Diversification • Stability • Growth

Second Quarter Report, June 30, 2003

The Algonquin Power Income Fund (the "Fund") distributed $0.23 per trust unit for the second quarter, 2003, consistent with the second quarter, 2002. Other performance highlights for the second quarter, 2003 include:

- Revenue of $44.2 million compared to $28.4 million for the second quarter, 2002
- Net earnings of $21.5 million compared to $10.3 million for second quarter, 2002
- Net earnings per trust unit increased to $0.32 from $0.18 in the second quarter of 2002.
- The Fund generated $0.27 per trust unit of cash available for distribution in the period just ended compared to $0.25 for the same period, 2002.

Six months, 2003

The Fund reported revenue of $73.4 million compared to $44.1 million for the same period in 2002. Net earnings increased to $28.1 compared to $16.4 for the same period of 2002. Net earnings per trust unit increased to $0.41 from $0.30 in 2002. The Fund has generated $0.42 per trust unit of cash available for distribution during 2003 and 2002. The Fund maintained year-to-date distributions per trust unit at $0.46 for 2003 and 2002.

Activity Highlights – Second Quarter, 2003

The Fund completed the buy-down of 13 New Hampshire hydroelectric power purchase agreements at the end of May, 2003 and received $28.3 million (U.S.$ 20.4 million). Of the total proceeds, $2.9 million (U.S. $2.1 million) has been placed in escrow pending resolution of payment of certain lease obligations with the State of New Hampshire.

The Fund also completed a major overhaul of the Sanger, California facility in May, 2003. This enabled the Fund to be in a position to achieve the maximum bonus payment for the summer period.

The Fund terminated the purchase and sale agreement with respect to the acquisition of a 40% partnership interest in an 80 MW biomass-fired electric generating station located in Virginia as third party consents required to complete the acquisition were not received.

Division Highlights

Revenue from the Hydroelectric Division was $14.6 million in the second quarter of 2003 compared to $14.1 million for the same period in 2002. Overall total hydroelectric energy production for the second quarter of 2003 was in line with long-term averages. Above long-term average hydrologic conditions for the second quarter in the New York, New England and Alberta regions offset lower than long-term average production in the Ontario and Quebec regions.

Revenue from the Alternative Fuels Division for the second quarter of 2003 increased to $5.4 million from $4.6 million in the same period of 2002. Both the Peel energy from waste facility and the Valley Power (formerly Drayton Valley Power) biomass facility posted higher second quarter revenue than the prior year.

Cogeneration Division revenue for the second quarter of 2003 increased to $18.6 million from $7.2 million in the same period in 2002. The revenue for the second quarter of 2003 included the full quarter results of the Sanger, Windsor Locks and Crossroads facilities.

Infrastructure Division second quarter revenue increased to $5.6 million in 2003 from $1.9 million in 2002. The Division continues to increase its customer base organically with a second quarter increase of 3.5%.

The Fund will continue to identify opportunities that will allow it to optimize the performance of its portfolio. Management is focusing its efforts on integrating the newly acquired facilities and identifying efficiency opportunities to enhance unitholder value.

Thank you for your support as your Fund continues to focus on our strategy of diversification, stability and growth. Respectfully submitted on behalf of the Trustees and Managers of the Algonquin Power Income Fund,

Ken Moore, Chairman

(All figures are in thousands of Canadian dollars, except per unit values)

For the quarter ended June 30, 2003, Algonquin Power Income Fund (the "Fund") reported revenue of $44.2 million compared to $28.4 million for the same period of 2002. Net earnings for the quarter increased to $21.5 million from $10.3 million for the same quarter during 2002. Net earnings per trust unit increased to $0.32 in the second quarter of 2003 from $0.18 in the second quarter of 2002. For the second quarter of 2003, the Fund generated $0.27 per trust unit of cash available for distribution, compared to $0.25 for the same period in 2002. The Fund maintained distributions during the quarter at $0.23 per trust unit.

For the first six months of 2003, the Fund reported revenue of $73.4 million compared to $44.1 million for the same period in 2002. Net earnings for the first six months of 2003 increased to $28.1 million compared to $16.4 million for the same period of 2002. Net earnings per trust unit for the first six months of 2003 increased to $0.41 from $0.30 for the same period in 2002. The Fund has generated $0.42 per trust unit of cash available for distribution during 2003, compared to $0.42 for the same period of 2002. The Fund maintained year-to-date distributions per trust unit at $0.46 for 2003 and 2002.

Operating Results

All figures in thousands of dollars except as noted

	Second Quarter Ended June 30		Six Months Ended June 30	
	2003	**2002**	**2003**	**2002**
Revenue	44,234	28,360	73,416	44,088
Net Income	21,545	10,292	28,065	16,438
Distribution to Unitholders	15,600	13,162	31,201	26,266
Cash Available for Distribution	18,064	14,332	28,188	22,649
Per Unit				
Net Income	0.32	0.18	0.41	0.30
Distribution to Unitholders	0.23	0.23	0.46	0.46
Cash Available for Distribution	0.27	0.25	0.42	0.42

Revenue and net income increased substantially during the second quarter of 2003 compared to the same period during 2002. The second quarter of 2003 included the revenue and net income for the full quarter from the Sanger and Windsor Locks cogeneration facilities, Bella Vista water distribution facility, Litchfield Park Services Company water distribution and reclamation facility and two water reclamation facilities in Texas. Revenue and net income from these facilities were not included in results for the second quarter of 2002. The second quarter of 2003 also included improved results from the Hydroelectric Division compared to the prior year's second quarter as well as continued organic growth in the Infrastructure Division. The Fund's results for the second quarter of 2003 were generally in line with management's expectations.

For the six months ending June 30, 2003, revenue and net income were higher than the prior year for the same period as the Fund included the additional facilities referred to previously for the full second quarter of 2003. In addition, the revenue and net income for the six months ended June 30, 2003 also includes the full quarterly results of the Peel energy from waste facility, the Crossroads cogeneration facility and the Joliet biogas facility, which were acquired at the end of the first quarter of 2002. The results from the first six months of 2003 were below management's expectations as the operating results for the first quarter were weaker in both the Hydroelectric and Alternative Fuels Divisions.

The information in this Management Discussion and Analysis is supplemental to and should be read in conjunction with the Fund's unaudited consolidated financial statements for the six-month period ended June 30, 2003 as well as the audited consolidated financial statements and the related Management Discussion and Analysis contained in the 2002 Annual Report. The Fund's financial statements are prepared in accordance with accounting principles generally accepted in Canada. The Fund's reporting currency is the Canadian dollar.

The term Cash Available for Distribution is used throughout this Management Discussion and Analysis. Cash Available for Distribution is not a recognized measure under accounting principles generally accepted in Canada. The Fund's method of calculating Cash Available for Distribution may differ from methods used by other companies and accordingly may not be comparable to similar measures presented by other companies. A calculation of Cash Available for Distribution can be found in this Management Discussion and Analysis.

Hydroelectric Division

All figures in thousands of dollars except as noted

	Second Quarter Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Performance (MW-hrs sold)				
Quebec Region	82,803	87,902	121,744	141,758
Ontario Region	30,671	39,139	58,343	74,782
New England Region	29,045	23,296	46,828	31,509
New York Region	30,839	25,152	50,327	45,081
Western Region	24,036	11,368	33,487	19,210
Revenues				
Energy Sales	14,468	13,888	25,255	24,269
Other Income	144	184	256	297
TOTAL	14,612	14,072	25,511	24,566
Expenses				
Operating Expenses	4,165	4,017	8,603	7,433
Division Operating Profit	10,447	10,055	16,908	17,133

Revenue from the Hydroelectric Division was $14.6 million in the second quarter of 2003 compared to $14.1 million for the same period in 2002. Overall total hydroelectric energy production for the second quarter of 2003 was in line with long-term averages. Above long-term average hydrologic conditions for the second quarter in the New York, New England and Alberta regions offset lower than long-term average production in the Ontario and Quebec regions.

Hydroelectric revenue for the first six months of 2003 was slightly higher at $25.5 million than the prior year of $24.6 million due to the reasons referred to above.

Hydroelectric Division operating expenses for the second quarter of 2003 were $4.2 million, slightly higher than $4.0 million expensed in the second quarter of the prior year. Hydroelectric Division operating expenses for the first six months of 2003 were $8.6 million, which were higher than the $7.4 million posted during the same period of the prior year. This was the result of higher repair and maintenance costs and regulatory fees primarily incurred in the first quarter.

Hydroelectric Division operating profit was $10.4 million for the second quarter of 2003, compared to $10.1 million for the same period in the prior year. Operating profit for the first six months of 2003 was $16.9 million, which was slightly below prior year operating profit of $17.1 million.

On May 31, 2003, the Fund completed the renegotiation of the power purchase agreements with the Public Service Company of New Hampshire ("PSNH") for the 13 New Hampshire hydroelectric facilities down to market rates. The Fund received total proceeds of $28.3 million (US$20.4 million). Of the total proceeds, $2.9 million (US$2.1 million) has been placed in escrow pending resolution of payment of certain lease obligations with the State of New Hampshire. The net proceeds of $25.4 million have been used to pay down debt and fund working capital. The Fund will continue to own and operate the 13 small hydroelectric generating facilities and will sell all the electrical output from the facilities to PSNH at the market rate.

Outlook

Management is focusing its efforts on reorganizing the operations for the New Hampshire portfolio in light of reduced revenues resulting from the renegotiation of the power purchase contracts down to market rates. Subject to normal hydrology and taking into account seasonal fluctuations, management anticipates the Hydroelectric Division will perform in accordance with expectations for the balance of the year.

Management Discussion and Analysis

Alternative Fuels Division

All figures in thousands of dollars except as noted

	Second Quarter Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Performance (MW-hrs sold)	24,975	22,387	48,719	33,611
Performance (tonnes waste processed)	38,450	41,077	77,499	49,980
Revenues				
Energy Sales	1,523	1,302	3,174	2,035
Waste Disposal Sales	3,574	3,131	7,104	3,673
Interest and Dividend Income	294	205	607	1,277
TOTAL	5,391	4,638	10,885	6,985
Expenses				
Operating Expenses	3,231	3,117	6,421	3,856
Division Operating Profit	2,160	1,521	4,464	3,129

Revenue from the Alternative Fuels Division for the second quarter of 2003 increased to $5.4 million from $4.6 million in the same period of 2002. Both the Peel energy from waste facility and the Valley Power (formerly Drayton Valley Power) biomass facility posted higher second quarter revenue than the same period in the prior year. The higher revenue at the Peel facility, despite relatively higher volume of unacceptable waste which reduced the amount of waste processed, is attributed to higher rates resulting from annual rate increases and higher prices received from international airline waste. For the first six months of 2003, revenue was higher than the same period in the prior year due to the acquisition of the Peel and Joliet facilities at the end of the first quarter of 2002. Income earned from the Brooklyn and Chapais facilities was higher than the same period in the prior year.

Operating expenses were $3.2 million in the second quarter of 2003, slightly higher than $3.1 million in the prior year. For the first six months of 2003, operating expenses were $6.4 million compared to $3.9 million during the same period in the prior year due primarily to the addition of the Peel and Joliet facilities at the end of the first quarter of 2002.

Division operating profit was $2.2 million for the second quarter of 2003 compared to $1.5 million for the same period in 2002. For the first six months of 2003, operating profit was $4.5 million compared to $3.1 million during the same period in 2002.

The Fund terminated the purchase and sale agreement with respect to the acquisition of a 40% partnership interest in an 80 MW biomass-fired electric generating station located in Virginia as third party consents required to complete the acquisition were not received.

Outlook

The Fund continues to focus its efforts on improving performance at the Alternative Fuels Division facilities by identifying efficiencies, reducing costs and identifying new revenue streams.

Cogeneration Division

All figures in thousands of dollars except as noted

	Second Quarter Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Performance (MW-hrs sold)	111,948	11,767	169,784	13,380
Revenues				
Energy Sales	17,127	6,290	25,411	6,685
Interest and Dividend Income	1,493	937	2,560	2,178
TOTAL	18,620	7,227	27,971	8,863
Expenses				
Operating Expenses	11,762	3,062	17,996	3,276
Division Operating Profit	6,858	4,165	9,975	5,587

Cogeneration Division revenue for the second quarter of 2003 increased to $18.6 million from $7.2 million in the same period in 2002. The revenue for the second quarter of 2003 included the full quarter results of the Sanger, Windsor Locks and Crossroads facilities. Cogeneration Division revenue for the first six months of 2003 increased to $28.0 million from $8.9 million for the same period of 2002 due to the addition of these facilities.

Second quarter Cogeneration Division operating expenses were $11.8 million compared to $3.1 million in the same period of 2002. The increased expenses were the result of the assets included in the portfolio for the full second quarter of 2003. For the first six months of 2003, operating expenses were $18.0 million compared to $3.3 million during the same period in 2002 due to the additional assets in the portfolio.

The major overhaul at the Sanger facility was successfully completed by the end of May, 2003 at a cost of approximately $4.7 million ($US 3.4 million). The higher than anticipated overhaul costs were the result of more than expected wear and tear on the equipment. Management is currently assessing its alternatives in an effort to recover some of the costs incurred with respect to the overhaul. The Sanger facility has returned to normal operating efficiency levels and the overhaul will be amortized over its expected life of six years.

Cogeneration Division operating profit for the second quarter increased to $6.9 million from $4.2 million in 2002. For the first six months of 2003, operating profit increased to $10.0 million from $5.6 million in the same period of 2002.

Outlook

The Fund's focus continues to be identifying efficiency opportunities that will improve the performance of the Cogeneration Division. Management anticipates results for the Division to be in line with expectations for the balance of the year.

Management Discussion and Analysis

Infrastructure Division

All figures in thousands of dollars except as noted

	Second Quarter Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Performance				
Water reclamation customers	17,251	5,310	17,251	5,310
Water distribution customers	17,196	6,910	17,196	6,910
Revenues				
Water reclamation and distribution	5,547	1,822	8,895	2,942
Other Income	13	37	18	46
TOTAL	5,560	1,859	8,913	2,988
Expenses				
Operating Expenses	2,256	835	3,910	1,407
Division Operating Profit	3,304	1,024	5,003	1,581

Infrastructure Division second quarter revenue increased to $5.6 million in 2003 from $1.9 million in 2002. The increase is due to the inclusion of the Bella Vista water distribution facility, Litchfield Park Services Company water distribution and reclamation facility and two small water reclamation facilities in Texas for a full quarter. The Litchfield Park facility was acquired in February, 2003; the Bella Vista facility was acquired in May, 2002; and the two Texas facilities were acquired during the fourth quarter of 2002. In addition to the acquisition of the facilities referred to above, the Infrastructure Division continues to increase its customer base organically with second quarter growth of 3.5%.

For the first six months of 2003, revenue increased to $8.9 million from $3.0 million in 2002 as a result of the additional acquisitions and organic growth.

Operating expenses were $2.3 million in the second quarter of 2003, as compared to $0.8 million for the same period in 2002. For the first six months of 2003, operating expenses increased to $3.9 million from $1.4 million for the same period in 2002. The increased costs for both the quarter and first six months were the result of the additional facilities acquired and costs required to service the additional customers added organically.

Operating profit for this period increased to $3.3 million from $1.0 million in the second quarter of 2002. For the first six months of 2003, operating profit increased to $5.0 million from $1.6 million for the same period in 2002.

Outlook

Organic growth is anticipated to continue in the Fund's Infrastructure Division for the balance of the year at a strong pace. Management will continue to integrate the newly acquired facilities and to identify more opportunities to improve efficiencies.

Administrative Expenses

All figures in thousands of dollars except as noted

	Second Quarter Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Administrative Expenses	1,474	1,064	2,895	1,713
Unsuccessful Acquisitions	559	-	559	-
Management Costs	172	195	345	345
Withholding Taxes	157	325	280	522
(Gain) / Loss on Foreign Exchange	(8,506)	(1,408)	(13,731)	(1,403)
Interest Expense	3,133	2,105	5,196	3,561
Income Taxes	(3,001)	(303)	(1,085)	(1,338)

Administrative expenses increased to $1.5 million for the second quarter of 2003 compared to $1.1 million for the second quarter of 2002. For the first six months of 2003, administrative expenses increased to $2.9 million from $1.7 million. The increase both for the quarter and for the first six months was mainly the result of the additional costs associated with the growth of the Fund. This includes higher unitholder communication costs and other professional services including legal, audit and tax related costs. In addition, the costs related to the terminated acquisition of a biomass facility were expensed during this period.

The strengthening of the Canadian dollar against the U.S. dollar resulted in an unrealized foreign exchange gain of $8.5 million for the second quarter of 2003 (2002 - $1.4 million) and $13.7 million for the first six months of 2003 (2002 - $1.4 million) primarily as a result of the Fund holding U.S. dollar denominated loans.

Interest expense increased to $3.1 million in the second quarter of 2003 from $2.1 million in the second quarter of 2002 as a result of increased utilization of the acquisition line of credit and the additional project level debt that the Fund assumed when it acquired the Sanger and Litchfield Park facilities. For the first six months of 2003, interest expense increased to $5.2 million from $3.6 million for the same period in 2002.

During the second quarter of 2003, the Fund recorded a $3.0 million future tax recovery mainly relating to the tax losses in the KMS Power Income Fund entities. The Fund anticipates utilizing these tax losses before they expire.

Cash Available for Distribution

All figures in thousands of dollars except as noted

	Second Quarter Ended June 30		Six Months Ended June 30	
	2003	**2002**	**2003**	**2002**
Operating Cash Flow before Working Capital Changes	**17,514**	**13,756**	**27,801**	**22,206**
Capital Changes				
Receipt of Principal on Notes Receivable	667	683	1,557	959
Decrease / (increase) in reserves	527	1,221	198	1,124
Repayment of long-term liabilities	(143)	(411)	(354)	(567)
Maintenance Capital Expenditures	(206)	(146)	(476)	(302)
Other	(295)	(771)	(538)	(771)
Cash Available for Distribution	**18,064**	**14,332**	**28,188**	**22,649**
Cash Available for Distribution per trust unit	0.27	0.25	0.42	0.42
Distribution to Unitholders	**15,600**	**13,162**	**31,201**	**26,266**
Distribution to Unitholders per trust unit	0.23	0.23	0.46	0.46

During the second quarter of 2003, the Fund increased cash available for distribution to $18.1 million from $14.3 million in the same period of 2002. On a per unit basis, the Fund generated $0.27 of cash available for distribution in the second quarter of 2003, compared to $0.25 during the second quarter of 2002. For the first six months of 2003, the Fund generated $28.2 million of cash available for distribution compared to $22.6 million during the same period in 2002. This equates to $0.42 per trust unit for the first six months of both years.

The Fund distributed $15.6 million during the second quarter of 2003, up from $13.2 million in the second quarter of 2002. On a per unit basis, the Fund distributed $0.23 per trust unit for the second quarter in both 2003 and 2002. For the first six months, the Fund distributed $31.2 million during 2003 compared to $26.3 million during the same period in 2002 with per unit distributions at $0.46 per trust unit for the first six months of both 2003 and 2002.

Liquidity and Capital Reserves

At the end of the second quarter of 2003, the Fund had $29.7 million of cash and cash equivalents. The cash and cash equivalents position was strengthened by the net proceeds of the PSNH power purchase agreement renegotiation of $25.4 million which was used to pay down debt and fund working capital. As at June 30, 2003, the Fund had a positive net working capital of $15.6 million.

Long-term liabilities were $161.4 million at the end of the second quarter 2003, compared to $85.2 million as at the end of 2002. The increase in long-term liabilities since the end of 2002 is due to the addition of non-recourse facility level debt related to the Litchfield Park acquisition in the first quarter of 2003, as well as use of the Fund's credit line for the acquisition of the Windsor Locks and Litchfield Park facilities.

Currency and Gas Protection

The Fund continues to enjoy the benefits of forward contracts to fix its U.S. dollar exchange rate relative to expected future monthly cash flows. This provides for currency exchange protection of over 88% of the Fund's forecasted 2003 and 2004 distributions which are denominated in U.S. dollars at an average rate of $1.51 Cdn. per U.S. dollar. The Fund has entered into forward contracts that provide similar fixed exchange rate protection for approximately 55% of the forecasted U.S. dollar denominated cash flows for 2005, 2006 and 2007.

The Fund has also fixed the price of its natural gas exposure until 2007. After 2007 there is no exposure on those facilities using natural gas because of pass through provisions in their respective energy agreements, except for the Peel facility, which will be rehedged on a rolling basis.

Outlook

The Fund will continue to identify opportunities to optimize the performance of its portfolio. Management continues to focus its efforts on integrating the newly acquired facilities and identifying efficiency opportunities to enhance unitholder value.

The Fund will continue to look for opportunities to expand. The Fund anticipates investing approximately $16 million in the Infrastructure Division by the end of 2003 for the expansion of the current facilities to accommodate growth.

Note

Certain statements contained in the information herein are forward-looking and reflect the Fund's and its Manager's views with respect to future events. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Forward-looking statements are not guarantees of the Fund's future performance or results and are subject to various factors, including, but not limited to, assumptions such as those relating to: the performance of the Fund's assets, commodity market prices, interest rates, and environmental and other regulatory requirements. Although the Fund and its Manager believe that the assumptions inherent in these forward-looking statements are reasonable, undue reliance should not be placed on these statements, which apply only as of the dates hereof. The Fund and its Manager are not obligated nor do either of them intend to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Management Discussion and Analysis

June 30, 2003 and December 31, 2002

(thousands of Canadian dollars) Unaudited

	June 30 2003	December 31 2002
Assets		
Current assets		
Cash and cash equivalents	$ 29,725	$ 24,838
Accounts receivable	19,396	14,894
Prepaid expenses	1,616	692
Current portion of notes receivable	1,376	1,317
Future income tax asset	157	102
	52,270	41,843
Long-term investments	61,757	64,172
Future non-current income tax asset	6,501	4,083
Capital assets, net of amortization	631,516	547,880
Intangible assets, net of amortization	71,632	61,126
Funds held in reserve	4,121	2,548
Deferred costs	1,229	1,386
	$ 829,026	$ 723,038
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 22,141	$ 12,196
Due to Algonquin Power Group	753	1,241
Cash distribution payable	10,400	10,400
Current portion of long-term and other long-term liabilities	1,206	1,355
Current income tax liability	1,411	831
Future income tax liability	718	444
	36,629	26,467
Long-term liabilities	161,372	85,157
Other long-term obligations	9,127	7,392
Deferred credits	8,083	5,752
Future non-current income tax liability	64,846	46,839
Minority interest	14,334	13,660
Unitholders' equity		
Trust units	638,213	638,213
Deficit	(103,578)	(100,442)
	534,635	537,771
	$ 829,026	$ 723,038

Approved by the Trustees

For the six months ended June 30, 2003 and June 30, 2002

(thousands of Canadian dollars) Unaudited

	3 months ended June 30 2003	3 months ended June 30 2002	6 months ended June 30 2003	6 months ended June 30 2002
Revenue				
Energy sales	$ 33,118	$ 21,480	$ 53,840	$ 32,989
Waste disposal fees	3,574	3,131	7,104	3,673
Water reclamation and distribution	5,547	1,822	8,895	2,942
Interest, dividend and other income	1,995	1,927	3,577	4,484
	44,234	28,360	73,416	44,088
Expenses				
Operating	21,414	11,031	36,930	15,972
Amortization capital assets	5,737	4,128	10,928	7,142
Amortization intangible assets	1,213	793	2,360	1,018
Management costs	172	195	345	345
Administrative expenses	1,474	1,064	2,895	1,713
Acquisition costs	559	-	559	-
Withholding taxes	157	325	280	522
Loss / (gain) on foreign exchange	(8,506)	(1,408)	(13,731)	(1,403)
	22,220	16,128	40,566	25,309
Earnings before undernoted	22,014	12,232	32,850	18,779
Interest expense	3,133	2,105	5,196	3,561
Earnings before income taxes and minority interest	18,881	10,127	27,654	15,218
Current income taxes	509	149	813	208
Future income taxes	(3,510)	(452)	(1,898)	(1,546)
	(3,001)	(303)	(1,085)	(1,338)
Minority interest	337	138	674	118
Net earnings	21,545	10,292	28,065	16,438
Deficit, beginning of the period	(109,523)	(68,358)	(100,442)	(61,400)
Cash distributions	(15,600)	(13,162)	(31,201)	(26,266)
Deficit, end of the period	$ (103,578)	$ (71,228)	$ (103,578)	$ (71,228)
Basic and diluted earnings per trust unit	$ 0.32	$ 0.18	$ 0.41	$ 0.30

For the six months ended June 30, 2003 and June 30, 2002

(thousands of Canadian dollars) Unaudited

	3 months ended June 30 2003	3 months ended June 30 2002	6 months ended June 30 2003	6 months ended June 30 2002
Operating Activities				
Net earnings	$ 21,545	$ 10,292	$ 28,065	$ 16,438
Items not affecting cash				
Amortization of capital assets	5,737	4,128	10,928	7,142
Amortization of intangible assets	1,213	793	2,360	1,018
Other amortization	875	437	1,442	654
Minority interest	337	138	674	118
Distribution received less equity income	(10)	35	1	17
Future income taxes	(3,510)	(452)	(1,898)	(1,546)
Gain on foreign exchange	(8,673)	(1,615)	(13,771)	(1,635)
	17,514	13,756	27,801	22,206
Changes in non-cash operating working capital	3,911	2,064	2,539	1,020
	21,425	15,820	30,340	23,226
Financing Activities				
Cash distributions	(15,600)	(13,162)	(31,201)	(26,266)
Deferred costs	(112)	(771)	(177)	(771)
Other	(16)	-	(193)	-
Bank indebtedness	-	2,440	-	2,440
Net increase (decrease) in long-term liabilities	(143)	61,141	64,846	60,985
Deferred credits	233	-	610	-
	(15,638)	49,648	33,885	36,388
Investing Activities				
Increase in reserve funds	527	1,221	198	1,124
Receipt of principal on notes receivable	667	683	1,557	959
Additions to capital assets	(6,714)	(2,904)	(8,022)	(3,445)
Power Purchase contract renegotiation (note 4)	25,357	-	25,357	-
Acquisitions of operating entities (note 3)	(685)	(64,535)	(77,286)	(68,434)
	19,152	(65,535)	(58,196)	(69,796)
Effect of exchange rate differences on cash and cash equivalents	(875)	(649)	(1,142)	(649)
Increase (decrease) in cash	24,064	(716)	4,887	(10,831)
Cash and cash equivalents, beginning of the period	5,661	21,598	24,838	31,713
Cash and cash equivalents, end of the period	$ 29,725	$ 20,882	$ 29,725	$ 20,882
Supplemental disclosure of cash flow information				
Cash paid during the period for interest expense	$ 2,604	$ 1,873	$ 4,449	$ 3,328
Cash paid during the period for income taxes	$ 259	$ 49	$ 463	$ 108

For the six months ended June 30, 2003 and June 30, 2002

(thousands of Canadian dollars) Unaudited

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, 2002, as set out in the 2002 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, 2002 except as noted below.

Effective January 1, 2003 the Fund adopted Accounting Guideline 14 which requires certain disclosures to be made by a guarantor of obligations. The Fund has no such guarantees to disclose.

Effective January 1, 2003 the Fund designated its U.S. dollar forward contracts as hedges of its future United States dollar revenues.

The Fund has adopted early the recommendations of the Canadian Institute of Chartered Accountant's Handbook under the new handbook section 3063: "Impairment of Long-lived Assets." These recommendations require the Fund to test long-lived assets for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. An impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable. An impairment loss should be measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. If an impairment loss is recognized, the adjusted carrying amount becomes the new cost basis of the asset. Under early adoption, the Fund is required to apply the recommendations of this section retroactively to the beginning of its current fiscal year and restate prior interim financial statements of this year. During the first quarter, the Fund did not have any changes in circumstances to indicate that the carrying amounts of long-lived assets were not recoverable. During the second quarter, the Fund renegotiated its contracts with the Public Service Company of New Hampshire (see note 4). As a result of this change in circumstance, the Fund applied the recommendations of section 3063 and determined that there were no impairment adjustments required to the respective New Hampshire assets.

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 10, 2003 the Fund acquired a 56MW cogeneration facility in Windsor Locks, Connecticut and the related power sales contracts for total consideration of $43,863 (U.S. $29,928). The Windsor Locks generating station sells electricity to Connecticut Light and Power Company pursuant to a long-term power purchase agreement ending in 2010. In addition, the facility delivers steam energy and a small portion of electricity to a specialty fiber composites mill located adjacent to the facility pursuant to an energy services agreement ending in 2018.

On February 25, 2003 the Fund acquired the shares of Litchfield Park Service Company located in Phoenix, Arizona for $34,875 (U.S. $23,366) in the Infrastructure operating segment. The company currently services approximately 18,000 water and wastewater customers. This acquisition has contingent payments based on the level of growth in the customer base over the next five years.

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:

	Windsor Locks	Litchfield Park	Total
Working capital	$ -	$ (795)	$ (795)
Funds held in reserve	-	1,771	1,771
Capital assets	31,614	80,899	112,513
Intangible assets	12,249	1,781	14,030
Long-term liabilities assumed	-	(20,749)	(20,749)
Other long-term obligations assumed	-	(2,495)	(2,495)
Deferred credits	-	(2,128)	(2,128)
Future non-current income tax liability	-	(23,409)	(23,409)
Total purchase price	43,863	34,875	78,738
Less: cash acquired	-	(1,452)	(1,452)
Cash consideration paid	$ 43,863	$ 33,423	$ 77,286

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

4. Power Purchase Contract Renegotiation

On May 31, 2003, the Fund completed the renegotiation of 13 power purchase agreements with rate orders with Public Service Company New Hampshire ("PSNH"). This represents the total New Hampshire hydroelectric portfolio of the Fund. The total proceeds from this transaction were $28,295 (US$20,437). Of the total proceeds, $2,938 (US$2,122) has been placed into escrow pending the resolution of payment of certain lease obligations with the State of New Hampshire. The financial statements do not reflect any balance for the funds held in escrow as the certainty of the Fund receiving these proceeds is not known at this time. The net proceeds of $25,357 have been used to pay down debt and fund working capital. The respective assets of the New Hampshire operations have been reduced by the amount of the net proceeds, accordingly no gain or loss has been recognized. The Fund will continue to own and operate the 13 small hydroelectric generating facilities and will sell all the electrical output from the facilities to PSNH at current market rates.

5. Segmented Information

The Fund operates in four business categories: hydroelectric; natural gas co-generation; alternative fuels; and infrastructure assets. The operations and assets for these segments are outlined in the following tables.

	3 months ended June 30 2003	3 months ended June 30 2002	6 months ended June 30 2003	6 months ended June 30 2002
Revenue				
Canada	$ 14,871	$ 13,900	$ 27,245	$ 24,819
United States	29,363	14,460	46,171	19,269
	$ 44,234	28,360	73,416	44,088

	June 30, 2003	December 31, 2002
Capital Assets		
Canada	$ 334,043	$ 336,897
United States	297,473	210,983
	$ 631,516	547,880

	June 30, 2003	December 31, 2002
Intangible Assets		
Canada	$ 29,835	$ 31,134
United States	41,797	29,992
	$ 71,632	61,126

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 in the following tables.

Three months ended June 30, 2003

	Hydro	Cogeneration	Alternative Fuels	Infrastructure	Admin	Total
Revenue						
Energy sales	14,468	17,127	1,523	-	-	33,118
Waste disposal fees	-	-	3,574	-	-	3,574
Water reclamation and distribution	-	-	-	5,547	-	5,547
Interest, dividend and other income	144	1,493	294	13	51	1,995
Total Revenue	14,612	18,620	5,391	5,560	51	44,234
Operating expenses	4,165	11,762	3,231	2,256	-	21,414
Operating profit	10,447	6,858	2,160	3,304	51	22,820
Other administration costs	(127)	-	(62)	(10)	6,343	6,144
Interest expense	(1,281)	(171)	(59)	(614)	(1,008)	(3,133)
Amortization of capital assets	(2,551)	(1,096)	(1,016)	(1,074)	-	(5,737)
Amortization of intangible assets	(103)	(620)	(472)	(18)	-	(1,213)
Earnings before income taxes and minority interest	6,385	4,971	551	1,588	5,386	18,881
Capital assets	304,783	92,908	93,459	140,366	-	631,516
Intangible assets	162	37,855	31,152	2,463		71,632
Capital expenditures	-	6,493	102	1,562	-	8,157
Intangible expenditures	-	(758)	-	-	-	(758)

Three months ended June 30, 2002

	Hydro	Cogeneration	Alternative Fuels	Infrastructure	Admin	Total
Revenue						
Energy sales	13,888	6,290	1,302	-	-	21,480
Waste disposal fees	-	-	3,131	-	-	3,131
Water reclamation and distribution	-	-	-	1,822	-	1,822
Interest, dividend and other income	184	937	205	37	564	1,927
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	10,055	4,165	1,521	1,024	564	17,329
Other administration expenses	(207)	-	-	-	31	(176)
Interest expense	(1,303)	(77)	(64)	(28)	(633)	(2,105)
Amortization of capital assets	(2,794)	(254)	(843)	(237)	-	(4,128)
Amortization of intangible assets	(98)	(205)	(490)	-	-	(793)
Earnings before income taxes and minority interest	5,653	3,629	124	759	(38)	10,127
Capital assets (Dec 31, 2002)	333,431	62,726	92,947	58,776	-	547,880
Intangible assets (Dec 31, 2002)	1,490	26,428	32,488	720	-	61,126
Capital expenditures	1	63,791	2,304	36,726	-	102,822
Intangible expenditures	-	14,925	-	730	-	15,655

	Six months ended June 30, 2003					
	Hydro	Cogeneration	Alternative Fuels	Infrastructure	Admin	Total
Revenue						
Energy sales	25,255	25,411	3,174	-	-	53,840
Waste disposal fees	-	-	7,104	-	-	7,104
Water reclamation and distribution	-	-	-	8,895	-	8,895
Interest, dividend and other income	256	2,560	607	18	136	3,577
Total Revenue	25,511	27,971	10,885	8,913	136	73,416
Operating expenses	8,603	17,996	6,421	3,910	-	36,930
Operating profit	16,908	9,975	4,464	5,003	136	36,487
Other administration costs	(173)	-	(124)	(19)	9,968	9,652
Interest expense	(2,576)	(292)	(156)	(782)	(1,390)	(5,196)
Amortization of capital assets	(5,432)	(1,720)	(2,015)	(1,761)	-	(10,928)
Amortization of intangible assets	(206)	(1,112)	(1,012)	(30)	-	(2,360)
Earnings before income taxes and minority interest	8,521	6,851	1,157	2,411	8,714	27,655
Capital assets	304,783	92,908	93,459	140,366	-	631,516
Intangible assets	162	37,855	31,152	2,463		71,632
Capital expenditures	-	36,792	462	83,281	-	120,535
Intangible expenditures	-	12,249	-	1,781	-	14,030

	Six months ended June 30, 2002					
	Hydro	Cogeneration	Alternative Fuels	Infrastructure	Admin	Total
Revenue						
Energy sales	24,269	6,685	2,035	-	-	32,989
Waste disposal fees	-	-	3,673	-	-	3,673
Water reclamation and distribution	-	-	-	2,942	-	2,942
Interest, dividend and other income	297	2,178	1,277	46	686	4,484
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	17,133	5,587	3,129	1,581	686	28,116
Other administration expenses	(214)	-	-	-	(963)	(1,177)
Interest expense	(2,608)	(77)	(64)	(28)	(784)	(3,561)
Amortization of capital assets	(5,402)	(260)	(1,160)	(320)	-	(7,142)
Amortization of intangible assets	(205)	(242)	(571)	-	-	(1,018)
Earnings before income taxes and minority interest	8,704	5,008	1,334	1,233	(1,061)	15,218
Capital assets (Dec 31, 2002)	333,431	62,726	92,947	58,776	-	547,880
Intangible assets (Dec 31, 2002)	1,490	26,428	32,488	720	-	61,126
Capital expenditures	159	68,305	83,992	37,102	-	189,558
Intangible expenditures	-	28,177	28,289	731	-	57,197

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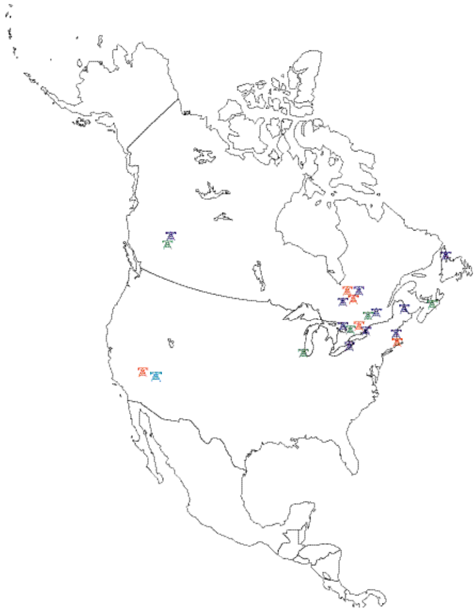

Alternative Fuels

Brooklyn, Nova Scotia • Joliet, Illinois • Chapais, Québec • Drayton Valley, Alberta • KMS Peel, Ontario

Cogeneration

Cardinal, Ontario • Cochrane, Ontario • Kirkland Lake, Ontario • Crossroads, New Jersey
Sanger, California • Windsor Locks, Connecticut

Hydroelectric

Adams, New York • Arthurville, Québec • Ashuelot, New England • Avery, New England
Belleterre, Québec • Burgess Dam, Ontario • Burt Dam, New York • Campbellford, Ontario
Christine Falls, New York • ChuteFord, Québec • Clement Dam, New England
Cranberry Lake, New York • Dickson Dam, Alberta • Donnacona, Québec • Drag Lake, Ontario
Forestport, New York • Franklin, New England • Great Falls, New Jersey • Gregg Falls, New England
Hadley, New England • Herkimer, New York • Hollow Dam, New York • Hopkinton, New England
Hurdman Dam, Ontario • Kayuta Lake, New York • Kings Falls, New York • Lakeport, New England
Lochmere, New England • Long Sault Rapids, Ontario • Lower Robertson, New England • Milton, New England
Mine Falls, New England • Moretown, New England • Mont-Laurier, Québec • Odgensburg, New York
Otter Creek, New York • Pembroke, New England • Phoenix, New York • Rattle Brook, Newfoundland
Rawdon, Québec • Rivière-du-Loup, Québec • Saint-Alban, Québec • Ste-Brigitte, Québec
Ste-Catherine, Québec • St-Hyacinthe, Québec • St-Raphaël, Québec • Worcester, New England

Infrastructure

Bella Vista, Arizona • Black Mountain, Arizona • Gold Canyon, Arizona • Litchfield Park, Arizona
Tall Timbers, Texas • Woodmark, Texas

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