accounted for under the equity method. All significant intercompany transactions and balances have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents include cash deposited at banks and highly liquid investments with original maturities of 90 days or less.

Included in cash and cash equivalents are reserves established by the Fund Manager primarily to allow for an equalization of distributions throughout the year at the discretion of the Trustees to help compensate for seasonal fluctuations in rainfall.

(c) Funds held in reserve

Cash reserves segregated from the Fund's cash balances are maintained in accounts administered by a separate agent and disclosed separately in these consolidated financial statements because the Fund cannot access this cash without the prior authorization of parties not related to the Fund.

(d) Capital assets

Capital assets, being land, hydroelectric generating facilities, hydro contract acquisition costs and licences, are recorded at cost. Development costs, including the cost of acquiring or constructing facilities together with the related interest costs during the period of construction, are capitalized.

Notes to the Consolidated Financial Statements

Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

The hydroelectric generating facilities are amortized on a straight-line basis over the estimated useful lives of the facilities. These periods range from 25 to 40 years.

The costs attributable to establishing exemptions from Federal Energy Regulatory Commission licensing requirements in the United States are being amortized on a straight-line basis over the term of the licence.

The costs attributable to the acquisition of power purchase agreements are being amortized on a 20% declining balance basis.

(e) Notes receivable

Notes receivable are carried at the lower of cost or estimated realizable value. Estimated realizable value is the expected future cash flows discounted at the rate of interest inherent in the investment on acquisition, which at the date of the financial statements approximates cost. Interest is being recognized on an effective yield basis.

(f) Deferred financing fee

The costs of arranging a credit facility have been deferred and are being amortized over the term of the credit facility. The amortization has been included with interest expense on the statement of earnings.

(g) Recognition of revenue

Revenue is derived from energy sales and is recorded at the time electrical energy is delivered.

Interest income from notes held and income from participation agreements and other interests is recorded as earned.

(h) Foreign currency translation

The Fund's United States subsidiaries and partnership interests are considered to be functionally integrated with the Canadian operations. All monetary assets and liabilities denominated in United States dollars are translated into Canadian dollars at year end exchange rates, whereas non-monetary assets and liabilities are translated at the rate in effect at the transaction date. The revenues and expenses of these integrated operations are translated at the average rate of exchange in effect during the period. The foreign currency translation adjustment is reflected in the consolidated statement of earnings and deficit.

(i) Income taxes

As the Fund is an unincorporated trust, it is entitled to deduct distributions to unitholders to the extent of its taxable income and consequently, it is expected that the Fund will not be liable for any material tax as this will be the

responsibility of the individual unitholder. Any provision for income taxes will relate solely to the income taxes of the Fund's wholly-owned subsidiaries.

Effective January 1, 1999, the Fund changed from the deferral method of accounting for income taxes to the asset and liability method. The Fund has reported the cumulative effect of \$204 separately as a restatement of the opening deficit balance in the consolidated statements of earnings and deficit. Prior year financial statements have not been restated.

Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(j) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the period. Actual results could differ from estimates. During the years presented, management has made a number of estimates and valuation assumptions, including estimates of net realizable value of amounts and notes receivable, the useful lives of capital assets, the recoverability of future tax assets and the fair value of financial assets and liabilities. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

2. TRUST UNITS

Authorized trust units

The Declaration of Trust provides that an unlimited number of units may be issued. Each unit represents an undivided beneficial interest in any distribution from the Fund and in the net assets in the event of termination or wind-up. All units are the same class with equal rights and privileges.

Trust units are redeemable at the holder's option at amounts related to market prices at the time subject to a maximum of \$10 in cash redemptions in any particular calendar month. Redemptions in excess of this amount shall be paid by way of a distribution in specie of a pro rata amount of certain of the Fund's assets, including the securities purchased by the Fund, but not to include the generating facilities.

Notes to the Consolidated Financial Statements

Issued trust units

	<u>Number of units</u>	<u>Amount</u>
Balance as at December 31, 1997	8,031,775	\$ 73,811
July 7, 1998 issue	6,058,697	64,525
Cost of the issue		(5,875)
Balance as at December 31, 1998	14,090,472	132,461
April 27, 1999 issue	8,100,000	83,835
November 25, 1999 issue	1,830,000	16,013
Cost of issues		(7,517)
Balance as at December 31, 1999	<u>24,020,472</u>	<u>\$ 224,792</u>

3. ACQUISITIONS

a) Acquisitions of generating facilities

During 1999, the Fund acquired a 100% interest in eight hydroelectric generating facilities from the Algonquin Power Group for total consideration of \$85,632, which includes \$85,132 applied to the assets acquired and \$500 expensed for consulting services. The acquisitions have been accounted for using the purchase method with earnings from operations included since the date of acquisition. The consideration paid by the Fund has been allocated to net assets acquired as follows:

Working capital	\$ 1,872
Capital assets	126,833
Future income tax asset - current	546
Long-term liabilities	(22,778)
Future income tax liability	(21,341)
Total purchase price	<u>85,132</u>
Less: cash acquired	(1,923)
Less: Long-term liabilities issued to vendor	(196)
Cash paid net of cash acquired	<u>\$ 83,013</u>

Notes to the Consolidated Financial Statements

The purchase price paid for each facility, the nature of the acquisition and the date of acquisition is set out in the table below:

Facility	Purchase Price	Nature of Acquisition	Date of Acquisition
Hydro Snemo	\$ 8,026	shares acquired	June 19, 1999
Hydraska	5,742	shares acquired	June 30, 1999
Cote Ste-Catherine	22,541	shares acquired	August 3, 1999
Mont Laurier	8,031	partnership acquired	August 3, 1999
Clement Dam	8,570	partnership acquired	August 5, 1999
St-Raphael	11,360	shares acquired	August 19, 1999
Pembroke	12,509	partnership acquired	December 6, 1999
Gregg Falls	8,353	partnership acquired	December 6, 1999
Total	<u>\$85,132</u>		

During 1998, the Fund acquired a 100% interest in ten hydroelectric generating facilities from the Algonquin Power Group for total consideration of \$45,433. The acquisitions have been accounted for using the purchase method with earnings from operations included since the date of acquisition. The consideration paid by the Fund has been allocated to net assets acquired as follows:

Working capital	\$ 73
Capital assets	46,052
Long-term liabilities	(692)
Cash paid	<u>\$ 45,433</u>

The purchase price paid for each facility, the nature of the acquisition and the date of acquisition is set out in the table below:

Facility	Purchase Price	Nature of Acquisition	Date of Acquisition
Belleterre	\$ 12,257	shares acquired	February 12, 1998
Ste-Brigitte	8,517	shares acquired	February 12, 1998
Lakeport	1,471	shares acquired	July 7, 1998
Avery	3,617	partnership acquired	July 7, 1998
Ashuelot	3,249	partnership acquired	July 7, 1998
Hadley	1,612	partnership acquired	July 7, 1998
Lower Robertson	3,161	partnership acquired	July 7, 1998
Burt Dam	2,000	partnership acquired	July 7, 1998
Hollow Dam	3,500	partnership acquired	July 7, 1998
Moretown	6,059	partnership acquired	July 7, 1998
Total	<u>\$ 45,443</u>		

b) Acquisitions of notes receivable and participation and other interests

On June 28, 1999 the Fund acquired from the Algonquin Power Group, the Franklin Note having an outstanding principal balance of \$8,499, for \$7,335. The details of this Note are outlined in note 5.

On April 17, 1998, the Fund acquired for \$20,780 the LSR notes at a cost of \$18,876 (see note 5) and \$1,904 of participation and other interests (see note 6) issued by the joint venture partners that developed the Long Sault Rapids facility in Ontario. Of the total proceeds paid, \$10,369 was paid to the Algonquin Power Group.

On July 7, 1998, the Fund acquired notes (i) issued by the National Bank of Canada at a cost of \$22,500 (see note 5).

On July 7, 1998 the Fund acquired from the Algonquin Power Group for \$5,742 the Glenford Note at a cost of \$4,992 (see note 5) which entitles the Fund to the cash flows of Société en Commandite Chute Ford and an option at a cost of \$750 to acquire APC's 100% interest in Société en Commandite Chute Ford (see note 6).

On December 31, 1998, the Fund acquired from the Algonquin Power Group 100% of the outstanding shares of 10640 Newfoundland Limited, a company incorporated under the laws of Newfoundland, at a cost of \$4,185. 10640 Newfoundland Limited owns a 45% interest in Algonquin Power (Rattle Brook) Partnership which owns and operates the Rattle Brook hydroelectric generating facility in Newfoundland (see note 6).

4. ACCOUNTING FOR NOTES RECEIVABLE, PARTICIPATION AND OTHER INTERESTS

In 1997 and 1998, the Fund acquired notes receivable and participation and other interests in the Long Sault Rapids, Trafalgar, Chute Ford, Rawdon and St. Alban facilities which entitled the Fund to 100% of the cash flows of these facilities. These were accounted for as notes receivable and participation and other interests since management determined that all the benefits and risks of ownership had not passed fully to the Fund, primarily as a result of the uncertainty regarding the ultimate ownership of these facilities. During 1999, management concluded that effective ownership of these facilities has passed to the Fund and, as such, has consolidated these facilities. The Rawdon and St. Alban facilities have been consolidated since July 1, 1999 and the remaining facilities as of December 31, 1999. The differential in value between the underlying assets consolidated and the notes receivable and participation and other interest has been capitalized to generating facilities. The following table summarizes the impact of consolidating these facilities:

Notes to the Consolidated Financial Statements

Cash	\$ 2,507
Working capital other than cash	(2,279)
Funds held in reserve	1,914
Capital assets	101,498
Long-term debt	(50,927)
Assets consolidated	<u>\$ 52,713</u>
Notes receivable	\$ 50,331
Participation and other interests	2,382
Assets eliminated	<u>\$ 52,713</u>

5. NOTES RECEIVABLE

	1999	1998
Trafalgar Notes (i)	\$ -	\$ 6,769
LSR Notes (ii)	-	18,876
National Bank of Canada Notes(iii)	-	22,500
APC Notes (iv)	6,402	12,694
Franklin Note (v)	7,279	-
	<u>13,681</u>	<u>60,839</u>
Less: current portion	-	1,300
	<u>\$ 13,681</u>	<u>\$ 59,539</u>

(i) Trafalgar Notes

Notes issued jointly and severally by Trafalgar Power Inc., a Delaware corporation, and Christine Falls Corporation, a New York corporation.

	1998
Trafalgar Class A Note - 9.75% secured note due February 10, 2003, principal amount of US\$3,956	\$ 6,078
Trafalgar Class B Note - 6.10% secured note due December 31, 2010, principal amount of US\$15,800	691
	<u>\$ 6,769</u>

The Trafalgar Notes are secured by a first charge against all assets of the issuing companies including the generating facilities and key operating contracts. The Class B Note is subordinate to the Class A Note. Payment of principal and interest is structured based on receipt of 100% of the cash flows generated by the seven hydroelectric facilities owned by the companies, with payments first applied to the Class A Note. Each year once annual cash flow targets have been determined and applied to reduce the interest and principal outstanding on the Class A Note, the remaining cash flow is paid to the Fund as a bonus under the contingency participation agreement. The Fund received no proceeds in 1999 (1998 - \$192) from this contingency participation

Notes to the Consolidated Financial Statements

agreement. Once the Class A Note is paid, a similar arrangement applies to the Class B Note. The overall terms of the Notes provide for the Fund to receive 100% of cash flows up to 2010 and a right to 75% of the equity value of the facilities upon repayment of the Notes, without further payment.

At December 31, 1999, the notes have been replaced with the underlying assets (see note 4).

(ii) LSR Notes

Notes issued by the joint venture partners who developed the Long Sault Rapids hydroelectric generating facility.

1998

LSR Subordinate Note

A subordinate note, interest at 14.14% compounded annually, due December 31, 2038, with blended monthly payments of principal and interest. The note is subordinate to the main project financing.

\$ 2,000

LSR Nicholls Note

A participating note issued by N-R Power & Energy Corp., which through ownership of partners to the project, holds a 50% undivided interest in the facility. The note bears interest at 9% per annum with a maturity date of January 1, 2038. The note is subordinate to the LSR subordinate note and the main project financing.

6,568

LSR Algonquin Note

A participating note issued by APC, which through ownership of partners to the project, holds a 50% undivided interest in the facility. The note bears interest at 9% per annum with a maturity date of January 1, 2038. The note is subordinate to the LSR subordinate note and the main project financing.

10,308

\$ 18,876

At December 31, 1999, the notes have been replaced with the underlying assets (see note 4).

(iii) National Bank of Canada Notes

1998

SLI Saint-Alban Note - 5% secured note, payable on demand

\$ 15,000

SLI Rawdon Note - 5% secured note, payable on demand

7,500

\$ 22,500

The Saint-Alban Note is secured by a security interest in favour of the National Bank of Canada of the rights held by the owners of the assets of the

Notes to the Consolidated Financial Statements

Saint-Alban hydroelectric generating facility, and in the power purchase agreements with Hydro Québec and other lease agreements.

The Fund operates the facilities under an interim operations agreement with the owner of the facilities during the term of the notes. The interim operations agreement entitles the Fund to all net cash flows from the facilities after payment of interest.

The Fund has agreements whereby the Fund can convert the notes receivable from National Bank into ownership of the generating facility and obtain title to the power purchase and other agreements.

At July 1, 1999, the notes have been replaced with the underlying assets (see note 4).

(iv) APC Notes

	1999	1998
APC Note - 9.25% secured note due January 1, 2005, note to be repaid in scheduled principal repayments over its term.	\$ 6,402	\$ 6,402
APC Glenford Note - 8.50% subordinate note due July 1, 2023 note to be repaid from available cash flows. The note is subordinate to the senior project debt of \$6,038.	-	4,992
APC Demand Note - 5.50% note, unsecured	-	1,300
	\$ 6,402	\$ 12,694

The APC Note is secured by a letter of credit in the amount of \$2,200 (1998 - \$2,200) and an assignment of all amounts owing by the Fund in respect of the \$1,646 (1998 - \$2,579) promissory note payable to APC (note 9) and the guarantee of Algonquin Power Systems Inc.

At July 1, 1999, the Glenford Note has been replaced with the underlying assets (see note 4).

(v) Franklin Note

	1999	1998
Franklin Note - 11.05% senior secured note due January 1, 2006, principal amount of US\$4,990	\$ 7,279	-

The Franklin Note is secured by a first charge against all assets of Franklin Industrial Complex, including the generating facility and key operating contracts.

Notes to the Consolidated Financial Statements

6. Participation and other interests

	1999	1998
Securities of the joint venture partners who developed the Long Sault Rapids facility: Participation interests provide rights to cash flows from 1999 through to 2019.		
Gross book value	\$ -	\$ 1,832
Less: accumulated amortization	-	112
	-	1,720
Deposits to acquire shares of companies owned by N-R Power & Energy Corp. and APC. The effective date of transfer of ownership is expected to be January 1, 2038.	-	72
	-	72
At December 31, 1999, the LSR interests have been replaced with the underlying assets (see note 4).	-	1,792

Option:

Option to acquire 100% partnership interest in Société en Commandite Chute Ford from APC for the Glenford facility. The option is exercisable after the repayment of the Glenford Note, but not earlier than June 2009.	-	750
---	---	-----

At December 31, 1999, the option has been replaced with the underlying assets (see note 4).

Equity:

100% of the outstanding shares of 10640 Newfoundland Limited, which owns a 45% partnership interest in the Algonquin Power (Rattle Brook) Partnership	4,162	4,185
	\$ 4,162	\$ 6,727

7. CAPITAL ASSETS

	Cost	1999 Accumulated amortization	Net book value	1998 Net book value
Land	\$ 252	\$ -	\$ 252	\$ 151
Generating facilities	290,753	4,968	285,785	60,932
Hydro contract acquisition costs	1,442	519	923	1,154
Licences	349	68	281	321
	\$ 292,796	\$ 5,555	\$ 287,241	\$ 62,558

8. REVOLVING CREDIT FACILITY

The Fund has negotiated a \$50 million revolving credit facility with a major Canadian bank, which will mature September 30, 2001. Under the term of the revolving credit facility, the Fund may acquire hydroelectric assets that meet the Fund's acquisition guidelines. At December 31, 1999, the Fund has drawn \$6.9 million on the facility carrying a rate of interest of 6.38%. The terms of the credit agreement require the Fund to pay a standby charge of 0.35% on the unused portion of the revolving credit facility and maintain certain financial covenants. The facility is secured by a fixed and floating charge over all entities of the Fund.

9. LONG-TERM LIABILITIES

	1999	1998
Notes payable to APC, unsecured		
10% per annum, to mature March 31, 2001, with scheduled quarterly principal payments.	\$ 1,646	\$ 2,579
9% per annum, to mature March 31, 2001, with scheduled quarterly principal payments.	1,178	1,565
	<u>2,824</u>	<u>4,144</u>
Amounts due to Hydro Québec, unsecured, non-interest bearing to be repaid by annual principal payments until 2004.	483	614
Senior Debt Cote Ste-Catherine		
Loans bearing interest varying from 9.91% to 11.05% repayable in monthly blended installments of \$235, maturing February 2018. The loans are secured by the Cote Ste-Catherine hydroelectric generating facility and a \$4.0 million guarantee from the Mont Laurier hydroelectric generating facility, with no other recourse to the Fund. The loans have certain financial covenants, which must be maintained on a quarterly basis.	22,645	-
Senior Debt Long Sault Rapids		
Loans bearing interest varying from 10.16% to 10.21% repayable in monthly blended installments of \$401, maturing December 2028. The loans are secured by a first fixed and floating charge over all the assets of the Long Sault Rapids hydroelectric generating facility, with no recourse to the Fund. The		

Notes to the Consolidated Financial Statements

loans have certain financial covenants, which must be maintained on a quarterly basis.	44,958	-
Senior Debt Chute Ford		
Loan bearing interest of 11.55% repayable in monthly blended installments of \$64, maturing April 2020. The loan is secured by a general assignment of book debts of the Chute Ford hydroelectric generating facility, with no recourse to the Fund. The loans have certain financial covenants, which must be maintained on a quarterly basis.	5,968	-
Unsecured note		
\$275 due March 2004, discounted at 7%.	196	-
	<u>\$77,074</u>	<u>\$ 4,758</u>

Principal payments due in the next five years are:

2000		\$ 3,194
2001		1,601
2002		1,023
2003		1,130
2004		1,459
Thereafter		<u>68,747</u>
		\$77,153
Less: Imputed interest		<u>(79)</u>
		<u>\$77,074</u>

10. FINANCIAL INSTRUMENTS

The carrying amount of the Fund's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, due to the Algonquin Power Group and cash distribution payable approximate fair value due to the short-term nature of these financial instruments.

The carrying amount of the Fund's notes receivable and participation and other interests approximate fair value. Fair value was estimated by the Fund by comparing the rates currently available for investments of similar terms and risks. Under the terms of the Trafalgar Indenture, the Fund also has the right to participate in cash flows in excess of the funding requirements to meet interest and principal payments on the Class A and Class B notes. This right has been given no carrying amount and since the timing and amount of the cash flows is uncertain, it is not practicable to determine the fair market value of that right.

Notes to the Consolidated Financial Statements

Long-term debt is carried at cost, which approximates fair market value. Fair value is estimated by comparing current interest rates available for long-term debt of similar terms and risks.

11. INCOME TAXES

The provision for income taxes in the consolidated statements of earnings represents an effective tax rate different than the Canadian statutory rate of 38.9% (1998 - 42.9%). The differences are as follows:

	1999	1998
Earnings before income tax	\$ 7,222	\$ 3,195
Computed income tax expense at Canadian statutory rate of 38.9% (1998 - 42.9%)	2,809	1,370
Increase (decrease) resulting from:		
Income of trust distributed directly to unitholders	(2,593)	(2,097)
Tax loss benefit not recognized	-	421
Manufacturing and processing deduction	(245)	-
Large corporations tax	38	-
Other	4	306
Income tax expense	\$ 13	\$ -

The tax effect of temporary differences at the Fund's subsidiaries that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 1999 are presented below:

1999

Future tax assets:

Non-capital loss and non-deductible interest carryforwards	\$ 960
Other	193
Less: valuation allowance	(62)
Total future tax assets	\$ 1,091

Future tax liabilities:

Capital assets -differences between net book value and undepreciated capital cost	\$21,664
Total future tax liabilities	\$21,664
Net future tax liability	\$20,573

Classified in the financial statements as:

Future income tax asset	\$ 546
Future non current income tax asset	719
Future income tax payable	21,838
	\$20,573

Notes to the Consolidated Financial Statements

At December 31, 1999, the Fund itself has financing expenses and underwriters' fees of \$13,886 which will be deductible directly by the unitholders over the next four years. This will be offset by additions to the unitholder's taxable income since the Fund's capital assets have an accounting basis which exceeds their tax basis by \$1,415.

12. COMMITMENTS

Management Agreement

The Fund has entered into a management agreement with Algonquin Management Inc.. The management services to be provided include advice and consultation concerning business planning, support, guidance and policy making and general management services. The management agreement is for an initial 10 year term to expire December 31, 2007, with the term to be renewed for successive five year periods.

Algonquin Management Inc. is to receive the following fees in addition to reimbursement of reasonable out-of-pocket expenses:

- (1) a quarterly fee of US\$23, increased to US\$36 on July 7, 1998 for the additional facilities under management, adjusted annually for changes to the Canadian Consumer Price Index;
- (2) a fee based on the total energy production from all facilities in which the Fund has an interest; and
- (3) an incentive fee equal to the aggregate of 10% of the distributable cash per trust unit in excess of \$0.95 per trust unit and up to \$1.025 per trust unit and 25% of the distributable cash per trust unit in excess of \$1.025 per trust unit.

During 1999, management fees of \$408 (1998 - \$294) were incurred.

Operations Supervisory Agreement

The Fund has entered into an operations supervisory agreement with Algonquin Power Systems Inc. The operations supervisory services to be provided include the planning of capital repairs, compliance monitoring for environmental permits and administration of power purchase agreements. The operations supervisory agreement is for an initial term of 10 years to expire on December 31, 2007 with the term to be renewed for successive five-year periods.

Algonquin Power Systems Inc. is to receive a fee of US\$45 per quarter, increased to US\$54 on July 7, 1998 for the additional facilities under management, adjusted annually for the changes to the Canadian Consumer Price Index. During 1999, operations supervisory fees of \$308 (1998 - \$278) were incurred.

Direct Operations Contract

Each of the operating entities has entered into a direct operations contract with

Notes to the Consolidated Financial Statements

Algonquin Power Systems Inc. (APS). The direct operations contracts provide for the day-to-day services required to operate and maintain the hydroelectric facility. Payments under these contracts typically have a fixed fee and variable component. The variable fee is either linked to gross revenue or gross revenue less direct operating costs. The Fund incurred \$1,969 during 1999 (1998 - \$732) in direct operating contract expenses for the facilities owned directly. For the facilities that generate interest income and income from participation agreements, there were direct operating contract expenses of \$1,983 in 1999 (1998 - \$945). In addition to normal operating fees, the Fund paid APS for repair and maintenance for the facilities owned directly a total of \$885 (1998 - \$311). For the facilities that generate interest income and income from participation agreements, APS charged \$576 (1998 - \$743) for repairs and maintenance.

Land and Water Leases

Each of the operating entities has entered into agreements to lease either the land and/or the water rights for the hydroelectric facility or to pay in lieu of property tax an amount based on water production. These payments typically have a fixed and variable component. The variable fee is generally linked to actual power production or gross revenue. The Fund incurred \$716 during 1999 (1998 - \$275) in respect of these agreements for the facilities owned directly. For the facilities that generate interest income and income from participation agreements, there were land and water lease payments of \$136 in 1999 (1998 - \$102).

13. CASH DISTRIBUTIONS

Distributable income, as defined in the Trust Indenture, is distributed to unitholders of record on the last day of each calendar quarter on or before the following calendar quarter.

Distributions per unit declared by the Trustees in 1999 and 1998 were as follows:

	1999	1998
First quarter	\$ 0.240	\$ 0.175
Second quarter	\$ 0.200	\$ 0.235
Third quarter	\$ 0.220	\$ 0.200
Fourth quarter	\$ 0.240	\$ 0.225

14. NET EARNINGS PER TRUST UNIT

Net earnings per trust unit has been calculated using the weighted average number of units outstanding during the year. The weighted average number of units outstanding for 1999 was 19,584,088 (1998 - 10,969,828).

Notes to the Consolidated Financial Statements

15. SEGMENTED INFORMATION

	1999	1998
Revenues		
Canada	\$ 12,603	\$ 5,023
United States	6,758	3,180
	<u>\$ 19,361</u>	<u>\$ 8,203</u>
Capital Assets		
Canada	\$229,083	\$ 35,381
United States	58,157	27,177
	<u>\$287,241</u>	<u>\$ 62,558</u>

Revenues are attributable to the two countries based on the location of the underlying generating facilities.

All revenues, either directly through energy sales or indirectly through income and participation agreements, are earned from contracts with large public utilities. The following utilities contributed more than 10% of these total revenues: Niagara Mohawk Power Corporation-27% (1998-41%), Ontario Electricity Financial Corporation-24% (1998 - 28%), Public Service of New Hampshire-14% (1998-8%), and Hydro Québec-34% (1998-22%). The Fund has mitigated its credit risk to the extent possible by selling energy to these large utilities in various North American locations.

16. CONTINGENCIES

The Fund and its subsidiaries are involved in various claims and litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Fund's exposure to such litigation to be material to these financial statements.

17. SUBSIDIARIES AND PARTNERSHIP INTERESTS

The consolidated financial statements include the accounts of Algonquin Power Fund (Canada) Inc. , which wholly owns the following entities, except as noted:

Canadian Subsidiaries and Partnership Interests

Algonquin Energy (Belleterre) Inc. **

Algonquin Energy (Ste-Brigitte) Inc. **

Société Hydro Donnacona S.E.N.C. Partnership
Donnacona Holdings Inc.

10640 Newfoundland Limited

Algonquin Power (Rattle Brook) Partnership (45% interest)

Algonquin Developments (Cote Ste-Catherine) Inc.

Algonquin Energy (Cote Ste-Catherine) Inc.

Notes to the Consolidated Financial Statements

Algonquin Power Mont Laurier GP Inc.
Société En Commandite Mont Laurier
Hydro Snemo Inc.
Hydraska (St Hyacinthe) Inc.
Societe D'Energie St-Raphael Inc.
3038343 Nova Scotia Limited

** Amalgamated with Algonquin Power Fund (Canada) Inc. on January 1, 1999.

U.S. Subsidiaries and Partnership Interests

Algonquin Power Fund (America) Inc.
Algonquin Power Fund (America) Holdco Inc.
Lakeport Hydroelectric Corporation
Avery Hydroelectric Associates Partnership
Burt Dam Power Company Partnership
Clement Dam Hydroelectric LLC.
Gregg Falls Hydroelectric Partnership
Hadley Falls Associates Partnership
HDI I Associates Partnership
HDI III Associates Partnership
Hollow Dam Power Company Partnership
Moretown Hydro Energy Company Partnership
Pembroke Hydro Partnership