

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada (the permanent information record in Québec). Copies of the documents incorporated herein by reference may be obtained on request without charge from the President, Algonquin Management Inc. at Suite 210, 2085 Hurontario Street, Mississauga, Ontario L5A 4G1, telephone (905) 273-8900 and fax (905) 273-8914. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the President, Algonquin Management Inc. at the above-mentioned address and telephone number.

These securities have not been and will not be registered under the United States Securities Act of 1933, as amended, and, subject to certain exceptions, may not be offered or sold within the United States of America, or to, or for the account or benefit of, U.S. persons. See "Plan of Distribution".

## SHORT FORM PROSPECTUS

New Issue

January 19, 2001



# ALGONQUIN POWER INCOME FUND

**\$65,010,000**

**6,600,000 Trust Units**

This prospectus qualifies the distribution of 6,600,000 trust units to be issued and sold by Algonquin Power Income Fund pursuant to this offering. The trust units are being sold as to 5,100,000 trust units on a firm underwritten basis and as to 1,500,000 trust units on a best efforts agency basis. Each Trust Unit represents an equal undivided beneficial interest in the Fund. The Fund has 27,020,472 Trust Units issued and outstanding. The Fund is administered by Algonquin Management Inc. The net proceeds of this offering will be used to acquire an economic interest in additional generating facilities, repay debt and for working capital.

The Fund currently holds an equity interest, directly or indirectly, in 41 hydroelectric generating facilities located in Canada and the United States. The Manager manages such facilities.

The Fund will make quarterly cash distributions to holders of Trust Units of record on the last day of each calendar quarter. Such quarterly distributions are paid by the 45th day following each record date. The next distribution following closing of this offering is expected to be paid on May 15, 2001 to unitholders of record on March 31, 2001.

The terms of this offering were established through negotiation between the Manager on behalf of the Fund and BMO Nesbitt Burns Inc., National Bank Financial Inc., Merrill Lynch Canada Inc., RBC Dominion Securities Inc., TD Securities Inc., CIBC World Markets Inc., Scotia Capital Inc. and Trilon Securities Corporation (collectively, the "Underwriters"). The Manager is wholly-owned by the shareholders of Algonquin Power Corporation Inc. **One of the underwriters is a subsidiary of a Canadian chartered bank which has provided a line of credit (the "Line of Credit") to the Fund. Consequently, the Fund may be considered a connected issuer of that Underwriter under applicable Canadian securities legislation. See "Plan of Distribution".** The Trust Units will not be obligations of or interests in any person other than the 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 Trust 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.** The Underwriters may effect transactions which stabilize or maintain the market price for the Trust Units at levels other than those which otherwise might prevail in the open market. See "Plan of Distribution".

Subject to certain assumptions, limitations and conditions, in the opinion of Blake, Cassels & Graydon LLP, as of the date of this prospectus, the Trust Units are qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and, under proposed amendments to the regulations under the *Income Tax Act* (Canada), registered education savings plans under the *Income Tax Act* (Canada), are not foreign property within the meaning of the *Income Tax Act* (Canada) and are not precluded as investments under certain other statutes. See "Eligibility for Investment" and "Canadian Federal Income Tax Considerations".

## Price: \$9.85 per Trust Unit

	Price to the Public <sup>(1)</sup>	Underwriters' Fee	Net Proceeds to the Fund <sup>(2)(3)</sup>
Per Trust Unit . . . . .	\$9.85	\$0.4925	\$9.3575
Total Offering . . . . .	\$65,010,000	\$3,250,500	\$61,759,500

Notes:

- (1) The price of the additional Trust Units was established through negotiation between the Manager on behalf of the Fund and the Underwriters.
- (2) Before deduction of the expenses of this offering, estimated at \$300,000, which, together with the Underwriters' fee, will be paid by the Fund out of the proceeds of this offering.
- (3) The Fund has also granted the Underwriters an over-allotment option to purchase up to an additional 990,000 Trust Units exercisable at the offering price, in whole or in part, within 30 days following the date of closing. This short form prospectus qualifies the issuance and transfer of Trust Units that will be issued or transferred if the above-noted option is exercised. If such option is exercised in full, the aggregate gross proceeds to the Fund, the Underwriters' fee and the net proceeds to the Fund would be \$74,761,500, 3,738,075 and 71,023,425, respectively. See "Plan of Distribution".

The Trust Units are listed for trading on The Toronto Stock Exchange under the trading symbol of APF.UN. The closing price of the Trust Units on The Toronto Stock Exchange on January 18, 2001 was \$9.80.

The Underwriters, as principals, conditionally offer the Trust Units, subject to prior sale, if, as and when issued and sold by the Fund and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of the Fund by Blake, Cassels & Graydon LLP and on behalf of the Underwriters by Cassels Brock & Blackwell LLP.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The closing of this offering is expected to occur on or about January 25, 2001 or such later date as the Manager, the Fund and the Underwriters may agree, but in any event not later than February 8, 2001. Certificates for Trust Units will be available for delivery at closing.

## TABLE OF CONTENTS

	<u>Page</u>
SUMMARY .....	3
DOCUMENTS INCORPORATED BY REFERENCE .....	4
ALGONQUIN POWER INCOME FUND .....	5
General .....	5
Summary of Additional Facilities .....	6
Acquisition Completion Provisions .....	6
Diversified Growth Strategy .....	6
Acquisition Guidelines .....	7
BUSINESS OF THE ADDITIONAL FACILITIES .....	8
Additions to New England Development .....	8
Addition to New York Development .....	9
SHARE AND LOAN CAPITAL .....	10
Trust Unit and Loan Capital of the Fund .....	10
Trust Unit and Loan Capital of Algonquin Power Trust .....	10
Share Capital of Algonquin Canada .....	10
Loan Capital of Algonquin America .....	10
USE OF PROCEEDS .....	11
DETAILS OF THE OFFERING .....	11
PLAN OF DISTRIBUTION .....	11
CANADIAN FEDERAL INCOME TAX CONSIDERATIONS .....	13
ELIGIBILITY FOR INVESTMENT .....	13
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS .....	14
LEGAL MATTERS .....	14
STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION .....	14
CERTIFICATE OF ALGONQUIN POWER INCOME FUND .....	15
CERTIFICATE OF THE UNDERWRITERS .....	16

## SUMMARY

*The following summary is qualified by and should be read in conjunction with the more detailed information appearing elsewhere in this prospectus.*

### Algonquin Power Income Fund

**The Fund:** The Fund is an unincorporated open-ended trust established under the laws of Ontario. The Fund has been created to acquire a direct or indirect equity interest in hydroelectric and other generating facilities located in Canada and the United States. The Fund currently holds an equity interest, directly or indirectly, in 41 hydroelectric generating facilities located in Ontario (5), Québec (11), Newfoundland (1), New York State (9), New Hampshire (13), New Jersey (1) and Vermont (1). Reference is made to the section entitled “The Developments” in the Annual Information Form and the section entitled “Business of the Additional Facilities” hereunder.

### The Offering

**Issuer:** Algonquin Power Income Fund.

**Offering:** 6,600,000 Trust Units.

**Amount:** \$65,010,000.

**Price:** \$9.85 per Trust Unit.

**Use of Proceeds:** Net proceeds to the Fund from the sale of additional Trust Units are estimated to be approximately \$61,459,500, after deducting the fees payable to the Underwriters and the estimated expenses of the offering.

#### Funds Available

Net Proceeds . . . . .	\$61,459,500
Use of Funds Available	
Acquisitions, repayment of debt and/or working capital . . . . .	\$61,459,500
Total Use of Funds . . . . .	\$61,459,500

See “Use of Proceeds”.

**Trust Units:** Each Trust Unit represents an equal undivided beneficial interest in the assets of the Fund. Each Trust Unit is transferable, entitles the holder thereof to participate equally in distributions of the Fund and to one vote. Trust Units are not subject to future calls or assessments. The Fund currently has 27,020,472 Trust Units issued and outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents of the Fund, filed with the provincial securities commissions or similar authorities in each of the provinces of Canada, are specifically incorporated by reference and form part of this short form prospectus:

- (a) financial statements of Hydromega Developments Inc. as at and for the year ended October 31, 1998 together with the prior period financial statements and the auditors' report thereon included in the Fund's final short form prospectus dated April 27, 1999;
- (b) consolidated financial statements of the Fund as at and for the year ended December 31, 1999 together with the prior period financial statements and the auditors' report thereon;
- (c) management's discussion and analysis as at and for the year ended December 31, 1999;
- (d) first quarter report for the three months ended March 31, 2000;
- (e) management information circular dated April 13, 2000 prepared in connection with the Fund's annual and special meeting of Unitholders held on June 1, 2000;
- (f) annual information form (the "Annual Information Form") dated May 15, 2000;
- (g) second quarter report for the six months ended June 30, 2000;
- (h) material change report dated September 19, 2000 confirming completion of an offering of 3,000,000 Trust Units at a price of \$9.15 per unit for gross proceeds of \$27,450,000 and the acquisition of three additional hydroelectric generating facilities, being the Milton and Mine Falls Facilities in New Hampshire and the Great Falls Facility in New Jersey; and
- (i) third quarter report for the nine months ended September 30, 2000.

All annual information forms, material change reports (excluding confidential material change reports), comparative interim financial statements, comparative financial statements and information circulars which are filed by the Fund with a securities commission or similar authority in Canada after the date of this short form prospectus and prior to the termination of the offering shall be deemed to be incorporated by reference into this short form prospectus.

**Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for the purposes of this short form prospectus, to the extent that a statement contained herein or in a subsequently filed document that is also or is deemed to be incorporated by reference herein modifies or replaces such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed in its unmodified or superseded form to constitute part of this short form prospectus.**

**Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada (the permanent information record in Québec).** Copies of the documents incorporated herein by reference may be obtained on request without charge from the President, Algonquin Management Inc. at Suite 210, 2085 Hurontario Street, Mississauga, Ontario L5A 4G1, telephone (905) 273-8900 and fax (905) 273-8914. For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the President, Algonquin Management Inc. at the above-mentioned address and telephone number.

## ALGONQUIN POWER INCOME FUND

### General

Algonquin Power Income Fund is an unincorporated open-ended trust established under the laws of Ontario. The Fund was created to acquire an economic interest in hydroelectric generating facilities located in Canada and the United States and to hold such interests for the purposes of earning income therefrom over the useful life of the underlying facilities. The Fund currently holds an equity interest, directly or indirectly, in 41 hydroelectric generating facilities located in Ontario (5), Québec (11), Newfoundland (1), New York State (9), New Hampshire (13), New Jersey (1) and Vermont (1) having a total installed capacity of approximately 116.3 megawatts. These facilities sell power under contracts of various terms to large electric utilities.

The Fund has two principal direct and indirect subsidiaries — Algonquin Canada, a wholly-owned subsidiary of the Fund, and Algonquin America, a wholly-owned subsidiary of Algonquin Canada. Interests in certain of the facilities in Canada are directly or indirectly owned by Algonquin Canada. Interests in certain of the facilities in the United States are directly or indirectly owned by Algonquin America. In many cases, interests in the facilities are held by partnerships or corporations which are in turn owned by Algonquin Canada or Algonquin America (see the Annual Information Form — “Structure of the Fund” and “Share and Loan Capital”).

In addition to owning the shares of Algonquin Canada, the Fund is the sole beneficiary of the Algonquin Power Trust (the “Algonquin Trust”), an unincorporated open-ended trust established under the laws of Ontario. The Algonquin Trust has been established to own certain hydroelectric generating assets of the Fund and other related investments and to operate and lease such assets for the purposes of generating operating revenues for the Fund.

An unlimited number of Trust Units may be issued pursuant to the Declaration of Trust. Each Trust Unit is transferable and represents an equal undivided beneficial interest in any distribution from the Fund, whether of net income, net realized capital gains or other amounts, and in any net assets of the Fund in the event of the termination or winding-up of the Fund. All Trust Units will rank among themselves equally and rateably without discrimination, preference or priority. Trust Units are not subject to future calls or assessments, except that future offerings of Trust Units may be issuable for consideration payable in instalments, in which case the Fund may take security over any such Trust Units, and each Trust Unit entitles the holder thereof to one vote for each whole Trust Unit held at all meetings of Unitholders. Except as set out in the Annual Information Form — “Development of the Business — Creation of the Fund and Declaration of Trust — Redemption Right”, the Trust Units have no conversion, retraction, redemption or pre-emptive rights. Additional Trust Units may be issued in the future.

The rights and provisions of the Trust Units can only be amended by a resolution at a duly held meeting of Unitholders where two-thirds of the Units represented vote to amend such rights. The Trustees may, without the approval of Unitholders, authorize certain amendments to the Declaration of Trust, including amendments:

- (a) for the purpose of ensuring continuing compliance with the applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or the Fund;
- (b) which, in the opinion of the Trustees, provide additional protection for the Unitholders;
- (c) to remove any conflicts or inconsistencies in the Declaration of Trust or to make corrections that are, in the opinion of the Trustees, necessary or desirable and not materially prejudicial to the rights of Unitholders; or
- (d) which, in the opinion of the Trustees, are necessary or desirable as a result of changes in or in the administration or interpretation of taxation laws.

The head office and principal business office of the Fund is located at Suite 210, 2085 Hurontario Street, Mississauga, Ontario L5A 4G1.

## Summary of Additional Facilities

Since the date of the Annual Information Form, the Fund acquired an economic interest in the following hydroelectric generating facilities:

Hydroelectric Generating Facility	Generating Capacity (kilowatts)	Location	2001 Power Purchase Rate	Annual Average Expected Energy Production (MW-hrs)	Year of Expiry of Power Purchase Agreement	Year of Expiry of Lease
<b>Additions to New England Development</b>						
Milton Facility . . . . .	1,335	Salmon River near the Town of Milton, New Hampshire	US\$0.0747/kW-hr	6,166	2012	Not applicable <sup>(1)</sup>
Mine Falls Facility . . . . .	3,030	Nashua River near the City of Nashua, New Hampshire	US\$0.09/kW-hr	10,700	2005	2024
<b>Addition to New York Development</b>						
Great Falls Facility . . . . .	10,950	Passaic River near the City of Paterson, New Jersey	US\$0.037/kW-hr	25,500	2002	2021

(1) Land is owned.

## Acquisition Completion Provisions

After closing, the Fund will attempt to identify investment opportunities to acquire interests in generating facilities. The Fund has not entered into any agreements of purchase and sale regarding the acquisition of any prospective facility interests. After identifying and qualifying potential acquisition candidates, Algonquin Power will present to the Trustees those facility interests which Algonquin Power believes meet the Acquisition Guidelines.

The Fund will only complete the acquisition of any facility interest (an “Acceptable Acquisition”) if: (i) such investment meets the acquisition guidelines set out herein (see “Acquisition Guidelines”); (ii) the Fund completes a satisfactory due diligence review of such facility; and (iii) the Fund obtains a satisfactory title search or evidence of satisfactory title insurance. If the Fund identifies and the Trustees approve the acquisition of any particular facility interest, the Fund may utilize a portion of the net proceeds of this offering to complete the acquisition of such facility interest.

If the net proceeds of this offering are insufficient to complete any acquisitions approved by the Trustees as contemplated herein, the Fund will utilize the proceeds from draws on the Line of Credit to augment such net proceeds in order to complete such acquisitions.

## Diversified Growth Strategy

The Fund may, where practical and economic, expand its current operations. To date, the Manager has pursued an acquisition strategy which specifically targeted hydroelectric generating facilities or developments. While the primary avenue for growth of the Fund is anticipated to remain the continued acquisition of hydroelectric generating facilities, the Trustees and the Manager have agreed to broaden the scope of potential investment opportunities which may be presented by the Manager to the Fund. The Trustees believe that the stability and sustainability of cash flows to unitholders may be enhanced through a diversification of the current asset portfolio.

The Fund will consider investment opportunities which provide stable cashflow from renewable resource facilities; potential investment candidates could include wind and biomass powered generating stations or facilities within a regulated utility. Opportunities which provide long term, statistically predictable future cash flows whose risk profile is generally consistent with the existing portfolio of hydroelectric generating assets will be considered. All investment opportunities will continue to be required to meet the Acquisition Guidelines established by the Trustees, which guidelines provide that all acquisitions must be expected to result in an increase in Distributable Cash per Trust Unit.

With respect to the management and operation of diversification assets, the Manager may consider strategic alliances with firms with recognized expertise in the provision of such services.

The management of the Manager has extensive experience and contacts in the independent power industry in Canada and the United States and may, but is not obligated to, present appropriate acquisition opportunities to the Fund.

### **Acquisition Guidelines**

After consultation with and approval by the Trustees of the Fund, who have established certain acquisition guidelines which may change depending on circumstances, the Manager intends to pursue an acquisition strategy which will target renewable resource facilities or developments and will employ the following guidelines in the review and evaluation of possible acquisitions:

- (a) each facility, development, or group of developments will only be acquired if the Fund believes that the acquisition will provide a forecast internal rate of return that is greater than 200 basis points above the yield of long-term (20 year) Government of Canada bonds over the expected life of the facility after deducting operating costs, general and administrative expenses, management fees and incorporating the impact of debt financing, but before income taxes;
- (b) each facility, development or group of developments will only be acquired if the Fund believes that the acquisition will likely result in an increase in Distributable Cash per Trust Unit;
- (c) facilities for which no existing debt financing is in place will be preferred, and in no event will a facility or group of facilities with debt financing for which the debt service costs in respect of such debt exceed  $66\frac{2}{3}\%$  of the net operating income from such facility or group of facilities be considered;
- (d) facilities where Power Systems will become the operator will be preferred;
- (e) facilities in respect of which long term power purchase agreements with major electrical utilities exist or facilities within a regulated utility will be preferred and in other cases, commodity price forecasts and exchange rate assumptions used in acquisition evaluations will be from a recognized independent source;
- (f) the acquisition of each facility, or development, will be based on an independent engineering report confirming the condition of each of the facilities and the technical assumptions utilized in the acquisition evaluation;
- (g) the expected useful life of each facility and associated structures will, with regular maintenance and upkeep, be not less than 25 years; and
- (h) the acquisition of each facility, or development, will be reviewed and approved by the Trustees.

All acquisitions must be in accordance with the Declaration of Trust and, in particular, the sole undertaking of the Fund.

## BUSINESS OF THE ADDITIONAL FACILITIES

Additional information with respect to the facilities in which the Fund has acquired an interest since the date of the Annual Information Form is set out below.

### **Additions to New England Development**

#### *Milton Facility*

The Milton facility is owned by SFR Hydro Corporation, a New Hampshire corporation and a wholly-owned subsidiary of Algonquin America. The facility is located on the Salmon River on the Maine–New Hampshire border, near the Town of Milton, New Hampshire, approximately 70 km from Manchester, New Hampshire with an installed capacity of 1,335kw. The facility is located at a site which was historically utilized for electrical and mechanical energy production for mill purposes. The facility was substantially rehabilitated and expanded in 1986 and includes a 3,800 foot penstock leading from the intake to the powerhouse.

The Milton facility is owned by SFR Hydro Corporation. Algonquin Power presented the Fund with the opportunity to acquire all of the shares of SFR Hydro Corporation for \$2.5 million in the aggregate, subject to certain adjustments. The acquisition of such shares was an Acceptable Acquisition and the Trustees approved such acquisition. The Fund caused Algonquin America to acquire such shares and caused Algonquin Power Trust to acquire a management contract in respect of the operation of the Milton facility. Algonquin America utilized the proceeds of the sale of additional US 2000 Notes and the issuance of additional shares of Algonquin America to pay the purchase price payable by it under such agreement of purchase and sale.

#### *Power Purchase Agreement*

The Milton facility sells all energy produced to the Public Service Company of New Hampshire (“PSNH”) pursuant to a power purchase agreement dated July 17, 1982. The agreement terminates on July 1, 2012 and stipulates a fixed rate for the sale of energy over its term.

#### *Land and Water Rights*

SFR Hydro Corporation acquired all land necessary for the operation of the Milton facility from Iron Mountain Records Management Inc. In addition to direct ownership of certain parcels of land, SFR Hydro Corporation holds certain permanent easements on land and buildings employed by the facility. As a result of its ownership of the facility site, SFR Hydro Corporation was granted the water rights for the Salmon River available at the facility site for the operation of the facility.

#### *FERC Licence*

The Milton facility received an exemption from the licencing of a small hydroelectric generating facility from FERC on June 30, 1981 (FERC Project No. 3984). The main compliance issues associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility; and (ii) a minimum flow of 25 cubic feet per second must be released downstream of the dam between April and June, when available, to maintain the instream fisheries and water quality.

#### *Mine Falls Facility*

The Mine Falls facility is a 3,030 kw hydroelectric generating station located on the Nashua River near the City of Nashua, New Hampshire. The site is comprised of two turbine-generators housed in a new concrete powerhouse located at the site of a historic concrete dam. The site was commissioned in 1986.

The Mine Falls facility is owned by the Mine Falls Limited Partnership (the “Mine Falls Partnership”), a New Hampshire limited partnership. Algonquin Power presented the Fund with the opportunity to acquire all partnership interests in the Mine Falls Partnership and all notes issued by the Mine Falls Partnership for \$4.9 million in the aggregate, subject to certain adjustments. The acquisition of such partnership interests and notes were an Acceptable Acquisition and the Trustees approved such acquisition. The Fund caused Algonquin America to acquire such notes and partnership interests. Algonquin America utilized the proceeds of the sale of

additional US 2000 Notes and the issuance of additional shares of Algonquin America to pay the purchase price payable by it under such agreement of purchase and sale.

#### *Power Purchase Agreement*

A power purchase agreement dated March 25, 1984 was entered into between Seaward Development–Mine Falls Inc. and PSNH. The agreement was amended on November 14, 1985 and was assigned to the Mine Falls Partnership on December 10, 1985. The agreement expires on December 31, 2005. Under the amended terms, PSNH continues to purchase all electrical energy from the facility at a fixed rate of US\$0.09/kW-hr over the remainder of the term.

#### *Land and Water Rights*

The land, physical structures and water rights associated with the facility are leased from the City of Nashua pursuant to a lease dated May 2, 1984. The lease has a term of 40 years and expires in 2024. Payments pursuant to the lease are based on a percentage of gross revenues earned from the sale of energy from the facility.

#### *FERC Licence*

The City of Nashua and Seaward Construction Company Inc. received a FERC Licence (FERC Project No. 3442) for a small hydroelectric generating facility on March 26, 1985 with installed capacity of 3,032 kilowatts. The interest of Seaward Construction Company Inc. was assigned to the Mine Falls Partnership on November 5, 1985. The main compliance issues associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility; (ii) a minimum flow of 20 cubic feet per second must be released over the dam plus a minimum flow of 10 cubic feet per second must be released into an adjacent watershed, when available, to maintain the instream fisheries and water quality, and (iii) the existing upstream fish hoist system, while it appears to function properly, has not received final acceptance by FERC.

### **Addition to New York Development**

#### *Great Falls Facility*

The Great Falls facility is located on the Passaic River near the City of Paterson, New Jersey and has an installed capacity of 10,950 kw. The site was originally utilized for the production of electrical energy and was decommissioned in January 1969. The powerhouse was declared a National Historic Landmark in 1971. In 1986, the facility underwent a major rehabilitation with the installation of three new turbine-generators and new electrical and control equipment and was recommissioned in December 1986.

The Great Falls facility is owned by the Great Falls Hydroelectric Company (the “Great Falls Partnership”), a Maryland limited partnership. Algonquin Power presented the Fund with the opportunity to indirectly acquire all partnership interests in the Great Falls Partnership for \$5.5 million, subject to certain adjustments. The acquisition of such partnership interests was an Acceptable Acquisition and the Trustees approved such acquisition. The Fund caused Algonquin America to acquire such partnership interests. Algonquin America utilized the proceeds of the sale of additional US 2000 Notes and the issuance of additional shares of Algonquin America to pay the purchase price payable by it under such agreement of purchase and sale.

#### *Power Purchase Agreement*

A power purchase agreement dated September 6, 1985 was entered into between the Great Falls Hydroelectric Company and Public Service Electric and Gas Company (“PSE&G”). The agreement was amended on February 9, 1998. Under the amended terms, PSE&G continues to purchase all electrical energy from the facility. The rates paid for such energy and capacity are based on the local marginal energy pricing paid by PSE&G for energy and capacity. In 2000, the average blended energy price was approximately US\$0.034/kW-hr.

### *Land and Water Rights*

The land, physical structures and water rights associated with the facility are leased from the Paterson Municipal Utilities Authority pursuant to a lease dated September 10, 1984. The lease expires on March 10, 2021. Payments pursuant to the lease are based on a percentage of gross revenues earned from the sale of energy from the facility, with a minimum annual payment.

### *FERC Licence*

The Great Falls facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on March 1, 1981 for a 7,500 kilowatt facility, which exemption was amended on September 6, 1985 (FERC Project No. 2814) to allow for a 10,950 kilowatt facility. The main compliance issues associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility and there be no storage of water upstream of the facility; and (ii) a minimum flow of 50 cubic feet per second must be released over the dam for aesthetic purposes (increasing to 200 cubic feet per second in 2001), when available, to maintain the instream fisheries and water quality.

## **SHARE AND LOAN CAPITAL**

### **Trust Unit and Loan Capital of the Fund**

The Fund presently has 27,020,472 Trust Units outstanding. As of January 18, 2001, the Fund has no indebtedness outstanding under the Line of Credit. The Fund is in compliance with the terms of the agreements governing the Line of Credit and no waiver of any breach has occurred thereunder.

### **Trust Unit and Loan Capital of Algonquin Power Trust**

On June 30, 2000 the Algonquin Trust issued certain trust units and notes to the Fund, with each trust unit representing an equal undivided beneficial interest in the Algonquin Trust. The Fund is the sole unitholder of Algonquin Trust and the sole holder of notes issued by Algonquin Trust.

### **Share Capital of Algonquin Canada**

The authorized share capital of Algonquin Canada consists of 500,000,000 common shares without par value. There are 50,838,444 common shares of Algonquin Canada outstanding and all shares are presently owned by the Fund.

### **Loan Capital of Algonquin America**

Since December 31, 1999, Algonquin America issued secured, subordinated notes (the "US 2000 Notes") on July 7, 2000, September 6, 2000 and September 15, 2000 in the aggregate principal amount of approximately \$926,000, \$4,905,457 and \$5,454,803, respectively. Algonquin America used the proceeds from the issuance of the US 2000 Notes to acquire the shares of SFR Hydro Corporation, the partnership interests and notes of Mine Falls Partnership and the partnership interests in the Great Falls Hydroelectric Company. All such notes are held, directly or indirectly, by the Fund.

### ***Interest on US 2000 Notes***

The US 2000 Notes bear interest at the rate of 7% per annum, payable quarterly on the Record Dates. The US 2000 Notes are due on June 30, 2039 and August 31, 2039, respectively.

The interest and principal on the US 2000 Notes are payable in Canadian funds. The US 2000 Notes provide that Algonquin America may defer payment of interest to the extent that its earnings before interest, taxes, depreciation and amortization are inadequate to pay the interest on such notes. Any interest deferred for a period exceeding 12 months will be capitalized as part of the principal outstanding under such notes, as applicable.

### ***Redemption of US 2000 Notes***

The principal amount of the US 2000 Notes will be retired prior to maturity from available cash after payment of interest on the US Note, interest on the US 1998 Note, interest on the US 1999 Notes (Nos. 1 and 2) and interest on the US 2000 Notes in respective amounts as may be determined by Algonquin America's board of directors. In any event, the principal amount of the US 2000 Notes remaining outstanding on the due date will be immediately due and payable by Algonquin America.

### ***Ranking of US 2000 Notes***

The US Note, the US 1998 Note, the US 1999 Notes (Nos. 1 and 2) and the US 2000 Notes all rank pari passu with each other. The US Note, the US 1998 Note, the US 1999 Notes (Nos. 1 and 2) and the US 2000 Notes are jointly secured by all of the assets of Algonquin America. At the discretion of Algonquin America's board of directors, Algonquin America has the ability to postpone repayment of any of the US Note, the US 1998 Note, the US 1999 Notes (Nos. 1 and 2) or the US 2000 Notes and subordinate the security related thereto to any indebtedness and related security that may be incurred by Algonquin America in the future.

### ***Default on US 2000 Notes***

The US 2000 Notes provide that any of the following will constitute an event of default: (i) default in payment of the principal when due; (ii) default on any senior indebtedness for borrowed money; (iii) certain events of winding-up, liquidation, bankruptcy, insolvency, receivership, general assignment for the benefit of creditors or proceedings with respect to a compromise or arrangement under applicable bankruptcy or insolvency legislation; (iv) the taking of possession by an encumbrancer of all or substantially all of the property of Algonquin America; (v) ceasing to carry on in the ordinary course the business of Algonquin America; (vi) default in performing any material lease, licence or other agreement whereby any material property or rights of Algonquin America may be forfeited or terminated; and (vii) default in the observance or performance of any other covenant or condition of the note and the continuance of such default for a period of 30 days after notice in writing has been given to Algonquin America specifying such default and requiring Algonquin America to rectify same.

## **USE OF PROCEEDS**

The net proceeds to the Fund from the sale of Trust Units are estimated to be approximately \$61,459,500, after deducting the fees payable to the Underwriters and the estimated expenses of the offering. It is anticipated that the net proceeds will be used to (i) acquire an economic interest in additional facilities which satisfy the acquisition guidelines; (ii) repay debt; and (iii) for working capital.

One of the underwriters is a subsidiary of a Canadian chartered bank which provided the Line of Credit to the Fund. Consequently, the Fund may be considered a connected issuer of that Underwriter under applicable Canadian securities legislation. See "Plan of Distribution" and "Share and Loan Capital".

## **DETAILS OF THE OFFERING**

The offering consists of 6,600,000 Trust Units. For a description of the attributes of the Trust Units, reference is made to the Annual Information Form in the section entitled "Development of the Business — Creation of the Fund and Declaration of Trust".

The Trust Units of the Fund have been rated "S-2 (High)" under the income fund stability and sustainability rating system established by the Canadian Bond Rating Service ("CBRS"). The rating system managed by CBRS is intended to rank the stability of an income fund's cash distribution stream on the basis of volatility and sustainability. The scale utilized by CBRS runs from S-1 (Highest) to S-7 (Very Low). Such rating is not a recommendation to buy, sell or hold Trust Units and it is subject to revision or withdrawal at any time by CBRS.

## **PLAN OF DISTRIBUTION**

Under an underwriting agreement (the "Underwriting Agreement") dated January 19, 2001 between the Fund, the Manager and the Underwriters, the Fund has agreed to issue and sell and the Underwriters have

severally agreed to purchase on January 25, 2001 or such other date as may be agreed upon, but not later than February 8, 2001, subject to the terms and conditions stated therein, 5,100,000 of the Trust Units offered hereby at a price of \$9.85 per Trust Unit, payable in cash, for aggregate consideration of \$50,235,000 to the Fund, against delivery and the Fund has appointed the Underwriters as its exclusive agents to offer for sale, on a best efforts basis, up to 1,500,000 Trust Units at a price of \$9.85 per Trust Unit, payable in cash, for aggregate consideration of up to an additional \$14,775,000 to the Fund, against delivery. The Fund has agreed to pay the Underwriters a fee of \$0.4925 per Trust Unit purchased by the Underwriters for their services in connection with the offering. The Fund has also granted the Underwriters an over-allotment option to purchase that number of Trust Units equal to the lesser of: (i) up to an additional 15%, or up to 990,000 Trust Units; and (ii) the Underwriters' over-allocation position, exercisable at the offering price, in whole or in part, within 30 days following the date of closing. The underwriting fee is payable with respect to the option exercise price upon the exercise of the foregoing option. This short form prospectus qualifies the issuance and transfer of Trust Units that will be issued or transferred if the above-noted option is exercised.

The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, severally obligated to take up and pay for all Trust Units agreed to be purchased under the Underwriting Agreement if any Trust Units are purchased under the Underwriting Agreement. Each of the Fund and the Manager has agreed to indemnify the Underwriters and their directors, officers, employees and agents against certain liabilities, including civil liabilities under Canadian provincial securities legislation, or will contribute to payments the Underwriters may be required to make in respect thereof.

Pursuant to policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Underwriters may not, throughout the period of distribution under this prospectus, bid for or purchase Trust Units. The foregoing restriction is subject to exceptions, including a bid or purchase permitted under the by-laws and rules of The Toronto Stock Exchange relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution, provided that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Trust Units. In connection with this offering, and subject to the foregoing, the Underwriters may effect transactions which stabilize or maintain the market price for the Trust Units at levels other than those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Trust Units have not been and will not be registered under the *United States Securities Act of 1933*, as amended, (the "US Securities Act") and, subject to certain exemptions, may not be offered or sold within the United States. The Underwriters have agreed that they will not offer, sell or deliver the Trust Units offered hereby within the United States or to U.S. Persons except for sales pursuant to an exemption from registration under the US Securities Act. In addition, until 40 days after the commencement of this offering, an offer or sale of additional Trust Units within the United States by any dealer (whether or not participating in this offering) may violate the registration requirements of the US Securities Act if such offer or sale is made other than pursuant to an exemption from registration under the US Securities Act.

The Fund has agreed that it will not, without the prior consent of BMO Nesbitt Burns Inc. pursuant to the Underwriting Agreement, which consent may not be unreasonably withheld, delayed or refused, authorize, issue or sell any Trust Units or any securities giving the right to acquire Trust Units or agree or announce the intention to do so, at any time prior to the date 90 days following the Closing.

It is expected that certificates for the Trust Units will be available for delivery on or about Closing. The Closing is expected to take place on or about January 25, 2001 but in any event not later than February 8, 2001.

National Bank Financial Inc. ("National"), one of the Underwriters, is a wholly-owned subsidiary of a Canadian chartered bank which provided the Fund with the Line of Credit. Accordingly, the Fund could be considered a connected issuer of National for purposes of the securities legislation of certain Canadian provinces. The decision of National to underwrite the Trust Units was made independently of such bank and such bank has had no influence as to the determination of the terms of distribution. National will not receive any

benefit in connection with this offering other than a portion of the Underwriters' fee payable by the Fund. See "Share and Loan Capital".

The Toronto Stock Exchange has conditionally approved the listing of these securities. Listing is subject to the Fund fulfilling all of the requirements of The Toronto Stock Exchange on or before April 11, 2001.

### **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

Except as discussed below, reference is made to the section entitled "Canadian Federal Income Tax Considerations" in the Annual Information Form.

#### **Taxation of the Fund**

The Fund may deduct in computing its income a portion of the reasonable expenses of the issue of Trust Units paid for by the Fund in respect of its several public offerings. The portion of such expenses which may be so deducted is as discussed in the Annual Information Form, subject to the detailed rules in that regard in the Income Tax Act (Canada) and the regulations thereunder (the "Tax Act").

Counsel has been advised that the Fund will apply to become a registered investment under the Tax Act effective as of January 1, 2001. Counsel has also been advised that the Fund will limit its investments in foreign property to the limits prescribed under the Tax Act and accordingly the Fund should not be subject to tax under Part XI of the Tax Act in respect of excess investments in foreign property.

#### **Taxation of the Unitholders**

Further to proposed amendments to the Tax Act (including certain transitional rules), one-half of any capital gain realized by a Unitholder on the disposition of a Trust Unit after October 17, 2000, and the amount of net taxable capital gains designated by the Fund in respect of a Unitholder in respect of capital gains realized by the Fund after October 17, 2000, will generally be included in the Unitholder's income under the Tax Act in the taxation year in which the disposition occurs or in respect of which the designation is made as a taxable capital gain. Subject to specific rules in the Tax Act and in proposed amendments to the Tax Act (including certain transitional rules), one-half of any capital loss realized on the disposition of a Trust Unit after October 17, 2000 may generally be deducted against one-half of any capital gains realized by the Unitholder in the year of disposition, in the three preceding taxation years or in subsequent taxation years.

#### **Tax Exempt Unitholders**

Provided that the Fund qualifies as a mutual fund trust at all relevant times or is registered as a "registered investment" as of January 1, 2001 and thereafter, the Trust Units will be qualified investments for trusts ("Plans") governed by registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs") and deferred profit sharing plans ("DPSPs"), and, under proposed amendments to the Tax Act, registered education savings plans ("RESPs"). If the Fund ceases to be a mutual fund trust and is not a registered investment under the Tax Act, the Trust Units will cease to be qualified investments (see the Annual Information Form for a discussion of the consequences of the Trust Units ceasing to so qualify).

Counsel has been advised that the Fund will apply to become a registered investment under the Tax Act effective as of January 1, 2001. Provided the Fund is so registered, the Trust Units would be qualified investments for Plans (including RESPs) and would not be foreign property for any Plans or other entities that are subject to restrictions on foreign property holdings under Part XI of the Tax Act.

### **ELIGIBILITY FOR INVESTMENT**

Except as discussed under the heading "Canadian Federal Income Tax Considerations", reference is made to the section entitled "Eligibility for Investment" in the Annual Information Form.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Algonquin Power took the initiative in organizing the business and affairs of the Fund. The Manager and Power Systems are wholly-owned subsidiaries of Algonquin Power.

Algonquin America purchased the shares of SFR Hydro Corporation, the company which owns and operates the Milton Facility, from Algonquin Power for approximately \$2.5 million. The Fund caused Algonquin America to purchase the notes and partnership interests of Mine Falls Partnership, which owns and operates the Mine Falls Facility, from Algonquin Power for approximately \$4.9 million. Algonquin America purchased the partnership interests of Great Falls Hydroelectric Company, which owns and operates the Great Falls Hydroelectric Facility, from Algonquin Power for approximately \$5.5 million. In connection with its acquisition of the shares of SFR Hydro Corporation, the notes and partnership interests of Mine Falls Partnership and the partnership interests of Great Falls Hydroelectric Company and the subsequent sale thereof to Algonquin America, Algonquin Power incurred acquisition related costs of approximately \$12.5 million, which amount includes the acquisition cost of the shares, notes and partnership interests from the original holders of same. If Algonquin Power presents a facility interest to the Fund and the Trustees approve such acquisition, Algonquin Power may be the party from whom the Fund, Algonquin Canada, Algonquin Trust or Algonquin America, as the case may be, acquires such facility interest.

Power Systems presently provides operations related services to certain of the Fund businesses. The Manager will continue to provide management services with respect to the Fund businesses pursuant to the Management Agreement and will continue to provide administrative services to the Fund pursuant to the Administration Agreement and corporate governance services to Algonquin Canada and Algonquin America pursuant to the Governance Agreement. Pursuant to the Governance Agreement, the Manager is entitled to appoint two of Algonquin Canada's three directors.

At the time that due diligence reports with respect to the facilities in which the Fund has acquired an interest were prepared by Cumming Cockburn Limited and presented to the Trustees, Mr. Steeves, a Trustee, was the President of Cumming Cockburn Limited.

## **LEGAL MATTERS**

Certain legal matters relating to the issuance of the Trust Units to the public will be passed upon at Closing by Blake, Cassels & Graydon LLP on behalf of the Fund and the Manager and by Cassels Brock & Blackwell LLP on behalf of the Underwriters.

## **STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

**CERTIFICATE OF ALGONQUIN POWER INCOME FUND**

Dated: January 19, 2001

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of all of the provinces of Canada. For the purpose of the Province of Québec, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

ALGONQUIN POWER INCOME FUND  
By: Algonquin Management Inc.

By: (Signed) CHRIS K. JARRATT  
Chief Executive Officer and Director

By: (Signed) PETER KAMPIAN  
Chief Financial Officer

By: (Signed) IAN E. ROBERTSON  
Director

By: (Signed) DAVID C. KERR  
Director

By: (Signed) JOHN M.H. HUXLEY  
Director

**CERTIFICATE OF THE UNDERWRITERS**

Dated: January 19, 2001

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of all of the provinces of Canada. For the purpose of the Province of Québec, to our knowledge, this simplified prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

BMO NESBITT BURNS INC.

By: (Signed) JAMES A. TOWER

NATIONAL BANK FINANCIAL INC.

By: (Signed) JOHN ROSSOS

MERRILL LYNCH CANADA INC.

RBC DOMINION SECURITIES INC.

TD SECURITIES INC.

By: (Signed) HAROLD R.  
HOLLOWAY

By: (Signed) PATRICK K. MADIGAN

By: (Signed) ROB WRIGHT

CIBC WORLD MARKETS INC.

SCOTIA CAPITAL INC.

By: (Signed) DAVID H. WILLIAMS

By: (Signed) DONALD A. CARMICHAEL

TRILON SECURITIES CORPORATION

By: (Signed) TREVOR D. KERR

The following includes the name of each person having an interest, directly or indirectly, to the extent of not less than five percent in the capital of:

BMO NESBITT BURNS INC.: a wholly-owned subsidiary of BMO Nesbitt Burns Corporation Limited, an indirect majority-owned subsidiary of a Canadian chartered bank;

NATIONAL BANK FINANCIAL INC.: an indirectly wholly-owned subsidiary of a Canadian chartered bank;

MERRILL LYNCH CANADA INC.: an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc.;

RBC DOMINION SECURITIES INC.: a wholly-owned subsidiary of RBC Dominion Securities Limited, a majority-owned subsidiary of a Canadian chartered bank;

TD SECURITIES INC.: a wholly-owned subsidiary of a Canadian chartered bank;

CIBC WORLD MARKETS INC.: a wholly-owned subsidiary of a Canadian chartered bank;

SCOTIA CAPITAL INC.: a wholly-owned subsidiary of a Canadian chartered bank; and

TRILON SECURITIES CORPORATION: a wholly-owned subsidiary of Trilon Financial Corporation.

