

EXPERIENCE • STABILITY • OPPORTUNITY



Second Quarter Report
June 30, 2004

ALGONQUIN
 **POWER**
Income Fund

Report to Unitholders

The Algonquin Power Income Fund maintained distributions at \$0.23 per trust unit during the second quarter, 2004, consistent with the second quarter, 2003. Other performance highlights for the second quarter, 2004 include:

- Revenue of \$41.9 million compared to \$42.2 million for the second quarter, 2003
- Adjusted net earnings for unrealized foreign exchange gains and losses, were \$10.1 million compared to \$12.9 million in the comparative period, 2003. Net earnings were \$8.1 million compared to \$21.5 million for the second quarter, 2003.
- Net earnings per trust unit were \$0.12 compared to \$0.32 for the second quarter, 2003.
- Cash available for distribution of \$0.27 per trust unit consistent with the second quarter, 2003 which compared to second quarter distributions of \$0.23 for both 2004 and 2003

Six Months Ended June 30, 2004

The Fund reported revenue of \$79.1 million compared to \$69.8 million for the same period, 2003. After adjusting net earnings for unrealized foreign exchange gains and losses, net earnings for the six months ended June 30, 2004 were \$14.8 million compared to \$14.3 million the year previous. Net earnings for the period were \$11.4 million compared to \$28.1 million for the same period, 2003. Net earnings per trust unit for the first six months, 2004 were \$0.17 compared to \$0.41 per trust unit for the comparative period of 2003. Cash available for distribution was \$0.46 per trust unit compared to \$0.42 for the same period, 2003. This compared to distributions of \$0.46 per trust unit, consistent with the first half, 2003.

Financial Highlights

- The strengthening of the Canadian dollar versus the U.S. dollar is impacting the U.S. dollar denominated loans of the Fund. The Fund posted an unrealized foreign exchange loss of \$2.1 million during the second quarter, 2004 compared to an unrealized foreign exchange gain of \$8.7 million during the comparative period, 2003. For the first six months of 2004, the Fund posted an unrealized foreign exchange loss of \$3.4 million compared to an unrealized foreign exchange gain of \$13.8 million during the first six months

of 2003. The Fund had approximately \$51 million in U.S. dollar denominated debt at the end of the second quarter this year.

- The Fund received a loan payment of \$18.5 million from Cardinal Power of Canada, LP during the quarter. A \$3.6 million note receivable prepayment was recognized as income in the results.
- The Fund completed the acquisition of the remaining 52.7% of the outstanding principal amount of the convertible debentures of KMS Power Income Fund by issuing 1,803,983 trust units of the Fund for total consideration of \$16.7 million. As a result, interest expense decreased to \$2.7 million in the second quarter, 2004 compared to \$3.1 million in the comparative period the year previous.
- In early July, subsequent to the end of the second quarter, the Fund completed an offering of \$85 million of seven year convertible unsecured debentures bearing a coupon of 6.65%, paid semi annually. These terms and conditions are consistent with offerings within the Fund's peer group.

Operating Highlights

- Overall, the Fund's Hydroelectric, Cogeneration, Alternative Fuels and Infrastructure Divisions generated a total of 96% of forecasted revenue, spent 99% of forecasted operating expenses and achieved 93% of forecasted operating profit during the quarter.
- The Cogeneration Division posted a strong quarter led by the Windsor Locks, Connecticut facility which contributed \$8.9 million in additional revenue year-to-date.
- Hydroelectric facilities in New York, operating in the open market, met or exceeded rate predictions for the eighth consecutive month. In New England, facilities operating in the open market for the past four quarters have also exceeded predictions.

Fund management continues to search for opportunities in its target markets that will offer highly predictable cash flows and regulated market structure.

Thank you for your continuing support as the Algonquin Power Income Fund focuses on maintaining stable cash flows and growing the portfolio during the second half of 2004 and beyond.

Management Discussion and Analysis

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

For the quarter ended June 30, 2004, the Fund reported total revenue of \$41.9 million compared to \$42.2 million for the same period in 2003. Revenue for the second quarter of 2004 decreased slightly due to the combination of higher cogeneration and infrastructure revenues being partially offset by lower power rates earned in New England. Electricity is being sold at market rates in New England as a result of the Fund renegotiating power purchase agreements in return for a fee during the second quarter of 2003.

After adjusting net earnings for unrealized foreign exchange gains and losses, net earnings for the quarter ended June 30, 2004 were \$10.1 million compared to \$12.9 million for the quarter ended June 30, 2003. Net earnings for the second quarter of 2004 were \$8.1 million compared to \$21.5 million for the same period in 2003. Net earnings per trust unit decreased to \$0.12 in the second quarter of 2004 from \$0.32 in the second quarter of 2003.

The Fund generated \$0.27 per trust unit of cash available for distribution for the second quarter 2004, consistent with the second quarter of 2003.

During the second quarter of 2004, the Fund maintained distributions at \$0.23 per trust unit, consistent with the same period in 2003.

For the six months ended June 30, 2004, the Fund reported revenue of \$79.1 million compared to \$69.8 million for the same period in 2003. Revenue increased primarily due to the addition of the Windsor Locks generating facility and Litchfield Park Service Company during the first quarter of 2003. The revenue increase was partially offset by lower power rates earned on the New England hydroelectric facilities.

After adjusting net earnings for unrealized foreign exchange gains and losses, net earnings for the six months ended June 30, 2004 were \$14.8 million compared to \$14.3 million for the same period in the prior year. Net earnings for the six months ended June 30, 2004 were \$11.4 million, compared to \$28.1 million for the same period in 2003. Net earnings per trust unit for the six months ended June 30, 2004 were \$0.17 compared to \$0.41 per trust unit for the same period in the prior year.

The Fund generated \$0.46 per trust unit of cash available for distribution for the six months ended June 30, 2004 compared to \$0.42 for the same period in 2003.

The Fund distributed \$0.46 per trust unit, consistent with the same period in 2003.

Selected Financial Information

	Three Months ended June 30		Six Months ended June 30	
	2004	2003	2004	2003
Revenues	41,895	42,239	79,115	69,839
Net income	8,067	21,545	11,403	28,065
Distribution to unitholders	15,738	15,600	31,339	31,201
Cash available for distribution	18,283	18,064	31,346	28,188
Per unit				
Net income	0.12	0.32	0.17	0.41
Distribution to unitholders	0.23	0.23	0.46	0.46
Cash available for distribution	0.27	0.27	0.46	0.42

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 months ended June 30, 2004, as well as the audited consolidated financial statements and the related Management Discussion and Analysis contained in the 2003 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

	Three Months ended June 30		Six Months ended June 30	
	2004	2003	2004	2003
Performance (MW-hrs sold)				
Quebec Region	88,494	82,803	149,351	121,745
Ontario Region	38,095	30,671	74,823	58,376
New England Region	26,836	29,045	43,403	46,819
New York Region	23,608	30,839	43,053	50,283
Western Region	<u>15,221</u>	<u>24,036</u>	<u>24,807</u>	<u>33,487</u>
Total	192,254	197,394	355,437	310,710
Revenues				
Energy sales	\$12,174	\$14,467	\$23,186	\$25,255
Expenses				
Operating expenses	\$(4,440)	\$(4,165)	\$(8,789)	\$(8,603)
Other income	233	144	304	256
Division operating profit (incl. other income)	\$7,967	\$10,446	\$14,701	\$16,908

Second quarter revenue from the Hydroelectric Division was \$12.2 million in 2004 compared to \$14.5 million in the second quarter of 2003. The decrease in revenue is primarily due to lower power rates earned in New Hampshire where the Fund is currently selling electricity at market rates after renegotiating the power purchase agreements in return for a lump sum payment in 2003. During the quarter, the Fund’s Hydroelectric Division power generation was 98.6% of long-term averages compared to 101.0% during the same period in the prior year. For the six months ended June 30, 2004, revenue from the Hydroelectric Division was \$23.2 million compared to \$25.3 million in the prior year. Higher energy generated during the current year was partially offset by lower power rates earned on the New Hampshire facilities.

Operating expenses increased to \$4.4 million for the second quarter of 2004 compared to \$4.2 million in the second quarter of 2003. For the six months ended June 30, 2004, operating expenses were \$8.8 million compared to \$8.6 million in the prior year. The increase is primarily due to higher operating and repair and maintenance costs.

For the second quarter of 2004, the Hydroelectric Division’s operating profit decreased to \$8.0 million from \$10.4 million in the second quarter of 2003. For the six months ended June 30, 2004, operating profit decreased to \$14.7 million compared to \$16.9 million for the same period in 2003. The decline in operating profit for both the quarter and year-to-date is primarily the result of lower revenue. For both the quarter and on a year-to-date basis, operating profit was below management’s expectations primarily due to higher repair and maintenance expenditures.

Outlook

Water levels in regions in which the Fund’s hydroelectric facilities are located are approaching long- term averages this year, contributing to the significantly improved hydrologic conditions. The Fund’s three largest hydroelectric facilities, Long Sault, Côte Ste Catherine and Dickson Dam, which account for 50% of the total gross revenue, are expected to generate power consistent with long-term averages in the third quarter of 2004. In addition, many of the upstream reservoirs that provide summer flow to the generating facilities remain at above average levels as a result of increased early summer precipitation and should be able to sustain average flows through the third quarter.

Cogeneration Division

	Three Months ended June 30		Six Months ended June 30	
	2004	2003	2004	2003
Performance (MW-hrs sold)	128,885	111,948	252,457	169,784
Revenues				
Energy sales	\$18,776	\$17,127	\$34,797	\$25,411
Expenses				
Operating expenses	\$(13,115)	\$(11,762)	\$(25,533)	\$(17,996)
Interest and dividend income	1,259	1,493	2,405	2,560
Division operating profit (incl. interest and dividend income)	\$6,920	\$6,858	\$11,669	\$9,975

Second quarter revenue from the Cogeneration Division totaled \$18.8 million compared to \$17.1 million in the second quarter of 2003. The increase in revenue is due to higher fuel costs primarily at the Windsor Locks facility where fuel costs are passed through to the customer. For the six months ended June 30, 2004, revenue was \$34.8 million compared to \$25.4 million during the same period in the prior year. The increased revenue is attributable to the addition of the Windsor Locks facility, which contributed an additional \$8.9 million in revenue. The additional revenue from Windsor Locks was partially offset by an unplanned gas turbine outage caused by a component failure at the Sanger facility in February. The lost revenue, net of variable costs and associated repair costs resulting from the February unplanned outage, was covered by insurance subject to a 30-day waiting period. There is a US\$300,000 deductible for the repairs.

Operating expenses increased to \$13.1 million in the second quarter of 2004 from \$11.8 million in the second quarter of 2003. The increase is primarily a result of higher fuel costs at the Windsor Locks facility. In addition to the February unplanned outage, during the May major maintenance inspection at the Sanger facility, turbine seal damage was identified and repaired. This repair was covered by insurance. Accordingly, only the insurance deductible of US\$300,000 was accrued in the accounts. There was no net revenue loss associated with the May turbine repair. For the six months ended June 30, 2004, expenses increased to \$25.5 million from \$18.0 million primarily due to the addition of the Windsor Locks facility during the first quarter of 2003. This facility added an additional \$6.8 million in operating costs for the six months ended June 30, 2004 compared to the same period in 2003. The Fund recognized costs associated with the Sanger turbine repairs during both the first and second quarter, including the insurance deductibles and other repairs not covered by insurance.

Operating profit for the second quarter of 2004 was \$6.9 million consistent with the second quarter of 2003. Operating profit for the six months ended June 30, 2004 was \$11.7 million compared to \$10.0 million for the same period in 2003. The slight decrease for the second quarter of 2004 and the increase for the six

months ended June 30, 2004 are a result of the fluctuations in the revenue and operating expenses. Operating profit for the second quarter exceeded management expectations primarily due to lower maintenance and repair costs. Operating profit for the six months ended June 30, 2004 was below management’s expectations primarily due to the February unplanned turbine outage at the Sanger facility.

Outlook

The Fund’s major facilities, Windsor Locks and Sanger, are expected to continue to perform well. The costs of the recent repairs at Sanger and the lost revenues due to the repairs are covered by insurance policies, subject to a short waiting period and a modest deductible. Management expects to recover some of the lost revenue over the coming months from improved mechanical performance and the optimization of gas sales at the Sanger facility.

 Alternative Fuels Division

	Three Months ended June 30		Six Months ended June 30	
	2004	2003	2004	2003
Performance (MW-hrs sold)	21,733	24,975	44,725	48,719
Performance (tonnes waste processed)	40,241	38,450	78,709	77,499
Revenues				
Energy sales	\$1,341	\$1,524	\$2,837	\$3,174
Waste disposal sales	<u>3,561</u>	<u>3,574</u>	<u>6,985</u>	<u>7,104</u>
Total revenues	\$4,902	\$5,098	\$9,822	\$10,278
Expenses				
Operating expenses	\$(3,365)	\$(3,231)	\$(6,590)	\$(6,421)
Interest and dividend income	235	294	453	607
Division operating profit (incl. interest and dividend income)	\$1,772	\$2,161	\$3,685	\$4,464

Second quarter revenue from the Alternative Fuels Division totaled \$4.9 million compared to \$5.1 million in 2003. For the six months ended June 30, 2004, revenue was \$9.8 million compared to \$10.3 million for the same period in the prior year. The decrease in revenue for both the second quarter and six months ending June 30 was caused by lower electricity produced at the Peel Energy-from-Waste facility (Peel) due to waste processing equipment problems during the first quarter and continued waste processing issues and flue gas abatement systems.

Operating expenses for the second quarter of 2004 were \$3.4 million compared to \$3.2 million for the same period in 2003. For the six months ended June 30, 2004, operating expenses were \$6.6 million compared to \$6.4 million for the same period during 2003. The increase for both the quarter and six-month period is primarily the result of higher repair and maintenance costs incurred during the first half of 2004, including equipment repairs at the Peel facility and Valley Power.

Operating profit for the second quarter of 2004 amounted to \$1.8 million compared to \$2.2 million in the second quarter of 2003. Operating profit for the six months ended June 30, 2004 was \$3.7 million compared to \$4.5 million for the same period in 2003. The decline in operating profit for both the quarter and the first six months of 2004 is a result of lower revenue. Operating profit for both the second quarter and for the six months ended June 30, 2004 was below management’s expectations primarily due to lower revenue earned at the Peel facility.

Outlook

Throughput at the Peel facility continues to improve as process improvements are being developed and introduced into the operations. The Valley Power facility is expected to perform well during the third quarter as the major maintenance was completed ahead of normal schedule during the first half of the year.

 Infrastructure Division

	Three Months ended June 30		Six Months ended June 30	
	2004	2003	2004	2003
Number of				
Water reclamation customers	19,847	17,251	19,847	17,251
Water distribution customers	18,702	17,196	18,702	17,196
Revenues				
Water reclamation and distribution	\$6,043	\$5,547	\$11,310	\$8,895
Expenses				
Operating expenses	\$(3,171)	\$(2,256)	\$(5,772)	\$(3,910)
Other income	3	13	6	18
Division operating profit (incl. other income)	\$2,875	\$3,304	\$5,544	\$5,003

Second quarter 2004 revenue from the Infrastructure Division increased to \$6.0 million from \$5.5 million in 2003. Revenue for the six months ended June 30, 2004 increased to \$11.3 million from \$8.9 million for the same period during the prior year. The increase in revenue for both the second quarter and the six months is primarily due to a greater number of service connections in place. In addition, for the six months ended June 30, 2004 the inclusion of Litchfield Park Services Company (Litchfield Park) contributed approximately \$2.0 million to revenue. Litchfield Park was acquired during the first quarter of 2003.

Operating expenses increased to \$3.2 million in the second quarter of 2004 from \$2.3 million in the second quarter of 2003. The increase was primarily due to higher operating costs. For the six months ended June 30, 2004, operating expenses were \$5.8 million compared to \$3.9 million for the same period during the prior year. This increase is primarily due to the inclusion of the Litchfield Park facility for a full six months. This resulted in approximately \$0.9 million of additional costs.

Operating profit for the second quarter of 2004 decreased to \$2.9 million from \$3.3 million for the same period during the prior year due to higher operating

costs. Operating profit for the six months ended June 30, 2004 increased to \$5.5 million from \$5.0 million in the prior year due to the inclusion of Litchfield Park for the full six months of 2004. Operating profit for the second quarter of 2004 and for the six months ended June 30, 2004 was below forecast due to lower than forecasted growth and higher operating costs.

Outlook

Organic growth in the customer base of the Fund’s water distribution and reclamation facilities is expected to continue in 2004 at approximately the same rate as the 14% achieved over the last 12 months. Higher temperatures will result in increased per capita water consumption and increased revenue. Growth is expected to continue at the Division’s largest system, Litchfield Park in Arizona, which is located in one of the fastest growing counties in the United States. Moderate growth continues in the Division’s other systems.

Administrative expenses

	Three Months ended June 30		Six Months ended June 30	
	2004	2003	2004	2003
Administrative expenses	\$1,328	\$1,474	\$2,627	\$2,895
Management costs	197	172	385	345
Withholding taxes	133	157	214	280
Business development costs	-	559	-	559
(Gain) / loss on foreign exchange	2,024	(8,506)	3,434	(13,731)
Interest expense	2,698	3,133	5,380	5,196
Income from note receivable prepayment	(3,634)	-	(3,634)	-
Interest, dividend and other income	(1,792)	(1,995)	(3,662)	(3,577)
Income tax expense (recovery)	526	(3,001)	(55)	(1,085)

Administrative expenses for the second quarter of 2004 were \$1.3 million compared to \$1.5 million during the same period in 2003. For the six months ended June 30, 2004 administrative expenses were \$2.6 million compared to \$2.9 million for the same period during the prior year. The decrease in administration costs is primarily the result of lower legal costs.

For the second quarter of 2004 the Fund posted an unrealized foreign exchange loss of \$2.1 million versus an unrealized foreign exchange gain of \$8.7 million for the second quarter of 2003. For the six months ended June 30, 2004 the Fund posted an unrealized foreign exchange loss of \$3.4 million compared to an unrealized foreign exchange gain of \$13.8 million for the same period in the prior year. The strengthening of the Canadian dollar versus the US dollar is impacting the US dollar denominated loans of the Fund. At the end of the second quarter, the Fund had approximately \$51 million in US dollar denominated debt.

Interest expense decreased to \$2.7 million in the second quarter of 2004 from \$3.1 million in the second quarter of 2003 as a result of a greater portion of the KMS convertible debentures converting to equity for accounting purposes during the quarter. For the six months ended June 30, 2004, interest expense increased

to \$5.4 million from \$5.2 million for the same period in 2003 due to additional project level debt acquired with the acquisition of Litchfield Park Service Company and the utilization of the line of credit for an increased amount.

During the second quarter of 2004 the Fund recognized \$3.6 million for a note receivable prepayment. The Fund's loan to Cardinal Power of Canada, LP totaling \$18.5 million was repaid during the quarter plus a prepayment fee of \$3.6 million.

Cash Available for Distribution

	Three Months ended June 30		Six Months ended June 30	
	2004	2003	2004	2003
Cash flow from operating activities	\$18,293	\$21,425	\$29,615	\$30,340
Changes in working capital	839	(3,911)	2,062	(2,539)
Operating cash flow before working capital changes	19,132	17,514	31,677	27,801
Receipt of principal on notes receivable	1,076	667	2,603	1,557
Decrease / (increase) in reserves	(71)	527	(66)	198
Repayment of long-term liabilities	(173)	(143)	(355)	(354)
Maintenance capital expenditures	(690)	(206)	(1,226)	(476)
Other	(991)	(295)	(1,287)	(538)
Cash available for distribution	\$18,283	\$18,064	\$31,346	\$28,188
Cash available for distribution per trust unit	\$0.27	\$0.27	\$0.46	\$0.42
Distribution to unitholders	\$15,738	\$15,600	\$31,339	\$31,201
Distributions to unitholders per trust unit	\$0.23	\$0.23	\$0.46	\$0.46

During the second quarter of 2004 the Fund generated \$18.3 million in distributable cash compared to \$18.1 million for the same period during 2003. For the six months ended June 30, 2004, the Fund generated \$31.3 million of distributable cash compared to \$28.2 million for the same period in 2003. On a per trust unit basis, the Fund generated \$0.27 of distributable cash for the second quarter of 2004 consistent with the second quarter of 2003 and \$0.46 for the six months ended June 30, 2004 compared to \$0.42 for the same period during the prior year. The Fund distributed \$15.7 million during the second quarter of 2004 compared to \$15.6 million for the second quarter of 2003. For the six months ended June 30, 2004 the Fund distributed \$31.3 million compared to \$31.2 million for the same period during 2003.

On a per unit basis, the Fund maintained distributions at \$0.23 per trust unit for the second quarter of 2004, consistent with 2003, and \$0.46 for the six months ended June 30, 2004, consistent with 2003.

Liquidity and Capital Reserves

At the end of the second quarter of 2004 the Fund had \$31.8 million of cash and cash equivalents. The Fund also had positive net working capital of \$21.7 million.

Long-term liabilities increased slightly to \$166.6 million at the end of the second quarter 2004 compared to \$165.1 million at the end of 2003.

At the end of the first quarter of 2004 the Fund maintained its strong balance sheet position with a long-term debt-to-equity ratio of 32 %.

At the end of June 2004, the Fund completed the acquisition of the remaining 52.7% of the outstanding principal amount of the convertible debentures of KMS Power Income Fund by issuing 1,803,983 trust units of the Fund for total consideration of \$16.7 million. This will result in eliminating all interest payments related to these convertible debentures and eliminate all minority interest from the balance sheet.

Contractual Obligations

Information concerning contractual obligations is shown below:

	Total	Due less than 1 year	Due 2 to 3 years	Due 4 to 5 years	Due after 5 years
Long-term debt obligations	167,414	864	2,161	2,581	161,808
Other obligations	11,003	479	1,204	5,134	4,186
Total obligations	178,417	1,343	3,365	7,715	165,994

Dealings with Algonquin Power Group

During the first quarter of 2004 companies related to the Manager provided operations and technical services on a cost-recovery basis. Details of the quarterly payments are outlined in note 4 of the financial statements.

Risk Management

The Fund continues to diversify its operations, both operationally (hydro, cogeneration, alternative fuels and infrastructure) and geographically (Canada and US). The inclusion of cogeneration and alternative fuel facilities has added commodity price risk to the Fund’s existing currency risk. During the second quarter of 2004, the Fund continued its attempt to reduce the impact of exchange rate fluctuations by utilizing forward contracts as required to fix the foreign exchange rate on cash flows for monthly distributions. The Fund has 93% of its 2004 and 2005 forecasted US cash flow after capital expenditures hedged.

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Experience

Stability

Opportunity

The Fund has also fixed its forecasted gas consumption using natural gas fixed-price contracts and future purchase contracts, thereby fixing its forecasted natural gas exposure for 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 Energy-from-Waste facility, which will be re-hedged on a rolling basis.

Changes in Accounting Policies

As of January 1, 2004, the Fund implemented Section 3110 of the CICA Handbook, Asset Retirement Obligation. Under this standard, the asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The asset retirement costs are depreciated over the asset's useful life and included in depreciation and amortization expense on the Consolidated Statement of Earnings and Deficit. Actual expenditures incurred are charged against the accumulated obligation.

During the first half of 2004, the Fund completed an analysis of existing properties including a review of existing contracts (leases, etc.) and current statutory requirements. Management has determined that a provision for retirement obligations is currently not required.

Subsequent Event

In July 2004, the Fund completed an offering of \$85 million of convertible unsecured debentures. The debentures are due July 31, 2011 and bear interest at 6.65% per annum, payable semi-annually in arrears. The debentures are to be repaid in cash or units and will be convertible at any time up to maturity at the option of the holder into units of the Fund at a conversion price of \$10.65 per trust unit. The debentures may not be redeemed by the Fund prior to July 31, 2007. Proceeds from the debenture offering were used to repay the acquisition line of credit and fund working capital.

Quarterly Financial Information

millions of dollars except per trust unit amounts

	3rd Qtr 2003	4th Qtr 2003	1st Qtr 2004	2nd Qtr 2004	Total
Revenues	39.9	40.9	39.1	41.9	161.8
Net earnings	10.0	6.5	3.3	8.1	27.9
Net earnings per trust unit	0.15	0.10	0.05	0.12	0.42
Total Assets	822.2	820.3	812.5	809.0	809.0
Long-term debt	177.8	185.3	186.4	189.7	189.7
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

	3rd Qtr 2002	4th Qtr 2002	1st Qtr 2003	2nd Qtr 2003	Total
Revenues	25.1	25.6	29.2	42.2	122.1
Net earnings	(3.8)	3.6	6.5	21.5	27.8
Net earnings per trust unit	(0.07)	0.05	0.10	0.32	0.40
Total Assets	712.5	723.0	828.7	829.0	829.0
Long-term debt	165.8	98.3	185.7	178.6	178.6
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

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.

Consolidated Balance Sheets
June 30, 2004 and December 31, 2003
(thousands of Canadian dollars)

	June 30, 2004 Unaudited	December 31, 2003
Assets		
Current assets		
Cash and cash equivalents	\$ 31,778	\$ 21,238
Accounts receivable	25,047	20,297
Prepaid expenses	1,579	1,530
Current portion of notes receivable	469	1,478
Future income tax asset	53	105
	<u>58,926</u>	<u>44,648</u>
Long-term investments (note 6)	39,171	59,190
Future non-current income tax asset	7,265	6,809
Capital assets, net of amortization	615,697	622,051
Intangible assets, net of amortization	82,276	82,334
Funds held in reserve	4,029	3,963
Deferred costs	1,613	1,300
	<u>\$ 808,977</u>	<u>\$ 820,295</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 21,813	\$ 19,907
Due to Algonquin Power Group	949	1,035
Cash distribution payable	10,539	10,400
Current portion of long-term liabilities	1,309	1,961
Current income tax liability	1,369	1,142
Future income tax liability	1,201	866
	<u>37,180</u>	<u>35,311</u>
Long-term liabilities	166,563	165,117
Other long-term liabilities	10,541	9,622
Deferred credits	12,602	10,627
Future non-current income tax liability	66,187	64,683
Minority interest (note 7)	-	15,059
Unitholders' equity		
Trust units	654,177	638,213
Deficit	(138,273)	(118,337)
	<u>515,904</u>	<u>519,876</u>
	<u>\$ 808,977</u>	<u>\$ 820,295</u>

Approved by the Trustees

George Steves *A. Moore*

Consolidated Statements of Earnings and Deficit
For the six months ended June 30, 2004 and June 30, 2003
(thousands of Canadian dollars)
Unaudited

	3 months ended June 30		6 months ended June 30	
	2004	2003	2004	2003
Revenue				
Energy sales	\$ 32,291	\$ 33,118	\$ 60,820	\$ 53,840
Waste disposal fees	3,561	3,574	6,985	7,104
Water reclamation and distribution	6,043	5,547	11,310	8,895
	<u>41,895</u>	<u>42,239</u>	<u>79,115</u>	<u>69,839</u>
Expenses				
Operating	24,091	21,414	46,684	36,930
Amortization capital assets	6,492	5,737	12,889	10,928
Amortization intangible assets	1,325	1,213	2,633	2,360
Management costs	197	172	385	345
Administrative expenses	1,328	1,474	2,627	2,895
Business development cost	-	559	-	559
Withholding taxes	133	157	214	280
(Gain) / loss on foreign exchange	2,024	(8,506)	3,434	(13,731)
	<u>35,590</u>	<u>22,220</u>	<u>68,866</u>	<u>40,566</u>
Earnings before undernoted	6,305	20,019	10,249	29,273
Interest expense	2,698	3,133	5,380	5,196
Interest, dividend income and other income	(1,792)	(1,995)	(3,662)	(3,577)
Income from note receivable prepayment (note 6)	(3,634)	-	(3,634)	-
	<u>(2,728)</u>	<u>1,138</u>	<u>(1,916)</u>	<u>1,619</u>
Earnings before income taxes and minority interest	9,033	18,881	12,165	27,654
Current income taxes	336	509	584	813
Future income taxes	190	(3,510)	(639)	(1,898)
	<u>526</u>	<u>(3,001)</u>	<u>(55)</u>	<u>(1,085)</u>
Minority interest	440	337	817	674
Net earnings	8,067	21,545	11,403	28,065
Deficit, beginning of the period	(130,602)	(109,523)	(118,337)	(100,442)
Cash distributions	(15,738)	(15,600)	(31,339)	(31,201)
Deficit, end of the period	<u>\$(138,273)</u>	<u>\$(103,578)</u>	<u>\$(138,273)</u>	<u>\$(103,578)</u>
Basic and diluted net earnings per trust unit	<u>\$ 0.12</u>	<u>\$ 0.32</u>	<u>\$ 0.17</u>	<u>\$ 0.41</u>

Consolidated Statements of Cash Flows
For the six months ended June 30, 2004 and June 30, 2003
(thousands of Canadian dollars)
Unaudited

	3 months ended June 30		6 months ended June 30	
	2004	2003	2004	2003
Operating Activities				
Net earnings	\$ 8,067	\$ 21,545	\$ 11,403	\$ 28,065
Items not affecting cash				
Amortization of capital assets	6,492	5,737	12,889	10,928
Amortization of intangible assets	1,325	1,213	2,633	2,360
Other amortization	536	875	1,104	1,442
Minority interest	440	337	817	674
Distribution received in excess of equity income	2	(10)	114	1
Future income taxes	190	(3,510)	(639)	(1,898)
(Gain) / loss on foreign exchange	2,080	(8,673)	3,356	(13,771)
	<u>19,132</u>	<u>17,514</u>	<u>31,677</u>	<u>27,801</u>
Changes in non-cash operating working capital	(839)	3,911	(2,062)	2,539
	<u>18,293</u>	<u>21,425</u>	<u>29,615</u>	<u>30,340</u>
Financing Activities				
Cash distributions	(15,738)	(15,600)	(31,339)	(31,201)
Expenses of trust unit offering	(700)	-	(700)	-
Deferred costs	(568)	(112)	(580)	(177)
Net increase / (decrease) in long-term liabilities	(173)	(143)	(355)	64,846
Other	(480)	(16)	(737)	(193)
Deferred credits	702	233	805	610
	<u>(16,957)</u>	<u>(15,638)</u>	<u>(32,906)</u>	<u>33,885</u>
Investing Activities				
Decrease / (increase) in reserve funds	(71)	527	(66)	198
Receipt of principal on notes receivable (note 6)	18,900	667	20,427	1,557
Additions to capital assets	(2,574)	(6,714)	(5,239)	(8,022)
Power Purchase contract renegotiation	-	25,357	-	25,357
Acquisitions of operating entities (note 3)	(718)	(685)	(1,582)	(77,286)
	<u>15,537</u>	<u>19,152</u>	<u>13,540</u>	<u>(58,196)</u>
Effect of exchange rate differences on cash and cash equivalents	178	(875)	291	(1,142)
Increase in cash	17,051	24,064	10,540	4,887
Cash and cash equivalents, beginning of the period	<u>14,727</u>	<u>5,661</u>	<u>21,238</u>	<u>24,838</u>
Cash and cash equivalents, end of the period	<u>\$ 31,778</u>	<u>\$ 29,725</u>	<u>\$ 31,778</u>	<u>\$ 29,725</u>
Supplemental disclosure of cash flow information				
Cash paid during the period for interest expense	\$ 2,860	\$ 2,604	\$ 5,339	\$ 4,449
Cash paid during the period for income taxes	\$ 196	\$ 259	\$ 324	\$ 463

Notes to the Consolidated Financial Statements
For the six months ended June 30, 2004 and June 30, 2003
(in thousands of Canadian dollars except as noted)
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, 2003, as set out in the 2003 Annual Report since they do not contain all the disclosures that are in accordance with Canadian generally accepted accounting principles. 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, 2003 except as noted below.

New accounting policies:

a) Asset retirement obligations:

Effective January 1, 2004, the fair value of estimated asset retirement obligations is recognized in the Consolidated Balance Sheet when identified and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The asset retirement costs are depreciated over the asset's estimated useful life and included in depreciation and amortization expense on the Consolidated Statement of Earnings. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the Consolidated Statement of Earnings. Actual expenditures incurred are charged against accumulated obligation.

During the first half of 2004, the Fund completed an analysis of existing properties. This analysis reviewed existing contracts and current statutory requirements, and management has determined that a provision for retirement obligations is not currently required.

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 facility

In accordance with the purchase and sale agreement for Litchfield Park Service Company, the Fund is required to make additional payments to the previous owner for each additional customer connected to the utility. This agreement is dated February 2003. As of June 30, 2004 the Fund has accrued \$1,582 (U.S. \$1,183) as a growth premium to be paid to the vendor of Litchfield Park Service Company, and increased intangible assets by a similar amount, gross of future tax liabilities of \$994.

4. Related party transactions

During the quarter, and in accordance with the management agreement, the Fund paid Algonquin Power Management Inc. ("APMI") and its related companies for services provided on a cost recovery basis. During the first half of 2004, the Fund paid APMI \$385 (2003 - \$345) for management services. In addition, the Fund paid Algonquin Power Systems Inc. \$5,651 (2003 - \$6,242) and Algonquin Water Services Inc. \$2,324 (2003 - \$1,540) for direct operation services.

5. Break Fee

During the first quarter, the Fund earned a break fee of \$400, net of all expenses. The Fund was in negotiations to acquire a facility, but as a result of a right of first refusal between the vendor and another party, the facility was sold to the other party. The Fund was entitled to and earned a break fee as a result of contractual arrangements with the vendor. This fee was recognized as other income.

6. Cardinal Power Facility Note Repayment

On April 30, 2004, the loan to the Cardinal Power Facility was repaid. The Fund received total proceeds of \$22.2 million, of which \$18.6 million represents the principal outstanding plus accrued interest and the remaining \$3.6 million represents a repayment fee.

7. Acquisition of KMS Convertible Debentures

During the second quarter, the Fund completed the acquisition of the remaining 52.7% of the outstanding principal amount of convertible debentures of KMS Power Income Fund ("KMS") by issuing 1,803,983 trust units of the Fund for total consideration of \$16,663.

8. 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

	3 months ended June 30		6 months ended June 30	
	2004	2003	2004	2003
Revenue				
Canada	\$ 17,191	\$ 12,921	\$ 29,482	\$ 23,727
United States	24,704	29,318	49,633	46,112
	<u>\$ 41,895</u>	<u>\$ 42,239</u>	<u>\$ 79,115</u>	<u>\$ 69,839</u>
	June 30, 2004		December 31, 2003	
Capital Assets				
Canada		\$ 323,820		\$ 328,283
United States		291,877		293,768
		<u>\$ 615,697</u>		<u>\$ 622,051</u>
	June 30, 2004		December 31, 2003	
Intangible Assets				
Canada		\$ 28,263		\$ 29,130
United States		54,013		53,204
		<u>\$ 82,276</u>		<u>\$ 82,334</u>

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, 2004					
Revenue	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	12,174	18,776	1,341	-	-	32,291
Waste disposal fees	-	-	3,561	-	-	3,561
Water reclamation and distribution	-	-	-	6,043	-	6,043
Total Revenue	12,174	18,776	4,902	6,043	-	41,895
Operating expenses	4,440	13,115	3,365	3,171	-	24,091
Operating profit	7,734	5,661	1,537	2,872	-	17,804
Other administration costs	(59)	-	(22)	(25)	(3,576)	(3,682)
Interest expense	(1,314)	(193)	(91)	(329)	(771)	(2,698)
Interest, dividend income and other income	233	1,259	235	3	62	1,792
Income on note receivable prepayment	-	-	-	-	3,634	3,634
Amortization of capital assets	(2,462)	(1,500)	(1,119)	(1,411)	-	(6,492)
Amortization of intangible assets	-	(678)	(521)	(126)	-	(1,325)
Earnings before income taxes and minority interest	4,132	4,549	19	984	(651)	9,033
Capital assets	289,028	94,303	89,327	143,039	-	615,697
Intangible assets	22	35,268	29,098	17,888	-	82,276
Capital expenditures	-	(60)	270	2,328	36	2,574
Intangible expenditures	-	-	-	-	-	-
Total Assets	308,665	173,812	128,620	171,694	26,186	808,977

	Three months ended June 30, 2003					
Revenue	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	14,467	17,127	1,524	-	-	33,118
Waste disposal fees	-	-	3,574	-	-	3,574
Water reclamation and distribution	-	-	-	5,547	-	5,547
Total Revenue	14,467	17,127	5,098	5,547	-	42,239
Operating expenses	4,165	11,762	3,231	2,256	-	21,414
Operating profit	10,302	5,365	1,867	3,291	-	20,825
Other administration expenses	(127)	-	(62)	(10)	6,343	6,144
Interest expense	(1,281)	(171)	(59)	(614)	(1,008)	(3,133)
Interest, dividend income and other income	144	1,493	294	13	51	1,995
Income on note receivable prepayment	-	-	-	-	-	-
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	6,384	4,971	552	1,588	5,386	18,881
Capital assets (Dec 31, 2003)	289,317	96,616	90,753	145,365	-	622,051
Intangible assets (Dec 31, 2003)	23	36,623	30,141	15,547	-	82,334
Capital expenditures	-	6,493	102	1,562	-	8,157
Intangible expenditures	-	(758)	-	-	-	(758)
Total Assets (Dec 31, 2003)	308,700	191,941	131,899	169,704	18,051	820,295

Six months ended June 30, 2004						
Revenue	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	23,186	34,797	2,837	-	-	60,820
Waste disposal fees	-	-	6,985	-	-	6,985
Water reclamation and distribution	-	-	-	11,310	-	11,310
Total Revenue	23,186	34,797	9,822	11,310	-	79,115
Operating expenses	8,789	25,533	6,590	5,772	-	46,684
Operating profit	14,397	9,264	3,232	5,538	-	32,431
Other administration costs	(115)	-	(39)	(37)	(6,469)	(6,660)
Interest expense	(2,612)	(373)	(164)	(541)	(1,690)	(5,380)
Interest, dividend income and other income	304	2,405	453	6	494	3,662
Income on note receivable prepayment	-	-	-	-	3,634	3,634
Amortization of capital assets	(4,832)	(3,027)	(2,250)	(2,780)	-	(12,889)
Amortization of intangible assets	-	(1,355)	(1,043)	(235)	-	(2,633)
Earnings before income taxes and minority interest	7,142	6,914	189	1,951	(4,031)	12,165
Capital assets	289,028	94,303	89,327	143,039	-	615,697
Intangible assets	22	35,268	29,098	17,888	-	82,276
Capital expenditures	-	172	173	4,800	94	5,239
Intangible expenditures	-	-	-	-	-	-
Total assets	308,665	173,812	128,620	171,694	26,186	808,977

Six months ended June 30, 2003						
Revenue	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
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
Total Revenue	25,255	25,411	10,278	8,895	-	69,839
Operating expenses	8,603	17,996	6,421	3,910	-	36,930
Operating profit	16,652	7,415	3,857	4,985	-	32,909
Other administration expenses	(173)	-	(124)	(19)	9,968	9,652
Interest expense	(2,576)	(292)	(156)	(782)	(1,390)	(5,196)
Interest, dividend income and other income	256	2,560	607	18	136	3,577
Income on note receivable prepayment	-	-	-	-	-	-
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	27,654
Capital assets (Dec 31, 2003)	289,317	96,616	90,753	145,365	-	622,051
Intangible assets (Dec 31, 2003)	23	36,623	30,141	15,547	-	82,334
Capital expenditures	-	30,299	360	81,719	-	112,378
Intangible expenditures	-	13,007	-	1,781	-	14,788
Total assets (Dec 31, 2003)	308,700	191,941	131,899	169,704	18,051	820,295

9. Subsequent Event

Subsequent to the end of the quarter, the Fund issued \$85 million, 6.65% convertible unsecured subordinated debentures due July 31, 2011. The debentures will be dated July 20, 2004 and will bear interest at an annual rate of 6.65%, payable semi-annually in arrears on January 31 and July 31 in each year starting January 1, 2005. The convertible debentures are convertible into trust units of the Fund at the option of the holder at a conversion price of \$10.65 per Trust Unit, being a ratio of approximately 93.8967 Trust Units per \$1,000 principal amount of debentures. The debentures may not be redeemed by the Fund prior to July 31, 2007.

CORPORATE INFORMATION AND CONTACTS

Trustees

Kenneth Moore, Chairman – Managing Partner, NewPoint Capital Partners Inc.

Christopher J. Ball – Executive Vice-President, Corpfinance International Limited

George Steeves – Principal, True North Energy (1169417 Ontario Inc.)

The Management Group

Algonquin Power Management Inc.

Chris K. Jarratt, Chief Executive Officer and Director

John M.H. Huxley, Director

Ian E. Robertson, Director

David C. Kerr, Director

The Algonquin Power Income Fund

Peter Kampian, Chief Financial Officer

Head Office

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Oakville, Ontario L6H 7H7

Telephone – 905-465-4500 Fax – 905-465-4514

E-mail – apif@algonquinpower.com Web Site – www.algonquinpower.com

Registrar and Transfer Agent

CIBC Mellon Trust Company

320 Bay Street, P.O. Box 1

Toronto, Ontario M5H 4A6

Stock Exchange

The Toronto Stock Exchange: APF.UN

Auditors

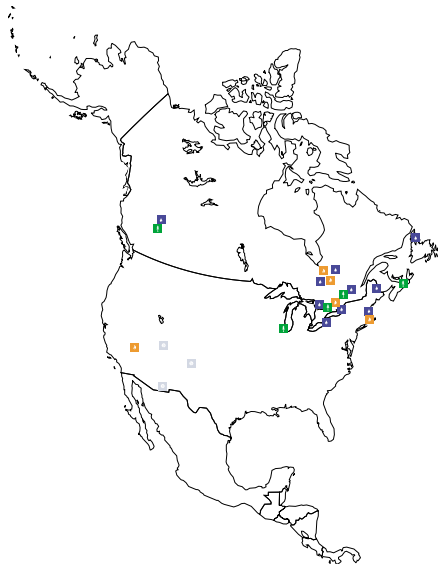
KPMG LLP

Toronto, Ontario

Legal Counsel

Blake, Cassels & Graydon LLP

Toronto, Ontario



Alternative Fuels

Brooklyn, Nova Scotia • Chapais, Québec • Joliet, Illinois • Peel Energy-from-Waste, Ontario • Valley Power, Alberta



Cogeneration

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



Hydroelectric

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



Infrastructure

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