

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

June 20, 2001



# ALGONQUIN POWER INCOME FUND

**\$65,325,000**

**6,500,000 Trust Units**

This prospectus qualifies the distribution of 6,500,000 trust units ("Trust Units") to be issued and sold by Algonquin Power Income Fund pursuant to this offering. The Trust Units are being sold as to 5,000,000 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 34,610,472 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 47 hydroelectric generating facilities located in the United States and Canada and one wastewater treatment facility located in 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 November 15, 2001 to unitholders of record on September 30, 2001.

The terms of this offering were established through negotiation between the Manager on behalf of the Fund and BMO Nesbitt Burns Inc., Merrill Lynch Canada Inc., National Bank Financial Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., TD Securities Inc., Raymond James Ltd. and Scotia Capital Inc. (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" in the Annual Information Form.

### Price: \$10.05 per Trust Unit

	Price to the Public <sup>(1)</sup>	Underwriters' Fee	Net Proceeds to the Fund <sup>(2)(3)</sup>
Per Trust Unit	\$10.05	\$0.5025	\$9.5475
Total Offering	\$65,325,000	\$3,266,250	\$62,058,750

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 975,000 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 both the grant of the above-noted option and 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 \$75,123,750, \$3,756,188 and \$71,367,562, 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 June 19, 2001 was \$10.30.

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 July 3, 2001 or such later date as the Manager, the Fund and the Underwriters may agree, but in any event not later than August 3, 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
Acquisition Completion Provisions .....	6
Diversified Growth Strategy .....	6
Acquisition Guidelines .....	6
Recent Development .....	7
SHARE AND LOAN CAPITAL .....	7
Trust Unit and Loan Capital of the Fund .....	7
Trust Unit and Loan Capital of Algonquin Power Trust .....	8
Loan Capital of Algonquin Canada .....	8
Loan Capital of Algonquin America .....	9
Loan Capital of Algonquin Water .....	10
USE OF PROCEEDS .....	10
DETAILS OF THE OFFERING .....	11
PLAN OF DISTRIBUTION .....	11
CANADIAN FEDERAL INCOME TAX CONSIDERATIONS .....	12
ELIGIBILITY FOR INVESTMENT .....	12
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS .....	12
RISK FACTORS .....	13
LEGAL MATTERS .....	13
STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION .....	13
CERTIFICATE OF ALGONQUIN POWER INCOME FUND .....	14
CERTIFICATE OF THE UNDERWRITERS .....	15

## 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 generating facilities and other renewable resource based facilities located in Canada and the United States. The Fund currently holds an equity interest, directly or indirectly, in 47 hydroelectric generating facilities located in Ontario (6), Québec (12), Newfoundland (1), New York State (12), New Hampshire (13), Vermont (2) and New Jersey (1). The Fund also holds an equity interest in a wastewater treatment facility located near Phoenix, Arizona. 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:** 6,500,000 Trust Units.

**Amount:** \$65,325,000.

**Price:** \$10.05 per Trust Unit.

**Use of Proceeds:** Net proceeds to the Fund from the sale of additional Trust Units are estimated to be approximately \$61,758,750, after deducting the fees payable to the Underwriters and the estimated expenses of the offering.

Funds Available

Net Proceeds . . . . .	\$61,758,750
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Use of Funds Available

Acquisitions, repayment of debt and/or working capital . . . . .	\$61,758,750
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Total Use of Funds . . . . .	\$61,758,750
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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 34,610,472 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) consolidated financial statements of the Fund as at and for the year ended December 31, 2000 together with the prior period financial statements and the auditors' report thereon;
- (b) management's discussion and analysis as at and for the year ended December 31, 2000;
- (c) first quarter report for the three months ended March 31, 2001;
- (d) management information circular dated April 9, 2001 prepared in connection with the Fund's annual and special meeting of Unitholders held on May 24, 2001;
- (e) material change report dated and filed January 25, 2001 confirming the completion of an offering of 6,600,000 trust units for gross proceeds of \$65,010,000;
- (f) material change report dated April 23, 2001 and filed April 26, 2001 confirming the completion of an investment by the Fund in seven facilities located in Ontario, Quebec, New York, Vermont and Arizona;
- (g) material change report dated May 29, 2001 and filed June 7, 2001 confirming the retirement of long term debt associated with the Cote Ste Catherine Facility for a total consideration of approximately \$28.8 million;
- (h) material change report dated May 31, 2001 and filed June 7, 2001 confirming the intention of the Fund, through its wholly-owned subsidiary, to make an offer to purchase all issued and outstanding trust units of the Drayton Valley Power Income Fund and the execution of a support agreement with Drayton Valley Power Income Fund in respect of such offer; and
- (i) annual information form (the "Annual Information Form") dated May 14, 2001.

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 generating facilities and other renewable resource based 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 47 hydroelectric generating facilities located in Ontario (6), Québec (12), Newfoundland (1), New York State (12), New Hampshire (13), Vermont (2) and New Jersey (1) having a total installed capacity of approximately 127 megawatts. These facilities sell power under contracts of various terms to large electric utilities. The Fund also holds an equity interest in a wastewater treatment facility located near Phoenix, Arizona.

The Fund has three principal direct and indirect subsidiaries — Algonquin Canada, a wholly-owned subsidiary of the Fund, Algonquin America, a wholly-owned subsidiary of Algonquin Canada and Algonquin Water Resources of America Inc. (“Algonquin Water”), 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 and Algonquin Water. In many cases, interests in the facilities are held by partnerships or corporations which are in turn owned by Algonquin Canada, Algonquin America or Algonquin Water. (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.

## **Acquisition Completion Provisions**

After closing, the Fund will attempt to identify investment opportunities to acquire interests in renewable resource 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 primarily 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.

### **Recent Development**

An indirect subsidiary of the Fund, Algonquin Acquisition Inc. (“Acquisition”), has announced its intention to make an offer (the “Offer”) for all outstanding trust units of Drayton Valley Power Income Fund (“Drayton Valley”) not owned by Acquisition or the Fund by way of a takeover bid circular at a price of \$4.30 per unit in cash. Drayton Valley has entered into a support agreement with Acquisition in respect of this offer which values the outstanding trust units of Drayton Valley at approximately \$34.4 million. Acquisition mailed the Offer to Drayton Valley unitholders on June 15, 2001. The Offer is open for acceptance for a period of 35 days unless withdrawn or extended and is conditional upon, among other things, at least 66 $\frac{2}{3}$ % of the outstanding trust units of Drayton Valley (other than trust units held at the date of the offer by or on behalf of Acquisition or the Fund) being validly deposited under the offer and there not occurring any material adverse change in the business, facilities (on a facility by facility basis), operations, assets or liabilities of Drayton Valley or any of its subsidiaries or affiliated entities.

The support agreement provides for the payment of a break fee of up to \$1,000,000 in the event the board of directors of Drayton Valley Power Ltd. withdraws its support for the Offer and/or a superior competing transaction is completed within six months of the date of the support agreement.

Drayton Valley currently owns and operates three biomass-fired generating facilities (White River, Westlock and Drayton Valley) and one hydroelectric generating facility (Dickson Dam). The Fund’s primary objective is to acquire an interest in the Dickson Dam and Drayton Valley facilities. An agreement has been reached with a third party whereby such third party will beneficially own the White River and Westlock facilities and a 50% interest in the Drayton Valley facility upon closing of the takeover bid. Although no assurances can be made that such arrangement will be completed, the Fund is confident with respect to the disposition of these asset interests in the event that the third party fails to complete the agreement.

## **SHARE AND LOAN CAPITAL**

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

The Fund presently has 34,610,472 Trust Units outstanding. As of June 20, 2001, the Fund has no indebtedness outstanding under the Line of Credit, with the exception of a bond in the amount of US\$2 million posted as security for potential costs and damages in the event that certain escrow funds are awarded to the owner of the Trafalgar Facilities (see “New York Development — Trafalgar Power, Inc. and Christine Falls Corporation” in the Annual Information Form). 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 March 9 2001, April 1, 2001, April 10, 2001 and May 17, 2001, 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, for aggregate consideration of approximately \$7,336,000, \$800,000, \$900,000 and \$28,851,000, respectively. Algonquin Trust used the proceeds to purchase a note of Campbellford Limited Partnership, which owns and operates the Campbellford Facility, a 50% partnership interest in the Campbellford Limited Partnership, which owns and operates the Campbellford Facility, the shares of 3879780 Canada Inc., which owns and operates the Arthurville Facility and the note of Algonquin Developments (Cote Ste-Catherine) Inc., which owns and operates the Cote Ste Catherine Facility, respectively.

## **Loan Capital of Algonquin Canada**

Since December 31, 2000, Algonquin Canada issued secured, subordinated notes (the “Canada 2001 Notes”) on March 16, 2001 in the principal amount of approximately \$18.8 million. Algonquin Canada used the proceeds from the issuance of the Canada 2001 Notes to acquire the US 2001 Notes issued by Algonquin America and US Water 2001 Notes issued by Algonquin Water. All such notes are held, directly or indirectly, by the Fund.

### ***Interest on Canada 2001 Notes***

The Canada 2001 Notes bear interest at the rate of 9% per annum, payable quarterly on the Record Dates. The Canada 2001 Notes are due on March 16, 2041.

The Canada 2001 Notes provide that Algonquin Canada 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 Canada 2001 Notes***

The principal amount of the Canada 2001 Notes will be retired prior to maturity from available cash after payment of interest on the Canada 1998 Note and interest on the Canada 1999 Note in respective amounts as may be determined by Algonquin Canada’s board of directors. In any event, the principal amount of the Canada 2001 Notes remaining outstanding on the due date will be immediately due and payable by Algonquin Canada.

### ***Ranking of Canada 2001 Notes***

The Canada 1998 Note, the Canada 1999 Note and the Canada 2001 Notes all rank pari passu with each other. The Canada 1998 Note, the Canada 1999 Note and the Canada 2001 Notes are jointly secured by all of the assets of Algonquin Canada. At the discretion of Algonquin Canada’s board of directors, Algonquin Canada has the ability to postpone repayment of any of the Canada 1998 Note, the Canada 1999 Note or the Canada 2001 Notes and subordinate the security related thereto to any indebtedness and related security that may be incurred by Algonquin Canada in the future.

### ***Default on Canada 2001 Notes***

The Canada 2001 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 Canada; (v) ceasing to carry on in the ordinary course the business of Algonquin Canada; (vi) default in performing any material lease, licence or other agreement whereby any material property or rights of Algonquin Canada may be forfeited or terminated; (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 Canada specifying such default and requiring Algonquin Canada to

rectify same; and (viii) final judgment(s) for the payment of money aggregating in excess of \$500,000 against Algonquin Canada or any of its property and any one such judgment remains unpaid, unvacated, unbonded or unstayed for a period of 30 days after entry.

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

Since December 31, 2000, Algonquin America issued secured, subordinated notes (the “US 2001 Notes”) on March 21, 2001 in the principal amount of approximately \$11.6 million. Algonquin America used the proceeds from the issuance of the US 2001 Notes to acquire the shares of Court Street Investments Inc. and Oswego Power Company, Inc., which own and operate the Phoenix Facility, the Kings Falls Facility, the Otter Creek Facility and the Worcester Facility. All such notes are held, directly or indirectly, by the Fund.

### ***Interest on US 2001 Notes***

The US 2001 Notes bear interest at the rate of 9.1% per annum, payable quarterly on the Record Dates. The US 2001 Notes are due on March 21, 2041.

The interest and principal on the US 2001 Notes are payable in Canadian funds. The US 2001 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 2001 Notes***

The principal amount of the US 2001 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), interest on the US 2000 Notes and interest on the US 2001 Notes in respective amounts as may be determined by Algonquin America’s board of directors. In any event, the principal amount of the US 2001 Notes remaining outstanding on the due date will be immediately due and payable by Algonquin America.

### ***Ranking of US 2001 Notes***

The US Note, the US 1998 Note, the US 1999 Notes (Nos. 1 and 2), the US 2000 Notes and the US 2001 Notes all rank pari passu with each other. The US Note, the US 1998 Note, the US 1999 Notes (Nos. 1 and 2), the US 2000 Notes and the US 2001 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), the US 2000 Notes or the US 2001 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 2001 Notes***

The US 2001 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; (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; and (viii) final judgment(s) for the payment of money aggregating in excess of \$500,000 against Algonquin America or any of its property and any one such judgment remains unpaid, unvacated, unbonded or unstayed for a period of 30 days after entry.

## **Loan Capital of Algonquin Water**

Algonquin Water issued secured, subordinated notes (the “US Water 2001 Notes”) on March 16, 2001 in the principal amount of approximately \$7.2 million. Algonquin Water used the proceeds from the issuance of the US Water 2001 Notes to acquire the shares of Black Mountain Sewer Corporation, which owns and operates a wastewater treatment facility near Carefree, Arizona. All such notes are held, directly or indirectly, by the Fund.

### ***Interest on US Water 2001 Notes***

The US Water 2001 Notes bear interest at the rate of 9.1% per annum, payable quarterly on the Record Dates. The US Water 2001 Notes are due on March 16, 2041.

The interest and principal on the US Water 2001 Notes are payable in Canadian funds. The US Water 2001 Notes provide that Algonquin Water 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 Water 2001 Notes***

The principal amount of the US Water 2001 Notes will be retired prior to maturity from available cash after payment of interest on the US Water 2001 Notes. In any event, the principal amount of the US Water 2001 Notes remaining outstanding on the due date will be immediately due and payable by Algonquin Water.

### ***Ranking of US Water 2001 Notes***

The US Water 2001 Notes are secured by all of the assets of Algonquin Water. At the discretion of Algonquin Water’s board of directors, Algonquin Water has the ability to postpone repayment of the US Water 2001 Notes and subordinate the security related thereto to any indebtedness and related security that may be incurred by Algonquin Water in the future.

### ***Default on US Water 2001 Notes***

The US Water 2001 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 Water; (v) ceasing to carry on in the ordinary course the business of Algonquin Water; (vi) default in performing any material lease, licence or other agreement whereby any material property or rights of Algonquin Water may be forfeited or terminated; (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 Water specifying such default and requiring Algonquin Water to rectify same; and (viii) final judgment(s) for the payment of money aggregating in excess of \$500,000 against Algonquin Water or any of its property and any one such judgment remains unpaid, unvacated, unbonded or unstayed for a period of 30 days after entry.

## **USE OF PROCEEDS**

The net proceeds to the Fund from the sale of Trust Units are estimated to be approximately \$61,758,750, 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 6,500,000 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 “SR-2 (High)” under the income fund stability and sustainability rating system established by Standard & Poor’s (“S&P”). The rating system managed by S&P 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 S&P runs from SR-1 (Highest) to SR-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 S&P.

On June 1, 2001, S&P placed its SR-2 stability rating on the Fund on stability watch with developing implications. The rating action follows the Fund’s announcement on May 31, 2001 that Acquisition entered into a support agreement with Drayton Valley in respect of Acquisition’s take-over bid for Drayton Valley.

## PLAN OF DISTRIBUTION

Under an underwriting agreement (the “Underwriting Agreement”) dated June 20, 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 July 3, 2001 or such other date as may be agreed upon, but not later than August 3, 2001, subject to the terms and conditions stated therein, 6,500,000 of the Trust Units offered hereby at a price of \$10.05 per Trust Unit, payable in cash, for aggregate consideration of \$65,325,000 to the Fund, against delivery. The Fund has agreed to pay the Underwriters a fee of \$0.5025 per Trust Unit purchased by the Underwriters for their services in connection with this offering. The Trust Units are being sold as to 5,000,000 Trust Units on a firm underwritten basis and as to 1,500,000 Trust Units on a best efforts agency basis. In addition, 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 975,000 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 both the grant of the above-noted options and the issuance and transfer of Trust Units that will be issued or transferred if the above-noted options are 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 July 3, 2001 but in any event not later than August 3, 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”.

National has also been engaged to act as financial advisor to Drayton Valley in connection with the Offer by Acquisition.

BMO Nesbitt Burns Inc., one of the Underwriters, has entered into an engagement letter with the Fund whereby it has agreed to act as financial advisor to the Fund in connection with the proposed takeover bid by an indirect subsidiary of the Fund for all of the outstanding trust units of Drayton Valley Power Income Fund.

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

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

Reference is made to the sections entitled “Canadian Federal Income Tax Considerations” in the Annual Information Form.

#### **ELIGIBILITY FOR INVESTMENT**

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. Reference is made to the section entitled “Eligibility for Investment” and “Canadian Federal Income Tax Considerations” 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 Canada purchased certain partnership interests in the Algonquin Power (Campbellford) Limited Partnership, the partnership which owns and operates the Campbellford Facility, and the shares of 3879780 Canada Inc., which owns and operates the Arthurville Facility, both from Algonquin Power for approximately \$1.7 million in the aggregate. Algonquin America purchased the shares of Court Street Investments Inc. and Oswego Power Company Inc., the companies which own and operate the Phoenix Facility, the Kings Falls Facility, the Otter Creek Facility and the Worcester Facility, from Algonquin Power for approximately \$11.6 million. Algonquin Water purchased the shares of Black Mountain Sewer Corporation, the company which owns and operates the wastewater treatment facility near Carefree, Arizona from Algonquin Power for

approximately \$7.2 million. The Trustees of the Fund determined the consideration to be paid in connection with such acquisitions based on, among other things, due diligence reports and an analysis of estimated cash flows to be generated with respect to the related facilities. In connection with the development of the Campbellford Facility and the acquisition of the shares described above and the subsequent sale thereof to Algonquin America, Algonquin Water and Algonquin Canada, as the case may be, Algonquin Power incurred development, construction and acquisition related costs in the aggregate of approximately \$19.8 million. 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, Algonquin America or Algonquin Water, as the case may be, acquire 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 certain 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.

#### **RISK FACTORS**

Reference is made to the section entitled "Risk Factors" in the Annual Information Form.

#### **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. As of the date hereof, the partners and associates of Blake, Cassels & Graydon LLP own less than 1% of the issued and outstanding Trust Units of the Fund.

#### **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: June 20, 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: June 20, 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.

MERRILL LYNCH CANADA INC.

By: (Signed) KEN MANGET

By: (Signed) HAROLD R. HOLLOWAY

NATIONAL BANK FINANCIAL INC.

By: (Signed) SCOT A. MARTIN

CIBC WORLD MARKETS INC.

RBC DOMINION SECURITIES INC.

TD SECURITIES INC.

By: (Signed) DAVID H. WILLIAMS    By: (Signed) PATRICK K. MADIGAN    By: (Signed) ROB WRIGHT

RAYMOND JAMES LTD.

SCOTIA CAPITAL INC.

By: (Signed) JAMES COULTER

By: (Signed) DAVID SANTANGELI

