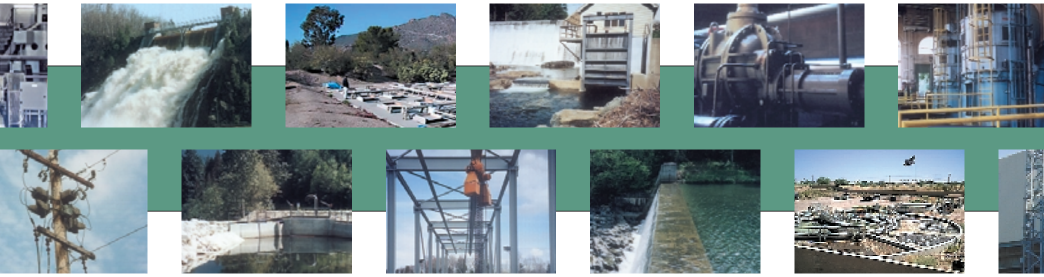

STABILITY AND GROWTH WITH PURPOSE

ALGONQUIN POWER
Income Fund

SECOND QUARTER REPORT
JUNE 30, 2002

For the second quarter and first half of 2002, the performance of the Algonquin Power Income Fund (the "Fund"), improved over the respective periods of 2001.The Fund benefited by both imporved hydrologic conditions for the hydroelectric division and the addition of the cogeneration, alternative fuel and infrastructure assets which were recently aquired.

For the second quarter, the Fund distributed $0.23 per trust unit from its cash flow generated through operations.

Acquisitions

In May 2002, the Fund acquired a 43.5MW natural gas fired generating station located in Sanger, California for $79.3 million. 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 Fund acquired Bella Vista Water Company for $20.5 million also in May, 2002. Bella Vista currently serves approximately 6,800 customers in the Town of Sierra Vista, approximately 100km southeast of Tucson, Arizona.

Subsequent to the end of the quarter, the Fund completed the compulsory acquisition of the remaining trust units of KMS Power Income Fund "KMS" that were not deposited to the Trust's take-over bid for KMS which expired on March 7, 2002. As a result of the compulsory acquisition, the Trust is now the sole unitholder of KMS. The ascribed value of these units was approximately $7.3 million.

Manager Compensation and Incentives

As announced at the recent annual meeting of the unitholders of the Fund, compensation arrangements with the Manager are being amended to reflect the evolving governance and incentive fee arrangements in the income trust sector while accommodating unique aspects of the Fund's business and structure. The Trustees have agreed with the Manager to the following amendments effective July 1, 2002:

- Except for incentive fees, the Manager will be paid on a cost reimbursement basis only.
- The Manager will be paid incentive fees based on 25% of the distributable cash flow in excess of $0.92 per annum. There will be no further acquisition based incentive fees paid to the Manager.
- Algonquin Power Systems Inc., which is owned by the same shareholders as the Manager and which operates most of the facilities directly or indirectly owned by the Fund, will be paid on a cost reimbursement basis only.

- There will be no fees paid to the Manager as compensation for the Manager's consent to these amendments; however, the Trustees have agreed to extend the term of the management agreement for an additional five years with a rolling five years notice of termination. The management agreement is always subject to termination in the event of a substantial deterioration of the Fund's business.

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 cash flow.

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

Ian Bradley, Chairman

Operating Results

For the quarter ended June 30, 2002, the Fund reported total revenue of $28.4 million as compared to $13.1 million for the same period in 2001. Net earnings for the quarter were $10.3 million compared to a loss of $2.5 million for the same period in 2001. Net earnings per trust unit were $0.18, as compared to a loss of $0.08 for the same period in 2001. During 2001, the Fund recorded a loan prepayment fee of $6.8 million. For the second quarter, the Fund distributed $0.23 per trust unit, consistent with the same period in the prior year.

For the six months ended June 30, 2002, the Fund reported total revenue of $44.1 million as compared to $23.7 million for the same period in 2001. Net earnings for the six months ended June 30, 2002 were $16.4 million compared with $1.3 million for the same period in 2001. Net earnings per trust unit were $0.30, as compared to $0.03 for the same period in 2001.

Hydroelectric

Second quarter revenues from hydroelectric assets were $14.1 million in 2002 compared to $12.1 million in 2001. Operating profit increased to $10.1 million from $8.4 million due to improved hydrology. For the six months ended June 30, 2002, revenue from hydroelectric assets were $24.6 million compared to $21.9 million in 2001. During the first half, hydrologic conditions in all regions were below long term averages. The increase in hydroelectric revenues is attributed to the addition of six hydroelectric generating facilities during 2001 that operated for the full first quarter in 2002 and improved hydrologic conditions during the second quarter of 2002. Operating profit increased to $17.1 million from $15.2 million in 2001.

Natural gas co-generation

Second quarter revenue from co-generation assets totaled $7.2 million. The Fund acquired cogeneration assets through the acquisition of interests during the fourth quarter of 2001 and the acquisitions of KMS in the first quarter and Sanger in the second quarter. Operating profit for the second quarter of 2002 totaled $4.2 million. Revenues from co-generation assets for the six months ended June 30, 2002 totaled $8.9 million. Operating profit for this period totaled $5.6 million. These facilities are operating in accordance with expectations.

Alternative fuels

Second quarter revenues from alternative fuels assets totaled $4.6 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 facilities. Operating profit for this period amounted to $1.5 million. Revenues from alternative fuel assets for the six months ended June 30, 2002 totaled $7.0 million. Operating profit for this period amounted to $3.1 million. During the second quarter, additional expenses were incurred to improve the efficiency and performance of a biomass-fired facility.

Infrastructure

For the second quarter of 2002, infrastructure revenues totaled $1.9 million, compared to $0.4 million 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. During the second quarter of 2002, the Fund acquired a third infrastructure facility. Operating profit for the second quarter was $1.0 million compared to $0.3 million for the same period in the prior year. For the six months ended June 30, 2002, infrastructure revenues totaled $3.0 million compared to $0.5 million during the same period in 2001. Operating profit amounted to $1.6 million compared to $0.3 million during the same period in 2001. These facilities are operating in accordance with expectations.

Expenses

Administrative expenses increased from the prior year as a result of the additional costs associated with the growth of the Fund. Additional expenses were incurred for various professional fees and taxes other than income taxes.

The Fund's interest expense increased during the second quarter as a result of the increase in the revolving credit facility and the addition of the certain long term debt as a result of the acquisition of the Sanger and Bella Vista facilities. For the six months ended June 30, 2002, interest expense is slightly lower than the prior year due to the reduction in long term debt in 2001 as a result of the repayment of the debt on the Cote Ste Catherine facility. This was partially offset by the additional interest resulting from the additional debt incurred as a result of two acquisitions during the second quarter of 2002.

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

During the second quarter of 2002, the Fund generated $13.8 million of cash from its operations. The Fund paid $13.2 million in quarterly distributions.

At June 30, 2002, the Fund had a marginal negative working capital position.

Acquisitions

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 $79.3 million (US$ 50.9 million) has been satisfied in part by the assumption of $30.2 million (US $19.4 million) of tax-exempt US$ denominated bonds. The balance was funded jointly through the use of proceeds of previous trust unit offerings of the Fund, trust units of the Fund and financing provided by the Fund's lending syndicate.

In May 2002, the Fund acquired Bella Vista Water Company. Bella Vista currently serves approximately 6,800 customers in the Town of Sierra Vista, approximately 100km southeast of Tucson, Arizona. The aggregate purchase price of approximately $20.5 million (US$ 12.8 million) was satisfied with financing provided by the Fund's lending syndicate.

Outlook

Subsequent to the end of the quarter, the Fund completed the compulsory acquisition of the remaining trust units of KMS Power Income Fund ("KMS") that were not deposited to the Fund's take-over bid for KMS which expired on March 7, 2002. As a result of the compulsory acquisition pursuant to the KMS declaration of trust, the Fund is now the sole unitholder of KMS. The Fund paid 0.7428 trust units of the Fund for each remaining KMS trust unit, the same consideration that the Fund offered in the take-over bid. A total of 713,616 trust units of the Fund were issued in connection with the compulsory acquisition, having an ascribed value of approximately $7.3 million.

Under the terms of the Energy Services Contract between a KMS Bakery and a third party, the third party has notified KMS of its intention to purchase the capital assets of a small KMS cogeneration facility on August 13, 2002. These assets have been written down to their net realizable value of approximately $0.9 million.

Consolidated Balance Sheets

June 30, 2002 and December 31, 2001

(THOUSANDS OF CANADIAN DOLLARS)

	June 30, 2002 Unaudited	December 31, 2001
Assets		
Current assets		
Cash and cash equivalents	$ 20,882	$ 31,713
Accounts receivable	16,553	8,864
Prepaid expenses	1,417	477
Current portion of notes receivable	1,229	1,176
Future income tax asset	172	216
	40,253	42,446
Long term investments	65,748	107,099
Capital assets, net of amortization	602,835	359,037
Funds held in reserve	3,210	3,210
Deferred costs	1,174	592
	$ 713,220	$ 512,384
Liabilities		
Current liabilities		
Bank indebtedness	$ 6,408	$ -
Accounts payable and accrued liabilities	15,301	7,757
Due to Algonquin Power Group	3,114	2,324
Cash distribution payable	13,162	11,701
Current portion of long-term liabilities	518	498
Current income tax liability	680	618
Future income tax liability	1,236	537
	40,419	23,435
Revolving credit facilty	60,591	-
Long-term liabilities	95,645	51,577
Future non-current income tax liability	33,909	25,759
Minority Interest	15,986	-
Unitholders' Equity		
Trust units	537,898	473,013
Deficit	(71,228)	(61,400)
	466,670	411,613
	$ 713,220	$ 512,384

Approved by the Trustees:

George Steeves

Trustee

K Moore

Trustee

CONSOLIDATED BALANCE SHEET

Consolidated Statements of Earnings and Deficit

For the 6 months ended June 30, 2002 and June 30, 2001

(THOUSANDS OF CANADIAN DOLLARS)
(UNAUDITED)

	3 months ended June 30		6 months ended June 30	
	2002	**2001**	**2002**	**2001**
Revenue				
Energy sales	$ 21,480	$ 11,685	$ 32,989	$ 21,070
Waste diposal fees	3,131	-	3,673	-
Water/ water treatment revenue	1,822	405	2,942	477
Interest and dividend income	1,927	986	4,484	2,161
	28,360	13,076	44,088	23,708
Expenses				
Operating	11,031	3,876	15,972	6,919
Amortization	4,921	2,446	8,160	4,747
Management costs	195	197	345	359
Administrative expenses	1,064	(351)	1,713	15
Withholding taxes	325	786	522	313
(Gain) loss on foreign exchange	(1,408)	(263)	(1,403)	(263)
	16,128	6,691	25,309	12,090
Earnings before undernoted	12,232	6,385	18,779	11,618
Interest expense	2,105	1,669	3,561	3,780
Loan payment fee	-	6,751	-	6,751
	2,105	8,420	3,561	10,531
Earnings before income taxes and minority interest	10,127	(2,035)	15,218	1,087
Provision for (recovery of) income taxes				
Current income taxes	149	67	208	128
Future income taxes	(452)	526	(1,546)	(380)
	(303)	593	(1,338)	(252)
Minority interest	138	-	118	-
Net earnings	10,292	(2,497)	16,438	1,339
Deficit, beginning of period	(68,358)	(35,086)	(61,400)	(30,962)
Cash distributions	(13,162)	(7,961)	(26,266)	(15,921)
Deficit, end of period	$ (71,228)	$ (45,544)	$ (71,228)	$ (45,544)
Net earnings per trust unit	$ 0.18	$ (0.08)	$ 0.30	$ 0.03

Consolidated Statements of Cash Flows

For the 6 months ended June 30, 2002 and June 30, 2001

(THOUSANDS OF CANADIAN DOLLARS)
(UNAUDITED)

	3 months ended June 30		6 months ended June 30	
	2002	**2001**	**2002**	**2001**
Operating Activities				
Net earnings	$ 10,292	$ (2,497)	$ 16,438	$ 1,339
Items not affecting cash				
Amortization of capital assets	4,921	2,446	8,160	4,747
Other amortization	437	107	654	290
Minority interest	138	-	118	-
Distribution received in excess of equity income	35	(7)	17	49
Future income taxes	(452)	526	(1,546)	(380)
Loan prepayment fee	-	6,751	-	6,751
Gain on foreign exchange	(1,615)	183	(1,635)	(264)
	13,756	7,509	22,206	12,532
Changes in non-cash operating working capital	2,064	(2,206)	1,020	827
	15,820	5,303	23,226	13,359
Financing Activities				
Cash distributions	(13,162)	(7,961)	(26,266)	(15,921)
Drawdown of revolving credit facilty	61,707	-	61,707	-
Issue of trust units	-	-	-	74,762
Expenses of trust units offerings	-	(300)	-	(4,338)
Deferred costs	(771)	(50)	(771)	(50)
Bank indebtedness	2,440	-	2,440	-
Loan prepayment penalty	-	(6,751)	-	(6,751)
Repayment of long-term liabilities	(566)	(22,170)	(722)	(22,498)
	49,648	(37,232)	36,388	25,204
Investing Activities				
(Increase) / decrease in funds held in reserve	1,221	269	1,124	950
Receipt of principal on notes receivable	683	25	959	6,427
Acquisition of notes receivable and other interests	-	(800)	-	(8,151)
Additions to capital assets	(2,904)	(105)	(3,445)	(813)
Acqusition of operating entities	(64,535)	(161)	(68,434)	(19,022)
	(65,535)	(772)	(69,796)	(20,609)
Effect of exchange rate differences on cash and cash equivalents	(649)	(86)	(649)	6
Decrease in cash and cash equivalents	(716)	(32,787)	(10,831)	17,960
Cash and cash equivalents, beginning of period	21,598	60,327	31,713	9,580
Cash and cash equivalents, end of period	$ 20,882	$ 27,540	$ 20,882	$ 27,540
Supplemental disclosure of cash flow information				
Cash paid during the period for interest expense	$ 1,873	$ 1,826	$ 3,328	$ 3,937
Cash paid during the period for income taxes	$ 49	$ 67	$ 108	$ 128

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 be 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 acquisitions 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 lighter 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.

On May 1, 2002 the Fund acquired a 43.5MW natural gas fired generating station located in Sanger, California for total consideration of $49,035 plus assumed debt of $30,223. 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.

On May 23, 2002 the Fund acquired Bella Vista Water Company for total consideration of $20,503. Bella Vista currently serves approximately 6,800 customers in the town of Sierra Vista, approximately 100 km south east of Tuscon, Arizona.

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:

	KMS	Sanger	Other
Working capital	$ (3,776)	$ 648	$ 2,130
Funds held in reserve	1,124		
Capital assets	127,442	78,610	37,258
Long term liabilities assumed	(6,775)	(30,223)	(8,082)
Minority interest	(15,868)		
Future non current income tax liability			(10,803)
Total purchase price	102,147	49,035	20,503
Less: cash acquired	(544)		(2,822)
Loan advanced in 2001	(35,000)		
Trust units issued being non cash consideration	(62,704)	(2,181)	
Cash consideration paid	$ 3,899	$ 46,854	$ 17,681

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
May 1, 2002 – issued pursuant to Sanger acquisition	248,667	2,181
Balance as at June 30, 2002	57,223,996	$ 537,898

The weighted average trust units for the three months and six months ended June 30, 2002 are 57,142,018 and 54,599,092, respectively.

5. Bank Indebtedness

Under the terms of the credit facility for KMS, KMS must meet certain restrictive covenants with respect to tangible net worth and cash flow coverage. As at June 30, 2002, KMS was not in compliance with these covenants. All outstanding borrowings connected with this facility are classified as current liabilities.

6. Segmented Information

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

	3 months ended June 30		6 months ended June 30	
	2002	**2001**	**2002**	**2001**
Revenues				
Canada	$ 13,900	$ 6,447	$ 24,819	$ 12,658
United States	14,460	6,629	19,269	11,050
	$ 28,360	$ 13,076	$ 44,088	$ 23,708

	June 30, 2002	**December 31, 2001**
Capital Assets		
Canada	$ 365,704	$ 262,696
United States	237,131	96,341
	$ 602,835	$ 359,037

Operational segments

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

	6 months ended June 30, 2002					
Revenue	**Hydro**	**Co-generation**	**Alternative**	**Infrastructure**	**Admin**	**Total**
Energy sales	24,270	6,685	2,035			32,990
Waste disposal fees			3,673			3,673
Water treatment revenue				2,942		2,942
Interest and dividend income	296	2,178	1,277	46	686	4,483
Total Revenue	24,566	8,863	6,985	2,988	686	44,088
Operating expenses	7,433	3,276	3,856	1,407		15,972
Operating profit before amortization and interest expense	17,133	5,587	3,129	1,581	686	28,116
Other administration costs	(214)				(963)	(1,177)
Interest expense	(2,608)	(77)	(64)	(28)	(784)	(3,561)
Amortization of capital assets	(5,607)	(502)	(1,731)	(320)		(8,160)
Earnings before income taxes and minority interest	8,704	5,008	1,334	1,233	(1,061)	15,218
Capital assets	338,482	94,367	119,910	50,076		602,835
Capital expenditures	159	96,482	112,281	37,833		246,755

	6 months ended June 30, 2001					
Revenue	**Hydro**	**Co-generation**	**Alternative**	**Infrastructure**	**Admin**	**Total**
Energy sales	21,070					21,070
Waste disposal fees						
Water treatment revenue				477		477
Interest and dividend income	802			22	1,337	2,161
Total Revenue	21,872			499	1,337	23,708
Operating expenses	6,713			206		6,919
Operating profit before amortization and interest expense	15,159			293	1,337	16,789
Other administration expenses	764				(1,188)	(424)
Interest expense	(3,502)				(278)	(3,780)
Amortization of capital assets	(4,714)			(33)		(4,747)
Earnings before income taxes and minority interest	7,707			260	(129)	7,838
Capital assets (Dec 31, 2001)	336,420		9,360	13,257		359,037
Capital expenditures	16,581			5,405		21,986

	3 months ended June 30, 2002					
Revenue	**Hydro**	**Co-generation**	**Alternative**	**Infrastructure**	**Admin**	**Total**
Energy sales	13,889	6,290	1,302			21,481
Waste disposal fees			3,131			3,131
Water treatment revenue				1,822		1,822
Interest and dividend income	183	937	205	37	564	1,926
Total Revenue	14,072	7,227	4,638	1,859	564	28,360
Operating expenses	4,017	3,062	3,117	835		11,031
Operating profit before amortization and interest expense	10,055	4,165	1,521	1,024	564	17,329
Other adminstration costs	(207)				31	(176)
Interest expense	(1,303)	(77)	(64)	(28)	(633)	(2,105)
Amortization of capital assets	(2,892)	(459)	(1,333)	(237)		(4,921)
Earnings before income taxes and minority interest	5,653	3,629	124	759	(38)	10,127
Capital assets	338,482	94,367	119,910	50,076		602,835
Capital expenditures		78,716	2,304	37,457		118,477

	3 months ended June 30, 2001					
Revenue	**Hydro**	**Co-generation**	**Alternative**	**Infrastructure**	**Admin**	**Total**
Energy sales	11,685					11,685
Waste disposal fees						
Water treatment revenue				405		405
Interest and dividend income	460			19	507	986
Total Revenue	12,145			424	507	13,076
Operating expenses	3,706			170		3,876
Operating profit before amortization and interest expense	8,439			254	507	9,200
Other adminstration expenses	769				(1,138)	(369)
Interest expense	(1,608)				(61)	(1,669)
Amortization of capital assets	(2,424)			(22)		(2,446)
Earnings before income taxes and minority interest	5,176			232	(692)	4,716
Capital assets (Dec 31, 2001)	336,420		9,360	13,257		359,037
Capital expenditures	1			227		228

7. Subsequent Events

a) In July 2002, the Fund completed the compulsory acquisition of the remaining 960,711 trust units of KMS that were not deposited to the Trust's take-over bid for KMS which expired on March 7, 2002. As a result of the compulsory acquisition, which was pursuant to KMS' declaration of trust, the Trust is now the sole unitholder of KMS. The Trust paid 0.7428 trust units of the Fund for each remaining KMS trust unit, the same consideration that the Trust offered in the take-over bid. A total of 713,616 trust units of the Fund with an ascribed value of approximately $7,300 were issued in connection with the compulsory acquisition.

b) Under the terms of an Energy Services Contract between a KMS entity and a third party, the third party notified KMS of its intention to purchase the capital assets of a small KMS cogeneration facility on August 13, 2002. These capital assets have been written down to their net realizable value of approximately $900.

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The Toronto Stock Exchange Symbol:
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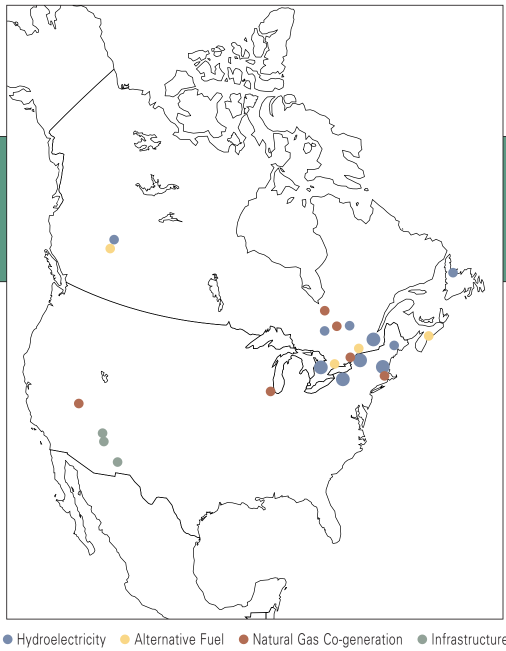
Blake, Cassels & Graydon LLP, *Toronto, Ontario*

GENERAL INFORMATION



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