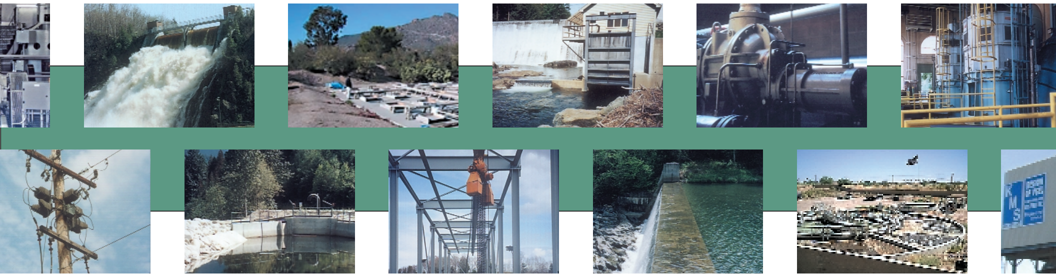

STABILITY AND GROWTH WITH PURPOSE

ALGONQUIN POWER
Income Fund

FIRST QUARTER REPORT
MARCH 31, 2002

The first quarter of 2002 continued to provide challenges for the Algonquin Power Income Fund (the "Fund") as drought-like conditions continued to exist in the northeastern United States and Alberta. These poor hydrologic conditions had an adverse effect on the Fund's revenues and cash flow for the quarter. The Fund's non-hydroelectric asset portfolio (alternative fuels, natural gas co-generation and infrastructure assets) performed in line with expectations. For the first quarter of 2002, the Fund included sixteen days of results from KMS Power Income Fund ("KMS"). The Fund acquired control of KMS on March 15, 2002.

The Fund distributed $0.23 per unit for the first quarter of 2002. This distribution was funded from a combination of the Fund's profits generated during the quarter, utilization of KMS' quarterly distribution and a draw down of cash reserves.

On March 15, 2002, the Fund completed the acquisition of 86.7% of the outstanding trust units and 47.3% of the outstanding convertible debentures of KMS for approximately $66 million. The Fund intends to complete a subsequent acquisition transaction whereby the remaining outstanding publicly held trust units will be acquired. This transaction supports the Fund's diversification strategy by the addition of more non-hydroelectric assets including two alternative fuel facilities in Ontario and Illinois and two natural gas-fired co-generation facilities in New Jersey and Illinois.

Subsequent to the end of the quarter, the Fund also completed the acquisition of a 43.5MW natural gas-fired generating station located in Sanger, California. The aggregate purchase price was approximately $80 million ($US 50 million), satisfied by the assumption of $30 million ($US 19 million) of tax exempt municipal bonds and the balance in cash from funds raised in prior offerings along with the utilization of a newly negotiated and increased credit facility. This acquisition continues the Fund's diversification strategy and further strengthens the Fund's distributions.

During April, 2002, the Fund obtained an 'A' minus credit rating from Standard and Poor's as part of its renegotiation of the credit facility, which was increased to $100 million. In addition, Standard and Poor's reaffirmed the Fund's SR-2 or highly stable revenue expectation.

The Fund remains committed to maintaining and improving the stability of distributions to unitholders by improving the performance of the existing asset base and by acquiring assets that provide stable and accretive cash flows.

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

I J Bradley

Ian Bradley, *Chairman*

REPORT TO UNITHOLDERS

Operating Results

For the quarter ended March 31, 2002, the Fund reported total revenue of $15.7 million as compared to $10.6 million for the same period in 2001. Net earnings for the quarter were $6.1 million compared to $3.8 million for the same period in 2001. Net earnings per trust unit were $0.12, the same as 2001.

Revenues from hydroelectric assets were $10.5 million in 2002 compared to $9.7 million in the first quarter of 2001. All regions were below target, with the exception of Ontario. Particularly hard hit were the northeastern United States and Alberta. The increase in hydroelectric revenues is attributed to the addition of six hydroelectric generating facilities during 2001 that operated for the full quarter in 2002. Operating profits, being revenue less operating expenses, increased to $7.1 million from $6.7 million due to the addition of these facilities.

Alternative fuels

Alternative fuels revenues totaled $2.3 million. During the first quarter of 2001, the Fund did not own an interest in any alternative fuel facilities. These interests were acquired by the Fund during the second half of 2001 through the acquisitions of the Drayton Valley Generating Facility and interests in two biomass-fired facilities, and in March 2002, the acquisition of two KMS Power Income Fund ("KMS") facilities. Operating profit for 2002 amounted to $1.6 million.

Natural gas co-generation

Revenue from co-generation assets totaled $1.6 million. The Fund acquired cogeneration assets through the acquisition of interests during the fourth quarter of 2001 and the acquisition of KMS in the first quarter of 2002. Operating profit for 2002 totaled $1.4 million.

Infrastructure

Infrastructure revenues totaled $1.1 million for the first quarter of 2002 compared to $0.1 million in infrastructure revenue during the first quarter of the previous year. The Fund acquired one infrastructure facility during the first quarter of 2001 and another during the third quarter of 2001.

Administrative expenses

Administrative expenses increased from the prior year as a result of the additional costs associated with the growth of the Fund. At the beginning of 2002, the Fund changed the manager's base compensation and charges for operating the plants whereby the Fund reimburses the manager for incurred operating and maintenance costs, capital improvement costs and management costs. No fee is paid to the manager for the provision of these services.

The Fund's interest expense was reduced during the first quarter due to the repayment of the debt on the Cote Ste Catherine facility in 2001.

The Fund incurred minimal current taxes payable and had a reduction in future taxes payable.

During the first quarter of 2002, the Fund generated $8.5 million of cash. The Fund also received a quarterly distribution and acquired certain cash reserves from the KMS acquisition which helped supplement the quarterly distribution. The balance of the distribution was supplemented by the Fund's cash reserves.

At March 31, 2002, the Fund had positive working capital of $5.4 million.

Acquisitions

In March 2002, the Fund completed the acquisition of 86.7% of the outstanding trust units and 47.3% of the outstanding convertible debentures of KMS. The offer consisted of the exchange of each KMS trust unit for .7428 Fund trust units and each $100 of KMS convertible debentures for 10.34 Fund trust units. The transaction resulted in the Fund issuing 6,099,557 trust units. The Fund intends to exercise its rights under KMS' trust declaration and effect a subsequent acquisition transaction to acquire the remaining trust units not tendered under the offer. This will result in the Fund issuing an additional 713,616 trust units.

Subsequent to the end of the quarter, in May 2002, the Fund acquired a 43.5MW natural gas-fired generating station located in Sanger, California. The Sanger generating station is a combined-cycle generating station comprised of a 32MW Westinghouse natural gas-fired turbine and a 11.5MW General Electric steam turbine. It has demonstrated a successful operating history since its commissioning in 1991. The aggregate purchase price of approximately $80 million ($US 50 million) has been satisfied in part by the assumption by the Fund of $30 million ($US 19 million) of tax-exempt US$ denominated bonds. The balance was funded jointly through the use of proceeds of previous trust unit offerings of the Fund along with financing provided by the Fund's lending syndicate.

New financing & Standard and Poor's

The Fund was assigned a single 'A' minus rating by Standard and Poor's. The S&P rating was sought by the Fund in respect of its recently negotiated increase of the original $50 million credit facility to $100 million bank facility with a major Canadian bank syndicate. The Fund finalized the new financing at the end of April 2002.

Standard and Poor's also reaffirmed the Fund's SR-2 or highly stable revenue expectations.

Consolidated Balance Sheets

March 31, 2002 and December 31, 2001

(THOUSANDS OF CANADIAN DOLLARS)

	March 31, 2002 Unaudited	December 31, 2001
Assets		
Current assets		
Cash and cash equivalents	$ 21,598	$ 31,713
Accounts receivable	14,244	8,864
Prepaid expenses	1,428	477
Current portion of notes receivable	1,202	1,176
Future income tax asset	19	216
	38,491	42,446
Long term investments	66,778	107,099
Capital assets, net of amortization	489,028	359,037
Funds held in reserve	4,431	3,210
Deferred costs	528	592
	$ 599,256	$ 512,384
Liabilities		
Current liabilities		
Bank indebtedness	$ 3,969	$ -
Accounts payable and accrued liabilities	12,750	7,757
Due to Algonquin Power Group	1,576	2,324
Cash distribution payable	13,104	11,701
Current portion of long-term liabilities	506	498
Current income tax liability	601	618
Future income tax liability	590	537
	33,096	23,435
Long-term liabilities	58,240	51,577
Future non-current income tax liability	24,419	25,759
Minority interest	16,142	-
Unitholders' equity		
Trust units	535,717	473,013
Deficit	(68,358)	(61,400)
	467,359	411,613
	$ 599,256	$ 512,384

Approved by the Trustees:

George Steeves
Trustee

K Moore
Trustee

CONSOLIDATED BALANCE SHEET

Consolidated Statements of Earnings and Deficit

For the 3 months ended March 31, 2002 and March 31, 2001

(THOUSANDS OF CANADIAN DOLLARS)
(UNAUDITED)

	2002	2001
Revenue		
Energy Sales	$ 11,509	$ 9,385
Waste disposal fees	542	-
Water treatment revenue	1,120	72
Interest and dividend income	2,557	1,175
	15,728	10,632
Expenses		
Operating	4,941	3,043
Amortization	3,239	2,301
Management/operations supervisory fees	150	162
Administrative expenses	649	366
Withholding taxes	197	131
(Gain) loss on foreign exchange	5	(473)
	9,181	5,530
Earnings before undernoted	6,547	5,102
Interest expense	1,456	2,111
Earnings before income taxes and minority interest	5,091	2,991
Provision for (recovery of) income taxes		
Current income taxes	59	61
Future income taxes	(1,094)	(906)
	(1,035)	(845)
Minority interest	(20)	-
Net earnings	6,146	3,836
Deficity, beginning of year	(61,400)	(30,962)
Cash distributions	(13,104)	(7,960)
Deficit, end of year	$ (68,358)	$ (35,086)
Net earnings per trust unit	$ 0.12	$ 0.12

Consolidated Statements of Cash Flows

For the 3 months ended March 31, 2002 and March 31, 2001

(THOUSANDS OF CANADIAN DOLLARS)
(UNAUDITED)

	2002	2001
Operating activities		
Net earnings	$ 6,146	$ 3,836
Items not affecting cash		
Amortization of capital assets	3,239	2,301
Other amortization	217	183
Minority interest	(20)	-
Distribution received in excess of equity income	(18)	56
Future income taxes	(1,094)	(906)
Gain on foreign exchange	(20)	(447)
	8,450	5,023
Changes in non-cash operating working capital	(1,044)	3,031
	7,406	8,054
Financing activities		
Cash distributions	(13,104)	(7,960)
Issue of trust units	-	74,762
Expenses of trust units offerings	-	(4,039)
Repayment of long-term liabilities	(156)	(328)
	(13,260)	62,435
Investing activities		
(Increase) / decrease in funds held in reserve	(97)	681
Receipt of principal on notes receivable	276	6,402
Acquisition of notes receivable and shares	-	(7,351)
Additions to capital assets	(541)	(708)
Acquisition of operating entities	(3,899)	(18,861)
	(4,261)	(19,837)
Effect of exchange rate differences on cash and cash equivalents	-	92
Decrease in cash and cash equivalents	(10,115)	50,744
Cash and cash equivalents, beginning of year	31,713	9,580
Cash and cash equivalents, end of year	$ 21,598	$ 60,324
Supplemental disclosure of cash flow information		
Cash paid during the period for interest expense	$ 1,455	$ 2,111
Cash paid during the period for income taxes	$ 59	$ 61

CONSOLIDATED STATEMENTS OF CASH FLOWS

1. Basis of Presentation

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2001, as set out in the 2001 Annual Report. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies and methods of computation as were used for the audited consolidated financial statements for the year ended December 31, 2001 except as noted below.

Effective January 1, 2002, the Fund adopted the new recommendations of the Canadian Institute of Chartered Accountants in Handbook Sections 3062 "Goodwill and other intangibles assets" and certain provisions of section 1581 "Business Combinations." Section 1581 requires that the purchase method of accounting be used for all business combinations and specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. Section 3062 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually by comparing carrying value to the respective fair value in accordance with the provisions of Section 3062. The Fund required no adjustments to previously reported results from adopting the new recommendations. The Fund is in the process of identifying intangible assets in connection with the acquisition described in note 3.

2. Seasonality

The operations of the Fund are seasonal. The Fund's hydroelectric energy assets are primarily "run-of-the-river" and as such fluctuate with the natural water flows. During the winter and summer periods, flows are generally slower while during the spring and fall periods flows are heavier.

3. Acquisition of facilities

On March 15, 2002 the Fund completed the acquisition of 86.7% of the outstanding trust units of KMS Power Income Fund ("KMS") and 47.3% of the outstanding principal amount of convertible debentures of KMS by issuing 6,099,557 trust units of the Fund for total consideration of $102,147. The Fund intends to exercise its rights under KMS' trust declaration and effect a subsequent acquisition transaction so as to acquire the remaining KMS trust units not tendered. KMS owns directly or indirectly, four power generation facilities: an energy-from-waste facility in Ontario; two natural gas-fired co-generation facilities located in New Jersey and Illinois; and a landfill bio-gas-fired generating facility in Illinois. The acquisitions have been accounted for using the purchase method, with earnings from operations included since the date of acquisition. The consideration paid by the Fund has been allocated to net assets acquired as follows:

Working capital deficit	$ (3,776)
Funds held in reserve	1,124
Capital assets	127,736
Long-term liabilities assumed	(6,775)
Minority interest	(16,162)
Total purchase price	102,147
Less: Cash acquired	(544)
Loan advanced in 2001	(35,000)
Trust units issued being non cash consideration	(62,704)
Acquisition cash consideration	$ 3,899

The purchase price allocation has been based on the best information available at the reporting date; however, adjustments to the purchase price and purchase price allocation may be made in subsequent quarters as more information is obtained.

4. Trust units

Issued trust units	Number of units	Amount
Balance as at December 31, 2001	50,875,772	$ 473,013
March 15, 2002 – issued pursuant to KMS takeover	6,099,557	62,704
Balance as at March 31, 2002	56,975,329	$ 535,717

The weighted average trust units for the quarter ended March 31, 2002 totalled 50,027,911.

5. Segmented information

The Fund and its subsidiaries operate in the independent power industry in both Canada and the United States. Information on operations by geographic area is as follows:

	March 31, 2002	March 31, 2001
Revenues		
Canada	$ 10,919	$ 6,211
United States	4,809	4,421
	$ 15,728	$ 10,632

	March 31, 2002	December 31, 2001
Capital Assets		
Canada	$ 366,787	$ 262,696
United States	122,241	96,341
	$ 489,028	$ 359,037

Operational segments

The Fund identifies four business segments it operates in: hydro, natural gas co-generation, alternative fuel and infrastructrure assets. The operations and assets for these segments are outlined below:

3 months ended March 31, 2002						
Revenue	**Hydro**	**Co-generation**	**Alternative Fuel**	**Infrastructure**	**Admin**	**Total**
Energy sales	10,381	395	733			11,509
Waste disposal fees			542			542
Water treatment revenue				1,120		1,120
Interest & dividend income	113	1,241	1,072	9	122	2,557
Total revenue	10,494	1,636	2,347	1,129	122	15,728
Operating expenses	3,416	214	739	572		4,941
Operating profit	7,708	1,422	1,608	557	122	10,787
Other administration costs	(7)				(994)	(1,001)
Interest expense	(1,305)				(151)	(1,456)
Amortization of capital assets	(2,715)	(43)	(398)	(83)		(3,239)
Earnings before income taxes and minority interest	3,051	1,379	1,210	474	(1,023)	5,091
Capital assets	338,864	17,795	118,867	13,502		489,028
Capital expenditures	158	17,766	109,977	376		128,277

3 months ended March 31, 2001						
Revenue	**Hydro**	**Co-generation**	**Alternative Fuel**	**Infrastructure**	**Admin**	**Total**
Energy sales	9,385					9,385
Waste disposal fees						
Water treatment revenue				72		72
Interest & dividend income	342			3	830	1,175
Total revenue	9,727			75	830	10,632
Operating expenses	3,007			36		3,043
Operating profit	6,720			39	830	7,589
Other administration costs	(5)				(181)	(186)
Interest expense	(1,894)				(217)	(2,111)
Amortization of capital assets	(2,290)			(11)		(2,301)
Earnings before income taxes and minority interest	2,531			28	432	2,991
Capital assets (Dec., 31, 2001)	336,420		9,360	13,257		359,037
Capital expenditures	16,580			5,178		21,758

6. Subsequent events

a) In April 2002, the Fund renegotiated its credit facility with a major Canadian bank syndicate whereby the line of credit was increased to $100 million which matures in April 2004. Under the terms of the credit facility, the Fund may acquire interests which meet the Fund's investment criteria. The facility is secured by a fixed and floating charge over all Fund entities.

b) In May 2002, the Fund acquired a 43.5MW natural gas fired generating station located in Sanger, California. The Sanger generating station is a combined cycle generating station comprised of a 32MW Westinghouse natural gas fired turbine and a 11.5MW General Electric steam turbine and has demonstrated a successful operating history since its commissioning in 1991. The aggregate purchase price of approximately $80 million (US$ 50 million) has been satisfied in part by the assumption by the Fund of $30 million (US$ 19 million) of tax-exempt US$ denominated bonds and with the balance funded jointly through the use of proceeds of previous trust unit offerings of the Fund along with financing provided by the Fund's lending syndicate.

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Stock Exchange

The Toronto Stock Exchange Symbol:
APF.UN

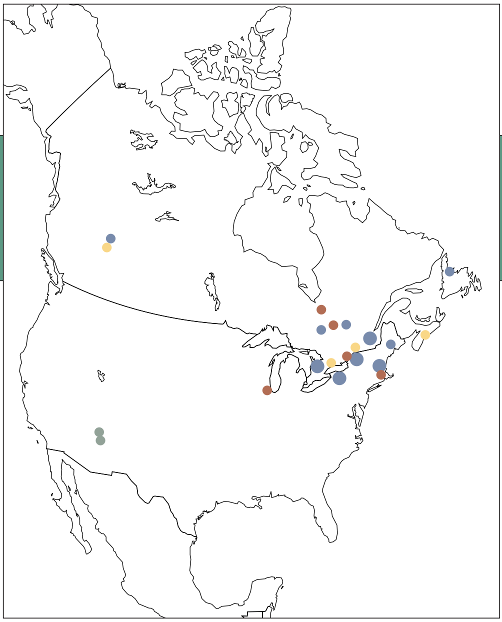
Auditors

KPMG LLP, *Toronto, Ontario*

Legal Counsel

Blake, Cassels & Graydon LLP, *Toronto, Ontario*

GENERAL INFORMATION



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