This 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 authorized to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. The securities offered herein 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 or to U.S. persons. See ''Plan of Distribution''.

New Issue

June 26, 1998

ALGONQUIN POWER INCOME FUND

$64,525,123

6,058,697 Trust Units

This prospectus qualifies the distribution of 6,058,697 trust units (the ''Trust Units'') to be issued and sold by Algonquin Power Income Fund (the ''Fund'') pursuant to this offering. Each Trust Unit represents an equal undivided beneficial interest in the Fund. The Fund currently has 8,031,775 Trust Units issued and outstanding. The Fund is administered by Algonquin Management Inc. (the ''Manager''). The net proceeds of this offering will be used to acquire an economic interest in 12 hydroelectric generating facilities (the ''Additional Facilities'') located in Québec (3), Newfoundland (1), New York State (2), New Hampshire (5) and Vermont (1). See ''Business of the Development Additions'' and ''The Acquisitions''.

The Fund currently holds an economic interest in 17 hydroelectric generating facilities (the ''Existing Facilities'') located in Canada and the United States. The Manager manages the Existing Facilities and will manage the Additional Facilities. See ''The Manager''.

The Fund will make quarterly cash distributions of its income to the maximum extent possible to holders of Trust Units of record on the last day of each calendar quarter. Such quarterly distributions are paid by the 15th day of the month following each record date. On June 11, 1998, the trustees of the Fund announced a special distribution of distributable cash in the amount of $0.235 per Trust Unit payable to Unitholders of record on June 23, 1998. Such special distribution will be made in lieu of the regular distribution for the quarter ending June 30, 1998. Subscribers for Trust Units pursuant to this offering will not participate in such special distribution. The distribution next following such special distribution will be the distribution to be paid on October 15, 1998 to unitholders of record on September 30, 1998. See ''Description of the Fund'' — ''Distributions''.

The terms of this offering were established through negotiation between the Manager on behalf of the Fund and Lévesque Beaubien Geoffrion Inc., Nesbitt Burns Inc., CIBC Wood Gundy Securities Inc., Midland Walwyn Capital Inc. and ScotiaMcLeod Inc. (collectively, the ''Underwriters''). The Manager is wholly owned by the shareholders of Algonquin Power Corporation Inc. (''Algonquin Power''). Algonquin Power is the promoter of the Fund and will be the person from whom the Fund acquires, directly or indirectly, certain assets as described under ''Promoter and Interest of Management and Others in Material Transactions''. Trust Units will not be obligations of or interests in any person other than the Fund. **The offering price of the Trust Units offered hereby exceeds the net tangible book value per Trust Unit as at March 31, 1998 after giving effect to this offering by approximately $1.45 per Trust Unit, representing a dilution factor of approximately 13.6%. Investment in the Trust Units is subject to certain risks that should be considered by prospective purchasers. See ''Risk Factors''. 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. 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**. Each of The Toronto Stock Exchange and The Montreal Exchange has conditionally approved the listing of the Trust Units, subject to the Fund fulfilling all requirements of such exchanges on or before August 21, 1998 and September 8, 1998, respectively. Subject to certain assumptions, limitations and conditions, in the opinion of Blake, Cassels & Graydon and Cassels Brock & Blackwell, as of the date of this prospectus, Trust Units are qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans under the *Income Tax Act* (Canada), are not foreign property within the meaning of the *Income Tax Act* (Canada) and are not precluded as investments under certain other statutes. See ''Eligibility for Investment'' and ''Canadian Federal Income Tax Considerations''.

Price: $10.65 per Trust Unit

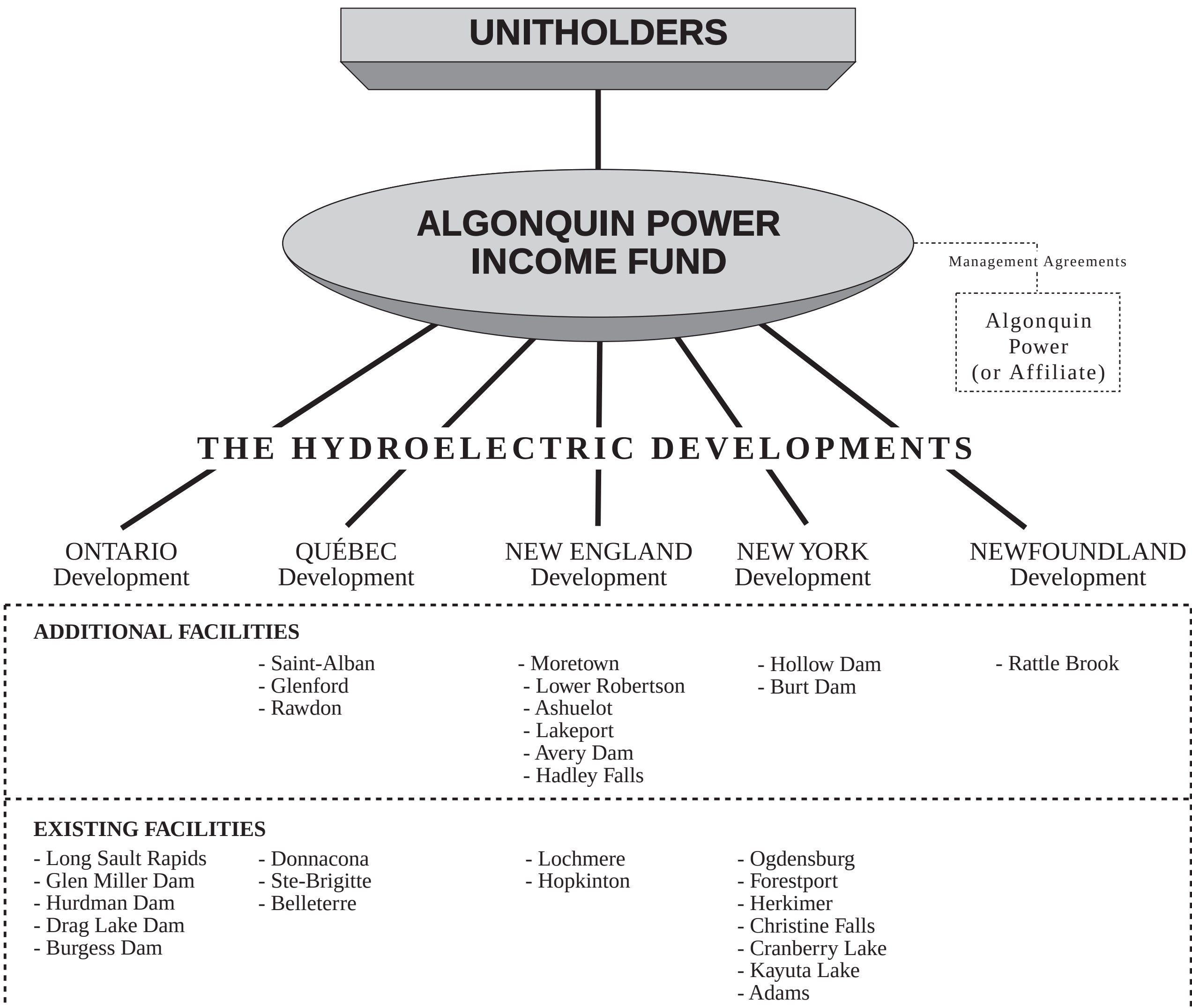
	Price to the Public(1)	Underwriters' Fee	Net Proceeds to the Fund(2)
Per Trust Unit	$10.65	$0.639	$10.011
Total Offering	$64,525,123	$3,871,507	$60,653,616

Notes:
(1) The price of the Trust Units was established through negotiation between the Manager on behalf of the Fund and the Underwriters.
(2) Before deduction of expenses of this offering and the Acquisitions, estimated at $1,710,000, which, together with the Underwriters' fee, will be paid by the Fund out of the proceeds of this offering.

The outstanding Trust Units are listed on The Toronto Stock Exchange and the Montréal Exchange under the trading symbol APF.UN. The closing price of the Trust Units on The Toronto Stock Exchange on June 25, 1998 was $10.75.

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 referred to under ''Plan of Distribution'' and subject to the approval of certain legal matters on behalf of the Fund by Blake, Cassels & Graydon and on behalf of the Underwriters by Cassels Brock & Blackwell.

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 7, 1998 or such later date as the Manager, the Fund and the Underwriters may agree, but in any event not later than July 30, 1998. Certificates for Trust Units will be available for delivery at closing.


UNITHOLDERS
ALGONQUIN POWER INCOME FUND
Management Agreements
Algonquin Power (or Affiliate)
THE HYDROELECTRIC DEVELOPMENTS
ONTARIO Development
QUÉBEC Development
NEW ENGLAND Development
NEW YORK Development
NEWFOUNDLAND Development
ADDITIONAL FACILITIES
- Saint-Alban
- Glenford
- Rawdon
- Moretown
- Lower Robertson
- Ashuelot
- Lakeport
- Avery Dam
- Hadley Falls
- Hollow Dam
- Burt Dam
- Rattle Brook
EXISTING FACILITIES
- Long Sault Rapids
- Glen Miller Dam
- Hurdman Dam
- Drag Lake Dam
- Burgess Dam
- Donnacona
- Ste-Brigitte
- Belleterre
- Lochmere
- Hopkinton
- Ogdensburg
- Forestport
- Herkimer
- Christine Falls
- Cranberry Lake
- Kayuta Lake
- Adams

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SUMMARY

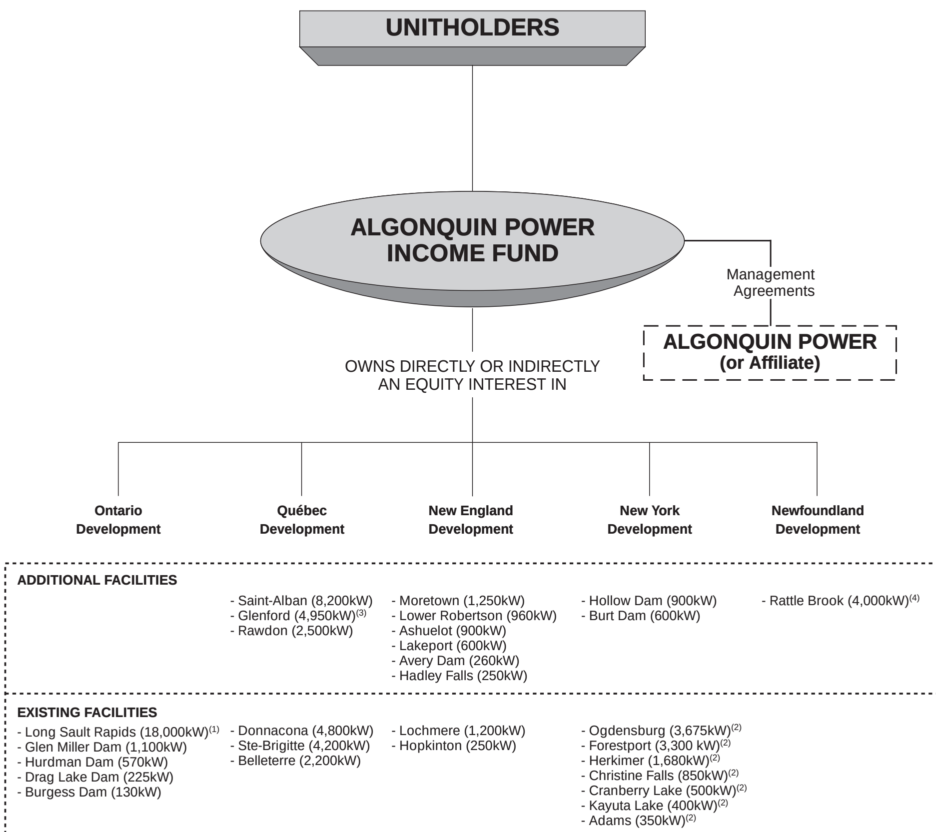
The following summary is qualified by and should be read in conjunction with the more detailed information appearing elsewhere in this prospectus. Reference is made to ''Glossary'' for the meanings of certain defined terms.

Algonquin Power Income Fund

The Fund: The Fund is an unincorporated open ended trust established under the laws of Ontario. The Fund was created to invest in direct or indirect equity interests in hydroelectric generating facilities located in Canada and the United States. The Fund currently holds an equity interest, directly or indirectly, in 17 hydroelectric generating facilities located in Ontario (5), Québec (3), New York State (7) and New Hampshire (2). See ''Business of the Existing Developments''.

Pursuant to the Acquisitions, the Fund proposes to invest indirectly in equity interests in an additional 12 hydroelectric generating facilities located in Québec (3), Newfoundland (1), New York State (2), New Hampshire (5) and Vermont (1). After completion of the Acquisitions, the Fund will hold an interest in 29 hydroelectric generating facilities having total installed generating capacity of approximately 69 megawatts. These facilities will continue to sell power under contracts of various terms to large electric utilities. See ''Business of the Development Additions'' and ''The Acquisitions''.

Structure of the Fund



Notes:

(1) Interest provides 100% of cash flows up to 2013, 65% up to 2027 and 58% thereafter.

(2) Interest provides 100% of cash flows up to 2010 with a right to 75% of the equity value upon repayment. See ''Algonquin Power Income Fund'' — ''Summary of Existing Development Interests'' — ''New York Development''.

(3) Interest provides 100% of cash flows up to approximately 2023 and the option to indirectly acquire the facility for $1.5 million at that time.

(4) 45% interest.

Growth Strategy: In the discretion of and subject to review by the Trustees, the Fund intends to pursue an investment strategy to invest in interests in additional hydroelectric generating facilities in the independent power industry and has established certain investment guidelines to identify such opportunities. See ''Future Acquisition Strategy''.

The Offering

Issuer: Algonquin Power Income Fund.

Offering: 6,058,697 Trust Units.

Amount: $64,525,123.

Price: $10.65 per Trust Unit.

Use of Proceeds: Net proceeds to the Fund from the sale of additional Trust Units are estimated to be approximately $59.1 million, after deducting fees payable to the Underwriters and estimated expenses of the offering.

Funds available	
Net Proceeds	$59,093,000
Use of funds available	
Acquisition of additional Québec Development facilities	$28,242,000
Acquisition of additional New England Development facilities	$20,917,000
Acquisition of additional New York Development facilities	$5,500,000
Rattle Brook Acquisition Amount	$4,185,000
Rattle Brook Completion Amount	$249,000
Total use of funds	$59,093,000

With the exception of the acquisition of the Rattle Brook Shares and except as noted below, all Acquisitions will be completed contemporaneously with the Closing as set out herein. Closing will only occur if Acquisitions having an aggregate purchase price of 85% or greater of the Net Proceeds (after deducting the Rattle Brook Acquisition Amount and the Rattle Brook Completion Amount) are completed contemporaneously with Closing. If Acquisitions having an aggregate purchase price of less than 15% of the Net Proceeds (after deducting the Rattle Brook Acquisition Amount and the Rattle Brook Completion Amount) cannot be completed contemporaneously with the Closing, that portion of the Net Proceeds required to complete such Acquisitions will be held by the Fund and invested until the earlier of the date upon which those Acquisitions or alternative acquisitions are completed and the Closing Termination Date. The Rattle Brook Acquisition Amount will be held by the Fund and invested pending the earlier of the Rattle Brook Release Date and January 31, 1999. The Rattle Brook Completion Amount will be distributed to Unitholders as set out under ''Acquisitions'' — ''Acquisition of Newfoundland Development'' — ''Rattle Brook Completion Amount''. To the extent any funds are not used to complete the Acquisitions within the time provided, such funds, together with any interest earned thereon, will be distributed to Unitholders, unless the Trustees elect to acquire one or more alternative facility interests, provided such alternative facility interests meet the acquisition guidelines set out herein (see ''Future Acquisition Strategy''). The Net Proceeds will be used by the Fund, indirectly through Algonquin Canada and its subsidiaries, to complete the Acquisitions and to fulfill certain obligations in connection therewith as follows:

See ''The Acquisitions'' and ''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 8,031,775 Trust Units issued and outstanding. See ''Description of the Fund'' — ''Trust Units'' and ''Declaration of Trust''.

Management Agreement:	The principals of the Manager and Power Systems have over 45 years of collective experience in the development and operation of independent hydroelectric power facilities in Canada and the United States. Pursuant to the Management Agreement, the Manager provides the Fund Businesses with executive management and other services and will also provide such services to the additional Fund Businesses which own or will own the Additional Facilities. On Closing, the Management Agreement will be amended to: (i) provide the Manager with an additional quarterly fee of $US13,160; (ii) increase the fee paid to the Manager based on total energy production by approximately $US52,630 per annum; and (iii) adjust the parameters utilized in the calculation of the fee based on increases in Distributable Cash. Pursuant to the Operations Supervisory Agreement, Power Systems provides Algonquin Canada with certain operations related services for the Existing Facilities. Power Systems will also provide operations related services for the Additional Facilities. On Closing, the Operations Supervisory Agreement will be amended to provide an additional quarterly fee of $12,500 (paid as to $US8,770) as consideration for these services. Power Systems will also have direct operations agreements with certain of the Fund Businesses relating to the Additional Facilities and is expected to receive $1.2 million for the 12 month period commencing July 1, 1998 to June 30, 1999 for providing such services. See ''Governance, Management and Operations'' — ''Management Agreement'', ''Operations Supervisory Agreement'' and ''Direct Operations Agreements''.
Corporate Governance:	The Fund has three trustees, all of whom are independent of the Manager. The trustees supervise the investment activities and manage the affairs of the Fund. Pursuant to the Governance Agreement, the Manager is entitled to nominate two of Algonquin Canada's three directors, with the other director being nominated by the Fund. The Manager's nominees may be removed by the Fund in certain circumstances including if: (i) the boards of directors of the corporate Fund Businesses fail to adhere to their respective distribution policies; (ii) an offer is made for 100% of the Trust Units and the offeror obtains more than 50% of the Trust Units; (iii) a change of control of the Manager occurs (other than a change of control to which the Fund consents); and (iv) the Management Agreement expires or is terminated. See ''Governance, Management and Operations'' — ''Governance Agreement''.
Distribution Policy:	The Declaration of Trust provides that the amount of cash to be distributed annually per Trust Unit will be equal to a pro rata share of interest, lease payments, dividend income and other income or return of capital received by the Fund in the year, less, among other things, expenses of the Fund. Quarterly distributions will be due and payable to Unitholders of record as of the last day of each calendar quarter and are expected to be received by Unitholders on or about the 15th day of January, April, July and October. On June 11, 1998, the Trustees announced a special distribution of Distributable Cash in the amount of $0.235 per Trust Unit payable to Unitholders of record on June 23, 1998. Such special distribution will be made in lieu of the regular distribution for the quarter ending June 30, 1998. Subscribers for Trust Units pursuant to this offering will not participate in such special distribution. The distribution next following such special distribution will be the distribution to be paid on October 15, 1998 to Unitholders of record on September 30, 1998. See ''Description of the Fund'' — ''Distributions''.

The policy of the Fund and certain of the Fund Businesses will be to distribute all available cash, subject to retaining appropriate working capital reserves. See ''Share and Loan Capital''.

Eligibility for Investment: At the date of this prospectus, the Trust Units are, subject to certain assumptions, limitations and restrictions, qualified investments for Plans and are not foreign property within the meaning of the *Income Tax Act* (Canada). The Trust Units are not precluded as investments under certain other statutes. See ''Eligibility for Investment'' and ''Canadian Federal Income Tax Considerations''.

Risk Factors: Investment in the Trust Units is subject to a number of risks, including: (i) Trust Units may not continue to be qualified investments for certain trusts or plans if the Fund ceases to qualify as a mutual fund trust; (ii) cash distributions to Unitholders will be dependent upon the ability of each of the Fund Businesses to pay its interest obligations and to declare and pay dividends or distributions in respect of its shares or partnership interests, as applicable; (iii) there can be no assurances that all of the Acquisitions will be completed; (iv) long-term profitability of the Fund Businesses is dependent upon a continuation of a favourable regulatory climate; (v) costs of compliance with environmental safety legislation; (vi) equipment failures; (vii) fluctuations in energy prices; (viii) labour relations issues; (ix) Unitholders will be dependent upon the Manager and Power Systems in respect of the management and operation of the Fund Businesses' facilities and there is the potential for conflicts of interest; (x) dependence upon key customers; (xi) delays in cash distributions; (xii) the nature of the Trust Units; (xiii) potential loss of limited liability for Unitholders; (xiv) uncertainty concerning the market for Trust Units; (xv) climate; (xvi) fluctuations in exchange rates; (xvii) defaults under credit agreements; (xviii) certain construction liens have been registered against the Long Sault Rapids Facility; (xix) failure to complete construction of the Rattle Brook Facility; (xx) tax risks; (xxi) issuances of additional Trust Units; and (xxii) dilution. See ''Risk Factors''.

Tax Considerations: Each Unitholder is required to include in computing income for a particular taxation year, the Unitholder's pro-rata share of the Fund's income for tax purposes that was paid or payable in that year by the Fund to the Unitholder. Generally, all other amounts received by Unitholders will reduce the adjusted cost base of a Unitholder's Trust Units. The Manager anticipates that a substantial portion of the annual distributions during the next two taxation years of the Fund will not be taxable to Unitholders and will be required to be deducted from the adjusted cost base of their Trust Units.

Prospective purchasers should consult their tax advisors regarding the tax implications of an investment in Trust Units. See ''Canadian Federal Income Tax Considerations''.

Summary of Financial Forecast

The following table sets out selected forecast consolidated financial data of the Fund and has been derived from the Consolidated Statements of Forecast Net Earnings and Forecast Distributable Cash of the Fund and the notes and assumptions thereto contained in this prospectus.

Some of the assumptions used in the preparation of the forecast, although considered reasonable by the Manager at the time of preparation, inevitably, will not materialize as forecast and unanticipated events and circumstances will occur subsequent to the date of the forecast. Accordingly, there is a significant risk that the actual results achieved for the forecast period will vary from the forecast results and the variations may be material. There is absolutely no representation that the financial forecast will be realized in whole or in part. Important factors that could cause actual results to differ materially from the forecast are disclosed under "Risk Factors".

Selected Algonquin Power Income Fund Forecast Information

	Six Months Ending December 31, 1998	**Six Months Ending June 30, 1999**	**Tweleve Months Ending June 30, 1999**
	(Forecast)	(Forecast)	(Forecast)
	(thousands of dollars, except per Trust Unit amounts)		
Revenues	$7,518	$8,356	$15,874
Expenses	3,022	3,229	6,251
Earnings before interest and income taxes	4,496	5,127	9,623
Interest expense	128	129	257
Earnings before income taxes	4,368	4,998	9,366
Income taxes	446	972	1,418
Net earnings	3,922	4,026	7,948
Add:			
Non-cash items and other distributions	2,963	5,466	8,429
Deduct:			
Deferred payments	1,384	1,604	2,988
Distributable Cash for the period	5,501	7,888	13,389
Distributable Cash per Trust Unit	$ 0.39	$ 0.56	$ 0.95

GLOSSARY

In this prospectus, unless the context otherwise requires:

‘‘**Acquisitions**’’ means the subscription by Algonquin Canada, through the Trust Company, for the SLI Saint-Alban Note and the SLI Rawdon Note, subscription by Algonquin Canada for the Glenford Note, Algonquin Canada’s entering into of the Glenford Option Agreement and the acquisition by Algonquin Canada of the Glenford Shares, and the Rattle Brook Shares and the acquisition by Algonquin America, directly or indirectly, of the Avery Dam Interest, the Burt Dam Interest, the Hadley Falls Interest, the Hollow Dam Interest, the HDI III Interest, the Lakeport Shares and the Moretown Interest;

‘‘**Acquisition Corp.**’’ means Algonquin Power Fund Acquisition Inc., a Delaware corporation wholly owned by Algonquin Power;

‘‘**Additional Facilities**’’ means the following hydroelectric generating facilities: Saint-Alban, Glenford, Rawdon, Rattle Brook, Lower Robertson, Ashuelot, Avery Dam, Hadley Falls, Lakeport, Moretown, Burt Dam and Hollow Dam;

‘‘**Administration Agreement**’’ means the agreement between the Manager and the Fund dated December 23, 1997, pursuant to which the Manager provides administrative services to the Fund;

‘‘**Advance Payment Account**’’ means a provision in the power purchase agreements between Niagara Mohawk and Trafalgar in respect of the Kayuta Lake facility and the Adams facility which tracks the amounts paid to Trafalgar from these two facilities which is either above or below Niagara Mohawk’s actual Avoided Costs. Payments to Trafalgar above the Avoided Costs results in a positive balance to the account and a payment below the Avoided Costs results in a negative balance to the account. At the end of the contract period, a positive balance results in Trafalgar owing Niagara Mohawk the balance and a negative balance results in Niagara Mohawk owing Trafalgar the balance;

‘‘**affiliate**’’ means an affiliate within the meaning of the *Securities Act* (Ontario);

‘‘**Algonquin America**’’ means Algonquin Power Fund (America) Inc., a Delaware corporation wholly owned by Algonquin Canada;

‘‘**Algonquin America Holdco**’’ means Algonquin Power Fund (America) Holdco Inc., a Delaware corporation wholly owned by Algonquin America;

‘‘**Algonquin America Shares**’’ means common shares of Algonquin America;

‘‘**Algonquin Canada**’’ means Algonquin Power Fund (Canada) Inc., an Ontario corporation wholly owned by the Fund;

‘‘**Algonquin Canada Shares**’’ means common shares of Algonquin Canada;

‘‘**Algonquin Holdco**’’ means Algonquin Power U.S. Holdings, Inc., a Delaware corporation wholly owned by Algonquin Power;

‘‘**Algonquin LSR Companies**’’ means Algonquin Power (Long Sault) Corporation Inc., an Ontario corporation, and Energy Acquisition (Long Sault) Inc., an Ontario corporation;

‘‘**Algonquin Note**’’ means the 9.25% secured, subordinated note due January 1, 2005 of Algonquin Power in the original principal amount of approximately $7.9 million issued by Algonquin Power to the Fund on December 23, 1997;

‘‘**Algonquin Power**’’ means Algonquin Power Corporation Inc., an Ontario corporation;

‘‘**Algonquin Power (Long Sault) Partnership**’’ means the partnership formed between the Algonquin LSR Companies, which partnership owns a 50% undivided interest in the Long Sault Rapids Facility;

‘‘**Ashuelot Facility**’’ means the 900 kilowatt hydroelectric generating facility located on the Ashuelot River approximately 0.2 kilometres upstream of the Highway bridge at Hinsdale, New Hampshire and which is owned by the HDI III Partnership;

‘‘**associate**’’ means an associate within the meaning of the *Securities Act* (Ontario);

‘‘**Avery Dam Facility**’’ means the 260 kilowatt hydroelectric generating facility located on the Winnipesaukee River near the City of Laconia, New Hampshire and which is owned by the Avery Dam Partnership;

‘‘**Avery Dam Interest**’’ means all issued and outstanding partnership interests in the Avery Dam Partnership which owns the Avery Dam Facility;

‘‘**Avery Dam Partnership**’’ means Avery Hydroelectric Associates, a New Hampshire limited partnership currently comprised of Robert A. Finlayson, Irvin W. Tolles and Avery Hydro Corp. and which owns the Avery Dam Facility;

‘‘**Avoided Costs**’’ means costs a utility does not incur to add new generating capacity to the system by purchasing electricity from an independent or parallel generator;

‘‘**Belleterre**’’ means BCL Energy (Belleterre) Inc., a corporation incorporated under the laws of Canada and wholly owned by Algonquin Canada;

‘‘**Belleterre Facility**’’ means the 2,200 kilowatt hydroelectric generating facility located on the Winneway River, in the Municipality of Laforce, Québec and which is owned by Belleterre;

‘‘**Belleterre Facility Equipment**’’ means the equipment relating to the Belleterre Facility and related personal property, but does not include the real property on which the equipment is located or any other immoveables;

‘‘**Belleterre Facility Lease**’’ means the lease agreement dated February 3, 1998 pursuant to which the Fund leases the Belleterre Facility Equipment to Belleterre;

‘‘**Burt Dam Partnership**’’ means Burt Dam Power Company, a New York general partnership currently comprised of Lavalin Hydro Corporation and Warnock Hersey International, Inc., and which owns the Burt Dam Facility;

‘‘**Burt Dam Facility**’’ means the 600 kilowatt hydroelectric generating facility located on the Eighteen Mile Creek in the Town of Newfane, New York and which is owned by the Burt Dam Partnership;

‘‘**Burt Dam Interest**’’ means all issued and outstanding partnership interests in the Burt Dam Partnership which owns the Burt Dam Facility;

‘‘**Business Corporations Act**’’ means the *Business Corporations Act* (Ontario);

‘‘**business day**’’ means any day that is not a Saturday, Sunday or civic or statutory holiday in Ontario;

‘‘**Canada Note**’’ means the 9% secured, subordinated note due December 31, 2037 of Algonquin Canada in the original principal amount of approximately $22.4 million issued by Algonquin Canada to the Fund on December 23, 1997;

‘‘**Canada Note Indenture**’’ means the note indenture between Algonquin Canada and CIBC Mellon Trust Company dated December 23, 1997 which governs the terms of the Canada Note;

‘‘**Canada 1998 Note**’’ means the 6% secured, subordinated note due on June 30, 2038 of Algonquin Canada in the principal amount of $11.3 million to be issued by Algonquin Canada to the Fund on Closing;

‘‘**Closing**’’ means the closing of this offering, which is expected to occur on or about July 7, 1998, but may occur on such other date as may be agreed between the Manager, the Fund and the Underwriters, but in any event not later than July 30, 1998;

‘‘**Closing Termination Date**’’ means the date which is 180 days after the date of Closing;

‘‘**Construction Services Inc.**’’ means the Ontario corporation acting as general contractor for the design-build construction of the Rattle Brook Facility on behalf of the Rattle Brook Partnership and which corporation is wholly owned by Algonquin Power;

‘‘**Co-Owners**’’ means Algonquin Power (Long Sault) Partnership, an Ontario partnership, and N-R Power Partnership, an Ontario partnership, the co-owners of the Long Sault Rapids Facility;

‘‘**DBRS**’’ means the Dominion Bond Rating Service;

‘‘**Declaration of Trust**’’ means the declaration of trust dated as of September 8, 1997, as the same may be amended, supplemented or restated from time to time, pursuant to which the Fund was created;

‘‘**Distributable Cash**’’ means all amounts received by the Fund in respect of dividends or return of capital on the Algonquin Canada Shares and interest or repayment of principal on the Fund Notes, lease payments pursuant to the Leases, payments pursuant to the LSR Royalty Interests, plus the income, if any, from other permitted investments, less amounts that may be paid by the Fund in connection with any cash redemptions of Trust Units, capitalized interest with respect to the Fund Notes and amounts reasonably required for the business and operations of the Fund;

‘‘**Donnacona Facility**’’ means the 4,800 kilowatt hydroelectric generating facility located on the lower portion of the Jacques Cartier River, near the Town of Donnacona, Québec and which facility is owned by the Donnacona Partnership;

‘‘**Donnacona Facility Equipment**’’ means certain equipment relating to the Donnacona Facility and related personal property, but does not include the real property on which the equipment is located or any other immoveables;

‘‘**Donnacona Facility Lease**’’ means the lease agreement dated November 30, 1997 pursuant to which the Fund leases the Donnacona Facility Equipment to the Donnacona Partnership;

‘‘**Donnacona Holdco**’’ means Donnacona Holdings Inc., an Ontario Corporation wholly owned by Algonquin Canada and which owns a 0.01% interest in the Donnacona Partnership;

‘‘**Donnacona Partnership**’’ means Société Hydro-Donnacona S.E.N.C., a Québec general partnership currently comprised of Algonquin Canada holding a 99.99% interest and its wholly owned subsidiary, Donnacona Holdco, holding a 0.01% interest;

‘‘**Existing Facilities**’’ means the following hydroelectric generating facilities: Long Sault Rapids, Glen Miller Dam, Hurdman Dam, Drag Lake Dam, Burgess Dam, Donnacona, Ste-Brigitte, Belleterre, Ogdensburg, Forestport, Herkimer, Christine Falls, Cranberry Lake, Kayuta Lake, Adams, Lochmere and Hopkinton;

‘‘**Extraordinary Resolution**’’ means a resolution passed by a majority of not less than 66⅔% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66⅔% of the Trust Units entitled to be voted on such resolutions;

‘‘**Fund**’’ means the Algonquin Power Income Fund, an unincorporated open ended trust established under the laws of Ontario;

‘‘**Fund Assets**’’ means the Algonquin Canada Shares, the Fund Notes, the Lease Payment Rights, the LSR Royalty Interests and any other securities or assets held by the Fund from time to time;

‘‘**Fund Businesses**’’ means the businesses carried on by Algonquin Canada, Algonquin America, the Donnacona Partnership, the Nicholls LSR Companies, the Algonquin LSR Companies, the Co-Owners, the HDI Partnership, the Glenford Partnership, the Rattle Brook Partnership, the Avery Dam Partnership, the Burt Dam Partnership, the Hadley Falls Partnership, the HDI III Partnership, the Hollow Dam Partnership, the Lakeport Corporation, the Moretown Partnership and any other business a subsidiary of the Fund may acquire or any other business carried on by a corporation, the shares of which the Fund acquires;

‘‘**Fund Notes**’’ means the Canada Note, the US Note, the Canada 1998 Note, the US 1998 Note, the LSR Subordinate Note, the Algonquin Note and the Trafalgar Class B Note;

‘‘**gigawatt hour**’’ or ‘‘**GW-hr**’’ means 1 million kilowatt hours of electrical energy;

‘‘**Glenford Facility**’’ means the 4,950 kilowatt hydroelectric generating facility located on the Ste-Anne River near the Village of Ste-Christine d’Auvergne, Québec and which is owned by the Glenford Partnership;

‘‘**Glenford Interest**’’ means the general partnership interest currently held in the Glenford Partnership by Algonquin Power and which interest entitles the holder thereof to 99.99% of the cash distributions and income allocations from the Glenford Partnership;

‘‘**Glenford Minority Inc**.’’ means an Ontario corporation which is currently wholly owned by Algonquin Power and which holds a 0.01% limited partnership interest in the cash distributions and income allocations from the Glenford Partnership;

‘‘**Glenford Note**’’ means the 8.5% secured, subordinated note due July 1, 2023 of Algonquin Power in the principal amount of approximately $5.0 million to be issued to Algonquin Canada promptly following Closing;

‘‘**Glenford Partnership**’’ means Société en Commandite Chute Ford, a limited partnership formed under the laws of Québec currently comprised of Algonquin Power and Glenford Minority Inc.;

‘‘**Glenford Senior Debt**’’ means financing in the outstanding principal amount of approximately $6.1 million provided by Corpfinance International Limited to the Glenford Partnership;

‘‘**Glenford Shares**’’ means all issued and outstanding common shares in Glenford Minority Inc.;

‘‘**Governance Agreement**’’ means the agreement entered into on December 23, 1997 between the Fund, the Manager, Algonquin Canada and Algonquin America dealing with the composition of the board of directors of Algonquin Canada and other matters;

‘‘**Hadley Falls Partnership**’’ means Hadley Falls Associates, a New Hampshire limited partnership currently comprised of Robert A. Finlayson and Irvin W. Tolles and which owns the Hadley Falls Facility;

‘‘**Hadley Falls Facility**’’ means the 250 kilowatt hydroelectric generating facility located at the Hadley Falls Dam near the Town of Goffstown, New Hampshire and which is owned by the Hadley Falls Partnership;

‘‘**Hadley Falls Interest**’’ means all issued and outstanding partnership interests in the Hadley Falls Partnership which owns the Hadley Falls Facility;

‘‘**HDI Partnership**’’ means HDI Associates I, an Indiana general partnership currently comprised of Algonquin America and Algonquin America Holdco, which owns the Lochmere Facility and the Hopkinton Facility;

‘‘**HDI III Interest**’’ means all of the issued and outstanding partnership interests in the HDI III Partnership which owns the Lower Robertson Facility and the Ashuelot Facility;

‘‘**HDI III Partnership**’’ means HDI Associates III, a New Hampshire limited partnership currently comprised of James O’Connor, David Russell and HDI Hinsdale, Inc. and which owns the Lower Robertson Facility and the Ashuelot Facility;

‘‘**Hollow Dam Facility**’’ means the 900 kilowatt hydroelectric generating facility located on the West Branch of the Oswegatchie River in the Town of Fowler, New York and which is owned by the Hollow Dam Partnership;

‘‘**Hollow Dam Interest**’’ means all issued and outstanding partnership interests in the Hollow Dam Partnership which owns the Hollow Dam Facility;

‘‘**Hollow Dam Partnership**’’ means Hollow Dam Power Company, a New York general partnership currently comprised of Lavalin Hydro Corporation and Warnock Hersey International, Inc. and which owns the Hollow Dam Facility;

‘‘**Hopkinton Facility**’’ means the 250 kilowatt hydroelectric generating facility located on the Contoocook River in the Village of Contoocook, New Hampshire and which generating facility is owned by the HDI Partnership;

‘‘**kilowatt hour**’’ or ‘‘**kW-hr**’’ means an hour during which one kilowatt of electrical energy has been continuously produced;

‘‘**kilowatts**’’ or ‘‘**kW**’’ means 1,000 watts of electrical power;

‘‘**Lakeport Corporation**’’ means Lakeport Hydroelectric Corporation, an S Corporation under United States law whose shareholders are Robert A. Finlayson and Irvin W. Tolles and which owns the Lakeport Facility;

‘‘**Lakeport Facility**’’ means the 600 kilowatt hydroelectric generating facility located on the Winnipesaukee River near the Town of Lakeport, New Hampshire and which is owned by the Lakeport Corporation;

‘‘**Lakeport Shares**’’ means all issued and outstanding common shares of the Lakeport Corporation which owns the Lakeport Facility;

‘‘**Leases**’’ means the Donnacona Facility Lease, the Ste-Brigitte Facility Lease and the Belleterre Facility Lease;

‘‘**Lease Payment Rights**’’ means the right to receive a pro rata share of future net lease payments under the Leases and net future proceeds from a disposition of the Donnacona Facility Equipment, the Ste-Brigitte Facility Equipment and/or the Belleterre Facility Equipment;

‘‘**Lochmere Facility**’’ means the 1,200 kilowatt hydroelectric generating facility located on the Winnipesaukee River, in the Village of Lochmere, New Hampshire and which facility is owned by the HDI Partnership;

‘‘**Long Sault Rapids Facility**’’ means the 18,000 kilowatt hydroelectric generating facility located on the Abitibi River, near the Town of Cochrane, Ontario and which facility is owned by the Co-Owners;

‘‘**Lower Robertson Facility**’’ means the 960 kilowatt hydroelectric generating facility located on the Ashuelot River approximately one kilometre upstream of the Highway bridge at Hinsdale, New Hampshire and which is owned by the HDI III Partnership;

‘‘**LSR Algonquin Note**’’ means the 9% secured, subordinated note due January 1, 2038 of Algonquin Power in the principal amount of approximately $10.3 million issued to Algonquin Canada on April 17, 1998;

‘‘**LSR Algonquin Shares**’’ means such number of the issued and outstanding shares of the Algonquin LSR Companies so as to entitle the holder indirectly to 90% of the Algonquin LSR Companies’ interest in the Algonquin Power (Long Sault) Partnership;

‘‘**LSR Brace Royalty Interest**’’ means the cash flows generated by the Long Sault Rapids Facility paid pursuant to an agreement dated November 1, 1989, as amended November 2, 1989, between N-R Power, Nirabro Industries Ltd., Mr. Tim Richardson and Mr. John Brace respecting certain payments to be paid for ten years commencing April 1, 1998, which obligation was assigned by N-R Power to the Co-Owners and which was acquired by the Fund on April 17, 1998;

‘‘**LSR McKenzie Royalty Interest**’’ means the cash flows generated by the Long Sault Rapids Facility paid pursuant to an agreement dated September 12, 1994 between N-R Power and Mr. Rodney S. McKenzie respecting payments of $150,000 per year payable in arrears for a period of 20 years commencing April 1, 1998, which obligation was assigned by N-R Power to the Co-Owners and which was acquired by the Fund on April 17, 1998;

‘‘**LSR Nicholls Note**’’ means the 9% secured, subordinated note due January 1, 2038 of N-R Power in the principal amount of approximately $6.6 million issued to Algonquin Canada on April 17, 1998;

‘‘**LSR Nicholls Shares**’’ means such number of the issued and outstanding shares of the Nicholls LSR Companies so as to entitle the holder indirectly to 25% of the Nicholls LSR Companies’ interest in the N-R Power Partnership;

‘‘**LSR Richardson Royalty Interest**’’ means the cash flows generated by the Long Sault Rapids Facility paid pursuant to an agreement dated December 11, 1992 between N-R Power and Mr. Tim Richardson respecting payments of $83,333 per year payable in arrears for a period of six years commencing April 1, 1998, which obligation was assigned by N-R Power to the Co-Owners and which was acquired by the Fund on April 17, 1998;

‘‘**LSR Senior Debt**’’ means financing in the principal amount of approximately $45,000,000 provided jointly and severally to Algonquin Power (Long Sault) Partnership and N-R Power Partnership as co-owners of the Long Sault Rapids Facility by a syndicate of life insurance lenders, with The Mutual Life Assurance Company of Canada as one of the lenders and acting as agent for the other lenders;

‘‘**LSR Royalty Interests**’’ means the LSR Brace Royalty Interest, the LSR McKenzie Royalty Interest and the LSR Richardson Royalty Interest, all acquired by the Fund on April 17, 1998;

‘‘**LSR Subordinate Note**’’ means the 14.14% secured, subordinated note issued jointly and severally by Algonquin Power (Long Sault) Corporation Inc., Energy Acquisition (Long Sault) Inc., Nicholls Holdings Inc. and Radtke Holdings Inc. and acquired by the Fund on April 17, 1998;

‘‘**Management Agreement**’’ means the agreement between the Manager, Algonquin Canada, Algonquin America and certain of the Fund Businesses, entered into on December 23, 1997, and as such will be amended on

Closing, and pursuant to which the Manager or its delegate provides management services to Algonquin Canada and certain other Fund Businesses;

''**Manager**'' means Algonquin Management Inc., an Ontario corporation wholly owned by the shareholders of Algonquin Power;

''**Marsh Facilities**'' means the following hydroelectric generating facilities: the Glen Miller Dam, Hurdman Dam and Drag Lake Dam;

''**megawatt hour**'' or ''**MW-hr**'' means 1,000 kilowatt hours of electrical energy;

''**Moretown Partnership**'' means Moretown Hydro Energy Company, a Vermont partnership comprised of Edwin F. Slowick, and his son Thomas R. Slowick and which owns the Moretown Facility;

''**Moretown Facility**'' means the 1,200 kilowatt hydroelectric generating facility located on the Mad River near the Town of Moretown, Vermont and which is owned by the Moretown Partnership;

''**Moretown Interest**'' means all issued and outstanding partnership interests in the Moretown Partnership which owns the Moretown Facility;

''**Net Proceeds**'' means approximately $59.1 million, the estimated net proceeds of this offering, after deducting the Underwriters' fees and estimated expenses of this offering;

''**Newfoundland Development**'' means the Rattle Brook Facility;

''**New England Development**'' means the Moretown Facility, the Lochmere Facility, the Lower Robertson Facility, the Ashuelot Facility, the Lakeport Facility, the Avery Dam Facility, the Hopkinton Facility and the Hadley Falls Facility;

''**New York Development**'' means the following hydroelectric generating facilities: Ogdensburg, Forestport, Herkimer, Christine Falls, Cranberry Lake, Hollow Dam, Kayuta Lake, Burt Dam and Adams;

''**NHPUC**'' means the New Hampshire Public Utilities Commission;

''**Niagara Mohawk**'' means Niagara Mohawk Power Corporation;

''**Nicholls LSR Companies**'' means Nicholls Holdings Inc., an Ontario corporation, and Radtke Holdings Inc., an Ontario corporation;

''**N-R Power**'' means N-R Power & Energy Corp., an Ontario corporation;

''**N-R Power Partnership**'' means the partnership formed between the Nicholls LSR Companies, which partnership owns a 50% undivided interest in the Long Sault Rapids Facility;

''**Off-peak**'' means hours other than On-peak hours;

''**On-peak**'' means hours between 7:00 a.m. and 11:00 p.m., local time, Monday to Friday, inclusive, but excluding public holidays;

''**Ontario Development**'' means the following hydroelectric generating facilities: Long Sault Rapids, Glen Miller Dam, Hurdman Dam, Drag Lake Dam and Burgess Dam;

''**Operations Supervisory Agreement**'' means the agreement between Algonquin Canada and Power Systems entered into on December 23, 1997 and pursuant to which Power Systems provides operations and supervisory services to certain of the Fund Businesses;

''**Plan**'' means a trust governed by a registered retirement savings plan, registered retirement income fund or deferred profit sharing plan, as defined in the Tax Act, and ''Plans'' has a corresponding meaning;

''**Power Systems**'' means Algonquin Power Systems Inc., an Ontario corporation wholly owned by Algonquin Power;

''**PSNH**'' means Public Service Company of New Hampshire, a large, investor-owned utility;

‘‘**Québec Development**’’ means the Saint-Alban Facility, the Donnacona Facility, the Ste-Brigitte Facility, the Rawdon Facility, the Glenford Facility and the Belleterre Facility;

‘‘**Rattle Brook Acquisition Amount**’’ means the portion of the Net Proceeds required to acquire the Rattle Brook Shares;

‘‘**Rattle Brook Commissioning Certificate**’’ means the certificate issued by the independent engineer for the Rattle Brook Facility confirming that construction of such facility is substantially complete and is on-line delivering electrical energy to Newfoundland and Labrador Hydro. The certificate will only be issued if, in addition, the Trustees are satisfied that: (i) all required project documentation and other governing documents have been obtained and are in good standing and in full force and effect; (ii) a legal opinion has been obtained which confirms that all necessary real property rights have been acquired and are free of encumbrances; (iii) there are no regulatory or court proceedings pending that would have a material adverse effect upon the facility; and (iv) all contractors and subcontractors have been paid in full or satisfactory arrangements have been made to satisfy any outstanding obligations in respect of same;

‘‘**Rattle Brook Completion Amount**’’ means the sum of approximately $249,000 to be held by the Fund subsequent to Closing and invested in securities with at least ‘‘R-1 (low)’’ short-term debt rating by DBRS to fund the payment, as part of Distributable Cash, of certain distributions to Unitholders during the period of time estimated to be required to complete the Rattle Brook Facility; such sum being the expected contribution to Distributable Cash that would have been available from the Rattle Brook Facility in respect of the Rattle Brook Shares had such facility been operational during the period from Closing until January 31, 1999;

‘‘**Rattle Brook Facility**’’ means the 4,000 kilowatt hydroelectric generating facility located on the Rattle Brook, near the Village of Jackson’s Arm, Newfoundland and which is owned by the Rattle Brook Partnership;

‘‘**Rattle Brook Interest**’’ means the partnership interest which entitles the holder thereof to 45% of the cash distributions and income allocations from the Rattle Brook Partnership;

‘‘**Rattle Brook Partnership**’’ means the Algonquin Power (Rattle Brook) Partnership, a Newfoundland partnership currently comprised of Algonquin Power Corporation (Rattle Brook) Inc., wholly owned by the shareholders of Algonquin Power, and 10640 Newfoundland Limited, wholly owned by TD Capital Group Limited;

‘‘**Rattle Brook Release Date**’’ means the date on which the Fund receives the Rattle Brook Commissioning Certificate and utilizes the Rattle Brook Acquisition Amount in respect of the indirect acquisition of certain interests in the Newfoundland Development;

‘‘**Rattle Brook Shares**’’ means all issued and outstanding common shares of 10640 Newfoundland Limited, a Newfoundland corporation which holds the Rattle Brook Interest;

‘‘**Rawdon Facility**’’ means the 2,500 kilowatt hydroelectric generating facility located on the Ouareau River approximately one kilometre from the Village of Rawdon, Québec and which is owned by SLI;

‘‘**Rawdon Transfer Date**’’ means the date upon which the title of the leasehold interest may be transferred to Algonquin Canada in accordance with the terms of the lease and which is expected to occur on or about June, 1999;

‘‘**Record Dates**’’ means the last day of each calendar quarter in each year and such additional dates as may be fixed by the Trustees;

‘‘**run-of-the-river**’’ means a mode of operation of a hydroelectric generating facility where there is a continuous discharge of water from the facility with no storage and release of water;

‘‘**Saint-Alban Facility**’’ means the 8,200 kilowatt hydroelectric generating facility located on the Ste-Anne River approximately one kilometre from the Village of Saint-Alban, Québec and which is owned by SLI;

‘‘**Saint-Alban Transfer Date**’’ means the date upon which the title of the leasehold interest may be transferred to Algonquin Canada in accordance with the terms of the lease and which is expected to occur on or about May, 2001;

''**SLI**'' means SNC-Lavalin Inc., a Canadian corporation which owns the Saint-Alban Facility, the Rawdon Facility and indirectly owns the Hollow Dam Facility and the Burt Dam Facility;

''**SLI Saint-Alban Note**'' means the secured note due on the Saint-Alban Transfer Date of SLI in the principal amount of approximately $15.0 million to be issued to the Trust Company acting on behalf of Algonquin Canada contemporaneously with the Closing;

''**SLI Rawdon Note**'' means the secured note due on the Rawdon Transfer Date of SLI in the principal amount of approximately $7.5 million to be issued to the Trust Company acting on behalf of Algonquin Canada contemporaneously with the Closing;

''**Ste-Brigitte**'' means BCL Energy (Ste-Brigitte) Inc., a corporation incorporated under the laws of Canada and wholly owned by Algonquin Canada;

''**Ste-Brigitte Facility**'' means the 4,200 kilowatt hydroelectric generating facility located on the Nicolet River, in the Municipality of Ste-Brigitte-des-Saults, Québec and which is owned by Ste-Brigitte;

''**Ste-Brigitte Facility Equipment**'' means the equipment relating to the Ste-Brigitte Facility and related personal property, but does not include the real property on which the equipment is located or any other immoveables;

''**Ste-Brigitte Facility Lease**'' means the lease agreement dated November 30, 1997 pursuant to which the Fund leases the Ste-Brigitte Facility Equipment to Ste-Brigitte;

''**Stranded Costs**'' means costs incurred by a utility during the normal course of business prior to deregulation that can no longer be paid by the rate base due to changes to various factors, including price, the economy, system requirements, government policies and technology;

''**Tax Act**'' means the *Income Tax Act* (Canada);

''**Trafalgar**'' means Trafalgar Power, Inc., a Delaware corporation;

''**Trafalgar Class A Note**'' means the 9.75% secured note due February 10, 2003 jointly and severally of the Trafalgar Companies in the principal amount of approximately $8.5 million (US$5.9 million) as at December 31, 1997;

''**Trafalgar Class B Note**'' means the 6.10% secured, subordinated note due December 31, 2010 jointly and severally of the Trafalgar Companies in the principal amount of approximately $21.8 million (US$15.8 million);

''**Trafalgar Companies**'' means Trafalgar and Christine Falls Corporation, a New York corporation;

''**Trafalgar Contingency Participation**'' means the contingent management fee paid to the operator of the New York Facilities pursuant to the Trafalgar Operations Contract and the Trafalgar Indenture.

''**Trafalgar Indenture**'' means the collateral trust indenture between the Trafalgar Companies and a security trustee dated July 1, 1988, as amended and restated on January 15, 1996, which governs the terms of the Trafalgar Class A Note and the Trafalgar Class B Note, among other things;

''**Trafalgar Facilities**'' means the following hydroelectric generating facilities: Ogdensburg, Forestport, Herkimer, Christine Falls, Cranberry Lake, Kayuta Lake and Adams;

''**Trafalgar Operating Cashflow**'' means the cash flows generated from the operation of the New York Facilities after payment of direct operating costs, including, without limitation, property taxes, supplies and consumables and amounts due to Algonquin Power under the Trafalgar Operations Contract, prior to deduction of amounts payable in respect of the Trafalgar Contingency Participation;

''**Trafalgar Operations Contract**'' means the agreement dated January 15, 1996 between Algonquin Power and the Trafalgar Companies, pursuant to which Algonquin Power provides operations and management services for the Ogdensburg, Forestport, Herkimer, Christine Falls, Cranberry Lake, Kayuta Lake and Adams facilities;

''**Trafalgar Operations Subcontract**'' means the agreement dated December 23, 1997 between Algonquin Power and Algonquin Canada, pursuant to which Algonquin Canada provides those services to be provided by Algonquin Power in connection with the operation of the Ogdensburg, Forestport, Herkimer, Christine Falls, Cranberry Lake, Kayuta Lake and Adams facilities under the Trafalgar Operations Contract;

“**Trust Company**” means National Bank of Canada, a Canadian chartered bank which will hold certain security interests on behalf of Algonquin Canada in respect of the Saint-Alban Facility and the Rawdon Facility;

“**Trust Units**” means units of the Fund, each unit representing an equal undivided beneficial interest in the Fund;

“**Trustee**” means a trustee of the Fund from time to time;

“**Underwriters**” means Lévesque Beaubien Geoffrion Inc., Nesbitt Burns Inc., CIBC Wood Gundy Securities Inc., Midland Walwyn Capital Inc. and ScotiaMcLeod Inc.;

“**Underwriting Agreement**” means the agreement dated June 25, 1998 between the Fund and the Underwriters pursuant to which the Fund has agreed to issue and sell and the Underwriters have agreed to purchase all of the Trust Units qualified hereunder;

“**Unitholders**” means the holders of Trust Units from time to time;

“**US Note**” means the 11% secured, subordinated note due December 31, 2037 of Algonquin America in the aggregate principal amount of approximately $2.7 million (US$1.9 million) issued by Algonquin America to the Fund on December 23, 1997;

“**US Note Indenture**” means the note indenture between Algonquin America and CIBC Mellon Trust Company dated December 23, 1997 which governs the terms of the US Note; and

“**US 1998 Note**” means the 11% secured, subordinated note due June 30, 2038 of Algonquin America in the aggregate principal amount of US$9.8 million to be issued by Algonquin America to the Fund.

EXCHANGE RATES

In this prospectus, references to ''dollars'' and ''$'' are to Canadian dollars and references to ''US$'' are to United States dollars. The following table reflects the rate of exchange for a Canadian dollar per US$1.00 in effect at the end of the following periods, the high and low rate of exchange during such periods and the average rate of exchange for such periods, based on the noon buying rate certified by the Federal Reserve Bank of New York for customs purposes in New York City for cable transfers in Canadian dollars.

	January-April 1998	Year Ended December 31 1997	1996	1995	1994	1993
	(Canadian dollars)					
High	$1.4628	$1.4386	$1.3822	$1.4238	$1.4078	$1.3443
Low	$1.4067	$1.3384	$1.3310	$1.3285	$1.3103	$1.2428
Average for the Period(1)	$1.4294	$1.3885	$1.3644	$1.3689	$1.3699	$1.2939
End of Period	$1.4305	$1.4326	$1.3697	$1.3655	$1.4030	$1.3255

Note:

(1) The average for the period was calculated by averaging the noon buying rate on the last business day of each month during the relevant period.

On June 24, 1998, the noon buying rate in United States dollars certified by the Federal Reserve Bank of New York was US$1.00 = Cdn$1.4683.

Wherever possible, United States dollar amounts have been converted to Canadian dollars based on an exchange rate of US$1.00 = Cdn$1.425.

ALGONQUIN POWER INCOME FUND

Algonquin Power Income Fund is an unincorporated open ended trust established under the laws of Ontario. The Fund was created to acquire an economic interest in hydroelectric generating facilities located in Canada and the United States and to hold such interests for the purposes of earning income therefrom over the useful life of the underlying facilities. The Fund currently holds an equity interest, directly or indirectly, in 17 hydroelectric generating facilities located in Ontario (5), Québec (3), New York State (7) and New Hampshire (2).

Pursuant to the Acquisitions, the Fund proposes to acquire and hold an indirect equity interest, directly or indirectly, in an additional 12 hydroelectric generating facilities located in Québec (3), Newfoundland (1), New York State (2), New Hampshire (5) and Vermont (1). The Additional Facilities are grouped in the following developments: the Québec Development; the Newfoundland Development; the New York Development; and the New England Development.

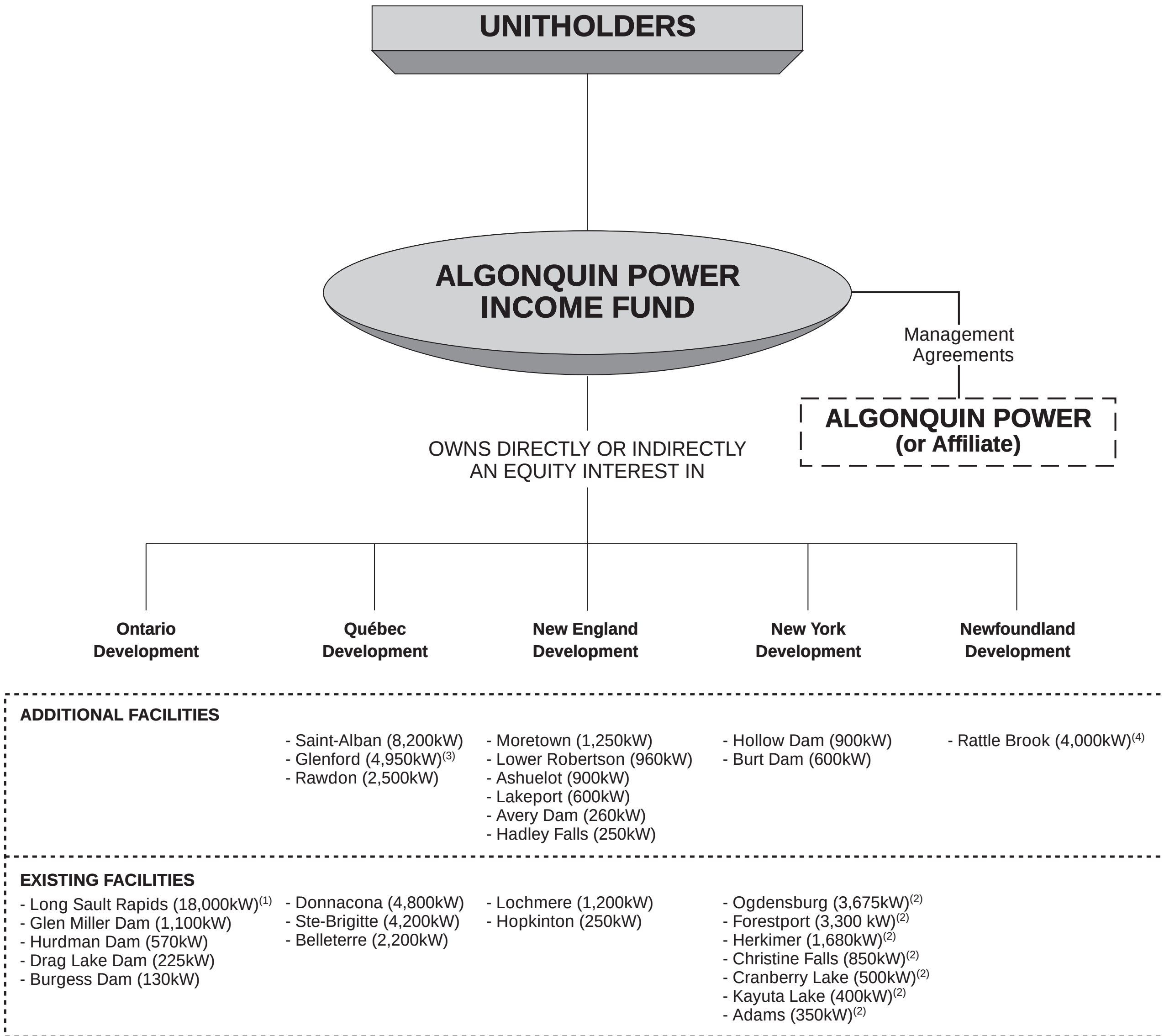
After completion of the Acquisitions, the Fund will hold an interest in 29 hydroelectric generating facilities having total installed generating capacity of approximately 69 megawatts. These facilities will continue to sell power under contracts of various terms to large electric utilities. See ''Business of the Existing Developments'', ''Business of the Development Additions'' and ''The Acquisitions''.

The Fund will make quarterly payments of Distributable Cash. Distributable Cash will be payable to Unitholders of record on each Record Date and is expected to be received by Unitholders on or about the 15th day after each Record Date. On June 11, 1998, the Trustees announced a special distribution of Distributable Cash in the amount of $0.235 per Trust Unit payable to Unitholders of record on June 23, 1998. Such special distribution will be made in lieu of the regular distribution for the quarter ending June 30, 1998. Subscribers for Trust Units pursuant to this offering will not participate in such special distribution. The distribution next following such special distribution will be the distribution to be paid on October 15, 1998 to Unitholders of record on September 30, 1998. See ''Description of the Fund'' — ''Distributions''.

Algonquin Canada has entered into the Management Agreement with the Manager whereby the Manager's management team provides management services in connection with the operation of certain of the Fund Businesses on behalf of Algonquin Canada. See ''Governance, Management and Operations''. The Fund has retained the Manager to administer the Fund on behalf of the Trustees pursuant to the Administration Agreement. Algonquin Canada has entered into the Operations Supervisory Agreement with Power Systems, whereby Power Systems provides operations supervisory services to certain of the Fund Businesses.

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

Structure of the Fund



Notes:

(1) Interest provides 100% of cash flows up to 2013, 65% up to 2027 and 58% thereafter.

(2) Interest provides 100% of cash flows up to 2010 with a right to 75% of the equity value upon repayment. See ''Algonquin Power Income Fund'' — ''Summary of Existing Development Interests'' — ''New York Development''.

(3) Interest provides 100% of cash flows up to approximately 2023 and the option to indirectly acquire the facility for $1.5 million at that time.

(4) 45% interest.

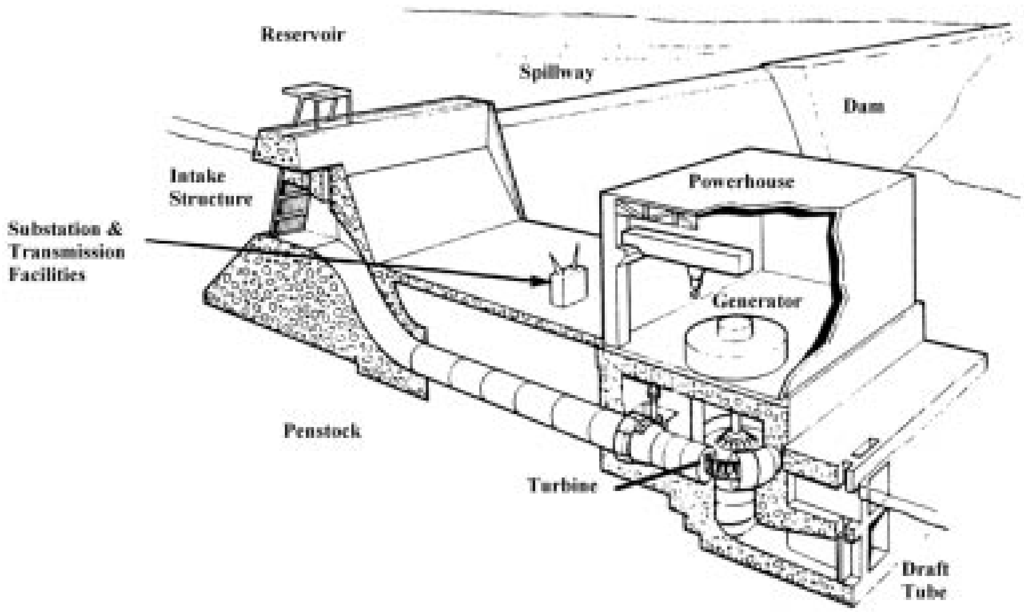
[Insert Map — to follow]

General

Description of a Hydroelectric Facility

A hydroelectric generating facility consists of a number of components, including a dam, headrace canal or penstock, intake structure, electromechanical equipment consisting of a turbine(s), a generator(s), draft tube and tailrace canal (see diagram below). In addition, there are electrical switchgear and controls equipment which are necessary to interconnect the facility with the receiving electrical grid system.

Typical Hydroelectric Generating Facility



A dam structure is required to create or increase the natural elevation difference between the upstream reservoir and the downstream tailrace (referred to as ''head''), as well as to provide sufficient depth within the reservoir for an intake. Dam structures are also used to create an upstream reservoir which allows water to be stored within a headpond. Virtually all dam structures used for hydroelectric generation purposes have spillways for discharging water which is surplus to the demand of the generating facility. A spillway dam can be either an overtopping section of the dam (uncontrolled spillway) or an opening within the dam itself (sluiceway). Sluiceway structures must be equipped with a mechanism for blocking the opening(s) during periods when the hydroelectric generating facility can adequately handle the river flow. This can be accomplished using a variety of methods ranging from simple wooden logs (referred to as stoplogs) to automatically controlled and sophisticated steel gates.

Water flows are conveyed from the upstream reservoir to the generating equipment via a penstock or headrace canal. A penstock is a pipeline capable of operating under pressure and is normally constructed of steel or other suitable materials. A headrace canal is a channel which conveys water from the reservoir to the intake in a hydraulically efficient manner.

The intake structure is a water intake located at the entrance to a penstock or at the end of a headrace canal. The purpose of the intake structure is to collect water from the upstream reservoir. Intake structures are normally equipped with steel or plastic screens (referred to as trashracks) which prevent debris and ice found in the reservoir from entering into the turbine equipment. Intake structures must be adequately submerged to prevent the entrainment of air into the water passages.

The electromechanical equipment consists of the turbine(s) and generator(s) used to transform the hydraulic energy into electrical energy. A turbine is a series of blades which rotate a shaft as a result of water flowing over or through the blades. A variety of turbines are used depending on the site. The generator is connected to the turbine (sometimes using a gearbox) and converts mechanical energy into electrical energy.

The electromechanical equipment is typically contained within a powerhouse building. The purpose of the powerhouse is to provide a solid structural foundation for the equipment and protect the equipment from the environment.

The water which has flowed through the hydraulic turbine(s) is discharged back to the natural watercourse through a draft tube and tailrace. The purpose of these two components is to return the flows back to the environment in a ''hydraulically smooth'' fashion.

The electrical equipment consists of switchgear, controls, a transformer substation and frequently a transmission line. The purpose of the electrical equipment is to transform the electrical energy produced by the generator into a form which is acceptable to the receiving electrical grid. This usually involves increasing the voltage and controlling the electrical frequency. A transmission line is often required to interconnect a facility with the grid. The majority of hydroelectric generating facilities are also equipped with remote monitoring equipment which allows the facility to be monitored and operated from a remote location.

Summary of Additional Facilities

The Fund proposes to acquire, directly or indirectly, an economic interest in the following 12 hydroelectric generating facilities:

Hydroelectric Generating Facility	Generating Capacity (kilowatts)	Location	1998 Power Purchase Rates(1)	Annual Average Expected Energy Production (MW-hrs)	Year of Expiry of Power Purchase Agreement	Year of Expiry of Lease
Québec Development Additions						
Saint-Alban Facility	8,200	Ste-Anne River near the Village of Saint-Alban, Québec	$0.0517/kW-hr — Jan. to Nov. $0.0532/kW-hr — Dec.	37,260	2016	1998(3)
Glenford Facility	4,950	Ste-Anne River near the Village of Ste-Christine d'Auvergne, Québec	$0.0504 / kW-hr	24,593	2020	Owned
Rawdon Facility	2,500	Ouareau River near the Village of Rawdon, Québec	$0.0517/kW-hr — Jan. to Nov. $0.0532/kW-hr — Dec.	13,900	2014	2014
Newfoundland Development						
Rattle Brook Facility	4,000	Rattle Brook near Jackson's Arm, Newfoundland	Summer Energy $0.0358/kW-hr Summer Capacity $0.0215/kW-hr Winter Energy $0.0358/kW-hr Winter Capacity $0.0459/kW-hr	17,470	2024	2048(2)
New York Development Additions						
Hollow Dam Facility	900	Oswegatchie River near Gouverneur, New York	US$0.1606/kW-hr	4,400	2000	2026
Burt Dam Facility	600	18 Mile Creek near Newfane, New York	US$0.1671/kW-hr	2,300	2000	2036

Hydroelectric Generating Facility	Generating Capacity (kilowatts)	Location	1998 Power Purchase Rates[(1)]	Annual Average Expected Energy Production (MW-hrs)	Year of Expiry of Power Purchase Agreement	Year of Expiry of Lease
New England Development Additions						
Moretown Facility	1,200	Mad River near Moretown, Vermont	Winter On-Peak US$0.1078/kW-hr Winter Off-Peak US$0.0682/kW-hr Summer On-Peak US$0.0978/kW-hr Summer Off-Peak US$0.0539/kW-hr Capacity Adder US$0.0243/kW-hr	3,592	2018	Owned
Lower Robertson Facility	960	Ashuelot River near Hinsdale, New Hampshire	On-Peak US$0.1678/kW-hr Off-Peak US$0.1248/kW-hr Capacity US$106.58/Average kW	3,729	2015	Owned
Ashuelot Facility	900	Ashuelot River near Hinsdale, New Hampshire	On-Peak US$0.1678/kW-hr Off-Peak US$0.1248/kW-hr Capacity US$106.58/Average kW	3,629	2015	2040
Lakeport Facility	600	Winnipesaukee River near Laconia, New Hampshire	On-Peak US$0.1283/kW-hr Off-Peak US$0.0969/kW-hr Capacity US$90.35/Average kW	2,650	2005	2032
Avery Dam Facility	260	Winnipesaukee River near Laconia, New Hampshire	On-Peak US$0.1678/kW-hr Off-Peak US$0.1248/kW-hr Capacity US$106.58/Average kW	1,834	2015	2035
Hadley Falls Facility	250	Piscataquoq River near Goffstown, New Hampshire	On-Peak US$0.1035/kW-hr Off-Peak US$0.0761/kW-hr Capacity US$96.40/Average kW	1,007	2006	2016

Notes:

(1) 1998 power purchase rates are not representative of long term power purchase rates under applicable power purchase agreements. Long term rates under different agreements will be both higher and lower than current rates.

(2) Long term lease to be entered into will be for fifty years.

(3) Long term lease to be entered into will be for twenty-five years.

Summary of the Acquisitions

The Fund will indirectly acquire the following equity interests:

Additions to Québec Development

Saint-Alban Facility . . . . The Fund, through its wholly owned subsidiary, Algonquin Canada, will be entitled to 100% of the cash flows from the Saint-Alban Facility and will, upon the closing of the Saint-Alban Acquisition Agreement (as hereinafter defined), own 100% of the Saint-Alban Facility.

Glenford Facility . . . . The Fund will, as a result of the various securities purchased by Algonquin Canada, indirectly be entitled to 100% of the equity cash flows for the period up to approximately 2023 from the Glenford Partnership, which owns the Glenford Facility. Thereafter, Algonquin Canada has the option to acquire the Glenford Interest and the Glenford Shares which will, if exercised, provide Algonquin Canada with 100% of the cash flows from the Glenford Facility.

Rawdon Facility . . . . The Fund, through its wholly owned subsidiary, Algonquin Canada, will be entitled to 100% of the cash flows from the Rawdon Facility and will, upon closing of the Rawdon Acquisition Agreement (as hereinafter defined), own 100% of the Rawdon Facility.

Acquisition of Newfoundland Development

Rattle Brook Facility	The Fund will, through its wholly owned subsidiary Algonquin Canada, own a partnership interest in the Rattle Brook Partnership which will provide the Fund with 45% of the cash flows from the Rattle Brook Facility. The shareholders of Algonquin Power own the remaining partnership interests.

Additions to New England Development

New Hampshire Facilities	The Fund will, through its indirect wholly owned subsidiary Algonquin America, own 100% of the partnership interests in the HDI III Partnership which owns the Lower Robertson and Ashuelot Facilities, 100% of the partnership interests in the Avery Dam Partnership which owns the Avery Dam Facility, 100% of the partnership interests in the Hadley Falls Partnership which owns the Hadley Falls Facility and 100% of the shares of the Lakeport Corporation which owns the Lakeport Facility.
Moretown Facility	The Fund will, through its indirect wholly owned subsidiary Algonquin America, own 100% of the partnership interests in the Moretown Partnership which owns the Moretown Facility.

Additions to New York Development

Hollow Dam Facility	The Fund will, through its indirect wholly owned subsidiary Algonquin America, own 100% of the partnership interests in the Hollow Dam Partnership which owns the Hollow Dam Facility.
Burt Dam Facility	The Fund will, through its indirect wholly owned subsidiary Algonquin America, own 100% of the partnership interests in the Burt Dam Partnership which owns the Burt Dam Facility.

Summary of Existing Facilities

The Fund currently holds, directly or indirectly, an equity interest in the following 17 hydroelectric generating facilities:

Hydroelectric Generating Facility	Generating Capacity (kilowatts)	Location	1998 Power Purchase Rates(1)	Annual Average Expected Energy Production (MW-hrs)	Year of Expiry of Power Purchase Agreement	Year of Expiry of Lease
Québec Development						
Donnacona	4,800	Jacques Cartier River near Donnacona, Québec	$0.0521/kW-hr	25,030	2022	2017
Ste-Brigitte	4,200	Nicolet River in the Municipality of Ste-Brigitte-des-Saults, Québec	$0.05171/kW-hr	13,741	2014	Owned
Belleterre	2,200	Winneway River in the Municipality of Laforce, Québec	For Jan to Nov: $0.04313/kW-hr $106.56/kW (over the average kilowatt output over the period December to March) For Dec: $0.04442/kW-hr $109.76/kW-hr (the average kilowatts)	15,703	2013	2011
Ontario Development						
Long Sault Rapids	18,000	Abitibi River near Cochrane, Ontario	Summer Energy $0.0325/kW-hr Summer Capacity $0.0502/kW-hr Winter Energy $0.0398/kW-hr Winter Capacity $0.0663/kW-hr	119,584	2047	2001(2)
Glen Miller Dam	1,100	Trent River near Trenton, Ontario	Winter Peak $0.0789/kW-hr Winter Off-Peak $0.0311/kW-hr Summer Peak $0.0731/kW-hr Summer Off-Peak $0.0223/kW-hr	5,937	2001	2001
Hurdman Dam	570	Mattawa River near Mattawa, Ontario	Winter Peak $0.0784/kW-hr Winter Off-Peak $0.0309/kW-hr Summer Peak $0.0727/kW-hr Summer Off-Peak $0.0221/kW-hr	4,429	2005	2004
Drag Lake Dam	225	Trent River near Haliburton, Ontario	Winter Peak $0.0867/kW-hr Winter Off-Peak $0.0352/kW-hr Summer Peak $0.0703/kW-hr Summer Off-Peak $0.0313/kW-hr	1,219	2012	Owned
Burgess Dam	130	Muskoka River near Bala, Ontario	Winter Peak $0.0787/kW-hr Winter Off-Peak $0.0310/kW-hr Summer Peak $0.0731/kW-hr Summer Off-Peak $0.0222/kW-hr	932	2009	1998
New England Development						
Lochmere	1,200	Winnipesaukee River near Lochmere, New Hampshire	US$0.09/kW-hr	4,652	2006	2033
Hopkinton	250	Contoocook River near Hopkinton, New Hampshire	US$0.09/kW-hr	920	2006	2023

Hydroelectric Generating Facility	Generating Capacity (kilowatts)	Location	1998 Power Purchase Rates(1)	Annual Average Expected Energy Production (MW-hrs)	Year of Expiry of Power Purchase Agreement	Year of Expiry of Lease
New York Development						
Ogdensburg	3,675	Oswegatchie River near Ogdensburg, New York	US$0.1671/kW-hr	10,596	2007	2038
Forestport	3,300	Black River near Boonville, New York	US$0.1607/kW-hr	10,016	2007	Owned
Herkimer	1,680	West Canada Creek near Herkimer, New York	US$0.1607/kW-hr	5,114	2007	Owned
Christine Falls	850	Sacandaga River near Clifton, New York	US$0.1671/kW-hr	3,065	2028	Owned
Cranberry Lake	500	Oswegatchie River near Clifton, New York	US$0.1671/kW-hr	2,154	2025	2035
Kayuta Lake	400	Black River near Boonville, New York	US$0.0680/kW-hr	2,089	2028	Owned
Adams	350	Sandy Creek near Adams, New York	US$0.0962/kW-hr	648	2028	Owned

Notes:

(1) 1998 power purchase rates are not representative of long term power purchase rates under the applicable power purchase agreements. Long term rates under different agreements will be both higher and lower than current rates.

(2) Long term lease to be entered into will be for 50 years less a day.

Summary of Existing Development Interests

Through the various interests held in respect of the Existing Facilities, the Fund is entitled to the following:

Ontario Development

Long Sault Rapids Facility

Through the various securities held by the Fund and its subsidiaries, the Fund is entitled to the following participation in the cash flows generated from the Long Sault Rapids Facility:

Period	Interest in Equity Cash Flows
1998 – 2013	100%
2014 – 2027	65%
2028 and onward	58%

Hurdman Dam, Glen Miller Dam, Drag Lake and Burgess Dam Facilities

Through its wholly owned subsidiary, Algonquin Canada, the Fund owns a 100% interest in these facilities.

Québec Development

Donnacona Facility	The Fund, through its wholly owned subsidiaries, Algonquin Canada and Donnacona Holdco, owns 100% of the partnership interests in the Donnacona Partnership, which owns the Donnacona Facility. The Donnacona Facility Equipment was acquired by the Fund and leased back to the Donnacona Partnership.
Ste-Brigitte and Belleterre Facilities	The Fund, through its wholly owned subsidiary, Algonquin Canada, owns a 100% interest in Ste-Brigitte and Belleterre, which own the Ste-Brigitte Facility and the Belleterre Facility, respectively. The Ste-Brigitte Facility Equipment and Belleterre Facility Equipment were acquired by the Fund and leased to Ste-Brigitte and Belleterre, respectively.

New York Development

Adams, Christine Falls, Cranberry Lake, Forestport, Herkimer, Kayuta Lake and Ogdensburg Facilities	Under the terms of the various securities purchased and agreements entered into by the Fund, the Fund is entitled to a 100% interest in the cash flows generated from these facilities up to the year 2010 and thereafter until all amounts outstanding under the Trafalgar Class B Note are repaid, if the Trafalgar Companies elect not to repay such note. If the Trafalgar Companies fully repay the Trafalgar Class B Note upon its maturity on December 31, 2010, the Fund will receive a payment equal to 75% of the equity value of these facilities, expected by the Fund to be satisfied by delivery of a 75% equity interest in the Trafalgar Companies.

New England Development

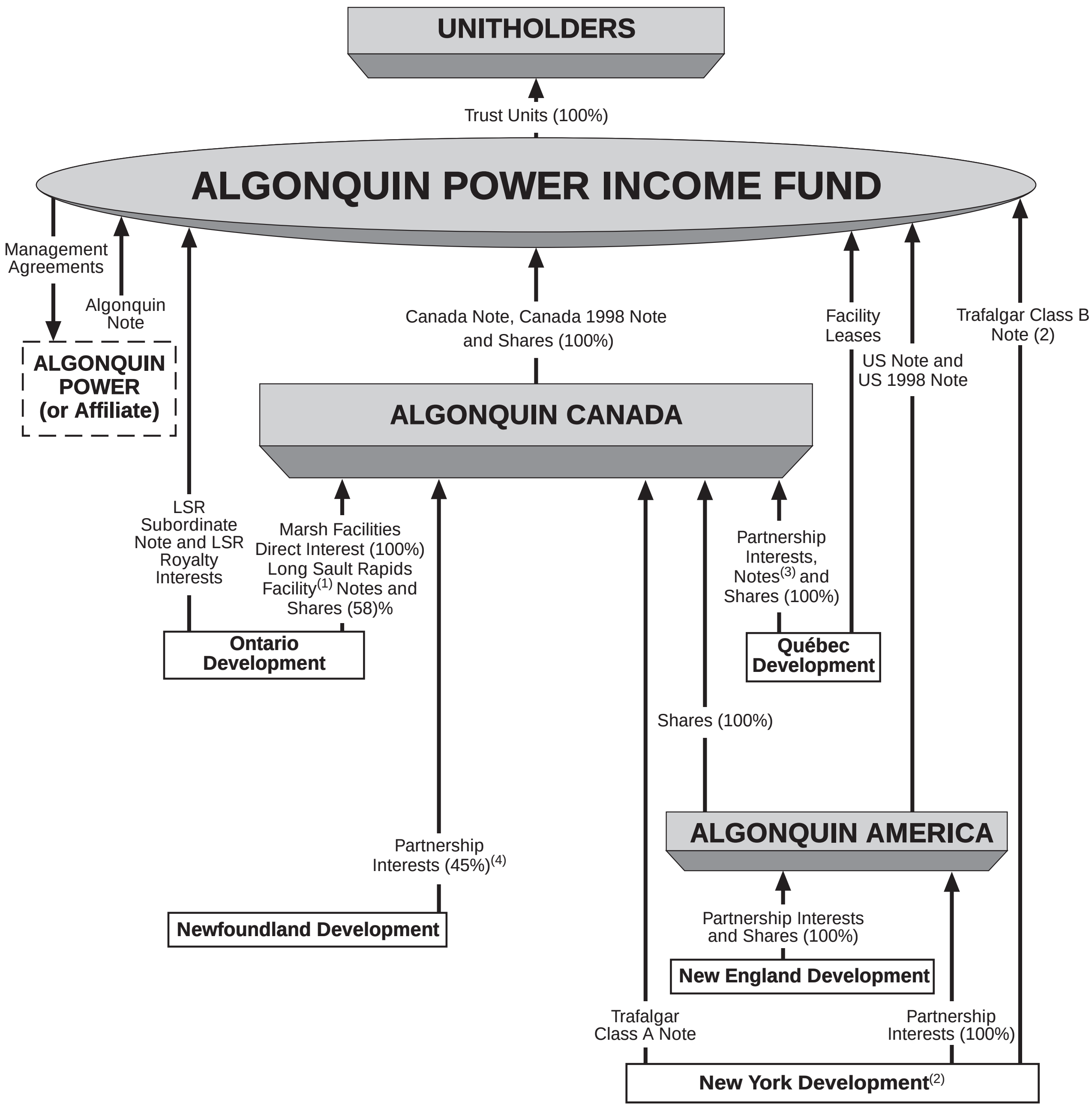
Lochmere and Hopkinton Facilities	The Fund, through its wholly owned subsidiaries, Algonquin America and Algonquin America Holdco, owns 100% of the partnership interests in the HDI Partnership, which owns the Lochmere Facility and the Hopkinton Facility.

Growth Strategy

In the discretion of and subject to review by the Trustees, the Fund intends to pursue an investment strategy whereby the Fund invests in interests in additional hydroelectric generating facilities in the independent power industry and hold such interests for the purposes of earning income therefrom over the useful life of the underlying facilities. Such facilities or group of facilities will only be acquired if the Fund believes that the acquisition will likely result in an increase in Distributable Cash per Trust Unit, otherwise meets the Fund's acquisition guidelines and is in accordance with the Fund's objectives, as set out in the Declaration of Trust. See ''Future Acquisition Strategy'' — ''Acquisition Guidelines''.

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.

Structure of the Fund



Notes:

(1) Interest provides 100% of cash flows up to 2013, 65% up to 2027 and 58% thereafter.

(2) Interest provides 100% of cash flows up to 2010 with a right to 75% of the equity value upon repayment. See ''Algonquin Power Income Fund'' — ''Summary of Existing Development Interests'' — ''New York Development''.

(3) Interest in the Glenford Facility provides 100% of cash flows up to approximately 2023 and the option to indirectly acquire the facility for $1.5 million at that time.

(4) 45% interest.

THE INDEPENDENT POWER GENERATION INDUSTRY

The Fund is engaged indirectly in the business of generating and marketing electrical energy within the independent power generation industry.

Canada

In Canada, the provinces have legislative authority over the supply of energy. The majority of the electrical supply within the Canadian provinces is provided by large Crown corporations such as Ontario Hydro and Hydro-Québec or smaller, investor owned utilities. These large utilities have been primarily responsible for the generation, transmission and distribution of electricity. In the mid-1980's, however, the rapid growth of projected energy demand, projections of dramatic increases in energy rates and advances in new generation technology led provincial governments to develop policies to encourage independent power generation. These policies were meant to encourage larger utilities to purchase power from independent power producers pursuant to long term power purchase agreements which would supply power to the provincial power grid in parallel to the utilities' own generation. In the late 1980's and early 1990's, British Columbia, Alberta, Ontario, Québec, Nova Scotia and Newfoundland established programs to actively seek independently produced power.

Ontario

In 1987, Ontario Hydro, with the support of the then Ontario Ministry of Energy, developed policies to encourage the addition of new generating capacity by independent power producers. Ontario Hydro entered into a number of long term power purchase agreements with independent power producers. There are now approximately 90 facilities owned and operated by independent power producers in the province generating approximately 1,225 megawatts from a variety of fuels, such as water, natural gas and wood waste. In August 1997, Ontario Hydro announced that it was ''laying-up'' seven nuclear reactors for extensive repairs. Shutting down these facilities has resulted in the loss of 4,000 megawatts of generating capacity in Ontario. Energy planners and the independent power producing industry predict that independent power producers will play an important and increasing role in the generation of electricity in the future.

In May 1996, the government of Ontario's Advisory Committee on Competition in Ontario's Electricity System, which was chaired by The Honourable Donald S. Macdonald, issued a report (the ''Macdonald Report'') to the government that recommended the introduction of competition for the supply of power to the wholesale market, leading ultimately to full competition in the supply of electricity at the retail level. The Independent Power Producers Society of Ontario (''IPPSO'') foresees that deregulation of the Ontario and North American electricity market will result in an increased diversity of energy sources, primarily from private producers.

In November 1997, the Ontario Minister of Energy, Science and Technology issued the Government of Ontario's White Paper entitled ''Direction for Change, Charting a Course for Competitive Electricity and Jobs in Ontario''. The White Paper outlines a series of initiatives which, subject to legislative approval, would provide for open competition in the power generation sector and full consumer choice in the year 2000.

On June 9, 1998, the Energy Competition Act, 1998 (the ''Energy Act'') was introduced as a bill in the Ontario legislature. The Energy Act mirrors the White Paper on electricity reform. The Ontario government intends to hold public hearings on the Energy Act in August 1998 and pass it into law by October 1998. While the Energy Act establishes broad outlines for Ontario's new electricity market, many important issues will be dealt with in regulations and market rules which have not yet been published. The Market Design Committee, a panel of industry experts appointed by the Ontario government in January 1998 to advise on the structure of the new market and develop detailed market rules, will continue its work throughout the remainder of 1998. The Energy Act does not specifically address agreements with independent power producers in the context of the industry restructuring. Under the proposed legislation, independent power producers will be required to obtain licences to generate electricity from the Ontario Energy Board. Since the generating company which will be the successor to Ontario Hydro will have approximately a 90% market share, the Energy Act provides certain mechanisms to deal with the possible abuse of market power, including the issuance of directives concerning market rules to be implemented by the Ontario Energy Board. In addition, the Ontario government has indicated that it will soon issue a discussion paper outlining its views on the question of whether Ontario Hydro has any stranded debt, its amount and how it may be recovered.

Québec

In September 1990, the Québec government adopted a policy allowing private power producers to build, operate and manage hydroelectric generating facilities with a capacity of less than 25 megawatts, as well as the development of larger cogeneration facilities. The program set out the terms and conditions of long term waterpower leases with the Québec government and power purchase agreements with Hydro-Québec which would apply to all private power producers. Between 1991 and 1993, Hydro-Québec negotiated and signed agreements with private producers for the purchase of a total of 474 megawatts from hydroelectric generating facilities, wind powered facilities and cogeneration plants fuelled by biomass and natural gas.

Newfoundland

In anticipation of an increase in electricity demand in the Province of Newfoundland, Newfoundland and Labrador Hydro began seeking generating capacity from independent power producers in 1990. In April 1990, a new policy was developed stating that Newfoundland and Labrador Hydro was prepared to relinquish its franchise rights to private developers on any hydroelectric project up to ten megawatts or greater under certain conditions. By 1992, however, the energy demand forecast for the province changed significantly and the utility indicated that it would limit the number of private generators that could sell power to the utility pursuant to long term power purchase agreements. In April 1992, the utility issued a request for proposals from private generators for a total of 50 megawatts of new generation. In December 1993, Newfoundland and Labrador Hydro announced that it would issue power purchase agreements to four small hydroelectric projects located on the island of Newfoundland totalling 38 megawatts. The utility also announced that it would purchase electricity from these facilities commencing on October 1, 1998.

United States

In 1978, The United States Congress enacted the Public Utility Regulatory Policies Act (''PURPA'') in response to a belief that the electric generation industry in the United States was too heavily dependent on foreign oil. Energy production in the United States is regulated by the Federal Energy Regulatory Commission (''FERC''). By enacting PURPA, Congress enabled private power producers to supply electricity to the large utilities throughout the country. FERC, pursuant to the PURPA legislation, mandated the development of policies by state utility commissions and utilities themselves that enable private producers to build power facilities. The key policy issue was the development of long term power purchase agreements with fixed, long term power purchase rates. The long term rates were based on projections of the utilities' Avoided Costs. Today, due to market forces and economic changes, many of these long term agreements are priced far above current market rates. While these higher costs are burdensome to the utilities, most have recognized these costs as Stranded Costs.

In 1992, the United States Congress empowered FERC to begin opening up the wholesale electric marketplace to competition. Order 888 issued by FERC on April 24, 1996 established the rules associated with wholesale market competition. It is projected by FERC and others that the United States and Canada will evolve to the point where the generating component of electricity will be open to competition and no longer be subject to price regulation.

New York State

Following the implementation of PURPA in 1978, New York State aggressively pursued the development of independent power production. There are currently over 300 independent power facilities now in operation in New York State and independent power producers have added more than 6,000 megawatts of new electric generating capacity.

New Hampshire

New Hampshire has one large, investor-owned utility, Public Service Company of New Hampshire, which is a subsidiary of Northeast Utilities (''NU''), as well as a number of smaller regional utilities. With the passing of PURPA in 1978, the New Hampshire legislature passed the Limited Electrical Energy Producers Act which directed the New Hampshire Public Utilities Commission to encourage the State's utilities to purchase independently produced power from a variety of sources. The state legislature also granted the NHPUC authority to set long term rates for renewable energy sources and beginning in 1984, the PSNH issued power purchase agreements with long term fixed power purchase rates that helped stimulate the development of small hydroelectric generating facilities. While these rates were based on PSNH's own projected energy costs at that time, the contracted rates are now well above today's market rates for electricity. The NHPUC also issued rate orders to utilities such as PSNH to purchase electricity from certain power producers at stipulated power purchase rates.

The State of New Hampshire is now going through the deregulation process pursuant to FERC's Order 888. During this period of industry restructuring, the State's utilities are requesting that the NHPUC consider rescinding or amending the rate orders the NHPUC has issued which require the purchases of power from independent power producers' generating facilities. The NHPUC has determined that the State's utilities should divest themselves of all generating assets and sell their power purchase agreements with independent power producers to third parties. The utilities, most notably PSNH and NU, are now negotiating with the NHPUC to determine how to deal with the Stranded Costs of selling above market priced power purchase agreements to third parties. PSNH is attempting to reduce its costs associated with these power purchase agreements with independent power producers and this action may impact the current rates paid for independently produced power.

As part of the review of PSNH's claim in respect of Stranded Costs, the NHPUC has requested a hearing into the issue that PSNH has and continues to purchase power from independent power producers during periods of ''light loading''. Light loading is defined as those periods of time during which the base load generating units are supplying energy on the margin, which has been estimated to occur approximately 15% of the time. The NHPUC is reviewing whether PSNH should have curtailed purchases of energy and capacity from independent power producers pursuant to both long term agreements and rate orders during such periods of light loading. PSNH asserts that the costs of purchases from independent power producers during periods of light loading has been factored into the calculation of the rates paid to the independent power producers under their rate orders and agreements and therefore the decision of PSNH not to curtail any purchases should not be considered in the review of Stranded Costs. PSNH maintains that it is required to purchase all energy produced by independent power producers under the agreements and rate orders at all times, including during periods of light loading.

Vermont

Following the implementation of PURPA in 1978, the State of Vermont agreed to encourage the development of independent power production. The electrical distribution system of the State is comprised of approximately 26 small, local utilities and for efficiency it was determined that one purchaser, the Vermont Electrical Exchange, Inc., should act as purchasing agent for all State utilities. Consequently, Vermont Electrical Exchange, Inc. has entered into a number of contracts with private producers under which it purchases power from these independent power producers and, in turn, delivers such power to member utilities.

Competition and Green Power Pricing

Unlike electricity generated by fossil fuels such as natural gas and coal which are subject to potentially dramatic and unexpected price swings due to disruptions in supply or abnormal changes in demand, the supply of hydroelectric power is not subject to commodity fuel price volatility or risk. In addition, the generation of hydroelectric power does not involve significant ongoing capital and operating costs to ensure strict compliance with environmental regulations, which is a significant advantage over power generated by burning waste or utilizing landfill gases.

Deregulation has increased demand for privately generated power from a variety of sources including fossil fuels, waste, wind and water. Taking into account capital costs, wind power is generally more expensive than traditional forms of generated power. Fossil fuels are harmful to the environment; and waste burning power generation requires producers to abide by stringent and costly environmental regulations.

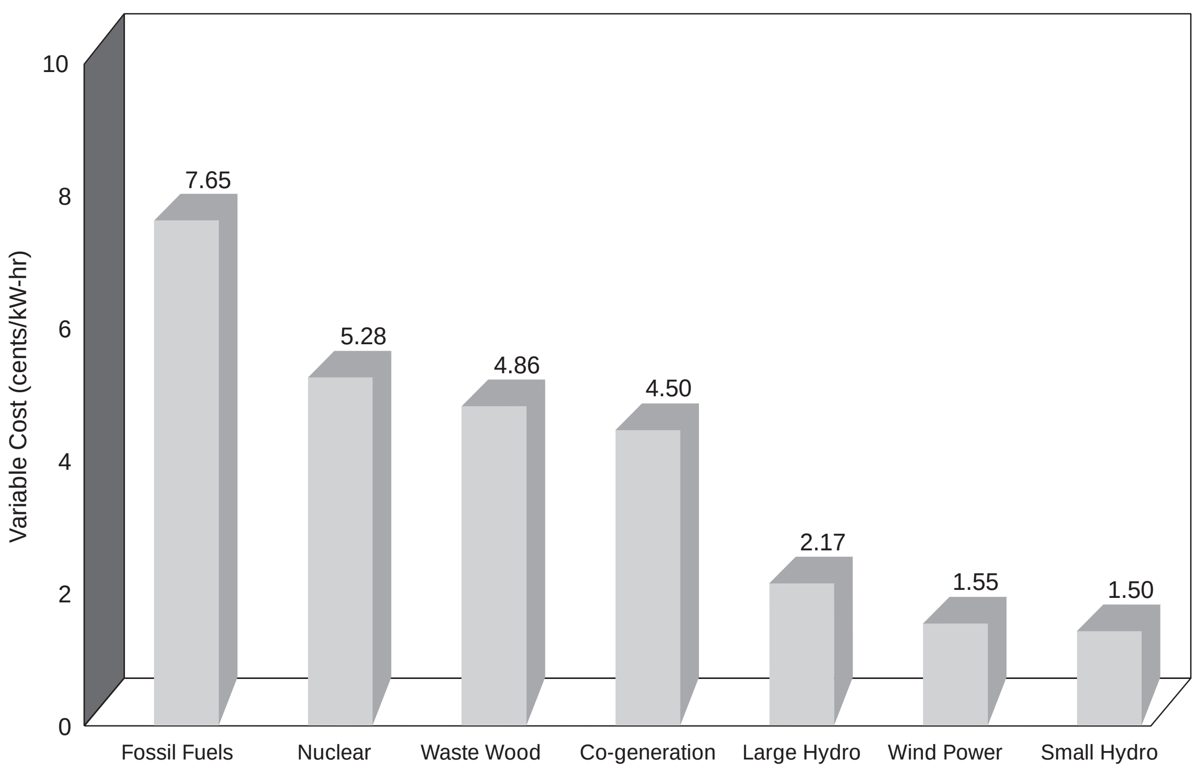
With deregulation and opening of competition in the electricity marketplace, there will be an increase in the opportunity for the energy customer to choose the type of generation producing the electricity. Over 30 utilities in the United States now offer their customers Green Power at a premium price. Green Power is electricity generated from renewable energy sources that do not contribute to greenhouse gas emissions. Green Power includes technologies such as small hydroelectric (generally defined as facilities of less than 20 megawatts in capacity), bioenergy, landfill gas, wind and photovoltaic. The U.S. Department of Energy has suggested that in a competitive marketplace, utilities and energy marketers will utilize Green Power pricing to strengthen their image with their customers and build customer loyalty. Further, the Department has found that most utility customers want their utilities to pursue environmentally benign options for generating electricity and some customers are willing to pay extra to receive power generated by renewable resources. The Department believes that as deregulation and open competition evolve, the Green Power approach will help offset the relatively higher costs of renewable power compared to less costly gas-fired generation.

In April 1997, Natural Resources Canada announced that, as part of the federal Green Power Procurement program, the federal government entered into an agreement to purchase up to 13,100 megawatt hours per year of Green Power from a utility to supply electricity to buildings owned by Natural Resources Canada and Environment Canada. Further, at that time, the Minister of the Environment announced that Environment Canada will be greening up to 20 per cent of its nation-wide electrical consumption before 2010 to assist the growth of the Green Power sector while reducing the greenhouse gas emissions caused by the Department's use of electricity. Natural Resources Canada has announced that the Green Power Procurement program is one of several initiatives that form a new federal strategy on renewable energy.

Studies prepared for IPPSO and the Fund by an independent consultant found that for existing generating assets, small hydroelectric generating facilities are the lowest cost producer compared to all other forms of generating sources. This is due to such facilities having the lowest fuel, maintenance, capital addition, operating and environmental costs. For new generation, small hydroelectric is the lowest cost producer, after industrial co-generation, in relation to total costs and the lowest cost producer with respect to variable production costs. Hydroelectric generating facilities have a long useful operating life and many facilities over 80 years old continue to operate reliably today.

Deregulation and competition will expand the existing market for electricity for generators that can compete at market rates.

Comparison of Variable Production Costs
(including environmental costs)
for new power generation



BUSINESS OF THE DEVELOPMENT ADDITIONS

Québec Development Additions — Saint-Alban, Glenford and Rawdon Facilities

Saint-Alban Facility

The facility is an 8,200 kilowatt hydroelectric generating facility located on the Ste-Anne River approximately one kilometre from the Village of Saint-Alban, Québec and approximately 200 kilometres east of Montréal. The facility is located at the site of a decommissioned hydroelectric generating facility previously owned by Hydro-Québec. The facility consists of a newly gated spillway and the existing dam and spillway, which were rehabilitated and reconditioned in 1996, two penstocks, a powerhouse structure and a tailrace canal and has been designed as a run-of-the-river facility.

Land and Water Rights

The land upon which the facility is located is currently owned by Shawinigan Electric Company, a wholly owned subsidiary of Hydro-Québec. SLI has entered into a temporary lease agreement with Shawinigan Electric Company for use of the land and hydraulic forces required to operate the facility. The temporary lease expires on December 1, 1998, however, Hydro-Québec has confirmed to SLI that it will extend the term of this lease, upon request. Approval from Shawinigan Electric Company has been sought to allow the granting of a security interest in the temporary lease. It is contemplated that all land and hydraulic rights associated with the Saint-Alban Facility owned by Shawinigan Electric Company will be transferred to the Ministry of Natural Resources, Québec and that SLI will enter into a 20 year lease agreement with the Ministry of Natural Resources, Québec.

In addition to contractual lease payments and amounts payable to the Ministry of Natural Resources, Québec, an agreement exists for the payment of an annual royalty of approximately $9,000 in 1998 (increasing by $500 per year) in respect of the Saint-Alban municipal park.

It is anticipated that the lease agreement to be entered into between Ministry of Natural Resources, Québec and SLI will prohibit transfer of the leasehold interest held by SLI until May 2001. Approval from the Government of Québec to the transfer of the leasehold interest to Algonquin Canada upon the Saint-Alban Transfer Date has been sought. Acquisition of legal title to this facility interest will be completed on the Saint-Alban Transfer Date. See ''The Acquisitions'' — ''Additions to the Quebec Development'' — ''Acquisition of Saint-Alban Facility Interest''.

Glenford Facility

The facility is a 4,950 kilowatt hydroelectric generating facility located on the Ste-Anne River approximately one kilometre from the Village of Ste-Christine d'Auvergne, Québec and approximately 230 kilometres east of Montréal. The facility is located at the site of a decommissioned hydroelectric generating facility previously owned by Hydro-Québec. The facility consists of the existing dam and spillway, which were rehabilitated and reconditioned in 1995, an intake, powerhouse and tailrace structure and has been designed as a run-of-the-river facility.

Land and Water Rights

The Glenford Facility has been constructed on certain lands purchased by the Glenford Partnership and which lands include the existing structures associated with the historic generating facility. In addition, certain easements were granted to the former owner in respect of flooding rights and the access road. The land owned by the Glenford Partnership includes the bed of the river upon which the existing dam structure is located and certain lands on either side of the river. Accordingly, no lease from the Province of Québec is required.

Credit Agreement

The Glenford Senior Debt is an outstanding senior loan provided to the Glenford Partnership in the amount of approximately $6.1 million. The loan was provided by Corpfinance International Limited and has a term of 25 years which commenced in April 1995. The loan is to be repaid in equal monthly payments of $63,591 representing blended interest and principal during its term. The loan is secured solely by the facility and the ownership interests therein. The Fund does not intend to purchase or repay this loan on Closing.

The credit agreement contains certain events of default, including: (i) the sale of assets and property covered by the lenders' security without the lenders' consent; (ii) certain changes in ownership; (iii) any amendment, waiver, termination, renewal or extension or breach continuing for 15 days after written notice of any of the material facility agreements, without the prior written consent of a majority of the lenders; or (iv) if there is a change in the manager or operator from Power Systems.

A hydrology reserve fund with a balance as at December 31, 1997 of $89,261 has been established to provide additional security in respect of the payment of interest and principal on the Glenford Senior Debt. Under the terms of the credit agreement, such reserve is required to be increased at the rate of 9% on an annual basis. On or before Closing, a debt service reserve fund with an approximate balance of $750,000 will be established to ensure minimum debt service coverage cash flows in respect of the Glenford Note. A maintenance reserve fund with a balance as at December 31, 1997 of $41,970 has been established in respect of major capital expenditures which may be incurred by the Glenford Partnership.

Rawdon Facility

The facility is a 2,500 kilowatt hydroelectric generating facility located on the Ouareau River approximately one kilometre from the Village of Rawdon, Québec and approximately 70 kilometres north of Montréal. The facility consists of an existing dam (which was rehabilitated and reconditioned in 1986 by Hydro-Québec), intake, spillway, penstock, powerhouse and tailrace structure and has been designed as a run-of-the-river facility.

Land and Water Rights

The land upon which the facility is located and the hydraulic rights necessary for the operation of the facility have been leased by SLI from the Ministry of Natural Resources, Québec pursuant to a 20 year lease agreement. The lease expires in June 2014 and includes a renewal option for an additional 20 year period, exercisable by the lessee upon mutually acceptable terms. The lease may be terminated by the Province of Québec upon, among other events, termination of the power purchase agreement for the facility with Hydro-Québec or transfer of the leasehold interest without approval of the landlord.

The lease agreement prohibits transfer of the leasehold interest held by SLI until June 1999. Approval from the Government of Québec to the transfer of the leasehold interest to Algonquin Canada in June 1999 has been sought. Acquisition of legal title to this facility will be completed on the Rawdon Transfer Date. See ''The Acquisitions'' — ''Additions to Québec Development'' — ''Acquisition of Rawdon Facility Interest''.

Saint-Alban, Rawdon and Glenford Power Purchase Agreements

As part of the transfer of title to the Saint-Alban and Rawdon Facilities to Algonquin Canada, right, title and interest in the respective power purchase agreements are to be transferred to Algonquin Canada. Under the terms of the power purchase agreements, the consent of Hydro-Québec (which consent may not be unreasonably withheld) is required to complete the acquisition of the Saint-Alban and Rawdon Facilities and the acquisition of the Glenford Interest by Algonquin Canada.

Under the power purchase agreements, Hydro-Québec has agreed to purchase all power made available to it from the Saint-Alban, Glenford and Rawdon Facilities. The standard Hydro-Québec power purchase agreement stipulates a minimum energy production during each 12 consecutive months commencing December 1 in each contract year. If a facility produces less energy than the minimum, a penalty of approximately 1.1 cents per kilowatt hour for each kilowatt hour that the actual production is below the minimum annual production is payable to Hydro-Québec.

The term of the power purchase agreements for the Rawdon Facility and the Saint-Alban Facility is 20 years from the commercial start-up date and is 25 years from the commercial start-up date for the Glenford Facility. The power purchase agreements expire in 2014, 2016 and 2020 for the Rawdon, Saint-Alban and Glenford Facilities, respectively. The agreements may be renewed at the option of the generator for a period not exceeding the original term upon mutually acceptable terms.

For the Saint-Alban and Rawdon Facilities, power purchase rates under the agreement for each contractual year will be increased in accordance with the percentage increase in the Consumer Price Index for the Montréal Urban Community, as published by Statistics Canada, with a minimum annual escalation of 3% and a maximum annual escalation of 6%. For the Glenford Facility, the power purchase rate is fixed at $0.0504 per kW-hr until December 1, 1999, after which time the rate will be escalated in a manner similar to the rates for the Saint-Alban and Rawdon Facilities as set out above.

Newfoundland Development — Rattle Brook Facility

Rattle Brook Facility

The facility is a 4,000 kilowatt hydroelectric generating facility located on Rattle Brook, approximately four kilometres north of Jackson's Arm, in the Province of Newfoundland. Construction commenced in September 1997 and the facility is scheduled to be commissioned in December 1998. The major civil works are being completed by Northland Contractors Inc., a Newfoundland contractor.

The facility is a run-of-the-river facility and there will be no storage of water for peaking purposes. A penstock will run 1,100 metres from a small dam to the powerhouse. The powerhouse will be a single storey building which will house a single horizontal turbine attached to a synchronous air cooled generator. The turbine and generator installed in the facility, while never having been used, have been in inventory for the last ten years. This equipment has been satisfactorily inspected and performance tested. The interconnection point for delivery of electricity to the power purchaser will be adjacent to the facility and therefore no transmission line is required.

Land and Water Rights

All necessary land rights and environmental approvals are in the process of being obtained by the Rattle Brook Partnership, including a 50 year lease from the Province of Newfoundland for use of the land required by the facility. In addition, all material regulatory approvals to build and operate the facility are presently being obtained from the Newfoundland Government. The Manager is of the opinion that all necessary regulatory approvals will be obtained.

Power Purchase Agreement

When completed, electricity produced by the facility will be sold directly to Newfoundland and Labrador Hydro. Pursuant to the power purchase agreement, Newfoundland and Labrador Hydro agrees to purchase all power delivered to the interconnection point and the Rattle Brook Partnership agrees to sell all power produced by the facility to Newfoundland and Labrador Hydro.

The power purchase agreement will remain in effect for 25 years commencing on the commercial in-service date and may be renewed for a further term of 25 years upon terms mutually agreed. Newfoundland and Labrador Hydro has the option to terminate the supply or receipt of power upon reasonable notice if the Rattle Brook Partnership is in default of any obligation under the agreement. If the Rattle Brook Partnership continues in default after receiving reasonable notice thereof (at least 60 days), Newfoundland and Labrador Hydro has the option to terminate the agreement.

The power purchase agreement provides that payments made by Newfoundland and Labrador Hydro will consist of two components: a capacity component and an energy component, for each of the winter period and the summer period. The energy component is adjusted annually by the change in the Consumer Price Index for Canada, provided that any escalation does not exceed 6% year over year. The capacity component is fixed and is not escalated over the term of the power purchase agreement.

Partnership Agreement

The partnership agreement dated April 30, 1998 between Algonquin Power Corporation (Rattle Brook) Inc. and 10640 Newfoundland Limited governs the affairs of the Rattle Brook Partnership. The partnership agreement specifies, *inter alia*, that income allocations, cash distributions and voting rights at meetings of the partners will be divided as to 55% to Algonquin Power Corporation (Rattle Brook) Inc. and

45% to 10640 Newfoundland Limited. Generally, management decisions for the partnership are made by majority vote of the partners. Certain matters, including capital expansion of the facility, disposition of the facility by the partnership and dissolution of the partnership, require unanimous consent of the partners.

New England Development Additions — Lower Robertson, Ashuelot, Avery Dam, Hadley Falls, Lakeport and Moretown Facilities

Lower Robertson Facility

The facility is a 960 kilowatt hydroelectric generating facility located on the Ashuelot River approximately one kilometre upstream of the Highway bridge at Hinsdale, New Hampshire. The facility consists of a dam, intake, powerhouse and tailrace structures and is designed and operated as a run-of-the-river facility. The facility was constructed in 1988 at the site of an existing concrete dam, which was rebuilt to facilitate the generating facility. The facility is operated in conjunction with the Ashuelot Facility, due to the close proximity of the sites (less than one kilometre away).

Power Purchase Agreement

In 1984, the NHPUC approved a rate order which requires PSNH to purchase from HDI Hinsdale, Inc. the entire electrical output from the Lower Robertson Facility at specified rates. The rate order was subsequently assigned to HDI III Partnership. The amount paid by PSNH for electrical output is based on an energy payment plus a capacity payment. The term of the rate order is for a period of 29 years commencing September 1, 1987 and expires in September 2016.

Land and Water Rights

The real property interest required for the construction and operation of the facility was obtained pursuant to a warranty deed from Paper Service Mills, Inc. on December 29, 1986. Under the terms of the warranty deed, the HDI III Partnership obtained title to the land on which all structures associated with the facility are located, including the dam structure, as well as access to both sides of the Ashuelot River required for the operation and maintenance of the facility. The warranty deed provides an interest in the riparian rights at the site, including all water power rights and privileges on the Ashuelot River.

Hydroelectric Development, Inc. (''HDI'') has entered into an agreement with the Town of Winchester for payment in lieu of property taxes for the facility. This agreement was subsequently assigned by HDI to the HDI III Partnership. The agreement requires HDI III Partnership to pay to the Town within 90 days following the end of each fiscal year the greater of two and one-half percent of the gross revenues for that fiscal year or two and one-half percent of the average gross revenues for the previous fiscal year. The term of the agreement is for 30 years commencing on the initial date of commercial operation, which occurred in June 1987.

FERC Licence

The facility received an exemption from licensing for a hydroelectric generating facility of five megawatts or less from FERC on July 31, 1986 (FERC Project No. 8235). The main compliance conditions associated with this facility are that: (i) the facility must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; (ii) a minimum flow of ten cubic feet per second has to be released downstream of the dam, when available, to maintain the instream fisheries and water quality; and (iii) at the time of issuance of the FERC exemption order, the U.S. Fish and Wildlife Service and New Hampshire Department of Fish and Game indicated that there may be a future requirement for the installation of a fish by-pass at the facility, estimated by the Manager to cost approximately $150,000. To date, no such by-pass system has been installed. The Manager believes that such by-pass system will not be required.

Ashuelot Facility

The facility is a 900 kilowatt hydroelectric generating facility located on the Ashuelot River near the Highway bridge at Hinsdale, New Hampshire. The facility consists of a dam, intake, powerhouse and tailrace structures and is designed and operated as a run-of-the-river facility. The facility was constructed in 1988 at the site of an existing concrete dam which was rebuilt to facilitate the generating facility.

Power Purchase Agreement

In 1985, the NHPUC approved a rate order which requires PSNH to purchase from Ashuelot River Partners the entire electrical output from the Ashuelot Facility at specified rates. The rate order was subsequently assigned to HDI III Partnership. The amount payable is based on an energy payment plus a capacity payment. The term of the rate order is for a period of 29 years commencing September 1, 1986 and expires in September 2015.

Land and Water Rights

The land and water rights for the site are leased from the Ashuelot Paper Company pursuant to an agreement dated January 14, 1985. The term of the lease is 55 years commencing on January 14, 1985 and terminating on December 31, 2040 and payments under the agreement are structured as a percentage of gross revenues from the facility.

HDI has entered into an agreement dated August 13, 1986 with the Town of Winchester for payment in lieu of property taxes for the facility. This agreement was subsequently assigned by HDI to HDI III Partnership. The agreement requires HDI III Partnership to pay to the Town within 90 days following the end of each fiscal year the greater of two and one-half percent of the gross revenues for that fiscal year or two and one-half percent of the average gross revenues for the previous fiscal year. The term of the agreement is for 30 years commencing on the initial date of commercial operation, which occurred in June 1987.

FERC Licence

The Ashuelot Facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on July 31, 1986 (FERC Project No. 7791) for an 850 kilowatt generating facility. The main compliance conditions associated with this facility are that: (i) the facility must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; (ii) a minimum flow of ten cubic feet per second has to be released downstream of the dam, when available, to maintain the instream fisheries and water quality; and (iii) at the time of issuance of the FERC exemption order, the U.S. Fish and Wildlife Service and the New Hampshire Department of Fish and Game indicated that there may be a future requirement for the installation of a fish by-pass at the facility, estimated by the Manager to cost approximately $150,000. To date, no such by-pass system has been installed. The Manager believes that such by-pass system will not be required.

Avery Dam Facility

The facility is a 260 kilowatt hydroelectric generating facility located on the Winnipesaukee River in the City of Laconia, New Hampshire. The facility was constructed in 1985 at an existing site that was used for power generation and consists of a dam, intake structure, powerhouse and tailrace. The generating equipment includes two Flygt submersible turbine/generators. The facility is owned by the Avery Dam Partnership.

Power Purchase Agreement

The NHPUC issued a rate order to Avery Hydroelectric, Inc., on June 20, 1985. This rate order was subsequently assigned by Avery Hydroelectric, Inc. to the Avery Dam Partnership. The rate order requires PSNH to purchase all output from the facility at specified rates. The amount payable is based on an On-peak and Off-peak energy payment and a capacity payment. The term of the rate order is for a period of 29 years commencing September 1, 1986 and expires in September 2015. On August 27, 1986, Avery Dam Partnership signed an interconnection agreement with PSNH concerning operational matters relating to the facility.

Land and Water Rights

Avery Dam Partnership has entered into a lease agreement with the New Hampshire Water Resources Board, a public corporation and an agency of the State of New Hampshire, for the water rights, land and associated facilities of the Avery Dam on the Winnipesaukee River. The lease agreement was amended and restated on November 27, 1985. The term of the lease agreement is the earlier of 50 years or the termination of the FERC licence and the rental payments are five percent of the adjusted gross revenue (''AGR'') for years 1 to 5, 10% of AGR for years 6 to 10, 15% of AGR for years 11 to 15 and 20% of AGR for years 16 to 50.

The Avery Dam Partnership entered into a contract with water users with the New Hampshire Water Resources Board dated November 27, 1985. The term of the agreement is 15 years and can be extended after that period on a yearly basis upon mutual agreement. The rent includes both a base fee and an incentive fee.

The Avery Dam Partnership entered into an agreement for payment in lieu of taxes with the City of Laconia pursuant to an agreement dated October 9, 1985. The agreement provides for the owner to pay the City of Laconia an amount equal to five percent of gross revenues from the facility in lieu of municipal taxes. The agreement has a term of 20 years.

FERC Licence

The facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on March 22, 1985 (FERC Project No. 6752). The main compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility; and (ii) it must maintain a minimum flow of 30 cubic feet per second from April to September and 20 cubic feet per second during the remainder of the year.

Hadley Falls Facility

The facility is a 250 kilowatt hydroelectric generating facility located on the Piscataquog River near the Town of Goffstown, New Hampshire. The facility consists of a dam, intake canal, powerhouse and tailrace structures and is designed and operated as a run-of-the-river facility. The facility was commissioned in 1986 at the site of an existing concrete dam which was rebuilt to facilitate the generating facility.

Power Purchase Agreement

In 1986, the NHPUC approved a rate order which requires PSNH to purchase the entire electrical output from the Hadley Falls Facility at specified rates. The amount payable is based on an energy payment plus a capacity payment. The term of the rate order is for a period of 20 years commencing September 1, 1986 and expires in September 2006.

Land and Water Rights

Hydro Dynamic Corp. entered into a lease agreement dated July 30, 1981 with Heritage Door Company for the land and facilities required in order to construct and operate the Hadley Falls Facility. This agreement was assigned to the Hadley Falls Partnership on December 14, 1981. The term of this lease is for 35 years commencing in 1981 and the rent is a negotiated fee based on competitive rents. Hydro Dynamic Corp. also entered into a lease agreement dated September 8, 1981 with the New Hampshire Water Resources Board for the water rights at this location. This agreement was assigned to the Hadley Falls Partnership on October 26, 1981.

FERC Licence

The facility received an exemption from licensing for a small hydroelectric generating facility of five megawatts or less from FERC on January 19, 1982 (FERC Project No. 5379). The main compliance issue is that the facility must operate as an instantaneous run-of-the-river facility.

Lakeport Facility

The facility is a 600 kilowatt hydroelectric generating facility located on the Winnipesaukee River near the Town of Lakeport, New Hampshire. The facility consists of a dam, powerhouse and tailrace structures and is designed and operated as a run-of-the-river facility. The facility was constructed in 1984 at the site of an existing concrete dam.

Power Purchase Agreement

In 1985, the NHPUC approved a rate order which requires PSNH to purchase from Lakeport Corporation the entire electrical output from the Lakeport Facility at specified rates. The amount payable is based on an energy payment plus a capacity payment. The term of the rate order is for a period of 20 years commencing September 1, 1985 and expires in September 2005.

Land and Water Rights

The facility is constructed on certain lands purchased by Lakeport Corporation. Certain additional land and water rights necessary for the operation of the facility are leased from the New Hampshire Water Resources Board pursuant to an agreement dated December 29, 1982. The term of the lease is 50 years and payments under the agreement are structured as a percentage of gross revenues from the facility.

As a condition under the lease with the New Hampshire Water Resources Board, Lakeport Corporation has entered into a water user's agreement dated August 30, 1985 with the New Hampshire Water Resources Board in respect of certain water management services provided by the New Hampshire Water Resources Board to users located on the Winnipesaukee River. Payments under the water user's agreement are structured based on energy production from the facility.

Lakeport Corporation has entered into an agreement with the City of Laconia for payment in lieu of property taxes for the facility. The agreement requires Lakeport Corporation to pay to the City of Laconia following the end of each fiscal year an amount equal to five percent of the gross revenues from the facility for that fiscal year. The term of the agreement is for 20 years commencing on October 9, 1985.

FERC Licence

The Lakeport Facility received a licence for a small hydroelectric generating facility from FERC on September 8, 1983 (FERC Project No. 6440) for a 600 kilowatt generating facility. The main compliance conditions associated with this facility are that: (i) the facility must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) a minimum flow of 180 cubic feet per second has to be released downstream of the dam, when available, to maintain the instream fisheries and water quality. The term of the FERC licence is 40 years commencing on the date of issue. The FERC licence was originally issued in the name of Lakeport Associates and it is necessary to record it in the name of Lakeport Corporation. The Manager is of the opinion that there will be no difficulty in obtaining this amendment.

Moretown Facility

The facility is a 1,200 kilowatt hydroelectric generating facility located on the Mad River in the Town of Moretown, Vermont. The facility includes a 12 metre dam, forebay, intake structure, penstock, powerhouse and tailrace. The powerhouse includes one Kaplan type turbine generator rated at 1,250 kilowatts. The facility was constructed in 1989 and is owned by the Moretown Partnership.

Power Purchase Agreement

A power purchase agreement was executed between Vermont Power Exchange, Inc. and the Moretown Partnership on July 29, 1988, whereby Vermont Power Exchange, Inc. agreed to purchase all the electrical energy produced from the facility. The term of the contract is 30 years and the power purchase rates include an energy rate, a capacity rate and a payment lag adder rate. Vermont Power Exchange, Inc. is a purchasing agent authorized by the Vermont Public Service Board. As purchasing agent for the utility, the Vermont Power Exchange, Inc. is paid a commission by the producer for the energy sales. On March 15, 1996, the Vermont

Electric Power Producers, Inc. (''VEPPI'') was designated as the purchasing agent to replace the Vermont Power Exchange, Inc. Moretown Partnership entered into an interconnection agreement with Washington Electric Cooperative, Inc. on June 22, 1988, so that the facility may interconnect with the electrical system in Moretown, Vermont.

Land and Water Rights

All land and water rights required for the construction and operation of the facility are owned by the Moretown Partnership. The Town of Moretown and the Town School District executed a tax stabilization agreement with the Moretown Partnership dated October 25, 1990. The agreement limited the municipal and school taxes to be paid with respect to the property to a certain amount which may be increased if there is an increase in the power purchase rates paid by the Vermont Power Exchange, Inc. The term of the agreement is approximately 18 years, expiring March 31, 2008.

FERC Licence

The facility received a licence (Minor Project) for a hydroelectric generating facility from FERC on December 7, 1982 (FERC Project No. 5944) and the term of the licence is for a period of 40 years. The main compliance condition associated with the facility is that the facility must maintain an instantaneous minimum flow of 25 cubic feet per second over the dam, when available, to protect the Mad River.

New York Development Additions — Hollow Dam and Burt Dam Facilities

Hollow Dam

The facility is located on the West Branch of the Oswegatchie River in the Town of Fowler, New York, approximately 16 kilometres south of Gouverneur, New York. The facility is rated at 900 kilowatts. The facility was constructed in 1987 and is located at an existing dam of 100 metres in length and includes a 70 metre spillway. The facility is equipped with two submersible Flygt turbine/generators, each capable of generating 450 kilowatts. The facility is owned by the Hollow Dam Partnership.

Power Purchase Agreement

The power purchase agreement was executed between Niagara Mohawk and Power Resources Development Corporation on May 2, 1986. The agreement has been assigned to the Hollow Dam Partnership. The term of the agreement commenced on May 2, 1986 and continues for approximately 15 years until December 31, 2000.

Land and Water Rights

The facility was built in 1987 on land leased to Lavalin Hydro Corporation by Barbara and Robert Sullivan pursuant to a long term lease agreement dated December 13, 1988. The lease has been assigned to the Hollow Dam Partnership. A term of the agreement states that all lands and facilities revert back to the landlord on April 26, 2026.

FERC Licence

The facility received a licence (Minor Project) from FERC on May 30, 1986 (FERC Project No. 6972) for a period of 40 years effective May 1, 1986. The licence was issued for a 1,000 kilowatt generating facility. The main compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) pursuant to an amending order dated February 27, 1990, the facility must maintain a minimum flow of 21 cubic feet per second by ensuring the water levels within the headpond are not lower than an elevation of 630.8 feet above sea level. The amending order also required continuous recording of the water levels within the headpond.

Burt Dam

The facility is a 600 kilowatt hydroelectric generating facility located on the Eighteen Mile Creek in the Town of Newfane, New York. The facility consists of an existing dam with an integrated intake structure, powerhouse and tailrace and the facility is designed to operate as a run-of-the-river facility. The facility was reconstructed in 1987 from an old hydroelectric generating facility at the site of an existing dam. The facility is owned by the Burt Dam Partnership.

Power Purchase Agreement

A power purchase agreement was executed between Niagara Mohawk and Burt Dam Associates on November 25, 1986, which expires on December 31, 2000. The agreement was later assigned to the Burt Dam Partnership. Niagara Mohawk consented to this assignment. The agreement commenced on November 25, 1986 and continues for approximately 14 years until December 31, 2000.

Land and Water Rights

The land and certain facility structures are rented from the Olcott Harbor Board of Trade, Inc. pursuant to a lease agreement dated December 5, 1986. The lease agreement is for a term equal to the greater of 50 years or the term of the FERC licence and payment is based on a percentage of net income from the facility.

The Eighteen Mile Creek has been identified as one of six areas of concern in New York State by the Water Quality Board of the International Joint Commission due to high levels of chemicals in the sediments within the river, mainly PCBs and dioxins. A Remedial Action Plan (''RAP'') has been jointly developed by the New York State Department of Environmental Conservation (''NYDEC'') and SLI to provide environmental protection at this site. The RAP does not affect day-to-day operations of the facility, but the program will have to be considered if major works are required to be constructed with respect to the facility in and around the watercourse.

FERC Licence

The facility received an exemption from licensing for a small hydroelectric generating facility from FERC on May 15, 1986 (FERC Project No. 7477). The exemption order is for a generating facility of less than 5,000 kilowatts and the facility was commissioned in 1988. The major compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) if the NYDEC proceeds with a salmon stocking program, the Burt Dam Partnership must provide a flow over the dam to provide for downstream passage of fish. NYDEC has stated that it has no plans to stock Eighteen Mile Creek.

BUSINESS OF THE EXISTING DEVELOPMENTS

Existing Ontario Development — Long Sault Rapids, Glen Miller Dam, Hurdman Dam, Drag Lake Dam and Burgess Dam Facilities

Long Sault Rapids Facility

The Long Sault Rapids Facility is an 18,000 kilowatt hydroelectric generating facility located on the Abitibi River, 19 kilometres north of the Town of Cochrane, in northern Ontario. The facility was commissioned on April 1, 1998.

The facility was developed by a joint venture between Algonquin Power (Long Sault) Partnership and N-R Power Partnership. The facility is owned by the Co-Owners as tenants-in-common and not as joint tenants, with the Co-Owners each having an undivided 50% interest in the facility. The partners in the Algonquin Power (Long Sault) Partnership, Algonquin Power (Long Sault) Corporation Inc. and Energy Acquisition (Long Sault) Inc., are wholly owned subsidiaries of Algonquin Power. The partners in the N-R Power Partnership are Nicholls Holdings Inc. and Radtke Holdings Inc., companies controlled by two independent businessmen. There are two non-recourse loans outstanding which are secured against the facility and the Co-Owners' interest therein (see ''Credit Agreements'' below).

The facility includes a 125 meter long rock filled dam that crosses the Abitibi River. The dam has created a narrow headpond approximately ten kilometres in length. The facility is a run-of-the-river facility and the headpond will not be utilized for storage and peaking purposes. The powerhouse is an integrated structure, housing four pit turbine generating units each rated at 4,500 kilowatts of generating capacity which were manufactured by Sulzer Canada Inc.

Electricity produced by the facility is sold directly to Ontario Hydro for distribution to Ontario Hydro's customers by means of a 23.5 kilometre 115 kV transmission line, which crosses both private property and provincially owned land pursuant to easements, rights of way and land use permits. Rights to all necessary lands have been obtained in order to construct, operate and maintain the transmission line.

Power Purchase Agreement

Pursuant to the terms of the power purchase agreement, the Co-Owners sell power produced by the facility exclusively to Ontario Hydro and Ontario Hydro purchases all power delivered at the delivery point, approximately 23.5 kilometres from the facility site.

The power purchase agreement terminates 50 years from the commercial in-service date, April 1, 1998, and may be renewed for a further term upon request by either party on terms and conditions to be mutually agreed. Ontario Hydro has the option to terminate the agreement upon 60 days' written notice if the Co-Owners fail to deliver power to Ontario Hydro for 24 consecutive months and, in Ontario Hydro's opinion, the Co-Owners are not taking appropriate steps to remedy the situation. In addition, Ontario Hydro has the right to discontinue the receipt of power, by written notice, should the Co-Owners fail to perform any obligation under the agreement or under an operations agreement between Ontario Hydro and the Co-Owners outlining operating procedures for the facility, until the obligation is fulfilled.

The agreement provides that the payment made by Ontario Hydro for power produced by the facility is calculated as the sum of the monthly capacity payment and the monthly energy payment. The monthly capacity payment is calculated as the product of the number of On-peak hours for the month and the sum of the applicable energy and capacity rates. The monthly energy payment is the product of Off-peak hours and the applicable energy rate. The rates are escalated annually based on an index figure tied to the greater of Ontario Hydro's all customer rate or direct customer rate. The agreement provides that the rates will not decrease based on this index.

The Co-Owners will not receive a monthly capacity payment unless the facility delivers an average of at least 1,800 kilowatts of power to Ontario Hydro during at least 85% or more of the On-peak period fifteen minute intervals for that month. The monthly payment from Ontario Hydro will not include an amount for any monthly capacity power delivered in excess of target generation specified in the agreement and will not include an amount for any monthly energy in excess of 115% of target generation specified in the agreement.

Waterpower Lease

The Co-Owners have entered into an interim waterpower lease with the Province of Ontario in respect of the dam site for a term expiring on June 30, 2001. The interim lease provides that the parties will enter into a long term waterpower lease upon certain matters being completed, including approval of the long term lease by the Lieutenant Governor in Council. The long term lease will be for a term of 50 years less a day, comprised of an initial term of 20 years, a 10 year extension on the same terms and conditions and two additional 10 year extensions on terms and conditions to be approved by the Province. The long term waterpower lease will provide for an annual land rental and an annual energy charge. The energy rate does not commence until 10 years after the long term lease comes into effect; however, the energy rate will be subject to annual review by the Province and may be adjusted at the discretion of the Province.

Partnership Agreements

There are partnership agreements governing the affairs of both Co-Owners. The provisions of each partnership agreement are virtually identical. The partnerships were formed for the purpose of carrying on the business of financing, holding and operating undivided interests in the facility.

Co-Owners Agreement and Management Agreement

The Co-Owners have entered into an agreement concerning, among other things, their holding of undivided interests in the facility. Upon the occurrence of specified events of default, the non-defaulting Co-Owner may purchase the defaulting Co-Owner's interest for 90% of fair market value. The Co-Owners have entered into a management agreement with NR-Algonquin Energy Management Inc. to manage the facility on their behalf for nominal consideration.

Credit Agreements

There is an outstanding senior loan against the facility in the amount of approximately $45,000,000. The loan was provided by a syndicate comprised of The Mutual Life Assurance Company of Canada (''Mutual''), The Canada Life Assurance Company and The Maritime Life Assurance Company. Mutual acts as agent for the syndicate. The loan has a term of 30 years commencing upon completion of construction and conversion of the loan to long-term financing and an identical amortization period with an interest rate of 10.31% during construction, 10.16% for the next 15 years and 10.21% thereafter, compounded annually. Blended payments of principal and interest are made monthly. The loan is non-recourse and is secured by the facility and the ownership interests therein. The Fund does not intend to purchase this loan.

The credit agreement contains certain events of default, including: (i) the sale of assets and property covered by the lenders' security without the lenders' consent; (ii) certain changes in ownership; (iii) any amendment, waiver, termination, renewal or extension or breach continuing for 30 days after written notice of any of the material facility agreements, without the prior written consent of a majority of the lenders; or (iv) if there is a change in the manager or operator from Power Systems.

The LSR Subordinate Note is also an outstanding loan against the facility which the Fund currently owns.

Construction Contract

The construction contract between McNamara Construction, a division of Tarmac Canada Inc. (''McNamara'') and the Co-Owners is a lump sum contract. During completion of construction, a number of sinkholes were observed in the southern embankment dam constructed by McNamara as part of the facility. Remedial measures were undertaken by McNamara and Algonquin Power to correct the situation. All costs of the remedial work have been borne by Algonquin Power and N-R Power. McNamara has registered a lien in the approximate amount of $6.5 million against the lands associated with the Long Sault Rapids Facility in respect of amounts remaining outstanding under the construction contract, including construction lien legislation holdbacks of approximately $3.5 million, which the Co-Owners continue to hold, and amounts expended by McNamara in respect of the remedial work. Certain subcontractors and sub-subcontractors of McNamara have and may register liens which are included as part of the $3.5 million holdback amount. The Co-Owners have posted security which, together with the holdback amounts, should be sufficient to vacate such liens. While management of the Co-Owners believe that McNamara's claim for amounts in excess of the holdback is without merit, Algonquin Power and N-R Power have indemnified the Co-Owners in respect of any amounts which may become payable to McNamara in respect of such claims in excess of the holdback amounts and in that respect, the Fund will not bear any portion of the liability if the claim is ultimately successful. As a result, the Trustees believe that this is not material to the Fund.

While the registration of such liens is a technical breach of the covenants under the credit agreement in respect of the LSR Senior Debt, the lenders have verbally confirmed to the Co-Owners that no action will be taken with respect to such technical default for a period of time to allow resolution of the claims by McNamara. Algonquin Power and N-R Power have committed to take such steps as are necessary, including the posting of security, to have the liens vacated.

Glen Miller Dam, Hurdman Dam, Drag Lake Dam and Burgess Dam Facilities

The Glen Miller Dam facility, with a generating capacity of 1,100 kilowatts, is located near the lower end of the Trent River at Lock 3, Dam 3, in Trenton, Ontario. The Drag Lake Dam facility, with a generating capacity of 225 kilowatts, is located on the Trent River at the Drag Lake Dam, in Haliburton, Ontario. The Burgess Dam facility, with a generating capacity of 130 kilowatts, is located at the outlet of Lake Muskoka River at Moon River, in Bala, Ontario.

The Hurdman Dam facility, with a generating capacity of 570 kilowatts, is located on the Mattawa River, two kilometres upstream from the Town of Mattawa, Ontario. These four facilities are owned by Algonquin Canada.

Power Purchase Agreements

Pursuant to the terms of the power purchase agreements, each facility will sell all power produced at such facility exclusively to Ontario Hydro and Ontario Hydro agrees to purchase all such power. The initial term of the agreement for the Glen Miller Dam facility is 15 years commencing October 1, 1986, for the Hurdman Dam facility is 20 years commencing January 1, 1985, for the Drag Lake Dam facility is 20 years from the commencement of commercial operations, which occurred on March 9, 1992 and for the Burgess Dam facility is 20 years from the commencement of commercial operations, which occurred on August 14, 1989. The term of the power purchase agreement for the Glen Miller facility may be extended indefinitely, subject to the approval of the lessor of the facility lands. However, the agreement may be terminated on one month's notice after the expiry of the initial term. In any event, the agreement terminates upon the termination of the lease. Upon default, Ontario Hydro may terminate the agreement five days after mailing a notice of such default to the generator.

The agreements contain typical non-utility generator obligations to Ontario Hydro. There are no minimum contractual delivery quantities. The power purchase rates applicable to the facilities are currently based on On-peak versus Off-peak hours and summer (April 1 to September 30) versus winter.

Land and Water Rights

The Glen Miller facility is located at a dam on the Trent River within a building owned by Sonoco Limited (''Sonoco''). A lease was originally executed on January 9, 1986 between Paperboard Industries Corp. (''Paperboard'') and the former owner of the facility with a term of 15 years from the commencement of commercial operations. Paperboard sold the site and assigned its interest in the lease to Sonoco in 1992. Algonquin Canada currently pays Sonoco monthly rent equal to 20% of the gross sale price of power generated by the facility. If the lease is terminated for any reason whatsoever, other than the fault of Sonoco, all of Algonquin Canada's rights and facility improvements will be assigned to Sonoco. Sonoco may terminate the lease upon payment to Algonquin Canada of the present value of Algonquin Canada's share of the operating cash flows which Algonquin Canada would otherwise have received from the sale of electricity generated from the facility. Negotiations with Sonoco are currently ongoing with a view to extending the term of the existing lease.

For the Hurdman Dam facility, a waterpower renewal lease agreement was entered into with the Province of Ontario in respect of the facility site dated January 1, 1994. The agreement provides for both waterpower and land usage rights. The term of the agreement is for 10 years, with a right to three further 10 year renewal terms upon the request of the lessee. The annual rent is: (i) an amount determined in accordance with a formula based on energy produced multiplied by the increase in the consumer price index; (ii) $15,000; and (iii) 9% of gross revenues generated by the facility. The Province may terminate the lease if amounts owing under the lease remain unpaid for 90 days or if taxes or other assessments remain unpaid. Upon expiry or termination of the lease, improvements on the site become the property of the Province upon payment of the value of such improvements. Water levels must be maintained as specified in the lease. The lease is subject to termination if the power purchase agreement with Ontario Hydro is terminated.

With respect to the Drag Lake Dam facility, the land on which the powerhouse and penstock are located is owned by Algonquin Canada. The dam site is licensed from the Trent-Severn Waterway.

The Burgess Dam facility has a lease for the facility site with The Corporation of the Township of Muskoka Lakes that commenced on May 1, 1988 for an initial term of ten years. The lease has four 10 year renewal terms on terms to be mutually agreed. The lease expired on April 30, 1998 and the Manager is currently negotiating a renewal with the Township. The lease may be terminated for non-payment of rent, failure to maintain the site, vacancy for 20 or more days or other breaches on the part of the lessee, upon notice and after an opportunity to cure has expired. The lease includes the water rights owned by the Township and under the direction of the Ontario Ministry of Natural Resources.

Rights to all necessary lands have been obtained in order to operate and maintain the transmission lines for the facilities.

Existing Québec Development — Donnacona, Ste-Brigitte and Belleterre Facilities

Donnacona Facility

The Donnacona Facility is a 4,800 kilowatt hydroelectric generating facility located on the lower portion of the Jacques Cartier River, near the Town of Donnacona, Québec. The Jacques Cartier River flows south and empties into the St. Lawrence River approximately 60 kilometres west of Québec City, Québec. The facility was constructed at the site of an existing dam and is located on property purchased from Alliance Forest Products Inc./Produits Forestiers Alliance Inc. (''Alliance''). The powerhouse houses eight identical 600 kilowatt turbine generators. Construction commenced in April 1996 and the facility was commissioned in December 1996. Electricity produced by the facility is delivered to the Hydro-Québec distribution system.

Power Purchase Agreement

Under the power purchase agreement, Hydro-Québec has agreed to purchase all power made available to it from the facility and the Donnacona Partnership has agreed to supply a minimum of 18,790,200 kilowatt hours of energy during each period of 12 consecutive months commencing December 1 in each contract year. If the facility produces less energy than the minimum, a penalty of approximately 1.1 cents per kilowatt hour for each kilowatt hour the actual production is below the minimum annual production is payable to Hydro-Québec. The term of the agreement is 25 years and it expires in 2022. The agreement may be renewed at the option of the Donnacona Partnership for a period not exceeding the original 25 year term upon terms to be negotiated. Hydro-Québec can veto the renewal, but only if the Donnacona Partnership is in default of a material term of the agreement.

Power purchase rates for contract year 2001 and thereafter will be increased in accordance with the percentage increases in the Consumer Price Index for the Montréal Urban Community, as published by Statistics Canada, with a minimum annual escalation of 3% and a maximum annual escalation of 6%.

Land and Water Rights

The real property interest required for the construction and operation of the facility consists of a deed of transfer of certain land and easement rights obtained from Alliance in April 1996. In addition to the land, the existing dam structure, the bed of the Jacques Cartier River upstream of the facility and the natural hydraulic forces of that part of the river were transferred to the Donnacona Partnership. Under the deed of transfer, the Donnacona Partnership agrees to allow water flows in the Jacques Cartier River of up to 2.25 cubic metres per second to be utilized by Alliance for the Donnacona paper mill located approximately one kilometre from the facility site until such time as a permanent pumping system is conveyed by the Donnacona Partnership to Alliance. During construction, the deed of transfer required the partnership to design and install a temporary water pumping system to supply the Alliance mill with water if there was a problem with the existing gravity water supply system. This temporary pumping equipment was then transferred to Alliance and the equipment is located in a building on the site. The partnership also has the obligation to construct a permanent pumping station in the unlikely event there is a permanent failure of the existing dam and the existing gravity water supply system is permanently disrupted.

The deed of transfer grants the Donnacona Partnership certain easements across land retained by Alliance, which easements are required to allow access to the dam and other structures located near the powerhouse. Under the terms of the deed of transfer, the Donnacona Partnership has agreed, among other things, to maintain the dam in good condition and maintain certain insurance which will protect Alliance against loss of water caused by negligence of the Donnacona Partnership until completion of a permanent pumping facility.

The Donnacona Partnership has entered into a lease with the Province of Québec in respect of a section of the bed of the river upstream from the facility and water rights relating to the Jacques Cartier River necessary for the operation of the facility which expires on February 6, 2017. The lease includes a renewal option for an additional 20 year period, exercisable at the request of the Donnacona Partnership upon terms imposed by the Province of Québec. The lease may be terminated by the Province upon, among other events, termination of the power purchase agreement with Hydro-Québec. Notice of any change of control of the Donnacona Partnership or its partners must be given to the Québec Minister of Natural Resources and the Québec Minister of the Environment within 30 days of the change of control. The Ministers have the discretion to approve such change of control or terminate the lease.

Rights to all necessary lands have been obtained in order to operate and maintain the transmission line for the facility.

Ste-Brigitte Facility

The Ste-Brigitte Facility is a 4,200 kilowatt hydroelectric generating facility located on the Nicolet River, in the Municipality of Ste-Brigitte-des-Saults, Québec. The facility is located at the site of an historic mill, but none of the original structures have been utilized for the new powerhouse. The site layout involves an intake canal equipped with a gate structure, a powerhouse containing a single 4,200 kilowatt turbine-generator and a tailrace canal which conveys the waterflow back to the natural watercourse. It has been designed as a run-of-the-river facility.

The facility incorporates a 1.1 metre high movable dam utilized to increase available water level differential. The original movable dam was damaged and required replacement. The former owner has entered into an agreement with Construction Services Inc., a subsidiary of Algonquin Power, to complete this repair and replacement work and all costs of such repair work is for the account of Algonquin Power.

Land and Water Rights

The Ste-Brigitte Facility has been constructed on certain lands purchased by a former owner. In addition, certain easements were granted to the former owner in respect of the access road, transmission line and Hydro-Québec interconnection. The land includes the bed of the river upon which the existing weir structure is located and certain land on either side of the river. Accordingly, no lease with the Province of Québec is required.

Belleterre Facility

The Belleterre Facility is a 2,200 kilowatt hydroelectric generating facility located on the Winneway River, in the Municipality of Laforce, Québec. The facility is located at the point of discharge of the Winneway River into Lac Simard/Lac des Quinzes. Commissioning of the Belleterre Facility involved the rehabilitation of a generating facility constructed in the 1930's to supply power to local mining operations. The rehabilitation work included replacement of the turbine-generating equipment, restoration of site structures, including the penstock and gates, and replacement/recommissioning of the electrical interconnection to the Hydro-Québec grid. The rehabilitation and recommissioning was completed and the facility was brought into commercial service with Hydro-Québec in March 1993.

Land and Water Rights

The land and water rights necessary for the Belleterre Facility were originally leased from the Province of Québec to the Town of Belleterre pursuant to a lease dated July 17, 1991. The lease expires in December 2011 and includes a renewal option for an additional 20 year period, exercisable by the lessee upon terms imposed by the Province of Québec. The lease may be terminated by the Province of Québec upon, among other events, termination of the power purchase agreement for the facility with Hydro-Québec.

The Town of Belleterre transferred its interest in the lease to a former owner pursuant to a deed of sale dated May 31, 1992. Consideration paid under the deed of sale included granting the Town of Belleterre a royalty interest which provides an annual payment equal to two percent of the gross revenues earned by the facility from the sale of energy to Hydro-Québec. Certain easements required for the transmission line were granted by the Town of Belleterre under the deed of sale. Under the lease with the Province of Québec, a shareholder of a former owner was required to provide a guarantee of the lessee's obligations thereunder. Following the acquisition of the Belleterre Facility, Algonquin Canada provided an indemnity to such shareholder in respect of its obligations under the guarantee.

Ste-Brigitte and Belleterre Power Purchase Agreements

Under the power purchase agreements, Hydro-Québec has agreed to purchase all power made available to it from the facilities. The standard Hydro-Québec power purchase agreement stipulates a minimum energy production during each 12 consecutive months commencing December 1 in each contract year. If a facility produces less energy than the minimum, a penalty of approximately 1.1 cents per kilowatt hour for each kilowatt hour the actual production is below the minimum annual production is payable to Hydro-Québec.

As a result of unrealistic energy production forecasts and poor operating procedures by a former owner of the Ste-Brigitte Facility and the Belleterre Facility, the facilities failed to meet the minimum production obligations under the Hydro-Québec power purchase agreements. As a result, Hydro-Québec has reduced the minimum annual production obligation for the Belleterre Facility to 9,329,000 kilowatt hours and is also expected to reduce the minimum annual production obligations for the Ste-Brigitte Facility to 9,747,000 kilowatt hours. Under the agreement of purchase and sale in respect of the Ste-Brigitte Shares and Belleterre Shares, the Fund is liable for the payment of the fees charged by Hydro-Québec for such reductions in the amounts of $103,542 during each of 1998, 1999, 2000 and 2001 for the Belleterre Facility and anticipated amounts of approximately $69,000 during each of 1998 through 2002 for the Ste-Brigitte Facility. The Manager fully expects to be able to meet the revised minimum annual production obligations set out in the power purchase agreements with Hydro-Québec for both facilities over the remaining term of the contracts.

The term of each of the agreements is 20 years from the commercial start-up date and the Ste-Brigitte Facility agreement expires in 2014 and the Belleterre Facility agreement expires in 2013. The agreements may be renewed at the option of the producer for a period not exceeding the original 20 year term upon terms imposed by Hydro-Québec.

Power purchase rates under the agreements for each contractual year will be increased in accordance with the percentage increase in the Consumer Price Index for the Montréal Urban Community, as published by Statistics Canada, with a minimum annual escalation of 3% and a maximum annual escalation of 6%.

Potential Disposition of Belleterre Facility

The Long Point First Nation (the ''First Nation''), through the Government of Québec, has of its own initiative expressed an interest in acquiring the Belleterre Facility from the Fund. The Long Point community, which is located adjacent to the Winneway River and in close proximity to the Belleterre Facility, has indicated that acquiring this facility will assist with the economic development of this First Nation community. The information circular prepared by the Manager in respect of the meeting of the Unitholders to be held on June 22, 1998 contains a motion to allow the Trustees to negotiate with the First Nation and/or the Government of Québec and, if the Trustees determine that it is in the best interests of the Unitholders, grant the Trustees the power to sell, assign or otherwise dispose of the Fund's direct and indirect interest in the Belleterre Facility, provided the price of such disposition is sufficient to allow investment of the sales proceeds in income producing securities which: (i) have an equal or better risk profile than the investment in the Belleterre Facility; and (ii) provide sufficient income so as to be neutral or accretive to Unitholders with reference to the forecast performance of such facility in the Fund's prospectus dated December 11, 1997.

Existing New England Development — Lochmere and Hopkinton Facilities

Lochmere Hydroelectric Generating Facility

The facility is a 1,200 kilowatt hydroelectric generating facility located on the Winnipesaukee River, in the Village of Lochmere, within the city limits of Tilton, New Hampshire. The facility consists of a dam, intake canal, intake, powerhouse and tailrace structures and is designed and operated as a run-of-the-river facility. The facility was reconstructed from an old hydroelectric generating facility at the site of an existing dam at the outlet of Winnisquam Lake. The Lochmere Facility is owned by the HDI Partnership.

Power Purchase Agreement

A power purchase agreement was executed between PSNH and the HDI Partnership on August 5, 1983 for all electrical energy produced at the facility. The term of the contract is 20 years commencing January 1986.

Land and Water Rights

The land for the facility site was leased by the Town of Belmont from the New Hampshire Water Resources Board pursuant to an agreement dated August 10, 1983. The lease was assigned to the HDI Partnership for development of the facility. The term of the lease is 50 years and payments under the agreement are based on a percentage of adjusted gross revenues generated by the facility, which payments are in lieu of property taxes.

Since the existing dam at this site was once used to generate electricity and is a State-owned structure, there is a water use licence granting the facility the right to utilize the hydraulic resources for hydroelectric generation purposes by the State of New Hampshire. It has a term of 15 years ending March 1999. The lease may be renewed upon mutual agreement. Payments are made on a semi-annual basis in accordance with a simple formula contained in the licence. The payment rate escalates by ten percent on every fifth anniversary of the agreement.

Rights to all necessary lands have been obtained in order to operate and maintain the transmission line for the facility.

FERC Licence

The facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on March 15, 1984 (FERC project No. 3128) for a 1,200 kilowatt facility. The main compliance conditions associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility and there be no storage of water upstream of the facility; (ii) from October to March, a minimum flow of 35 cubic feet per second must be released downstream of the dam, when available, to maintain the instream fisheries and water quality. During the months of April to September, the minimum flow is 50 cubic feet per second for the benefit of small mouth bass and anglers; and (iii) a series of inexpensive, hand-built check dams constructed of natural river bed material are to be maintained annually downstream of the dam for the creation of fish and macroinvertebrate habitat. The cost of maintaining such check dams is not expected to be significant.

Hopkinton Hydroelectric Generating Facility

The facility is a 250 kilowatt hydroelectric generating facility located on the Contoocook River, in the Village of Contoocook, New Hampshire. The layout of the facility consists of a dam, intake, powerhouse and tailrace structure and is designed and operated as a run-of-the-river facility. The facility was constructed at the site of an existing concrete dam which was rebuilt to facilitate the new generating facility. The Hopkinton Facility is owned by the HDI Partnership.

Power Purchase Agreement

A power purchase agreement was executed between the Public Service Company of New Hampshire and the HDI Partnership on August 5, 1983 for all electrical energy produced at the Hopkinton facility. The term of the agreement is 20 years, commencing January 1986, which was the commissioning date of the facility. Under the terms of the agreement, PSNH is required to purchase all energy for $0.1242/kW-hr (US$0.09/kW-hr), plus 50% of the positive amount of PSNH's incremental energy cost in excess of $0.1242 (US$0.09). Since incremental energy costs have not risen above this level, payments have been made at the rate of $0.1242/kW-hr (US$0.09/kW-hr) since commissioning of the facility.

Land and Water Rights

Land and water rights for the site are leased from the Town of Hopkinton pursuant to an agreement dated September 2, 1983. The term of the lease is 40 years and payments under the agreement are based on a step-rated percentage of annual gross revenues from the facility. The lease makes provision to significantly reduce lease payments in the event that dam repairs exceed $345,000 (US$250,000). A separate agreement with the Town of Tilton provides for payments in lieu of property taxes based on gross revenues generated by the facility.

Rights to all necessary lands have been obtained in order to operate and maintain the transmission line for the facility.

FERC Licence

The Hopkinton facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on March 14, 1984 (FERC project No. 5735) for a 250 kilowatt facility. The main compliance conditions associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility and there be no storage of water upstream of the facility; (ii) a minimum flow of two cubic feet per second must be released downstream of the dam, when available, to maintain the instream fisheries and water quality; and (iii) at the time of issuance of the FERC exemption order, the U.S. Fish and Wildlife Service requested a downstream passage for Atlantic salmon seeded by the resource agencies. If there is a successful arrival of naturally migrating salmon, an upstream fish ladder will be required. The cost of installing such fish ladder, if required, is not expected to be significant. In addition, protection measures at the intake will also be required during the downstream migration of smolts, the cost of which is not expected to be significant.

Existing New York Development — Ogdensburg, Forestport, Herkimer, Christine Falls, Cranberry Lake, Kayuta Lake and Adams Facilities

Trafalgar Power, Inc. and Christine Falls Corporation

Trafalgar Power, Inc. (''Trafalgar''), a Delaware corporation, and Christine Falls Corporation, a New York corporation, own seven hydroelectric generating facilities located in upper New York State. The Trafalgar Companies are each controlled by the same independent businessman. The Ogdensburg hydroelectric generating facility, Forestport hydroelectric generating facility, Herkimer hydroelectric generating facility, Cranberry Lake hydroelectric generating facility, Kayuta Lake hydroelectric generating facility and the Adams hydroelectric generating facility are owned by Trafalgar and the Christine Falls hydroelectric generating facility is owned by Christine Falls Corporation. Each of the facilities has received a licence or a licence exemption from FERC and each sell electricity to Niagara Mohawk Power Corporation pursuant to separate power purchase agreements. Such agreements are either front-end loaded, whereby the rate paid by Niagara Mohawk is high in the early years to enable the developer to recoup its capital costs and is adjusted downward in later years to compensate for the overpayment based on the balance in a tracking account set up for such purpose, or specified rate, whereby the rate is as set out in the agreement in the early years and thereafter is set as a percentage of Niagara Mohawk's Avoided Costs. Niagara Mohawk has the right to suspend its obligations under such agreements if its transmission system is unable to accept power generated from the facilities. It also retains a right of first refusal to negotiate the acquisition of a facility in the event of a proposed disposition thereof. The Trafalgar Companies must maintain such facilities in good working order, maintain the interconnection with Niagara Mohawk's transmission system and provide insurance coverage.

Trafalgar Class A Note

Algonquin Canada acquired the Trafalgar Class A Note on December 23, 1997. The Trafalgar Class A Note was issued jointly and severally by the Trafalgar Companies pursuant to the Trafalgar Indenture, bears interest at the rate of 9.75% per annum and is secured by a first charge against all assets of the Trafalgar Companies including, without limitation, the generating equipment comprising the Trafalgar Facilities and the interest in the key contracts held by the Trafalgar Companies for the operation of the Trafalgar Facilities.

Under the terms of the Trafalgar Indenture, Algonquin Canada is entitled to 100% of the Trafalgar Operating Cashflow up to certain cumulative annual targets, then 50% of Trafalgar Operating Cashflow in amounts up to certain cumulative annual targets, and then, for the remainder of the calendar year, 90% of cashflows in excess of those targets in respect of interest and principal payments on the note.

Trafalgar Class B Note

The Fund acquired the Trafalgar Class B Note on December 23, 1997. The Trafalgar Class B Note was issued jointly and severally by the Trafalgar Companies pursuant to the Trafalgar Indenture, bears interest at the rate of 6.10% per annum and ranks subordinate to the Trafalgar Class A Note. It is secured by a subordinate charge against all assets of the Trafalgar Companies including, without limitation, the generating equipment comprising the Trafalgar Facilities and the interest in the key contracts held by the Trafalgar Companies for the operation of the Trafalgar Facilities.

Under the terms of the Trafalgar Indenture, prior to redemption or repayment of the Trafalgar Class A Note, no payments will be made by the Trafalgar Companies in respect of the Trafalgar Class B Note. After retirement of the Trafalgar Class A Note, but prior to the holder of the Trafalgar Class B Note having received aggregate payments exceeding a certain cumulative target, 50% of Trafalgar Operating Cashflows in amounts up to certain annual targets, and 90% of cash flows in excess of those targets, will be paid to the holder of the Trafalgar Class B Note in respect of interest and principal payments on the note. After the holder of the Trafalgar Class B Note has received aggregate payments exceeding such cumulative target, 33% of Trafalgar Operating Cashflows will be paid to the holder of the Trafalgar Class B Note in respect of interest and principal payments on the note.

Under the terms of the various securities purchased and agreements entered into by the Fund and Algonquin Canada, the Fund is indirectly entitled to a 100% interest in the cash flows generated from the Trafalgar Facilities up to the year 2010 and thereafter until all amounts outstanding under such note are repaid, if the Trafalgar Companies elect not to repay the Trafalgar Class B Note.

If the Trafalgar Companies fully repay the Trafalgar Class B Note upon its maturity on December 31, 2010, the Fund will receive a payment equal to 75% of the equity value of the Trafalgar Facilities which is expected by the Fund to be satisfied by delivery of a 75% equity interest in the Trafalgar Companies.

Trafalgar Operations Subcontract

Algonquin Canada entered into the Trafalgar Operations Subcontract on December 23, 1997 pursuant to which Algonquin Canada provides to Algonquin Power services required in respect of the operation of the Trafalgar Facilities. In addition to receiving certain monthly payments in respect of the operating costs incurred by Algonquin Canada in providing such services, Algonquin Canada is entitled to the Trafalgar Contingency Participation as a bonus payment based on achieving certain target revenue generation and payments on the above-noted notes.

Algonquin Canada entered into the Trafalgar Services Agreement on December 23, 1997 pursuant to which Power Systems has assumed responsibility for providing the operations services required by the Trafalgar Facilities. Compensation to Power Systems under the Trafalgar Services Agreement does not include any portion of the Trafalgar Contingency Participation.

Prior to retirement of the Trafalgar Class A Note, on an annual basis, after the holder of the Trafalgar Class A Note receives payment up to a certain target, the Trafalgar Contingency Participation will be equal to 50% of Trafalgar Operating Cashflows in amounts up to certain annual targets and 10% of the amount of Trafalgar Operating Cashflows which is in excess of those targets. After retirement of the Trafalgar Class A Note and prior to the holder of the Trafalgar Class B Note having received aggregate payments exceeding a certain cumulative target, the Trafalgar Contingency Participation will be equal to 50% of Trafalgar Operating Cashflows up to certain annual targets and 10% of cash flows in excess of those targets. After the holder of the Trafalgar Class B Note has received aggregate payments exceeding such certain cumulative target, the Trafalgar Contingency Participation will be equal to 33% of Trafalgar Operating Cashflows.

Ogdensburg Hydroelectric Generating Facility

The facility is located on the Oswegatchie River, in the City of Ogdensburg, New York. The facility was built at an existing concrete dam located immediately upstream of the St. Lawrence River. The dam is owned by the City of Ogdensburg (the ''City'') and Trafalgar entered into an agreement with the City to utilize the structures. It is a run-of-the-river facility. The facility is rated at 3,675 kilowatts. The facility has five bevel geared, double regulated Kaplan turbines manufactured by Sulzer Hydro.

Power Purchase Agreement

The agreement is for a term of 20 years from the commencement of commercial operations, which occurred in January 1988. From the date of commencement of commercial operations until December 31, 2000, the specified settlement rates set out in the agreement will be paid to the producer. For the period January 1, 2001 through December 31, 2007, the producer will be paid a rate equal to 100% of Niagara Mohawk's Avoided Costs.

FERC Licence

The facility received a licence (Major Project) for a hydroelectric generating facility from FERC on June 15, 1987 (FERC Project No. 9821). The licence is for a 3,675 kilowatt facility. The facility was commissioned on December 18, 1987 and the licence expires in May 2027. The main compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) the FERC licence requires a complex and strict minimum flow regime. The first 183 cubic feet per second through the site is spilled over the dam. River flow between 183 to 733 cubic feet per second is discharged through turbine No. 5 which is directed towards the base of the dam and maintains a minimum flow along the downstream reach of the facility. Flows greater than 733 cubic feet per second are discharged through the remaining four turbines, but Turbine No. 5 must always discharge the maximum 733 cubic feet per second.

Agreement with the City of Ogdensburg

In March 1987, Trafalgar entered into an agreement for the development of the facility with the City, pursuant to which Trafalgar is required to pay the City: (i) certain payments relating to the issuance of municipal bonds in the amount of $143,000 (US$100,000) plus interest; (ii) repayment of a loan in the amount of $641,000 (US$450,000) plus interest; (iii) $36,600 (US$25,000) annually, commencing on December 1, 1988 to December 1, 2007; (iv) $99,800 (US$70,000) annually, commencing on December 1, 2008 and ending on December 1, 2027; and (v) during the period from January 1, 2028 through to December 31, 2037, Trafalgar is required to pay the City 40% of the net revenues from the facility and during the period from January 1, 2038 to the expiration of the agreement, 50% of the net revenues from the facility. As security for its obligations under the agreement, Trafalgar granted the City a mortgage over the facility.

Trafalgar must give notice to the City of its intent to sell, lease or assign control or ownership of the facility to any entity other than an affiliate of Trafalgar. If the City does not object by written notice given to Trafalgar within 30 days of delivery of Trafalgar's notice, the City is deemed to have approved the transaction.

The City has an option to purchase the facility after January 1, 2038. If the City exercises this option, the purchase price will be two-thirds of the facility's value capitalized at 8.5% of the net return after normal operating and maintenance expenses, based on the average of the net facility revenues over the three years immediately preceding the date of purchase. Trafalgar cannot place a mortgage on the property after December 31, 2028 without the consent of the City.

Forestport Hydroelectric Generating Facility

The facility is rated at 3,300 kilowatts and is located on an existing canal system along the Black River, near the Town of Boonville, which is located about 30 kilometres north of Utica, New York. The canal system is owned and maintained by the New York State Thruway Authority/Canal Corporation (''NYSTA/CC'') and is used mainly by recreational canoers. The facility generates electricity from flows from both the Black River and

Alder Creek. The powerhouse is located adjacent to the canal and water is diverted to it by a steel penstock. The powerhouse includes a conventional, horizontal ''S'' type Kaplan turbine generator set manufactured by Sulzer Hydro. After passing through the turbine, water is discharged into the Black River.

Power Purchase Agreement

The agreement is for a term of 20 years from commencement of commercial operations which occurred on January 1, 1988. From the date of commencement of commercial operations until December 31, 2000, the specified settlement rates set out in the agreement will be paid to the producer. From the period January 1, 2001 through the remainder of the term ending on December 31, 2007, the producer will be paid a rate equal to 100% of Niagara Mohawk's Avoided Costs.

FERC Licence

The facility received a licence (Major — Existing Dam) for a hydroelectric facility from FERC on March 20, 1987 (FERC Project No. 4900). The licence is for a 3,300 kilowatt generating facility producing power from one turbine. The facility was commissioned in October 1988 and the licence expires in February 2027. The main compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility. A recently installed gate on the barge canal, upstream of the powerhouse, enables the facility to operate in an instantaneous run-of-the-river mode. This work was completed in 1996 as required by the original FERC licence and the operator is awaiting final approval from FERC; and (ii) a minimum flow of 140 cubic feet per second must be released downstream of the dam at all times. The minimum flow is required for fisheries and water quality and was based on recommendations from federal and state regulatory agencies. The licence states that the minimum flow requirements can be modified by submission to FERC of an instream flow study which will determine the flow requirements for aquatic resources. The operator has contracted BAR Environmental of Guelph, Ontario, to undertake the necessary studies to amend the minimum flow requirement. If successful, a reduction in the minimum flow requirement will result in an increase in facility revenue. The NYSTA/CC operates the barge canal system and has required an additional minimum flow within the canal for recreation. Presently, approximately 30 cubic feet per second is discharged into the canal during the summer months.

Herkimer Hydroelectric Generating Facility

The facility is located on West Canada Creek, upstream of the Village of Herkimer, New York. The facility is rated at 1,680 kilowatts. The facility is located at a new concrete dam and overflow structure. There are four syphon-type, semi-kaplan ESAC turbine generators and one vertical Flygt turbine generator installed at the facility.

Power Purchase Agreement

The power purchase agreement with Niagara Mohawk is for a term of 20 years from the commencement of commercial operations, which occurred on January 1, 1988. From the date of commencement of commercial operations until December 31, 2000, the specified settlement rates set out in the agreement will be paid to the producer. From the period January 1, 2001 through the remainder of the contract term on December 31, 2007, the producer will be paid a rate equal to 100% of Niagara Mohawk's Avoided Costs.

FERC Licence

The facility received a licence (Major Project) for a hydroelectric generating facility from FERC on April 22, 1987 (FERC Project No. 9709) for a 1,680 kilowatt facility. The facility was commissioned in February 1988 and the licence expires in March, 2027. The main compliance conditions associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility and there be no storage of water upstream of the facility. The producer is required to install and maintain stream gauging stations for the purpose of measuring the stage and flow of the river; and (ii) the FERC licence requires a minimum flow of 160 cubic feet per second be released downstream of the dam at all times. The minimum flow is required for fisheries and water quality and was based on recommendations from applicable regulatory agencies. A portion of this flow, however, is first passed through the 80 kilowatt Flygt turbine before being discharged back into the stream. The remainder is passed directly over the spillway. In the event that the Flygt turbine is not available, a by-pass gate is opened to pass the minimum flow.

Christine Falls Hydroelectric Generating Facility

The facility is located on the Sacandaga River approximately eight kilometres east of the Town of Specular, which is located within the Adirondack Mountain State Park, in upper New York State. The facility is rated at 850 kilowatts and consists of two horizontal shaft, Francis turbine/generators. The site was previously developed by Niagara Mohawk and was rehabilitated by Christine Falls Corporation. Water from the Sacandaga River is diverted to the plant at an existing concrete dam through a small intake structure and steel penstock. The total head at the site is 15 metres. It is a run-of-the-river facility. Power is delivered to the utility grid at Highway 30.

Power Purchase Agreement

The agreement is for a term of 40 years from the commencement of commercial operations and ends January 2028. The facility commenced commercial operations in January, 1988. For years 1 through 15, the specified settlement rates set out in the agreement will be paid to the producer. For years 16 through 18, the producer will be paid a rate equal to 100% of Niagara Mohawk's Avoided Costs. For years 19 through 30, the producer will be paid a rate equal to 90% of Niagara Mohawk's Avoided Costs. For the remainder of the term, the producer will be paid a rate equal to 80% of Niagara Mohawk's Avoided Costs.

FERC Licence

The facility received a licence (Minor Project) for a hydroelectric generating facility from FERC on October 18, 1983 (FERC Project No. 4639). The original licence was for a 725 kilowatt generating facility from two turbines and was amended to 850 kilowatts on February 15, 1989 when the developer purchased two used machines. The facility was commissioned in April, 1988 and the licence expires in September 2023. The main compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) a minimum flow of 25 cubic feet per second must be released downstream of the dam during March, April and May and ten cubic feet per second must be released at all other times of the year. The minimum flow is required for fisheries and water quality and is controlled through a small valve in the dam.

Cranberry Lake Hydroelectric Generating Facility

The facility is located on the Oswegatchie River, at the outlet of Cranberry Lake, in the Town of Clifton. The facility is located on land and utilizes water that is leased pursuant to a long term agreement with the Oswegatchie River Cranberry Reservoir Regulating District (''OR-CRRD'') dated October 19, 1987 and expires in 2035. The facility is rated at 500 kilowatts and is a run-of-the-river facility using flow available from Cranberry Lake. The facility was constructed within the existing dam structure at the outlet of the lake. The facility configuration is similar to the Adams and Kayuta Lake facilities and includes an ESAC bulb-type turbine generator set in a small powerhouse. The facility is interconnected to Niagara Mohawk's grid immediately at the facility gate.

Power Purchase Agreement

The agreement is for a term ending December 31, 2025. Commercial operations commenced in January 1988. From the date of commencement of commercial operations until December 31, 2000, the specified settlement rates set out in the agreement will be paid to the producer. From the period January 1, 2001 through December 31, 2010, the producer will be paid a rate equal to 90% of Niagara Mohawk's Avoided Costs. For the remainder of the term, the producer will be paid a rate equal to 80% of Niagara Mohawk's Avoided Costs.

FERC Licence

The Cranberry Lake Facility received a licence (Minor Project) for a hydroelectric generating facility from FERC on April 27, 1987 (FERC Project No. 9685). The facility is licensed to generate 595 kilowatts. The facility was commissioned in May 1988 and the licence expires in March 2027. The facility is required to operate according to the direction of the OR-CRRD, which determines the water level of Cranberry Lake and, therefore determines the water flow available for generation. The main compliance condition associated with the facility is that it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility.

Kayuta Lake Hydroelectric Generating Facility

The facility is rated at 400 kilowatts. The facility is located on the Black River at the outlet of Kayuta Lake. The site is immediately upstream of the Forestport facility, in the Town of Boonville. The site was developed at an existing concrete control structure at the outlet of Kayuta Lake. It is a run-of-the-river facility with a configuration very similar to the Adams and Cranberry Lake facilities. The powerhouse is built around an ESAC bulb-type turbine generator set located adjacent to the dam. The facility interconnects with the utility grid immediately at the facility fence.

Power Purchase Agreement

The agreement is for a term of 40 years ending January 2028. Commercial operations commenced in January 1988. Power purchase rates are front-end loaded. The front-end loaded rate for the first 15 years is fixed at $0.1324/kW-hr (US$0.0929/kW-hr). Pursuant to its right to review the power purchase rate based on the balance of the tracking account, Niagara Mohawk has determined that an excessive Advance Payment Account balance was being created and the stabilized rate was decreased to $0.0969/kW-hr (US$0.0680/kW-hr). Niagara Mohawk has the right to continue such reviews on an annual basis for the remainder of the first 15 year period. The producer will be paid a rate equal to 100% of Niagara Mohawk's Avoided Costs for years 16 through 22 and a rate equal to 95% of Niagara Mohawk's Avoided Costs for years 23 through 30. The rate paid during this period will be adjusted positively or negatively to eliminate any balance in the Advance Payment Account by the end of the 30th year. The balance in the Advance Payment Account as at January 9, 1998 was $694,000 (US$487,000) and given the high balance of the Advance Payment Account, a significant reduction in rates paid during this 15 year period can be expected. During the period following the 31st year, the producer will be paid a rate equal to 90% of Niagara Mohawk's Avoided Costs, without adjustment. The agreement specifies that, at the end of the 30th year, the unrepaid balance of the Advance Payment Account must be paid to Niagara Mohawk, if the balance is positive, or to the producer, if the balance is negative, as the case may be. Niagara Mohawk has a lien on the facility to secure any positive balance in the Advance Payment Account, which lien is subordinate to the security under the Trafalgar Indenture.

FERC Licence

The facility received a licence (Minor Project) for a hydroelectric generating facility from FERC on September 12, 1984 (FERC Project No. 5000). The facility is built at the outlet of Kayuta Lake at the site of an existing control structure. The facility was commissioned in March 1988 and the FERC licence expires in August 2024. The main compliance condition associated with the facility is that it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility.

Adams Hydroelectric Generating Facility

The facility is a 350 kilowatt hydroelectric generating facility located on Sandy Creek, in the Village of Adams, New York. Sandy Creek discharges to the east side of Lake Ontario, south of the City of Watertown. It is a run-of-the-river facility located at an existing concrete dam structure. The dam is 41 metres long. A small powerhouse located at the dam houses an ESAC bulb-type turbine generator set. Electricity produced by the facility is connected to the Niagara Mohawk grid at the facility fence.

Power Purchase Agreement

The power purchase agreement for the Adams facility is for a term of 40 years ending January 2028. The facility commenced commercial operations in January 1988. Power purchase rates under the agreement are front-end loaded. The front end loaded rate for the first 15 years was initially set at $0.1391/kW-hr (US$0.0976/kW-hr). Pursuant to its right to review the power purchase rate based on the balance of the Advance Payment Account, Niagara Mohawk has determined that an excessive tracking account balance was being created and the stabilized rate was decreased to $0.1371/kW-hr (US$0.0962/kW-hr). Niagara Mohawk has the right to continue such reviews on an annual basis for the remainder of the first 15 year period.

The agreement provides that the producer will be paid a rate equal to 100% of Niagara Mohawk's Avoided Costs for years 16 through 22 and a rate equal to 95% of Niagara Mohawk's Avoided Costs for years 23 through 30. The rate paid during this period will be adjusted positively or negatively to eliminate any balance in the Advance Payment Account by the end of the 30th year. The balance in the Advance Payment Account as at January 9, 1998 was $372,000 (US$261,000) and given the high balance of the Advance Payment Account, a significant reduction in rates paid during this 15 year period can be expected.

During the period following the 31st year, the producer will be paid a rate equal to 90% of Niagara Mohawk's Avoided Costs, without adjustment. The agreement provides that, at the end of the 30th year, the unrepaid balance of the Advance Payment Account must be paid to Niagara Mohawk, if the balance is positive, or to the producer, if the balance is negative, as the case may be. Given the current status of the Advance Payment Account, it can be expected that a large payment will have to be made to Niagara Mohawk at the end of the 30th year. Niagara Mohawk has a lien on the facility to secure any positive balance in the Advance Payment Account, which lien is subordinate to the security under the Trafalgar Indenture.

FERC Licence

The facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on July 12, 1983 (FERC Project No. 6878). The exemption order is for a 358 kilowatt generating facility and the facility was commissioned in December 1987. The main compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) a minimum flow of 15 cubic feet per second must be released downstream of the dam, when available, to maintain the instream fisheries and water quality.

Taxes

The Trafalgar Companies are responsible for the payment of municipal taxes with respect to the existing New York Development facilities. The municipal tax burden at each facility, other than the Ogdensburg facility, is based on the market value of such facility. The market value of the facility is based on the capitalization of the projected revenue stream of the facility from energy sales to Niagara Mohawk. The existing assessment for municipal taxes is based on the capitalization of the revenue stream that started when the facilities commenced commercial operations in 1988.

Under an agreement for the development of the Ogdensburg facility with the City, the City is responsible for payment of the City's portion of the municipal taxes for the site. Trafalgar in turn pays the City an annual royalty. In addition to the agreement, the Ogdensburg facility is located in an Economic and Development Zone and therefore, Trafalgar was able to obtain relief from the school and county portion of the taxes for a period of time. These taxes were reduced to zero for the first seven years and then phased in starting in 1995. By the year 1999, Trafalgar will be responsible for payment of all school and county taxes. Trafalgar is also responsible for payment of the Cranberry Lake-Oswegatchie River Commission tax, which amounts to approximately $2,990 (US$2,100) per annum.

Transmission Lines

Rights to all necessary lands have been obtained in order to operate and maintain the transmission lines for the facilities.

THE ACQUISITIONS

Acquisition Completion Provisions

The Manager has entered into agreements of purchase and sale with the vendors of the various facility interests which the Manager intends to acquire on behalf of the Fund and the Manager intends to complete the closing of the transactions contemplated by such agreements of purchase and sale contemporaneously with the Closing, with the exception of the acquisition of the Rattle Brook Shares, which acquisition is to be completed on or before January 31, 1999. The acquisition of the various facility interests are subject to completion of satisfactory due diligence reviews by the Fund, including obtaining satisfactory title searches or evidence of satisfactory title insurance with respect to the facilities being acquired. Closing will only occur if the Manager is able to complete contemporaneously with the Closing, Acquisitions for which the aggregate acquisition costs represent greater than 85% of the Net Proceeds, after deducting the Rattle Brook Acquisition Amount and the Rattle Brook Completion Amount.

On Closing, the balance of the Net Proceeds related to the acquisition of those facility interests which the Manager does not close contemporaneously with Closing, other than the Rattle Brook Acquisition Amount and the Rattle Brook Completion Amount (the ‘‘Deferred Closing Funds’’) will be held by the Fund pending Closing and invested in securities with at least ‘‘R-1 (low)’’ short term debt rating by DBRS.

On closing of the acquisition of any particular facility interest subsequent to Closing and prior to the Closing Termination Date, the Fund will utilize that portion of the Deferred Closing Funds to fund Algonquin Canada to enable it to complete the acquisition of the particular facility interest.

Prior to the Closing Termination Date, if the Trustees determine that the closing of the acquisition of a particular facility interest which did not close contemporaneous with Closing is unlikely to occur prior to the Closing Termination Date, the Trustees may elect to acquire one or more alternative facility interests which may be identified by the Manager provided that such alternative facility interests meet the acquisition guidelines set out herein (see ‘‘Future Acquisition Strategy’’).

Subject to the foregoing, following the Closing Termination Date, the balance of the Deferred Closing Funds, if any, plus accrued interest thereon held by the Fund will be distributed to Unitholders contemporaneously with the next distribution of Distributable Cash.

Additions to Québec Development

Acquisition of Saint-Alban Facility Interest

SLI Saint-Alban Note

Contemporaneously with the Closing, the Fund intends to subscribe for additional Algonquin Canada Shares and Algonquin Canada, acting through the Trust Company, will use the proceeds of such subscription to subscribe for the SLI Saint-Alban Note in the principal amount of approximately $15.0 million issued by SLI. SLI owns the Saint-Alban Facility.

The SLI Saint-Alban Note will bear interest at the rate of 5% per annum and will have a term ending on the Saint-Alban Transfer Date. Interest payments under the SLI Saint-Alban Note will be made solely from revenues earned under the power purchase agreement. Acquisition of the SLI Saint-Alban Note will only be completed on Closing if the following consents have been obtained: (i) consent of Shawinigan Electric Company to the registration of a security interest in the temporary lease under the SLI Saint-Alban Note (if the temporary lease has not been replaced with the permanent lease prior to Closing); (ii) consent of the Government of Québec to the transfer of the permanent lease upon the Saint-Alban Transfer Date; and (iii) consent of Hydro-Québec to the granting of a security interest in the power purchase agreement under the SLI Saint-Alban Note and Algonquin Canada acting as operator of the Facility, which consent is not to be unreasonably withheld.

The SLI Saint-Alban Note will be secured by a security interest in favour of the Trust Company of the rights held by SLI in the power purchase agreement with Hydro-Québec relating to the Saint-Alban Facility, the rights of SLI in the assets comprising the Saint-Alban Facility and the rights of SLI under the lease for the Saint-Alban Facility. Recourse under the SLI Saint-Alban Note will be limited to exercising the security interest against such assets and rights. The security interest in such rights and assets will be held by the Trust Company on behalf of Algonquin Canada.

Saint-Alban Interim Operations Agreement

Upon the acquisition of the SLI Saint-Alban Note, Algonquin Canada will enter into an operations and maintenance agreement (the ''Saint-Alban Interim Operations Agreement'') with SLI under which Algonquin Canada will operate and manage the facility during the term of the SLI Saint-Alban Note. In addition to normal operating and maintenance (including replacement) obligations, Algonquin Canada will be responsible for all repair, improvement, damage or loss to the facility. Payments under the Saint-Alban Interim Operations Agreement will be equal to all amounts paid by Hydro-Québec under the power purchase agreement. These payments shall be credited by Algonquin Canada firstly, in respect of interest due under the SLI Saint-Alban Note and the balance, in respect of operations and management services provided by Algonquin Canada. SLI will provide an irrevocable direction to Hydro-Québec to pay all future amounts payable under the power purchase agreement for the Saint-Alban Facility directly to Algonquin Canada.

Saint-Alban Facility Acquisition

Algonquin Power has entered into an agreement dated May 21, 1998 (the ''Saint-Alban Acquisition Agreement'') with SLI, pursuant to which Algonquin Canada will acquire, on the Saint-Alban Transfer Date, which is anticipated to occur on or about May 1, 2001, the Saint-Alban Facility for $15.0 million, subject to certain adjustments. The closing of the transaction contemplated by the Saint Alban Acquisition Agreement will be completed by the retirement of the SLI Saint-Alban Note and delivery of legal title to the lease agreements and power purchase agreement in respect of, and the assets comprising, the Saint-Alban Facility on the Saint-Alban Transfer Date. The Trust Company will release the security interest in the facility upon the retirement of the SLI Saint-Alban Note.

Acquisition of Glenford Facility Interest

Glenford Note

Contemporaneously with the Closing, Algonquin Canada intends to subscribe for the Glenford Note in the principal amount of approximately $5.0 million issued by Algonquin Power. Algonquin Power owns, directly and indirectly, all partnership interests in the Glenford Partnership, which owns the Glenford Facility.

The Glenford Note will be issued by Algonquin Power, will bear interest at the rate of 8.5% per annum and will have a term ending on July 1, 2023. In any particular year following the issuance of the Glenford Note, payments to the holder of the note will consist of 100% of the cash distributions received, directly or indirectly, by Algonquin Power pursuant to the Glenford Interest and the Glenford Shares.

Payments received by the holder of the Glenford Note will first be applied to accrued interest on the note and, secondly, applied against the outstanding principal amount of the note. Notwithstanding the foregoing, an event of default under the Glenford Note will occur if a minimum interest payment in any particular year after the third year equal to 50% of the interest accruing in such year is not made. The amount of interest owing in a particular year which is not paid will be added to the outstanding principal amount of the note and will bear interest at the same rate. Any principal amount of the note remaining outstanding at the end of the term will be immediately due and payable.

The Glenford Note will be secured by a pledge by Algonquin Power in favour of Algonquin Canada of the Glenford Interest and the Glenford Shares held by Algonquin Power. Algonquin Power will consent to the registration of a security interest in respect of such pledge. The security interest granted by Algonquin Power over the Glenford Interest and the Glenford Shares in respect of the Glenford Note will rank subordinate to the security granted with respect to the Glenford Senior Debt. Algonquin Power will grant a first charge security interest in favour of Algonquin Canada over the debt service reserve fund created by the Glenford Partnership. Required payments in respect of the Glenford Senior Debt will take priority over distributions by the Glenford Partnership to Algonquin Power and hence, indirectly, over payments by Algonquin Power in respect of the Glenford Note.

Glenford Interest and Glenford Shares

Algonquin Canada has entered into an agreement dated May 21, 1998 (the ''Glenford Option Agreement'') with Algonquin Power, pursuant to which Algonquin Power has granted Algonquin Canada an option, whereby Algonquin Canada may purchase the Glenford Interest and the Glenford Shares from Algonquin Power for $1.5 million, to be paid in ten equal annual installments of $150,000 commencing in the year after the exercise of the option. Such option may be exercised by Algonquin Canada at any time after the retirement or repayment of the Glenford Note, but in any event no earlier than June 2009. Contemporaneously with the Closing, Algonquin Canada intends to utilize a portion of the proceeds of the issuance of additional Algonquin Canada Shares to pay Algonquin Power $750,000 as consideration for entering into the Glenford Option Agreement.

If Algonquin Canada exercises its option to acquire the Glenford Interest and the Glenford Shares, Algonquin Canada will be, directly and indirectly, entitled to receive 100% of the cash distributions and income allocations from the Glenford Partnership.

Acquisition of Rawdon Facility Interest

SLI Rawdon Note

Contemporaneously with the Closing, the Fund intends to subscribe for additional Algonquin Canada Shares and Algonquin Canada, acting through the Trust Company, will use the proceeds of such subscription to subscribe for the SLI Rawdon Note in the principal amount of approximately $7.5 million issued by SLI. SLI owns the Rawdon Facility.

The SLI Rawdon Note will bear interest at the rate of 5% per annum and will have a term ending on the Rawdon Transfer Date. Interest payments under the SLI Rawdon Note will be made solely from revenues earned under the power purchase agreement. Acquisition of the SLI Rawdon Note will only be completed on Closing if the following consents have been obtained: (i) consent of the Government of Québec to the transfer of the lease upon the Rawdon Transfer Date; and (ii) consent of Hydro-Québec to the granting of a security interest in the power purchase agreement under the SLI Rawdon Note and Algonquin Canada acting as operator of the facility, which consent is not to be unreasonably withheld.

The SLI Rawdon Note will be secured by a security interest in favour of the Trust Company of the rights held by SLI in the power purchase agreement with Hydro-Québec relating to the Rawdon Facility, the rights of SLI in the assets comprising the Rawdon Facility and the rights of SLI under the lease for the Rawdon Facility. Recourse under the SLI Rawdon Note will be limited to exercising the security interest against such rights and assets. The security interest in such rights and assets will be held by the Trust Company on behalf of Algonquin Canada.

Rawdon Interim Operations Agreement

Upon the acquisition of the SLI Rawdon Note, Algonquin Canada will enter into an operations and maintenance agreement (the ''Rawdon Interim Operations Agreement'') with SLI under which Algonquin Canada will operate and manage the facility during the term of the SLI Rawdon Note. In addition to normal operating and maintenance (including replacement) obligations, Algonquin Canada will be responsible for all repair, improvement, damage or loss to the facility. Payments under the Rawdon Interim Operations Agreement will be equal to all amounts paid by Hydro-Québec under the power purchase agreement. These payments shall be credited by Algonquin Canada firstly, in respect of interest due under the SLI Rawdon Note and the balance, in respect of operations and management services provided by Algonquin Canada. SLI will provide an irrevocable direction to Hydro-Québec to pay all future amounts payable under the power purchase agreement for the Rawdon Facility directly to Algonquin Canada.

Rawdon Facility Acquisition

Algonquin Power has entered into an agreement dated May 21, 1998 (the ''Rawdon Acquisition Agreement'') with SLI, pursuant to which Algonquin Canada proposes to acquire on the Rawdon Transfer Date, which is anticipated to occur on or about June 1, 1999, the Rawdon Facility for $7.5 million, subject to certain adjustments. The closing of the transaction contemplated by the Rawdon Acquisition Agreement will be completed by the retirement of the SLI Rawdon Note and delivery of legal title to the lease agreements and power purchase agreement in respect of, and the assets comprising, the Rawdon Facility on the Rawdon Transfer Date. The Trust Company will release the security interest in the facility upon the retirement of the SLI Rawdon Note.

Acquisition of Newfoundland Development

Acquisition of Rattle Brook Facility Interest

Rattle Brook Partnership Interest

Algonquin Canada has entered into an agreement dated May 8, 1998 (the ''Rattle Brook Acquisition Agreement'') with TD Capital Group Limited, pursuant to which Algonquin Canada intends to acquire the Rattle Brook Shares on the Rattle Brook Release Date for approximately $4.2 million. It is anticipated that following the acquisition of the Rattle Brook Shares, Algonquin Canada will amalgamate with 10640 Newfoundland Limited under the name ''Algonquin Power Fund (Canada) Inc.''

Rattle Brook Acquisition Amount

On Closing, the Fund intends to invest the Rattle Brook Acquisition Amount in securities with at least ''R-1 (low)'' short term debt rating by DBRS. Prior to the earlier of the Rattle Brook Release Date and January 31, 1999, interest earned on the Rattle Brook Funds will be paid to the Fund on a quarterly basis and distributed to Unitholders forthwith. If the Rattle Brook Release Date occurs on or before January 31, 1999, the Rattle Brook Acquisition Amount will be utilized by the Fund to fund Algonquin Canada's acquisition of the Rattle Brook Shares.

If the Rattle Brook Release Date has not occurred on or before January 31, 1999, the Rattle Brook Acquisition Amount, together with accrued interest, will be distributed to Unitholders contemporaneously with the next distribution of Distributable Cash. At any time prior to the release or distribution of the Rattle Brook Acquisition Amount, the Trustees may elect to acquire an alternative facility interest which may be identified by the Manager provided that: (i) such alternative facility interest meets the acquisition guidelines set out herein (see ''Future Acquisition Strategy''); and (ii) the acquisition price of such alternative facility interest is less than or equal to the amount of the Rattle Brook Acquisition Amount.

Rattle Brook Completion Amount

On Closing, the Rattle Brook Completion Amount will be held by the Fund and invested in securities with at least ''R-1 (low)'' short term debt rating by DBRS and used to fund the payment, as part of Distributable Cash, of certain distributions to Unitholders during the period from Closing until January 31, 1999. The Rattle Brook Completion Amount was determined having regard to the quantity of electrical power which the Rattle Brook Facility would be expected to generate over the period from Closing until December 31, 1998, had such facility been operational on Closing. Payments will be made to Unitholders by the Fund out of the Rattle Brook Completion Amount at the end of each quarter up to and including the quarter ending December 31, 1998 as part of Distributable Cash for the quarter.

Additions to New England Development

Acquisition of Lower Robertson and Ashuelot Facility Interests

Algonquin America has entered into an agreement dated April 14, 1998 (the ''HDI Acquisition Agreement'') with the current holders of all partnership interests in the HDI III Partnership, pursuant to which Algonquin America and Algonquin America Holdco will acquire all partnership interests in the HDI III Partnership for aggregate consideration of approximately $6.4 million, subject to certain adjustments. Contemporaneously with the Closing, Algonquin America will utilize the proceeds of the sale of US 1998 Notes and the issuance of additional Algonquin America Shares to pay the purchase price payable by it as set out under the HDI Acquisition Agreement and Algonquin America Holdco will utilize the proceeds of the issuance of additional common shares to Algonquin America to pay the purchase price payable by it as set out under the HDI Acquisition Agreement.

Under the terms of the partnership agreement in respect of the HDI III Partnership and after completion of the transactions contemplated by the HDI Acquisition Agreement, the income and cash flows generated from the operation of the Lower Robertson Facility and the Ashuelot Facility will be distributed as to 99.99% to Algonquin America through its partnership interest and as to 0.01% to Algonquin America Holdco through its partnership interest.

Acquisition of Avery Dam Facility Interest

Acquisition Corp. and Algonquin Holdco have entered into an agreement to acquire all partnership interests in the Avery Dam Partnership from the existing owners. Algonquin America has entered into an agreement dated May 21, 1998 (the ''Avery Acquisition Agreement'') with Acquisition Corp. and Algonquin Holdco, pursuant to which Algonquin America and Algonquin America Holdco will complete the acquisition of all partnership interests in the Avery Dam Partnership for aggregate consideration of approximately $3.6 million, subject to certain adjustments. Contemporaneously with the Closing, Algonquin America will utilize the proceeds of the sale of additional US 1998 Notes and the issuance of additional Algonquin America Shares to pay the purchase price payable by it as set out under the Avery Acquisition Agreement and Algonquin America Holdco will utilize the proceeds of the issuance of additional common shares to Algonquin America to pay the purchase price payable by it as set out under the Avery Acquisition Agreement.

Under the terms of the partnership agreement in respect of the Avery Dam Partnership and after completion of the transactions contemplated by the Avery Acquisition Agreement, the income and cash flows generated from the operation of the Avery Dam Facility will be distributed as to 99.99% to Algonquin America through its partnership interest and as to 0.01% to Algonquin America Holdco through its partnership interest.

Acquisition of Hadley Falls Facility Interest

Acquisition Corp. and Algonquin Holdco have entered into an agreement to acquire all partnership interests in the Hadley Falls Partnership from the existing owners. Algonquin America has entered into an agreement dated May 21, 1998 (the ''Hadley Falls Acquisition Agreement'') with Acquisition Corp. and Algonquin Holdco, pursuant to which Algonquin America and Algonquin America Holdco will complete the acquisition of all partnership interests in the Hadley Falls Partnership for aggregate consideration of approximately $1.6 million, subject to certain adjustments. Contemporaneously with the Closing, Algonquin America will utilize the proceeds of the sale of additional US 1998 Notes and the issuance of additional Algonquin America Shares to pay the purchase price payable by it as set out under the Hadley Falls Acquisition Agreement and Algonquin America Holdco will utilize the proceeds of the issuance of additional common shares to Algonquin America to pay the purchase price payable by it as set out under the Hadley Falls Acquisition Agreement.

Under the terms of the partnership agreement in respect of the Hadley Falls Partnership and after completion of the transactions contemplated by the Hadley Falls Acquisition Agreement, the income and cash flows generated from the operation of the Hadley Falls Facility will be distributed as to 99.99% to Algonquin America through its partnership interest and as to 0.01% to Algonquin America Holdco through its partnership interest.

Acquisition of Lakeport Facility Interest

Acquisition Corp. has entered into an agreement to acquire the Lakeport Shares from the existing owners. Algonquin America has entered into an agreement dated May 21, 1998 (the ''Lakeport Acquisition Agreement'') with Acquisition Corp., pursuant to which Algonquin America will complete the acquisition of the Lakeport Shares for aggregate consideration of approximately $1.3 million, subject to certain adjustments. Contemporaneously with the Closing, Algonquin America will utilize the proceeds of the sale of additional US 1998 Notes and the issuance of additional Algonquin America Shares to pay the purchase price payable by it as set out under the Lakeport Acquisition Agreement.

Acquisition of Moretown Facility Interest

Acquisition Corp. and Algonquin Holdco have entered into an agreement to acquire all partnership interests in the Moretown Partnership from the existing owners. Algonquin America has entered into an agreement dated April 14, 1998 (the ''Moretown Acquisition Agreement'') with Acquisition Corp. and Algonquin Holdco, pursuant to which Algonquin America and Algonquin America Holdco will complete the acquisition of all partnership interests in the Moretown Partnership for aggregate consideration of approximately $7.9 million, subject to certain adjustments. Contemporaneously with the Closing, Algonquin America will utilize the proceeds of the sale of additional US 1998 Notes and the issuance of additional Algonquin America Shares to pay the purchase price payable by it as set out under the Moretown Acquisition Agreement and Algonquin America Holdco will utilize the proceeds of the issuance of additional common shares to Algonquin America to pay the purchase price payable by it as set out under the Moretown Acquisition Agreement.

Under the terms of the partnership agreement in respect of the Moretown Partnership and after completion of the transactions contemplated by the Moretown Acquisition Agreement, the income and cash flows generated from the operation of the Moretown Facility will be distributed as to 99.99% to Algonquin America through its partnership interest and as to 0.01% to Algonquin America Holdco through its partnership interest.

Additions to New York Development

Acquisition of Hollow Dam Facility Interest

Algonquin Power has entered into an agreement dated May 21, 1998 (the ''SLI Hollow Dam Acquisition Agreement'') with SLI pursuant to which Algonquin America and Algonquin America Holdco will acquire all partnership interests in the Hollow Dam Partnership for aggregate consideration of approximately $3.5 million, subject to certain adjustments. Contemporaneously with the Closing, Algonquin America will enter into a purchase and sale agreement to implement the above mentioned agreement and will utilize the proceeds of the sale of additional US 1998 Notes and the issuance of additional Algonquin America Shares to pay the purchase price payable by it as set out under the SLI Hollow Dam Acquisition Agreement and Algonquin America Holdco will utilize the proceeds of the issuance of additional common shares to Algonquin America to pay the purchase price payable by it as set out under the SLI Hollow Dam Acquisition Agreement.

Under the terms of the partnership agreement in respect of the Hollow Dam Partnership and after completion of the transactions contemplated by the SLI Hollow Dam Acquisition Agreement, the income and cash flows generated from the operation of the Hollow Dam Facility will be distributed as to 75% to Algonquin America through its partnership interest and as to 25% to Algonquin America Holdco through its partnership interest.

Acquisition of Burt Dam Facility Interest

Algonquin Power has entered into an agreement dated May 21, 1998 (the ''SLI Burt Dam Acquisition Agreement'') with SLI pursuant to which Algonquin America and Algonquin America Holdco will acquire all partnership interests in the Burt Dam Partnership for aggregate consideration of approximately $2.0 million, subject to certain adjustments. Contemporaneously with the Closing, Algonquin America will enter into a purchase and sale agreement to implement the above mentioned agreement and will utilize the proceeds of the sale of additional US 1998 Notes and the issuance of additional Algonquin America Shares to pay the purchase price payable by it as set out under the SLI Burt Dam Acquisition Agreement and Algonquin America Holdco will utilize the proceeds of the issuance of additional common shares to Algonquin America to pay the purchase price payable by it as set out under the SLI Burt Dam Acquisition Agreement.

Under the terms of the partnership agreement in respect of the Burt Dam Partnership and after completion of the transactions contemplated by the SLI Burt Dam Acquisition Agreement, the income and cash flows generated from the operation of the Burt Dam Facility will be distributed as to 50% to Algonquin America through its partnership interest and as to 50% to Algonquin America Holdco through its partnership interest.

Consolidation of Accounts

It is anticipated that Algonquin America, Algonquin America Holdco and the Lakeport Corporation will be consolidated for the purposes of preparation of financial statements and filing of income tax returns. Accordingly, Algonquin America will effectively be entitled to all income allocations and cash flow distributions from the HDI III Partnership, the Avery Dam Partnership, the Hadley Falls Partnership, the Moretown Partnership, the Lakeport Corporation, the Hollow Dam Partnership and the Burt Dam Partnership.

FUTURE ACQUISITION STRATEGY

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 hydroelectric generating facilities or developments which, once acquired, could be retained for the purpose of earning income over the useful life of such facilities or developments. The Manager intends to employ the following guidelines in the review and evaluation of possible acquisitions:

(a) each facility, or group of facilities, acquired in a single transaction will provide a forecast internal rate of return that is greater than 250 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, or group of facilities, acquired in a single transaction 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 with debt financing be considered for which the outstanding principal of such debt representing more than 25% of the value of the facility over its expected life 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 will be preferred and in other cases, free market electricity price and exchange rate assumptions used in acquisition evaluations will be from a recognized independent source;

(f) the acquisition of each facility, or group of facilities, 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 group of facilities, 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. See ''Description of the Fund'' — ''Sole Undertaking.'' It is expected that any future acquisitions would be made by the Fund through one or more of its direct or indirect subsidiaries.

Continuing deregulation may result in an increase in divestitures by electrical utilities of small hydroelectric generating facilities, thereby enabling the Manager to present the Fund with opportunities meeting the acquisition guidelines described above.

GOVERNANCE, MANAGEMENT AND OPERATIONS

The Trustees

The Fund has three trustees, all of whom are independent of the Manager. The Trustees supervise the activities and manage the affairs of the Fund. The Trustees have passed a resolution approving this prospectus.

George L. Steeves is President of Cumming Cockburn Limited, a Toronto based, multi-disciplinary engineering and planning consulting firm. Prior thereto, he held a number of progressive positions with such company. Mr. Steeves is also the Engineer-in-Residence for the University of Toronto's Department of Civil Engineering and has over 23 years experience in the design and construction of small hydroelectric generating facilities.

A. Stephen Probyn is the founder and President of Probyn & Company, a company active in the finance and development of independent power facilities. Prior to forming such company in 1987, Mr. Probyn acted as a policy advisor to governments and the energy industry and held a position as senior advisor to the Minister of Energy, Mines & Resources Canada. Mr. Probyn is a past president of IPPSO and is the founding President and Chief Executive Officer of the Canadian Environmental Energy Corporation.

R. Ian Bradley is an independent consultant and was President of Mattel Canada Inc. (''Mattel'') from 1990 to 1997. Prior to being President, from 1983 to 1990, Mr. Bradley held a number of progressive positions at Mattel, including Director of Finance, Vice-President of Finance and General Manager.

Summary of Management Roles

The management, administration and operations services required in respect of the Fund and the Fund Businesses are categorized as follows:

Management	The services necessary for the management and administration of the Fund will be provided by the Manager.
Operations	The provision of operating labour and operations planning, support and guidance services will be provided by Power Systems.

The Manager

Pursuant to the Management Agreement, Algonquin Management Inc. provides management services to certain of the Fund Businesses. The Manager was incorporated under the Business Corporations Act on September 23, 1997.

The names, municipalities of residence and principal occupations of the directors and officers of the Manager are as follows:

Name and Municipality of Residence	Position	Principal Occupation
CHRISTOPHER K. JARRATT . . . . Oakville, Ontario	Chief Executive Officer and Director	Principal of Algonquin Power
IAN E. ROBERTSON . . . . Mississauga, Ontario	Chief Financial Officer and Director	Principal of Algonquin Power
JOHN M.H. HUXLEY . . . . North York, Ontario	Director	Principal of Algonquin Power
DAVID C. KERR . . . . Toronto, Ontario	Director	Principal of Algonquin Power

It is the policy of the Manager to periodically rotate the various offices held amongst the principals of Algonquin Power.

The Manager is owned by the shareholders of Algonquin Power. The Manager and its affiliates provide design, financing, construction, management, operation and maintenance of independent hydroelectric power facilities ranging in size from 130 to 18,000 kilowatts. The principals of the Manager together have over 45 years of experience in the industry.

The Operator

Power Systems, a wholly owned subsidiary of Algonquin Power, provides operations related services in respect of the facility interests to be acquired by the Fund. In addition to operating the hydroelectric generating facilities in which the Fund will have an interest, Power Systems is responsible for the operation of 65,000 kilowatts of generating capacity across Canada and the United States and is one of the largest operators of independent hydroelectric generating facilities in Canada. Power Systems supplies both direct operations services to the various facilities and operations supervisory services to Algonquin Canada.

In addition to the principals of the Manager, Power Systems' human resources of over 75 individuals is comprised of engineers, technicians, biologists, professional managers and administrative support staff, including a field team of trained plant operators and field supervisors. The head office of Power Systems, located in Mississauga, Ontario, provides technical and management support, regulatory compliance and budget and accounting control for field personnel undertaking plant improvements and repairs. Field staff are organized into regional groups, each with its own trained supervisor and technical crew. Most of the generating facilities are outfitted with remote computer controls and systems which allow the plants to be operated remotely in the field or by head office personnel. Power Systems also has well developed data management systems to track the performance of the facilities, with a view to optimizing facility output.

Management Agreement

Algonquin Canada and the Manager entered into the Management Agreement on December 23, 1997, pursuant to which the Manager provides management services (the ''Management Services'') for certain of the Fund Businesses on behalf of Algonquin Canada for the Existing Facilities.

The Management Services provided include, without limitation, advice and consultation concerning business planning, support, guidance and policy making and general management services. Senior officers of the Manager will also act as senior officers of Algonquin Canada. Specific functions to be performed by the Manager will include: (i) accounting and financial services; (ii) assisting in the preparation of financial statements; (iii) negotiating and communicating with third parties with respect to contractual and other matters; (iv) arranging external professional and non-professional services; (v) assisting in providing human resources; and (vi) advising on major acquisitions and sales of subsidiaries and/or businesses.

In exercising its powers and discharging its duties under the Management Agreement, the Manager is required to exercise the degree of care, diligence and skill that a reasonable, prudent advisor or manager having responsibility for management of a similar business would exercise in comparable circumstances.

In consideration for providing the Management Services, the Manager currently receives a quarterly fee of US$22,650, adjusted annually for changes in the Canadian Consumer Price Index and a fee based on the total energy production from all facilities in which the Fund has an interest (based on average expected energy production anticipated to result in an annual incentive fee payment of approximately US$90,580 (escalated by inflation)) and increases in Distributable Cash equal to the aggregate of 10% of the Distributable Cash per Trust Unit in excess of $0.925 per Trust Unit and up to $1.00 per Trust Unit and 25% of the Distributable Cash per Trust Unit in excess of $1.00 per Trust Unit. The fee related to energy production and the incentive fee related to increases in Distributable Cash are intended to provide the Manager with an incentive to maximize Distributable Cash per Trust Unit. In addition, the Manager is entitled to reimbursement of its reasonable out-of-pocket expenses incurred in connection with its duties under the Management Agreement.

On Closing, the Manager and Algonquin Canada will amend the provisions of the Management Agreement. The quarterly fee paid to the Manager will be increased by US$13,160 to US$35,810 and the fee based on the total energy production from all facilities in which the Fund has an interest will be increased such that, based on average expected energy production, an additional US$52,630 per annum will be payable, both of which fees will be adjusted annually for changes in the Canadian Consumer Price Index. The fee based on increases in Distributable Cash will be amended to be equal to the aggregate of 10% of the Distributable Cash per Trust Unit in excess of $0.95 per Trust Unit and up to $1.025 per Trust Unit and 25% of the Distributable Cash per Trust Unit in excess of $1.025 per Trust Unit.

The Management Agreement has an initial ten year term commencing on December 23, 1997 and will be renewed for successive periods of five years each unless Algonquin Canada gives notice of non-renewal to the Manager at least 12 months before the end of the relevant term.

Algonquin Canada may terminate the Management Agreement earlier if a substantial deterioration of Algonquin Canada's business occurs, taken as a whole, which is not caused by an event of force majeure, if, within six months of the deterioration, such termination is approved by a written resolution of Unitholders representing at least 66⅔% of the issued and outstanding Trust Units or at a meeting of Unitholders by a resolution approved by the holders representing at least 50% of all issued and outstanding Trust Units and at least 66⅔% of the Trust Units which are voted at the meeting, in each case excluding Trust Units held by or on behalf of the Manager. In the event of such termination, Algonquin Canada will pay the Manager a fee equal to the amount of fees payable to the Manager for the previous year, excluding fees relating to acquisitions and capital expansions. Algonquin Canada may also terminate the Management Agreement upon a change of control of the Manager (other than a change of control to which the Fund consents).

Algonquin Canada or the Manager may terminate the Management Agreement immediately in the event of the insolvency or receivership of the other party, or in the case of default by the other party in a material obligation under the Management Agreement which is not remedied within 30 days, other than a failure of performance which results from an event of force majeure.

The Manager may terminate the Management Agreement at any time on 12 months' notice.

The Management Agreement contains provisions to regulate any conflicts of interest which may arise and provides for indemnification by the Manager of Algonquin Canada in certain circumstances. The Management Agreement may only be assigned by the Manager with the consent of Algonquin Canada.

Operations Supervisory Agreement

Algonquin Canada and Power Systems entered into the Operations Supervisory Agreement on December 23, 1997, pursuant to which Power Systems provides certain operations related services for the Existing Facilities (the ''Operations Supervisory Services'') which are beyond the scope of the operations and maintenance services agreements which have been entered into between the entities which own the various facilities and Power Systems. Senior officers of Power Systems also act as senior officers of Algonquin Canada. Specific functions include: (i) planning of capital repairs; (ii) compliance monitoring for environmental permits; and (iii) administration of power purchase agreements.

In consideration for providing the Operations Supervisory Services, Power Systems currently receives a quarterly fee of US$45,290, adjusted annually for changes in the Canadian Consumer Price Index. On Closing, Algonquin Canada and Power Systems will amend the Operations Supervisory Agreement such that Power Systems will receive an additional quarterly fee US$8,770.

The Operations Supervisory Agreement contains termination provisions substantially the same as those included in the Management Agreement.

Direct Operations Agreements

Direct operations and maintenance services are generally comprised of those services necessary for a hydroelectric generating facility to continue to operate under typical circumstances. Such services include the provision of direct operating labour, management of available water resources, monitoring and reporting on facility performance, performance of scheduled maintenance tasks and completion of minor repairs as required. Power Systems has entered into agreements with the entities which own each of the Additional Facilities to provide such services for aggregate annual fees of approximately $1.2 million resulting in aggregate annual fees of $2.3 million.

Governance Agreement

Pursuant to the Governance Agreement, the Manager is entitled to appoint two directors to Algonquin Canada's Board of Directors, with the Fund being entitled to appoint one director. The articles of Algonquin Canada provide that the number of directors is fixed at three.

The Governance Agreement will remain in force for so long as the Management Agreement remains in force and will provide that the Fund will not vote for any amendment to Algonquin Canada's articles, including an amendment with respect to the number of directors, without the Manager's approval. The Governance Agreement further provides that the Fund will comply with the Manager's instructions with respect to the appointment, removal and replacement of the Manager's nominees to the Board of Directors of Algonquin Canada. Notwithstanding the foregoing, the Fund will be entitled to remove the Manager's nominees as directors of Algonquin Canada or amend Algonquin Canada's articles if:

(a) Algonquin Canada does not comply with or prevents the implementation of Algonquin Canada's distribution policy (see ''Share and Loan Capital'');

(b) any of the Fund Businesses does not comply with or prevents the implementation of its distribution policy;

(c) any amendment is made to the partnership agreement in respect of any of the Algonquin Power (Long Sault) Partnership, the N-R Power Partnership, the HDI Partnership, the Donnacona Partnership, the HDI III Partnership, the Moretown Partnership, the Avery Dam Partnership, the Hadley Falls Partnership, the Burt Dam Partnership and the Hollow Dam Partnership without the consent of the Fund;

(d) there is a change of control of the Manager (other than a change of control to which the Fund consents);

(e) other than in the ordinary course of business and without the prior written consent of the Fund, any of the Fund Businesses undertakes a material change in its business, incurs any material debt or issues any securities other than to another such entity or the Fund;

(f) an offer is made for 100% of the Trust Units and the offeror acquires more than 50% of the Trust Units under that offer; or

(g) the Management Agreement expires or is terminated.

Insurance

The Fund Businesses maintain insurance coverage in relation to the ownership and operation of the Existing Facilities. Insurance coverage currently includes: (i) all risks property insurance coverage, including business interruption; (ii) comprehensive boiler and machinery insurance coverage, including business interruption (both (i) and (ii) provide replacement cost coverage on above-ground property and equipment); (iii) comprehensive general liability and excess liability insurance coverage providing coverage for actions commenced by third parties; and (iv) automobile liability insurance as required for owned and leased vehicles. Similar insurance will be put in place in respect of the Additional Facilities on closing of the Acquisitions.

The Manager believes that it has procured insurance coverage as would be maintained by a prudent facility owner/operator. This insurance coverage is subject to limits and exclusions or limitations on coverage that the Manager considers to be reasonable, given the cost of procuring insurance and current operating conditions. However, there can be no assurance that insurance coverage will be adequate in any particular situation.

CUMMING COCKBURN LIMITED REPORT

Cumming Cockburn Limited (''CCL'') was retained by the Underwriters to conduct an engineering due diligence assessment of the facilities in which the Fund intends to acquire an interest. CCL is a consulting engineering and project management company based in Markham, Ontario that has provided services to the waterpower industry since 1982.

In its report (the ''CCL Report'') dated May 1998, CCL presented the results of its technical review of the facilities with regard to their overall capacity, availability, performance and operation. In preparing its report, CCL, among other things: (i) inspected the facility sites; (ii) evaluated the civil, electrical and mechanical structures and components related to or forming part of the facilities with a view to confirming that the facilities can reasonably be expected to meet their designed lifespan; (iii) reviewed the hydrology on a historical and projected basis in order to determine the estimated energy production performance of each facility with a view to confirming the ability of each facility to meet the contractual energy and revenue predictions; (iv) reviewed the plans and specifications available for each facility with a view to ensuring that the facilities were built in accordance therewith; (v) evaluated each facility's financial projections as to revenue, operating costs and capital expenditures with a view to confirming same; (vi) reviewed the need for any routine or non-routine maintenance expenditures in respect of each facility; (vii) reviewed licences and permits relating to the facilities in order to evaluate whether any restrictions exist in the operation of any facility, including the diversion of water; (viii) reviewed maintenance reserve funds; and (ix) reviewed operation and maintenance procedures and manuals.

CCL is familiar with many of the facilities in its capacity as a consultant to lenders providing financing for such facilities, including the Glenford, Avery Dam, Hadley Falls, Lakeport, Lower Robertson and Ashuelot facilities.

In preparing the CCL Report, CCL reviewed certain facilities' agreements as they relate to the technical performance of the facilities, utilized information gathered from recent visits and general observations of the facilities, reviewed the status of permits and approvals for compliance and the operating records of the facilities.

CCL also made certain assumptions with respect to the conditions which may exist or events which may occur in the future. While CCL believes that these assumptions are reasonable for the purposes of the CCL Report, they are dependent upon future events and actual conditions may differ from those assumed. In addition, CCL has used and relied upon certain information provided to it by sources which it believes to be reliable. However, some assumptions may vary significantly due to unanticipated events and circumstances. To the extent that actual results differ from those assumed in the CCL Report or provided to CCL by others, actual results will vary from those forecast. The CCL Report summarizes CCL's work up to the date thereof. Thus, changed conditions occurring or becoming known after such date could affect the material presented to the extent of such changes.

The following is the list of principal considerations and assumptions made by CCL in developing the CCL Report and the principal information provided to CCL by others:

(a) As independent engineer, CCL made no determination as to the assignability, validity or enforceability of any contract, agreement, rule or regulation applicable to the facilities and their operation. However, for purposes of the CCL Report, CCL has assumed that all such contracts, agreements, rules and regulations will be fully enforceable in accordance with their terms and that all parties will comply with the provisions of their respective agreements.

(b) The Manager will operate the facilities in accordance with existing policies and procedures as reviewed during the site visits to the facilities.

(c) The Manager will maintain the facilities in accordance with good engineering practice, make all required replacements of equipment in a timely manner and will not operate the equipment so as to cause it to exceed the equipment manufacturers' recommended maximum ratings.

(d) The Manager will employ qualified and competent personnel who will properly operate and maintain the facilities in accordance with the equipment manufacturers' recommendations and generally accepted engineering practice and will operate the facilities in a sound and businesslike manner.

(e) Inspections, overhauls, repairs and modifications will be planned for and conducted in accordance with equipment manufacturers' recommendations.

(f) All licences, permits and approvals and permit modifications necessary to operate the facilities have been, or will be, obtained on a timely basis and any changes in required licences or permits and approvals will not require reduced operation of, or increased costs to, the facilities.

(g) The future operations and maintenance agreements for the facilities are substantially as described under the heading ''Governance, Management and Operations''.

Following are the principal opinions CCL has developed after its review of the facilities. For a full understanding of the forecasts, assumptions, considerations and calculations upon which its opinions are based, the CCL Report should be read in its entirety.

On the basis of CCL's review and analysis of the foregoing and other information described in the CCL Report, CCL is of the opinion that:

(a) The facilities were, or are being, built in accordance with applicable plans and specifications and relevant industry technical codes and standards and are being operated and maintained in a manner conducive to long-term availability and efficiency and performance testing confirmed that the actual performance meets the standards set out in the design specifications.

(b) Forecast future revenues, costs, capital investment and power anticipated to be generated by the facilities are realistic.

(c) To date, there have been no abnormal failures related to the facilities' generating equipment.

(d) The forecast forced and maintenance outage rates, availability, annual megawatt hour output available for sale, megawatt output and annual operating and maintenance costs are reasonable.

(e) No significant environmental permitting issues have been identified at the sites which require additional investigation or allocation of additional funds over current budgeted amounts for remediation, present or future.

(f) The proposed method of operation of the facilities has been developed in accordance with good engineering practice and generally accepted industry practices.

(g) The facilities are being operated in compliance with key environmental permits and approvals obtained from various federal, provincial, state and local agencies and which are currently necessary to operate the facilities.

(h) A review of the hydrology on a historical and projected basis having regard to the projected water flows confirmed the capacity of each facility to meet contractual energy and cash flow predictions and requirements.

(i) Each facility can be reasonably expected to meet its design lifespan.

FINANCIAL FORECAST OF ALGONQUIN POWER INCOME FUND

The consolidated statement of forecast net earnings of Algonquin Power Income Fund and consolidated statement of forecast distributable cash of Algonquin Power Income Fund for the twelve month period ending December 31, 1998 and for the six month period ending June 30, 1999, as well as the principal assumptions used to prepare the forecast, were prepared by the Manager with an effective date of June 26, 1998.

The forecast was prepared according to generally accepted accounting principles and regulatory requirements relating to the evaluation, presentation and publication of financial forecasts. The forecast was prepared according to assumptions that reflect the courses of action that the Manager of the Fund has planned to adopt for the periods covered, taking into account all the industry and economic conditions that, in the opinion of the Manager, were the most probable as at June 26, 1998. The forecast was prepared for inclusion in the prospectus of Algonquin Power Income Fund related to the sale and issue of additional Trust Units and has been prepared in accordance with presentation and disclosure standards established by the Canadian Institute of Chartered Accountants. Pursuant to applicable securities legislation, the Fund will be required to update the forecast during the forecast periods by identifying any significant changes resulting from events that have occurred during the periods or disclosing that no significant changes are required and by comparing such forecast with actual annual results.

Some of the assumptions used in the preparation of the forecast, although considered reasonable by the Manager at the time of preparation, inevitably, will not materialize as forecast and unanticipated events and circumstances will occur subsequent to the date of the forecast. Accordingly, there is a significant risk that the actual results achieved for the forecast period will vary from the forecast results and the variations may be material. There is absolutely no representation that the financial forecast will be realized in whole or in part. Important factors that could cause actual results to differ materially from the forecast are disclosed under ''Risk Factors''.

The forecast should be read in conjunction with the unaudited pro forma condensed consolidated financial statements of the Fund, the audited consolidated financial statements of Algonquin Power Income Fund, HDI Associates III, Moretown Hydro Energy Company, Saint-Alban Hydroelectric Generating Station, Rawdon Hydroelectric Generating Station, Société en Commandite Chute Ford partnership, 10640 Newfoundland Limited and the unaudited financial statements of Avery Hydroelectric Associates; Hadley Falls Associates; Lakeport Hydroelectric Corporation, Burt Dam Power Company and Hollow Dam Power Company appearing elsewhere in the prospectus.

Auditors' Report on Financial Forecasts

To the Trustees of Algonquin Power Income Fund

The accompanying financial forecasts of Algonquin Power Income Fund (the ''Fund'') consisting of the consolidated statements of forecast net earnings and the consolidated statements of forecast distributable cash for the twelve month period ending December 31, 1998 and for the six month period ending June 30, 1999 have been prepared by the Manager of the Fund using assumptions set out in Notes 3 to 14, with an effective date of June 26, 1998. We have examined the support provided by management of the Fund for the assumptions and the preparation and presentation of the forecasts. Our examinations were made in accordance with the applicable Auditing Guideline issued by The Canadian Institute of Chartered Accountants. We have no responsibility to update this report for events and circumstances occurring after the date of our report.

In our opinion:

(a) as at the date of this report, the assumptions developed by management of the Fund are suitably supported and consistent with the plans of the Fund and provide a reasonable basis for the forecasts;

(b) these forecasts reflect such assumptions; and

(c) the financial forecasts comply with the presentation and disclosure standards for financial forecasts established by the Canadian Institute of Chartered Accountants.

Since these forecasts are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, we express no opinion as to whether these forecasts will be achieved.

Toronto, Ontario
June 26, 1998

(Signed) KPMG
Chartered Accountants

ALGONQUIN POWER INCOME FUND

CONSOLIDATED STATEMENTS OF FORECAST NET EARNINGS

For the Twelve Months Ending December 31, 1998 and for the Six Months Ending June 30, 1999 (in thousands of Canadian dollars)

	Three Months Ended March 31, 1998	Three Months Ending June 30, 1998	Six Months Ending December 31, 1998	Twelve Months Ending December 31, 1998	Six Months Ending June 30, 1999
	(Actual) (unaudited)	(Forecast)	(Forecast)	(Forecast)	(Forecast)
Revenues					
Energy sales	$ 962	$1,238	$3,754	$ 5,954	$5,312
Interest income and income from participation agreements	758	1,185	3,764	5,707	2,854
Equity income	—	—	—	—	190
	1,720	2,423	7,518	11,661	8,356
Expenses					
Operating	341	338	1,312	1,991	1,445
Depreciation and amortization	334	384	1,294	2,012	1,326
Management fees	63	63	200	326	202
Operations supervisory fees	63	63	150	276	152
Administrative expenses	69	33	66	168	104
Loss on foreign exchange	4	—	—	4	—
	874	881	3,022	4,777	3,229
Earnings before interest and income taxes	846	1,542	4,496	6,884	5,127
Interest expense	61	64	128	253	129
Earnings before income taxes	785	1,478	4,368	6,631	4,998
Income taxes — Current	48	35	180	263	178
— Deferred	—	29	266	295	794
	48	64	446	558	972
Net earnings	$ 737	$1,414	$3,922	$ 6,073	$4,026

See accompanying notes, including assumptions set out therein.

ALGONQUIN POWER INCOME FUND

CONSOLIDATED STATEMENTS OF FORECAST DISTRIBUTABLE CASH

For the Twelve Months Ending December 31, 1998, and for the Six Months Ending June 30, 1999
(in thousands of Canadian dollars, except per Trust Unit amounts)

	Six Months Ending June 30, 1998	Six Months Ending December 31, 1998	Twelve Months Ending December 31, 1998	Six Months Ending June 30, 1999
	(Forecast)	(Forecast)	(Forecast)	(Forecast)
Net earnings	$ 2,151	$ 3,922	$ 6,073	$ 4,026
Add:				
Principal payments received	2,812	1,154	3,966	3,346
Rattle Brook Completion Amount release	—	249	249	—
Depreciation and amortization	718	1,294	2,012	1,326
Deferred income tax expense	29	266	295	794
Less:				
Principal payments	—	—	—	622
Payment to Hydro-Québec	147	—	147	173
Portion of debt prepayment cost payable	372	372	744	261
Interest payments capitalized to notes payable	506	1,012	1,518	548
	4,685	5,501	10,186	7,888
Deficiency in Distributable Cash carried forward from December 31, 1997	(94)	—	(94)	—
Distributable Cash for the period	$ 4,591	$ 5,501	$ 10,092	$ 7,888
Weighted average units outstanding	8,031,775	14,090,472	11,086,022	14,090,472
Distributable Cash per Unit	$ 0.57	$ 0.39	$ 0.91	$ 0.56

See accompanying notes, including assumptions set out therein.

ALGONQUIN POWER INCOME FUND

CONSOLIDATED STATEMENTS OF FORECAST NET EARNINGS AND CONSOLIDATED STATEMENTS OF FORECAST DISTRIBUTABLE CASH

For the Twelve Months Ending December 31, 1998 and for the Six Months Ending June 30, 1999
(in thousands of Canadian dollars unless otherwise indicated)

1. PURPOSE OF FORECAST AND BASIS OF PRESENTATION

These consolidated statements of forecast net earnings and consolidated statements of forecast distributable cash for the twelve months ending December 31, 1998 and for the six months ending June 30, 1999 are based on assumptions regarding future events. Actual results will vary from the forecast information and the variations may be material. Some of the important factors that might cause actual results to differ materially from these forecast results are included under ''Risk Factors'' found elsewhere in this prospectus. The Manager of the Fund prepared these financial forecasts in June 1998. The assumptions used in preparing these forecasts, with an effective date of June 26, 1998, reflect the intended courses of action of the Fund for the forecast periods based on the Manager's judgment as to the most probable set of economic conditions in effect during the forecast periods.

These forecasts have been prepared for inclusion in the prospectus relating to the proposed offering of additional Trust Units of the Fund. The forecasts are presented solely to provide information to prospective purchasers of Trust Units and may not be useful or appropriate for other purposes.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial forecasts have been prepared in accordance with accounting policies expected to be followed by the Fund in the preparation of its financial statements. These accounting policies, which are in accordance with Canadian generally accepted accounting principles, are summarized as follows:

(a) **Basis of Consolidation**

The consolidated financial statements of the Fund include the accounts of its wholly owned subsidiaries, Algonquin Power Fund (Canada) Inc. (''Algonquin Canada'') and Algonquin Power Fund (America) Inc. (''Algonquin America'').

The subsidiaries will own the following partnerships:

(i) 100% of Société Hydro-Donnacona S.E.N.C. effective January 1, 1998;

(ii) 100% of HDI Associates I effective January 1, 1998;

(iii) 100% of HDI Associates III effective July 1, 1998;

(iv) 100% of Moretown Hydro Energy Company effective July 1, 1998;

(v) 100% of Avery Hydroelectric Associates effective July 1, 1998;

(vi) 100% of Hadley Falls Associates effective July 1, 1998;

(vii) 100% of Burt Dam Power Company effective July 1, 1998; and

(viii) 100% of Hollow Dam Power Company effective July 1, 1998.

The subsidiaries will own the following companies:

(i) 100% of BCL Energy (Belleterre) Inc. effective January 1, 1998;

(ii) 100% of BCL Energy (Ste-Brigitte) Inc. effective January 1, 1998;

(iii) 100% of Lakeport Hydroelectric Corporation effective July 1, 1998;

(iv) 100% of 10640 Newfoundland Limited which entitles the Fund to a 45% interest in the Rattle Brook Partnership effective December 31, 1998.

All significant intercompany transactions and balances have been eliminated.

(b) **Capital Assets**

Capital assets, being land, hydroelectric generating facilities, licences and hydro contract acquisition costs are recorded at cost. Development costs, including the cost of acquiring or constructing facilities together with the related interest costs during the period of construction are capitalized. Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The hydroelectric generating facilities are amortized on a straight-line basis over the estimated useful life of the facility. These periods range from 25 to 40 years. The ''royalty'' agreements related to the Long Sault Rapids Facility are amortized over periods ranging from 6 to 20 years, being the period of the contract.

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

The costs attributable to amending certain terms of the hydro contracts are being amortized on a 20% declining balance basis.

(c) **Revenue Recognition**

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

Interest income from notes held is recorded as earned.

(d) **Notes Receivable**

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

(e) **Foreign Currency Translation**

The Fund's United States subsidiaries and partnership interests are considered to be functionally integrated with the Canadian operations. All monetary assets and liabilities denominated in United States dollars are translated into Canadian dollars at year end exchange rates, whereas non-monetary assets and liabilities are translated at the rate in effect at the transaction date. The revenues and expenses of these integrated operations are translated at the average rate of exchange in effect during the period. The foreign currency translation adjustment is reflected in the consolidated statement of operations, except for exchange gains or losses relating to long-term foreign currency monetary assets or liabilities, which are deferred and amortized over the term of the related item.

(f) **Income Taxes**

As the Fund is an unincorporated trust, it is entitled to deduct distributions to unitholders to the extent of its taxable income and consequently, it is expected that the Fund will not be liable for any material tax under the *Income Tax Act* (Canada), as this will be the responsibility of the individual unitholder.

Any provision for income taxes will relate solely to the income taxes of the Fund's wholly owned subsidiaries. Deferred taxes will be recognized where differences arise between income recorded for accounting purposes and for tax purposes.

3. ASSUMPTIONS FOR TWELVE MONTHS ENDING DECEMBER 31, 1998 AND SIX MONTHS ENDING JUNE 30, 1999

The accompanying financial forecast is based on assumptions about future economic conditions and courses of action.

Assumptions reflect the Manager's beliefs about the most probable set of economic conditions and planned courses of action that are reasonable and supportable. To be supportable, assumptions need to be based on the past performance of other entities engaged in similar activities, feasibility studies, marketing studies or any other sources that provide objective corroboration of the assumptions used. The forecast for the twelve months ending December 31, 1998 includes actual unaudited income and cash flow information for the three months ended March 31, 1998.

(a) On or before July 1, 1998, the Fund will issue additional Trust Units for net proceeds of $59,093 after deducting Underwriters' fees of $3,872 and estimated expenses of this offering of $1,560.

CONSOLIDATED STATEMENTS OF FORECAST NET EARNINGS AND CONSOLIDATED STATEMENTS OF FORECAST DISTRIBUTABLE CASH (Continued)

For the Twelve Months Ending December 31, 1998 and for the Six Months Ending June 30, 1999 (in thousands of Canadian dollars unless otherwise indicated)

3. ASSUMPTIONS FOR TWELVE MONTHS ENDING DECEMBER 31, 1998 AND SIX MONTHS ENDING JUNE 30, 1999 (Continued)

(b) The proceeds from the issue of additional Trust Units will be used by the Fund on or about July 1, 1998 (directly or indirectly through its wholly owned subsidiaries, Algonquin Canada and Algonquin America) for the following purposes:

Acquisitions	Amount
(i) 100% of HDI Associates III;	$ 6,410
(ii) 100% of Moretown Hydro Energy Company;	7,957
(iii) 100% of Avery Hydroelectric Associates;	3,602
(iv) 100% of Hadley Falls Associates;	1,638
(v) 100% of Lakeport Hydroelectric Corporation;	1,310
(vi) 100% of Burt Dam Power Company;	2,000
(vii) 100% of Hollow Dam Power Company;	3,500
(viii) Glenford Note;	4,992
(ix) Glenford Option;	750
(x) SLI Saint-Alban Note; and	15,000
(xi) SLI Rawdon Note.	7,500
Total acquisitions	54,659

Funds held pending completion of acquisitions

A 45% interest in the Rattle Brook Facility, through the purchase of the shares of 10640 Newfoundland Limited, is not expected to be acquired until December 31, 1998. Accordingly the funds required to complete such acquisitions will be held by the Fund and invested until that date:

45% of Algonquin Power (Rattle Brook) Partnership	4,185
Rattle Brook Completion Amount	249
Funds to be utilized in connection with acquisition of 45% of Rattle Brook Facility	4,434
Net proceeds of issue	$59,093

(c) The assets of the Fund acquired on or about July 1, 1998 with the proceeds from the issue of additional Trust Units at approximate assigned values are as follows:

Notes receivable	$27,492
Capital assets	26,417
Glenford Option	750
Funds to be utilized in connection with acquisition of 45% of Rattle Brook Facility	4,434
	$59,093

(d) It is assumed that BCL Energy (Belleterre) will not be sold during the forecast periods.

4. GENERAL ASSUMPTIONS

Items denominated in United States dollars that form part of the forecast have been translated from United States dollars at the rate of $1.00 US for each $1.425 Canadian.

No additional working capital will be required by the operating companies during the forecast periods.

Inflation affecting revenues and operating expenses is assumed to be nil during the twelve month forecast period ending December 31, 1998 and 1% during the six month forecast period ending June 30, 1999.

The forecast for each facility interest assumes the continuation in effect of the contract with the respective power purchaser and no significant disruption of normal operations of the generating facility during the forecast period.

The forecast for operating expenses in respect of each facility includes items such as direct operations labour, management of available water resources, monitoring and reporting on facility performance, performance of scheduled maintenance tasks and completion of

4. GENERAL ASSUMPTIONS (Continued)

minor repairs as required and set out under the direct operating agreements between the respective owner of the facility and Power Systems. Further, operating expenses include municipal taxes, insurance, utility charges and lease and governmental charges.

There are no costs for capital improvements forecast by the Manager during the forecast periods.

5. SPECIFIC ASSUMPTIONS — THE FUND

(a) **Management Fees**

The Manager will provide certain of the Fund businesses with executive management services for a fee consisting of: (i) a quarterly fee of US$23 increasing to US$36 per quarter effective with the closing of this offering; (ii) a fee based on total energy production from all facilities in which the Fund has an interest (estimated at $163 in the twelve month forecast period ending December 31, 1998 and $100 in the six month forecast period ending June 30, 1999); (iii) an incentive fee based on future increases in Distributable Cash per Trust Unit (estimated to be nil in the forecast periods); and (iv) reimbursement of the Manager's reasonable out-of-pocket expenses (estimated to be nil for the forecast periods).

(b) **Operating Supervisory Fees**

As well, certain administrative services as set out in the operations supervisory agreement between Algonquin Canada and Power Systems Inc. (''Power Systems'') are included in management expenses based on a quarterly fee of US$45, increasing to US$54 per quarter effective with the closing of this offering.

(c) **Administrative expenses**

The forecast assumes administrative expenses of $168 (which includes items such as trustee fees, legal, audit and registrar and transfer agent fees) for the twelve months ending December 31, 1998 and $104 for the six months ending June 30, 1999.

6. SPECIFIC ASSUMPTIONS — OPERATING FACILITIES

Forecast energy sales are based on the following:

Energy sales are based on the terms of power purchase agreements with various customers at contracted rates. The forecast assumes the sale of electrical energy, which is based on historically available water flows at each facility site and assuming no significant disruption of the facilities ability to utilize such water flows to generate electricity.

CONSOLIDATED STATEMENTS OF FORECAST NET EARNINGS AND CONSOLIDATED STATEMENTS OF FORECAST DISTRIBUTABLE CASH (Continued)

For the Twelve Months Ending December 31, 1998 and for the Six Months Ending June 30, 1999 (in thousands of Canadian dollars unless otherwise indicated)

6. SPECIFIC ASSUMPTIONS — OPERATING FACILITIES (Continued)

The following table presents assumed energy sales and the assumed power purchase rates for each facility owned by the Fund. The average power purchase rates are derived from the actual power purchase agreements in place.

Hydroelectric Generating Facility	Assumed Energy Sales for the Twelve Months Ending December 31, 1998 (MW-hrs)[1]	Assumed Average Power Purchase Rates for the Twelve Months Ending December 31, 1998 (Per Kw-hr)	Assumed Energy Sales for the Six Months Ending June 30, 1999 (kW-hrs)	Assumed Average Power Purchase Rates for the Six Months Ending June 30, 1999 (Per kW-hr)
Québec Development				
Donnacona	23,906[2]	$0.05210	11,779	$0.05210
Ste-Brigitte	13,919[2]	$0.05171	7,588	$0.05325
Belleterre	15,354[2]	$0.05430	7,987	$0.06420
Ontario Development				
Glen Miller Dam	6,082[2]	$0.04982	2,994	$0.04910
Hurdman Dam	4,297[2]	$0.04910	2,405	$0.04860
Drag Lake Dam	1,097[2]	$0.05378	629	$0.05400
Burgess Dam	959[2]	$0.04900	410	$0.04830
Newfoundland Development				
Rattle Brook	nil[4]	nil	7,901	$0.0708
New York Development				
Hollow Dam	1,814[3]	$0.1606	2,586	$0.1730
Burt Dam	1,035[3]	$0.1671	1,265	$0.1798
New England Development				
Lochmere	4,726[2]	$0.1113	3,058	$0.0836
Hopkinton	919[2]	$0.1143	520	$0.0900
Lower Robertson	1,217[3]	$0.1639	2,513	$0.1544
Ashuelot	1,169[3]	$0.1635	2,460	$0.1545
Lakeport	1,006[3]	$0.1253	1,644	$0.1203
Avery Dam	775[3]	$0.1593	1,059	$0.1562
Hadley Falls	309[3]	$0.1069	698	$0.0972
Moretown	1,296[3]	$0.0997	2,296	$0.1010

Notes:

(1) 1 MW = 1,000kW

(2) Incorporates actual results for the three months ended March 31, 1998 and projected results for nine months ending December 31, 1998.

(3) Assumes acquisition on July 1, 1998. Incorporates projected results for six months ending December 31, 1998.

(4) Assumes facility commissioned for operation on December 31, 1998.

7. SPECIFIC ASSUMPTIONS — NEW YORK DEVELOPMENT — TRAFALGAR NOTE

Effective January 1, 1998, the Fund will receive interest and principal payments on the Trafalgar Class A Note. It is assumed that pursuant to the Trafalgar Contingency Participation the Fund will receive $636 (US$446) for the twelve months ending December 31, 1998 and nil for the six months ending June 30, 1999.

8. SPECIFIC ASSUMPTIONS — SAINT-ALBAN

Effective July 1, 1998, the Fund will receive $375 in interest on the SLI Saint-Alban Note and $403 under the Saint-Alban Interim Operations Agreement for the twelve months ending December 31, 1998 and will receive $375 and $313 for the six months ending June 30, 1999, respectively. These amounts are reflected as income from participation agreements in the consolidated statement of forecast net earnings.

9. SPECIFIC ASSUMPTIONS — RAWDON

Effective July 1, 1998, the Fund will receive $188 in interest on the SLI Rawdon Note and $14 under the Rawdon Interim Operations Agreement for the twelve months ending December 31, 1998 and will receive $188 and $109 for the six months ending June 30, 1999, respectively. These amounts are reflected as income from participation agreements in the consolidated statement of forecast net earnings.

10. SPECIFIC ASSUMPTIONS — GLENFORD NOTE

The Fund will receive interest on the Glenford Note. The Fund will not exercise its option to acquire the Glenford facility during the forecast periods.

11. SPECIFIC ASSUMPTIONS — LONG SAULT RAPIDS

The Long Sault Rapids facility was commissioned for operations effective April 11, 1998. Shortly thereafter funds previously held in escrow were released. Interest on the funds held in escrow has been received as income. It is assumed that during the forecast periods, the Long Sault Rapids facility will not be able to meet its obligations to make all interest payments to Algonquin Canada in respect of the LSR Algonquin Note and the LSR Nicholls Note and consequently, as provided for in the notes, $1,519 of interest payable in the twelve month forecast period ending December 31, 1998 and $548 in the six month forecast period ending June 30, 1999 will be added to the principal balance of the LSR Algonquin Note and the LSR Nicholls Note. The Fund will receive payments pursuant to ''royalty'' agreements of $383 in the twelve month forecast period ending December 31, 1998 and $347 in the six month forecast period ending June 30, 1999.

The contractor which completed construction of the Long Sault Rapids facility and certain of its subcontractors and sub-subcontractors have registered liens against the Long Sault Rapids facility, thereby causing the co-owners to breach their covenants under the credit agreement associated with the main project financing. The co-owners have posted security which, together with other amounts held by the co-owners in respect of holdbacks, should be sufficient to vacate such liens. The shareholders of the co-owners have indemnified the Fund against costs associated with such liens and have undertaken to take such steps as may be necessary to have such liens vacated in order to prevent the main project financing lenders from taking action in respect of such breach. If the shareholders of the co-owners default on their commitments and the security posted by the co-owners is insufficient, the Fund may be required to post certain security to have the liens vacated. No provision has been made in these financial statements for any loss that might result should the liens not be vacated.

12. SPECIFIC ASSUMPTIONS — RATTLE BROOK

It is assumed that proceeds of the offering in the amount of $4,434 will be held by the Fund until the acquisition of the Rattle Brook Shares is completed on December 31, 1998. It is assumed that during the period July 1, 1998 to December 31, 1998 that the funds so held will earn interest at a rate of 4% per annum. Commencing January 1, 1999, 45% of the net earnings from the Rattle Brook facility are reflected as equity income in the consolidated statement of forecast net earnings.

13. DISTRIBUTABLE CASH

Distributable cash includes lease payments, principal payments, interest and dividends payable by Algonquin Canada to the Fund, interest on the Deferred Closing Funds and the Rattle Brook Funds, and the principal amount of and interest on the Rattle Brook

13. DISTRIBUTABLE CASH (Continued)

Completion Amount, less administrative expenses of the Fund and principal payments made. The forecast assumes that Algonquin Canada and Algonquin America declare dividends during the year in which Distributable Cash is earned. Distributions of dividends are forecast to be made quarterly. Distributions of the Fund are determined in accordance with generally accepted accounting principles. Due to normal delays in receiving cash distributions of earnings from the operating facilities, the Manager has committed to arrange financing for the Fund in respect of any cash shortfalls, which financing will permit the net earnings component of distributable cash to be paid to Unitholders at year end and which is expected not to exceed $1,000 during the forecast periods. The amount of dividends forecast to be declared has been estimated by the Manager without consideration of the possibility of returning capital to the holders of Trust Units and with reference to the earnings.

It is assumed that there are no improvements to capital assets that are capitalized during the forecast periods, that there are no amounts paid by the Fund during the forecast periods to redeem Trust Units and that there are no other amounts reasonably required for the operation of the Fund paid during the forecast periods.

14. RELATED PARTY TRANSACTIONS

An affiliate of Algonquin Power Corporation Inc. (''Algonquin Power'') will be the Manager of the Fund.

The Fund is acquiring the following from Algonquin Power indirectly through its wholly owned subsidiaries: Moretown Hydro Energy Company for $7,957, Avery Hydroelectric Associates for $3,602, Hadley Falls Associates for $1,638 and Lakeport Hydroelectric Corporation for $1,310.

The Fund is forecast to subscribe for $4,992 of notes issued by Algonquin Power and to pay Algonquin Power $750 to obtain the option to purchase the Glenford Facility.

Certain payments in the consolidated statements of forecast net earnings for the twelve months ending December 31, 1998 and for the six months ending June 30, 1999 are respectively forecast to be paid to affiliates or subsidiaries of Algonquin Power being $326 and $202 of management fees, $276 and $152 of operations supervisory fees and $577 and $433 of operating expenses. Further, $863 and $586 is paid to a subsidiary of Algonquin Power with respect to direct operating contracts for the Trafalgar, Long Sault Rapids, Saint-Alban, Rawdon and Glenford facilities for the twelve month and six month periods ending December 31, 1998 and June 30, 1999, respectively.

Construction Services Inc., as general contractor, is constructing the Rattle Brook Facility on a turn-key design build basis for the Rattle Brook Partnership and has been engaged to complete certain repairs with respect to the Ste-Brigette facility.

ALGONQUIN POWER INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in thousands of dollars, unless otherwise specified)

Overview

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the consolidated financial statements of the Fund included elsewhere in this Prospectus.

The Fund will be entirely dependent on the operations of the hydroelectric generating facilities operated by the Fund Businesses. Operating income and Distributable Cash will be affected primarily by revenues received under power purchase agreements and operating expenses.

Significant Transactions

The Fund completed its initial public offering of 8,031,775 trust units at a price of $10.00 per unit on December 23, 1997. The Fund raised $73,800 net of issue costs.

The Fund acquired for $25,700 the rights to 100% of the cash flows from 14 hydroelectric generating facilities located in Ontario, Québec, New York and New Hampshire. This was accomplished by purchasing 9,200 in secured notes issued by companies that operate generating facilities and by purchasing companies and partnership interests that directly own generating facilities. The details of these acquisitions are provided in Note 3 — Acquisitions in the accompanying financial statements. The total generating capacity of these facilities is 19,030 kW.

Net proceeds of $41,600 from the offering were placed in escrow to be used in connection with the acquisition of three hydroelectric generating facilities that were to close subsequent to year end. These acquisitions have now been completed. The details of the securities and assets acquired are provided in Note 10 — Subsequent Events in the accompanying financial statements. These acquisitions provide the Fund with 100% of the cash flows from three large facilities, adding an additional generating capacity of 24,400 kW.

The Fund also acquired on December 23, 1997 a note issued by Algonquin Power for approximately $7,800. There will be a subsequent reduction of the note effective January 1, 1998.

Operating Results

Three Months Ended March 31, 1998

During the first quarter, Algonquin Canada completed the acquisition of the Bellterre Facility and the Ste-Brigitte Facility. However, pursuant to the purchase agreements relating to the acquisition of such facilities, energy sales from the facilities for the entire three months were received indirectly by the Fund. The acquisition of the Long Sault Rapids Facility was not completed until April 17, 1998 and, therefore, revenue from energy sales from this facility was not included in this quarter.

During the quarter, the Fund received income from energy sales from four projects in Ontario, three projects in Québec and two projects in New Hampshire. Actual energy production was 92.2% of that forecast for the first quarter in the Fund's prospectus filed December 11, 1997. Overall, these nine facilities did not meet forecasted generation due to low river flow, primarily in the Québec region, during this period. The Fund also received, indirectly, principal and interest payments on the Trafalger Class A Note issued by the Trafalger Companies, who own seven hydroelectric generating facilities in New York State. During this period these seven facilities produced 118% of the forecast energy production for the quarter. Overall, due to the geographical and hydrological diversity of the facilities, the facilities in which the Fund has an interest produced 102% of the forecast energy production for this quarter.

From the date of Declaration of Trust September 8, 1997 to December 31, 1997

The accompanying financial statements provide operating results for only nine days, except for $53 of rental income earned prior to December 23, 1997. The forecast net earnings in the prospectus were for a full year of operations from January 1 to December 31, 1998. Therefore, the results for nine days bear no relationship to forecast results. The 1998 annual report will include a comparison of the actual 1998 operations to the forecast.

The reported loss for this short period has arisen for two reasons. Firstly, there were debt arrangement and prepayment fees of $2,200. These fees were incurred in connection with the completion of one of the acquisitions and were included in the forecast provided in the Fund's December 11, 1997 prospectus.

The Fund was also subject to certain administrative expenses, including a year end audit, that the nine days of revenue were not sufficient to cover. These expenses were recovered in the first quarter of 1998 and netted with the first quarter operations for purposes of determining future distributable cash.

Liquidity and Capital Resources

As at December 31, 1997, the Fund had a working capital deficit of approximately $1.3 million. This is mainly attributable to the following:

(1) a $400,000 shortfall in funds required to complete the various acquisitions due to adverse movements in the US dollar exchange rate on closing as compared to the rate of exchange used in the forecast; and

(2) offering expenses of approximately $800,000 were in excess of amounts originally estimated.

Subsequent to year end, Algonquin Power agreed to provide the Fund with necessary working capital by advancing funds which will be funded by a reduction of approximately $1.3 million in the principal amount of the note purchased. The principal repayment schedule on the note will not be adjusted until 2004. Therefore, the reduction in the note will not have an impact on the Fund's distributable cash until 2004.

Risk Management

Due to the ownership of generating facilities in the United States, the Fund's results of operations are affected by the exchange rate between the Canadian and US dollar. The Fund has attempted to reduce the impact of exchange rate fluctuations by agreeing to pay certain of its obligations in US dollars. The management fees payable to the Manager and the operations supervisory fees payable to Power Systems are in US dollars for the first eight years. As well, principal repayments on the promissory notes are payable in US dollars. Together, this transfers much of the foreign exchange risk to Algonquin Power and its affiliates.

It is not the intent of the Fund to engage in any speculative foreign exchange transactions.

On January 1, 2000, many of the world's date sensitive computer systems may fail due to programming that may lead the computer to read ''00'' as the year 1900 (known as ''Y2K'' problems). The Manager has undertaken an analysis of this potential problem as it relates to the Fund Businesses. The operation of the Fund Businesses' facilities are generally controlled by dedicated computer systems whose functions are not date sensitive and therefore will not suffer from Y2K problems. The commercially provided general accounting, administration and data collection systems utilized by the Fund Businesses may suffer from Y2K problems. Y2K compliant versions of the applicable software programs are being solicited from the respective vendors; all such programs are expected to be available and installed at generally nominal cost prior to the end of 1998. Energy production from the Fund Businesses' facilities could be curtailed in the event the grid system of the utilities to which the Fund Businesses deliver power suffers from catastrophic Y2K problems; this problem is mitigated by the ''take-or-pay'' nature of the agreements with the utilities under which the utilities are contractually required to accept, or pay for as if accepted, energy produced by the Fund Businesses' facilities. The Manager has contacted such utilities and received assurances that they are taking steps to become Y2K compliant.

Outlook

All of the acquisitions outlined in the Fund's December 11, 1997 prospectus have been completed. For 1998, the Fund will receive 100% of the cash flows from 16 of the generating facilities from January 1, 1998. The 17th and largest facility came on stream on April 1, 1998, ahead of the May 1, 1998 schedule anticipated in the forecast and the Fund acquired an interest in this facility on April 17, 1998.

The addition of economic interests in a further 12 hydroelectric generating facilities pursuant to this offering of additional Trust Units will provide the Fund Businesses with an expanded base of operations. The benefits of the resulting economies of scale will provide further diversity in both sources of revenue and overall costs per unit of production.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Fund as at March 31, 1998, May 31, 1998 and May 31, 1998 after giving effect to this Offering.

Designation	Authorized	As at March 31, 1998(2)	As at May 31, 1998	As at May 31, 1998 after giving effect to this Offering
Notes payable(1)	N/A	$ 4,143,514	$ 4,143,514	$ 4,143,514
Units	Unlimited	$73,811,146	$73,811,146	$132,904,762
		(8,031,755 Units)	(8,031,755 Units)	(14,090,452 Units)

Notes:

(1) The Fund's notes payable to Algonquin Power were issued to satisfy obligations arising from the purchase of generating facilities and the prepayment fee for an equipment loan.

(2) The deficit at March 31, 1998 was $3.1 million.

SHARE AND LOAN CAPITAL

Share Capital of Algonquin Canada

The authorized share capital of Algonquin Canada consists of an unlimited number of common shares without par value. There are 9,696,104 shares of Algonquin Canada outstanding and all shares are presently owned by the Fund. The Fund proposes to use $33.6 million of the Net Proceeds to subscribe for additional common shares of Algonquin Canada, which funds will be used to pay a portion of the subscription or purchase price for the securities or facility interests it proposes to acquire including specifically the SLI Saint-Alban Note, the SLI Rawdon Note and its interest in the Glenford Option Agreement.

The distribution policy of Algonquin Canada will continue to be to distribute all of its available cash, subject to applicable law and to Algonquin Canada retaining appropriate working capital reserves. At the end of each quarter, the Board of Directors will determine whether Algonquin Canada has sufficient cash to return as capital or declare as a dividend for that quarter and, if so, what the amount of capital returned or dividend will be. The decision of what amount, if any, to return as capital or declare as a dividend is to be a conservative estimate based on the results of each calendar quarter. An adjustment, if appropriate, to the total amount of capital returned or dividend payable for a fiscal year will be paid prior to March 31 of the following year.

Loan Capital of Algonquin Canada

Presently, Algonquin Canada has issued and outstanding Canada Notes in the aggregate principal amount of $22.4 million due December 31, 2037.

Immediately following Closing, the Fund proposes to subscribe for $11.3 million principal amount of Canada 1998 Notes due June 30, 2038. These funds will be used to pay the remaining portion of the subscription or purchase price for the securities or facility interests it proposes to acquire. The Canada 1998 Notes shall rank pari passu with existing issued Canada Notes.

Interest

The Canada Note bears interest at the rate of 9% per annum, payable quarterly on the Record Dates.

The Canada 1998 Note will bear interest at the rate of 6% per annum, payable quarterly on the Record Dates. The first interest payment on the Canada 1998 Note will be made on or before September 30, 1998.

The Canada Note and Canada 1998 Note 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 such interest. Any interest deferred for a period exceeding 12 months will be capitalized as part of the principal outstanding under the note.

Redemption

The principal amounts of the Canada Note and the Canada 1998 Note shall be retired prior to their maturity from available cash after payment of interest on the Canada Note and interest on the Canada 1998 Note in respective amounts as may be determined by the Board of Directors of Algonquin Canada. In any event, the principal amount of the Canada Note and the Canada 1998 Note remaining outstanding on its due date will be immediately due and payable.

Ranking

All Canada Notes shall rank pari passu with the Canada 1998 Notes. The Canada Note and Canada 1998 Note are jointly secured by all of the assets of Algonquin Canada. At the discretion of its Board of Directors, Algonquin Canada has the ability to postpone repayment of the Canada Note and Canada 1998 Note and subordinate the security related thereto to any indebtedness and related security that may be incurred by Algonquin Canada in the future.

Default

Each of the Canada Note and Canada 1998 Note provide that any of the following will constitute an event of default: (i) default in payment of 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; and (vii) default in the observance or performance of any other covenant or condition of the note and the continuance of such default for a period of 30 days after notice in writing has been given to Algonquin Canada specifying such default and requiring Algonquin Canada to rectify same.

Limitations on Issuance of Shares and Debt

The Governance Agreement provides that Algonquin Canada is not permitted to issue any shares or incur any debt other than in the ordinary course of business without the approval of the Fund and will contain restrictions on further borrowings by Algonquin Canada. The Fund has approved the issue of the additional common shares and Canada 1998 Notes as disclosed herein.

Share Capital of Algonquin America

The authorized share capital of Algonquin America consists of an unlimited number of shares of common stock without par value. There are 571,955 shares of Algonquin America outstanding and all shares are presently held by Algonquin Canada. Algonquin Canada proposes to use US$8.7 million of the subscription proceeds from the issuance of additional Algonquin Canada Shares and the Canada 1998 Notes to subscribe for additional common shares of Algonquin America, which funds will be used to pay a portion of the purchase price for the facility interests Algonquin America proposes to acquire.

The distribution policy of Algonquin America will continue to be to distribute all of its available cash, subject to applicable law and to Algonquin America retaining appropriate working capital reserves. At the end of each quarter, Algonquin America's Board of Directors will determine whether Algonquin America has sufficient cash to return as capital or declare as a dividend for that quarter and, if so, what the amount of capital returned or dividend will be. The decision of what amount, if any, to return as capital or declare as a dividend is to be a conservative estimate based on the results of each calendar quarter. An adjustment, if appropriate, to the total amount of the capital returned or dividend payable for a fiscal year will be paid prior to March 31 of the following year.

Loan Capital of Algonquin America

Presently, Algonquin America has issued and outstanding US Notes in the aggregate principal amount of $2.7 million (US$1.9 million).

Immediately following Closing, the Fund proposes to subscribe for US$9.8 million principal amount of US 1998 Notes due June 30, 2038. These funds will be used to pay the remaining portion of the purchase price of the facility interests Algonquin America proposes to acquire.

Interest

The US Note bears interest at the rate of 11% per annum, payable quarterly on the Record Dates. The interest and principal on the US Note is payable in Canadian funds.

The US 1998 Note will bear interest at the rate of 11% per annum, payable quarterly on the Record Dates. The first interest payment on the US 1998 Note will be made on or before September 30, 1998.

The interest and principal on the US Note and the US 1998 Note will be payable in Canadian funds.

The US Note and the US 1998 Note 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 the note.

Redemption

The principal amounts of the US Note and the US 1998 Note shall be retired prior to their maturity from available cash after payment of interest on the US Note and interest on the US 1998 Note in respective amounts as determined by the Board of Directors of Algonquin America. In any event, any principal amount of the US 1998 Note or US Note remaining outstanding on its due date shall be immediately due and payable by Algonquin America.

Ranking

The US Note shall rank pari passu with the US 1998 Note. The US Note and US 1998 Note 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 any repayment of the US Note or US 1998 Note and subordinate the security related thereto to any indebtedness and related security that may be incurred by Algonquin America in the future.

Default

Each of the US Note and the US 1998 Note provide that any of the following will constitute an event of default: (i) default in payment of principal when due; (ii) default on any senior indebtedness for borrowed money; (iii) certain events of winding-up, liquidation, bankruptcy, insolvency, receivership, general assignment for the benefit of creditors or proceedings with respect to a compromise or arrangement under applicable bankruptcy or insolvency legislation; (iv) the taking of possession by an encumbrancer of all or substantially all of the property of Algonquin America; (v) ceasing to carry on in the ordinary course the business of Algonquin America; (vi) default in performing any material lease, licence or other agreement whereby any material property or rights of Algonquin America may be forfeited or terminated; and (vii) default in the observance or performance of any other covenant or condition of the US Note or US 1998 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.

Limitations on Issuance of Shares and Debt

The Governance Agreement provides that Algonquin America is not permitted to issue any shares or incur any debt other than in the ordinary course of business without the approval of the Fund and Algonquin Canada and contains restrictions on further borrowings by Algonquin America. The Fund and Algonquin Canada have approved the issuance of additional common shares and US 1998 Notes as disclosed herein.

Algonquin Note

The Fund has subscribed for the Algonquin Note in the original principal amount of approximately $7.9 million due January 1, 2005 from Algonquin Power. The Algonquin Note bears interest at the rate of 9.25% per annum and will be repaid in scheduled principal repayments over its term. Following negotiations between the Fund and Algonquin Power, a payment of approximately $1.3 million was made by Algonquin Power on January 1, 1998 and such payment was applied to reduce the outstanding balance of the Algonquin Note to approximately $6.6 million.

Interest Rate

The Algonquin Note bears interest at a rate of 9.25% per annum, payable quarterly on the Record Dates. The Algonquin Note provides that Algonquin Power may defer, for a period of up to 12 months, payment of interest on the Algonquin Note to the extent that its earnings before interest, taxes, depreciation and amortization are inadequate to pay interest on the Algonquin Note. Deferred interest will bear interest at the same rate as principal under the note.

Redemption

Algonquin Power is required to make minimum principal repayments in respect of the Algonquin Note in specific amounts on December 31st of each year over the term of the note as set out in the Algonquin Note, such that the Algonquin Note is fully repaid upon maturity. If any principal amount and/or interest remains outstanding on maturity, such amount will be immediately due and payable at that time.

At any time after five years following the issuance of the Algonquin Note and at the option of Algonquin Power, the outstanding principal balance of the Algonquin Note may be repaid in full. Otherwise, the Algonquin Note will not be redeemable at the option of Algonquin Power or by the holder thereof prior to maturity.

Ranking

The Algonquin Note is secured by a letter of credit in the initial amount of $3.5 million posted in favour of the Fund and an assignment of all amounts remaining owing by the Fund to Algonquin Power in respect of the purchase of the Donnacona Facility Equipment. The amount of such letter of credit has been and shall continue to be reduced dollar for dollar as the outstanding principal amount of the Algonquin Note is reduced. In addition, the Manager and Power Systems have guaranteed Algonquin Power's obligations under the Algonquin Note and the Fund has the right to set off amounts owing under the Management Agreement and the Operations Supervisory Agreement in the event of a default. At the discretion of its board of directors, Algonquin Power may postpone repayment of the Algonquin Note to any indebtedness that may be incurred by Algonquin Power in the future.

Default

The Algonquin Note provides that any of the following will constitute an event of default: (i) default in payment of the principal of the Algonquin Note when due; (ii) failure to pay interest obligations under the Algonquin Note within 12 months of when the same becomes due; (iii) default on any senior indebtedness for borrowed money; (iv) 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; (v) the taking of possession by an encumbrancer of all or substantially all of the property of Algonquin Power; (vi) ceasing to carry on in the ordinary course the business of Algonquin Power; (vii) default in performing any material lease, licence or other agreement whereby any material property or rights of Algonquin Power may be forfeited or terminated; and (viii) default in the observance or performance of any other covenant or condition of the Algonquin Note and the continuance of such default for a period of 30 days after notice in writing has been given to Algonquin Power by the holder of the Algonquin Note specifying such default and requiring Algonquin Power to rectify same.

DISTRIBUTION RECORD

The following table sets forth the per Trust Unit cash distributions since December 23, 1997, the date the Fund completed its initial public offering of Trust Units.

Period	Distributions per Trust Unit
1998	
December 23, 1997 to March 31, 1998	$0.175
April 1 to June 30, 1998(1)	$0.235

Note:

(1) Special distribution to be made to Unitholders of record on June 23, 1998 and payable on July 15, 1998. See ''Description of the Fund'' — ''Distributions''.

PRIOR SALES

During the period from the date of formation of the Fund on September 8, 1997 to the date of this prospectus, the Fund issued Trust Units as set forth below:

Date of Issue	Number of Trust Units Issued	Issue Price per Trust Unit	Aggregate Issue Price	Nature of Consideration
September 8, 1997(1)	1	$10.00	$ 10.00	Cash
December 23, 1997	8,031,775	$10.00	$80,317,750	Cash

Note:

(1) Trust Unit issued to the initial Unitholder on formation of the Fund and redeemed on closing of the Fund's initial public offering.

PRINCIPAL UNITHOLDERS

To the knowledge of the Trustees and management of the Manager, no person or company beneficially owns, directly or indirectly, or exercises direction or control over, more than 10% of the voting rights attaching to the issued and outstanding Trust Units.

DESCRIPTION OF THE FUND

Declaration of Trust

The Fund is an open ended, unincorporated trust established pursuant to the Declaration of Trust and governed by the laws of the Province of Ontario. The additional Trust Units issuable pursuant to the offering will be issued pursuant to the Declaration of Trust and will represent equal undivided beneficial interests in the Fund. All Trust Units share equally in all distributions from the Fund and all Trust Units carry equal voting rights at meetings of Unitholders.

The following is a summary of certain provisions of the Declaration of Trust. For a complete description of the Trust Units and the Declaration of Trust, reference should be made to the Declaration of Trust. See ''Material Contracts''.

Sole Undertaking

The Declaration of Trust provides that, notwithstanding any other provision thereof, the only undertaking of the Fund is (a) the investing of its funds in property (other than real property or an interest in real property);

(b) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or an interest in real property) that is capital property of the Fund, or (c) any combination of the activities in (a) and (b).

Trustees

The Trustees of the Fund are set out below.

Name and Municipality of Residence	Principal Occupation
George L. Steeves . . . . Aurora, Ontario	President, Cumming Cockburn Limited (engineering/consulting)
A. Stephen Probyn . . . . Toronto, Ontario	President, Probyn & Company (merchant banking)
R. Ian Bradley . . . . Mississauga, Ontario	Independent consultant

For biographies of the Trustees, see ‘‘Governance, Management and Operations’’ — ‘‘The Trustees’’.

Mr. Probyn has held his present principal occupation for the last five years, Mr. Steeves was Vice-President of Cumming Cockburn Limited until 1996 and Mr. Bradley was President of Mattel Canada Inc. until 1997.

The Trustees will be entitled to compensation for services rendered to the Fund in their capacity as Trustees. Initial compensation has been established at $15,000 per year per Trustee.

The Declaration of Trust provides that, subject to the terms and conditions of the Declaration of Trust, the Trustees may, in respect of the trust assets and the business and affairs of the Fund, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof. The number of Trustees will be not less than one nor more than seven. The Declaration of Trust prohibits non-residents of Canada (as that term is defined in the Tax Act), among others, from being Trustees. The Trustees are responsible for, among other things: (i) acting for, voting on behalf of and representing the Fund as a shareholder and noteholder of Algonquin Canada and a noteholder of Algonquin America; (ii) maintaining records and providing reports to Unitholders; (iii) supervising the activities and managing the investments and affairs of the Fund; and (iv) effecting payments of Distributable Cash from the Fund to Unitholders.

A Trustee may resign upon written notice to the Fund and may be removed by a majority of the votes cast at a meeting of Unitholders and the vacancy created by such removal may be filled at the same meeting, failing which it may be filled by the Trustees.

A quorum of the Trustees, being one Trustee at any time there is only one Trustee duly appointed or two Trustees at any time there are two or more Trustees duly appointed, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees or from a failure of the Unitholders to elect the required number of Trustees. In the absence of a quorum of the Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the required number of Trustees, the Trustees will forthwith call a special meeting of Unitholders to fill the vacancy. If the Trustees fail to call such meeting or if there are no Trustees then in office, any Unitholder may call the meeting.

The Trustees may, between annual meetings of Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Unitholders, but the number of additional Trustees will not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders.

The Declaration of Trust provides that the Trustees will act honestly and in good faith with a view to the best interests of the Fund and in connection therewith will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that the Trustees will be entitled to indemnification from the Fund in respect of the performance of their duties under the Declaration of Trust in the absence of a breach of their duties and standard of care. The Declaration of Trust states that the duties and standard of care of the Trustees provided in the Declaration of Trust are intended to be similar to, but not greater than, those imposed on a director of a corporation governed by the Business Corporations Act.

Trust Units

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 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 under ''Redemption Right'', the Trust Units have no conversion, retraction, redemption or pre-emptive rights. Additional Trust Units may be issued in the future.

Issuance of Trust Units

The Declaration of Trust provides that Trust Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. Trust Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a pro rata basis. The Declaration of Trust also provides that immediately after any pro rata distribution of Trust Units to Unitholders in satisfaction of any non-cash distribution, the number of outstanding Trust Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Trust Units as the Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Trust Units prior to the non-cash distribution is deemed to represent the same number of Trust Units after the non-cash distribution and the consolidation.

Restrictions on Debt

The Declaration of Trust precludes the Fund from incurring indebtedness for borrowed money absent the passage of an Extraordinary Resolution, except for certain amounts incurred in connection with previous acquisitions of facilities, amounts to be incurred in connection with the Acquisitions and amounts up to $1.5 million incurred for capital expenditures and operations related purposes for facilities in which the Fund has an interest.

Distributions

The amount of Distributable Cash to be distributed annually per Trust Unit will be equal to a pro rata share of interest, royalty and dividend income, taxable deemed dividends, lease payments or other income from the Leases received by the Fund in the year less: (i) administrative expenses of the Fund: (ii) amounts which may be paid by the Fund in connection with any cash redemptions of Trust Units; (iii) amounts required for the business and operations of the Fund, including amounts required to pay the deferred portion of the purchase price for any assets acquired by the Fund, directly or indirectly; and (iv) capitalized interest with respect to any notes held by the Fund. Any income of the Fund which is applied to any cash redemptions of Trust Units or is otherwise unavailable for cash distribution will be distributed to Unitholders in the form of additional Trust Units. Such additional Trust Units will be issued pursuant to exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing. In addition, on December 31 of each year, Unitholders will be entitled to receive a distribution of the amount, if any, by which the income of the Fund including any net capital gains for purposes of the Tax Act in respect of the year (calculated without reference to paragraph 82(1)(b) and to subsection 104(6) of the Tax Act) less any deductible non-capital or net capital losses of prior years exceeds all amounts otherwise distributed or made payable in respect of the year. Certain adjustments may apply (see ''Canadian Federal Income Tax Considerations'').

The Fund will include in its quarterly distributions cash dividends or returns of capital, if any, received from Algonquin Canada. Quarterly distributions are due and payable to Unitholders of record on the last day of each calendar quarter and are expected to be paid on or before the 15th day of the following calendar quarter without interest or penalty. On June 11, 1998 the Trustees announced a special distribution of Distributable Cash in the amount of $0.235 per Trust Unit. Such special distribution will be made in lieu of the regular distribution for the quarter ending June 30, 1998. Subscribers for Trust Units pursuant to the offering will not participate in such special distribution. The distribution next following such special distribution will be the distribution expected to be paid on October 15, 1998 to Unitholders of record on September 30, 1998.

Revenues from the facilities operated by the Fund Businesses are higher in the spring due to the spring run-off and in the fall due to higher levels of rainfall and, as a result, it is anticipated that distributions of Distributable Cash will be greater during the quarter's ending June 30th and December 31.

Due to normal delays in receiving cash distributions of earnings from the operating facilities, the Manager has committed to arrange financing for the Fund in respect of any cash shortfalls, which financing will permit the net earnings component of Distributable Cash to be paid to Unitholders at year end.

Redemption Right

Trust Units are redeemable at any time at the option of the holders thereof upon delivery to the Fund of the certificate or certificates representing such Trust Units, accompanied by a duly completed and properly executed notice requesting redemption. Upon receipt of the redemption request by the Fund, all rights of the holders with respect to the Trust Units tendered for redemption will cease and the holder thereof will only be entitled to receive a price per Trust Unit (''Cash Redemption Price'') equal to the lesser of: (i) 95% of the ''market price'' of the Trust Units on the principal market on which the Trust Units are quoted for trading during the ten trading day period commencing immediately after the date on which the Trust Units were tendered to the Fund for redemption (the ''Redemption Date''); and (ii) the ''closing market price'' on the principal market on which the Trust Units are quoted for trading on the Redemption Date.

For the purposes of this calculation, ''market price'' will be an amount equal to the weighted average trading price of the Trust Units for each of the trading days on which there was a closing price, provided that if the applicable exchange or market cannot provide a weighted average trading price, but only provides the highest and lowest prices of the Trust Units traded on a particular day, the ''market price'' will be an amount equal to the simple average of the average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the ten trading days, ''market price'' will be the simple average of the following prices established for each of the ten trading days: (i) the average of the last bid and last ask prices of the Trust Units for each day on which there was no trading; (ii) the weighted average trading price of the Trust Units for each day that there was trading if the exchange or market provides a weighted average trading price; and (iii) the average of the highest and lowest prices of the Trust Units for each day that there was trading, if the market provides only the highest and lowest prices of Trust Units traded on a particular day. The ''closing market price'' will be: (i) an amount equal to the closing price of the Trust Units if there was a trade on the date; (ii) an amount equal to the average of the highest and lowest prices of Trust Units if there was trading and the exchange or other market provides only the highest and lowest prices of Trust Units traded on a particular day; or (iii) the average of the last bid and ask prices of the Trust Units if there was no trading on the date.

The aggregate Cash Redemption Price payable by the Fund in respect of any Trust Units tendered for redemption during any calendar month will be satisfied by way of a cash payment on the last day of the following month, provided that the entitlement of Unitholders to receive such cash payment upon redemption of their Trust Units is subject to the limitations that: (i) the total amount payable by the Fund in respect of such Trust Units and all other Trust Units tendered for redemption in the same calendar month will not exceed $50,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) at the time such Trust Units are tendered for redemption the outstanding Trust Units will be listed for trading on The Toronto Stock Exchange or traded or quoted on any other market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Trust Units; and (iii) the normal trading of Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed for trading (or, if not listed on a stock exchange, on any market on which the Trust Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten day trading period commencing immediately after the Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Trust Units as a result of the foregoing limitations, then the redemption price for such Trust Units will be the fair market value thereof as determined by the Trustees taking into account any taxes payable by the Fund arising from such redemption. The redemption price will, subject to any applicable regulatory approvals, be paid and satisfied by way of distribution in specie of an interest in the Fund Assets. No fractional Algonquin Canada Shares, Fund Notes (based on increments of $100) or other securities, if any, will be distributed and, where the number of Algonquin Canada Shares, Fund Notes and/or other securities, if any, to be received by a Unitholder includes a fraction, such number will be rounded to the next lowest whole number.

It is anticipated that the redemption right described above will not be the only mechanism for Unitholders to dispose of their Trust Units. The Fund Assets which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange, no market is expected to develop in such securities and such securities may be subject to resale restrictions under applicable securities laws. Such securities will likely not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans. See ''Canadian Federal Income Tax Considerations''.

Meetings of Unitholders

The Declaration of Trust provides that Unitholders may pass resolutions that bind the Trustees or the Fund only with respect to: the appointment or removal of Trustees (except filling casual vacancies); the appointment or removal of the auditors of the Fund; the approval of amendments to the Declaration of Trust (except as described under ''Description of the Fund — Amendments to the Declaration of Trust''); the appointment of an inspector; the sale of all or substantially all of the assets of the Fund (other than as part of an internal reorganization); and the termination of the Fund. Such resolutions must be passed by Extraordinary Resolution except for the appointment or removal of Trustees or auditors of the Fund, which requires the approval of a majority of votes cast at a meeting of Unitholders. Meetings of Unitholders will be called and held annually for the election of Trustees and the appointment of auditors of the Fund.

A special meeting of Unitholders may be called at any time by the Trustees and must be convened if requisitioned by the holders of not less than 10% of the Trust Units then outstanding (not including Units beneficially owned by the Manager) by written requisition. A requisition must state in reasonable detail the business proposed to be transacted at such meeting.

Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two individuals present in person either holding personally or representing by proxy in the aggregate at least 10% of the votes attaching to all outstanding Trust Units will constitute a quorum for the transaction of business at all such meetings.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

Exercise of Voting Rights attached to Algonquin Canada Shares

The Declaration of Trust provides that the Fund will not authorize, either by agreement or by voting its Algonquin Canada Shares:

(a) any amendment to the articles of Algonquin Canada or its subsidiaries to change or remove any restriction on the business of Algonquin Canada or its subsidiaries or change the authorized share capital or change or amend the rights, privileges, restrictions and conditions attaching to any class of shares of Algonquin Canada or its subsidiaries, as applicable;

(b) any sale, lease or other disposition of all or substantially all of the property and assets of Algonquin Canada except in the ordinary course of business or as part of an internal reorganization of Algonquin Canada and any one or more of its wholly owned subsidiaries;

(c) any issue of shares in the capital of Algonquin Canada or its subsidiaries other than to the Fund or Algonquin Canada, as applicable;

(d) any amalgamation or other merger of Algonquin Canada or its subsidiaries with any other corporation, except one or more wholly owned subsidiaries of such entity; or

(e) any amendment to any unanimous shareholders' agreement entered into in respect of Algonquin Canada or its subsidiaries.

without the approval of the Unitholders by Extraordinary Resolution at a meeting of Unitholders called for that purpose.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents be the beneficial owners of a majority of the Trust Units. If the Trustees or the transfer agent become aware that the beneficial owners of 49% of the Trust Units then outstanding are or may be non-residents or that such a situation is imminent, the Trustees or the transfer agent may make a public announcement thereof and will not accept a subscription for Trust Units from, or issue or register a transfer of Trust Units to, a person unless the person provides a declaration that the beneficial owner is not a non-resident. If, notwithstanding the foregoing, the Trustees or the transfer agent determine that a majority of the Trust Units are held by non-residents, the transfer agent may, or the Trustees may cause the transfer agent to, send a notice to non-resident Unitholders, chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustees or the transfer agent may consider equitable and practicable, requiring them to sell their Trust Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Trust Units or provided the transfer agent with satisfactory evidence that the beneficial owners are not non-resident within such period, the transfer agent may on behalf of such Unitholder, sell such Trust Units and, in the interim, will suspend the voting and distribution rights attached to such Trust Units. Upon such sale, the affected holders will cease to be holders of Trust Units and their rights will be limited to receiving the net proceeds of sale upon surrender of the certificates representing such Trust Units.

Amendments to the Declaration of Trust

The Declaration of Trust may be amended or altered from time to time by Extraordinary Resolution. 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.

Termination of the Fund

The Fund has been established for a term ending 21 years after the date of the death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on September 8, 1997. The Declaration of Trust requires the Trustees to commence to wind-up the affairs of the Fund not more than two years prior to the end of the term of the Fund. In addition, at any time prior to the expiry of the term of the Fund, Unitholders may pass an Extraordinary Resolution to terminate the Fund, following which the Trustees are obligated to commence to wind-up the affairs of the Fund.

Take-over Bids

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for Trust Units and not less than 90% of the Trust Units (other than Trust Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Trust Units held by Unitholders who did not accept the offer on the terms offered by the offeror.

Foreign Property

In order for the Trust Units of the Fund not to be foreign property for certain Unitholders which are subject to Part XI of the Tax Act, the Fund must limit its investment in foreign property to the levels prescribed by the Tax Act. The Declaration of Trust provides that under no circumstances will the Trustees purchase or authorize the purchase of any investment such that 20% (or such other percentage as may be prescribed by the regulations under the Tax Act in this regard) or more of the Trust Assets, determined on the basis of cost amount, would constitute ''foreign property'' as defined under subsection 206(1) of the Tax Act.

Reporting to Unitholders

The Fund will furnish to the Unitholders such financial statements (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation. Each of Algonquin Canada and its subsidiaries has undertaken to provide the Fund with: (i) a report of any material change that occurs in its affairs in form and content that it would file with applicable regulatory authorities if it were a reporting issuer; and (ii) all financial statements that it would be required to file with applicable regulatory authorities if it were a reporting issuer under applicable securities laws. All such reports and statements will be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the delivery of financial statements as required under applicable securities laws. The Fund will distribute the financial statements it receives from Algonquin Canada and its subsidiaries as a supplement to the financial statements of the Fund that are sent to Unitholders.

Prior to each meeting of Unitholders, the Fund will provide the Unitholders with information similar to that required to be provided to shareholders of an Ontario public company along with notice of such meeting.

Administration of the Fund

The Manager will continue to administer the Fund pursuant to the Administration Agreement and will be responsible for the administration and management of the affairs of the Fund. The Manager will be reimbursed for its reasonable out-of-pocket expenses incurred in administering the Fund. The agreement is terminable on 180 days' notice, or immediately in the event of termination of the Management Agreement, winding-up of the Fund, the insolvency or receivership of the Manager, a change in control of the Manager (other than a change in control to which the Fund consents) or default of the Manager in the performance of a material obligation which is not remedied within 30 days.

RISK FACTORS

The following are certain risk factors relating to the business of the Fund which prospective investors should carefully consider before deciding whether to purchase Trust Units. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this prospectus.

Investment Eligibility

The Fund will endeavour to ensure that the Trust Units continue to be qualified investments for Plans and will not be ''foreign property'' to such Plans. If the Fund ceases to qualify as a mutual fund trust, the Trust Units will cease to be qualified investments for Plans. Where, at the end of any month, a Plan holds Trust Units that are not qualified investments, the Plan must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Trust Units at the time Trust Units were acquired by the Plan. The annuitant under a Plan could also be subject to penalty taxes in such a case. One of the ways in which the Fund could cease to qualify as a mutual fund trust would be if non-residents of Canada (''non-residents'') within the meaning of the Tax Act were to become the beneficial owners of a majority of the Trust Units. There can be no assurance that income tax laws and the treatment of mutual fund trusts will not be changed in a manner which adversely affects Unitholders (see also ''Canadian Federal Income Tax Considerations'').

Dependence upon Fund Businesses

The Fund will be entirely dependent upon the operations and assets of the Fund Businesses. Accordingly, distributions to Unitholders will be dependent upon the ability of Algonquin Canada to pay interest on the Canada Note and the Canada 1998 Note and to declare and pay dividends in respect of the Algonquin Canada Shares, Algonquin America to pay interest on the US Note and the US 1998 Note and Algonquin Power to pay interest on the Glenford Note and the Algonquin Note. The profitability of Algonquin Canada may be affected by expiry or termination of the present long-term purchase agreements to which certain of the Fund Businesses are a party.

Completion of the Acquisitions

The Manager intends to utilize the Net Proceeds to complete the Acquisitions contemporaneously with the Closing (see ''The Acquisitions''). While certain of the Fund Businesses have entered into agreements governing the purchase and sale of various interests in the facilities to be acquired, there can be no assurances that the vendors of such facility interests will complete the transactions of purchase and sale. The purchase and sale of the various facility interests are subject to the completion of satisfactory due diligence reviews including title searches. See ''The Acquisitions'' — Acquisition Completion Provisions''. Closing will only occur if Acquisitions having an aggregate purchase price of 85% or greater of the Net Proceeds (after deducting the Rattle Brook Acquisition Amount and the Rattle Brook Completion Amount) are completed. If Acquisitions having an aggregate purchase price of less than 15% of the Net Proceeds (after deducting the Rattle Brook Acquisition Amount and the Rattle Brook Completion Amount) cannot be completed contemporaneously with the Closing, that portion of the Net Proceeds required to complete such Acquisitions will be held by the Fund and invested until the earlier of the date upon which those Acquisitions or alternative acquisitions are completed and the Closing Termination Date. The Rattle Brook Acquisition Amount will be held by the Fund and invested pending the earlier of the Rattle Brook Release Date and January 31, 1999. The Rattle Brook Completion Amount will be distributed to Unitholders as set out under ''Acquisitions'' — ''Acquisition of Newfoundland Development'' — ''Rattle Brook Completion Amount''. To the extent any funds are not used to complete the Acquisitions within the time provided, such funds, together with any interest earned thereon, will be distributed to Unitholders, unless the Trustees elect to acquire one or more alternative facility interests, provided such alternative facility interests meet the acquisition guidelines set out herein (see ''Future Acquisition Strategy'').

Regulatory Climate and Permits

Profitability of the Fund Businesses will in part be dependent upon the continuation of a favourable regulatory climate with respect to the continuing operations and the future growth and development of the independent power production industry as a whole and, in particular, with respect to the hydroelectric power sub-segment of the industry. Should the regulatory regime be modified in a manner which adversely affects the treatment of such facilities, including increases in taxes and permit fees, Distributable Cash may be adversely affected.

The operation of hydroelectric generating facilities is highly regulated. Water rights are generally owned by government and government agencies reserve the right to control water levels. The failure to obtain all necessary licences or permits, including renewals thereof or modifications thereto, may adversely affect Distributable Cash.

Environmental and Safety Considerations

The facilities encompass operations which require adherence to environmental standards imposed by regulatory bodies. Failure to operate the facilities in strict compliance with these regulatory standards may expose the facilities to claims and clean-up costs.

Equipment Failure

There is a risk of equipment failure due to wear and tear, design error or operator error, among other things, which could adversely affect revenues and Distributable Cash. Regular maintenance programs, insurance and maintenance funds partially mitigate this risk.

Commodity Prices

Distributable Cash will, in part, depend upon prices to be paid for energy purchased by customers. Such commodity pricing will vary over time. Over the long term, unexpected fluctuations in such pricing may adversely impact upon Distributable Cash.

Labour Relations

While labour relations have been stable to date and there have not been any disruptions in operations as a result of labour disputes with employees, the maintenance of a productive and efficient labour environment cannot be assured. Employees of the Fund Businesses and their subcontractors are non-unionized.

Reliance on the Manager and Power Systems and Potential Conflicts of Interest

Unitholders will be dependent upon the Manager for the administration of the Fund and upon the Manager and Power Systems for the management and operation of the facilities.

There may be situations in which conflicts of interest arise between the Manager, Power Systems and their respective officers and directors in relation to the interests of the Fund. The Manager and its affiliated entities may engage in activities similar to the activities of the Fund. The Manager or affiliated entities may acquire, own, manage and administer other facilities in the independent power production industry and, in particular, in the hydroelectric power segment of the industry. Provisions in business corporations act legislation provides certain procedures to be followed by directors and officers and remedies available against them where such procedures are not followed in the event of conflicts of interest.

Dependence Upon Key Customers

The customers that purchase power from the facilities are large utilities. If, for any reason, such customers were unable or unwilling to fulfil their contractual obligations under the power purchase agreements, Distributable Cash would decline. In addition, the continuing process of deregulation creates additional uncertainty, as the position these customers take with respect to their obligations under power purchase agreements and rate orders continues to evolve.

Delays in Distributions

Payments by Algonquin Canada to the Fund may be delayed by restrictions imposed by lenders, disruptions in service, recovery by the Manager of its expenses or the establishment of reserves for expenses.

Nature of Trust Units

The Trust Units are dissimilar to conventional debt instruments in that there is no principal amount owing directly to Unitholders. The Trust Units do not represent a traditional investment and should not be viewed by investors as a debt obligation or shares of Algonquin Canada or its subsidiaries. Each Trust Unit represents an equal undivided beneficial interest in the Fund. The Fund's sole assets will be the Fund Assets and other permitted investments.

Unitholder Limited Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its obligations and affairs. The Declaration of Trust also provides that the Trustees and the Fund will make all reasonable efforts to include as a specific term of any obligations or liabilities being incurred by the Fund or the Trustees on behalf of the Fund a contractual provision to the effect that neither the Unitholders nor the Trustees have any personal liability or obligations in respect thereof. Personal liability may arise in respect of claims against the Fund that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The Manager believes that the possibility of any personal liability of this nature arising is unlikely.

The operations of the Fund will be conducted, upon the advice of counsel, in such a way and in such jurisdictions so as to avoid as far as reasonably possible any material risk of liability on the Unitholders for claims against the Fund.

Uncertain Trust Unit Market

The Fund cannot predict at what price the Trust Units will continue to trade and there can be no assurance that an active trading market in the Trust Units will be sustained.

Units of a publicly traded income fund will not necessarily trade at values determined solely by reference to the underlying value of its assets.

A key factor that may influence the market price of the Trust Units is the annual yield on the Trust Units. An increase in market interest rates may lead purchasers of Trust Units to demand a higher annual yield and this could adversely affect the market price of the Trust Units. In addition, the market price for the Trust Units may be affected by changes in general market conditions, fluctuations in the market for equity or debt securities and numerous other factors beyond the control of the Fund.

There can be no assurance that the Fund will be in a position to redeem Trust Units when requested to do so.

Climate

Based on the type of power purchase agreements in place at all of the facilities in which the Trust has an interest, the revenue generated by the facilities is proportional to the amount of electrical energy generated. In addition, the amount of energy generated at the facilities is dependent upon available water flows. Accordingly, revenues will be significantly affected by low and high water flows within the watercourses on which the facilities are located. Engineering studies have been undertaken to assess the amount of energy which can be expected to be generated from each facility on an average annual basis. Furthermore, the majority of the facilities have significant operating histories with which to compare the theoretical estimates determined in the engineering studies. However, there can be no assurance that the historical water availability will remain unchanged or that no material hydrologic event will impact the hydrologic conditions which exist within a watercourse. It is, however, anticipated that due to the geographic diversity of the facilities, variability of total revenues will be minimized.

Severe flooding may damage the facilities. Insurance and geographical diversity may partially reduce this risk.

Exchange Rates

Currency fluctuations may affect the cash flow which the Fund will realize from its operations, as certain of the Fund Businesses sell electricity in the United States and receive proceeds from such sales in US dollars. Such Fund Businesses also incur costs in US dollars.

Loan Defaults

Glenford Debt

The cash flows received by Algonquin Power from the Glenford Partnership and, in turn, paid to the Fund in respect of payments of interest and principal on account of the Glenford Note are subordinated to the Glenford Senior Debt. The terms of the credit agreement for such financing imposes many covenants and obligations on the part of the Glenford Partnership. There is a risk that such loan may go into default if there is a breach in complying with such covenants and obligations resulting in the lender realizing on its security and, indirectly, causing the Fund to lose its investment in the Glenford Note and the Glenford Interest.

Long Sault Rapids Debt

The cash flows received by Algonquin Power and N-R Power from the Algonquin LSR Companies and the Nicholls LSR Companies respectively, and a portion of which is in turn paid to the Fund in respect of payments of interest and principal on account of the LSR Algonquin Note and the LSR Nicholls Note are subordinated to the LSR Senior Debt. The terms of the credit agreement for such financing imposes many covenants and obligations on the part of the Co-Owners.

Long Sault Rapids Lien

The contractor which completed construction of the Long Sault Rapids Facility has registered a lien against the Long Sault Rapids Facility, thereby causing the Co-Owners to technically breach their covenants under the credit agreement associated with the LSR Senior Debt. Algonquin Power and N-R Power have indemnified the Fund against costs associated with such lien and have undertaken to take such steps as may be necessary to have such lien vacated in order to prevent the senior lenders from taking action in respect of such breach. If Algonquin Power and/or N-R Power default on their commitments, the Fund may be required to post certain security to have the lien vacated and may suffer certain losses resulting from successful claims by the contractor pursuant to such lien. Algonquin Power and N-R Power have agreed to post security in support of their indemnities in the aggregate amount of $1.5 million.

In addition to the specific situation outlined above, there is a general risk that the loan may go into default if there is a breach in complying with other covenants and obligations resulting in the lenders realizing on their security and, indirectly, causing the Fund to lose its investment in the LSR Algonquin Note, the LSR Nicholls Note, the LSR Subordinate Note and the LSR Royalty Interests.

Completion of Construction

The Rattle Brook Facility is currently under construction and is due to be completed and commissioned in or about December 1998. There is a risk that construction may be delayed or that construction will not be completed due to numerous factors beyond the control of the Rattle Brook Partnership, as developer. However, the Rattle Brook Acquisition Amount will be held by the Fund pending the successful completion of construction of the Rattle Brook Facility; if the Rattle Brook Release Date does not occur before January 31, 1999, the Rattle Brook Acquisition Amount will be distributed to Unitholders pro rata. The Fund Businesses will not be responsible for any cost overruns associated with completion of construction of such facility.

Tax Related Risks

There can be no assurance that income tax laws and the tax treatment of mutual fund trusts will not be changed in a manner which adversely affects Unitholders. In addition, adverse tax consequences may arise to Unitholders and to the Fund in the event that the Fund ceases to qualify as a ‘‘mutual fund trust’’ under the Tax Act, including potential liability for Part XII.2 taxes under the Tax Act. In addition, if the Proposed Amendments (as defined under ‘‘Canadian Federal Income Tax Considerations’’) relating to ‘‘foreign property’’ are not passed in the form currently proposed, certain tax exempt Unitholders may be adversely affected. Although the Fund and Algonquin Power are of the view that all expenses being claimed by the Fund are reasonable and that the cost amount of the Fund’s depreciable properties have been correctly determined, there can be no assurance that Revenue Canada will agree. If Revenue Canada successfully challenges the deductibility of such expenses or the correctness of such cost amounts, the return to Unitholders may be adversely affected. See ‘‘Canadian Federal Income Tax Considerations’’.

Anticipated Sales of Additional Trust Units

The Trustees currently anticipate that the Fund may issue additional Trust Units in the future to finance acquisitions. The Declaration of Trust permits the Fund to issue an unlimited number of additional Trust Units without the approval of Unitholders. Unitholders will have no pre-emptive rights in connection with such additional issues. The Trustees have discretion in connection with the price and terms of issue of additional Trust Units.

Dilution

Investors who purchase Trust Units offered hereby will suffer an immediate dilution of $1.45 per Trust Unit, representing a dilution factor of 13.6%.

DILUTION

Investors who purchase Trust Units offered hereby will suffer an immediate dilution of $1.45 per Trust Unit, representing a dilution factor of 13.6%, as the price per Trust Unit offered hereby exceeds the net tangible book value per Trust Unit as at March 31, 1998, after giving effect to the offering, determined as follows:

Price per Trust Unit		$10.65
Net tangible book value per Trust Unit at March 31, 1998 (8,031,775 Trust Units outstanding)	$8.78	
Change in net tangible book value per Trust Unit attributable to the offering (6,058,697 Trust Units)	$0.42	
Pro forma net tangible book value per Trust Unit after giving effect to the offering (14,090,472 Trust Units outstanding)		$ 9.20
Dilution to subscriber		$ 1.45
Percentage dilution in relation to the offering price		13.6%

USE OF PROCEEDS

The net proceeds to the Fund from the sale of the Trust Units are estimated to be approximately $59.1 million, after deducting fees payable to the Underwriters and estimated expenses of, and acquisition costs related to, the offering. A portion of the net proceeds are intended to be used to subscribe for approximately $32.8 million of Algonquin Canada Shares, approximately $11.3 million principal amount of the Canada 1998 Note and approximately US$9.8 million of the US 1998 Note. Algonquin Canada intends to use a portion of the subscription funds it receives to subscribe for approximately US$8.7 million of Algonquin America Shares and to use a portion of the subscription funds it receives for the Algonquin Canada Shares to subscribe for the SLI Saint-Alban Note for approximately $15.0 million and the SLI Rawdon Note for approximately $7.5 million and to acquire its interest in the Glenford Option Agreement for approximately $750,000. Algonquin Canada intends to use the balance of the subscription funds to acquire the Rattle Brook Shares for approximately $4.2 million, and the Glenford Note for approximately $5.0 million. Algonquin America intends to use a portion of the subscription funds it receives to acquire the HDI III Interests for approximately $6.4 million, the Avery Dam Interest for approximately $3.6 million, the Hadley Falls Interest for approximately $1.6 million, the Lakeport Shares for approximately $1.3 million, the Moretown Interest for approximately $7.9 million, the Burt Dam Interest for approximately $2.0 million and the Hollow Dam Interest for approximately $3.5 million.

Funds available	
Net Proceeds	$59,093,000
Use of funds available	
Acquisition of additional Québec Development facilities	$28,242,000
Acquisition of additional New England Development facilities	$20,917,000
Acquisition of additional New York Development facilities	$ 5,500,000
Rattle Brook Acquisition Amount	$ 4,185,000
Rattle Brook Completion Amount	$ 249,000
Total use of funds	$59,093,000

See ''The Acquisitions''.

With the exception of the acquisition of the Rattle Brook Shares and except as noted below, all Acquisitions will be completed contemporaneously with the Closing as set out herein. Closing will only occur if Acquisitions having an aggregate purchase price of 85% or greater of the Net Proceeds after deducting the Rattle Brook Acquisition Amount and the Rattle Brook Completion Amount are completed contemporaneously with Closing. If Acquisitions having an aggregate purchase price of less than 15% of the Net Proceeds (after deducting the Rattle Brook Acquisition Amount and the Rattle Brook Completion Amount) cannot be completed contemporaneously with the Closing, that portion of the Net Proceeds required to complete such Acquisitions will be held by the Fund until the earlier of the date upon which those acquisitions or alternative acquisitions are completed and the Closing Termination Date. The Rattle Brook Acquisition Amount will be held by the Fund pending the earlier of the Rattle Brook Release Date and January 31, 1999. The Rattle Brook Completion Amount will be distributed to Unitholders as set out under ''Acquisitions'' — ''Acquisition of Newfoundland Development'' — ''Rattle Brook Completion Amount''. To the extent any funds are not used to complete the Acquisitions within the time provided, such funds, together with any interest earned thereon, will be distributed to Unitholders pro rata, unless the Trustees elect to acquire one or more alternative facility interests, provided such alternative facility interests meet the acquisition guidelines set out herein (see ''Future Acquisition Strategy''). The Net Proceeds will be used by the Fund indirectly through Algonquin Canada and its subsidiaries, to complete the Acquisitions and to fulfill certain obligations in connection therewith.

DETAILS OF THE OFFERING

The offering consists of 6,058,697 Trust Units. See ''Description of the Fund'' for a description of the attributes of the Trust Units.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement between the Fund and the Underwriters, the Fund has agreed to issue and sell, and the Underwriters have severally agreed to purchase, on July 7, 1998, or such other date as may be agreed upon, but in any event not later than July 30, 1998, subject to the terms and conditions stated therein, all of the Trust Units offered hereby at a price of $10.65 per Trust Unit, for aggregate consideration of $64,525,123. The Fund has agreed to pay the Underwriters a fee of $0.639 per Trust Unit purchased by the Underwriters for their services in connection with this offering together with a fee of $275,000 payable to one of the Underwriters, Lévesque Beaubien Geoffrion Inc., for additional services rendered in connection with this offering. Closing is subject to the satisfaction of certain conditions, including the contemporaneous closing of Acquisitions having an aggregate purchase price of 85% or greater of the Net Proceeds (after deducting the Rattle Brook Acquisition Amount and the Rattle Brook Completion Amount). See ''The Acquisitions''.

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, the Manager and Algonquin Power 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 et 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 or the Montréal 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 (''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 except for sales in accordance with Rule 144A under the US Securities Act. In addition, until 40 days after the commencement of this offering, an offer or sale of 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 in accordance with Rule 144A or another exemption under the US Securities Act.

The Fund has agreed that it will not, without the prior consent of Lévesque Beaubien Geoffrion Inc. pursuant to the Underwriting Agreement, which consent may not be unreasonably withheld, delayed or conditioned, 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 180 days following the Closing.

It is expected that certificates for the Trust Units will be available for delivery on or about Closing. The Closing for this offering is expected to take place on or about July 7, 1998, but in any event not later than July 30, 1998.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Blake, Cassels & Graydon, counsel to the Fund, and Cassels Brock & Blackwell, counsel to the Underwriters (together, ''Counsel''), the following summary describes the principal Canadian federal income tax considerations pursuant to the Tax Act and the regulations thereunder generally applicable to a Unitholder who acquires Trust Units pursuant to this offering and who, for purposes of the Tax Act, is resident in Canada, holds the Trust Units as capital property and deals at arm's length with the Fund, Algonquin Power and the Manager. Generally, Trust Units will be considered to be capital property to a Unitholder provided the Unitholder does not hold the Trust Units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Trust Units as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the election permitted by subsection 39(4) of the Tax Act. This summary is not applicable to a Unitholder that is a ''financial institution'', as defined in the Tax Act (as such definition is proposed to be amended by the 1998 federal budget) for purposes of the mark-to-market rules, to a Unitholder an interest in which is a ''tax shelter investment'' as defined in the Proposed Amendments as hereafter defined or to any such Unitholder that is a ''specified financial institution'' as defined in the Tax Act. Any such Unitholder should consult its own tax advisor with respect to an investment in Trust Units.

This summary is based upon the provisions of the Tax Act, the Income Tax Regulations (the ''Regulations'') in force as of the date hereof, all specific proposals to amend the Tax Act or the Regulations that have been publicly announced by the Minister of Finance prior to the date hereof (the ''Proposed Amendments''), certificates of certain of the Underwriters, the Fund, Algonquin Canada and Algonquin Power as to certain factual matters and Counsel's understanding of the current published administrative and assessing policies of Revenue Canada, Customs, Excise & Taxation (''Revenue Canada''). No advance income tax ruling has been requested in respect of this offering. This summary is also based on the assumption that the Fund will at all times comply with the Declaration of Trust.

This summary is not exhaustive of all possible Canadian federal income tax consequences and, except for the Proposed Amendments, does not take into account or anticipate any changes in the law or in the administrative or assessing policies of Revenue Canada, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein. No assurance can be given that the Proposed Amendments will be enacted as proposed or at all.

This summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Trust Units or any Unitholder. Consequently, prospective Unitholders should consult their own tax advisors with respect to their particular circumstances.

Status of the Fund

Based in part on a certificate of one of the Underwriters, Counsel is of the opinion that the Fund qualifies as a ''unit trust'' as defined in the Tax Act, and this summary assumes that the Fund will also qualify on Closing, and will continue to qualify thereafter, as a ''mutual fund trust'' as defined in the Tax Act. In order to so qualify, there must at all times be at least 150 Unitholders of the Fund each of whom owns not less than one ''block'' of Trust Units having a fair market value of not less than $500. A ''block'' of Trust Units means 100 Trust Units if the fair market value of one Trust Unit is less than $25. In addition, the undertaking of the Fund must be restricted to the investing of its funds in property (other than real property or an interest in real property), the acquiring, holding, maintaining, improving, leasing or managing of any real property (or an interest in real property) that is capital property of the Fund, or a combination of these activities. The Fund will be deemed not to be a mutual fund trust if it can reasonably be considered that the Fund, having regard to all the circumstances, was established or is maintained primarily for the benefit of non-resident persons. It is intended, and this summary assumes, that at all relevant times these and other applicable requirements will be satisfied and that the Fund is not established nor will it be maintained primarily for the benefit of non-resident persons so that the Fund will continue to qualify as a mutual fund trust at all relevant times. In the event the Fund does not qualify as a mutual fund trust, the income tax considerations would in some respects be materially different from those described below.

If the Fund ceases to qualify as a mutual fund trust, the Fund may be required to pay a tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the Fund may have adverse income tax consequences for certain Unitholders, including non-resident persons.

Taxation of the Fund

The Fund is subject to taxation in each taxation year on its taxable income for the year, including net realized capital gains, less the portion thereof that is paid or payable in the year to Unitholders and which is deducted by the Fund in computing its income for purposes of the Tax Act. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid in the year by the Fund or the Unitholder is entitled in that year to enforce payment of the amount. The taxation year of the Fund is the calendar year.

The Fund will be entitled to deduct its expenses incurred to earn such income provided such expenses are reasonable and are not on account of capital and it will be entitled to claim capital cost allowance with respect to its undepreciated capital cost in the Donnacona Facility Equipment, the Ste-Brigitte Facility Equipment and the Belleterre Facility Equipment, subject to the provisions of the Tax Act in that regard. Counsel can express no opinion with respect to matters of fact, such as the reasonableness of expenses or the accuracy of capital costs. The Donnacona Facility Equipment, the Ste-Brigitte Facility Equipment and the Belleterre Facility Equipment are leasing properties and specified energy properties and, accordingly, capital cost allowance claimed in respect thereof is deductible only to the extent of the Fund's income from such property (determined without reference to paragraph 20(1)(a) of the Tax Act). The Fund may deduct from its income for the year a portion of the expenses of the issue of Trust Units paid by the Fund from the proceeds of this offering and the 1997 offering. Such portion of issue expenses deductible by the Fund in a taxation year is determined pursuant to the Tax Act and is generally equal to that portion of 20% of the total issue expenses that the number of days in the Fund's taxation year is of 365 days, to the extent that the issue expenses were not otherwise deductible in a preceding year.

Under the Declaration of Trust, an amount equal to all of the income of the Fund for each year (determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act), together with the taxable and non-taxable portion of any capital gains realized by the Fund in the year (excluding capital gains which may be realized by the Fund upon a distribution *in specie* of the Fund Assets in connection with a redemption of a Trust Unit) net of the Fund's deductions and expenses, will be payable in the year to the holders of the Trust Units by way of cash distributions, subject to the exceptions described below.

Under the Declaration of Trust, income of the Fund may be used to finance cash redemptions of Trust Units and accordingly such income so utilized will not be payable to holders of the Trust Units by way of cash distributions but rather will be payable in the form of additional Trust Units (''Reinvested Trust Units'').

A distribution by the Fund to a Unitholder of a portion of the Fund Assets upon a redemption of Trust Units will be treated as a disposition thereof by the Fund for proceeds equal to their fair market value (determined in the case of an interest in the Fund Notes, without taking into account any accrued interest) and will give rise to income (or loss) and/or a capital gain (or a capital loss) to the Fund to the extent that the fair market value of the Fund Assets so distributed exceeds (or is exceeded by) the cost amount to the Fund of the respective portion of the Fund Assets immediately prior to the distribution. In addition, the Fund will be required to include in its income any interest that had accrued on any of the Fund Notes and other accrued but unpaid income, if any, in respect of the Fund Assets so disposed of up to the date of distribution to the extent not otherwise included in its income for the year of disposition or a previous year. On a redemption of Trust Units, capital gains arising in the Fund attributable to an in specie distribution of Fund Assets and certain income of the Fund will be payable to the redeeming Unitholders, with the result that the taxable portion of such gains and such income should generally be taxable to the redeeming Unitholders and not the Fund. Nevertheless, the Declaration of Trust provides that income of the Fund which is required to satisfy any tax liabilities on the part of the Fund will not be payable to the Unitholders.

For purposes of the Tax Act, the Fund generally intends to deduct in computing its income the full amount available for deduction in each year to the extent of its taxable income for the year otherwise determined. Therefore, as a result of such deduction from income and the Fund's entitlement to a capital gains refund within the meaning of the Tax Act, Counsel has been advised by the Fund that the Fund does not expect that it will be liable for any material amount of tax under the Tax Act.

Taxation of the Unitholders

A Unitholder will generally be required to include in computing income for a particular taxation year the Unitholder's portion of the income of the Fund for a taxation year, including net realized taxable capital gains, that is paid or payable to the Unitholder in that particular year, notwithstanding that any such amount is payable in Reinvested Trust Units.

Provided that appropriate designations are made by the Fund, such portions of its net taxable capital gains, taxable dividends from taxable Canadian corporations and foreign source income as are paid or payable to a Unitholder will effectively retain their character and be treated as such in the hands of the Unitholder for the purposes of the Tax Act. Accordingly, in the case of a Unitholder who is an individual, such amounts will generally be included in determining the Unitholder's entitlement to the dividend tax credit and foreign tax credits. Such amounts will also be taken into account in determining the Unitholder's liability, if any, for alternative minimum tax under the Tax Act.

Any amount in excess of the income of the Fund that is paid or payable by the Fund to a Unitholder in a year should not generally be included in the Unitholder's income for the year. However, where such an amount is paid or becomes payable to a Unitholder, other than as proceeds of disposition of Trust Units, the amount will generally reduce the adjusted cost base of the Trust Units held by such Unitholder, except to the extent that the amount represents the Unitholder's share of the non-taxable portion of the net realized capital gains of the Fund, the taxable portion of which was designated by the Fund in respect of the Unitholder.

The adjusted cost base of a Trust Unit to a Unitholder will include all amounts paid or payable by the Unitholder for the Trust Unit, with certain adjustments. Trust Units issued to a Unitholder in lieu of a cash distribution of income will have a cost equal to the amount of such income and this cost will be averaged with the adjusted cost base of all other Trust Units then held by the Unitholder as capital property in order to determine the adjusted cost base to such Unitholder of all such Trust Units held as capital property in accordance with the detailed provisions of the Tax Act in that regard.

Upon the disposition or deemed disposition by a Unitholder of a Trust Unit, whether on redemption or otherwise, the Unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition (excluding any amount payable by the Fund which represents an amount that must otherwise be included in the Unitholder's income as described above) are greater (or less) than the aggregate of the Unitholder's adjusted cost base of the Trust Unit and any reasonable costs of disposition. Where Trust Units are redeemed and any Fund Assets are distributed in specie to the Unitholder, the proceeds of disposition to the Unitholder of the Trust Units will be equal to the fair market value of the Fund Assets so distributed (excluding any amount payable by the Fund which must otherwise be included in the Unitholder's income).

Three quarters of any capital gain realized by a Unitholder on the disposition of a Trust Unit and the amount of any net taxable capital gains designated by the Fund in respect of a Unitholder will be included in the Unitholder's income under the Tax Act in the taxation year in which the disposition occurs or in respect of which the designation is made as a taxable capital gain. To the extent that the adjusted cost base of a Trust Unit would otherwise be less than zero in any taxation year of a Unitholder, the negative amount will be deemed to be a capital gain realized by the Unitholder in such taxation year from the disposition of the Trust Unit and the amount of such capital gain will be added to the adjusted cost base of the Trust Unit. Subject to certain specific rules in the Tax Act, three quarters of any capital loss realized on the disposition of a Trust Unit may be deducted against three quarters of any capital gains realized by the Unitholder in the year of disposition, in the three preceding taxation years or in any subsequent taxation years.

The cost amount to a Unitholder, immediately after a redemption of Trust Units of the Unitholder, of any Fund Assets distributed to the Unitholder by the Fund upon such redemption or upon the termination of the Fund, will be equal to the fair market value of such Fund Assets at the time of the distribution less, in the case of a Fund Note, any accrued interest thereon. Such a Unitholder will be required to include in income interest on any Fund Note acquired (including interest that had accrued to the date of the acquisition of the interest in the Fund Note by the Unitholder) in accordance with the provisions of the Tax Act. To the extent that the Unitholder is required to include in income any interest that had accrued to the date of the acquisition of the Fund Notes, an offsetting deduction may be available. Where a Unitholder is entitled to deduct, in computing the Unitholder's income under the Tax Act, all or part of the cost amount of a Lease Payment Right or any other Fund Assets acquired by the Unitholder on a redemption of Trust Units, such acquisition and deduction may be subject to the ''Matchable Expenditure'' provisions of the Proposed Amendments.

Taxable capital gains realized by a Unitholder that is an individual may give rise to alternative minimum tax, depending on the Unitholder's circumstances.

Holders are advised to consult their own tax advisors prior to exercising their redemption rights.

Tax Exempt Unitholders

Subject to the specific provisions of any particular Plan and the Fund maintaining its status as a mutual fund trust, the Trust Units will be qualified investments for trusts governed by the Plans. The Plans will generally not be liable for tax in respect of any distributions received from the Fund or any capital gains realized on the disposition of any Trust Units. Where a Plan receives Fund Assets as a result of a redemption of Trust Units, such Fund Assets will likely not be qualified investments under the Tax Act for the Plans and could give rise to adverse consequences to the Plans (and, in the case of RRSPs or RRIFs, to the annuitants thereunder). Accordingly, Plans that own Trust Units should consult their own tax advisors before deciding to exercise the redemption rights thereunder.

If the Fund ceases to qualify as a mutual fund trust, the Trust Units will cease to be qualified investments under the Tax Act for Plans. Where, at the end of a month, a Plan holds Trust Units that are not qualified investments, the Plan must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Trust Units at the time such Trust Units were acquired by the Plan. In addition, where a trust governed by an RRSP or an RRIF holds Trust Units that are not qualified investments, the trust will become taxable on income attributable to the Trust Units while they are not qualified investments.

Based on the Fund's certificate as to certain factual matters, provided the Fund is a mutual fund trust and provided the Algonquin Note, Algonquin Canada Shares and the Canada Note were not foreign property at any time during 1997, Counsel are of the opinion that the Trust Units will not, at the time of their issue pursuant hereto, constitute foreign property for Plans, registered pension plans or other persons subject to tax under Part XI of the Tax Act.

Under the Proposed Amendments and based on a certificate of Algonquin Power, the Algonquin Note was not foreign property at any time during 1997.

Under the Proposed Amendments, the shares and debt of a corporation incorporated in Canada such as Algonquin Canada will not be ''foreign property'' at a particular time provided the corporation maintains an office in Canada at the time and (i) where the particular time is in the calendar year in which the Canadian corporation was incorporated or otherwise formed, the total amount of expenditures (''Qualified Expenditures'') incurred by the Canadian corporation in the calendar year and after the date of incorporation or formation for the services of individuals rendered in Canada (other than services related to an ''investment activity'' as defined in the Proposed Amendments) exceeds $250,000; (ii) where the particular time is after the calendar year referred to in (i), the Qualified Expenditures incurred by the corporation in any calendar year that ends in any of the last 15 months that end before that time exceeds $250,000; or (iii) the corporation employs more than five individuals in Canada full time and those individuals are not employed primarily in connection with an investment activity of the corporation or of a corporation with which it does not deal at arm's length, or in connection with a business carried on through a partnership of which such corporation is not a majority interest partner (''Qualified Employees'').

Under the Proposed Amendments and based on a certificate from Algonquin Canada as to expenses incurred by Algonquin Canada and certain other factual matters and on Counsel's understanding of Revenue Canada's current administrative practice, the shares and debt of Algonquin Canada were not foreign property at any time during 1997. Algonquin Canada has undertaken to use its best efforts to employ more than five Qualified Employees throughout 1998 and thereafter and to incur Qualified Expenditures in 1998 and calendar years thereafter, so that, provided the Proposed Amendments are enacted into law in the form proposed, the shares and debt of Algonquin Canada should continue not to be foreign property for purposes of the Tax Act in 1998 and thereafter. **There can be no assurances in that regard however and if the shares and debt of Algonquin Canada become foreign property, the Trust Units will at that time or thereafter become foreign property.**

If the Trust Units are acquired by a Unitholder at a time when they are not foreign property and subsequently become foreign property, such Trust Units will not be treated as ''foreign property'' of such Unitholder for the 24 month period commencing on the beginning of the month in which they became foreign property. Unitholders are advised to consult with their own tax advisors in this regard.

ELIGIBILITY FOR INVESTMENT

In the opinion of Blake, Cassels & Graydon and Cassels Brock & Blackwell, as at the date of this prospectus, eligibility of the Trust Units for investment by purchasers to whom the following statutes apply is, in certain cases, governed by criteria which such purchasers are required to establish as policies or guidelines pursuant to the applicable statute (and, where applicable, the regulations thereunder) and is subject to compliance with the prudent investment standards and general investment provisions provided therein:

Insurance Companies Act (Canada)
an Act respecting insurance (Québec) (in respect of insurers other than guarantee fund corporations, mutual associations and professional corporations)
Trust and Loan Companies Act (Canada)
Loan and Trust Corporations Act (Alberta)
an Act respecting trust companies and savings companies (Québec) (for a trust company investing its own funds and deposits it receives and a savings company (as defined therein) investing its funds)
Pension Benefits Standards Act, 1985 (Canada)
Pension Benefits Act (Ontario)
Supplemental Pension Plans Act (Québec)
Financial Institutions Act (British Columbia)
Pension Benefit Standards Act (British Columbia)

Subject to the assumptions, limitations and restrictions described under ''Canadian Federal Income Tax Considerations'' being met, and to the provisions of any particular plan, in the opinion of such Counsel, as at the date of this prospectus, the Trust Units will also be qualified investments for Plans and will not constitute foreign property for such plans. See ''Canadian Federal Income Tax Considerations'' for additional comments.

PRICE RANGE AND TRADING VOLUME OF TRUST UNITS

The Trust Units are listed and posted for trading on The Toronto Stock Exchange and the Montréal Exchange. The following table sets forth the high and low closing prices and the aggregate volume of trading of the Trust Units on The Toronto Stock Exchange for the periods indicated.

Period	High	Low	Volume
1997			
December 23 to December 31	$10.10	$10.00	446,440
1998			
First Quarter	$11.75	$10.10	1,804,675
April 1 to June 24	$11.45	$10.45	723,625

The Trust Units began trading on the Toronto and Montréal stock exchanges on December 23, 1997. On June 25, 1998, the closing price of the Trust Units on The Toronto Stock Exchange was $10.75.

PROMOTER AND INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Algonquin Power may be considered to be the promoter of the Fund by reason of its initiative in organizing the business and affairs of the Fund. Power Systems, Algonquin Holdco, Acquisition Corp. and Construction Services Inc. are wholly owned subsidiaries of Algonquin Power. The Manager is wholly owned by the shareholders of Algonquin Power.

Algonquin Canada intends to subscribe for the Glenford Note in the principal amount of approximately $5.0 million from Algonquin Power. Algonquin Canada intends to purchase the Rattle Brook Shares and thereby acquire an indirect 45% partnership interest in the Rattle Brook Partnership, which owns the Rattle Brook Facility. The shareholders of Algonquin Power indirectly own the remaining 55% partnership interest in the Rattle Brook Partnership. Algonquin America and Algonquin America Holdco intend to purchase from Acquisition Corp. and Algonquin Holdco, the Moretown Interest for approximately $7.9 million, the Avery Dam Interest for approximately $3.6 million, the Hadley Falls Interest for approximately $1.6 million and the Lakeport Shares for approximately $1.3 million.

Algonquin Canada intends to pay Algonquin Power $750,000 as consideration for Algonquin Power granting an option to Algonquin Canada, pursuant to which Algonquin Canada may purchase the Glenford Interest and the Glenford Shares for $1,500,000.

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. See ''Governance, Management and Operations''. Construction Services Inc., as general contractor, is constructing the Rattle Brook Facility on a turn-key design build basis for the Rattle Brook Partnership and has been engaged to complete certain repairs with respect to the Ste-Brigitte Facility.

Mr. Steeves, a Trustee, is the President of Cumming Cockburn Limited, which firm provided the engineering due diligence report to the Underwriters and the Trustees with respect to the facilities in which the Fund intends to acquire an interest and which firm provides advice to the senior lenders in respect of the Glenford Facility. See ''Cumming Cockburn Limited Report''.

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 on behalf of the Fund and the Manager and by Cassels Brock & Blackwell on behalf of the Underwriters.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of the Fund are KPMG, Chartered Accountants, Suite 3300, Commerce Court West, Toronto, Ontario, M5L 1B2.

The registrar and transfer agent for the Trust Units is CIBC Mellon Trust Company, at its offices in Toronto, Montréal, Vancouver, Calgary, Halifax and Winnipeg.

MATERIAL CONTRACTS

Set out below are agreements that may be considered material to the Fund:

1. The SLI Saint-Alban Note, the Saint-Alban Interim Operations Agreement, the Saint-Alban Acquisition Agreement, the Glenford Note, the Glenford Option Agreement, the SLI Rawdon Note, the Rawdon Interim Operations Agreement, the Rawdon Acquisition Agreement, the Rattle Brook Acquisition Agreement, the HDI Acquisition Agreement, the Avery Acquisition Agreement, the Hadley Falls Acquisition Agreement, the Lakeport Acquisition Agreement, the Moretown Acquisition Agreement, the SLI Burt Dam Acquisition Agreement and the SLI Hollow Dam Acquisition Agreement. See ''The Acquisitions''.

2. Governance Agreement, Management Agreement and Operations Supervisory Agreement. See ''Governance, Management and Operations''.

3. Canada Note, Canada 1998 Note and Canada Note Indenture. See ''Share and Loan Capital'' — ''Loan Capital of Algonquin Canada''.

4. US Note, US 1998 Note and US Note Indenture. See ''Share and Loan Capital'' — ''Loan Capital of Algonquin America''.

5. Declaration of Trust and Administration Agreement. See ''Description of the Fund'' — ''Declaration of Trust'' and ''Governance, Management and Operations''.

6. Underwriting Agreement. See ''Plan of Distribution''.

7. The following agreements relating to the acquisition of the Existing Facilities: Donnacona Facility Lease, Ste-Brigitte Facility Lease, Belleterre Facility Lease, Algonquin Note, LSR Nicholls Note, LSR Algonquin Note, LSR Nicholls Share Purchase Agreement, LSR Algonquin Share Purchase Agreement, Trafalgar Operations Contract and Trafalgar Operations Subcontract. See ''Business of the Existing Developments''.

Copies of these documents or drafts thereof will be available for review during the period of distribution of the Trust Units at Suite 210, 2085 Hurontario Street, Mississauga, Ontario L5A 4G1, Attention: J. Huxley and Box 25, Commerce Court West, Toronto, Ontario M5L 1A9, Attention: K. Pearce, during normal business hours at any time during the period of distribution and for 30 days thereafter.

PURCHASERS' STATUTORY RIGHTS

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

FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Trustees of
Algonquin Power Income Fund

We have audited the consolidated balance sheet of Algonquin Power Income Fund (the ''Fund'') as at December 31, 1997 and the consolidated statements of operations and deficit and changes in financial position for the period September 8, 1997 (date of the declaration of trust) to December 31, 1997. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1997 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.

Toronto, Canada
April 28, 1998 (except for Note 10(b)
which is as of June 26, 1998)

(Signed) KPMG
Chartered Accountants

ALGONQUIN POWER INCOME FUND

CONSOLIDATED BALANCE SHEET

(in thousands of dollars)

	March 31, 1998 (unaudited)	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,593	$ 418
Amounts receivable	1,595	535
Notes receivable — current portion (Note 4)	114	152
Prepaid expenses	75	24
	3,377	1,129
Notes receivable (Note 4)	15,476	16,852
Funds in escrow (Note 5)	20,780	41,554
Capital assets, at cost (Note 6)	39,549	18,376
Deferred foreign exchange loss	97	37
	$79,279	$77,948
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,262	$ 1,275
Due to Algonquin group of companies	1,208	1,149
Cash distribution payable	1,406	—
Current portion of long-term liabilities	614	—
Income taxes payable	28	—
	4,518	2,424
Long-term liabilities	4,185	4,144
UNITHOLDERS' EQUITY		
Trust units (Note 2)	73,676	73,811
Deficit	(3,100)	(2,431)
	70,576	71,380
	$79,279	$77,948

Commitments (Note 11)

Approved by the Trustees:

(Signed) GEORGE L. STEEVES
Trustee

(Signed) A. STEPHEN PROBYN
Trustee

See accompanying notes to consolidated financial statements.

ALGONQUIN POWER INCOME FUND

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

(in thousands of dollars)

	Three Months Ended March 31, 1998	From Date of Declaration of Trust, September 8, 1997, to December 31, 1997
	(unaudited)	
Revenue		
Energy sales	$ 962	$ 44
Interest income and rental income	758	91
	1,720	135
Expenses		
Operating	341	22
Amortization of capital assets	334	29
Debt arrangement and prepayment fees (Note 3)	—	2,259
Management fees	63	6
Operations supervisory fees	63	6
Administrative expenses	69	168
Loss on foreign exchange	4	2
	874	2,492
Earnings (loss) before interest expense	846	(2,357)
Interest expense	61	74
Earnings (loss) before income taxes	785	(2,431)
Income taxes	48	—
Net earnings (loss) for the period	737	(2,431)
Deficit, beginning of period	(2,431)	—
Cash distribution	(1,406)	—
Deficit, end of period	$(3,100)	$(2,431)

See accompanying notes to consolidated financial statements.

ALGONQUIN POWER INCOME FUND

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(in thousands of dollars)

	Three Months Ended March 31, 1998 (unaudited)	From Date of Declaration of Trust, September 8, 1997, to December 31, 1997
Operating Activities		
Net earnings (loss)	$ 737	$ (2,431)
Items not affecting cash		
Earnings on funds held in escrow	(13)	—
Amortization of capital assets	334	29
Other amortization	(12)	—
Loss on early repayment of notes payable	—	1,565
Cash generated from operations	1,046	(837)
Change in non-cash operating working capital	1,155	1,741
	2,201	904
Financing Activities		
Cash distributions	(1,406)	—
Issue of trust units	—	80,318
Expenses of trust units offering	(135)	(6,507)
Issue of notes payable at date of acquisition	—	10,402
Repayment of long-term liabilities	(79)	(7,823)
	(1,620)	76,390
Investing Activities		
Decrease (increase) in funds in escrow	20,787	(41,554)
Acquisition of notes receivable	—	(17,041)
Receipt of principal on notes receivable	594	—
Acquisition of operating entities	(20,787)	(18,281)
	594	(76,876)
Increase in cash and cash equivalents	1,175	418
Cash and cash equivalents, beginning of period	418	—
Cash and cash equivalents, end of period	$ 1,593	$ 418

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For Three Months Ended March 31, 1998 and
From the Date of Declaration of Trust, September 8, 1997, to December 31, 1997
(Tabular amounts in thousands of dollars unless otherwise indicated)
(Information as at and for the three month period ended March 31, 1998 is unaudited)

Algonquin Power Income Fund (the ''Fund'') is an open-ended, unincorporated trust established pursuant to a Declaration of Trust (the ''Declaration of Trust'') dated September 8, 1997 under the laws of the Province of Ontario. The Fund's principal business activity is the ownership and management, directly or indirectly, of hydroelectric generating facilities. The Fund is managed by Algonquin Management Inc. (the ''Manager''), which is wholly owned by the shareholders of Algonquin Power Corporation Inc. (''Algonquin Power''). Algonquin Power Systems Inc. (''Power Systems''), a subsidiary of Algonquin Power, operates the hydroelectric facilities on a day to day basis and another subsidiary of Algonquin Power, Construction Services Inc., provides construction services to the Fund. Collectively, these companies are referred to as the Algonquin group of companies.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of Consolidation**

The consolidated financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in Canada, and include the accounts of its wholly owned subsidiaries, Algonquin Power Fund (Canada) Inc. and Algonquin Power Fund (America) Inc. These subsidiaries wholly own the following:

(i) Société Hydro-Donnacona S.E.N.C. partnership;

(ii) HDI Associates I partnership;

(iii) BCL Energy (Belleterre) Inc.;

(iv) BCL Energy (Ste-Brigitte) Inc.; and

(v) Algonquin Power Fund (America) Holdco Inc.

Marsh Hydropower Inc. and Marsh Hydropower (Trent Valley) Inc. amalgamated with their parent, Algonquin Power Fund (Canada) Inc. on January 1, 1998.

All significant intercompany transactions and balances have been eliminated.

(b) **Capital Assets**

Capital assets, being land, hydroelectric generating facilities, licences and hydro contract acquisition costs, are recorded at cost. Development costs, including the cost of acquiring or constructing facilities together with the related interest costs during the period of construction are capitalized. Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

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

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

The costs attributable to acquiring hydro contracts are being amortized on a 20% declining balance basis.

(c) **Notes Receivable**

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

(d) **Recognition of Revenue**

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

Interest income from notes held is recorded as earned.

(Tabular amounts in thousands of dollars unless otherwise indicated)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) **Foreign Currency Translation**

The Fund's United States subsidiaries and partnership interests are considered to be functionally integrated with the Canadian operations. All monetary assets and liabilities denominated in United States dollars are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date, whereas non-monetary assets and liabilities are translated at the rate in effect at the transaction date. The revenues and expenses of these integrated operations are translated at the average rate of exchange in effect during the period. The foreign currency translation adjustment is reflected in the consolidated statement of operations, except for exchange gains or losses relating to long-term foreign currency monetary assets or liabilities, which are deferred and amortized over the term of the related item.

(f) **Income Taxes**

As the Fund is an unincorporated trust, it is entitled to deduct distributions to unitholders to the extent of its taxable income and consequently, it is expected that the Fund will not be liable for any material tax under the *Income Tax Act* (Canada), as this will be the responsibility of the individual unitholder.

Any provision for income taxes will relate solely to the income taxes of the Fund's wholly owned subsidiaries. Deferred taxes will be recognized where differences arise between income recorded for accounting purposes and for tax purposes.

(g) **Use of Estimates**

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

2. TRUST UNITS

Authorized Trust Units

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

Trust units are redeemable at the holder's option at amounts related to market prices at the time subject to a maximum of $10,000 in cash redemptions in any particular calendar month. Redemptions in excess of this amount will be paid by way of a distribution in specie of a pro rata amount of certain of the Fund's assets, including the securities purchased by the Fund, but not to include the generating facilities.

Issued Trust Units

	Number of Units	Amount
December 23, 1997 issue	8,031,775	$80,318
Costs of the issue		6,507
Balance December 31, 1997	8,031,775	$73,811
Costs of the issue		135
Balance March 31, 1998	8,031,775	$73,676

(Tabular amounts in thousands of dollars unless otherwise indicated)

3. ACQUISITIONS

On November 30, 1997, the Fund acquired the following assets:

Generating Facilities

The Fund acquired, directly or indirectly, from Algonquin Power the Donnacona hydroelectric generating facility in Québec for a purchase consideration of $10,402,000. The acquisition was financed through the issue of two notes to Algonquin Power, a loan secured by the equipment in the amount of $7,823,000 and a promissory note in the amount of $2,579,000. There is a credit arrangement fee payable to Algonquin Power in the amount of $694,000 for the arrangement of the equipment loan. The fee is payable on December 31, 1998.

On December 23, 1997, the Fund utilized certain of the proceeds of the trust unit offering to repay the equipment loan of $7,823,000 in full. The repayment was subject to a prepayment fee of $1,565,000. The Fund has issued a promissory note to Algonquin Power in satisfaction of this fee.

On December 23, 1997, the Fund acquired the following assets:

Notes Receivable

(i) Notes issued jointly and severally by Trafalgar Power, Inc., a Delaware corporation, and Christine Falls Corporation, a New York corporation (collectively the ''Trafalgar Notes'') at a cost of $9,187,000 of which $691,000 represents a note acquired from Algonquin Power. Details of the Trafalgar Notes are in Note 4 — Notes Receivable.

(ii) Note issued by Algonquin Power (the ''Algonquin Note'') at a cost of $7,854,000. Details of the Algonquin Note are in Note 4 — Notes Receivable.

Other entities acquired on December 23, 1997 were:

(i) 100% of Société Hydro-Donnacona S.E.N.C. partnership

The acquisition of 100% of the partnership interests from Algonquin Power has been accounted for using the purchase method. The consideration paid by the Fund has been allocated to the net assets acquired as follows:

Working capital deficiency	$ (37)
Generating facility	1,537
Cash consideration paid	$1,500

(ii) 100% of HDI Associates 1 partnership

The acquisition of 100% of the partnership interests has been accounted for using the purchase method. The consideration paid by the Fund has been allocated to the net assets acquired as follows:

Working capital	$ 14
Generating facilities	3,145
Licences	122
Cash consideration paid	$3,281

(iii) 100% of the outstanding shares of Marsh Hydropower Inc.

The acquisition of Marsh Hydropower Inc. has been accounted for using the purchase method. The consideration paid by the Fund has been allocated to the net assets acquired as follows:

Working capital	$ 29
Generating facilities	650
Cash consideration paid	$ 679

(Tabular amounts in thousands of dollars unless otherwise indicated)

3. ACQUISITIONS (Continued)

(iv) 100% of the outstanding shares of Marsh Hydropower (Trent Valley) Inc.

The acquisition of Marsh Hydropower (Trent Valley) Inc. has been accounted for using the purchase method. The consideration paid by the Fund was utilized to retire all related and third party debt and has been allocated to the net assets acquired as follows:

Working capital deficiency	$ (131)
Land	151
Generating facilities	2,399
Cash consideration paid	$2,419

(v) On February 12, 1998, $20,774,000 plus accumulated interest previously held in escrow were released to the Fund to acquire the following entities:

(i) 100% of the outstanding shares of BCL Energy (Belleterre) Inc.

The acquisition of BCL Energy (Belleterre) Inc. has been accounted for using the purchase method. The consideration paid by the Fund has been allocated to the net assets acquired as follows:

Working capital deficiency	$ (13)
Generating facilities	11,814
Hydro contract acquisition cost	831
Payable to Hydro-Québec	(389)
Cash consideration paid	$12,243

A power purchase agreement in place with Hydro-Québec stipulates a fee payable to Hydro-Québec if energy production does not meet minimum targets. Due to poor operating results produced by previous owners, the Fund has assumed liability for payments of $103,540 for each of the years from 1998 to 2001. Revised targets are now in place.

(ii) 100% of the outstanding shares of BCL Energy (Ste-Brigitte) Inc.

The acquisition of BCL Energy (Ste-Brigitte) Inc. from Algonquin Power has been accounted for using the purchase method. The consideration paid by the Fund has been allocated to the net assets acquired as follows:

Working capital	$ 27
Generating facilities	8,210
Hydro contract acquisition costs	652
Payable to Hydro-Québec	(345)
Cash consideration paid	$8,544

A power purchase agreement in place with Hydro-Québec stipulates a fee payable to Hydro-Québec if energy production does not meet minimum targets. Due to poor operating results produced by previous owners, it is anticipated that the Fund will be responsible for payments of approximately $69,000 for each of the years from 1998 to 2002.

(Tabular amounts in thousands of dollars unless otherwise indicated)

4. NOTES RECEIVABLE

As detailed in Note 3 — Acquisitions, the Fund acquired the following notes on December 23, 1997. Principal balances due in Canadian dollars at estimated realizable values are:

	March 31, 1998	December 31, 1997
Trafalgar Class A Note — 9.75% secured note due February 10, 2003, principal amount of US$4,989,000 (December 31, 1997 — US$5,914,000)	$ 7,083	$ 8,459
Trafalgar Class B Note — 6.10% secured note due December 31, 2010, principal amount of US$15,800,000	691	691
Algonquin Note — 9.25% secured note due January 1, 2005, note to be repaid in scheduled principal repayments over its term	7,816	7,854
	15,590	17,004
Less — Current portion of principal payments due on the Algonquin Note	114	152
	$15,476	$16,852

The Trafalgar Notes are secured by a first charge against all assets of the issuing companies, including the generating facilities and key operating contracts. The Trafalgar Class B note is subordinate to the Trafalgar Class A note. Payment of principal and interest is structured based on receipt of 100% of the cash flows generated by the seven hydroelectric generating facilities owned by the issuing companies, with payments first applied to the Trafalgar Class A note. Each year once annual cash flow targets have been determined and applied to reduce the interest and principal outstanding on the Trafalgar Class A note, the remaining cash flow is paid to the Fund as a bonus under the contingency participation agreement. Once the Trafalgar Class A note is paid, a similar arrangement applies to the Trafalgar Class B note. The overall terms of the notes provide for the Fund to receive 100% of cash flows up to 2010 and a right to 75% of the equity value of the facilities upon repayment of the notes.

The Algonquin Note is secured by a letter of credit in the amount of $3,500,000 and an assignment of all amounts owing by the Fund in respect of the $2,579,000 promissory note payable to Algonquin Power, and the guarantee of Power Systems.

5. FUNDS IN ESCROW

On December 23, 1997, certain of the net proceeds of the trust unit offering were set aside with an escrow agent pending completion of acquisitions subsequent to December 23, 1997. The acquisition of BCL Energy (Belleterre) Inc. and BCL Energy (Ste-Brigitte) Inc. have been completed. The remaining $20,780,000 of funds were required to complete the Long Sault Rapids facility transaction detailed in Note 10 — Subsequent Events.

6. CAPITAL ASSETS

	March 31, 1998			December 31, 1997		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 151	$—	$ 151	$ 151	$—	$ 151
Generating facilities	38,193	288	37,905	18,169	29	18,140
Licences and hydro acquisition costs	1,568	75	1,493	85	—	85
	$39,912	$363	$39,549	$18,405	$29	$18,376

(Tabular amounts in thousands of dollars unless otherwise indicated)

7. LONG-TERM LIABILITIES

	March 31, 1998	December 31, 1997
Promissory note to Algonquin Power, 10% per annum, to mature December 31, 2000, with scheduled quarterly principal payments in 1999 and 2000 in United States dollars	$2,579	$2,579
Promissory note to Alqonquin Power, non-interest bearing, to mature December 31, 2000, with scheduled quarterly principal payments in 1999 and 2000 in United States dollars	1,565	1,565
Due to Hydro-Québec	655	—
	4,799	4,144
Less current portion, due March 1999	614	—
	$4,185	$4,144

Principal payments due in the next five years are:

1999	$1,937
2000	2,553
2001	173
2002	68
2003	68
	$4,799

8. FINANCIAL INSTRUMENTS

The carrying amount of the Fund's cash, amounts receivable, funds in escrow, accounts payable and accrued liabilities, and due to the Algonquin group of companies approximate fair value due to the short term nature of these financial instruments.

The carrying amount of the Fund's notes receivable approximate fair value due to the fact that the notes were only recently acquired. Under the terms of the Trafalgar Indenture, the Fund also has the right to participate in cash flows in excess of the funding requirements to meet interest and principal payments on the Trafalgar Class A and Trafalgar Class B notes. This right has been given no carrying amount and since the timing of the cash flows is uncertain, it is not practicable to determine the fair market value of this right.

The carrying amount of the Fund's two notes payable that were recently issued approximate their fair value.

9. INCOME TAXES

The Fund's subsidiaries have accumulated tax losses available to offset taxable income in future years in the amount of approximately $116,000. These tax losses expire in the year 2004.

10. SUBSEQUENT EVENTS

(a) On April 17, 1998, $20,780,000 plus accumulated interest previously held in escrow were released to the Fund to acquire the following securities issued by the co-owners who developed the Long Sault Rapids facility in Ontario. The transactions were completed after the commissioning of the facility by Ontario Hydro.

(Tabular amounts in thousands of dollars unless otherwise indicated)

10. SUBSEQUENT EVENTS (Continued)

The securities acquired were:

(i)	A subordinate note issued by the co-owners, bearing interest at 14.14% compounded annually, maturing December 31, 2038, with blended payments of interest and principal. The note is subordinate to the main project financing of approximately $45,000,000.	$ 2,000
(ii)	Interests that provide rights to cash flows from the facility. These interests range for periods of six to twenty years.	1,832
(iii)	A note issued by N-R Power & Energy Corp., which through ownership of partners in the project, holds a 50% undivided interest in the facility. The note bears interest at the rate of 9% per annum, with a maturity date of January 1, 2038. The note limits payments of principal and interest to specific percentages of after-tax cash flows.	6,568
(iv)	A note issued by Algonquin Power, which through ownership of partners in the project, holds a 50% undivided interest in the facility. The note bears interest at the rate of 9% per annum, with a maturity date of January 1, 2038. The note limits payments of principal and interest to specific percentages of after-tax cash flows.	10,308
(v)	A deposit made to acquire shares of companies owned by N-R Power & Energy Corp. and companies owned by Algonquin Power. The ownership of these companies will comprise a 58% equity interest in the Long Sault Rapids facility. The effective date of transfer of ownership is expected to be January 1, 2038.	72
		$20,780

The various securities purchased provide the Fund with a 100% interest in the cash flows from the facility until 2013, 65% up to 2027 and 58% thereafter.

The contractor which completed construction of the Long Sault Rapids facility has registered a lien against the Long Sault Rapids facility, thereby causing the co-owners to breach their covenants under the credit agreement associated with the main project financing. The shareholders of the co-owners have indemnified the Fund against costs associated with such lien and have undertaken to take such steps as may be necessary to have such lien vacated in order to prevent the main project financing lenders from taking action in respect of such breach. If the shareholders of the co-owners default on their commitments, the Fund may be required to post certain security to have the lien vacated. The shareholders of the co-owners have agreed to post security in support of their indemnities in the aggregate amount of $1.5 million. No provision has been made in these financial statements for any loss that might result should the lien not be vacated.

(b) Pursuant to an underwriting agreement dated June 25, 1998, the Fund has agreed to issue 6,058,697 trust units at a price of $10.65 per unit which will result in net proceeds from the issue of approximately $59,093 after deducting underwriters' fees and estimated expenses of the offering of $5,432. Concurrent with the closing of the offering, the net proceeds from the issue of trust units will be

(Tabular amounts in thousands of dollars unless otherwise indicated)

10. SUBSEQUENT EVENTS (Continued)

used indirectly through its wholly owned subsidiaries, Algonquin Power Fund (Canada) Inc. and Algonquin Power Fund (America) Inc. for the following purposes:

Acquisitions	Amount(1)
(i) 100% of HDI Associates III partnership;	$ 6,410
(ii) 100% of Moretown Hydro Energy Company partnership;	7,957
(iii) 100% of Avery Hydroelectric Associates partnership;	3,602
(iv) 100% of Hadley Falls Associates partnership;	1,638
(v) 100% of Lakeport Hydroelectric Corporation common shares;	1,310
(vi) 100% of Burt Dam Power Company partnership;	2,000
(vii) 100% of Hollow Dam Power Company partnership;	3,500
(viii) Glenford Note;	4,992
(ix) Glenford Option;	750
(x) SLI Saint-Alban Note; and	15,000
(xi) SLI Rawdon Note;	7,500
Total acquisitions	54,659

Funds held pending completion of acquisitions

A 45% interest in the Rattle Brook Facility, through the purchase of the shares of 10640 Newfoundland Limited, is not expected to be acquired until the earlier of the Rattle Brook Release Date and January 31, 1999. Accordingly, the funds in respect of the following items will be held by the Fund and invested until that date:

45% of Algonquin Power (Rattle Brook) Partnership	4,185
Rattle Brook Completion Amount	249
Funds to be utilized	4,434
Net proceeds of issue	$59,093

(1) The amount shown is subject to adjustment on closing.

In connection with the offering, on June 21, 1998 the Fund declared a special distribution of cash in the amount of $0.235 per Trust Unit payable to unitholders of record on June 23, 1998.

(c) Algonquin Power has agreed to provide approximately $1,300,000 additional working capital to the Fund in exchange for a reduction of similar amount in the Algonquin Note purchased by the Fund. The term to maturity of the note will be adjusted to June 30, 2004, with no changes made to the principal repayment schedule prior to this date. The letter of credit that provides partial security for the note will also be reduced by a corresponding amount.

11. COMMITMENTS

Management Agreement with Related Party

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

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

(1) a quarterly fee of $31,250 payable in United States dollars, adjusted annually for changes to the Canadian Consumer Price Index;

(2) a fee based on the total energy production from all facilities in which the Fund has an interest; and

(Tabular amounts in thousands of dollars unless otherwise indicated)

11. COMMITMENTS (Continued)

(3) an incentive fee equal to the aggregate of 10% of the distributable cash per trust unit in excess of $0.925 per trust unit and up to $1.00 per trust unit and 25% of the distributable cash per trust unit in excess of $1.00 per trust unit.

During the period ended March 31, 1998, management fees of $62,500 were incurred.

Operations Supervisory Agreement with Related Party

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

Power Systems is to receive a fee of $62,500 per quarter payable in United States dollars adjusted annually for the change in the Canadian Consumer Price Index.

Direct Operations Contracts with Related Party

Each of the operating entities, including the Trafalgar and Long Sault Rapids facilities, has entered into a direct operations contract with Power Systems. The direct operations contracts provide for the day to day services required to operate and maintain the hydroelectric generating facility. Payments under these contracts typically have a fixed fee and variable component. The variable fee is either linked to gross revenue or gross revenue less direct operating costs. It is estimated that on an annual basis the Fund will pay approximately $1,000,000 to Power Systems of which $400,000 will be expensed in the statement of operations and the remaining $600,000 will be netted against cash flows to be received from Trafalgar and Long Sault. For the period ended March 31, 1998, the Fund incurred $117,000 in direct operating contract expenses which are included in the operating expenses on the statement of operations. The Trafalgar operations also incurred $119,000 of expenses with Power Systems, which reduced the cash flows received by the Fund.

Land and Water Leases

Each of the operating entities has entered into agreements to lease either the land and/or the water rights for the hydroelectric generating facility or to pay in lieu of property tax an amount based on energy production. These payments typically have a fixed and variable component. The variable fee is generally linked to actual power production or gross revenue. It is estimated that on an annual basis that the Fund is committed to pay approximately $600,000 of which $300,000 will be expenses in the statement of operations and the remaining $300,000 will be netted against cash flows to be received from Trafalgar and Long Sault Rapids.

12. DISTRIBUTIONS

Distributable income, as defined in the Trust Indenture, is distributed to unitholders of record on the last day of each calendar quarter on or before the 15^{th} day of the following calendar quarter. Since the Fund did not have any distributable income at December 31, 1997, no distributions were made. In determining the annual distribution for 1998, the deficit cash position of $94,000 will first need to be recovered. The deficit cash position is determined as follows:

Net loss		$(2,431)
Add:	Portion of debt prepayment cost not currently payable	2,308
	Amortization of capital assets	29
		$ (94)

Subsequent to December 31, 1997, the Trustees declared a distribution of $0.175 per unit to unitholders of record on March 31, 1998. The total distribution in the amount of $1,406,000 was paid on April 15, 1998.

COMPILATION REPORT

To the Trustees of
Algonquin Power Income Fund

We have reviewed, as to compilation only, the pro forma consolidated balance sheet of Algonquin Power Income Fund (the ''Fund'') as at March 31, 1998 and the pro forma consolidated statement of operations and deficit for the three month period then ended. These pro forma consolidated financial statements have been prepared for inclusion in the prospectus relating to the proposed offering of Trust Units of the Fund. In our opinion, the pro forma consolidated balance sheet and pro forma consolidated statement of operations and deficit and pro forma consolidated statement of distributable cash have been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Toronto, Canada	(Signed) KPMG
June 26, 1998	Chartered Accountants

ALGONQUIN POWER INCOME FUND

PRO FORMA CONSOLIDATED BALANCE SHEET
(Unaudited)

As at March 31, 1998
(In thousands of dollars)

	Fund	Pro Forma Adjustments (note 2)	Fund Pro Forma
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,593	$ 59,093 [a] (59,093)[b]	$ 1,593
Amounts receivable	1,595		1,595
Notes receivable — current portion	114		114
Prepaid expenses	75		75
	3,377		3,377
Notes receivable	15,476	27,492 [c]	42,968
Funds in escrow	20,780	4,434 [b]	25,214
Capital assets	39,549	27,167 [c]	66,716
Deferred foreign exchange loss	97		97
	$79,279		$138,372
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	$ 1,262		$ 1,262
Due to Algonquin group of companies	1,208		1,208
Cash distribution payable	1,406		1,406
Current portion of long-term liabilities	614		614
Income taxes payable	28		28
	4,518		4,518
Long-term liabilities	4,185		4,185
UNITHOLDERS' EQUITY			
Trust units	73,676	59,093 [b]	132,769
Deficit	(3,100)		(3,100)
	70,576		129,669
	$79,279		$138,372

Approved by the Trustees:

(Signed) GEORGE L. STEEVES
Trustee

(Signed) A. STEPHEN PROBYN
Trustee

See accompanying notes to pro forma consolidated financial statements.

ALGONQUIN POWER INCOME FUND

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
(Unaudited)

Three-month period ended March 31, 1998
(In thousands of dollars)

	Fund	Combined Entities Acquired (note 4)	Pro Forma Adjustments (note 3)	Fund Pro Forma
Revenues:				
Energy sales	$ 962	$1,333		$ 2,295
Interest, rental and income from participation agreements	758	3	187 [b]	948
	1,720	1,336		3,243
Expenses:				
Operating	341	320		661
Amortization of capital assets	334	—	181 [a]	515
Management fees	63	78	(78)[c]	
			38 [d]	101
Operations supervisory fees	63	—	13 [e]	76
Administrative expense	69	20		89
Loss on foreign exchange	4	—		4
	874	418		1,446
Earnings before interest and income taxes	846	918		1,797
Interest expense	61	—		61
Earnings before income taxes	785	918		1,736
Income taxes	48	—		48
Net earnings	737	918		1,688
Deficit, beginning of period	(2,431)	—		(2,431)
Cash distributions	(1,406)	—		(1,406)
Retained earnings (deficit), end of period	$(3,100)	$ 918		$(2,149)

See accompanying notes to pro forma consolidated financial statements.

ALGONQUIN POWER INCOME FUND

NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS

For the Three Months Ended March 31, 1998
(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

1. BASIS OF PRESENTATION

The pro forma consolidated financial statements of Algonquin Power Income Fund (the ''Fund'') have been compiled by management from the unaudited financial statements of Algonquin Power Income Fund, Burt Dam Power Company, Hollow Dam Power Company, HDI Associates III, Moretown Hydro Energy Company, Avery Hydroelectric Associates, Hadley Falls Associates, and Lakeport Hydroelectric Corporation for the three months ended March 31, 1998. The pro forma consolidated financial statements should be read in conjunction with the foregoing unaudited financial statements, including the notes thereto appearing elsewhere in this document.

The purchase consideration and the allocation of the purchase consideration to the net assets acquired are based on the most recent information available. The purchase consideration and its related allocation to the net assets acquired may change based on information available when the acquisitions actually occur.

The pro forma consolidated financial statements are not intended to reflect the results of operations which would have actually resulted had the acquisition and other pro forma adjustments (which are based on the pro forma assumptions described herein and in notes 2 and 3 below) been effected on the dates indicated. Further, the pro forma financial information is not necessarily indicative of the results of operations that may be obtained by the Fund in the future.

The pro forma consolidated statement of net earnings assumes that the transactions described in note 2 occurred on January 1, 1998, whereas the balance sheet assumes they occurred on March 31, 1998.

2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

The accompanying pro forma consolidated financial statements of Algonquin Power Income Fund have been prepared to reflect the following major transactions:

(a) The public offering by the Fund through the issuance of 6,058,697 additional Trust Units, for net proceeds of $59,093 after deducting underwriters' fees of $3,872 and estimated expenses of this offering of $1,560.

(b) The use of proceeds by the Fund (directly or indirectly through its wholly owned subsidiaries, Algonquin Power Fund (Canada) Inc. and Algonquin Power Fund (America) Inc.) for the following purposes:

Acquisitions	Amount
(i) 100% of HDI Associates III partnership;	$ 6,410
(ii) 100% of Moretown Hydro Energy Company partnership;	7,957
(iii) 100% of Avery Hydroelectric Associates partnership;	3,602
(iv) 100% of Hadley Falls Associates partnership;	1,638
(v) 100% of Lakeport Hydroelectric Corporation common shares;	1,310
(vi) 100% of Burt Dam Power Company partnership;	2,000
(vii) 100% of Hollow Dam Power Company partnership;	3,500
(viii) Glenford Secured Note;	4,992
(ix) Glenford Option;	750
(x) SLI Saint-Alban Note; and	15,000
(xi) SLI Rawdon Note.	7,500
Total acquisitions	54,659

Funds held pending completion of acquisition

A 45% interest in the Rattle Brook Facility, through the purchase of 10640 Newfoundland Limited, is not expected to be acquired until December 31, 1998. Accordingly the funds required to complete such acquisition will be held by the Fund and invested until that date:

45% of Algonquin Power (Rattle Brook) Partnership	4,185
Rattle Brook Completion Amount	249
Funds held pending completion of acquisition	4,434
Net proceeds of issue	$59,093

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS (Continued)

(c) The assets acquired by the Fund with the proceeds from the issue of additional Trust Units at approximate assigned values are as follows:

Notes receivable	$27,492
Capital assets	26,417
Glenford Option	750
Funds held pending completion of acquisition	4,434
	$59,093

The acquisition of HDI Associates III, Moretown Hydro Energy Company, Avery Hydroelectric Associates, Hadley Falls Associates, Lakeport Hydroelectric Corporation, Burt Dam Power Company and Hollow Dam Company for aggregate consideration of $25,575, will be accounted for by the Fund using the purchase method. The consideration paid by the Fund has been allocated to capital assets which are amortized on a straight-line basis of twenty-five years.

(d) **Acquisition of the Glenford Note**

The Fund will acquire at face value the 8.5% Glenford Note in the principal amount of $4,992 issued by Algonquin Power with a term ending on July 1, 2023. The Glenford Note will be subordinated to the Glenford Senior Debt and will entitle the Fund to 100% of the cash flows pursuant to the Glenford Interest. A portion of the annual cash flows will be applied first to accrued interest on the note and, secondly, applied against the outstanding principal of the note.

(e) **Acquisition of the Glenford Option**

The Fund will pay Algonquin Power $750 as consideration for entering in to the Glenford Option Agreement. This agreement entitles the Fund to purchase, indirectly through its wholly owned subsidiary Algonquin Canada, the Glenford Interest and the Glenford Shares from Algonquin Power for $1,500. Such option may be exercised by Algonquin Canada at any time after the retirement or repayment of the Glenford Note, but in any event no earlier than June 2009.

(f) **Acquisition of the SLI Saint-Alban Note**

The Fund will acquire the 5% SLI Saint-Alban Note issued by SNC-Lavalin Inc. (''SLI'') in the principal amount of $15,000, and will have a term ending on the Saint-Alban Transfer Date. This note will be secured by an assignment to Algonquin Canada of the interest held by SLI in the power purchase agreement with Hydro-Québec relating to the Saint-Alban Facility and a pledge of the assets comprising the Saint-Alban Facility.

(g) **Acquisition of the SLI Rawdon Note**

The Fund will acquire the 5% SLI Rawdon Note issued by SLI in the principal amount of $7,500, and will have a term ending on the Rawdon Transfer Date. This note will be secured by an assignment to Algonquin Canada of the interest held by SLI in the power purchase agreement with Hydro-Québec relating to the Rawdon Facility and a pledge of the assets comprising the Rawdon Facility.

3. PRO FORMA CONSOLIDATED STATEMENT OF NET EARNINGS ASSUMPTIONS AND ADJUSTMENTS

The pro forma consolidated statement of net earnings of the Fund reflect the following adjustments as if the following had been completed at January 1, 1998. There are no adjustments related to the Rattle Brook Development since it was under construction during the pro forma period:

Adjustments related to the acquisitions described in note 2 are as follows:

(a) aggregate adjustment to increase depreciation and amortization of the assets acquired is $181;

(b) aggregate interest income and income from participation agreements of $187 related to the notes acquired and subscribed; and

(c) management fees of $78 incurred by the operating entities have been replaced with new agreements;

Other income statement adjustments are as follows:

(d) provision for management fee of $38 including an incentive fee of $19; and

NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS (Continued)

For the Three Months Ended March 31, 1998
(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

3. PRO FORMA CONSOLIDATED STATEMENT OF NET EARNINGS ASSUMPTIONS AND ADJUSTMENTS (Continued)

(e) provision operations supervisory fee of $13.

4. OPERATING ENTITIES' STATEMENT OF NET EARNINGS BEFORE DEPRECIATION AND INTEREST EXPENSE

	Burt Dam As reported	Hollow Dam As reported	HDI III[1] As reported	Moretown As reported	Avery As reported	Hadley As reported	Lakeport As reported	Combined Entities Acquired
Revenues:								
Energy	$117	$236	$539	$128	$125	$38	$150	$1,333
Interest, rental and other income	—	—	—	3	—	—	—	3
	117	236	539	131	125	38	150	1,336
Operating expenses:								
Operating	—	—	14	9				23
Outside consultant	—	—	2					2
Lease and water usage fees	—	—	23	—	15	1	6	45
Real estate taxes	7	35	12	6	5	—	8	73
Insurance	9	16	13	11	1	1	3	54
Repairs and maintenance	48	22	7	8	3	14	3	105
Rent expense	2	—	—	—	—	1	—	3
Supplies	—	—	—	—	—	1	9	10
Telephone and utilities	—	—	2	—	1	1	1	5
	66	73	73	34	25	19	30	320
Administrative expenses:								
Management fees	—	—	11	—	32	—	35	78
Professional fees	3	2	3	4	2	1	1	16
Other	—	—	2	2	—	—	—	4
	3	2	16	6	34	1	36	98
Net operating income (loss) before depreciation, interest and income taxes	$ 48	$161	$450	$ 91	$ 66	$18	$ 84	$ 918

(1) HDI III includes Lower Robertson and Ashuelot facilities.

INDEPENDENT AUDITORS' REPORT

To the Partners of HDI Associates III

We have audited the statements of net operating income before depreciation, interest and income taxes of HDI Associates III, a partnership, for the years ended December 31, 1997, 1996 and 1995. All information included in these financial statements is the representation of the management of HDI Associates III.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of net operating income before depreciation, interest and income taxes is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements referred to above presents fairly, in all material respects, the statement of net operating income before depreciation, interest and income taxes of HDI Associates III for the years ended December 31, 1997, 1996 and 1995, in accordance with generally accepted accounting principles.

The accompanying statements of net operating income before depreciation, interest and income taxes of HDI Associates III, have been prepared for inclusion in a prospectus of Algonquin Power Income Fund and is not intended to be a complete presentation of HDI Associates III's gross income and expenses.

This report is intended solely for the information and use of the members of management and partners of HDI Associates III and Algonquin Power Income Fund. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

North Andover, MA
United States of America
May 13, 1998

(Signed) GORDON, HARRINGTON & OSBORN, P.C.
Certified Public Accountants

HDI ASSOCIATES III

STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION, INTEREST AND INCOME TAXES

(Presented in United States Dollars)

	For the Three Months Ended March 31,		For the Years Ended December 31,		
	1998	1997	1997	1996	1995
	(unaudited)				
Revenue	$378,500	$420,539	$1,155,652	$1,353,908	$1,189,122
Operating expenses:					
On-site operator	9,957	10,474	48,708	46,353	41,906
Outside consultant	1,406	2,322	9,521	24,283	14,336
Insurance	9,414	13,510	48,568	52,671	46,227
Payment in lieu of real estate taxes	8,232	10,083	29,926	32,495	30,293
Repairs and maintenance	4,549	11,041	51,627	61,389	36,726
Lease Ashuelot	15,978	20,146	61,092	65,406	61,521
Telephone and utilities	1,509	1,832	6,379	6,943	6,909
Total operating expenses	51,045	69,408	255,821	289,540	237,918
Administrative expenses:					
Management fees	7,500	7,500	30,000	30,000	30,000
Miscellaneous	1,652	4,219	7,490	6,538	5,117
Professional fees	2,377	2,170	11,394	12,816	13,943
Total administrative expenses	11,529	13,889	48,884	49,354	49,060
Total operating and administrative expenses	62,574	83,297	304,705	338,894	286,978
Net operating income before depreciation, interest and income taxes	$315,926	$337,242	$ 850,947	$1,015,014	$ 902,144

(Signed) IAN E. ROBERTSON
Director, Algonquin Power
Fund (America) Inc.

(Signed) CHRISTOPHER K. JARRATT
Director, Algonquin Power
Fund (America) Inc.

The accompanying notes are an integral part of these financial statements.

HDI ASSOCIATES III

NOTES TO STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION, INTEREST AND INCOME TAXES

For the three months ended March 31, 1998 and 1997 and For the years ended December 31, 1997, 1996 and 1995 (Presented in United States Dollars)

GENERAL

HDI Associates III (the ''Partnership'') is a partnership which owns and operates two hydroelectric facilities located in Winchester, New Hampshire.

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying statements of net operating income before depreciation, interest and income taxes have been prepared for inclusion in a prospectus of Algonquin Power Income Fund. The statements reflect the revenue, operating and administrative expenses of the facilities on the accrual basis of accounting, based on the historical records of the Partnership. As this special purpose financial statement does not reflect the financial position or net income or net loss of the Partnership, it may not be suitable for general purposes.

The statements of net operating income before depreciation, interest and income taxes have been prepared following United States generally accepted accounting principles. There would be no material adjustment to reflect this statement under Canadian generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Revenue is derived from electricity sold solely to the Public Service of New Hampshire pursuant to two twenty-nine year rate orders both expiring in the year 2016. Income is based on the Public Utilities Commission rate order which dictates peak and off-peak rates for actual power production for each year of the contract plus a capacity payment.

2. RELATED PARTY TRANSACTIONS

The Partnership pays various management and accounting fees to officers of the general partner. Charges for these services were $38,460, $38,677 and $36,392 in 1997, 1996 and 1995, respectively and $9,877 and $8,872 for the three months ended March 31, 1998 and 1997, respectively.

3. LEASES

The Partnership has a fifty-five year lease, as amended and assigned, with the Ashuelot Paper Company which expires December 31, 2040; there is no provision for renewal or extension. This lease is for the use of a portion of the land, and the water rights of the lessor to operate the hydroelectric generating facility and an easement of access across the lessors property. The Partnership owns the facility used in the production of power. Rent is based on the annual gross revenue derived from power sales at the facility. Rent expense is equal to the greater of $1,000 or six percent (6%) of the Partnership's gross revenue from power sales for years 1–10, the greater of $1,500 or 10% of gross revenues for years 11–19 and the greater of $1,500 or 25% of gross revenue from year 20 to the end of term. Rent is paid semi-annually and totalled $61,092, $65,406 and $61,521 for the years ended December 31, 1997, 1996 and 1995, respectively, and $15,978 and $20,146 for the three months ended March 31, 1999 and 1997, respectively. Title to all buildings, improvements, structures, equipment, etc. of the facility shall become that of the lessor upon expiration of the lease term. The lease terms include restrictions on placing liens and encumbrances on the property.

4. REAL ESTATE TAXES

There are two agreements, whereby the Partnership pays the Town of Winchester, New Hampshire the greater of 2½% of its prior fiscal year gross revenue or 2½% of the average gross revenue for the previous fiscal year in lieu of real estate taxes. The term of these agreements are for thirty years commencing on the initial date of commercial operation.

HDI ASSOCIATES III

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Presented in United States dollars)

Operating Results

The HDI Associates III partnership consists of two facilities: the Lower Robertson facility and the Ashuelot facility.

Year Ended December 31, 1997

Revenue from the sale of electricity decreased to $1,155,652 from $1,353,908 during the year ended December 31, 1996. Expenses for the year were in line with expectations for the period.

Year Ended December 31, 1996

Revenue from the sale of electricity increased to $1,353,908 from $1,189,122 during the year ended December 31, 1995. Expenses were similar to the prior year except for consulting fees and repairs and maintenance due to requirements at the facility.

Liquidity and Capital Resources

Operating cash flow from the HDI Associates III partnership resulting from the sale of electricity will be adequate to meet operating requirements including all hydroelectric generating station improvements and maintenance and repair requirements.

AUDITORS' REPORT

To the partners of
Moretown Hydro Energy Company:

I have audited the statements of net operating income before depreciation, and interest expense of Moretown Hydro Energy Company (the ''Partnership'') for the years ended December 31, 1997, 1996 and 1995. These financial statements are the responsibility of the Partnership's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance about whether the financial statements of net operating income before depreciation and interest expense are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation of net operating income before depreciation and interest expense. I believe that my audits provide a reasonable basis for my opinion.

The accompanying statements of net operating income before depreciation and interest expense of the Partnership have been prepared for inclusion in a prospectus of Algonquin Power Income Fund, and are not intended to be a complete presentation of the Partnership's gross income and expenses.

In my opinion, the accompanying statements referred to above present fairly, in all material respects, the statements of net operating income before depreciation and interest expense of the Partnership for the years ended December 31, 1997, 1996 and 1995 in conformity with generally accepted accounting principles.

These reports are intended solely for the information and use of the members of management and partners of Moretown Hydro Energy Company and Algonquin Power Income Fund. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

West Springfield, Massachusetts, United States of America
May 8, 1998

(Signed) THOMAS P. FOLEY II, P.C.
Certified Public Accountant

MORETOWN HYDRO ENERGY COMPANY
A Vermont Partnership

STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION AND INTEREST EXPENSE

(Information for the three month periods ended March 31, 1997 and March 31, 1998 is unaudited)
(Presented in United States dollars)

	For the Three Months Ended March 31		For the Years Ended December 31		
	1998	1997	1997	1996	1995
Revenues					
Energy Sales	$89,890	$43,239	$201,286	$333,427	$268,202
Investment and other Income	1,935	1,442	8,611	11,131	6,960
	91,825	44,681	209,897	344,558	275,162
Operating Expenses					
Wages	3,938	7,184	$ 30,808	$ 25,317	$ 27,600
Utilities	2,123	1,866	6,665	6,562	4,762
Insurance	7,918	5,102	16,041	20,103	21,736
Repairs, maintenance & supplies	5,540	629	7,958	13,526	6,082
Property taxes	3,750	3,750	15,000	15,000	15,000
Payroll taxes	305	660	2,393	2,052	2,272
	23,574	19,191	78,865	82,560	77,452
Administrative expenses:					
Professional fees	2,654	2,354	5,142	8,550	—
Shared (note 5)	—	—	—	19,057	—
Fees and Costs	612	447	2,267	7,142	6,224
Other	929	1,467	4,907	4,624	3,493
	4,195	4,268	12,316	39,373	9,717
Net operating income before depreciation and interest expense	$64,056	$21,222	$118,716	$222,625	$187,993

(Signed) IAN E. ROBERTSON
Director, Algonquin Power
Fund (America) Inc.

(Signed) CHRISTOPHER K. JARRATT
Director, Algonquin Power
Fund (America) Inc.

See accompanying notes to the financial statements and Accountant's Audit Report.

MORETOWN HYDRO ENERGY COMPANY
A Vermont Partnership

NOTES TO STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION AND INTEREST EXPENSE

(Information for the three month periods ended March 31, 1997 and March 31, 1998 is unaudited)
(Presented in United States dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Moretown Hydro Energy Company (the ''Partnership'') is presented to assist in understanding the Partnership's statements of Net Operating Income Before Depreciation and Interest Expense (hereafter referred to as the ''financial statements''). The financial statements and notes are representations of the Partnership's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Basis of Presentation

The accompanying statements of Net Operating Income Before Depreciation and Interest Expense have been prepared for inclusion in a prospectus of Algonquin Power Income Fund. These financial statements reflect the revenue and operating expenses (excluding depreciation and interest expense) of the Partnership on the accrual basis of accounting, based on the historical records of the Partnership, in conformity with generally accepted accounting principles. As these special purpose financial statements do not reflect the financial position or net income of the Partnership, they may not be suitable for general purposes.

The statements of net operating income before depreciation and interest expense have been prepared following United States generally accepted accounting principles. There would be no material adjustment to reflect this statement under Canadian generally accepted accounting principles.

Basis of Accounting

The Partnership maintains its accounting records on the accrual basis.

Nature of Business

The Partnership is a Vermont partnership engaged in selling electrical power. The Partnership provides electricity to the Vermont Power Exchange, Inc. (''VPX'') The facility is a 1,250 kilowatt hydroelectric generating facility located on approximately two acres of land on the Mad River, in the Town of Moretown, County of Washington, State of Vermont. The real estate includes the water and flowage rights, a 333-foot concrete dam and land on both the north and south sides of the Mad River. The facility is owned by the Partnership.

Revenue

Revenue is derived from energy sales to VPX and is recorded at the time electrical energy is delivered or generated.

Income Taxes

The Partnership is organized as a partnership. The Partnership is not a taxpaying entity for federal and state income tax purposes, and thus no income tax expense is recorded in the Partnership's financial statements. Income from the Partnership is taxed to the partners in their individual tax returns.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. ENERGY PRODUCTION

Federal Energy Regulatory Commission (''FERC'') Licence

The facility received a licence (as built) for a hydroelectric generating facility from FERC on December 7, 1982 (FERC Project No. 5944). The licence is for a 1,250 kilowatt facility. The facility was commissioned on December 29, 1988 and the licence expires on December 7, 2022. The main compliance issues associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; (ii) the FERC licence requires that continuous minimum flows of 25 cubic feet per second be released from the facility dam to protect aquatic resources in the river between the dam and tailrace area; and (iii) the combined continuous discharge from the facility dam and powerhouse must be maintained at a specified level below the tailrace.

NOTES TO STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION AND INTEREST EXPENSE (Continued)

(Information for the three month periods ended March 31, 1997 and March 31, 1998 is unaudited)
(Presented in United States dollars)

2. ENERGY PRODUCTION (Continued)

Power Purchase Agreement

The Partnership entered into a power purchase agreement on July 29, 1988 with VPX (purchasing agent). The contract requires the Partnership to sell the Net Electric Output of the facility to the VPX at a thirty-year levelized power rate beginning in December 1988. The Net Electric Output is the electricity which the Partnership facility will generate, less station use and all losses incurred before delivery to the interconnecting utility.

Rate Schedules

A. **Base Rate**

Winter Period (November 1 to April 30):

Energy Component:

On-Peak Hours	10.78 cents/kwh
Off-Peak Hours	6.82 cents/kwh

Summer Period (May 1 to October 31):

Energy Component:

On-Peak Hours	9.78 cents/kwh
Off-Peak Hours	5.39 cents/kwh

On-Peak hours for both power periods are 6:00 a.m. to 10:00 p.m. Mondays through Fridays. Off-Peak hours are all other hours.

B. **Capacity Adders**

A capacity adder of 2.43 cents per kilowatt hour will be added to the energy component prices for all energy delivered during each hour up to and including an amount equal to the New England Power Exchange rated capability of the Partnership's facility. All kilowatts delivered during the hour and in excess of the New England Power Exchange capability rating will be priced at the energy only rates shown above.

C. **Payment Lag Adder**

A payment lag adder in an amount to be determined by the Public Service Board of Vermont and subject to change as the Board may order, will be added to the above rates. The adder is used to compensate the Partnership for the time delay in receiving monthly payment for electricity produced. The payment lag adder will be calculated on a percentage basis and added to the price per kilowatt rates, including the appropriate capacity adder. The payment lag adder as of the effective date of this agreement is 2.4%. The payment lag adder rate changed to 1.3% in 1996 and .95% in December 1997.

Service Fee

The contract allows Vermont Electric Power Producers, Inc. (purchasing agent) to deduct, from the Partnership's revenue, a monthly service charge equal to $153 since August 1, 1997 and $149 since April 1, 1996 of the amount payable to the Company for power produced. The service fee associated with the operating contract with the purchasing agent has been reflected in the accompanying financial statements under fees and costs.

(Presented in United States dollars)

2. ENERGY PRODUCTION (Continued)

Reserves

Equipment Maintenance Reserve Fund (Maintenance Trust Fund)

The contract requires the Partnership to deposit $1,000 quarterly into an approved reserve fund to be invested for anticipated capital replacements and maintenance requirements. This reserve was deposited with the Vermont National Bank. The balances of these reserves were as follows:

March 31, 1998	$27,358
December 31, 1997	$26,195
March 31, 1997	$22,738
December 31, 1996	$21,604
December 31, 1995	$26,921

Security Fund Obligation (Pooled Trust Fund)

The contract requires the Partnership to contribute monthly an amount equal to $.0056 per kilowatt of electricity produced by the facility into an approved reserve fund. The contributions are to cover twenty percent (20%) of the maximum Cumulative Present Value Difference liability attained by the producer. The Cumulative Present Value Difference is the accumulated value of the payments received by the Partnership under its levelized rates (see base rate schedule), less the payments the Partnership would have received if payment were made under the non-levelized rate including interest between the date on which each payment to the Partnership was made and the date of calculation of the Cumulative Present Value Difference. This reserve is on deposit with the Vermont National Bank. The balance of this reserve was as follows:

March 31, 1998	$149,572
December 31, 1997	$143,347
March 31, 1997	$125,856
December 31, 1996	$121,680
December 31, 1995	$117,936

Purchase Agent

On March 15, 1996, the Vermont Electric Power Producers, Inc. (''VEPPI'') was designated as the purchasing agent to replace VPX. This change resulted in a flat monthly service fee of $149 until July 31, 1997, when the monthly fee changed to $153.

3. REAL ESTATE TAXES

The Partnership has entered into a tax stabilization agreement with the Town of Moretown, Vermont which requires the Partnership to pay $15,000 per year for real estate taxes for a term of 20 years commencing April 1, 1988 and ending March 31, 2008.

This $15,000 is subject to an increase equal to the percentage of any rate increase granted to the Partnership by the Vermont Public Service Board with respect to the facility.

4. SUBSEQUENT EVENT

During February 1998, the Partnership filed a $240,707 insurance claim with its agent for lost power generation ($200,000) and miscellaneous services ($40,707) resulting from a high line accident which occurred on January 20, 1997. The lost power generation covered a period from January 20, 1997 to May 31, 1997.

5. SHARED EXPENSES

In October 1996, a payment was made in the amount of $19,057 to the purchasing agent (VPX) for the Partnership's portion of shared expenses relating to one of the power producer's members that failed to meet its obligations. This payment was withdrawn from the security fund obligation (pooled trust fund) account as required by the contract. In October 1996, the Partnership filed suit to recover this money.

MORETOWN HYDRO ENERGY COMPANY
A Vermont Partnership

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Information for the three month periods ended March 31, 1997 and March 31, 1998 is unaudited)
(Presented in United States dollars)

Operating Results

Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997

Revenue from the sale of electricity increased to $89,890 during the three month period ended March 31, 1998 from $43,239 for the three months ended March 31, 1997. This was due to fluctuations in water flow. Expenses for the current quarter were similar to those for the same period in the prior year

Year Ended December 31, 1997

Revenue from the sale of electricity decreased to $201,286 from $333,427 during the year ended December 31, 1996. The decrease in revenue was attributable to a lost power generation due a third party accident. The Partnership has filed an insurance claim to recover lost revenue and other related costs incurred. Expenses for the year were in line with expectations for the period.

Year Ended December 31, 1996

Revenue from the sale of electricity increased to $333,427 from $268,202 during the year ended December 31, 1995. Expenses were similar to the prior year except for shared costs of $19,057. This expense represents the Partnership's share of costs related to the failure of another power produceer's member to meet its obligations.

Liquidity and Capital Resources

Operating cash flow from the Partnership resulting from the sale of electricity will be adequate to meet operating requirements including hydroelectric generating station improvements and maintenance and repair requirements.

AUDITORS' REPORT

To the Directors of
SNC-Lavalin Group Inc.

We have audited the statements of net operating income before depreciation, interest and income taxes of Saint-Alban Hydroelectric Generating Station, a division of SNC-Lavalin Inc. (the ''Division'') for the year ended December 31, 1997 and the seven months ended December 31, 1996. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the net operating income before depreciation, interest and income taxes of the Division for the year ended December 31, 1997 and for the seven months ended December 31, 1996 in accordance with generally accepted accounting principles.

Montréal, Canada
June 22, 1998

(Signed) ERNST & YOUNG
Chartered Accountants

SAINT-ALBAN HYDROELECTRIC GENERATING STATION
A Division of SNC-Lavalin Inc.

STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION, INTEREST AND INCOME TAXES

	Three Months Ended March 31, 1998	Three Months Ended March 31, 1997	Year Ended December 31, 1997	Seven Months Ended December 31, 1996
	(unaudited)	(unaudited)		
Revenue	$225,373	$225,057	$1,495,611	$1,198,589
Operating expenses:				
Operation and maintenance	23,528	22,372	104,499	101,855
Royalties	12,040	12,514	81,450	65,206
Taxes	7,511	7,502	47,865	38,958
Utility expenses	2,936	3,122	12,463	26,082
Subsidy	2,250	2,125	8,500	8,000
	48,265	47,635	254,777	240,101
Administrative expenses:				
Insurance	11,608	11,608	46,430	30,136
Management	1,703	2,867	9,197	14,476
	13,311	14,475	55,627	44,612
	61,576	62,110	310,404	284,713
Net operating income before depreciation, interest and income taxes	$163,797	$162,947	$1,185,207	$ 913,876

(Signed) Ian E. Robertson
Director, Algonquin Power
Fund (Canada) Inc.

(Signed) Christopher K. Jarratt
Director, Algonquin Power
Fund (Canada) Inc.

See accompanying notes

SAINT-ALBAN HYDROELECTRIC GENERATING STATION
A Division of SNC-Lavalin Inc.

NOTES TO STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION, INTEREST AND INCOME TAXES

GENERAL

The Saint-Alban Power Station (the ''Facility'') is an 8,200 kilowatt hydroelectric generating facility located on the Ste-Anne River in Québec. It was commissioned in the Spring of 1996 and commercial operations started on June 1, 1996.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of presentation**

The accompanying statements of net operating income before depreciation, interest and income taxes have been prepared for inclusion in a prospectus of Algonquin Power Income Fund. The statements reflect the revenue, operating and administrative expenses of the Facility on the accrual basis of accounting, based on the historical records of the Facility. As these special purpose financial statements do not reflect the financial position or net income/loss of the Facility, they may not be suitable for general purposes.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

(b) **Revenue**

Revenue is derived from energy sales to Hydro-Québec and is recorded at the time electrical energy is delivered, at rates set annually by Hydro-Québec. This rate is escalated annually according to the Consumer Price Index with minimum and maximum escalation ceilings of 3% and 6%, respectively. The power purchase agreement expires in the year 2016.

2. COMMITMENTS

(a) The Facility must pay a royalty per kilowatt hour of energy production to the Ministry of Natural Resources for utilizing the hydraulic forces of the river. The royalty per kilowatt hour is set annually by the Ministry of Natural Resources.

(b) The Facility is committed under the Hydro-Québec contract to pay for certain maintenance costs, which are expected to approximate $7,000 annually.

(c) The Facility pays a tax to the Québec Ministry of Municipal Affairs of 3% of its gross revenues and pays approximately $3,000 annually to the City of Saint-Alban for municipal services.

(d) The Facility has agreed to provide an annual subsidy for Saint-Alban's municipal park located downstream of the Facility. The Facility was committed to pay $8,000 in 1996, with annual increases of $500 every year thereafter.

3. CONTINGENCIES

The Facility has production targets which must be met annually. The annual period for purposes of this Hydro-Québec contract is from December 1 to November 30. A determination is made each November 30 regarding whether a penalty will be imposed for production shortfalls. The penalty must be paid during the first four months of the next contract year. These production targets have been met for 1996 and 1997.

SAINT-ALBAN HYDROELECTRIC GENERATING STATION
A Division of SNC-Lavalin Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Results

Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997

Revenue from the sale of electricity at $225,373 during the first quarter ended March 31, 1998, remained constant when compared to the three months ended March 31, 1997. Operating expenses reflect a slight increase in the first quarter of 1998 compared to 1997.

Year Ended December 31, 1997

Revenue from the sale of electricity increased to $1,495,611 during the year ended December 31, 1997 from $1,198,589 in 1996. This was due to the first full year of operation of the Facility, partly offset by lower water flow levels. Concurrently, operating expenses were higher compared to last year for the same reasons mentioned above.

Seven Months Ended December 31, 1996

The Facility was commissioned in the spring of 1996 and commercial operations commenced on June 1, 1996.

Liquidity and Capital Resources

Operating cash flow of the Facility resulting from the sale of electricity will be adequate to meet current operating requirements, including all hydroelectric generating station improvements and maintenance and repair requirements.

AUDITORS' REPORT

To the Directors of
SNC-Lavalin Group Inc.

We have audited the statements of net operating income before depreciation, interest and income taxes of Rawdon Hydroelectric Generating Station, a division of SNC-Lavalin Inc. (the ''Division'') for the years ended December 31, 1997, 1996 and 1995. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the net operating income before depreciation, interest and income taxes of the Division for the years ended December 31, 1997, 1996 and 1995 in accordance with generally accepted accounting principles.

Montréal, Canada
June 22, 1998

(Signed) ERNST & YOUNG
Chartered Accountants

RAWDON HYDROELECTRIC GENERATING STATION
A Division of SNC-Lavalin Inc.

STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION, INTEREST AND INCOME TAXES

	Three Months Ended March 31,		Years Ended December 31,		
	1998	1997	1997	1996	1995
	(unaudited)	(unaudited)			
Revenue	$121,809	$156,744	$542,079	$606,311	$493,920
Insurance recovery (note 4)	—	—	—	—	87,000
	121,809	156,744	542,079	606,311	580,920
Operating expenses:					
Operating and maintenance	30,335	31,603	89,924	85,087	86,525
Royalties	6,498	8,418	29,047	31,463	27,004
Taxes	4,563	5,606	19,874	21,916	18,397
Utility expenses	1,747	3,306	12,285	11,169	11,893
	43,143	48,933	151,130	149,635	143,819
Administrative expenses:					
Insurance	8,519	8,226	32,903	29,246	28,616
Management	1,709	2,628	8,160	11,364	10,052
	10,228	10,854	41,063	40,610	38,668
	53,371	59,787	192,193	190,245	182,487
Net operating income before depreciation, interest and income taxes	$ 68,438	$ 96,957	$349,886	$416,066	$398,433

(Signed) IAN E. ROBERTSON
Director, Algonquin Power
Fund (Canada) Inc.

(Signed) CHRISTOPHER K. JARRATT
Director, Algonquin Power
Fund (Canada) Inc.

See accompanying notes

RAWDON HYDROELECTRIC GENERATING STATION
A Division of SNC-Lavalin Inc.

STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION, INTEREST AND INCOME TAXES

GENERAL

The Rawdon Hydroelectric Generating Station (the ''Facility'') is a 2,500 kilowatt hydroelectric generating facility located on the Ouareau River in Québec.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of presentation**

The accompanying statements of net operating income before depreciation, interest and income taxes have been prepared for inclusion in a prospectus of Algonquin Power Income Fund. The statements reflect the revenue, operating and administrative expenses of the Facility on the accrual basis of accounting, based on the historical records of the Facility. As these special purpose financial statements do not reflect the financial position or net income/loss of the Facility, they may not be suitable for general purposes.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

(b) **Revenue**

Revenue is derived from energy sales to Hydro-Québec and is recorded at the time electrical energy is delivered, at rates set annually by Hydro-Québec. This rate is escalated annually according to the Consumer Price Index with minimum and maximum escalation ceilings of 3% and 6%, respectively. The power purchase agreement expires in the year 2014.

2. COMMITMENTS

(a) The Facility must pay a royalty per kilowatt hour of energy production to the Ministry of Natural Resources for utilizing the hydraulic forces of the river. The royalty per kilowatt hour is set annually by the Ministry of Natural Resources.

(b) The Facility is committed under the Hydro-Québec contract to pay for certain maintenance costs which are expected to approximate $7,000 annually.

(c) The Facility pays a tax to the Québec Ministry of Municipal Affairs of 3% of its gross revenues and pays approximately $2,500 annually to the Village of Rawdon for municipal services.

3. CONTINGENCIES

The Facility has production targets which must be met annually. The annual period for the Hydro-Québec contract is from December 1 to November 30. A determination is made each November 30 regarding whether a penalty will be imposed for production shortfalls. The penalty must be paid during the first four months of the next contract year. These production targets have been met for 1995, 1996 and 1997.

4. INSURANCE RECOVERY

In 1995, the Facility received an $87,000 payment from its insurer as compensation for a production stoppage caused by a transformer breakdown.

RAWDON HYDROELECTRIC GENERATING STATION
A Division of SNC-Lavalin Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Results

Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997

Revenue from the sale of electricity during the first quarter ended March 31, 1998, decreased by $34,935 from $156,744 reported for the three months ended March 31, 1997. The difference in revenue level is strictly due to water flow fluctuations. Operating expenses remained generally constant.

Year Ended December 31, 1997

Revenue from the sale of electricity decreased to $542,079 during the year ended December 31, 1997 from $606,311 in 1996. This was due to fluctuations in water flows which were significantly lower in 1997 as a result of a dry year. Operating expenses during the current period were higher largely due to increased operations and maintenance costs.

Year Ended December 31, 1996

Revenue from the sale of electricity increased to $606,311 during the year ended December 31, 1996 from $580,920 in 1995. The difference in the revenue level was due to increased water flows. Operating expenses during 1996 were slightly higher when compared to 1995.

Year Ended December 31, 1995

Higher activity was realized in 1995 when compared to 1994. The difference is due to the fact that the facility was commissioned in the spring of 1994.

Liquidity and Capital Resources

Operating cash flow of the Facility resulting from the sale of electricity will be adequate to meet current operating requirements, including all hydroelectric generating station improvements and maintenance and repair requirements.

AUDITORS' REPORT

To the Partners of
Société en Commandite Chute Ford:

We have audited the statements of net operating income before depreciation and interest expense of Société en Commandite Chute Ford (''Chute Ford'') for each of the years ended December 31, 1997, 1996 and 1995. These financial statements are the responsibility of the Chute Ford's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the statements of net operating income before depreciation and interest expense of Chute Ford for each of the years ended December 31, 1997, 1996 and 1995 in accordance with generally accepted accounting principles.

Drummondville, Canada
March 4, 1998

(Signed) FORCIER, BEAUDRY, LANDRY
Chartered Accountants

SOCIÉTÉ EN COMMANDITE CHUTE FORD

STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION AND INTEREST EXPENSE

	Three Months Ended March 31, 1998 (unaudited)	Three Months Ended March 31, 1997 (unaudited)	Year Ended December 31, 1997	Year Ended December 31, 1996	One Month Ended December 31, 1995	Eleven Months Ended November 30, 1995
Revenues	$137,749	$158,554	$1,047,877	$1,295,723	$63,625	$673,124
Operating expenses						
Operations and maintenance	12,345	16,865	75,198	66,887	14,608	28,508
Royalty	6,314	6,795	44,909	51,674	2,916	29,553
Property tax	7,859	9,617	38,845	21,706	—	234
Management fees	1,934	1,902	7,693	7,518	625	4,375
	28,452	35,179	166,645	147,785	18,149	62,670
Administrative expenses						
Insurance	9,763	12,252	41,620	48,715	3,822	30,516
Professional fees	2,880	—	12,185	6,899	1,000	4,049
Telephone and other	970	1,023	4,254	5,287	395	3,339
	13,613	13,275	58,059	60,901	5,217	37,904
Net operating income before depreciation and interest expense	$ 95,684	$110,100	$ 823,173	$1,087,037	$40,259	$572,550

(Signed) IAN E. ROBERTSON
Director, Algonquin Power
Fund (Canada) Inc.

(Signed) CHRISTOPHER K. JARRATT
Director, Algonquin Power
Fund (Canada) Inc.

SOCIÉTÉ EN COMMANDITE CHUTE FORD

NOTES TO STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION AND INTEREST EXPENSE

1. FORMATION AND NATURE OF OPERATIONS

Société en Commandite Chute Ford partnership (the ''Partnership'') was formed on August 6, 1993 under the Civil Code of Québec to own and operate a hydroelectric generating facility located on the Ste-Anne River in Ste-Christine d'Auvergne, Québec. Commercial production commenced on April 18, 1995.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying statements of net operating income before depreciation and interest expense have been prepared for inclusion in a prospectus of Algonquin Power Income Fund. The statements reflect the revenue, operating the administration expenses of the Partnership on the accrual basis of accounting, based on the historical records of the Partnership. As these special purpose financial statements do not reflect the financial position or net income or net loss of the Partnership, it may not be suitable for general purposes.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

3. COMMITMENTS

(a) The Partnership signed a contract of sale of electricity with Hydro-Québec maturing in 2020, which can be extended for an additional term of 25 years. Under this contract, the price of energy delivered was established at a fixed rate up to November 30, 1999. The Partnership recognized that this price included advance payments, repayable only if the contract is terminated before November 30, 2000. As at December 31, 1997, the amount of advance payments received from Hydro-Québec was $110,568.

(b) Under the limited partnership agreement, the Partnership paid management fees of $7,693 (1996 — $7,518) to the general partner of the Partnership.

4. INCOME TAXES

No Provision for income taxes is required as income is taxed in the hands of the partners rather than in the Partnership.

SOCIÉTÉ EN COMMANDITE CHUTE FORD

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating Results

Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997

Revenue from the sale of electricity decreased to $137,749 from $158,554 during the three months ended March 31, 1996. Expenses for the three months ended March 31, 1997 were in line with expectations for the period.

Year Ended December 31, 1997

Revenue from the sale of electricity decreased to $1,047,877 from $1,295,723 during the year ended December 31, 1996. Expenses for the year were in line with expectations for the period.

Year Ended December 31, 1996

Revenue from the sale of electricity was $1,295,723 during the year ended December 31, 1995. The Partnership changed its fiscal year-end from November 30 to December 31 and therefore results are not comparable to previous periods.

Liquidity and Capital Resources

Operating cash flow of the Partnership resulting from the sale of electricity will be adequate to meet operating requirements including all hydroelectric generating station improvements and maintenance and repair requirements.

AUDITORS' REPORT

To the Directors of
10640 Newfoundland Limited

We have audited the balance sheet of 10640 Newfoundland Limited (the ''Company'') as at December 31, 1997. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, this financial statement present fairly, in all material respects, the financial position of the Company as at December 31, 1997 in accordance with generally accepted accounting principles.

Toronto, Canada	(Signed) KPMG
May 22, 1998	Chartered Accountants

10640 NEWFOUNDLAND LIMITED

BALANCE SHEET

	March 31, 1998 (unaudited)	December 31, 1997
ASSETS		
Partnership interest	$1,075,558	$ 345,558
Note receivable	2,924,442	3,654,442
	$4,000,000	$4,000,000
SHAREHOLDERS' EQUITY		
Capital stock:		
Authorized		
Unlimited preference shares		
Unlimited common shares		
Issued and outstanding		
1 common share	$4,000,000	$4,000,000
	$4,000,000	$4,000,000

(Signed) IAN E. ROBERTSON
Director, Algonquin Power
Fund (Canada) Inc.

(Signed) CHRISTOPHER K. JARRATT
Director, Algonquin Power
Fund (Canada) Inc.

The accompanying notes are an integral part of these financial statements

10640 NEWFOUNDLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the Three Months Ended March 31, 1998 and From the Date of Incorporation October 14, 1997 to December 31, 1997

10640 Newfoundland Limited (the ''Company'') was incorporated on October 14, 1997 under the laws of the Province of Newfoundland for the purpose of participating in a partnership to construct and operate a hydroelectric generating station.

1. PARTNERSHIP INTEREST

The Company entered into the Algonquin Power (Rattle Brook) Partnership on October 14, 1997. It committed to provide financing in the amount of $4,000,000 to construct a hydroelectric generating station (the ''Facility'') in exchange for a 45% equity interest in the Facility. Upon commissioning of the Facility, the Company will be entitled to 45% of the net income and cash flows of the Facility.

The investment, which is carried on the equity basis, reflects the advances made by the Company to Algonquin Power (Rattle Brook) Partnership to March 31, 1998.

2. NOTE RECEIVABLE

The note receivable bears no interest, has no fixed terms of repayment, and matures January 31, 1999.

3. STATEMENT OF OPERATIONS

Currently all costs incurred by the Algonquin Power (Rattle Brook) Partnership are being capitalized to the cost of the Facility. As a result, there are no revenue or expense items for the period.

4. STATEMENT OF CHANGES IN FINANCIAL POSITION

A statement of changes in financial position has not been prepared, as it would not provide any additional meaningful information.

REVIEW ENGAGEMENT REPORT

To the Partners of
Avery Hydroelectric Associates

We have reviewed the accompanying statements of net operating income before depreciation, interest and income taxes of Avery Hydroelectric Associates (a partnership) for the three months ended March 31, 1998 and 1997 and for the years ended December 31, 1997, 1996 and 1995 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Avery Hydroelectric Associates.

A review consists principally of inquiries of partnership personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The accompanying statements of net operating income before depreciation, interest and income taxes of Avery Hydroelectric Associates have been prepared for inclusion in a prospectus of Algonquin Power Income Fund and are not intended to be a complete presentation of Avery Hydroelectric Associates' revenues and expenses.

This report is intended solely for the information and use of the members of management and partners of Avery Hydroelectric Associates and Algonquin Power Income Fund and may not be suitable for general purposes. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

North Andover, MA
United States of America
April 28, 1998

(Signed) GORDON, HARRINGTON & OSBORN, P.C.
Certified Public Accountants

AVERY HYDROELECTRIC ASSOCIATES

STATEMENT OF NET OPERATING INCOME BEFORE DEPRECIATION, INTEREST AND INCOME TAXES

(Presented in United States Dollars)
(Unaudited)

	For the Three Months Ended March 31,		For the Years Ended December 31,		
	1998	1997	1997	1996	1995
Revenue	$87,563	$91,641	$256,632	$273,369	$225,692
Operating expenses:					
Lease and water usage fees	10,188	10,663	29,860	33,964	17,499
Real estate taxes	3,430	2,523	12,816	10,946	10,129
Insurance	920	920	3,772	3,446	3,331
Repairs and maintenance	2,025	488	3,560	2,026	2,179
Supplies	8	287	565	3,232	2,605
Telephone and utilities	558	433	1,614	1,615	1,387
Total operating expenses	17,129	15,314	52,187	55,229	37,130
Administrative expenses:					
Management fees	22,800	65,000	151,000	148,000	45,000
Miscellaneous	177	217	416	474	1,381
Professional fees	911	845	845	919	713
Total administrative expenses	23,888	66,062	152,261	149,393	47,094
Total operating and administrative expenses	41,017	81,376	204,448	204,622	84,224
Net operating income before depreciation, interest and income taxes	$46,546	$10,265	$ 52,184	$ 68,747	$141,468

(Signed) IAN E. ROBERTSON
Director, Algonquin Power
Fund (America) Inc.

(Signed) CHRISTOPHER K. JARRATT
Director, Algonquin Power
Fund (America) Inc.

See accompanying notes and accountants' report.

AVERY HYDROELECTRIC ASSOCIATES

NOTES TO STATEMENT OF NET OPERATING INCOME BEFORE DEPRECIATION, INTEREST AND INCOME TAXES

For the three months ended March 31, 1998 and 1997 and For the years ended December 31, 1997, 1996 and 1995 (Presented in United States Dollars) (Unaudited)

GENERAL

Avery Hydroelectric Associates (the ''Partnership'') is a partnership which owns and operates a hydroelectric generating facility located in Laconia, New Hampshire, on the Winnipesaukee River.

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying statement of net operating income before depreciation, interest and income taxes has been prepared for inclusion in a prospectus of Algonquin Power Income Fund. The statements reflect the revenue, operating and administrative expenses of the facility on the accrual basis of accounting, based on the historical records of Avery Hydroelectric Associates. As this special purpose financial statement does not reflect the financial position or net income or net loss of Avery Hydroelectric Associates, it may not be suitable for general purposes.

The statement of net operating income before depreciation, interest and income taxes has been prepared following United States generally accepted accounting principles. There would be no material adjustment to reflect this statement under Canadian generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Revenue is derived from electricity sold solely to the Public Service Company of New Hampshire pursuant to a twenty-nine year rate order. Income is based on a specified rate, depending an the time of day, the year of the contract and a capacity payment.

2. RELATED PARTY TRANSACTIONS

The Partnership receives a number of management and administrative services from Hydro-Dynamics Corporation. Charges for these services were $151,000, $148,000 and $45,000 for the years ended December 31, 1997, 1996 and 1995, respectively. Hydro-Dynamics Corporation and Avery Hydroelectric Associates have common ownership. All management fees are paid to the related party.

3. LEASES

The Partnership has a fifty year lease, dated November 1985 with the New Hampshire Water Resources Board. This lease is for the use of the land and the Avery Dam to generate hydroelectric power. The building and equipment used to generate the power are owned by the Partnership. Rent is based on the adjusted annual gross revenue (''AGR'') derived from power sales from the facility. The annual rent paid by The Partnership is equal to the greater of $1,500 or five percent (5%) of Adjusted AGR from power sales from the facility for years one (1) through five (5) inclusive. For the remaining forty five (45) years the lease payments are as follows:

Years	Percent (%) of AGR
6-10	10%
11-15	15%
16-50	20%

The property and the hydroelectric generating facility will be returned to the lessor at the end of the fifty year period.

The Partnership entered in a contract in 1985 with the New Hampshire Water Resources Board whereby the Board is empowered to charge and collect fees, rents and tolls for water, for the use of water, water supply, water storage and other related services. The contract remains effective for fifteen years and may be extended on a year to year basis thereafter. The Partnership is obligated to pay the Board a water user fee for stored water and all other benefits associated with the use of the water.

The lease expense and the water user fees paid to the New Hampshire Water Resources Board were $29,860, $33,964 and $17,499 for the years ended December 31, 1997, 1996 and 1995, respectively.

4. REAL ESTATE TAXES

There is an agreement, whereby the partnership pays the City of Laconia, New Hampshire 5% of its prior year gross income in lieu of real estate taxes, which agreement expires in the year 2005.

AVERY HYDROELECTRIC ASSOCIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(Presented in United States Dollars)

Operating Results

Year Ended December 31, 1997

Revenue from the sale of electricity decreased to $256,632 from $273,369 during the year ended December 31, 1996. Expenses for the year were in line with expectations for the period.

Year Ended December 31, 1996

Revenue from the sale of electricity increased to $273,369 from $225,692 during the year ended December 31, 1995. Expenses were similar to the prior year, except for the cost of leasing the land and the Avery Dam due to a scheduled rent increase.

Liquidity and Capital Resources

Operating cash flow from the Avery Hydroelectric Associates partnership resulting from the sale of electricity will be adequate to meet operating requirements, including all hydroelectric generating station improvements and maintenance and repair requirements.

REVIEW ENGAGEMENT REPORT

To the Partners of
Hadley Falls Associates

We have reviewed the accompanying statements of net operating income before depreciation, interest and income taxes of Hadley Falls Associates (a partnership) for the three months ended March 31, 1998 and 1997 and for the years ended December 31, 1997, 1996 and 1995 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Hadley Falls Associates.

A review consists principally of inquiries of partnership personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The accompanying statements of net operating income before depreciation, interest and income taxes of Hadley Falls Associates have been prepared for inclusion in a prospectus of Algonquin Power Income Fund and are not intended to be a complete presentation of Hadley Falls Associates' revenues and expenses.

This report is intended solely for the information and use of the members of management and partners of Hadley Falls Associates and Algonquin Power Income Fund and may not be suitable for general purposes. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

(Signed) GORDON, HARRINGTON & OSBORN, P.C.
Certified Public Accountants

North Andover, MA
United States of America
April 28, 1998

HADLEY FALLS ASSOCIATES

STATEMENT OF NET OPERATING INCOME BEFORE DEPRECIATION, INTEREST AND INCOME TAXES

(Presented in United States Dollars)
(Unaudited)

	For the Three Months Ended March 31,		For the Years Ended December 31		
	1998	1997	1997	1996	1995
Revenue	$26,834	$38,250	$112,368	$108,366	$107,839
Operating expenses:					
Supplies	626	1,275	8,263	1,972	881
Insurance	785	785	3,143	3,074	3,092
Real estate taxes	107	100	400	405	771
Repairs and maintenance	9,506	175	1,960	7,811	7,650
Lease expense	881	1,256	3,690	3,539	3,000
Rent expense	900	900	3,600	3,600	3,600
Telephone and utilities	441	421	1,434	1,478	1,392
Total operating expenses	13,246	4,912	22,490	21,879	20,386
Administrative expenses:					
Management fees	—	15,000	46,500	50,000	39,500
Miscellaneous	82	119	546	413	568
Professional fees	695	727	727	849	550
Total administrative expenses	777	15,846	47,773	51,262	40,618
Total operating and administrative expenses	14,023	20,758	70,263	73,141	61,004
Net operating income before depreciation, interest and income taxes	$12,811	$17,492	$ 42,105	$ 35,225	$ 46,835

(Signed) IAN E. ROBERTSON
Director, Algonquin Power
Fund (America) Inc.

(Signed) CHRISTOPHER K. JARRATT
Director, Algonquin Power
Fund (America) Inc.

See accompanying notes and accountants' report.

HADLEY FALLS ASSOCIATES

NOTES TO STATEMENT OF NET OPERATING INCOME BEFORE DEPRECIATION, INTEREST AND INCOME TAXES

For the three months ended March 31, 1998 and 1997 and For the years ended December 31, 1997, 1996, 1995 (Presented in United States Dollars) (Unaudited)

GENERAL

Hadley Falls Associates (the ''Partnership'') is a partnership which owns and operates a hydroelectric generating facility located in Goffstown, New Hampshire.

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying statement of net operating income before depreciation, interest and income taxes has been prepared for inclusion in a prospectus of Algonquin Power Income Fund. The statement reflects the revenue, operating and administrative expenses of the facility on the accrual basis of accounting based on the historical records of Hadley Falls Associates. As this special purpose financial statement does not reflect the financial position or net income of Hadley Falls Associates, it may not be suitable for general purposes.

The statement of net operating income before depreciation, interest and income taxes has been prepared following United States generally accepted accounting principles. There would be no material adjustment to reflect this statement under Canadian generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Revenue is derived from electricity sold solely to the Public Service Company of New Hampshire pursuant to a twenty year rate order which expires in 2005. Income is based on a specified rate, depending on the time of day, the year of the contract and a capacity payment.

2. RELATED PARTY TRANSACTIONS

The Partnership receives a number of management and administrative services from Hydro-Dynamics Corporation. Charges for these services were $46,500, $50,000 and $39,800 for the years ended December 31, 1997, 1996 and 1995, respectively. Hydro-Dynamics Corporation and Hadley Falls Associates have common ownership. All management fees are paid to the related party.

3. LEASES

The Partnership has a thirty five year lease, that was executed in 1981, to lease land and buildings for the construction and operation of a hydroelectric generating facility in Goffstown, New Hampshire. Rent is payable in monthly instalments of $300. Rent expense was $3,600 for each of the years ended December 31, 1997, 1996 and 1995.

The Partnership has a thirty five year lease, dated July 1982, with the New Hampshire Water Resources Board for the use of the dam. The lease was executed in order to provide for the redevelopment and operation of a hydroelectric generating facility at Hadley Falls. Rent is paid annually and is the greater of $3,000 or six percent (6%) of the Partnership's adjusted annual gross operating revenue (''AGR'') received from power sales from the facility. Lease expense was $3,690, $3,539 and $3,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

HADLEY FALLS ASSOCIATES
A New Hampshire Partnership

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Presented in United States Dollars)

Operating Results

Year Ended December 31, 1997

Revenue from the sale of electricity increased to $112,368 from $108,366 during the year ended December 31, 1996. Expenses for the year were in line with expectations for the period.

Year Ended December 31, 1996

Revenue from the sale of electricity increased to $108,366 from $107,839 during the year ended December 31, 1995. Expenses for the year were in line with expectations for the period.

Liquidity and Capital Resources

Operating cash flow from the Hadley Falls Associates partnership resulting from the sale of electricity will be adequate to meet operating requirements, including all hydroelectric generating station improvements and maintenance and repair requirements.

REVIEW ENGAGEMENT REPORT

To the Directors of
Lakeport Hydroelectric Corporation:

We have reviewed the accompanying statements of net operating income before depreciation, interest and income taxes of Lakeport Hydroelectric Corporation (the ''Company'') for the three months ended March 31, 1998 and 1997 and for the years ended December 31, 1997, 1996 and 1995 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Lakeport Hydroelectric Corporation.

A review consists primarily of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The accompanying statements of net operating income before depreciation, interest and income taxes of Lakeport Hydroelectric Corporation have been prepared for inclusion in a prospectus of Algonquin Power Income Fund and are not intended to be a complete presentation of Lakeport Hydroelectric Corporation's revenues and expenses.

This report is intended solely for the information and use of the members of management of Lakeport Hydroelectric Corporation and Algonquin Power Income Fund and may not be suitable for general purposes. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

North Andover, MA
United States of America
April 28, 1998

(Signed) GORDON, HARRINGTON & OSBORN, P.C.
Certified Public Accountants

LAKEPORT HYDROELECTRIC CORPORATION

STATEMENT OF NET OPERATING INCOME
BEFORE DEPRECIATION, INTEREST AND INCOME TAXES

(Presented in United States Dollars)
(Unaudited)

	For the Three Months Ended March 31,		For the Years Ended December 31,		
	1998	1997	1997	1996	1995
Revenue	$105,679	$131,882	$357,037	$442,053	$312,839
Operating expenses:					
Lease and water usage fees	4,427	5,525	14,958	18,969	9,409
Real estate taxes	5,550	3,400	20,101	14,635	13,303
Insurance	2,146	2,146	8,801	8,040	7,449
Repairs and maintenance	2,184	1,855	25,276	849	6,680
Supplies	6,209	—	891	—	4,038
Telephone and utilities	398	396	1,445	1,634	1,606
Total operating expenses	20,914	13,322	71,472	44,127	42,485
Administrative expenses:					
Management fees	24,600	95,000	223,500	297,865	65,000
Misc. expenses	191	191	465	447	458
Professional fees	811	745	745	834	638
Total administrative expenses	25,602	95,936	224,710	299,146	66,096
Total operating and administrative expenses	46,516	109,258	296,182	343,273	108,581
Net operating income before depreciation, interest and income taxes	$ 59,163	$ 22,624	$ 60,855	$ 98,780	$204,258

(Signed) IAN E. ROBERTSON
Director, Algonquin Power
Fund (America) Inc.

(Signed) CHRISTOPHER K. JARRATT
Director, Algonquin Power
Fund (America) Inc.

See accompanying notes and accountants' report.

LAKEPORT HYDROELECTRIC CORPORATION

NOTES TO STATEMENT OF NET OPERATING INCOME BEFORE DEPRECIATION, INTEREST AND INCOME TAXES

For the three months ended March 31, 1998 and 1997 and For the years ended December 31, 1997, 1996, 1995 (Presented in United States Dollars) (Unaudited)

GENERAL

Lakeport Hydroelectric Corporation (the ''Company'') owns and operates a hydroelectric generating facility located in the City of Laconia, New Hampshire, on the Winnipesaukee River.

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying statements of net operating income before depreciation, interest and income taxes has been prepared for inclusion in a prospectus of Algonquin Power Income Fund. The statements reflect the revenue, operating and administrative expenses of the facility on the accrual basis of accounting, based on the historical records of the Company. As this special purpose financial statement does not reflect the financial position or net income or net loss of the Company, it may not be suitable for general purposes.

The statement of net operating income before depreciation, interest and income taxes has been prepared following United States generally accepted accounting principles. There would be no material adjustment to reflect this statement under Canadian generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Revenue is derived from electricity sold solely to the Public Service Company of New Hampshire pursuant to a twenty year rate order which expires in 2005. Income is based on a specified rate, depending on the time of day, the year of the contract and a capacity payment.

2. RELATED PARTY TRANSACTIONS

The Company receives a number of management and administrative services from Hydro-Dynamics Corporation. Charges for these services were $223,500, $297,865 and $65,000 for the years ended December 31, 1997, 1996 and 1995, respectively. Hydro-Dynamics Corporation and the Company have common shareholders. All management fees are paid to the related party.

3. LEASES

The Company has a fifty year lease, dated December 1982, with the New Hampshire Water Resources Board. This lease is for the use of a portion of the land and the Lakeport Dam to operate the hydroelectric generating facility. The Company owns additional land and a building that are used in the production of power. Rent is based on the adjusted annual gross revenue (''AGR'') derived from power sales from the facility. Rent expense is equal to the greater of $2,400 or four percent of the Company's adjusted AGR received from power sales.

The Company entered into a contract in 1985 with the New Hampshire Water Resources Board whereby the Board is empowered to charge and collect fees, rents and tolls for water, for the use of water, water supply, water storage and other related services. The contract remains effective for fifteen years and may be extended on a year to year basis thereafter. The Company is obligated to pay the Board a water user fee for stored water and all other benefits associated with the use of the water.

The lease expense and the water user fees paid to the New Hampshire Water Resources Board were $14,958, $18,969 and $9,409 for the years ended December 31, 1997, 1996 and 1995, respectively.

4. REAL ESTATE TAXES

There is an agreement whereby the Company pays the City of Laconia, New Hampshire 5% of its prior year gross income in lieu of real estate taxes, which agreement expires in the year 2005.

LAKEPORT HYDROELECTRIC CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Presented in United States dollars)

Operating Results

Year Ended December 31, 1997

Revenue from the sale of electricity decreased to $357,037 from $442,053 during the year ended December 31, 1996. Expenses were similar to the prior year, except for repairs and maintenance due to requirements at the facilities. In addition real estate taxes were higher since they are calculated as a percentage of gross revenue in the prior year.

Year Ended December 31, 1996

Revenue from the sale of electricity increased to $442,053 from $312,839 during the year ended December 31, 1995. Operating expenses in 1996 were comparable to 1995.

Liquidity and Capital Resources

Operating cash flow from the Lakeport Hydroelectric Corporation resulting from the sale of electricity will be adequate to meet operating requirements, including all hydroelectric generating station improvements and maintenance and repair requirements.

REVIEW ENGAGEMENT REPORT

To the Directors of
SNC-Lavalin Group Inc.

We have reviewed the statements of net operating income before depreciation and interest expense of Burt Dam Power Company (the ''Partnership'') for the years ended December 31, 1997, 1996 and 1995. Our reviews were made in accordance with generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the Partnership.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our reviews, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with generally accepted accounting principles.

Montréal, Canada
June 22, 1998

(Signed) ERNST & YOUNG
Chartered Accountants

BURT DAM POWER COMPANY
A New York General Partnership

STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION AND INTEREST EXPENSE

(Unaudited — See Review Engagement Report)
(Presented in United States dollars)

	Three Months Ended March 31,		Years Ended December 31,		
	1998	1997	1997	1996	1995
Revenue	$80,870	$112,541	$276,790	$307,916	$233,454
Operating expenses:					
Operation & maintenance	26,377	2,676	31,795	28,189	28,701
Taxes	4,552	4,561	18,528	20,207	20,998
Royalties	—	—	—	8,314	6,447
Rent	2,250	2,250	9,000	9,000	9,000
	33,179	9,487	59,323	65,710	65,146
Administrative expenses:					
Management	2,830	1,510	7,378	6,362	5,119
Insurance	6,200	6,155	24,620	24,468	24,458
Professional fees	700	700	2,675	2,675	2,400
Other	94	119	383	530	1,972
	9,824	8,484	35,056	34,035	33,949
	43,003	17,971	94,379	99,745	99,095
Net operating income before depreciation and interest expense	$37,867	$ 94,570	$182,411	$208,171	$134,359

(Signed) Ian E. Robertson
Director, Algonquin Power
Fund (America) Inc.

(Signed) Christopher K. Jarratt
Director, Algonquin Power
Fund (America) Inc.

See accompanying notes

BURT DAM POWER COMPANY
A New York General Partnership

STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION AND INTEREST EXPENSE

(Unaudited — See Review Engagement Report)
(Presented in United States dollars)

GENERAL

The Burt Dam Power Station (the ''Facility'') is a 600 kilowatt hydroelectric generating facility located on the Eighteen Mile Creek in the State of New York.

The Facility is owned and operated by the Burt Dam Power Company (the ''Partnership''), a general partnership formed on December 5, 1986. The Partnership is owned by Warnock Hersey International, Inc. (50%) and Lavalin Hydro Corporation (50%), two companies ultimately wholly owned by SNC-Lavalin Group Inc.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of presentation**

The accompanying statements of net operating income before depreciation and interest expense have been prepared for inclusion in a prospectus of Algonquin Power Income Fund. The statements reflect the revenue, operating and administrative expenses of the Facility on the accrual basis of accounting, based on the historical records of the Facility. As these special purpose financial statements do not reflect the financial position or net income/loss of the Facility, they may not be suitable for general purposes.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

(b) **Revenue**

Revenue is derived from energy sales to Niagara Mohawk Power Corporation and is recorded at the time electrical energy is delivered at rates set until the end of year 2000, based on a power purchase agreement dated November 25, 1986, which expires in the year 2000.

2. COMMITMENTS

(a) The Partnership has entered into a lease agreement dated December 5, 1986 to lease land (approximately 28 acres) and facilities from the Olcott Harbor Board of Trade, Inc. for a period extending to the year 2036. The annual lease payment is $9,000.

(b) Until 1996, the Partnership had to pay a royalty per kilowatt hour of energy production. A final settlement for the royalty amount was reached in 1996, which was allocated to the years to which it related.

3. INCOME TAXES

No provision for income taxes is required as income is taxed in the hands of the partners rather than in the hands of the Partnership.

BURT DAM POWER COMPANY
A New York General Partnership

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Presented in United States dollars)

Operating Results

Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997

Revenue from the sale of electricity during the first quarter ended March 31, 1998 decreased to $80,870 from $112,541 reported for the three months ended March 31, 1997. The variance is largely due to downtime for repairs and maintenance. Operating expenses reflect higher spending in the first quarter of 1998 due to repairs and maintenance to the facility performed late in 1997 and early 1998.

Year Ended December 31, 1997

Revenue from the sale of electricity decreased to $276,790 during the year ended December 31, 1997 from $307,916 in 1996. This was due to fluctuations in water flow and downtime. Operating expenses during the current period were higher, largely due to repairs incurred in the last quarter of 1997.

Year Ended December 31, 1996

Revenue from the sale of electricity increased to $307,916 during the year ended December 31, 1996 from $233,454 in 1995. The difference in the revenue level was due to water flows. Operating expenses during 1996 were comparable to 1995.

Year Ended December 31, 1995

Revenue from the sale of electricity decreased to $233,454 during the year ended December 31, 1995 from $246,981 in 1994. The difference in the revenue level was due to downtime. Operating expenses in 1995 were lower than 1994 as a result of decreased maintenance.

Liquidity and Capital Resources

Operating cash flow of the Burt Dam Power Company partnership resulting from the sale of electricity will be adequate to meet operating requirements, including all hydroelectric generating station improvements and maintenance and repair requirements.

REVIEW ENGAGEMENT REPORT

To the Directors of
SNC-Lavalin Group Inc.

We have reviewed the statements of net operating income before depreciation and interest expense of Hollow Dam Power Company (the ''Partnership'') for the years ended December 31, 1997, 1996 and 1995. Our reviews were made in accordance with generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the Partnership.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our reviews, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with generally accepted accounting principles.

Montréal, Canada
June 22, 1998

(Signed) ERNST & YOUNG
Chartered Accountants

HOLLOW DAM POWER COMPANY
A New York General Partnership

STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION AND INTEREST EXPENSE

(Unaudited — See Review Engagement Report)
(Presented in United States dollars)

	Three Months Ended March 31,		Years Ended December 31,		
	1998	1997	1997	1996	1995
Revenue	$171,292	$225,752	$698,631	$699,730	$494,816
Operating expenses:					
Operation & Maintenance	15,418	7,379	37,112	31,235	30,984
Taxes	24,485	21,919	89,433	84,368	69,892
Rent	1,316	1,316	5,263	5,263	5,263
	41,219	30,614	131,808	120,866	106,139
Administrative expenses:					
Management	6,015	3,065	18,622	14,458	10,851
Insurance	11,393	11,021	44,085	43,001	40,662
Professional fees	700	700	2,675	2,675	2,400
Other	109	79	316	380	325
	18,217	14,865	65,698	60,514	54,238
	59,436	45,479	197,506	181,380	160,377
Net operating income before depreciation and interest expense	$111,856	$180,273	$501,125	$518,350	$334,439

(Signed) IAN E. ROBERTSON
Director, Algonquin Power
Fund (America) Inc.

(Signed) CHRISTOPHER K. JARRATT
Director, Algonquin Power
Fund (America) Inc.

See accompanying notes

HOLLOW DAM POWER COMPANY
A New York General Partnership

NOTES TO STATEMENTS OF NET OPERATING INCOME BEFORE DEPRECIATION AND INTEREST EXPENSE

(Unaudited — See Review Engagement Report)
(Presented in United States dollars)

GENERAL

The Hollow Dam Power Station (the ''Facility'') is a 900 kilowatt hydroelectric generating facility located on the Oswegatchie River in the State of New York.

The Facility is owned and operated by the Hollow Dam Power Company (the ''Partnership''), a general partnership formed on November 7, 1986. The Partnership is owned by Warnock Hersey International, Inc. (75%) and Lavalin Hydro Corporation (25%), two companies ultimately wholly owned by SNC-Lavalin Group Inc.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of presentation**

The accompanying statements of net operating income before depreciation and interest expense have been prepared for inclusion in a prospectus of Algonquin Power Income Fund. The statements reflect the revenue, operating and administrative expenses of the Facility on the accrual basis of accounting based on the historical records of the Facility. As these special purpose financial statements do not reflect the financial position or net income/loss of the Facility, they may not be suitable for general purposes.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

(b) **Revenue**

Revenue is derived from energy sales to Niagara Mohawk Power Corporation and is recorded at the time electrical energy is delivered at rates set until the end of the year 2000, based on a power purchase agreement dated May 2, 1986, which expires in the year 2000.

2. PROPERTY TAXES

The Partnership was granted a partial exemption on property taxes which expired in 1997. The impact of the expiration of the partial exemption after 1997 will be to increase property taxes annually by approximately $9,000.

3. COMMITMENTS

(a) The Facility land is leased for the period through April 2026. A payment of $200,000, which was made at the inception of the lease, is amortized over the lease period.

(b) The Partnership entered into an operations agreement with HYDRO CARE Inc. to provide operating services for the Facility at a cost of approximately $12,000 per year plus expenses. These expenses include the annual salary of the operator.

4. INCOME TAXES

No provision for income taxes is required as income is taxed in the hands of the partners rather than in the hands of the Partnership.

HOLLOW DAM POWER COMPANY
A New York General Partnership

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Presented in United States dollars)

Operating Results

Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997

Revenue from the sale of electricity during the first quarter ended March 31, 1998 decreased by $54,460 from $225,752 reported for the three months ended March 31, 1997. The variance is largely due to fluctuations in water flow levels. Operating expenses reported in 1998 reflect an increase in maintenance costs versus 1997.

Year Ended December 31, 1997

Revenue from the sale of electricity decreased slightly to $698,631 during the year ended December 31, 1997 from $699,730 in 1996, as water flow levels remained constant. Operating expenses during 1997 were slightly higher as spending for administration and taxes was increased.

Year Ended December 31, 1996

Revenue from the sale of electricity increased to $699,730 during the year ended December 31, 1996 from $494,816 in 1995. The difference in the revenue level was due to water flows and downtime in 1995. Operating expenses during 1996 were higher than 1995 as a result of an increase in taxes.

Year Ended December 31, 1995

Revenue from the sale of electricity decreased to $494,816 during the year ended December 31, 1995 from $528,242 in 1994. The difference in the revenue level was due to water flows and downtime. Operating expenses during the current period were higher as taxes were increased.

Liquidity and Capital Resources

Operating cash flow of the Hollow Dam Power Company partnership resulting from the sale of electricity will be adequate to meet operating requirements, including all hydroelectric generating station improvements and maintenance and repair requirements.

CERTIFICATE OF ALGONQUIN POWER INCOME FUND AND PROMOTER

Dated: June 26, 1998

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by section 13 of the *Security Frauds Prevention Act* (New Brunswick), by the *Securities Act* (Nova Scotia), by the *Securities Act* (Prince Edward Island) and by Part XIV of the *Securities Act* (Newfoundland) and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Québec) and the regulations thereunder.

ALGONQUIN POWER INCOME FUND
By: Algonquin Management Inc.

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

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

By: (Signed) IAN E. ROBERTSON
Chief Financial Officer and Director

By: (Signed) DAVID C. KERR
Director

On behalf of the Promoter:

ALGONQUIN POWER CORPORATION INC.

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

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

By: (Signed) IAN E. ROBERTSON
Chief Financial Officer and Director

By: (Signed) DAVID C. KERR
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: June 26, 1998

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by *The Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by section 13 of the *Security Frauds Prevention Act* (New Brunswick), by the *Securities Act* (Nova Scotia), by the *Securities Act* (Prince Edward Island) and by Part XIV of the *Securities Act* (Newfoundland) and the respective regulations thereunder. To our knowledge, this prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Québec) and the regulations thereunder.

LÉVESQUE BEAUBIEN GEOFFRION INC.	NESBITT BURNS INC.
By: (Signed) ERIC BOUCHARD	By: (Signed) JAMES A. TOWER

CIBC WOOD GUNDY SECURITIES INC.	MIDLAND WALWYN CAPITAL INC.	SCOTIAMCLEOD INC.
By: (Signed) SUSAN E. SMYTHE	By: (Signed) GARRY B. BULLOCH	By: (Signed) DONALD A. CARMICHAEL

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

LÉVESQUE BEAUBIEN GEOFFRION INC.: wholly owned by Lévesque, Beaubien and Company, a majority-owned subsidiary of a Canadian chartered bank;

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

CIBC WOOD GUNDY SECURITIES INC.: a wholly-owned subsidiary of a Canadian chartered bank;

MIDLAND WALWYN CAPITAL INC.: a wholly-owned subsidiary of Midland Walwyn Inc.; and

SCOTIAMCLEOD INC.: a wholly-owned subsidiary of a Canadian chartered bank.