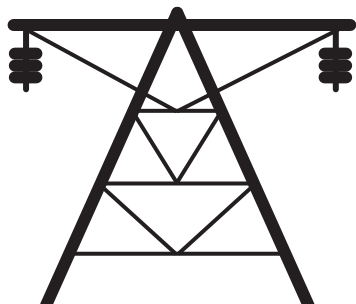




ALGONQUIN POWER

INCOME FUND

Report to Unitholders

For the six months ended June 30, 1998, the Fund received income from energy sales of four hydroelectric generating facilities located in Ontario, three facilities located in Quebec and two facilities located in New Hampshire. The Fund also received interest and principal payments on the Class A Note issued by the Trafalgar Companies. The Trafalgar Companies own seven hydroelectric generating facilities located in New York State. In addition, the Fund completed the acquisition of an interest in the Long Sault hydroelectric generating facility on April 17, 1998. Interest on the notes acquired and participation payments related to this project have been recognized since that date.

During the first six months of 1998, the regions in which the Fund's hydroelectric generating facilities are located had lower than average snow pack and an earlier than normal spring run-off. As a result, a number of these facilities experienced higher than average water flows during the first three months of 1998 and lower than average water flows during the quarter ended June 30, 1998. While such lower than average water flows reduced energy production and hence lower than anticipated revenues during the second quarter, favourable exchange rates on the U.S. dollar denominated revenues earned by a number of the Fund's facilities helped to mitigate the shortfall.

Financial Results

	Six months ended June 30, 1998
(expressed in thousands of dollars, except per unit amounts)	
Revenues	\$ 3,480
Net earnings	\$ 1,542
Distributable cash for the period	
Six months ended June 30, 1998	\$ 3,603
Deficiency in distributable cash carried forward from December 31, 1997	(94)
	<u>\$ 3,509</u>
<i>Per unit</i>	\$ 0.437
Distribution declared to unitholders	\$ 3,293
<i>Per unit</i>	\$ 0.410
Units outstanding*	8,031,775

*See current developments below

During the six months, the generating facilities in which the fund holds an economic interest produced \$6.14 million in revenues as compared to forecasted revenues of \$6.75 million, representing 91.0% of the forecast. As stated above, the Fund records the income from the generating facilities as energy sales, interest and participation income and receipt of principal on notes.

The forecast contained in the Fund's recent prospectus dated June 26, 1998, assumed higher principal repayments being made on the Trafalgar Class A Note. The repayments were lower than expected since certain forecasted expenses accrued for municipal, school and other taxes for the Trafalgar facilities were actually paid in full during the quarter ended June 30, 1998. This reduced the cash available for distri-

bution. It is anticipated that this cash shortfall from these payments will reverse during the remainder of the year with actual cashflows being greater than the forecasted amount.

Operating and administrative expenses were in line with the forecast contained in the Fund's recent prospectus.

Current Developments

On July 7, 1998, the fund completed a public offering of an additional 6,058,697 Trust Units at \$10.65 per Trust Unit, for gross proceeds of \$64,525,123. The Fund used the net proceeds of the offering to acquire indirectly equity interests in an additional eleven hydroelectric facilities located in Quebec (3), New York State (2), New Hampshire (5) and Vermont (1) and will use the balance of such proceeds to acquire a facility in Newfoundland, once commissioned. The Fund now has interests in 28 hydroelectric generating facilities located in Ontario (5), Quebec (6), New Your State (9), New Hampshire (7) and Vermont (1).

After completion of the acquisition of the Newfoundland facility, the Fund will hold an interest in 29 hydroelectric generating facilities having a total installed generating capacity of approximately 69 megawatts.

A distribution to Unitholders of \$0.235 per unit was declared to Unitholders of record on June 23, 1998, for payment on July 15, 1998. Year-to-date distributions now total \$0.41 per unit.

Outlook

The Fund has been able to take advantage of opportunities to acquire interests in hydroelectric generating facilities as evidenced by the acquisition of equity interests in 11 facilities and the agreement to acquire an equity interest in an additional facility within seven months of its initial public offering. The Fund, through its Manager, will continue to look for opportunities to acquire interests in hydroelectric generating facilities in Canada and the United States that meet the appropriate criteria.

Water flows were slightly higher than average for the first three months of 1998 and slightly lower than average for the second three months. Water flows have since returned to average for the month of July. If average water flows are maintained and the current favourable U.S. exchange rate is continued, it is expected that the Fund will achieve the forecasted distributions to Unitholders as set out in the Fund's most recent prospectus.

Respectfully submitted on behalf of the Trustees of the Algonquin Power Income Fund.

R. Ian Bradley
Trustee

Interim Report to Unitholders

Six Months Ended June 30, 1998

ALGONQUIN POWER INCOME FUND
Consolidated Balance Sheet
(expressed in thousands of dollars)

	June 30, 1998 (unaudited)	December 31, 1997
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,889	\$ 418
Amounts receivable	1,034	535
Notes receivable — current portion	76	152
Prepaid expenses	53	24
	<u>3,052</u>	<u>1,129</u>
Notes receivable	34,119	16,852
Participation and other interests	1,904	—
Funds in escrow	—	41,554
Capital assets, at cost	39,236	18,376
Deferred foreign exchange loss	—	37
	<u>\$ 78,311</u>	<u>\$ 77,948</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 1,136	\$ 1,275
Due to Algonquin group of companies	1,280	1,149
Cash distribution payable	1,887	—
Current portion of long-term liabilities	1,055	—
Income taxes payable	82	—
	<u>5,440</u>	<u>2,424</u>
Long-term liabilities	3,744	4,144
Deferred foreign exchange gain	142	—
	<u>9,326</u>	<u>6,568</u>
Unitholders' Equity		
Trust units	73,167	73,811
Deficit	(4,182)	(2,431)
	<u>68,985</u>	<u>71,380</u>
	<u>\$ 78,311</u>	<u>\$ 77,948</u>

Approved by the Trustees:



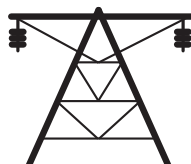
 GEORGE L. STEEVES
 Trustee



 R. IAN BRADLEY
 Trustee

ALGONQUIN POWER INCOME FUND
**Consolidated Statement of
Operations and Deficit**
(expressed in thousands of dollars)

	Six Months Ended June 30, 1998 (unaudited)	From Date of Declaration of Trust, September 8, 1997, to December 31, 1997
Revenue		
Energy sales	\$ 1,846	\$ 44
Interest income and income from participation agreements	1,634	91
	<u>3,480</u>	<u>135</u>
Expenses		
Operating	759	22
Amortization of capital assets	647	29
Debt arrangement and prepayment fees	—	2,259
Management fees	125	6
Operations supervisory fees	125	6
Administrative expenses	120	168
(Gain) loss on foreign exchange	(28)	2
	<u>1,748</u>	<u>2,492</u>
Earnings (loss) before interest expense	1,732	(2,357)
Interest expense	128	74
Earnings (loss) before income taxes	1,604	(2,431)
Income taxes	62	—
Net earnings (loss) for the period	1,542	(2,431)
Deficit, beginning of period	(2,431)	—
Cash distributions	(3,293)	—
Deficit, end of period	<u>\$ (4,182)</u>	<u>\$ (2,431)</u>


ALGONQUIN POWER
INCOME FUND
ALGONQUIN POWER INCOME FUND
**Consolidated Statement of Changes
In Financial Position**
(expressed in thousands of dollars)

	Six Months Ended June 30, 1998 (unaudited)	From Date of Declaration of Trust, September 8, 1997, to December 31, 1997
Operating Activities		
Net earnings (loss)	\$ 1,542	\$(2,431)
Items not affecting cash		
Earnings on funds held in escrow	(13)	—
Amortization of capital assets	647	29
Other amortization	(30)	—
Interest receivable on notes	(304)	—
Loss on early repayment of note payable	—	1,565
Cash generated from operations	<u>1,842</u>	<u>(837)</u>
Change in non-cash operating working capital	1,433	1,741
	<u>3,275</u>	<u>904</u>
Financing Activities		
Cash distributions	(3,293)	—
Issue of trust units	—	80,318
Expenses of trust units offerings	(644)	(6,507)
Issue of notes payable at date of acquisition	—	10,402
Repayment of long-term liabilities	(79)	(7,823)
	<u>(4,016)</u>	<u>76,390</u>
Investing Activities		
Decrease (increase) in funds in escrow	41,567	(41,554)
Acquisition of notes receivable	(18,876)	(17,041)
Receipt of principal on notes receivable	2,212	—
Acquisition of operating entities	(20,787)	(18,281)
Acquisition of participation and other interests	(1,904)	—
	<u>2,212</u>	<u>(76,876)</u>
Increase in cash and cash equivalents	1,471	418
Cash and cash equivalents, beginning of period	418	—
Cash and cash equivalents, end of period	<u>\$ 1,889</u>	<u>\$ 418</u>