

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

October 11, 2001



# ALGONQUIN POWER INCOME FUND

**\$75,175,000**

**7,750,000 Trust Units**

This prospectus qualifies the distribution of 7,750,000 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 6,200,000 Trust Units on a firm underwritten basis and as to 1,550,000 Trust Units on a best efforts agency basis. Each Trust Unit represents an equal undivided beneficial interest in the Fund. The Fund has 42,085,472 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 interest in additional generating facilities, repay debt and for working capital.

The Fund currently holds an interest, directly or indirectly, in 55 hydroelectric, bio-mass, natural gas/wood waste and natural gas powered generating facilities and two wastewater treatment 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 February 15, 2002 to unitholders of record on December 31, 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 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: \$9.70 per Trust Unit

	Price to the Public <sup>(1)</sup>	Underwriters' Fee	Net Proceeds to the Fund <sup>(2)(3)</sup>
Per Trust Unit . . . . .	\$9.70	\$0.485	\$9.215
Total Offering . . . . .	\$75,175,000	3,758,750	\$71,416,250

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 1,162,500 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 the over-allotment option is exercised in full, the aggregate gross proceeds to the Fund, the Underwriters' fee and the net proceeds to the Fund would be \$86,451,250, \$4,322,563 and \$82,128,687, 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 October 10, 2001 was \$9.72.

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 October 18, 2001 or such later date as the Manager, the Fund and the Underwriters may agree, but in any event not later than November 18, 2001. Certificates for Trust Units will be available for delivery at closing.

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## 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 currently holds direct and indirect equity interests in 48 hydroelectric generating stations located in Ontario (6), Quebec (12), Newfoundland (1), Alberta (1), New York State (12), New Hampshire (13), New Jersey (1) and Vermont (2) representing aggregate installed generating capacity of approximately 140MW. In addition, the Fund owns partnership, preferred share and debt interests in four bio-mass fueled generating stations with combined installed capacity of approximately 92MW located in Alberta (2), Quebec (1) and Nova Scotia (1). The Fund holds minority term investments in two natural gas/wood waste fueled generating stations with joint installed capacity of approximately 140MW located in northern Ontario and one 150MW natural gas powered combined cycle co-generation plant located in south-eastern Ontario. In addition to its electricity generating assets, the Fund owns two wastewater treatment facilities located near Phoenix, Arizona. Reference is made to the section entitled “The Developments” in the Annual Information Form and the sections entitled “Algonquin Power Income Fund — Business of Addition to Energy Related Developments”, “Business of Additions to Water Development” and “Business of Potential Additions to Energy Related Developments” hereunder.

### The Offering

**Issuer:** Algonquin Power Income Fund.  
**Offering:** 7,750,000 Trust Units.  
**Amount:** \$75,175,000.  
**Price:** \$9.70 per Trust Unit.  
**Use of Proceeds:** Net proceeds to the Fund from the sale of additional Trust Units are estimated to be approximately \$71,116,250, after deducting the fees payable to the Underwriters and the estimated expenses of the offering.

Funds Available	
Net Proceeds . . . . .	\$71,116,250
Use of Funds Available	
Acquisitions, repayment of debt and/or working capital . . . . .	\$71,116,250
Total Use of Funds . . . . .	\$71,116,250

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 42,085,472 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) second quarter report for the three months ended June 30, 2001;
- (e) 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;
- (f) 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;
- (g) 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;
- (h) 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;
- (i) 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;
- (j) material change report dated August 7, 2001 and filed August 8, 2001 in respect of the completion by a subsidiary of the Fund of a take-over bid for Drayton Valley Power Income Fund and the subsequent disposition of certain facilities acquired as a result of the take-over bid;
- (k) material change report dated August 21, 2001 and filed August 23, 2001 confirming the completion of an offering of 6,500,000 Trust Units for gross proceeds of \$65,325,000;
- (l) material change report dated August 21, 2001 and filed August 23, 2001 in respect of the completion by the Fund of an additional public offering of Trust Units pursuant to the exercise by the underwriters of an over-allotment option; and
- (m) 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 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 direct and indirect equity interests in 48 hydroelectric generating stations located in Ontario (6), Quebec (12), Newfoundland (1), Alberta (1), New York State (12), New Hampshire (13), New Jersey (1) and Vermont (2) representing aggregate installed generating capacity of approximately 140MW. In addition, the Fund owns partnership, preferred share and debt interests in four bio-mass fueled generating stations with combined installed capacity of approximately 92MW located in Alberta (2), Quebec (1) and Nova Scotia (1). The Fund holds minority term investments in two natural gas/wood waste fueled generating stations with joint installed capacity of approximately 140MW located in northern Ontario and one 150MW natural gas powered combined cycle co-generation plant located in south-eastern Ontario. In addition to its electricity generating assets, the Fund owns two wastewater treatment facilities 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, 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 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.

### **Recent Developments**

On July 27, 2001, an indirect subsidiary of the Fund, Algonquin Acquisition Inc. (“Acquisition”) completed the acquisition of approximately 90% of all outstanding trust units of Drayton Valley Power Income Fund (“Drayton Valley”) for total consideration of approximately \$30.5 million. On August 3, 2001, Acquisition caused Drayton Valley to sell the 17.0MW bio-mass fired generating station located near Westlock, Alberta, the 7.0MW bio-mass fired generating station located near White River, Ontario and a 50% partnership interest in the 12.0MW bio-mass fired generating station located near Drayton Valley, Alberta previously owned by Drayton Valley to Primary Power of Western Canada Company. Drayton Valley retained the Dickson Dam Facility and a 50% interest in the Drayton Valley Facility. On September 11, 2001, Acquisition completed the acquisition of all remaining outstanding Drayton Valley trust units for total consideration of approximately \$3.9 million.

On July 11, 2001, Algonquin Water completed the acquisition of all issued and outstanding shares of Gold Canyon Sewer Company, which owns a wastewater treatment facility located in the Town of Gold Canyon, approximately 30 km east of Phoenix, Arizona.

On September 5, 2001, the Fund announced that Algonquin Power Trust, a trust of which the Fund is the sole beneficiary, had entered into an agreement to purchase note and share interests in six electrical generating facilities (the “Confed Interests”) in Ontario, Alberta, Quebec and Nova Scotia for a purchase price of \$76.3 million from Confederation Life Insurance Company, in liquidation. This transaction closed on October 4, 2001.

## Summary of Additional Generating Facilities

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

Facility, Fuel Source and Type of Interest	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 Western Development</b>						
Dickson Dam Facility (hydroelectric) — owned	15,000	Red Deer near the Town of Innisfail, Alberta	\$0.061/kW-hr	67,310 MW-hrs/year	2012	2030
Drayton Valley Facility (bio-mass) — 50% partnership interest	12,000	Town of Drayton Valley, Alberta	\$0.061/kW-hr	87,600 MW-hrs/year	2016	Land is owned
Whitecourt Facility (bio-mass) — preferred shares	25,000	Town of Whitecourt, Alberta	\$0.061/kW-hr	172,800 MW-hrs/year	2014	Land is owned
<b>Additions to Ontario Development</b>						
Kirkland Lake (natural gas/bio-mass) — Class B shares	102,000	Town of Kirkland Lake, Ontario	\$0.066/kW-hr — avg energy price during year ending Feb/01	802,365 MW-hrs/year	2030	2011 — subject to extension until 2041 at option of Kirkland Lake
Cochrane (natural gas/bio-mass) — Class B shares	38,300	Town of Cochrane, Ontario	\$0.072/kW-hr — avg energy price during year ending Feb/01	324,188 MW-hrs/year	2016	2011 — subject to extension until 2040
Cardinal (natural gas) — Senior debt interest	150,000	Town of Cardinal, Ontario	\$0.055/kW-hr — blended energy and capacity	1,255,970 MW-hrs/year	2014	2022
<b>Addition to Quebec Development</b>						
Chapais (bio-mass) — Tranche A and B preferred shares. Class B non-voting preferred shares.	27,000	Town of Chapais, Quebec	\$0.0631/kW-hr — blended energy and capacity	218,964 MW-hrs/year	2015	Land is owned
<b>Addition to Atlantic Development</b>						
Brooklyn (bio-mass) — Shares and senior debt	28,000	Town of Brooklyn, Nova Scotia	\$0.0747/kW-hr	190,040 MW-hrs/year	2028	Land is owned

## Business of Additions to Energy Related Developments

### *Dickson Dam Facility*

The Dickson Dam Facility is located 20 kilometres west of the Town of Innisfail, Alberta. The Dickson Dam Facility is a 15.0MW hydroelectric generating facility utilizing infrastructure located at the Dickson Dam and powered by the water flows of the Red Deer River. The facility consists of three horizontal Francis type turbines and was commissioned into commercial operation on January 16, 1992.

### *Power Purchase Agreement*

The Dickson Dam power purchase agreement was entered into with TransAlta Utilities Corporation (“TransAlta”) on December 7, 1990 and was approved by the Alberta Public Utilities Board on January 16, 1991. It has a term of 20 years ending on January 16, 2012. Under this agreement, TransAlta is obligated to accept delivery of all electricity in amounts up to 115% of the 12.8MW capacity which is allocated to the facility at rates stipulated by the *Small Power Research and Development Act* (Alberta) (the “Small Power Act”). The price paid by TransAlta during 2000 was \$0.0598/kw-hr.

### *Use of Works Agreement*

The original owner of the Dickson Dam Facility entered into an agreement (the “Use of Works Agreement”) with the Government of Alberta pursuant to which it obtained the right to construct the Dickson Dam Facility and utilize the available waterflows for generating power until March 31, 2030. This agreement has been assigned to a Fund entity. Under the Use of Works Agreement, the Fund entity has accepted the obligation to operate the Dickson Dam Facility in accordance with the requests of the Minister of the Environment (Alberta) to accommodate water release changes. Following commercial operation in 1992, the Dickson Dam Facility has been operated in accordance with the terms of the Use of Works Agreement. Under the Use of Works Agreement, the Minister does not guarantee any reservoir water level or any supply of water to the Dickson Dam Facility. The Minister also reserves the right to control releases and direct that the Dickson Dam Facility be operated to meet certain water management objectives relating to flood control, water quality levels and inter-provincial treaty obligations. The owner of the Dickson Dam Facility is obligated to make annual payments to the Minister of the Environment (Alberta) of \$50,000 (measured in 1992 dollars) throughout the term of the Use of Works Agreement and which payments escalate annually by the Alberta Consumer Price Index. In 2000, the annual payment (inclusive of water rental) was \$65,000.

### *Drayton Valley Facility*

The Drayton Valley Facility is a 12.0MW bio-mass fired generating facility which produces electricity from burning wood waste provided by Weyerhaeuser Canada Ltd. (“Weyerhaeuser”) using a single steam turbine. The facility was commissioned in 1994 and has operated satisfactorily since its commissioning. The Fund indirectly owns a 50% partnership interest in the Drayton Valley Facility.

### *Power Purchase Agreement*

The Drayton Valley Facility has entered into a 20 year agreement with TransAlta dated December 13, 1994, pursuant to which TransAlta is obligated to purchase all electricity produced at the Drayton Valley Facility up to 10.5MW at prices stipulated by the Small Power Act. Electricity generated at the Drayton Valley Facility is delivered to TransAlta through interconnection facilities erected on and adjacent to the facility site.

### *Fuel Supply*

The Drayton Valley Facility entered into an agreement with Weyerhaeuser on January 30, 1995 pursuant to which Weyerhaeuser is obligated to supply, without charge, all wood waste produced at the Weyerhaeuser sawmill/strandboard plant which is located adjacent to the Drayton Valley Facility. The fuel supply agreement, which expires in 2017, requires the Drayton Valley Facility to establish a storage pile of wood waste in an amount which will enable the Drayton Valley Facility to operate at an 87% capability factor for six months without further wood waste deliveries. The Drayton Valley Facility operating at approximately 95% of maximum annual capacity consumes approximately 84,000 oven dried tonnes (“odt”) of wood waste each year. The Weyerhaeuser mill currently delivers approximately 90,000 odt of wood waste each year. Weyerhaeuser is one of Canada’s largest forest products companies and the Drayton Valley sawmill and strandboard plant is a core asset. This plant currently produces approximately 113 million board feet of lumber board from the sawmill and approximately 390 million board feet from the strandboard facility. Weyerhaeuser plans to operate the Drayton Valley sawmill and strandboard plant beyond the term of the fuel agreement with the Drayton Valley Facility. If Weyerhaeuser fails to fulfil its obligations under the fuel supply agreement with the Drayton Valley Facility, it is estimated that there is approximately 100,000 odt of alternative bio-mass wood waste available within a 160 kilometre radius of the Drayton Valley Facility. No assessment has been made of the impact of transportation costs for such alternative bio-mass fuel upon the economics of the Drayton Valley Facility.

## **Business of Additions to Energy Related Developments from Confederation Life**

The Algonquin Power Trust has entered into an agreement with Confederation Life Insurance Company, in liquidation dated September 1, 2001 (the “Confed Agreement”) pursuant to which it acquired the following notes and share interests in certain power projects:

### ***Cardinal Power of Canada Limited Partnership***

Cardinal Power of Canada Limited Partnership (“Cardinal”) owns the Cardinal Facility which is a 150MW combined cycle co-generation station fuelled by natural gas located in Cardinal, Ontario and which generates and sells electricity exclusively to OEFC at contracted rates for a minimum of 20 years commencing in 1994. In addition to electricity, the facility generates and sells steam to Canada Starch Operating Company pursuant to a 20 year steam sales agreement. The Cardinal Facility purchases natural gas from Husky Oil Limited under a 20 year gas supply agreement maturing in 2014 and under which the facility is provided with all required natural gas at predetermined prices, subject to pricing changes within fixed ranges. Natural gas for the facility is transported by TransCanada PipeLines Limited and Centra Gas Ontario, Inc. pursuant to 20 year and three year firm service agreements, respectively. The facility is operated by Sithe Energies Canada Power Service Inc. and the operator is paid a monthly fee for operations services, which fee is subject to annual escalations equivalent to changes in the consumer price index. The capital structure of Cardinal includes \$145.5 million of senior debt maturing October 1, 2014 and bearing interest at the rate of 9.68% per annum, compounded quarterly. Pursuant to the credit agreement entered into in respect of the senior debt, a debt service escrow account has been established to provide continued debt service payments in the event of unforeseen business disruptions.

Under the Confed Agreement, the Algonquin Trust acquired a 16.9% interest in the senior debt issued by the Cardinal Power of Canada Limited Partnership. The outstanding balance of the interest in the senior debt acquired by the Algonquin Trust as at October 1, 2001 is approximately \$20.9 million.

### ***Kirkland Lake Power Corporation***

The Kirkland Lake Facility is a 102 MW combined cycle power co-generation station located in Kirkland Lake, Ontario owned by Kirkland Lake Power Corporation (“Kirkland”) which burns natural gas and wood waste to generate electricity using three 23MW natural gas fired turbines and two steam turbines. The facility was commissioned in 1991 by Northland Power Inc. (“Northland”) and Northland remains the operator of the facility. Electricity produced by the facility is sold to OEFC pursuant to a 40 year contract executed in 1989. If after 20 years, sufficient gas contracts have not been arranged, OEFC has the right to limit the contract to 20 years. Amendments to such power purchase agreement have been made so that electricity in excess of that committed to OEFC under the power purchase agreement may be sold into the future deregulated market in Ontario. Natural gas used by the facility is supplied by companies controlled by Gulf Canada Resources Limited and Chevron Canada Resources Inc. under three different supply contracts with terms ranging from 15 to 20 years which expire in 2010 and 2012. 50% of any price increases under such gas supply agreements are absorbed by OEFC. Wood waste consumed by the facility is supplied by local forest product companies under various 20 year contracts which commenced in 1989 and 1991. Each of these wood waste agreements may be renewed for subsequent 10 year terms. The capital structure of Kirkland is comprised of approximately \$87.5 million of senior debt outstanding and 3,562,963 Class A voting shares and 37,000,000 Class B non-voting shares. The Class A and Class B shares are identical in all respects except the Class A shares have voting rights.

Under the Confed Agreement, the Algonquin Trust acquired 32.4% of the Class B non-voting shares issued by Kirkland. Under the terms of the management agreement between Northland and Kirkland, these shares entitle the holder thereof to certain dividends from Kirkland, the amounts of which dividends to date have been consistent with the pro forma projected amounts originally established when such shares were issued. In the event dividends paid to holders of the Class B non-voting shares are less than the projected amounts and Northland fails to contribute its own funds to cure any deficiency, the management agreement with Northland may be terminated by Kirkland. Northland has granted Kirkland a put option to sell the Kirkland Facility to Northland with an exercise date of February 28, 2011 at an exercise price of \$10 million. Under the management agreement, 90% of the operating income of the facility will be paid to Northland after the exercise date and,

accordingly, it is anticipated that Kirkland will exercise such put option and the proceeds of such sale will be utilized to repay debt and make distributions to shareholders.

#### ***Cochrane Power Corporation***

The Cochrane Facility is a 38.3MW combined cycle power co-generation station located in Cochrane, Ontario owned by Cochrane Power Corporation (“Cochrane”) which burns natural gas and wood waste to generate power using one 26.5MW natural gas fired turbine and one steam turbine. The facility was commissioned in 1990 by Northland and Northland remains the operator of the facility. Electricity produced by the facility is sold to OEFC pursuant to a 25 year contract executed in 1989. Amendments to such power purchase agreement have been made so that energy in excess of that committed to OEFC under the power purchase agreement may be sold into the future deregulated market in Ontario. The majority (90%) of the natural gas used by the facility is supplied by Canadian Natural Resources Limited under a supply contract with a 20 year term which expires in 2012. Price increases under such gas supply agreement are generally tied to price increases under the power purchase agreement with OEFC. Cochrane has entered into agreements for the supply of wood waste, natural gas and gas transportation services for various terms to 2011. The capital structure of Cochrane consists of 6,000,000 Class A voting shares representing 11.54% of the equity interests and 46,000,000 Class B non-voting shares representing approximately 88.46% of the equity interests.

Under the Confed Agreement, the Algonquin Trust acquired 25.0% of the Class B non-voting shares issued by Cochrane. Under the terms of the management agreement between Cochrane and Northland, these shares entitle the holder thereof to certain dividends from Cochrane, which dividends, to date, have been consistent with the pro forma projected amounts originally established when such shares were issued. In the event the dividends paid to holders of the Class B non-voting shares are less than the projected amounts, the management agreement with Northland may be terminated. In connection with the Cochrane Facility, Cochrane has a put option which may be exercised on February 28, 2011, which requires Northland to purchase the Cochrane Facility from Cochrane at a price of \$3.0 million. Under the management agreement, 90% of the operating income of the facility will be paid to Northland after the exercise date and, accordingly, it is anticipated that Cochrane will exercise such put option and the proceeds of such sale will be distributed to shareholders.

#### ***Whitecourt Power Limited Partnership***

The Whitecourt Facility is a 25.0MW generating station located in Whitecourt, Alberta owned by Whitecourt Power Limited Partnership (“WPLP”) which consumes wood waste to generate power using a single steam turbine. After delays and technical difficulties experienced in the construction, the facility was commissioned in 1995 and a third party has been retained as operator of the facility. Electricity produced by the facility is sold to TransAlta pursuant to a 20 year contract which expires in 2014. Under the terms of the power purchase agreement, the first 20.7MW produced by the facility is sold to TranAlta at stipulated rates. The balance of power produced is sold to the deregulated Alberta Power Pool. The majority of the wood waste used by the facility is supplied by Millar Western Industries Ltd. (“Millar Western”) under a supply contract expiring in 2014. WPLP is responsible for the transportation costs of such wood waste from the Millar Western plant (approximately 4 km) and WPLP is paid a nominal disposal fee by Millar Western to accept such wood waste. As part of a restructuring which occurred as a result of the commissioning delays and difficulties, the original debt incurred in the construction of the facility has been temporarily exchanged for certain preferred shares issued by a wholly-owned subsidiary of the limited partner of WPLP until December 20, 2001.

Under the Confed Agreement, the Algonquin Trust acquired 33.3% of the preferred shares issued by the wholly-owned subsidiary of the limited partner of WPLP. Under the terms of agreements entered into by WPLP and related parties, the holders of the preferred shares are entitled under certain circumstances to exchange such preferred shares for a pro-rata interest in the original debt and related security interests.

#### ***Chapais Energie, Societe en Commandite***

Chapais Energie, Societe en Commandite (“Chapais”) owns 27.0MW electricity generating plant which burns wood waste and is located in the Town of Chapais, Quebec. The Chapais Facility was placed into commercial operation after significant commissioning difficulties and delays in August 1995. The Chapais

Facility sells electricity to Hydro Quebec pursuant to a power purchase agreement with a 20 year term expiring December 1, 2015, with a 5 year renewal option. Wood waste is purchased from local sawmills in the area with transportation expense being the principal cost incurred to obtain the wood waste supply. The Chapais Facility is operated by a third party operator. As part of a restructuring which occurred as a result of commissioning delays and difficulties, the original debt incurred by Chapais in the construction of the facility has been temporarily exchanged for certain preferred shares issued by a party related to the general partner of Chapais, which shares shall convert into a term loan on July 30, 2004. The economic interests in Chapais including the general partner and related entities are divided into approximately \$45.7 million of Class A preferred shares, \$15.3 million of Class B preferred shares and certain common shares of nominal value. Both classes of preferred shares are expected to pay dividends at the rate of 6.5% per annum. On July 31, 2004, the Class A and Class B preferred shares are expected to convert into term loan interests, which loans will bear interest at the rate of 10.789% and 4.91%, respectively.

Under the Confed Agreement, the Algonquin Trust acquired a 12.1% interest in both the Class A and Class B preferred shares issued by a party related to the general partner and a 33.9% interest in the Class B non-voting preferred shares of the general partner.

### ***Brooklyn Power Corporation***

Brooklyn Power Corporation (“Brooklyn”) owns a 28.0MW bio-mass fuelled electricity generating station located in Queen’s County, Nova Scotia. The Brooklyn Facility was commissioned in December 1995 and consumes the wood waste produced by the Bowater Mersey Paper Company Limited (“Bowater”) in addition to certain wood waste purchased from several local sawmill operators in southern Nova Scotia. Brooklyn sells electricity to Nova Scotia Power Inc. (“NSPI”) pursuant to a power purchase contract expiring in 2028, the pricing under which is based on NSPI’s avoided costs. Brooklyn delivers steam to Bowater in exchange for a portion of the wood waste fuel. The capital structure of Brooklyn is comprised of approximately \$54.0 million of senior debt which matures December 31, 2016, subject to certain prepayment options and 1,000,000 common shares.

Under the Confed Agreement, the Algonquin Trust acquired a 13.6% interest in the senior debt issued by Brooklyn and a 13.6% interest in the outstanding common shares of Brooklyn. The portion of the outstanding balance of the interest in the senior debt to be acquired by the Algonquin Trust as at October 1, 2001 is approximately \$8.1 million.

### **Business of Addition to Water Development**

#### ***Gold Canyon Sewer Company***

The Gold Canyon Sewer Company (“Gold Canyon”) was established in 1989 to provide wastewater treatment services to the Town of Gold Canyon, Arizona. Gold Canyon currently serves approximately 2,900 residential and commercial customers.

The existing plant is located in an industrial area of the Town of Gold Canyon. The plant was originally designed to treat 500,000 US gallons per day of sewage and was expanded in 2000 to increase permitted capacity to 1,000,000 US gallons per day. Peak demand on the plant currently does not exceed approximately 600,000 US gallons per day and the reclaimed water it produces is sold by pipe to nearby golf courses for irrigation purposes.

The Gold Canyon facility is an activated sludge plant and produces a good quality effluent that meets or exceeds quality standards for effluent discharges. This is accomplished by post-process filtration utilizing a sand filter.

Gold Canyon serves the Town of Gold Canyon under a regulated agreement called a Certificate of Convenience and Necessity (“CC&N”).

### *Certificate of Convenience and Necessity*

This facility has had a CC&N, or mandate to provide wastewater services to its customers, for 13 years. The utility is regulated by the Arizona Corporation Commission, which regulates rates.

### *Arizona Department of Environmental Quality*

The physical plant comprising the Gold Canyon Facility complies with guidelines established by the Arizona Department of Environmental Quality regarding discharge and re-use of effluent.

### **Acquisition Completion Provisions**

After closing, the Fund will attempt to identify investment opportunities to acquire interests in facilities which meet the Acquisition Guidelines. Except as set out in Recent Developments, 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 an important 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 cash flow from renewable resource facilities; potential investment candidates could include wind and bio-mass 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. The Manager may be paid a fee in respect of the acquisition by the Fund of appropriate acquisition opportunities, which fee will be based solely on the amount by which the cash distributions anticipated to be provided to the Fund from such acquisition opportunity exceed the minimum accretion criteria established from time to time by the Trustees of 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) for each facility in which an interest with an indefinite term is being acquired, the expected useful life of such 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.

## **SHARE AND LOAN CAPITAL**

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

The Fund presently has 42,085,472 Trust Units outstanding. As of October 11, 2001, the Fund has approximately \$42.0 million of indebtedness outstanding under the Line of Credit. In addition, the Fund has used the Line of Credit to post a bond in the amount of U.S.\$2 million 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) and a \$1 million letter of credit to the Minister of the Environment (Alberta) pursuant to the Use of Works Agreement in respect of the Dickson Dam Facility. 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, May 17, 2001, July 27, 2001 and October 4, 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 \$7,351,000, \$800,000, \$905,000, \$28,749,000, \$40,695,000 and \$74,403,987, respectively. Algonquin Trust used the proceeds to purchase a note of Campbellford Limited Partnership and 50% of the partnership interests 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 and to subscribe for shares of its wholly owned subsidiary, Acquisition. Acquisition, in turn, used approximately \$34.1 million of such subscription proceeds to complete the acquisition of all issued and outstanding trust units of Drayton Valley, which after disposition of certain bio-mass fired generating stations, is the owner of the Dickson Dam Facility and a 50% partnership interest in the Drayton Valley Facility and to purchase the Confed Interests. Acquisition used a portion of the subscription proceeds it received to retire certain indebtedness of Drayton Valley which was outstanding at the time of acquisition of the trust units of Draton Valley; Drayton Valley has no outstanding indebtedness as at October 1, 2001. The Fund is the sole unitholder of the Algonquin Trust and the sole holder of notes issued by the Algonquin Trust.

### **Loan Capital of Algonquin Canada**

Since December 31, 2000, Algonquin Canada issued secured, subordinated notes on March 16, 2001 and on July 11, 2001 in the principal amounts of approximately \$18.1 million and approximately \$7.1 million, respectively (the "Canada 2001 Notes"). Algonquin Canada used the proceeds from the issuance of the Canada 2001 Notes to acquire the US 2001 Notes issued by Algonquin America and the 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 on March 21, 2001 in the principal amount of approximately \$11.6 million (the "US 2001 Notes"). 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 and on July 11, 2001 in the principal amounts of approximately \$6.5 million and \$7.1 million, respectively. Algonquin Water used the proceeds from the issuance of the US Water 2001 Notes in the amount of \$6.5 million to acquire the shares of Black Mountain Sewer Corporation, which owns and operates a wastewater treatment facility near Carefree, Arizona. Algonquin Water used the proceeds from the issuance of the US Water 2001 Notes in the amount of \$7.1 million to acquire the shares of Gold Canyon Sewer Company, which owns and operates a wastewater treatment facility near Gold Canyon, Arizona. All US Water 2001 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 \$71,116,250, 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 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 7,750,000 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.

### **PLAN OF DISTRIBUTION**

Under an underwriting agreement (the “Underwriting Agreement”) dated October 11, 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 October 18, 2001 or such other date as may be agreed upon, but not later than November 18, 2001, subject to the terms and conditions stated therein, 7,750,000 of the Trust Units offered hereby at a price of \$9.70 per Trust Unit, payable in cash, for aggregate consideration of \$75,175,000 to the Fund, against delivery. The Fund has agreed to pay the Underwriters a fee of \$0.485 per Trust Unit purchased by the Underwriters for their services in connection with this offering. The Trust Units are being sold as to 6,200,000 Trust Units on a firm underwritten basis and as to 1,550,000 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 1,162,500 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 option and 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 or delayed, directly or indirectly, 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 October 18, 2001 but in any event not later than November 18, 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”. Certain of the proceeds of this offering will be used to pay down outstanding indebtedness on the Line of Credit.

The Toronto Stock Exchange has conditionally approved the listing of the Trust Units. Listing is subject to the Fund fulfilling all the listing requirements of The Toronto Stock Exchange on or before December 28, 2001.

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

Reference is made to the section 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 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 \$6.5 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 \$19.1 million. Algonquin Power has been paid or has entered into agreements with the Fund and its subsidiaries for the payment of aggregate fees of approximately \$1.8 million in respect of the acquisition of the shares of Gold Canyon Sewer Company, the completion of the take-over bid for the trust units of Drayton Valley, the sale of certain bio-mass powered generating stations owned by Drayton Valley and the acquisition of the Confed Interests, which in the aggregate represent approximately \$145 million in transactions completed by the Fund and its subsidiaries.

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. Alternatively, Algonquin Power may be paid a fee in respect of the acquisition by the Fund from a third party of a facility interest presented by Algonquin Power, the amount of which fee shall be calculated solely on the basis of the amount by which the cash distributions anticipated to be provided to the Fund from such facility interest exceed the minimum accretion criteria established from time to time by the Trustees of the Fund.

Power Systems presently provides operations related services to certain of the Fund businesses. Power Systems has been retained to provide operations supervisory services in respect of certain facilities, which facilities are operated by third parties on behalf of the Fund and its subsidiaries. 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: October 11, 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: October 11, 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) JAMES A. TOWER

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) ALINA M. OSORIO

By: (Signed) ROB WRIGHT

RAYMOND JAMES LTD.

SCOTIA CAPITAL INC.

By: (Signed) JAMES COULTER

By: (Signed) DONALD A. CARMICHAEL

