Trust Units of Algonquin Power Income Fund are not “deposits” within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that Act or any other legislation.
ALGONQUIN POWER INCOME FUND

Algonquin Power Income Fund is an unincorporated open ended trust created by a declaration of trust dated September 8, 1997 in accordance with the laws of the Province of Ontario. The Declaration of Trust was amended on December 18, 1998 to provide the Trustees with greater flexibility to borrow monies on behalf of the Fund, which borrowings may be secured by the Fund’s assets. The Declaration of Trust was amended on June 1, 2000 to clarify that Fund indebtedness may be secured by some or all of the assets of the Fund, to increase the amount of permitted monthly cash redemptions from $10,000 to $250,000 and to expand the types of permitted investments which the Fund may make to include investments in energy-related assets and such other investments as the Trustees consider reasonable and appropriate. Unitholders are being asked to consider making an additional amendment to the Declaration of Trust as set out in the management information circular dated April 9, 2001.


All information contained in this Annual Information Form is presented as at May 14, 2001, unless otherwise specified. Reference is made to the glossary attached as Schedule A for the meanings of certain defined terms.

BUSINESS

The Fund was created to acquire direct or indirect equity interests in hydroelectric generating facilities located in Canada and the United States. The Fund currently holds equity interests, directly and indirectly, in 47 hydroelectric generating facilities located in Ontario (6), Québec (12), Newfoundland (1), New York State (12), New Hampshire (13), Vermont (2) and New Jersey (1). The Fund also holds an equity interest in a wastewater treatment facility located near Phoenix, Arizona. The facilities are grouped into five developments: the Ontario Development, the Québec Development, the Newfoundland Development, the New York Development and the New England Development. The Fund, through its interests in the Fund Businesses, is engaged indirectly in the business of generating and marketing electrical energy within the independent power generation industry.

The Fund may, where practical and economic, expand its current operations. The Fund may consider investment opportunities which provide stable cashflow from renewable resource facilities; potential investment candidates could include wind and biomass powered generating stations or facilities within a regulated utility. All investment opportunities must meet established guidelines and are subject
to review by the Trustees. Such facilities will only be acquired if the Fund believes that the acquisition will likely result in an increase in Distributable Cash per Trust Unit, otherwise meet the Fund’s acquisition guidelines and is in accordance with the Fund’s objectives, as set out in the Declaration of Trust.

The Fund is managed by Algonquin Management Inc. Management of the Manager has extensive experience and contacts in the independent power industry in Canada and the United States and may, but is not obligated to, present appropriate acquisition opportunities to the Fund. The Manager is owned by the shareholders of Algonquin Power Corporation Inc. The Manager and its affiliates provide design, financing, construction, management, operation and maintenance of independent hydroelectric power facilities ranging in size from 130 to 18,000 kilowatts. The principals of the Manager together have over 50 years of experience in the industry.

Algonquin Power Systems Inc., a wholly-owned subsidiary of Algonquin Power, provides operations-related services in respect of the facility interests indirectly owned by the Fund. In addition to operating the hydroelectric generating facilities in which the Fund has an interest, Power Systems is responsible for the operation of 173,000 kilowatts of generating capacity across Canada and the United States and is one of the largest operators of independent hydroelectric generating facilities in Canada. Power Systems supplies both direct operations services to the various facilities and operations supervisory services to Algonquin Canada.

In addition to the principals of the Manager, Power Systems’ human resources of over 140 individuals is comprised of engineers, technicians, biologists, professional managers and administrative support staff, including a field team of trained plant operators and field supervisors. The head office of Power Systems, located in Mississauga, Ontario, provides technical and management support, regulatory compliance and budget and accounting control for field personnel undertaking plant improvements and repairs. Field staff are organized into regional groups, each with its own trained supervisor. Most of the generating facilities are outfitted with remote computer controls and systems which allow the plants to be operated remotely in the field or by head office personnel. Power Systems also has data management systems to track the performance of the facilities, with a view to optimizing facility output.

**DEVELOPMENT OF THE BUSINESS**

**Creation of the Fund and Declaration of Trust**

The Fund was created on September 8, 1997 pursuant to the Declaration of Trust with a view to the completion of an initial public offering of its Trust Units and the acquisition of direct or indirect equity interests in certain of the Fund Businesses.

The following is a summary of certain provisions of the Declaration of Trust. For a complete description of the Trust Units and the Declaration of Trust, reference should be made to the Declaration of Trust.

**Sole Undertaking**

The Declaration of Trust provides that, notwithstanding any other provision thereof, the only undertaking of the Fund is (a) the investing of its funds in property (other than real property or an interest in real property), (b) the acquiring, holding, maintaining, improving, leasing or managing of any real
property (or an interest in real property) that is capital property of the Fund, or (c) any combination of the activities in (a) and (b).

**Trustees**

The Trustees are entitled to compensation for services rendered to the Fund in their capacity as Trustees. Compensation has been established at $15,000 per year per Trustee.

The Declaration of Trust provides that, subject to the terms and conditions of the Declaration of Trust, the Trustees may, in respect of the trust assets and the business and affairs of the Fund, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof. The number of Trustees will be not less than one nor more than seven. The Declaration of Trust prohibits non-residents of Canada (as that term is defined in the *Tax Act*), among others, from being Trustees. The Trustees are responsible for, among other things: (i) acting for, voting on behalf of and representing the Fund as a shareholder and noteholder of Algonquin Canada and a noteholder of Algonquin America; (ii) maintaining records and providing reports to Unitholders; (iii) supervising the activities and managing the investments and affairs of the Fund; and (iv) effecting payments of Distributable Cash from the Fund to Unitholders.

A Trustee may resign upon written notice to the Fund and may be removed by a majority of the votes cast at a meeting of Unitholders and the vacancy created by such removal may be filled at the same meeting, failing which it may be filled by the Trustees.

A quorum of the Trustees, being one Trustee at any time there is only one Trustee duly appointed or two Trustees at any time there are two or more Trustees duly appointed, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees or from a failure of the Unitholders to elect the required number of Trustees. In the absence of a quorum of the Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the minimum number of Trustees, the Trustees will forthwith call a special meeting of Unitholders to fill the vacancy. If the Trustees fail to call such meeting or if there are no Trustees then in office, any Unitholder may call the meeting.

The Trustees may, between annual meetings of Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Unitholders, but the number of additional Trustees will not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders.

The Declaration of Trust provides that the Trustees will act honestly and in good faith with a view to the best interests of the Fund and in connection therewith will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that the Trustees will be entitled to indemnification from the Fund in respect of the performance of their duties under the Declaration of Trust in the absence of a breach of their duties and standard of care. The Declaration of Trust states that the duties and standard of care of the Trustees provided in the Declaration of Trust are intended to be similar to, and not greater than, those imposed on a director of a corporation governed by the Business Corporations Act.

**Trust Units**

An unlimited number of Trust Units may be issued pursuant to the Declaration of Trust. Each Trust Unit is transferable and represents an equal undivided beneficial interest in any distribution from the Fund, whether of net income, net realized capital gains or other amounts, and in any net assets of the
Fund in the event of the termination or winding-up of the Fund. All Trust Units will rank among themselves equally and rateably without discrimination, preference or priority. Trust Units are not subject to future calls or assessments except that future offerings of Trust Units may be issuable for consideration payable in instalments, in which case the Fund may take security over any such Trust Units, and each Trust Unit entitles the holder thereof to one vote for each whole Trust Unit held at all meetings of Unitholders. Except as set out under “Development of the Business — Creation of the Fund and Declaration of Trust — Redemption Right” below, the Trust Units have no conversion, retraction, redemption or pre-emptive rights. Additional Trust Units may be issued in the future.

Issuance of Trust Units

The Declaration of Trust provides that Trust Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. Trust Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a pro rata basis. The Declaration of Trust also provides that immediately after any pro rata distribution of Trust Units to Unitholders in satisfaction of any non-cash distribution, the number of outstanding Trust Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Trust Units as the Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Trust Units prior to the non-cash distribution is deemed to represent the same number of Trust Units after the non-cash distribution and the consolidation.

Restrictions on Debt

The Declaration of Trust precludes the Fund from incurring indebtedness for borrowed money absent the passage of an Extraordinary Resolution, except in connection with the acquisition of additional facilities, provided certain criteria are met, and except for amounts in respect of previous acquisitions of facilities and amounts outstanding up to $1.5 million incurred for capital expenditures and operations related purposes for facilities in which the Fund has an interest.

Distributions

The amount of Distributable Cash to be distributed annually per Trust Unit will be equal to a pro rata share of interest, royalty and dividend income, taxable deemed dividends, lease payments or other income from the Leases received by the Fund in the year less: (i) administrative expenses of the Fund; (ii) amounts which may be paid by the Fund in connection with any cash redemptions of Trust Units; (iii) amounts required for the business and operations of the Fund, including amounts required to pay the deferred portion of the purchase price for any assets acquired by the Fund, directly or indirectly; and (iv) capitalized interest with respect to any notes held by the Fund. Any income of the Fund which is applied to any cash redemptions of Trust Units or is otherwise unavailable for cash distribution will be distributed to Unitholders in the form of additional Trust Units. Such additional Trust Units will be issued pursuant to exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing. In addition, on December 31 of each year, Unitholders will be entitled to receive a distribution of the amount, if any, by which the income of the Fund including any net capital gains for purposes of the Tax Act in respect of the year (calculated without reference to paragraph 82(1)(b) and to subsection 104(6) of the Tax Act) less any deductible non-capital or capital losses of prior years exceeds all amounts otherwise distributed or made payable in respect of the year. Certain adjustments may apply.

The Fund will also include in its quarterly distributions cash dividends or returns of capital, if any, received from Algonquin Canada. Quarterly distributions are due and payable to Unitholders of
record on the last day of each calendar quarter and are expected to be paid on or before the 45th day of the following calendar quarter without interest or penalty.

Revenues from the facilities operated by the Fund Businesses are higher in the spring due to the spring run-off and in the fall due to higher levels of rainfall and, as a result, it is anticipated that distributions of Distributable Cash will be greater during the quarter’s ending June 30th and December 31. In an effort to assist in the equalization of distributions throughout the year, funds have been set aside to be used at the discretion of the Trustees to help compensate for seasonal fluctuations in waterflows.

Redemption Right

Trust Units are redeemable at any time at the option of the holders thereof upon delivery to the Fund of the certificate or certificates representing such Trust Units, accompanied by a duly completed and properly executed notice requesting redemption. Upon receipt of the redemption request by the Fund, all rights of the holders with respect to the Trust Units tendered for redemption will cease and the holder thereof will only be entitled to receive a price per Trust Unit (“Cash Redemption Price”) equal to the lesser of: (i) 95% of the “market price” of the Trust Units on the principal market on which the Trust Units are quoted for trading during the ten trading day period commencing immediately after the date on which the Trust Units were tendered to the Fund for redemption (the “Redemption Date”); and (ii) the “closing market price” on the principal market on which the Trust Units are quoted for trading.

For the purposes of this calculation, “market price” will be an amount equal to the weighted average trading price of the Trust Units for each of the trading days on which there was a closing price, provided that if the applicable exchange or market cannot provide a weighted average trading price, but only provides the highest and lowest prices of the Trust Units traded on a particular day, the “market price” will be the simple average of the average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the ten trading days, the “market price” will be the simple average of the following prices established for each of the ten trading days: (i) the average of the last bid and last ask prices of the Trust Units for each day on which there was no trading, (ii) the weighted average trading price of the Trust Units for each day that there was trading if the exchange or market provides a weighted average trading price; and (iii) the average of the highest and lowest prices of the Trust Units for each day that there was trading, if the market provides only the highest and lowest prices of Trust Units traded on a particular day. The “closing market price” will be: (i) an amount equal to the closing price of the Trust Units if there was a trade on the date; (ii) an amount equal to the average of the highest and lowest prices of Trust Units if there was trading and the exchange or other market provides only the highest and lowest prices of Trust Units traded on a particular day; or (iii) the average of the last bid and ask prices of the Trust Units if there was no trading on the date.

The aggregate Cash Redemption Price payable by the Fund in respect of any Trust Units tendered for redemption during any calendar month will be satisfied by way of a cash payment on the last day of the following month, provided that the entitlement of Unitholders to receive such cash payment upon the redemption of their Trust Units is subject to the limitations that: (i) the total amount payable by the Fund in respect of such Trust Units and all other Trust Units tendered for redemption in the same calendar month will not exceed $250,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) at the time such Trust Units are tendered for redemption, the outstanding Trust Units will be listed for trading on The Toronto Stock Exchange or traded or quoted on any other market which
the Trustees consider, in their sole discretion, provides representative fair market value prices for the Trust Units; and (iii) the normal trading of Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed for trading (or, if not listed on a stock exchange, on any market on which the Trust Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten day trading period commencing immediately after the Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Trust Units as a result of the foregoing limitations, then the redemption price for such Trust Units will be the fair market value thereof as determined by the Trustees, taking into account any taxes payable by the Fund arising from such redemption. The redemption price will, subject to any applicable regulatory approvals, be paid and satisfied by way of distribution in specie of an interest in the Fund Assets. No fractional Algonquin Canada Shares, Fund Notes (based on increments of $100) or other securities, if any, will be distributed and, where the number of Algonquin Canada Shares, Fund Notes and/or other securities, if any, to be received by a Unitholder includes a fraction, such number will be rounded to the next lowest whole number.

Meetings of Unitholders

The Declaration of Trust provides that Unitholders may pass resolutions that bind the Trustees or the Fund only with respect to: the appointment or removal of Trustees (except filling casual vacancies); the appointment or removal of the auditors of the Fund; the approval of amendments to the Declaration of Trust (except as described under “Development of the Business – Creation of the Fund and Declaration of Trust — Amendments to the Declaration of Trust”); the appointment of an inspector; the sale of all or substantially all of the assets of the Fund (other than as part of an internal reorganization); and the termination of the Fund. Such resolutions must be passed by Extraordinary Resolution, except for the appointment or removal of Trustees or auditors of the Fund, which requires the approval of a majority of votes cast at a meeting of Unitholders. Meetings of Unitholders will be called and held annually for the election of Trustees and the appointment of auditors of the Fund.

A special meeting of Unitholders may be called at any time by the Trustees and must be convened if requisitioned by the holders of not less than 10% of the Trust Units then outstanding (not including Units beneficially owned by the Manager) by written requisition. A requisition must state in reasonable detail the business proposed to be transacted at such meeting.

Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two individuals present in person either holding personally or representing by proxy in the aggregate at least 10% of the votes attaching to all outstanding Trust Units will constitute a quorum for the transaction of business at all such meetings.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

Exercise of Voting Rights attached to Algonquin Canada Shares

The Declaration of Trust provides that the Fund will not authorize, either by agreement or by voting its Algonquin Canada Shares:

(a) any amendment to the articles of Algonquin Canada or its subsidiaries to change or remove any restriction on the business of Algonquin Canada or its subsidiaries or change the authorized share capital or change or amend the rights, privileges, restrictions and
conditions attaching to any class of shares of Algonquin Canada or its subsidiaries, as applicable;

(b) any sale, lease or other disposition of all or substantially all of the property and assets of Algonquin Canada, except in the ordinary course of business or as part of an internal reorganization of Algonquin Canada and any one or more of its wholly-owned subsidiaries;

(c) any issue of shares in the capital of Algonquin Canada or its subsidiaries other than to the Fund or Algonquin Canada, as applicable;

(d) any amalgamation or other merger of Algonquin Canada or its subsidiaries with any other corporation, except with one or more wholly-owned subsidiaries of such entity; or

(e) any amendment to any unanimous shareholders’ agreement entered into in respect of Algonquin Canada or its subsidiaries,

without the approval of the Unitholders by Extraordinary Resolution at a meeting of Unitholders called for that purpose.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Declaration of Trust provides that at no time may non-residents be the beneficial owners of a majority of the Trust Units. If the Trustees or the transfer agent become aware that the beneficial owners of 49% of the Trust Units then outstanding are or may be non-residents or that such a situation is imminent, the Trustees or the transfer agent may make a public announcement thereof and will not accept a subscription for Trust Units from, or issue or register a transfer of Trust Units to, a person unless the person provides a declaration that the beneficial owner is not a non-resident. If, notwithstanding the foregoing, the Trustees or the transfer agent determine that a majority of the Trust Units are held by non-residents, the transfer agent may, or the Trustees may cause the transfer agent to, send a notice to non-resident Unitholders, chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustees or the transfer agent may consider equitable and practicable, requiring them to sell their Trust Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Trust Units or provided the transfer agent with satisfactory evidence that the beneficial owners are not non-resident within such period, the transfer agent may on behalf of such Unitholder, sell such Trust Units and, in the interim, will suspend the voting and distribution rights attached to such Trust Units. Upon such sale, the affected holders will cease to be holders of Trust Units and their rights will be limited to receiving the net proceeds of sale upon surrender of the certificates representing such Trust Units.

Amendments to the Declaration of Trust

The Declaration of Trust may be amended or altered from time to time by Extraordinary Resolution. The Trustees may, without the approval of Unitholders, authorize certain amendments to the Declaration of Trust, including amendments:

(a) for the purpose of ensuring continuing compliance with the applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or the Fund;
(b) which, in the opinion of the Trustees, provide additional protection for the Unitholders;

(c) to remove any conflicts or inconsistencies in the Declaration of Trust or to make corrections that are, in the opinion of the Trustees, necessary or desirable and not materially prejudicial to the rights of Unitholders; or

(d) which, in the opinion of the Trustees, are necessary or desirable as a result of changes in or in the administration or interpretation of taxation laws.

**Termination of the Fund**

The Fund has been established for a term ending 21 years after the date of the death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on September 8, 1997. The Declaration of Trust requires the Trustees to commence to wind-up the affairs of the Fund not more than two years prior to the end of the term of the Fund. In addition, at any time prior to the expiry of the term of the Fund, Unitholders may pass an Extraordinary Resolution to terminate the Fund, following which the Trustees are obligated to commence to wind-up the affairs of the Fund.

**Take-over Bids**

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for Trust Units and not less than 90% of the Trust Units (other than Trust Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Trust Units held by Unitholders who did not accept the offer on the terms offered by the offeror.

**Foreign Property**

The Fund has been registered by the Canada Customs and Revenue Agency (the “CCRA”) as a “registered investment” under the Tax Act and has not been notified by the CCRA that such registration has been revoked. Provided the Fund continues to be so registered, units of the Fund will not be foreign property for Unitholders who are subject to Part XI of the Tax Act.

**Reporting to Unitholders**

The Fund will furnish to the Unitholders such financial statements (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders’ tax returns under the Tax Act and equivalent provincial legislation. Each of Algonquin Canada and its subsidiaries has undertaken to provide the Fund with: (i) a report of any material change that occurs in its affairs in form and content that it would file with applicable regulatory authorities if it were a reporting issuer; and (ii) all financial statements that it would be required to file with applicable regulatory authorities if it were a reporting issuer under applicable securities laws. All such reports and statements will be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the delivery of financial statements as required under applicable securities laws.

Prior to each meeting of Unitholders, the Fund will provide Unitholders with information similar to that required to be provided to shareholders of an Ontario public company, along with notice of such meeting.
Governance, Management and Operations

Administration Agreement

The Manager administers the Fund pursuant to the Administration Agreement entered into between the Fund and the Manager and is responsible for the administration and management of the affairs of the Fund. The Manager is reimbursed for its reasonable out-of-pocket expenses incurred in administering the Fund. The agreement is terminable on 180 days’ notice, or immediately in the event of termination of the Management Agreement, winding-up of the Fund, the insolvency or receivership of the Manager, a change of control of the Manager (other than a change of control to which the Fund consents) or default of the Manager in the performance of a material obligation which is not remedied within 30 days.

Management Agreement

The Fund and the Manager entered into the Management Agreement on December 23, 1997, as amended, pursuant to which the Manager provides management services (the "Management Services") for certain of the Fund Businesses on behalf of the Fund for the Facilities.

The Management Services provided include, without limitation, advice and consultation concerning business planning, support, guidance and policy making and general management services. Senior officers of the Manager also act as senior officers of the Fund. Specific functions performed by the Manager include: (i) accounting and financial services; (ii) assisting in the preparation of financial statements; (iii) negotiating and communicating with third parties with respect to contractual and other matters; (iv) arranging external professional and non-professional services; (v) assisting in providing human resources; and (vi) advising on major acquisitions and sales of subsidiaries and/or businesses.

In exercising its powers and discharging its duties under the Management Agreement, the Manager is required to exercise the degree of care, diligence and skill that a reasonable, prudent advisor or manager having responsibility for management of a similar business would exercise in comparable circumstances.

In consideration for providing the Management Services, the Manager received a quarterly fee of US$35,810 during 2000, which fee is adjusted annually for changes in the Canadian Consumer Price Index, and a fee based on the total energy production from all facilities in which the Fund has an interest (based on average expected energy production anticipated which resulted in an annual incentive fee payment of US$143,210 in 2000 (escalated by inflation)) and increases in Distributable Cash equal to the aggregate of 10% of the Distributable Cash per Trust Unit in excess of $0.97 per Trust Unit and up to $1.045 per Trust Unit and 25% of the Distributable Cash per Trust Unit in excess of $1.045 per Trust Unit. The fee related to energy production and the incentive fee related to increases in Distributable Cash are intended to provide the Manager with an incentive to maximize Distributable Cash per Trust Unit. In addition, the Manager is entitled to reimbursement of its reasonable out-of-pocket expenses incurred in connection with its duties under the Management Agreement.

The Management Agreement has an initial ten year term commencing on December 23, 1997 and will be renewed for successive periods of five years each unless the Fund gives notice of non-renewal to the Manager at least 12 months before the end of the relevant term.

The Fund may terminate the Management Agreement earlier if a substantial deterioration of the Fund’s business occurs, taken as a whole, which is not caused by an event of force majeure, if, within six
months of the deterioration, such termination is approved by a written resolution of Unitholders representing at least 66\(\frac{2}{3}\)% of the issued and outstanding Trust Units or at a meeting of Unitholders by a resolution approved by the holders representing at least 50% of all issued and outstanding Trust Units and at least 66\(\frac{2}{3}\)% of the Trust Units which are voted at the meeting, in each case excluding Trust Units held by or on behalf of the Manager. In the event of such termination, the Fund will pay the Manager a fee equal to the amount of fees payable to the Manager for the previous year, excluding fees relating to acquisitions and capital expansions. The Fund may also terminate the Management Agreement upon a change of control of the Manager (other than a change of control to which the Fund consents).

The Fund or the Manager may terminate the Management Agreement immediately in the event of the insolvency or receivership of the other party, or in the case of default by the other party in a material obligation under the Management Agreement which is not remedied within 30 days, other than a failure of performance which results from an event of force majeure.

The Manager may terminate the Management Agreement at any time on 12 months' notice.

The Management Agreement contains provisions to regulate any conflicts of interest which may arise and provides for indemnification by the Manager of the Fund in certain circumstances. The Management Agreement may only be assigned by the Manager with the consent of the Fund.

**Operations Supervisory Agreement**

Algonquin Canada and Power Systems entered into the Operations Supervisory Agreement on December 23, 1997, as amended, pursuant to which Power Systems provides certain operations related services for the Facilities (the "Operations Supervisory Services") which are beyond the scope of the operations and maintenance services agreements which have been entered into between the entities which own the various facilities and Power Systems. Senior officers of Power Systems also act as senior officers of Algonquin Canada. Specific functions include: (i) planning of capital repairs; (ii) compliance monitoring for environmental permits; and (iii) administration of power purchase agreements.

In consideration for providing the Operations Supervisory Services, Power Systems received a quarterly fee of US$54,060 during 2000, which fee is adjusted annually for changes in the Canadian Consumer Price Index.

The Operations Supervisory Agreement contains termination provisions substantially the same as those included in the Management Agreement.

**Direct Operations Agreements**

Direct operations and maintenance services are generally comprised of those services necessary for a generating facility to continue to operate under typical circumstances. Such services include the provision of direct operating labour, management of available water/fuel resources, monitoring and reporting on facility performance, performance of scheduled maintenance tasks and completion of minor repairs as required. Power Systems has entered into agreements with the entities which own each of the Facilities to provide such services for an aggregate amount totalling approximately $4.7 million during 2000.
Contingency Repair and Capital Improvement Projects

Power Systems also manages the contingency repair and capital improvement projects for the owners of the Facilities. The annual repair and maintenance expenditures during 2000 totalled approximately $2.6 million which was paid to Power Systems.

Governance Agreement

Pursuant to the Governance Agreement, the Manager is entitled to appoint two directors to Algonquin Canada's board of directors, with the Fund being entitled to appoint one director. The articles of Algonquin Canada provide that the number of directors is fixed at three.

The Governance Agreement will remain in force for so long as the Management Agreement remains in force and will provide that the Fund will not vote for any amendment to Algonquin Canada's articles, including an amendment with respect to the number of directors, without the Manager's approval. The Governance Agreement further provides that the Fund will comply with the Manager's instructions with respect to the appointment, removal and replacement of the Manager's nominees to the board of directors of Algonquin Canada. Notwithstanding the foregoing, the Fund will be entitled to remove the Manager's nominees as directors of Algonquin Canada or amend Algonquin Canada's articles if:

(a) Algonquin Canada does not comply with or prevents the implementation of Algonquin Canada's distribution policy;

(b) any of the Fund Businesses does not comply with or prevent the implementation of its distribution policy;

(c) any amendment is made to the partnership agreement in respect of any of the Fund Businesses which are partnerships without the consent of the Fund;

(d) there is a change of control of the Manager (other than a change of control to which the Fund consents);

(e) other than in the ordinary course of business and without the prior written consent of the Fund, any of the Fund Businesses undertakes a material change in its business, incurs any material debt or issues any securities other than to another such entity or the Fund;

(f) an offer is made for 100% of the Trust Units and the offeror acquires more than 50% of the Trust Units under that offer; or

(g) the Management Agreement expires or is terminated.

Public Offerings

On October 16, 1997 and December 11, 1997, the Fund filed a preliminary prospectus and a final prospectus, respectively, with the securities regulatory authorities in each of the provinces of Canada with respect to an initial public offering of Trust Units.

On December 23, 1997, the Trust completed the sale of 8,031,775 Trust Units at an issue price of $10.00 per Trust Unit. Concurrently with the offering, the Fund completed the acquisition of its interests
in 14 Facilities, being the Marsh Facilities, the Donnacona Facility, the Lochmere Facility, the Hopkinton Facility and the Trafalgar Facilities, and deposited into escrow the purchase price for its interests in the Belleterre Facility, the Ste-Brigitte Facility and the Long Sault Rapids Facility, interests in which Facilities were subsequently acquired on February 4, 1998 and April 17, 1998, respectively.

On May 22, 1998 and June 26, 1998, the Fund filed a preliminary prospectus and a final prospectus, respectively, with the securities regulatory authorities in each of the provinces of Canada with respect to an additional offering of Trust Units.

On July 7, 1998, the Fund completed the sale of 6,058,697 Trust Units at an issue price of $10.65 per Trust Unit. Concurrently with the offering, the Fund completed the acquisition of its interests in 11 Facilities, being the Saint-Alban Facility, the Glenford Facility, the Rawdon Facility, the Lower Robertson Facility, the Ashuelot Facility, the Avery Dam Facility, the Hadley Falls Facility, the Lakeport Facility, the Moretown Facility, the Hollow Dam Facility and the Burt Dam Facility, and set aside the purchase price for its interest in the Rattle Brook Facility, an interest in which Facility was subsequently acquired on December 31, 1998.

On April 6, 1999 and April 27, 1999, the Fund filed a preliminary prospectus and a final prospectus, respectively, with the securities regulatory authorities in each of the provinces of Canada with respect to an additional offering of Trust Units.

On May 4, 1999, the Fund completed the sale of 8,100,000 Trust Units at an issue price of $10.35 per Trust Unit. Shortly after the completion of the offering, the Fund completed the acquisition of its interests in 7 Facilities, being the Côte Ste-Catherine Facility, the Mont Laurier Facility, the Hydro Snemo Facility, the Hydraska Facility, the Ste-Raphaël Facility, the Clement Dam Facility and the Franklin Facility.

On November 11, 1999 and November 25, 1999, the Fund filed a preliminary prospectus and a final prospectus, respectively, with the securities regulatory authorities in each of the provinces of Canada with respect to an additional offering of Trust Units.

On December 1, 1999, the Fund completed the sale of 1,830,000 Trust Units at an issue price of $8.75 per Trust Unit. Shortly after the completion of the offering, the Fund completed the acquisition of its interests in the Pembroke Facility and the Gregg Falls Facility.

On August 31, 2000 and September 12, 2000, the Fund filed a preliminary prospectus and a final prospectus, respectively, with the securities regulatory authorities in each of the provinces of Canada with respect to an additional offering of Trust Units.

On September 26, 2000, the Fund completed the sale of 3,000,000 Trust Units at an issue price of $9.15 per Trust Unit. The Fund used the proceeds to pay off the revolving line of credit and to complete the acquisitions of the Milton Facility, Mine Falls Facility and Great Falls Facility.

On January 11, 2001 and January 19, 2001, the Fund filed a preliminary prospectus and a final prospectus, respectively, with the securities regulatory authorities in each of the provinces of Canada with respect to an additional offering of Trust Units.

On January 25, 2001 and February 15, 2001 the Fund completed the sale of 6,600,000 and 990,000 Trust Units respectively at an issue price of $9.85 per Trust Unit. The Fund utilized approximately $28.3 million of the net proceeds to complete the acquisition of the Campbellford facility,
the Kings Falls facility, the Otter Creek facility, the Worcester facility, the Phoenix facility, the Arthurville facility and the Black Mountain wastewater treatment facility.

Additional details concerning the terms of the acquisitions of an interest in such Facilities may be found at pages 37 to 46 of the Fund’s prospectus dated December 11, 1997 in the section entitled “The Acquisitions”, at pages 58 to 64 of the Fund’s prospectus dated June 26, 1998 in the section entitled “The Acquisitions”, at pages 13 to 15 of the Fund’s prospectus dated April 27, 1999 in the section entitled “The Acquisitions” and at pages 7 to 8 of the Fund’s prospectus dated November 25, 1999 in the section entitled “Acquisition Process”, which sections are incorporated herein by reference. Additional details concerning the acquisition strategy of the Fund may be found in the Fund’s prospectus dated January 19, 2001 in the section entitled “Acquisition Process”, which section is incorporated herein by reference.

**Acquisitions of Generating Facilities in Fiscal 2000**

During 2000, the Fund indirectly acquired a 100% interest in three hydroelectric generating facilities from the Algonquin Power Group for total consideration of approximately $12,978,000. 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:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>$ 165</td>
<td></td>
</tr>
<tr>
<td>Capital assets</td>
<td>12,813</td>
<td></td>
</tr>
<tr>
<td>Total purchase price</td>
<td>12,978</td>
<td></td>
</tr>
<tr>
<td>Less: cash acquired</td>
<td>(164)</td>
<td></td>
</tr>
<tr>
<td>Cash paid, net of cash acquired</td>
<td>$ 12,814</td>
<td></td>
</tr>
</tbody>
</table>

The purchase price paid for each facility, the nature of the acquisition and the date of acquisition are set out in the table below:

<table>
<thead>
<tr>
<th>Facility</th>
<th>Purchase Price (in thousands)</th>
<th>Nature of Acquisition</th>
<th>Date of Acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milton Facility</td>
<td>$ 2,618</td>
<td>shares and management agreement interests</td>
<td>July 11, 2000</td>
</tr>
<tr>
<td>Mine Falls Facility</td>
<td>4,905</td>
<td>partnership interests</td>
<td>September 6, 2000</td>
</tr>
<tr>
<td>Great Falls Facility</td>
<td>5,455</td>
<td>partnership interests</td>
<td>September 15, 2000</td>
</tr>
<tr>
<td>Total</td>
<td>$ 12,978</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Acquisitions of Facilities in 2001**

During the first quarter of 2001, the Fund indirectly acquired a sewage treatment facility and four hydroelectric generating facilities in two separate transactions with the Algonquin Power Group for total consideration of approximately $18,861,000. 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:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>$1,128</td>
<td></td>
</tr>
<tr>
<td>Capital assets</td>
<td>21,050</td>
<td></td>
</tr>
<tr>
<td>Funds held in reserve</td>
<td>2,037</td>
<td></td>
</tr>
<tr>
<td>Future non-current income tax liability</td>
<td>(5,354)</td>
<td></td>
</tr>
<tr>
<td>Total cash purchase price paid</td>
<td>$18,861</td>
<td></td>
</tr>
</tbody>
</table>

The purchase price paid for the facilities, the nature of the acquisition and the date of acquisition are set out in the table below:

<table>
<thead>
<tr>
<th>Facility</th>
<th>Purchase Price (in thousands)</th>
<th>Nature of Acquisition</th>
<th>Date of Acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black Mountain Sewer Corporation</td>
<td>$7,247</td>
<td>shares</td>
<td>March 16, 2001</td>
</tr>
<tr>
<td>Phoenix, Kings Falls, Otter Creek and Worcester Facilities</td>
<td>11,614</td>
<td>shares</td>
<td>March 21, 2001</td>
</tr>
<tr>
<td>Total</td>
<td>$18,861</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

**Acquisition of note receivable**

The Fund acquired on March 9, 2001 the outstanding debt of the Campbellford Generating Station for $7,351. The note earns interest at the rate of 9.9415% per annum, is repayable in monthly instalments and will mature February 28, 2015.

Subsequent to quarter end, the Fund completed its investment in the Campbellford Generating Station by acquiring a 50% interest in the partnership for approximately $800. The Fund also acquired 100% of the shares of the corporation which owns the Raphael de Bellchasse Generating Station for approximately $1,000.
Structure of the Fund

UNITHOLDERS

Trust Units (100%)

ALGONQUIN POWER INCOME FUND

Management Agreements

ALGONQUIN POWER
(or Affiliate)

Trust Units
(100%)
and Notes

Canada Note, Canada 1998 Note,
Canada 1999 Note, Canada 2000 Note,
Canada 2001 Note and Shares (100%)

Facility Leases

Trafalgar Class B Note

US 1998 Note, US
1999 Note (No. 1), US
1999 Note (No. 2) and
US 2000 Notes

Notes:
(1) Interest provides 100% of cash flows up to 2013, 65% up to 2027 and 58% thereafter.
(2) Interest provides 100% of cash flows up to 2010 with a right to 75% of the equity value upon repayment.
(3) Interest in the Glenford Facility provides 100% of cash flows up to approximately 2023 and the option to indirectly acquire the facility.
THE DEVELOPMENTS

The Fund acquired with the proceeds of the offerings, directly or indirectly, interests in 47 hydroelectric generating facilities.

<table>
<thead>
<tr>
<th>Hydroelectric Generating Facility</th>
<th>Generating Capacity (kilowatts)</th>
<th>Location</th>
<th>2001 Power Purchase Rates(1)</th>
<th>Annual Average Expected Energy Production (MW-hrs)</th>
<th>Year of Expiry of Power Purchase Agreement</th>
<th>Year of Expiry of Lease</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ontario Development</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long Sault Rapids Facility</td>
<td>18,000</td>
<td>Abitibi River near Cochrane, Ontario</td>
<td>Summer Energy $0.0325/kW-hr Winter Energy $0.0398/kW-hr</td>
<td>119,584</td>
<td>2047</td>
<td>2001(2)</td>
</tr>
<tr>
<td>Glen Miller Dam Facility</td>
<td>1,100</td>
<td>Trent River near Trenton, Ontario</td>
<td>Winter Peak $0.038 /kW-hr Winter Off-Peak $0.038 /kW-hr</td>
<td>5,937</td>
<td>2001</td>
<td>2001</td>
</tr>
<tr>
<td>Hurdman Dam Facility</td>
<td>570</td>
<td>Mattawa River near Mattawa, Ontario</td>
<td>Winter Peak $0.0825 /kW-hr Winter Off-Peak $0.0336 /kW-hr</td>
<td>4,429</td>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Drag Lake Dam Facility</td>
<td>225</td>
<td>Trent River near Haliburton, Ontario</td>
<td>Winter Peak $0.0934 /kW-hr Winter Off-Peak $0.0380 /kW-hr</td>
<td>1,219</td>
<td>2012</td>
<td>Owned</td>
</tr>
<tr>
<td>Burgess Dam Facility</td>
<td>130</td>
<td>Muskoka River near Bala, Ontario</td>
<td>Winter Peak $0.0809 /kW-hr Winter Off-Peak $0.0319 /kW-hr</td>
<td>932</td>
<td>2009</td>
<td>1998(3)</td>
</tr>
<tr>
<td>Campbellford Facility</td>
<td>4,000</td>
<td>Trent River near Campbellford, Ontario</td>
<td>Winter On-Peak $0.2961 /kW-hr Winter Off-Peak $0.0373 /kW-hr</td>
<td>27,834</td>
<td>2019</td>
<td>2019</td>
</tr>
<tr>
<td><strong>Québec Development</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Côte Ste-Catherine Facility</td>
<td>11,120</td>
<td>St. Lawrence River near the Town of Ste.-Catherine, Quebec</td>
<td>Phase I Energy $0.04687/kW-hr Phase II Energy $0.04821/kW-hr Capacity $118.35/kW-hr</td>
<td>Phase I 16,616 Phase II 37,625</td>
<td>Phase I 2009</td>
<td>Phase II 2018</td>
</tr>
</tbody>
</table>

(1) Average and expected energy production figures are subject to the fluctuation of water inflows.

(2) Includes 14% rate of return.

(3) Includes 15% rate of return.
<table>
<thead>
<tr>
<th>Hydroelectric Generating Facility</th>
<th>Generating Capacity (kilowatts)</th>
<th>Location</th>
<th>2001 Power Purchase Rates</th>
<th>2001 Average Expected Energy Production (MW-hrs)</th>
<th>Year of Expiry of Power Purchase Agreement</th>
<th>Year of Expiry of Lease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saint-Alban Facility</td>
<td>8,200</td>
<td>Ste-Anne River near the Village of Saint-Alban, Québec</td>
<td>$0.05651/kW-hr</td>
<td>37,260</td>
<td>2016</td>
<td>1998 (6)</td>
</tr>
<tr>
<td>Glenford Facility</td>
<td>4,950</td>
<td>Ste-Anne River near the Village of Ste-Christine d'Auvergne, Québec</td>
<td>$0.05347/kW-hr</td>
<td>24,593</td>
<td>2020</td>
<td>Owned</td>
</tr>
<tr>
<td>Donnacona Facility</td>
<td>4,800</td>
<td>Jacques Cartier River near Donnacona, Québec</td>
<td>$0.05651/kW-hr</td>
<td>20,970</td>
<td>2022</td>
<td>2017</td>
</tr>
<tr>
<td>Ste-Brigitte Facility</td>
<td>4,200</td>
<td>Nicolet River in the Municipality of Ste-Brigitte-des-Saults, Québec</td>
<td>$0.05651/kW-hr</td>
<td>13,741</td>
<td>2014</td>
<td>Owned</td>
</tr>
<tr>
<td>Ste-Raphaël Facility</td>
<td>3,500</td>
<td>Rivière de Sud near Québec City, Québec</td>
<td>$0.05651/kW-hr</td>
<td>25,035</td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td>Mont Laurier Facility</td>
<td>2,725</td>
<td>Rivière-du-Lèvre in the Town of Mont Laurier, Québec</td>
<td>$0.05157/kW-hr</td>
<td>20,824</td>
<td>2007</td>
<td>2023</td>
</tr>
<tr>
<td>Hydro Snemo Facility</td>
<td>2,600</td>
<td>Rivière-du-Loup near the Town of Rivière-du-Loup, Québec</td>
<td>$0.05651/kW-hr</td>
<td>17,455</td>
<td>2015</td>
<td>2015</td>
</tr>
<tr>
<td>Rawdon Facility</td>
<td>2,500</td>
<td>Ouareau River near the Village of Rawdon, Québec</td>
<td>$0.05651/kW-hr</td>
<td>13,900</td>
<td>2014</td>
<td>2014</td>
</tr>
<tr>
<td>Hydraska Facility</td>
<td>2,250</td>
<td>Yamaska River near the Town of St.-Hyacinthe, Québec</td>
<td>Summer Energy $0.04751/kW-hr Winter Energy $0.08716/kW-hr</td>
<td>10,825</td>
<td>2014</td>
<td>2014</td>
</tr>
<tr>
<td>Belleteerre Facility</td>
<td>2,200</td>
<td>Winnaway River in the Municipality of Laforce, Québec</td>
<td>$0.04712/kW-hr $116.44/kW (over the average kilowatt output over the period December to March)</td>
<td>15,703</td>
<td>2013</td>
<td>2011</td>
</tr>
<tr>
<td>Arthurville Facility</td>
<td>650</td>
<td>Riviere du Sud downstream from Ste-Raphaël</td>
<td>Flat Rate Annually of $0.05651/kW-hr</td>
<td>2,782</td>
<td>2013</td>
<td>Owned</td>
</tr>
</tbody>
</table>

**Newfoundland Development**

<p>| Rattle Brook Facility            | 4,000                           | Rattle Brook near Jackson's Arm, Newfoundland | Summer Energy $0.04063/kW-hr Summer Capacity $0.02237/kW-hr | 17,470                                      | 2024                                      | 2048                  |</p>
<table>
<thead>
<tr>
<th>Hydroelectric Generating Facility</th>
<th>Generating Capacity (kilowatts)</th>
<th>Location</th>
<th>2001 Power Purchase Rates(1)</th>
<th>Annual Average Expected Energy Production (MW-hrs)</th>
<th>Year of Expiry of Power Purchase Agreement</th>
<th>Year of Expiry of Lease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Winter Energy $0.04063/kW-hr</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Winter Capacity $0.04782/kW-hr</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>New York Development</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ogdensburg Facility (4)</td>
<td>3,675</td>
<td>Oswegatchie River near Ogdensburg, New York</td>
<td>US$0.0400 /kW-hr</td>
<td>10,596</td>
<td>2007</td>
<td>2038</td>
</tr>
<tr>
<td>Forestport Facility (4)</td>
<td>3,300</td>
<td>Black River near Boonville, New York</td>
<td>US$0.0400 /kW-hr</td>
<td>10,016</td>
<td>2007</td>
<td>Owned</td>
</tr>
<tr>
<td>Herkimer Facility (4)</td>
<td>1,680</td>
<td>West Canada Creek near Herkimer, New York</td>
<td>US$0.0400 /kW-hr</td>
<td>5,114</td>
<td>2007</td>
<td>Owned</td>
</tr>
<tr>
<td>Hollow Dam Facility (4)</td>
<td>900</td>
<td>Oswegatchie River near Gouverneur, New York</td>
<td>US$0.0400 /kW-hr</td>
<td>4,400</td>
<td>2000 (5)</td>
<td>2026</td>
</tr>
<tr>
<td>Christine Falls Facility</td>
<td>850</td>
<td>Sacandaga River near Clifton, New York</td>
<td>US$0.21457 /kW-hr</td>
<td>3,065</td>
<td>2028</td>
<td>Owned</td>
</tr>
<tr>
<td>Burt Dam (4) Facility</td>
<td>600</td>
<td>18 Mile Creek near Newfane, New York</td>
<td>US$0.0400 /kW-hr</td>
<td>2,300</td>
<td>2000 (5)</td>
<td>2036</td>
</tr>
<tr>
<td>Cranberry Lake Facility</td>
<td>500</td>
<td>Oswegatchie River near Clifton, New York</td>
<td>US$0.0400 /kW-hr</td>
<td>2,154</td>
<td>2025</td>
<td>2035</td>
</tr>
<tr>
<td>Kayuta Lake Facility</td>
<td>400</td>
<td>Black River near Boonville, New York</td>
<td>US$0.071844 /kW-hr</td>
<td>2,089</td>
<td>2028</td>
<td>Owned</td>
</tr>
<tr>
<td>Adams Facility</td>
<td>350</td>
<td>Sandy Creek near Adams, New York</td>
<td>US$0.09670 /kW-hr</td>
<td>648</td>
<td>2028</td>
<td>Owned</td>
</tr>
<tr>
<td>Kings Falls Facility</td>
<td>1,750</td>
<td>Deer River near Copenhagen, New York</td>
<td>Flat Rate Annually of US$0.032770 /kW-hr</td>
<td>3,680</td>
<td>2003</td>
<td>Owned</td>
</tr>
<tr>
<td>Otter Creek Facility</td>
<td>530</td>
<td>Otter Creek in Craig, New York</td>
<td>Flat Rate Annually of US$0.029940 /kW-hr</td>
<td>1,944</td>
<td>2001</td>
<td>Owned</td>
</tr>
<tr>
<td>Phoenix Facility</td>
<td>3,500</td>
<td>Oswego River in Phoenix, New York</td>
<td>Flat Rate Annually of US$0.092050 /kW-hr</td>
<td>11,760</td>
<td>2026</td>
<td>Owned</td>
</tr>
<tr>
<td><strong>New England Development</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gregg Falls Facility</td>
<td>3,500</td>
<td>Piscataquag River near the Town of Goffstown, New Hampshire</td>
<td>Energy Block 1 US$0.1303/kW-hr Block 2 US$0.1143/kW-hr Block 3 US$0.09831/kW-hr Block 4 US$0.08110/kW-hr Block 5 US$0.06510/kW-hr</td>
<td>10,083</td>
<td>2020</td>
<td>2031</td>
</tr>
<tr>
<td>Pembroke Facility</td>
<td>2,600</td>
<td>Suncook River near the Town of Pembroke, New Hampshire</td>
<td>Energy Block 1 US$0.1303/kW-hr Block 2 US$0.1143/kW-hr Block 3 US$0.09831/kW-hr Block 4 US$0.08110/kW-hr Block 5 US$0.06510/kW-hr</td>
<td>9,311</td>
<td>2020</td>
<td>Owned</td>
</tr>
<tr>
<td>Hydroelectric Generating Facility</td>
<td>Generating Capacity (kilowatts)</td>
<td>Location</td>
<td>2001 Power Purchase Rates(1)</td>
<td>Annual Average Expected Energy Production (MW-hrs)</td>
<td>Year of Expiry of Power Purchase Agreement</td>
<td>Year of Expiry of Lease</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>--------------------------------</td>
<td>----------</td>
<td>-----------------------------</td>
<td>-----------------------------------------------</td>
<td>-------------------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Clement Dam Facility</td>
<td>2,400</td>
<td>Winnipesaukee River near the Town of Tilton, New Hampshire</td>
<td>US$0.09000/kW-hr</td>
<td>11,288</td>
<td>2004</td>
<td>2032</td>
</tr>
<tr>
<td>Franklin Facility</td>
<td>River Bend 1,600</td>
<td>Winnipesaukee River near the Town of Franklin, New Hampshire</td>
<td>On Peak US$0.1282/kW-hr Off Peak US$0.9690/kW-hr Capacity US$90.34/ Average kW Energy US$0.11040/kW-hr Capacity US$90.34/ Average kW</td>
<td>River Bend 7,550 Steven’s Mill 1,020</td>
<td>2006</td>
<td>Owned</td>
</tr>
<tr>
<td>Moretown Facility</td>
<td>1,200</td>
<td>Mad River near Moretown, Vermont</td>
<td>Winter On-Peak US$0.1078/kW-hr Winter Off-Peak US$0.0682/kW-hr Summer On-Peak US$0.0978/kW-hr Summer Off-Peak US$0.0539/kW-hr Capacity Adder US$0.0243/kW-hr</td>
<td>3,592</td>
<td>2018</td>
<td>Owned</td>
</tr>
<tr>
<td>Lochmere Facility</td>
<td>1,200</td>
<td>Winnipesaukee River near Lochmere, New Hampshire</td>
<td>US$0.09/kW-hr</td>
<td>4,652</td>
<td>2006</td>
<td>2033</td>
</tr>
<tr>
<td>Lower Robertson Facility</td>
<td>960</td>
<td>Ashuelot River near Hinsdale, New Hampshire</td>
<td>On-Peak US$0.1678/kW-hr Off-Peak US$0.1248/kW-hr Capacity US$106.58/Average kW</td>
<td>3,729</td>
<td>2015</td>
<td>Owned</td>
</tr>
<tr>
<td>Ashuelot Facility</td>
<td>900</td>
<td>Ashuelot River near Hinsdale, New Hampshire</td>
<td>On-Peak US$0.1678/kW-hr Off-Peak US$0.1248/kW-hr Capacity US$106.58/Average kW</td>
<td>3,629</td>
<td>2015</td>
<td>2040</td>
</tr>
<tr>
<td>Lakeport Facility</td>
<td>600</td>
<td>Winnipesaukee River near Laconia, New Hampshire</td>
<td>On-Peak US$0.1283/kW-hr Off-Peak US$0.0969/kW-hr Capacity US$90.35/Average kW</td>
<td>2,650</td>
<td>2005</td>
<td>2032</td>
</tr>
<tr>
<td>Avery Dam Facility</td>
<td>260</td>
<td>Winnipesaukee River near Laconia, New Hampshire</td>
<td>On-Peak US$0.1678/kW-hr Off-Peak US$0.1248/kW-hr Capacity US$106.58/Average kW</td>
<td>1,834</td>
<td>2015</td>
<td>2035</td>
</tr>
<tr>
<td>Hadley Falls Facility</td>
<td>250</td>
<td>Piscataquoo River near Goffstown, New Hampshire</td>
<td>On-Peak US$0.1035/kW-hr Off-Peak US$0.0761/kW-hr Capacity US$96.40/Average kW</td>
<td>1,007</td>
<td>2006</td>
<td>2016</td>
</tr>
<tr>
<td>Hydroelectric Generating Facility</td>
<td>Generating Capacity (kilowatts)</td>
<td>Location</td>
<td>2001 Power Purchase Rates(1)</td>
<td>Annual Average Expected Energy Production (MW-hrs)</td>
<td>Year of Expiry of Power Purchase Agreement</td>
<td>Year of Expiry of Lease</td>
</tr>
<tr>
<td>-----------------------------------</td>
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<td>----------</td>
<td>-------------------------------</td>
<td>-----------------------------------------------</td>
<td>---------------------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Hopkinton Facility</td>
<td>250</td>
<td>Contoocook River near Hopkinton, New Hampshire</td>
<td>US$0.0900/kW-hr</td>
<td>920</td>
<td>2006</td>
<td>2025</td>
</tr>
<tr>
<td>Milton Facility</td>
<td>1,335</td>
<td>Salmon River near the Town of Milton, New Hampshire</td>
<td>Block I US$0.0778 / kW-hr Block II US$0.0771 / kW-hr</td>
<td>6,166</td>
<td>2012</td>
<td>Owned</td>
</tr>
<tr>
<td>Mine Falls Facility</td>
<td>3,000</td>
<td>Nashua River near the City of Nashua, New Hampshire</td>
<td>US$0.0900 / kW-hr</td>
<td>10,700</td>
<td>2005</td>
<td>2024</td>
</tr>
<tr>
<td>Great Falls Facility</td>
<td>10,950</td>
<td>Passaic River near the City of Paterson, New Jersey</td>
<td>US$0.04 / kW-hr</td>
<td>25,500</td>
<td>2002</td>
<td>2021</td>
</tr>
<tr>
<td>Worcester Facility</td>
<td>180</td>
<td>Winnooskie River in Worcester, Vermont</td>
<td>Winter On-Peak US$0.1573 / kW-hr Winter Off-Peak US$0.0864 / kW-hr Summer On-Peak US$0.0844 / kW-hr Summer Off-Peak US$0.0386 / kW-hr Capacity Adder US$0.0177 / kW-hr</td>
<td>430</td>
<td>2016</td>
<td>Owned</td>
</tr>
</tbody>
</table>

Notes:
(1) 2001 power purchase rates have been rounded to four decimals and are not representative of long term power purchase rates under the applicable power purchase agreements. Long term rates under different agreements will be both higher and lower than current rates. Seasonal periods and daily periods vary from project to project.
(2) Interim lease to be replaced by a long term lease of 50 years less a day.
(3) Lease has been extended on a month-to-month basis during negotiations for the renewal of the lease. Long term lease to be entered into will be for twenty years.
(4) These rates changed to the avoided costs of Niagara Mohawk effective January 1, 2001.
(5) Agreement has been extended on a month-to-month basis during negotiations for the renewal of the agreement.
(6) A long term lease is currently being finalized.

Ontario Development - Long Sault Rapids, Glen Miller Dam, Hurdman Dam, Drag Lake Dam, Burgess Dam and Campbellford Facilities

Long Sault Rapids Facility

The Long Sault Rapids Facility is an 18,000 kilowatt hydroelectric generating facility located on the Abitibi River, 19 kilometres north of the Town of Cochrane, in northern Ontario. The facility was commissioned on April 1, 1998.

The facility was developed by a joint venture between Algonquin Power (Long Sault) Partnership and N-R Power Partnership. The facility is owned by the Co-Owners as tenants-in-common and not as joint tenants, with the Co-Owners each having an undivided 50% interest in the facility. The partners in the Algonquin Power (Long Sault) Partnership, Algonquin Power (Long Sault) Corporation Inc. and Energy Acquisition (Long Sault) Ltd., are wholly-owned subsidiaries of Algonquin Power. The partners in the N-R Power Partnership are Nicholls Holdings Inc. and Radtke Holdings Inc., companies controlled by two independent businessmen. There are two non-recourse loans outstanding which are secured against the facility and the Co-Owners' interest therein (see "Credit Agreements" below).
The facility includes a 125 meter long rock filled dam that crosses the Abitibi River. The dam has created a narrow headpond approximately ten kilometres in length. The facility is a run-of-the-river facility and the headpond will not be utilized for storage and peaking purposes. The powerhouse is an integrated structure, housing four pit turbine generating units each rated at 4,500 kilowatts of generating capacity which were manufactured by Sulzer Canada Inc.

Electricity produced by the facility is sold directly to Ontario Electricity Financial Corporation for distribution to its customers by means of a 23.5 kilometre 115 kV transmission line, which crosses both private property and provincially owned land pursuant to easements, rights of way and land use permits. Rights to all necessary lands have been obtained in order to construct, operate and maintain the transmission line.

**Power Purchase Agreement**

Pursuant to the terms of the power purchase agreement, the Co-Owners sell power produced by the facility exclusively to Ontario Electricity Financial Corporation and Ontario Electricity Financial Corporation purchases all power delivered at the delivery point, approximately 23.5 kilometres from the facility site.

The power purchase agreement terminates 50 years from the commercial in-service date, April 1, 1998, and may be renewed for a further term upon request by either party on terms and conditions to be mutually agreed. Ontario Electricity Financial Corporation has the option to terminate the agreement upon 60 days' written notice if the Co-Owners fail to deliver power to Ontario Electricity Financial Corporation for 24 consecutive months and, in Ontario Electricity Financial Corporation’s opinion, the Co-Owners are not taking appropriate steps to remedy the situation. In addition, Ontario Electricity Financial Corporation has the right to discontinue the receipt of power, by written notice, should the Co-Owners fail to perform any obligation under the agreement or under an operations agreement between Ontario Electricity Financial Corporation and the Co-Owners outlining operating procedures for the facility, until the obligation is fulfilled.

The agreement provides that the payment made by Ontario Electricity Financial Corporation for power produced by the facility is calculated as the sum of the monthly capacity payment and the monthly energy payment. The monthly capacity payment is calculated as the product of the number of On-peak hours for the month and the sum of the applicable energy and capacity rates. The monthly energy payment is the product of Off-peak hours and the applicable energy rate. The rates are escalated annually based on an index figure tied to the greater of Ontario Electricity Financial Corporation’s all customer rate or direct customer rate. The agreement provides that the rates will not decrease based on this index.

The Co-Owners will not receive a monthly capacity payment unless the facility delivers an average of at least 1,800 kilowatts of power to Ontario Electricity Financial Corporation during at least 85% or more of the On-peak period fifteen minute intervals for that month. The monthly payment from Ontario Electricity Financial Corporation will not include an amount for any monthly capacity power delivered in excess of target generation specified in the agreement and will not include an amount for any monthly energy in excess of 115% of target generation specified in the agreement.

**Waterpower Lease**

The Co-Owners have entered into an interim waterpower lease with the Province of Ontario in respect of the dam site for a term expiring on June 30, 2001. The interim lease provides that the parties will enter into a long term waterpower lease upon certain matters being completed, including approval of
the long term lease by the Lieutenant Governor in Council. The long term lease will be for a term of 50 years less a day, comprised of an initial term of 20 years, a 10 year extension on the same terms and conditions and two additional 10 year extensions on terms and conditions to be approved by the Province. The long term waterpower lease will provide for an annual land rental and an annual energy charge. The energy rate does not commence until 10 years after the long term lease comes into effect; however, the energy rate will be subject to annual review by the Province and may be adjusted at the discretion of the Province.

**Partnership Agreements**

There are partnership agreements governing the affairs of both Co-Owners. The provisions of each partnership agreement are virtually identical. The partnerships were formed for the purpose of carrying on the business of financing, holding and operating undivided interests in the facility.

**Co-Owners Agreement and Management Agreement**

The Co-Owners have entered into an agreement concerning, among other things, their holding of undivided interests in the facility. Upon the occurrence of specified events of default, the non-defaulting Co-Owner may purchase the defaulting Co-Owner's interest for 90% of fair market value. The Co-Owners have entered into a management agreement with NR-Algonquin Energy Management Inc. to manage the facility on their behalf for nominal consideration.

**Credit Agreements**

There is an outstanding senior loan against the facility in the amount of $44,692,000 at December 31, 2000. The loan was provided by a syndicate comprised of The Clarica Life Insurance Company ("Clarica"), The Canada Life Assurance Company and The Maritime Life Assurance Company. Clarica acts as agent for the syndicate. The loan has a term of 30 years commencing upon completion of construction and conversion of the loan to long-term financing (which conversion occurred effective January 31, 1999) and an identical amortization period with an interest rate of 10.16% for the first 15 years and 10.21% thereafter, compounded annually. Blended payments of principal and interest are made monthly. The loan is non-recourse and is secured by the facility and the ownership interests therein.

The credit agreement contains certain events of default, including: (i) the sale of assets and property covered by the lenders' security without the lenders' consent; (ii) certain changes in ownership; (iii) any amendment, waiver, termination, renewal or extension or breach continuing for 30 days after written notice of any of the material facility agreements, without the prior written consent of a majority of the lenders; or (iv) if there is a change in the manager or operator from Power Systems.

Under the terms of the credit agreement, a debt reserve is required. At December 31, 2000, the debt reserve was fully funded and contained a balance of $1.3 million.

The LSR Subordinate Note is also an outstanding loan against the facility which the Fund currently owns.

**Glen Miller Dam, Hurdman Dam, Drag Lake Dam and Burgess Dam Facilities**

The Glen Miller Dam facility, with a generating capacity of 1,100 kilowatts, is located near the lower end of the Trent River at Lock 3, Dam 3, in Trenton, Ontario. The Drag Lake Dam facility, with a
generating capacity of 225 kilowatts, is located on the Trent River at the Drag Lake Dam, in Haliburton, Ontario. The Burgess Dam facility, with a generating capacity of 130 kilowatts, is located at the outlet of Lake Muskoka River at Moon River, in Bala, Ontario.

The Hurdman Dam facility, with a generating capacity of 570 kilowatts, is located on the Mattawa River, two kilometres upstream from the Town of Mattawa, Ontario. These four facilities are owned by Algonquin Canada.

**Power Purchase Agreements**

Pursuant to the terms of the power purchase agreements, each facility will sell all power produced at such facility exclusively to Ontario Electricity Financial Corporation and Ontario Electricity Financial Corporation agrees to purchase all such power. The initial term of the agreement for the Glen Miller Dam facility is 15 years commencing October 1, 1986, for the Hurdman Dam facility is 20 years commencing January 1, 1985, for the Drag Lake Dam facility is 20 years from the commencement of commercial operations, which occurred on March 9, 1992 and for the Burgess Dam facility is 20 years from the commencement of commercial operations, which occurred on August 14, 1989. The term of the power purchase agreement for the Glen Miller Dam facility may be extended indefinitely, subject to the approval of the lessor of the facility lands. However, the agreement may be terminated on one month's notice after the expiry of the initial term. In any event, the agreement terminates upon the termination of the lease. Upon default, Ontario Electricity Financial Corporation may terminate the agreement five days after mailing a notice of such default to the generator.

The agreements contain typical non-utility generator obligations to Ontario Electricity Financial Corporation. There are no minimum contractual delivery quantities. The power purchase rates applicable to the facilities are currently based on On-peak versus Off-peak hours and summer (April 1 to September 30) versus winter.

**Land and Water Rights**

The Glen Miller Dam facility is located at a dam on the Trent River within a building owned by Sonoco Limited ("Sonoco"). A lease was originally executed on January 9, 1986 between Paperboard Industries Corp. ("Paperboard") and the former owner of the facility with a term of 15 years from the commencement of commercial operations. Paperboard sold the site and assigned its interest in the lease to Sonoco in 1992. Algonquin Canada currently pays Sonoco monthly rent equal to 20% of the gross sale price of power generated by the facility. Sonoco has advised the Fund of its intent not to continue to lease the facility after October 31, 2001.

For the Hurdman Dam facility, a waterpower renewal lease agreement was entered into with the Province of Ontario in respect of the facility site dated January 1, 1994. The agreement provides for both waterpower and land usage rights. The term of the agreement is for 10 years, with a right to three further 10 year renewal terms upon the request of the lessee. The annual rent is: (i) an amount determined in accordance with a formula based on energy produced multiplied by the increase in the consumer price index; (ii) $15,000; and (iii) 9% of gross revenues generated by the facility. The Province may terminate the lease if amounts owing under the lease remain unpaid for 90 days or if taxes or other assessments remain unpaid. Upon expiry or termination of the lease, improvements on the site become the property of the Province upon payment of the value of such improvements. Water levels must be maintained as specified in the lease. The lease is subject to termination if the power purchase agreement with Ontario Electricity Financial Corporation is terminated.
With respect to the Drag Lake Dam facility, the land on which the powerhouse and penstock are located is owned by Algonquin Canada. The dam site is licenced from the Trent-Severn Waterway.

The Burgess Dam facility has a lease for the facility site with The Corporation of the Township of Muskoka Lakes (the “Township”) that commenced on May 1, 1988 for an initial term of ten years. The lease has four 10 year renewal terms on terms to be mutually agreed. The lease expired on April 30, 1998 and the Manager is currently negotiating a renewal with the Township. The Township has agreed to extend the lease on a month-to-month basis during the negotiations. The lease may be terminated for non-payment of rent, failure to maintain the site, vacancy for 20 or more days or other breaches on the part of the lessee, upon notice and after an opportunity to cure has expired. The lease includes the water rights owned by the Township and under the direction of the Ontario Ministry of Natural Resources.

Rights to all necessary lands have been obtained in order to operate and maintain the transmission lines for the facilities.

**Campbellford Facility**

The Campbellford Facility is a 4,000 kilowatt hydroelectric generating facility located at Lock No. 14 on the Trent-Severn Waterway approximately four kilometers north of Campbellford, Ontario. This facility was an expansion project by the Town of Campbellford and Algonquin Power to the existing 2,100 kilowatt generating station owned by the town. The expansion was completed in late 1993 and commissioned in January 1994.

The facility is a run-of-the-river facility that consists of a shared 240 meter power canal leading to a concrete powerhouse housing two S-Kaplan double regulated turbines.

**Land and Water Rights**

The Town of Campbellford has a lease from the Government of Canada which gives the municipality the rights to all the available water in excess of that required for navigation at Lock No. 14 on the Trent-Severn Waterway. In addition to the water, the Town of Campbellford also has a lease for the land adjacent to Lock No.14 where the Campbellford Facility was developed.

In 1991, the Town of Campbellford entered into an arrangement with an Algonquin Power entity to develop the under-utilized water resources at the Lock No.14 site on the Trent-Severn Waterway. The Town of Campbellford subleased the necessary lands and water rights to the Algonquin Power entity to allow it to build the Campbellford Facility. The arrangement is for 25 years from the commencement of the agreement, being March 8, 1994. At the conclusion of the term, the plant and equipment will be turned over to the Town of Campbellford.

On November 15, 1994, the Campbellford Facility was granted by Environment Canada – Parks Services, under the Dominion Water Act, a licence to operate a low head hydro power facility at Lock No. 14 on the Trent River. The term of the approval is 30 years, commencing July 1, 1994 and ending June 30, 2024.

**Power Purchase Agreement**

The agreement has a term of 25 years commencing March 10, 1994. The specified settlement rates set out in the agreement will be paid to the producer.
Québec Development — Côte Ste-Catherine, Saint-Alban, Glenford, Donnacona, Ste-Brigitte, Mont Laurier, Hydro Snemo, Rawdon, Hydraska, Ste-Raphaël, Belleterre and Arthurville Facilities

**Côte Ste-Catherine Facility**

The Côte Ste-Catherine Facility is located at the Côte Ste-Catherine lock of the Lachine section of the St. Lawrence Seaway. The bypass canal upon which the facility is located was constructed as part of the St. Lawrence Seaway in 1958. The facility has a total installed capacity of 11,120 kilowatts and was constructed in three separate phases, each phase having a total installed capacity of 2,120 kilowatts, 4,500 kilowatts and 4,500 kilowatts, respectively, and each phase was commissioned in 1989, 1993 and 1996, respectively. Due to the year round, high volume water flows of the St. Lawrence River, the Manager expects there to be sufficient water to operate the Côte Ste-Catherine Facility at full capacity throughout the year. The Côte Ste-Catherine Facility uses approximately 2% of the river flow at any given time.

**Land and Water Rights**

The land and water rights necessary for the construction and operation of the Côte Ste-Catherine Facility have been obtained from the St. Lawrence Seaway Authority by way of a lease agreement dated March 1, 1988, as amended. The lease agreement will expire on February 28, 2009. The lease can be extended for an additional period of 21 years upon the lessee giving 6 months notice. The facility is located on a federal waterway. However, the Province of Québec has asserted jurisdiction over the water rights to this facility.

**Credit Agreement**

There is an outstanding senior loan against the facility in the amount of $22,189,000 at December 31, 2000. The loan was provided by a syndicate comprised of Clarica, The Standard Life Assurance Company (“Standard Life”) and the Caisse de Dépôt et Placement du Québec (the “Caisse”). Clarica acts as agent for the syndicate. The loan has a term of 23.25 years commencing on October 31, 1994 and the loan bears interest varying from 9.91% to 11.05% during the term, compounded monthly. Blended payments of principal and interest are made monthly. Recourse on the loan is limited to the assets which comprise the Côte Ste-Catherine Facility and the Mont Laurier Facility (up to $4.0 million).

The sale of assets and property covered by the lenders’ security without the lenders’ consent is prohibited. Certain changes in ownership also constitute an event of default under this loan. An event of default also occurs if there is any amendment, waiver, termination, renewal or extension or breach continuing for 30 days after written notice of any of the material project agreements, without the prior written consent of a majority of the lenders.

**Saint-Alban Facility**

The facility is an 8,200 kilowatt hydroelectric generating facility located on the Ste-Anne River approximately one kilometre from the Village of Saint-Alban, Québec and approximately 200 kilometres east of Montréal. The facility is located at the site of a decommissioned hydroelectric generating facility previously owned by Hydro-Québec. The facility consists of a newly gated spillway and the existing dam and spillway, which were rehabilitated and reconditioned in 1996, two penstocks, a powerhouse structure and a tailrace canal and has been designed as a run-of-the-river facility.
Land and Water Rights

The land upon which the facility is located is currently owned by Shawinigan Electric Company, a wholly-owned subsidiary of Hydro-Québec. SLI has entered into a temporary lease agreement with Shawinigan Electric Company for use of the land and hydraulic forces required to operate the facility. The temporary lease expired on December 1, 1998, however, Hydro-Québec has confirmed to SLI that it has extended the term of this lease until the land and water rights have been transferred to the Ministry of Natural Resources, Québec. Approval from Shawinigan Electric Company has been sought to allow the granting of a security interest in the temporary lease. It is contemplated that all land and hydraulic rights associated with the Saint-Alban Facility owned by Shawinigan Electric Company will be transferred to the Ministry of Natural Resources, Québec and that SLI will enter into a 20 year lease agreement with the Ministry of Natural Resources, Québec. SLI is presently negotiating the final terms of the lease with the Ministry.

In addition to contractual lease payments and amounts payable to the Ministry of Natural Resources, Québec, an agreement exists for the payment of an annual royalty of approximately $10,000 in 2000 (increasing by $500 per year) in respect of the Saint-Alban municipal park.

The lease agreement entered into between Ministry of Natural Resources, Québec and SLI prohibits transfer of the leasehold interest held by SLI until May 2001. Approval from the Government of Québec to the transfer of the leasehold interest to Algonquin Canada upon the Saint-Alban Transfer Date has been sought. Acquisition of legal title to this facility interest will be completed on the Saint-Alban Transfer Date.

Glenford Facility

The facility is a 4,950 kilowatt hydroelectric generating facility located on the Ste-Anne River approximately one kilometre from the Village of Ste-Christine d'Auvergne, Québec and approximately 230 kilometres east of Montréal. The facility is located at the site of a decommissioned hydroelectric generating facility previously owned by Hydro-Québec. The facility consists of the existing dam and spillway, which were rehabilitated and reconditioned in 1995, an intake, powerhouse and tailrace structure and has been designed as a run-of-the-river facility.

Land and Water Rights

The Glenford Facility has been constructed on certain lands purchased by the Glenford Partnership and which lands include the existing structures associated with the historic generating facility. In addition, certain easements were granted to the former owner in respect of flooding rights and the access road. The land owned by the Glenford Partnership includes the bed of the river upon which the existing dam structure is located and certain lands on either side of the river. Accordingly, no lease from the Province of Québec is required.

Credit Agreement

The Glenford Senior Debt is an outstanding senior loan provided to the Glenford Partnership in the amount of $5.9 million at December 31, 2000. The loan was provided by Corpfinance International Limited and has a term of 25 years which commenced in April 1995. The loan is to be repaid in equal monthly payments of $63,591 representing blended interest and principal during its term. The loan is secured solely by the facility and the ownership interests therein.
The credit agreement contains certain events of default, including: (i) the sale of assets and property covered by the lender’s security without the lender’s consent; (ii) certain changes in ownership; (iii) any amendment, waiver, termination, renewal or extension or breach continuing for 15 days after written notice of any of the material facility agreements, without the prior written consent of the lender; or (iv) if there is a change in the manager or operator from Power Systems.

A hydrology reserve fund with a balance as at December 31, 2000 of $118,532 has been established to provide additional security in respect of the payment of interest and principal on the Glenford Senior Debt. Under the terms of the credit agreement, such reserve is required to be increased at the rate of 9% on an annual basis. A maintenance reserve fund with a balance as at December 31, 2000 of $116,314 has been established in respect of major capital expenditures which may be incurred by the Glenford Partnership.

**Donnacona Facility**

The Donnacona Facility is a 4,800 kilowatt hydroelectric generating facility located on the lower portion of the Jacques Cartier River, near the Town of Donnacona, Québec. The Jacques Cartier River flows south and empties into the St. Lawrence River approximately 60 kilometres west of Québec City, Québec. The facility was constructed at the site of an existing dam and is located on property purchased from Alliance Forest Products Inc./Produits Forestiers Alliance Inc. ("Alliance"). The powerhouse houses eight identical 600 kilowatt turbine generators. Construction commenced in April 1996 and the facility was commissioned in December 1996. Electricity produced by the facility is delivered to the Hydro-Québec distribution system.

**Power Purchase Agreement**

Under the power purchase agreement, Hydro-Québec has agreed to purchase all power made available to it from the facility and the Donnacona Partnership has agreed to supply a minimum of 18,790,200 kilowatt hours of energy during each period of 12 consecutive months commencing December 1 in each contract year. If the facility produces less energy than the minimum, a penalty of approximately 1.1 cents per kilowatt hour for each kilowatt hour the actual production is below the minimum annual production is payable to Hydro-Québec. The term of the agreement is 25 years and it expires in 2022. The agreement may be renewed at the option of the Donnacona Partnership for a period not exceeding the original 25 year term upon terms to be negotiated. Hydro-Québec can veto the renewal, but only if the Donnacona Partnership is in default of a material term of the agreement.

Power purchase rates for contract year 2001 and thereafter will be increased in accordance with the percentage increases in the Consumer Price Index for the Montréal Urban Community, as published by Statistics Canada, with a minimum annual escalation of 3% and a maximum annual escalation of 6%.

**Land and Water Rights**

The real property interest required for the construction and operation of the facility consists of a deed of transfer of certain land and easement rights obtained from Alliance in April 1996. In addition to the land, the existing dam structure, the bed of the Jacques Cartier River upstream of the facility and the natural hydraulic forces of that part of the river were transferred to the Donnacona Partnership. Under the deed of transfer, the Donnacona Partnership agrees to allow water flows in the Jacques Cartier River of up to 2.25 cubic metres per second to be utilized by Alliance for the Donnacona paper mill located approximately one kilometre from the facility site until such time as a permanent pumping system is conveyed by the Donnacona Partnership to Alliance. During construction, the deed of transfer required
the partnership to design and install a temporary water pumping system to supply the Alliance mill with water if there was a problem with the existing gravity water supply system. This temporary pumping equipment was then transferred to Alliance and the equipment is located in a building on the site. The Donnacona Partnership also has the obligation to construct a permanent pumping station in the unlikely event there is a permanent failure of the existing dam and the existing gravity water supply system is permanently disrupted.

The deed of transfer grants the Donnacona Partnership certain easements across land retained by Alliance, which easements are required to allow access to the dam and other structures located near the powerhouse. Under the terms of the deed of transfer, the Donnacona Partnership has agreed, among other things, to maintain the dam in good condition and maintain certain insurance which will protect Alliance against loss of water caused by negligence of the Donnacona Partnership until completion of a permanent pumping facility.

The Donnacona Partnership has entered into a lease with the Province of Québec in respect of a section of the bed of the river upstream from the facility and water rights relating to the Jacques Cartier River necessary for the operation of the facility which expires on February 6, 2017. The lease includes a renewal option for an additional 20 year period, exercisable at the request of the Donnacona Partnership upon terms imposed by the Province of Québec. The lease may be terminated by the Province upon, among other events, termination of the power purchase agreement with Hydro-Québec. Notice of any change of control of the Donnacona Partnership or its partners must be given to the Québec Minister of Natural Resources and the Québec Minister of the Environment within 30 days of the change of control. The Ministers have the discretion to approve such change of control or terminate the lease.

Rights to all necessary lands have been obtained in order to operate and maintain the transmission line for the facility.

**Ste-Brigitte Facility**

The Ste-Brigitte Facility is a 4,200 kilowatt hydroelectric generating facility located on the Nicolet River, in the Municipality of Ste-Brigitte-des-Saults, Québec. The facility is located at the site of an historic mill, but none of the original structures have been utilized for the new powerhouse. The site layout involves an intake canal equipped with a gate structure, a powerhouse containing a single 4,200 kilowatt turbine generator and a tailrace canal which conveys the waterflow back to the natural watercourse. It has been designed as a run-of-the-river facility.

The facility incorporates a 1.1 metre high movable dam utilized to increase available water level differential. The original movable dam was damaged and was replaced in the summer of 1998 by and at the expense of Algonquin Power.

**Land and Water Rights**

The Ste-Brigitte Facility has been constructed on certain lands purchased by a former owner. In addition, certain easements were granted to the former owner in respect of the access road, transmission line and Hydro-Québec interconnection. The land includes the bed of the river upon which the existing weir structure is located and certain land on either side of the river. Accordingly, no lease with the Province of Québec is required.
**Ste-Raphaël Facility**

The Ste-Raphaël Facility is a 3,500 kilowatt facility located on the Rivière de Sud approximately 60 km. east of Québec City, Québec. The site was formerly developed by Hydro Québec and then released by the Ministry of Energy Québec, for private development in 1991. The site was rebuilt by a former owner and placed back into operation in January 1994.

**Land and Water Rights**

The land and hydraulic rights necessary for the operation of the facility have been leased by the Ministry of Natural Resources and the Ministry of Environment, Québec pursuant to a lease agreement dated December 14, 1993. The lease terminates on December 14, 2013 and may be renewed for an additional period of 20 years at the option of the lessee upon terms imposed by the government.

**Mont Laurier Facility**

The Mont Laurier Facility is a 2,725 kilowatt facility located on the Rivière-du-Lièvre in the Town of Mont Laurier, Québec. The site has been historically utilized for the production of power and was refurbished in 1989. The rehabilitation included extensive repairs to the civil works, rebuilding of all three turbines and replacement of all electrical and control works.

**Land and Water Rights**

The facility is constructed on lands owned by MTL Partnership. Water rights necessary for the operation of the facility have been leased from the Ministry of Natural Resources, Québec pursuant to a lease agreement dated March 23, 1988 and assigned to the MTL Partnership on October 31, 1994. The term of the lease expires on December 31, 2023.

**Hydro Snemo Facility**

The Hydro Snemo Facility is located on the Rivière-du-Loup in close proximity to the downtown section of the Town of Rivière-du-Loup, Québec. The site has been historically utilized for the production of power and was decommissioned in 1977. A major refurbishment undertaken in 1995 included complete rehabilitation of the civil works, installation of a new turbine, rebuilding of two existing turbines and replacement of all electrical and control works. The installed capacity of the plant has been increased to 2,600 kilowatts.

**Land and Water Rights**

The land and hydraulic rights necessary for the operation of the facility have been leased from the Ministry of Natural Resources and the Ministry of the Environment, Québec pursuant to a lease agreement dated November 20, 1997. The lease terminates on October 22, 2015. The lease can be extended for an additional period of 20 years at the option of the lessee upon terms imposed by the government.

**Rawdon Facility**

The facility is a 2,500 kilowatt hydroelectric generating facility located on the Ouareau River approximately one kilometre from the Village of Rawdon, Québec and approximately 70 kilometres north of Montréal. The facility consists of an existing dam (which was rehabilitated and reconditioned in
1986 by Hydro-Québec), intake, spillway, penstock, powerhouse and tailrace structure and has been designed as a run-of-the-river facility.

Land and Water Rights

The land upon which the facility is located and the hydraulic rights necessary for the operation of the facility have been leased by SLI from the Ministry of Natural Resources, Québec pursuant to a 20 year lease agreement, as assigned by SLI to the Fund in June, 1999. The Government of Québec has consented to the assignment. The lease expires in June 2014 and includes a renewal option for an additional 20 year period, exercisable by the lessee upon mutually acceptable terms. The lease may be terminated by the Province of Québec upon, among other events, termination of the power purchase agreement for the facility with Hydro-Québec or transfer of the leasehold interest without approval of the landlord.

Saint-Alban, Rawdon and Glenford Power Purchase Agreements

As part of the transfer of title to the Saint-Alban Facility to the Fund, right, title and interest in the power purchase agreement is to be transferred to the Fund. Under the terms of the power purchase agreement, the consent of Hydro-Québec (which consent may not be unreasonably withheld) is required to complete the acquisition of the Saint-Alban Facility and the acquisition of the Glenford Interest. The consent of Hydro-Québec has been obtained with respect to the acquisition of the Rawdon Facility.

Under the power purchase agreement, Hydro-Québec has agreed to purchase all power made available to it from the Saint-Alban, Glenford and Rawdon Facilities. The standard Hydro-Québec power purchase agreement stipulates a minimum energy production during each 12 consecutive months commencing December 1 in each contract year. If a facility produces less energy than the minimum, a penalty of approximately 1.1 cents per kilowatt hour for each kilowatt hour that the actual production is below the minimum annual production is payable to Hydro-Québec.

The term of the power purchase agreement for the Rawdon Facility and the Saint-Alban Facility is 20 years from the commercial start-up date and is 25 years from the commercial start-up date for the Glenford Facility. The power purchase agreements expire in 2014, 2016 and 2020 for the Rawdon, Saint-Alban and Glenford Facilities, respectively. The agreements may be renewed at the option of the generator for a period not exceeding the original term upon mutually acceptable terms.

For the Saint-Alban and Rawdon Facilities, power purchase rates under the agreement for each contractual year will be increased in accordance with the percentage increase in the Consumer Price Index for the Montréal Urban Community, as published by Statistics Canada, with a minimum annual escalation of 3% and a maximum annual escalation of 6%. For the Glenford Facility, the power purchase rate is fixed at $0.0504 per kW-hr until December 1, 1999, after which time the rate will be escalated in a manner similar to the rates for the Saint-Alban and Rawdon Facilities as set out above.

Hydraska Facility

The Hydraska Facility is located on the Yamaska River at Penmans Dam near the Town of St-Hyacinthe, Québec. Construction on the site commenced in 1993 and commissioning was successfully completed in May 1994. The civil works include a 250 meter long tailrace canal and have been designed to be attractively integrated into the park in which the site is located. The capacity of the plant is established at 2,250 kilowatts.
**Land and Water Rights**

The land rights and existing structures on the site are leased from the City of St-Hyacinthe pursuant to a 20 year lease agreement dated August 30, 1993, the term of which commenced in May 1994. The lease can be extended on the same terms for an additional period of 20 years at the option of the lessee. The hydraulic rights necessary for the operation of the facility have been leased by the lessee from the Ministry of Natural Resources and the Ministry of the Environment, Québec pursuant to a lease agreement dated March 24, 1994. The lease terminates on May 23, 2014 and may be renewed for an additional period of 20 years at the option of the lessee upon terms imposed by the government.

**Côte Ste-Catherine, Hydro Snemo, Hydraska, Ste-Raphaël, and Mont Laurier Power Purchase Agreements**

Under the power purchase agreements, Hydro-Québec has agreed to purchase all power made available to it from the Côte Ste-Catherine, Hydro Snemo, Hydraska, Ste-Raphaël, and Mont Laurier facilities. The standard Hydro-Québec power purchase agreement stipulates a minimum energy production during each 12 consecutive months commencing December 1 in each contract year. If a facility produces less energy than the minimum, a penalty of approximately 1.1 cents per kilowatt hour for each kilowatt hour that the actual production is below the minimum annual production is payable to Hydro-Québec. The power purchase agreement for Hydraska does not include any penalty provisions.

The term of the power purchase agreements for each of the Côte Ste-Catherine – Phase I, Hydraska, Ste-Raphaël, Mont Laurier and Hydro Snemo facilities is 20 years from the commercial start-up date and is 25 years from the commercial start-up date for the Côte Ste-Catherine – Phase II and Côte Ste-Catherine – Phase III facilities. For the Côte Ste-Catherine Facility Phases I, II and III, the power purchase agreements expire in 2009, 2018 and 2021, respectively. The expiry dates for the power purchase agreements for the Mont Laurier, Hydraska, Ste-Raphaël, and Hydro Snemo facilities are 2007, 2014, 2014 and 2015, respectively. The agreements may be renewed at the option of the producer for a period not exceeding the original term upon terms imposed by Hydro-Québec.

For all facilities except Mont Laurier and Côte Ste-Catherine – Phase I, power purchase rates under the agreements for each contractual year will be increased in accordance with the percentage increase in the Consumer Price Index for the Montreal Urban Community, as published by Statistics Canada, with a minimum annual escalation of 3% and a maximum annual escalation of 6%. For the Mont Laurier Facility, the power purchase rates will be increased in accordance with the percentage increase in the Montreal Consumer Price Index with a maximum annual escalation of 5.2%. In addition to escalation due to inflation, the rates paid under the Mont Laurier Facility power purchase agreement will be escalated by $0.01/kW-hr in 2002. For the Côte Ste-Catherine Facility – Phase I, the power purchase rates will be increased in accordance with the percentage increase in the Montreal Consumer Price Index with a maximum annual escalation of 6%.

**Belleterre Facility**

The Belleterre Facility is a 2,200 kilowatt hydroelectric generating facility located on the Winneway River, in the Municipality of Laforce, Québec. The facility is located at the point of discharge of the Winneway River into Lac Simard/Lac des Quinzes. Commissioning of the Belleterre Facility involved the rehabilitation of a generating facility constructed in the 1930's to supply power to local mining operations. The rehabilitation work included replacement of the turbine-generating equipment, restoration of site structures, including the penstock and gates, and replacement/recommissioning of the
electrical interconnection to the Hydro-Québec grid. The rehabilitation and recommissioning was completed and the facility was brought into commercial service with Hydro-Québec in March 1993.

**Land and Water Rights**

The land and water rights necessary for the Belleterre Facility were originally leased from the Province of Québec to the Town of Belleterre pursuant to a lease dated July 17, 1991. The lease expires in December 2011 and includes a renewal option for an additional 20 year period, exercisable by the lessee upon terms imposed by the Province of Québec. The lease may be terminated by the Province of Québec upon, among other events, termination of the power purchase agreement for the facility with Hydro-Québec.

The Town of Belleterre transferred its interest in the lease to a former owner pursuant to a deed of sale dated May 31, 1992. Consideration paid under the deed of sale included granting the Town of Belleterre a royalty interest which provides an annual payment equal to two percent of the gross revenues earned by the facility from the sale of energy to Hydro-Québec. Certain easements required for the transmission line were granted by the Town of Belleterre under the deed of sale. Under the lease with the Province of Québec, a shareholder of a former owner was required to provide a guarantee of the lessee's obligations thereunder. Following the acquisition of the Belleterre Facility, Algonquin Canada provided an indemnity to such shareholder in respect of its obligations under the guarantee.

**Ste-Brigitte and Belleterre Power Purchase Agreements**

Under the power purchase agreements, Hydro-Québec has agreed to purchase all power made available to it from the facilities. The standard Hydro-Québec power purchase agreement stipulates a minimum energy production during each 12 consecutive months commencing December 1 in each contract year. If a facility produces less energy than the minimum, a penalty of approximately 1.1 cents per kilowatt hour for each kilowatt hour the actual production is below the minimum annual production is payable to Hydro-Québec.

As a result of unrealistic energy production forecasts and poor operating procedures by a former owner of the Ste-Brigitte Facility and the Belleterre Facility, the facilities failed to meet the minimum production obligations under the Hydro-Québec power purchase agreements. As a result, Hydro-Québec reduced the minimum annual production obligation for the Belleterre Facility to 10,249,200 kilowatt hours and reduced the minimum annual production obligation for the Ste-Brigitte Facility to 10,818,600 kilowatt hours. Under the agreement of purchase and sale in respect of all of the issued and outstanding shares of BCL Energy (Belleterre) Inc. and all the issued and outstanding shares of BCL Energy (Ste-Brigitte) Inc., the Fund is liable for the payment of the fees charged by Hydro-Québec for such reductions in the amounts of $74,667 during 2001 for the Belleterre Facility and in the amounts of $63,601 during each of 2001 through 2003 for the Ste-Brigitte Facility. The Manager fully expects to be able to meet the revised minimum annual production obligations set out in the power purchase agreements with Hydro-Québec for both facilities over the remaining term of the contracts.

The term of each of the agreements is 20 years from the commercial start-up date and the Ste-Brigitte Facility agreement expires in 2014 and the Belleterre Facility agreement expires in 2013. The agreements may be renewed at the option of the producer for a period not exceeding the original 20 year term upon terms imposed by Hydro-Québec.

Power purchase rates under the agreements for each contractual year will be increased in accordance with the percentage increase in the Consumer Price Index for the Montréal Urban
Community, as published by Statistics Canada, with a minimum annual escalation of 3% and a maximum annual escalation of 6%.

**Arthurville Facility**

The Arthurville Facility is a 650 kilowatt hydroelectric generating facility located on the Du Sud River near Saint-Raphaël-de-Bellechasse, approximately 40 kilometers east of Québec City. The site was originally developed in the late 1700's as a sawmill, and later, in the early 1900’s as a floumill. It was not until September 15, 1993 that the structure was commissioned as a hydroelectric generating facility by Énergie DLS Inc. The powerhouse building is estimated to be approximately 230 years old.

This run-of-the-river facility consists of a concrete gravity dam and spillway that spans the river, an intake, two penstocks, a stone masonry powerhouse and a tailrace canal.

**Land and Water Rights**

The Arthurville Facility is constructed on private land, such that the generator owns the land and the associated hydraulic forces. The land owned includes the bed of the river upon which the existing spillway is located. Accordingly, no water lease with the Province of Québec is required.

**Power Purchase Agreement**

Under the power purchase agreement, Hydro-Québec has agreed to purchase all power made available. The agreement is for a 20 years, commencing September 15, 1993, which was the commissioning date of the facility. The established minimum contractual energy production during each 12 consecutive months commencing December 1st in each contract year is 3,313 megawatt hours. As a result of lower than forecast energy production, the former owner lowered the minimum contractual energy production in 1994 to 2,847 megawatt hours and again in 1999 to 2,568 megawatt hours.

Under the agreement, if the facility produces less that the established minimum contractual energy, a penalty of approximately 1.13 cents per kilowatt hour for each kilowatt hour the actual production is below the minimum annual production is payable to Hydro-Québec. The Manager fully expects to be able to meet the revised minimum annual production.

Power purchase rates under the agreement will be increased in accordance with the percentage increase in the Consumer Price Index for the Montreal Urban Community, as published by Statistics Canada, with a minimum annual escalation of 3% and a maximum annual escalation of 6%.

**Newfoundland Development - Rattle Brook Facility**

**Rattle Brook Facility**

The facility is a 4,000 kilowatt hydroelectric generating facility located on Rattle Brook, approximately four kilometres north of the Town of Jackson's Arm, in the Province of Newfoundland. Construction commenced in September 1997 and the facility was commissioned in December 1998.

The facility is a run-of-the-river facility and there will be no storage of water for peaking purposes. A penstock runs 1,100 metres from a small dam to the powerhouse. The powerhouse is a single storey building which houses a single horizontal turbine attached to a synchronous air cooled generator.
The interconnection point for delivery of electricity to the power purchaser is adjacent to the facility and therefore no transmission line is included.

*Land and Water Rights*

All necessary land and water rights and environmental approvals have been obtained by the Rattle Brook Partnership, including a 50 year lease from the Province of Newfoundland for use of the land required by the facility.

*Power Purchase Agreement*

Electricity produced by the facility is sold directly to Newfoundland and Labrador Hydro. Pursuant to the power purchase agreement, Newfoundland and Labrador Hydro agrees to purchase all power delivered to the interconnection point and the Rattle Brook Partnership agrees to sell all power produced by the facility to Newfoundland and Labrador Hydro.

The power purchase agreement is for a term of 25 years from the commercial in-service date, which occurred on October 23, 1998, and may be renewed for a further term of 25 years upon terms mutually agreed. Newfoundland and Labrador Hydro has the option to terminate the supply or receipt of power upon reasonable notice if the Rattle Brook Partnership is in default of any obligation under the agreement. If the Rattle Brook Partnership continues in default after receiving reasonable notice thereof (at least 60 days), Newfoundland and Labrador Hydro has the option to terminate the agreement.

The power purchase agreement provides that payments made by Newfoundland and Labrador Hydro consists of two components: a capacity component and an energy component, for each of the winter period and the summer period. The energy component is adjusted annually by the change in the Consumer Price Index for Canada, provided that any escalation does not exceed 6% year over year. The capacity component is fixed and is not escalated over the term of the power purchase agreement.

*Partnership Agreement*

The partnership agreement dated October 14, 1997 between Algonquin Power Corporation (Rattle Brook) Inc. and 3033083 Nova Scotia Limited governs the affairs of the Rattle Brook Partnership. The partnership agreement specifies, *inter alia*, that income allocations, cash distributions and voting rights at meetings of the partners will be divided as to 55% to be equally divided among the four shareholders of the Manager and 45% to 3033083 Nova Scotia Limited. Generally, management decisions for the partnership are made by majority vote of the partners. Certain matters, including capital expansion of the facility, disposition of the facility by the partnership and dissolution of the partnership, require unanimous consent of the partners.

*New York Development - Ogdensburg, Forestport, Herkimer, Hollow Dam, Christine Falls, Burt Dam, Cranberry Lake, Kayuta Lake, Adams, Kings Falls, Otter and Phoenix Facilities*

*Trafalgar Power, Inc. and Christine Falls Corporation*

Trafalgar Power, Inc., a Delaware corporation, and Christine Falls Corporation, a New York corporation, own seven hydroelectric generating facilities located in upper New York State. The Trafalgar Companies are each controlled by the same independent businessman. The Ogdensburg facility, Forestport facility, Herkimer facility, Cranberry Lake facility, Kayuta Lake facility and the Adams facility are owned by Trafalgar and the Christine Falls facility is owned by Christine Falls.
Corporation. Each of the facilities has received a licence or a licence exemption from FERC and each sells electricity to Niagara Mohawk Power Corporation pursuant to separate power purchase agreements. Such agreements are either front-end loaded, whereby the rate paid by Niagara Mohawk is high in the early years to enable the developer to recoup its capital costs and is adjusted downward in later years to compensate for the overpayment based on the balance in a tracking account set up for such purpose, or specified rate, whereby the rate is as set out in the agreement in the early years and thereafter is set as a percentage of Niagara Mohawk's Avoided Costs. Niagara Mohawk has the right to suspend its obligations under such agreements if its transmission system is unable to accept power generated from the facilities. It also retains a right of first refusal to negotiate the acquisition of a facility in the event of a proposed disposition thereof. The Trafalgar Companies must maintain such facilities in good working order, maintain the interconnection with Niagara Mohawk's transmission system and provide insurance coverage.

Trafalgar Power, Inc. has commenced an action in New York District Court against the Fund, Algonquin Canada and Algonquin Power with respect to the Fund’s and Algonquin Canada’s purchase of the Trafalgar Class A Note and the Trafalgar Class B Note. Trafalgar has alleged that Aetna Life Insurance Company breached an agreement with Trafalgar by selling the notes to the Fund and Algonquin Canada. Trafalgar has also alleged that the Fund, Algonquin Canada and Algonquin Power tortiously interfered with the agreement between Aetna and Trafalgar and that the Fund, Algonquin Canada and Algonquin Power converted Trafalgar's assets. The Manager believes that this action was as a result of the Fund taking steps towards initiating foreclosure proceedings against Trafalgar with respect to the Trafalgar notes and pursuant to a loan agreement and a trust agreement with Trafalgar. As a defensive action, Trafalgar has filed this complaint. The Manager believes that this case is without merit and is a nuisance case to confound the foreclosure proceedings.

In a separate action, Trafalgar obtained a judgment against a third party and received an award of approximately US$10 million. The Fund has made a claim against this award. These funds are being held in escrow pending the outcome of the above matters. The Fund was required to place a bond in the amount of US$2 million as security for potential costs and damages in the event that the escrow funds are awarded to the owner of Trafalgar.

**Trafalgar Class A Note**

Algonquin Canada acquired the Trafalgar Class A Note on December 23, 1997. The Trafalgar Class A Note was issued jointly and severally by the Trafalgar Companies pursuant to the Trafalgar Indenture, bears interest at the rate of 9.75% per annum and is secured by a first charge against all assets of the Trafalgar Companies including, without limitation, the generating equipment comprising the Trafalgar Facilities and the interest in the key contracts held by the Trafalgar Companies for the operation of the Trafalgar Facilities.

Under the terms of the Trafalgar Indenture, Algonquin Canada was entitled to 100% of the Trafalgar Operating Cashflow up to certain cumulative annual targets, then 50% of the Trafalgar Operating Cashflow in amounts up to certain cumulative annual targets, and then, for the remainder of the calendar year, 90% of cashflows in excess of those targets in respect of interest and principal payments on the note. The Class A Note was repaid during 2000.

**Trafalgar Class B Note**

The Fund acquired the Trafalgar Class B Note on December 23, 1997. The Trafalgar Class B Note was issued jointly and severally by the Trafalgar Companies pursuant to the Trafalgar Indenture,
bears interest at the rate of 6.10% per annum and ranks subordinate to the Trafalgar Class A Note. It is secured by a subordinate charge against all assets of the Trafalgar Companies including, without limitation, the generating equipment comprising the Trafalgar Facilities and the interest in the key contracts held by the Trafalgar Companies for the operation of the Trafalgar Facilities.

Under the terms of the Trafalgar Indenture, prior to redemption or repayment of the Trafalgar Class A Note, no payments will be made by the Trafalgar Companies in respect of the Trafalgar Class B Note. After retirement of the Trafalgar Class A Note, but prior to the holder of the Trafalgar Class B Note having received aggregate payments exceeding a certain cumulative target, 50% of Trafalgar Operating Cashflows in amounts up to certain annual targets, and 90% of cash flows in excess of those targets, will be paid to the holder of the Trafalgar Class B Note in respect of interest and principal payments on the note. After the holder of the Trafalgar Class B Note has received aggregate payments exceeding such cumulative target, 33% of Trafalgar Operating Cashflows will be paid to the holder of the Trafalgar Class B Note in respect of interest and principal payments on the note.

Under the terms of the various securities purchased and agreements entered into by the Fund and Algonquin Canada, the Fund is indirectly entitled to a 100% interest in the cash flows generated from the Trafalgar Facilities up to the year 2010 and thereafter until all amounts outstanding under such note are repaid, if the Trafalgar Companies elect not to repay the Trafalgar Class B Note.

If the Trafalgar Companies fully repay the Trafalgar Class B Note upon its maturity on December 31, 2010, the Fund will receive a payment equal to 75% of the equity value of the Trafalgar Facilities which is expected by the Fund to be satisfied by delivery of a 75% equity interest in the Trafalgar Companies.

**Trafalgar Operations Subcontract**

Algonquin Power entered into the Trafalgar Operations Contract with the Trafalgar Companies, pursuant to which Algonquin Power agreed to provide the Trafalgar Companies with certain services in respect of the Trafalgar Facilities. Algonquin Canada entered into the Trafalgar Operations Subcontract on December 23, 1997 pursuant to which Algonquin Canada provides to Algonquin Power services required in respect of the operation of the Trafalgar Facilities. In addition to receiving certain monthly payments in respect of the operating costs incurred by Algonquin Canada in providing such services, Algonquin Canada is entitled to the Trafalgar Contingency Participation as a bonus payment based on achieving certain target revenue generation and payments on the above-noted notes.

Algonquin Canada entered into a services agreement (the “Trafalgar Services Agreement”) on December 23, 1997 pursuant to which Power Systems has assumed responsibility for providing the operations services required by the Trafalgar Facilities. Compensation to Power Systems under the Trafalgar Services Agreement does not include any portion of the Trafalgar Contingency Participation.

Prior to retirement of the Trafalgar Class A Note, on an annual basis, after the holder of the Trafalgar Class A Note receives payment up to a certain target, the Trafalgar Contingency Participation will be equal to 50% of Trafalgar Operating Cashflows in amounts up to certain annual targets and 10% of the amount of Trafalgar Operating Cashflows which is in excess of those targets. After retirement of the Trafalgar Class A Note and prior to the holder of the Trafalgar Class B Note having received aggregate payments exceeding a certain cumulative target, the Trafalgar Contingency Participation will be equal to 50% of Trafalgar Operating Cashflows up to certain annual targets and 10% of cash flows in excess of those targets. After the holder of the Trafalgar Class B Note has received aggregate payments
exceeding such certain cumulative target, the Trafalgar Contingency Participation will be equal to 33% of Trafalgar Operating Cashflows.

**Ogdensburg Facility**

The facility is located on the Oswegatchie River, in the City of Ogdensburg, New York. The facility was built at an existing concrete dam located immediately upstream of the St. Lawrence River. The dam is owned by the City of Ogdensburg (the "City") and Trafalgar entered into an agreement with the City to utilize the structures. It is a run-of-the-river facility. The facility is rated at 3,675 kilowatts. The facility has five bevel geared, double regulated Kaplan turbines manufactured by Sulzer Hydro.

**Power Purchase Agreement**

The agreement is for a term of 20 years from the commencement of commercial operations, which occurred on December 15, 1987. From the date of commencement of commercial operations until December 31, 2000, the specified settlement rates set out in the agreement will be paid to the producer. For the period January 1, 2001 through December 31, 2007, the producer will be paid a rate equal to 100% of Niagara Mohawk's Avoided Costs.

**FERC Licence**

The facility received a licence (Major Project) for a hydroelectric generating facility from FERC on June 15, 1987 (FERC Project No. 9821). The licence is for a 3,675 kilowatt facility. The facility was commissioned on December 18, 1987 and the licence expires in May 2027. The main compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) the FERC licence requires a complex and strict minimum flow regime. The first 183 cubic feet per second through the site is spilled over the dam. River flow between 183 to 733 cubic feet per second is discharged through turbine No. 5 which is directed towards the base of the dam and maintains a minimum flow along the downstream reach of the facility. Flows greater than 733 cubic feet per second are discharged through the remaining four turbines, but Turbine No. 5 must always discharge the maximum 733 cubic feet per second.

**Agreement with the City of Ogdensburg**

In March 1987, Trafalgar entered into an agreement for the development of the facility with the City, pursuant to which Trafalgar is required to pay the City: (i) certain payments relating to the issuance of municipal bonds in the amount of $143,000 (US$100,000) plus interest; (ii) repayment of a loan in the amount of $641,000 (US$450,000) plus interest; (iii) $36,600 (US$25,000) annually, commencing on December 1, 1988 to December 1, 2007; (iv) $99,800 (US$70,000) annually, commencing on December 1, 2008 and ending on December 1, 2027; and (v) during the period from January 1, 2028 through to December 31, 2037, Trafalgar is required to pay the City 40% of the net revenues from the facility and during the period from January 1, 2038 to the expiration of the agreement, 50% of the net revenues from the facility. As security for its obligations under the agreement, Trafalgar granted the City a mortgage over the facility.

Trafalgar must give notice to the City of its intent to sell, lease or assign control or ownership of the facility to any entity other than an affiliate of Trafalgar. If the City does not object by written notice given to Trafalgar within 30 days of delivery of Trafalgar's notice, the City is deemed to have approved the transaction.
The City has an option to purchase the facility after January 1, 2038. If the City exercises this option, the purchase price will be two-thirds of the facility's value capitalized at 8.5% of the net return after normal operating and maintenance expenses, based on the average of the net facility revenues over the three years immediately preceding the date of purchase. Trafalgar cannot place a mortgage on the property after December 31, 2028 without the consent of the City.

Forestport Facility

The facility is rated at 3,300 kilowatts and is located on an existing canal system along the Black River, near the Town of Boonville, which is located about 30 kilometres north of Utica, New York. The canal system is owned and maintained by the New York State Thruway Authority/Canal Corporation ("NYSTA/CC") and is used mainly by recreational canoers. The facility generates electricity from flows from both the Black River and Alder Creek. The powerhouse is located adjacent to the canal and water is diverted to it by a steel penstock. The powerhouse includes a conventional, horizontal "S" type Kaplan turbine generator set manufactured by Sulzer Hydro. After passing through the turbine, water is discharged into the Black River.

Power Purchase Agreement

The agreement is for a term of 20 years from commencement of commercial operations which occurred on December 30, 1987. From the date of commencement of commercial operations until December 31, 2000, the specified settlement rates set out in the agreement will be paid to the producer. From the period January 1, 2001 through the remainder of the term ending on December 31, 2007, the producer will be paid a rate equal to 100% of Niagara Mohawk's Avoided Costs.

FERC Licence

The facility received a licence (Major - Existing Dam) for a hydroelectric facility from FERC on March 20, 1987 (FERC Project No. 4900). The licence is for a 3,300 kilowatt generating facility producing power from one turbine. The facility was commissioned in October 1988 and the licence expires in February 2027. The main compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; a gate on the barge canal, upstream of the powerhouse, enables the facility to operate in an instantaneous run-of-the-river mode; and (ii) a minimum flow of 140 cubic feet per second must be released downstream of the dam at all times. The minimum flow is required for fisheries and water quality and was based on recommendations from federal and state regulatory agencies. The NYSTA/CC operates the barge canal system and has required an additional minimum flow within the canal for recreation. Presently, approximately 30 cubic feet per second is discharged into the canal during the summer months.

Herkimer Facility

The facility is located on West Canada Creek, upstream of the Village of Herkimer, New York. The facility is rated at 1,680 kilowatts. The facility is located at a new concrete dam and overflow structure. There are four syphon-type, semi-kaplan ESAC turbine generators and one vertical Flygt turbine generator installed at the facility.
Power Purchase Agreement

The power purchase agreement with Niagara Mohawk is for a term of 20 years from the commencement of commercial operations, which occurred on December 29, 1987. From the date of commencement of commercial operations until December 31, 2000, the specified settlement rates set out in the agreement will be paid to the producer. From the period January 1, 2001 through the remainder of the contract term on December 31, 2007, the producer will be paid a rate equal to 100% of Niagara Mohawk’s Avoided Costs.

FERC Licence

The facility received a licence (Major Project) for a hydroelectric generating facility from FERC on April 22, 1987 (FERC Project No. 9709) for a 1,680 kilowatt facility. The facility was commissioned in February 1988 and the licence expires in March, 2027. The main compliance conditions associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility and there be no storage of water upstream of the facility. The producer is required to install and maintain stream gauging stations for the purpose of measuring the stage and flow of the river; and (ii) the FERC licence requires a minimum flow of 160 cubic feet per second be released downstream of the dam at all times. The minimum flow is required for fisheries and water quality and was based on recommendations from applicable regulatory agencies. A portion of this flow, however, is first passed through the 80 kilowatt Flygt turbine before being discharged back into the stream. The remainder is passed directly over the spillway. In the event that the Flygt turbine is not available, a by-pass gate is opened to pass the minimum flow.

Hollow Dam Facility

The facility is located on the West Branch of the Oswegatchie River in the Town of Fowler, New York, approximately 16 kilometres south of Gouverneur, New York. The facility is rated at 900 kilowatts. The facility was constructed in 1987 and is located at an existing dam of 100 metres in length and includes a 70 metre spillway. The facility is equipped with two submersible Flygt turbine/generators, each capable of generating 450 kilowatts. The facility is owned by the Hollow Dam Partnership.

Power Purchase Agreement

The power purchase agreement with Niagara Mohawk for the Hollow Dam Facility expired on December 31, 2000. An arrangement has been made for a short term extension of the power purchase agreement whereby Niagara Mohawk will pay 85% of its avoided cost plus a monthly capacity payment. The Fund is looking to enter into a longer term agreement with Niagara Mohawk.

Land and Water Rights

The facility was built in 1987 on land leased to Lavalin Hydro Corporation by Barbara and Robert Sullivan pursuant to a long term lease agreement dated December 13, 1988. The lease has been assigned to the Hollow Dam Partnership. A term of the agreement states that all lands and facilities revert back to the landlord on April 26, 2026.
FERC Licence

The facility received a licence (Minor Project) from FERC on May 30, 1986 (FERC Project No. 6972) for a period of 40 years effective May 1, 1986. The licence was issued for a 1,000 kilowatt generating facility. The main compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) pursuant to an amending order dated February 27, 1990, the facility must maintain a minimum flow of 21 cubic feet per second by ensuring the water levels within the headpond are not lower than an elevation of 630.8 feet above sea level. The amending order also required continuous recording of the water levels within the headpond.

Christine Falls Facility

The facility is located on the Sacandaga River approximately eight kilometres east of the Town of Specular, which is located within the Adirondack Mountain State Park, in upper New York State. The facility is rated at 850 kilowatts and consists of two horizontal shaft, Francis turbine/generators. The site was previously developed by Niagara Mohawk and was rehabilitated by Christine Falls Corporation. Water from the Sacandaga River is diverted to the plant at an existing concrete dam through a small intake structure and steel penstock. The total head at the site is 15 metres. It is a run-of-the-river facility. Power is delivered to the utility grid at Highway 30.

Power Purchase Agreement

The agreement is for a term of 40 years from the commencement of commercial operations and ends January 2028. The facility commenced commercial operations on April 15, 1988. For years 1 through 15, the specified settlement rates set out in the agreement will be paid to the producer. For years 16 through 18, the producer will be paid a rate equal to 100% of Niagara Mohawk's Avoided Costs. For years 19 through 30, the producer will be paid a rate equal to 90% of Niagara Mohawk's Avoided Costs. For the remainder of the term, the producer will be paid a rate equal to 80% of Niagara Mohawk's Avoided Costs.

FERC Licence

The facility received a licence (Minor Project) for a hydroelectric generating facility from FERC on October 18, 1983 (FERC Project No. 4639). The original licence was for a 725 kilowatt generating facility from two turbines and was amended to 850 kilowatts on February 15, 1989 when the developer purchased two used machines. The facility was commissioned in April 1988 and the licence expires in September 2023. The main compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) a minimum flow of 25 cubic feet per second must be released downstream of the dam during March, April and May and ten cubic feet per second must be released at all other times of the year. The minimum flow is required for fisheries and water quality and is controlled through a small valve in the dam.

Burt Dam Facility

The facility is a 600 kilowatt hydroelectric generating facility located on the Eighteen Mile Creek in the Town of Newfane, New York. The facility consists of an existing dam with an integrated intake structure, powerhouse and tailrace and the facility is designed to operate as a run-of-the-river
facility. The facility was reconstructed in 1987 from an old hydroelectric generating facility at the site of an existing dam. The facility is owned by the Burt Dam Partnership.

Power Purchase Agreement

A power purchase agreement with Niagara Mohawk for the Burt Dam Facility expired on December 31, 2000. An arrangement has been made for a short term extension of the power purchase agreement whereby Niagara will pay 85% of its avoided cost plus a monthly capacity payment. The Fund is looking to enter into a longer term agreement with Niagara Mohawk.

Land and Water Rights

The land and certain facility structures are rented from the Olcott Harbor Board of Trade, Inc. pursuant to a lease agreement dated December 5, 1986. The lease agreement is for a term equal to the greater of 50 years or the term of the FERC licence and payment is based on a percentage of net income from the facility.

The Eighteen Mile Creek has been identified as one of six areas of concern in New York State by the Water Quality Board of the International Joint Commission due to high levels of chemicals in the sediments within the river, mainly PCBs and dioxins. A Remedial Action Plan ("RAP") has been jointly developed by the New York State Department of Environmental Conservation ("NYDEC") and SLI, the former owner, to provide environmental protection at this site. The RAP does not affect day-to-day operations of the facility, but the program will have to be considered if major works are required to be constructed with respect to the facility in and around the watercourse.

FERC Licence

The facility received an exemption from licensing for a small hydroelectric generating facility from FERC on May 15, 1986 (FERC Project No. 7477). The exemption order is for a generating facility of less than 5,000 kilowatts and the facility was commissioned in 1988. The major compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) if the NYDEC proceeds with a salmon stocking program, the Burt Dam Partnership must provide a flow over the dam to provide for downstream passage of fish. NYDEC has stated that it presently has no plans to stock Eighteen Mile Creek.

Cranberry Lake Facility

The facility is located on the Oswegatchie River, at the outlet of Cranberry Lake, in the Town of Clifton. The facility is located on land and utilizes water that is leased pursuant to a long term agreement with the Oswegatchie River Cranberry Reservoir Regulating District ("OR-CRRD") dated October 19, 1987 and expires in 2035. The facility is rated at 500 kilowatts and is a run-of-the-river facility using flow available from Cranberry Lake. The facility was constructed within the existing dam structure at the outlet of the lake. The facility configuration is similar to the Adams and Kayuta Lake facilities and includes an ESAC bulb-type turbine generator set in a small powerhouse. The facility is interconnected to Niagara Mohawk's grid immediately at the facility gate.
**Power Purchase Agreement**

The agreement is for a term ending December 31, 2025. Commercial operations commenced on December 31, 1987. From the date of commencement of commercial operations until December 31, 2000, the specified settlement rates set out in the agreement will be paid to the producer. From the period January 1, 2001 through December 31, 2010, the producer will be paid a rate equal to 90% of Niagara Mohawk's Avoided Costs. For the remainder of the term, the producer will be paid a rate equal to 80% of Niagara Mohawk's Avoided Costs.

**FERC Licence**

The Cranberry Lake Facility received a licence (Minor Project) for a hydroelectric generating facility from FERC on April 27, 1987 (FERC Project No. 9685). The facility is licensed to generate 595 kilowatts. The facility was commissioned in May 1988 and the licence expires in March 2027. The facility is required to operate according to the direction of the OR-CRRD, which determines the water level of Cranberry Lake and, therefore determines the water flow available for generation. The main compliance condition associated with the facility is that it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility.

**Kayuta Lake Facility**

The facility is rated at 400 kilowatts. The facility is located on the Black River at the outlet of Kayuta Lake. The site is immediately upstream of the Forestport facility, in the Town of Boonville. The site was developed at an existing concrete control structure at the outlet of Kayuta Lake. It is a run-of-the-river facility with a configuration very similar to the Adams and Cranberry Lake facilities. The powerhouse is built around an ESAC bulb-type turbine generator set located adjacent to the dam. The facility interconnects with the utility grid immediately at the facility fence.

**Power Purchase Agreement**

The agreement is for a term of 40 years ending January 2028. Commercial operations commenced on January 1, 1988. Power purchase rates are front-end loaded. The front-end loaded rate for the first 15 years is fixed at $0.1324/kW-hr (US$0.0929/kW-hr). Pursuant to its right to review the power purchase rate based on the balance of the tracking account, on January 8, 1999, Niagara Mohawk determined that an excessive Advance Payment Account balance was being created and the stabilized rate was decreased to $0.0991/kW-hr (US$0.0696/kW-hr). Niagara Mohawk has the right to continue such reviews on an annual basis for the remainder of the first 15 year period. The producer will be paid a rate equal to 100% of Niagara Mohawk's Avoided Costs for years 16 through 22 and a rate equal to 95% of Niagara Mohawk's Avoided Costs for years 23 through 30. The rate paid during this period will be adjusted positively or negatively to eliminate any balance in the Advance Payment Account by the end of the 30th year. The balance in the Advance Payment Account as at December 31, 2000 was $966,028 (US$643,933) and given the high balance of the Advance Payment Account, a further reduction in rates paid during this 15 year period may occur. During the period following the 31st year, the producer will be paid a rate equal to 90% of Niagara Mohawk's Avoided Costs, without adjustment. The agreement specifies that, at the end of the 30th year, the unrepaid balance of the Advance Payment Account must be paid to Niagara Mohawk, if the balance is positive, or to the producer, if the balance is negative, as the case may be. Niagara Mohawk has a lien on the facility to secure any positive balance in the Advance Payment Account, which lien is subordinate to the security under the Trafalgar Indenture.
FERC Licence

The facility received a licence (Minor Project) for a hydroelectric generating facility from FERC on September 12, 1984 (FERC Project No. 5000). The facility is built at the outlet of Kayuta Lake at the site of an existing control structure. The facility was commissioned in March 1988 and the FERC licence expires in August 2024. The main compliance condition associated with the facility is that it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility.

Adams Facility

The facility is a 350 kilowatt hydroelectric generating facility located on Sandy Creek, in the Village of Adams, New York. Sandy Creek discharges to the east side of Lake Ontario, south of the City of Watertown. It is a run-of-the-river facility located at an existing concrete dam structure. The dam is 41 metres long. A small powerhouse located at the dam houses an ESAC bulb-type turbine generator set. Electricity produced by the facility is connected to the Niagara Mohawk grid at the facility fence.

Power Purchase Agreement

The power purchase agreement for the Adams facility is for a term of 40 years ending January 2028. The facility commenced commercial operations on January 1, 1988. Power purchase rates under the agreement are front-end loaded. The front-end loaded rate for the first 15 years was initially set at $0.1391/kW-hr (US$0.0976/kW-hr). Pursuant to its right to review the power purchase rate based on the balance of the Advance Payment Account, on January 8, 1999 Niagara Mohawk determined that an excessive tracking account balance was being created and the stabilized rate was changed to $0.1378/kW-hr (US$0.0967/kW-hr). Niagara Mohawk has the right to continue such reviews on an annual basis for the remainder of the first 15 year period.

The agreement provides that the producer will be paid a rate equal to 100% of Niagara Mohawk's Avoided Costs for years 16 through 22 and a rate equal to 95% of Niagara Mohawk's Avoided Costs for years 23 through 30. The rate paid during this period will be adjusted positively or negatively to eliminate any balance in the Advance Payment Account by the end of the 30th year. The balance in the Advance Payment Account as at December 31, 2000 was $535,496 (US$356,997) and given the high balance of the Advance Payment Account, a further reduction in rates paid during this 15 year period may occur.

During the period following the 31st year, the producer will be paid a rate equal to 90% of Niagara Mohawk's Avoided Costs, without adjustment. The agreement provides that, at the end of the 30th year, the unrepaid balance of the Advance Payment Account must be paid to Niagara Mohawk, if the balance is positive, or to the producer, if the balance is negative, as the case may be. Given the current status of the Advance Payment Account, it can be expected that a large payment will have to be made to Niagara Mohawk at the end of the 30th year. Niagara Mohawk has a lien on the facility to secure any positive balance in the Advance Payment Account, which lien is subordinate to the security under the Trafalgar Indenture.

FERC Licence

The facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on July 12, 1983 (FERC Project No. 6878). The exemption order is for a 358 kilowatt generating facility and the facility was commissioned in December 1987. The main compliance
conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) a minimum flow of 15 cubic feet per second must be released downstream of the dam, when available, to maintain the instream fisheries and water quality.

Taxes

The Trafalgar Companies are responsible for the payment of municipal taxes with respect to the Trafalgar Facilities. The municipal tax burden at each facility, other than the Ogdensburg facility, is based on the market value of such facility. The market value of the facility is based on the capitalization of the projected revenue stream of the facility from energy sales to Niagara Mohawk. The Manager has renegotiated or is in the process of renegotiating the existing assessments for municipal taxes to reflect the reduced market valuation based on the reduction in power rates.

Under an agreement for the development of the Ogdensburg facility with the City of Ogdensburg, the City is responsible for payment of the City's portion of the municipal taxes for the site. Trafalgar in turn pays the City an annual royalty. In addition to the agreement, the Ogdensburg facility is located in an Economic and Development Zone and therefore, Trafalgar was able to obtain relief from the school and county portion of the taxes for a period of time. These taxes were reduced to zero for the first seven years and then phased in starting in 1995. Currently, Trafalgar is responsible for payment of all school and county taxes. Trafalgar is also responsible for payment of the Cranberry Lake-Oswegatchie River Commission tax, which amounts to approximately $4,739 (US$3,159) per annum.

Transmission Lines

Rights to all necessary lands have been obtained in order to operate and maintain the transmission lines for the Trafalgar Facilities.

Kings Falls Facility

The facility is located on the Deer River, near Copenhagen in Lewis County, New York. The facility dam is located approximately 300 feet upstream from Kings Falls. It is a run-of-the-river facility and is rated at 1,750 kilowatts. The facility has one Waplins Vertical Kaplan turbine.

Power Purchase Agreement

A new agreement was entered into on April 12, 2000 with Niagara Mohawk for a term of five years. From January 1, 1999 until December 31, 2003, the specified settlement rates set out in the agreement will be paid to the producer.

Land and Water Rights

Tug Hill Energy Inc. acquired all land necessary for the operation of the facility. As a result of its ownership of the generating station site, Tug Hill Energy Inc. was granted the water rights for the facility.

FERC Licence

The facility received a licence (Minor Project) for a hydroelectric generating facility from the FERC on September 30, 1986. An order approving transfer of licence to Tug Hill Energy Inc. was
granted by the FERC on June 30, 2000. The facility was commissioned in 1988.

The main compliance conditions associated with the facility are that: (1) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) the FERC licence requires a minimum flow of 8 cubic feet per second year round. The minimum flow is required for fisheries and water quality and was based on recommendations from applicable regulatory agencies.

**Otter Creek Facility**

The facility is located on the Otter Creek, near Craig, New York. The facility is located at a rehabilitated stone and masonry dam with a concrete overlay about 115 feet long. It is a run-of-river facility and is rated at 530 kilowatts. The facility has one Ossberger Cross-Flow turbine.

**Power Purchase Agreement**

A new agreement was entered into on June 22, 2000 with Niagara Mohawk for a term of two years. From May 1, 2000 until October 31, 2001, the specified settlement rates set out in the agreement will be paid to the producer.

**Land and Water Rights**

Tug Hill Energy Inc. acquired all land necessary for the operation of the facility. As a result of its ownership of the generating station site, Tug Hill Energy Inc. was granted water rights for the facility.

**FERC Licence**

The facility received an exemption from licensing for a small hydroelectric generating facility from FERC on September 9, 1985. The exemption order is for a generating facility of less than 5,000 kilowatts. The facility was commissioned in 1986.

The main compliance conditions associated with the facility are that: (1) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; (ii) there is a minimum flow requirement of 52 cubic feet per second year round to the natural streambed; the minimum flow is required for fisheries and water quality and was based on recommendations from applicable regulatory agencies; and (iii) there is a fish bypass pipe which must pass water at 44 cubic feet per second to the natural streambed.

**Phoenix Facility**

The facility is located on the Oswego River, in the Town of Phoenix, Onondaga County, New York. The facility is located at an 866 foot long concrete ogee spillway which is owned by the New York State Thruway Authority/Canal Corporation (“NYSTA/CC”). It is a run-of-the-river facility and is rated at 3,500 kilowatts. The facility has two ESAC single regulated turbines.

**Power Purchase Agreement**

The original agreement was dated September 19, 1989 and had a term of 40 years from the date of issuance of the project licence by FERC. Therefore, from March 28, 1986 until March 28, 2026, the specified settlement rates set out in the agreement will be paid to the producer. The agreement requires
maintenance of an adjustment account based on the difference between the specified rate and 90% of the long run Avoided Cost. The agreement states that the obligation to repay this balance in the adjustment account expires on expiry of the term of the agreement.

**Land and Water Rights**

The generating station is located on land formerly owned by the Onondaga County Industrial Development Agency. A Fund entity, Oswego Hydro Partners, holds certain permanent easements on land and buildings used by the facility. The Phoenix Facility is located at the Oswego Canal Lock No. 1 on the Oswego River. The dam, reservoir and navigation lock are owned by the State of New York and are operated and maintained by the New York State Thruway Authority/Canal Corporation (NYSTA/CC). The lock is operated by the NYSTA/CC and is open from April through October. However, the NYSTA/CC and Oswego Hydro Partners have an agreement to allow the facility operator to operate and be responsible for three Rodney-Hunt gates at the center of the dam.

**FERC Licence**

The facility received a licence for a hydroelectric generating facility from FERC on March 28, 1986. The licence is for a 3,500 kilowatt generating facility producing power from two turbines. The facility was commissioned in December 1990.

The main compliance conditions associated with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) the FERC licence requires a complex and strict minimum flow regime. On July 16, 1992, FERC provided an order amending minimum flow requirements which requires certain discharges over the flashboards, spillway crest or from the tainter gates of the Phoenix dam. The minimum flow releases from June 1 through October 31 are as follows: inflows to the project less than 1,599 cubic feet per second must be bypassed. With a river flow of between 1,600 to 1,699 cubic feet per second, a bypass flow of 1,200 cubic feet per second is required. With a river flow of between 1,700 to 1,700 cubic feet per second, a bypass flow of flow of 900 cubic feet per second is required. With a river flow of between 1,800 to 1,899 cubic feet per second, a bypass flow of 600 cubic feet per second is required. With river flows in excess of 1,900 cubic feet per second, the requirement is to bypass 300 cubic feet per second. The minimum flow from November 1 through May 31 is as follows: with inflows in excess of 300 cubic foot per second, the bypass flow is 300 cubic feet per second and for flows of less than 300 cubic feet per second, the requirement is the inflow; and (iii) there is a downstream fish passage which is required to pass fish continuously; this bypass discharges water at the rate of 75 cubic feet per second.

**New England Development — Gregg Falls, Pembroke, Clement Dam, Franklin, Moretown, Lochmere, Lower Robertson, Ashuelot, Lakeport, Avery Dam, Hadley Falls, Hopkinton, Milton, Mine Falls, Great Falls and Worcester Facilities**

**Gregg Falls Facility**

The Gregg Falls Facility is located on the Piscataquog River near the Town of Goffstown, New Hampshire. The site was historically used for the generation of electrical energy and was decommissioned in the 1970’s. A major refurbishment was undertaken in 1985, which included the installation of two new turbines and generators and the replacement of all electrical and control works. The installed capacity of the facility is 3,500 kilowatts.
Land and Water Rights

The former owner obtained the rights to the existing structures located at the facility site pursuant to a lease agreement dated December 29, 1982, as amended in May 24, 1985, with the New Hampshire Water Resources Board. The lease was assigned to Algonquin America. The leased premises include all physical structures and the water rights necessary for the operation of the facility. The lease expires on December 29, 2032.

FERC Licence

The Gregg Falls Facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on July 21, 1983 (FERC Project No. 3180) for a 3,820 kilowatt facility. The main compliance issues associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility and there be no storage of water upstream of the facility; and (ii) a minimum flow of 20 cubic feet per second must be released downstream of the dam, when available, to maintain the instream fisheries and water quality.

Pembroke Facility

The Pembroke Facility is located on the Suncook River near the Town of Pembroke, New Hampshire. The site consists of a 500 foot power canal and a 480 foot penstock leading to a concrete powerhouse housing a single turbine generator. The site was constructed in 1986 and has an installed capacity of 2,600 kilowatts.

Land and Water Rights

The land necessary for the operation of the facility is owned and the water rights for the Suncook River available at the facility site for the operation of the facility have been granted to the owner. The terms of the use of such water rights are governed by the New Hampshire Water Resources Board.

FERC Licence

The Pembroke Facility received an exemption from the licensing of a small hydroelectric generating facility from FERC in February, 1983 (FERC Project No. 3185) for a 2,600 kilowatt facility. The main compliance issues associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility and there be no storage of water upstream of the facility; and (ii) a minimum flow of 10 cubic feet per second must be released downstream of the dam, when available, to maintain the instream fisheries and water quality.

Gregg Falls and Pembroke Power Purchase Agreements

Both the Gregg Falls and Pembroke Facilities sell all electrical energy to the Public Service Company of New Hampshire (“PSNH”) pursuant to separate agreements both dated May 11, 1994. Both agreements terminate on December 31, 2020. Prior to December 31, 2011, the rates paid by PSNH for the energy are indexed to certain increases in the general rate of inflation. After January 1, 2012, the rates paid for energy and capacity are based on the then current PSNH avoided costs.
**Clement Dam Facility**

The facility is located on the Winnipesaukee River approximately five miles upstream from its confluence with the Pemigewasset River and near the Town of Tilton, New Hampshire. The facility is rated at 2,400 kilowatts and was constructed in 1984 at the location of an existing 120 foot wide dam and includes a 275 foot steel penstock which is 12 feet in diameter.

**Power Purchase Agreement**

The power purchase agreement with the Public Service Company of New Hampshire for all electrical energy produced at the Clement Dam Facility has a term of 20 years and it will terminate at the end of 2004. Under the terms of the agreement, PSNH is required to purchase all energy for US$0.09/kW-hr, plus 50% of the positive amount of PSNH's incremental energy cost in excess of US$0.09. Since incremental energy costs have not risen above this level, payments have been made at the rate of US$0.09/kW-hr since commissioning of the facility.

**Land and Water Rights**

The land upon which the Clement Dam Facility is located is leased from the former owners. Payments under the lease commenced on January 1, 2000 and are equal to 10% of the revenues earned by the facility from the sale of energy. The lease terminates in the year 2032 and the Fund has the right to purchase the lands upon the termination of the lease for US$300,000. The former owners have been granted the option to require the Fund to purchase the lands at any time after January 1, 2010 upon thirty days written notice for US$200,000, increasing by US$10,000 each year after 2010 to a maximum of US$300,000.

Water rights for the site have been obtained from the New Hampshire Water Resources Board pursuant to a water user's agreement dated July 7, 1986. Semi-annual payments under the water user agreement are based on energy production and are expected to be approximately US$16,500 per year. The current term of the water user's agreement terminates in June 2001.

Pursuant to an agreement dated June 24, 1985 for payment in lieu of property taxes with the Town of Tilton, the owner is obligated to pay the Town of Tilton 3.75% of gross revenues per annum generated by the facility until June 24, 2000 and 4% of gross revenues per annum generated by the facility from June 25, 2000 until June 24, 2005. As well, pursuant to an agreement dated February 8, 1990 with the Town of Northfield for payment in lieu of taxes, the owner is required to pay to the Town of Northfield US$2,000 per year for a period of sixteen years or until the owner receives gross revenues from hydroelectric power generated by facilities in the Town of Northfield.

**FERC Licence**

The Clement Dam Facility received an exemption from the licensing of a small hydroelectric generating facility from the Federal Energy Regulatory Commission ("FERC") on May 17, 1982 (FERC Project No. 2966) for a 1,200 to 1,400 kilowatt facility. An amendment was issued on March 18, 1983 which amended the rated capacity to 2,400 kilowatts. The main compliance issues associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility and there be no storage of water upstream of the facility; and (ii) a minimum flow of 30 cubic feet per second must be released downstream of the dam, when available, to maintain the instream fisheries and water quality.
Franklin Facility

The Franklin Facility consists of two independent powerhouses located on the Winnipesaukee River in the Town of Franklin, New Hampshire, and located several kilometers downstream from the Clement Dam Facility. The River Bend Turbine-Generator is rated at 1,600 kilowatts and is located in a powerhouse which was constructed in 1985. The facility is constructed at the location of an existing 70 foot wide dam and includes a 1,000 foot long concrete penstock. The Steven's Mill Turbine-Generator, rated at 228 kilowatts, is housed in a powerhouse located immediately adjacent to the dam. In October 1998, the Steven's Mill building was damaged by fire and the Steven's Mill Turbine-Generator was returned to service in January 2000. Subsequent to coming back in service, the generator malfunctioned and the facility was off-line until February 2000, when the turbine was repaired.

Franklin Industrial Complex Inc. (“Franklin”), Marina Development Inc. and Arthur Steckler have filed a complaint against Algonquin Canada, Power Systems, Algonquin Power and others alleging, among other things, that the Algonquin entities conspired against Franklin, mismanaged the facility and breached fiduciary duties owed to Franklin. The Manager believes that this claim lacks substance.

Power Purchase Agreement

Pursuant to an interconnection agreement, together with a long term rate filing issued by the Public Utilities Commission of New Hampshire on December 20, 1984, all electrical energy produced by each of the Steven's Mill Turbine-Generator and the River Bend Turbine-Generator will be sold to PSNH. The term of the rate order is for 20 years, commencing January 1986, which was the commissioning date of the facility. The rate order expires in 2006. The amount payable under the agreement is based on a time differentiated energy payment plus a capacity payment.

Land and Water Rights

The Franklin Facility is located on lands owned by the Franklin Industrial Complex Inc. The subsurface penstock which connects the intake to the powerhouse is located on an easement granted by the Town of Franklin. There is no transmission line associated with the facility as the interconnection with PSNH is located on the owned lands. The hydraulic rights necessary for the operation of the facility are leased from the New Hampshire Water Resources Board pursuant to a lease dated May 28, 1987. The lease expires in August 2002 and is renewable on a year-to-year basis. The Manager has received confirmation from the New Hampshire Water Resources Board that the lease will be renewed.

Pursuant to an agreement with the Town of Franklin dated September 1, 1987 for payment in lieu of property taxes, the owner is obligated to pay the Town of Franklin 4% of gross revenues per annum generated by the facility until March 31, 2002 and 5% of gross revenues per annum generated by the facility from April 1, 2002 to March 31, 2006.

FERC Licence

The Franklin Facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on June 14, 1983 (FERC Project No. 3760) for a 1,940 kilowatt facility. The FERC exemption order was amended on April 16, 1991 to increase the stipulated capacity to 2,161 kilowatts. The main compliance issues associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility and there be no storage of water upstream of the facility; (ii) a minimum flow of 100 cubic feet per second must be released downstream of the dam, when available, to maintain the instream fisheries and water quality; and (iii) at the time of issuance of the FERC exemption
order, the U.S. Fish and Wildlife Service requested a downstream passage for Atlantic salmon seeded by
the resource agencies. The cost of installing such fish passage, if required, is not expected to be
significant. In addition, protection measures at the intake will also be required during the downstream
migration of smolts, the cost of which is not significant.

Moretown Facility

The facility is a 1,200 kilowatt hydroelectric generating facility located on the Mad River in the
Town of Moretown, Vermont. The facility includes a 12 metre dam, forebay, intake structure, penstock,
powerhouse and tailrace. The powerhouse includes one Kaplan type turbine generator rated at
1,250 kilowatts. The facility was constructed in 1989 and is owned by the Moretown Partnership.

Power Purchase Agreement

A power purchase agreement was executed between Vermont Power Exchange, Inc. and the
Moretown Partnership on July 29, 1988, whereby Vermont Power Exchange, Inc. agreed to purchase all
the electrical energy produced from the facility. The term of the contract is 30 years and the power
purchase rates include an energy rate, a capacity rate and a payment lag adder rate. Vermont Power
Exchange, Inc. is a purchasing agent authorized by the Vermont Public Service Board. As purchasing
agent for the utility, the Vermont Power Exchange, Inc. is paid a commission by the producer for the
energy sales. On March 15, 1996, the Vermont Electric Power Producers, Inc. ("VEPPI") was designated
as the purchasing agent to replace the Vermont Power Exchange, Inc. Moretown Partnership entered into
an interconnection agreement with Washington Electric Cooperative, Inc. on June 22, 1988, so that the
facility may interconnect with the electrical system in Moretown, Vermont.

Land and Water Rights

All land and water rights required for the construction and operation of the facility are owned by
the Moretown Partnership. The Town of Moretown and the Town School District executed a tax
stabilization agreement with the Moretown Partnership dated October 25, 1990. The agreement limited
the municipal and school taxes to be paid with respect to the property to a certain amount which may be
increased if there is an increase in the power purchase rates paid by the Vermont Power Exchange, Inc.
The term of the agreement is approximately 18 years, expiring March 31, 2008.

FERC Licence

The facility received a licence (Minor Project) for a hydroelectric generating facility from FERC
on December 7, 1982 (FERC Project No. 5944) and the term of the licence is for a period of 40 years.
The main compliance condition associated with the facility is that the facility must maintain an
instantaneous minimum flow of 25 cubic feet per second over the dam, when available, to protect the
Mad River.

Lochmere Facility

The facility is a 1,200 kilowatt hydroelectric generating facility located on the Winnipesaukee
River, in the Village of Lochmere, within the city limits of Tilton, New Hampshire. The facility consists
of a dam, intake canal, intake, powerhouse and tailrace structures and is designed and operated as a run-
of-the-river facility. The facility was reconstructed from an old hydroelectric generating facility at the
site of an existing dam at the outlet of Winnisquam Lake. The Lochmere Facility is owned by the
HDI Partnership.
Power Purchase Agreement

A power purchase agreement was executed between PSNH and the HDI Partnership on August 5, 1983 for all electrical energy produced at the facility. The term of the contract is 20 years commencing January 1986.

Land and Water Rights

The land for the facility site was leased by the Town of Belmont from the New Hampshire Water Resources Board pursuant to an agreement dated August 10, 1983. The lease was assigned to the HDI Partnership for development of the facility. The term of the lease is 50 years and payments under the agreement are based on a percentage of adjusted gross revenues generated by the facility, which payments are in lieu of property taxes.

Since the existing dam at this site was once used to generate electricity and is a State-owned structure, there is a water use licence granting the facility the right to utilize the hydraulic resources for hydroelectric generation purposes by the State of New Hampshire. It has a term of 15 years ending March 2000. The lease may be renewed upon mutual agreement. The lease has expired, however, the arrangement is being continued on the same basis as the original lease. Payments are made on a semi-annual basis in accordance with a simple formula contained in the licence. The payment rate escalates by ten percent on every fifth anniversary of the agreement.

Rights to all necessary lands have been obtained in order to operate and maintain the transmission line for the facility.

FERC Licence

The facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on March 15, 1984 (FERC project No. 3128) for a 1,200 kilowatt facility. The main compliance conditions associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility and there be no storage of water upstream of the facility; (ii) from October to March, a minimum flow of 35 cubic feet per second must be released downstream of the dam, when available, to maintain the instream fisheries and water quality. During the months of April to September, the minimum flow is 50 cubic feet per second for the benefit of small mouth bass and anglers; and (iii) a series of inexpensive, hand-built check dams constructed of natural river bed material are to be maintained annually downstream of the dam for the creation of fish and macroinvertebrate habitat. The cost of maintaining such check dams is not significant.

Lower Robertson Facility

The facility is a 960 kilowatt hydroelectric generating facility located on the Ashuelot River approximately one kilometre upstream of the Highway bridge at Hinsdale, New Hampshire. The facility consists of a dam, intake, powerhouse and tailrace structures and is designed and operated as a run-of-the-river facility. The facility was constructed in 1988 at the site of an existing concrete dam, which was rebuilt to facilitate the generating facility. The facility is operated in conjunction with the Ashuelot Facility, due to the close proximity of the sites (less than one kilometre away).
Power Purchase Agreement

In 1984, the NHPUC approved a rate order which requires PSNH to purchase from the former owner the entire electrical output from the Lower Robertson Facility at specified rates. The rate order was subsequently assigned to HDI III Partnership. The amount paid by PSNH for electrical output is based on an energy payment plus a capacity payment. The term of the rate order is for a period of 29 years commencing September 1, 1987 and expires in September 2016.

Land and Water Rights

The real property interest required for the construction and operation of the facility was obtained pursuant to a warranty deed from Paper Service Mills, Inc. on December 29, 1986. Under the terms of the warranty deed, the HDI III Partnership obtained title to the land on which all structures associated with the facility are located, including the dam structure, as well as access to both sides of the Ashuelot River required for the operation and maintenance of the facility. The warranty deed provides an interest in the riparian rights at the site, including all water power rights and privileges on the Ashuelot River.

Hydroelectric Development, Inc. ("HDI") has entered into an agreement with the Town of Winchester for payment in lieu of property taxes for the facility. This agreement was subsequently assigned by HDI to the HDI III Partnership. The agreement requires HDI III Partnership to pay to the Town within 90 days following the end of each fiscal year the greater of two and one-half percent of the gross revenues for that fiscal year or two and one-half percent of the average gross revenues for the previous fiscal year. The term of the agreement is for 30 years commencing on the initial date of commercial operation, which occurred in June 1987.

FERC Licence

The facility received an exemption from licensing for a hydroelectric generating facility of five megawatts or less from FERC on July 31, 1986 (FERC Project No. 8235). The main compliance conditions associated with this facility are that: (i) the facility must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; (ii) a minimum flow of ten cubic feet per second has to be released downstream of the dam, when available, to maintain the instream fisheries and water quality; and (iii) at the time of issuance of the FERC exemption order, the U.S. Fish and Wildlife Service and New Hampshire Department of Fish and Game indicated that there may be a future requirement for the installation of a fish by-pass at the facility, estimated by the Manager to cost approximately $150,000. To date, no such by-pass system has been installed. The Manager believes that such by-pass system will not be required.

Ashuelot Facility

The facility is a 900 kilowatt hydroelectric generating facility located on the Ashuelot River near the highway bridge at Hinsdale, New Hampshire. The facility consists of a dam, intake, powerhouse and tailrace structures and is designed and operated as a run-of-the-river facility. The facility was constructed in 1988 at the site of an existing concrete dam which was rebuilt to facilitate the generating facility.

Power Purchase Agreement

In 1985, the NHPUC approved a rate order which requires PSNH to purchase from Ashuelot River Partners the entire electrical output from the Ashuelot Facility at specified rates. The rate order was subsequently assigned to HDI III Partnership. The amount payable is based on an energy payment
plus a capacity payment. The term of the rate order is for a period of 29 years commencing September 1, 1986 and expires in September 2015.

*Land and Water Rights*

The land and water rights for the site are leased from the Ashuelot Paper Company pursuant to an agreement dated January 14, 1985. The term of the lease is 55 years commencing on January 14, 1985 and terminating on December 31, 2040 and payments under the agreement are structured as a percentage of gross revenues from the facility.

HDI has entered into an agreement dated August 13, 1986 with the Town of Winchester for payment in lieu of property taxes for the facility. This agreement was subsequently assigned by HDI to HDI III Partnership. The agreement requires HDI III Partnership to pay to the Town within 90 days following the end of each fiscal year the greater of two and one-half percent of the gross revenues for that fiscal year or two and one-half percent of the average gross revenues for the previous fiscal year. The term of the agreement is for 30 years commencing on the initial date of commercial operation, which occurred in June 1987.

*FERC Licence*

The Ashuelot Facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on July 31, 1986 (FERC Project No. 7791) for an 850 kilowatt generating facility. The main compliance conditions associated with this facility are that: (i) the facility must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; (ii) a minimum flow of ten cubic feet per second has to be released downstream of the dam, when available, to maintain the instream fisheries and water quality; and (iii) at the time of issuance of the FERC exemption order, the U.S. Fish and Wildlife Service and the New Hampshire Department of Fish and Game indicated that there may be a future requirement for the installation of a fish by-pass at the facility, estimated by the Manager to cost approximately $150,000. To date, no such by-pass system has been installed. The Manager believes that such by-pass system will not be required.

*Lakeport Facility*

The facility is a 600 kilowatt hydroelectric generating facility located on the Winnipesaukee River near the Town of Lakeport, New Hampshire. The facility consists of a dam, powerhouse and tailrace structures and is designed and operated as a run-of-the-river facility. The facility was constructed in 1984 at the site of an existing concrete dam.

*Power Purchase Agreement*

In 1985, the NHPUC approved a rate order which requires PSNH to purchase from Lakeport Corporation the entire electrical output from the Lakeport Facility at specified rates. The amount payable is based on an energy payment plus a capacity payment. The term of the rate order is for a period of 20 years commencing September 1, 1985 and expires in September 2005.

*Land and Water Rights*

The facility is constructed on certain lands purchased by Lakeport Corporation. Certain additional land and water rights necessary for the operation of the facility are leased from the New Hampshire Water Resources Board pursuant to an agreement dated December 29, 1982. The term of the
lease is 50 years and payments under the agreement are structured as a percentage of gross revenues from the facility.

As a condition under the lease with the New Hampshire Water Resources Board, Lakeport Corporation has entered into a water user's agreement dated August 30, 1985 with the New Hampshire Water Resources Board in respect of certain water management services provided by the New Hampshire Water Resources Board to users located on the Winnipesaukee River. Payments under the water user's agreement are structured based on energy production from the facility.

Lakeport Corporation has entered into an agreement with the City of Laconia for payment in lieu of property taxes for the facility. The agreement requires Lakeport Corporation to pay to the City of Laconia following the end of each fiscal year an amount equal to five percent of the gross revenues from the facility for that fiscal year. The term of the agreement is for 20 years commencing on October 9, 1985.

FERC Licence

The Lakeport Facility received a licence for a small hydroelectric generating facility from FERC on September 8, 1983 (FERC Project No. 6440) for a 600 kilowatt generating facility. The main compliance conditions associated with this facility are that: (i) the facility must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) a minimum flow of 180 cubic feet per second has to be released downstream of the dam, when available, to maintain the instream fisheries and water quality. The term of the FERC licence is 40 years commencing on the date of issue.

Avery Dam Facility

The facility is a 260 kilowatt hydroelectric generating facility located on the Winnipesaukee River in the City of Laconia, New Hampshire. The facility was constructed in 1985 at an existing site that was used for power generation and consists of a dam, intake structure, powerhouse and tailrace. The generating equipment includes two Flygt submersible turbine/generators. The facility is owned by the Avery Dam Partnership.

Power Purchase Agreement

The NHPUC issued a rate order to Avery Hydroelectric, Inc., on June 20, 1985. This rate order was subsequently assigned by Avery Hydroelectric, Inc. to the Avery Dam Partnership. The rate order requires PSNH to purchase all output from the facility at specified rates. The amount payable is based on an On-peak and Off-peak energy payment and a capacity payment. The term of the rate order is for a period of 29 years commencing September 1, 1986 and expires in September 2015. On August 27, 1986, Avery Dam Partnership signed an interconnection agreement with PSNH concerning operational matters relating to the facility.

Land and Water Rights

Avery Dam Partnership has entered into a lease agreement with the New Hampshire Water Resources Board, a public corporation and an agency of the State of New Hampshire, for the water rights, land and associated facilities of the Avery Dam on the Winnipesaukee River. The lease agreement was amended and restated on November 27, 1985. The term of the lease agreement is the earlier of 50 years or the termination of the FERC licence and the rental payments are five percent of the adjusted
gross revenue ("AGR") for years 1 to 5, 10% of AGR for years 6 to 10, 15% of AGR for years 11 to 15
and 20% of AGR for years 16 to 50.

The Avery Dam Partnership entered into a contract with water users with the New Hampshire
Water Resources Board dated November 27, 1985. The term of the agreement is 15 years and can be
extended after that period on a yearly basis upon mutual agreement. The rent includes both a base fee and
an incentive fee.

The Avery Dam Partnership entered into an agreement for payment in lieu of taxes with the City
of Laconia pursuant to an agreement dated October 9, 1985. The agreement provides for the owner to pay
the City of Laconia an amount equal to five percent of gross revenues from the facility in lieu of
municipal taxes. The agreement has a term of 20 years.

FERC Licence

The facility received an exemption from the licensing of a small hydroelectric generating facility
from FERC on March 22, 1985 (FERC Project No. 6752). The main compliance conditions associated
with the facility are that: (i) it must operate as an instantaneous run-of-the-river facility; and (ii) it must
maintain a minimum flow of 30 cubic feet per second from April to September and 20 cubic feet per
second during the remainder of the year.

Hadley Falls Facility

The facility is a 250 kilowatt hydroelectric generating facility located on the Piscataquog River
near the Town of Goffstown, New Hampshire. The facility consists of a dam, intake canal, powerhouse
and tailrace structures and is designed and operated as a run-of-the-river facility. The facility was
commissioned in 1986 at the site of an existing concrete dam which was rebuilt to facilitate the
generating facility.

Power Purchase Agreement

In 1986, the NHPUC approved a rate order which requires PSNH to purchase the entire electrical
output from the Hadley Falls Facility at specified rates. The amount payable is based on an energy
payment plus a capacity payment. The term of the rate order is for a period of 20 years commencing
Land and Water Rights

Hydro Dynamic Corp. entered into a lease agreement dated July 30, 1981 with Heritage Door Company for the land and facilities required in order to construct and operate the Hadley Falls Facility. This agreement was assigned to the Hadley Falls Partnership on December 14, 1981. The term of this lease is for 35 years commencing in 1981 and the rent is a negotiated fee based on competitive rents. Hydro Dynamic Corp. also entered into a lease agreement dated September 8, 1981 with the New Hampshire Water Resources Board for the water rights at this location. This agreement was assigned to the Hadley Falls Partnership on October 26, 1981.

FERC Licence

The facility received an exemption from licensing for a small hydroelectric generating facility of five megawatts or less from FERC on January 19, 1982 (FERC Project No. 5379). The main compliance issue is that the facility must operate as an instantaneous run-of-the-river facility.

Hopkinton Facility

The facility is a 250 kilowatt hydroelectric generating facility located on the Contoocook River, in the Village of Contoocook, New Hampshire. The layout of the facility consists of a dam, intake, powerhouse and tailrace structure and is designed and operated as a run-of-the-river facility. The facility was constructed at the site of an existing concrete dam which was rebuilt to facilitate the new generating facility. The Hopkinton Facility is owned by the HDI Partnership.

Power Purchase Agreement

A power purchase agreement was executed between the Public Service Company of New Hampshire and the HDI Partnership on August 5, 1983 for all electrical energy produced at the Hopkinton Facility. The term of the agreement is 20 years, commencing January 1986, which was the commissioning date of the facility. Under the terms of the agreement, PSNH is required to purchase all energy for $0.1242/kW-hr (US$0.09/kW-hr), plus 50% of the positive amount of PSNH's incremental energy cost in excess of $0.1242 (US$0.09). Since incremental energy costs have not risen above this level, payments have been made at the rate of $0.1242/kW-hr (US$0.09/kW-hr) since commissioning of the facility.

Land and Water Rights

Land and water rights for the site are leased from the Town of Hopkinton pursuant to an agreement dated September 2, 1983. The term of the lease is 40 years and payments under the agreement are based on a step-rated percentage of annual gross revenues from the facility. The lease makes provision to significantly reduce lease payments in the event that dam repairs exceed $345,000 (US$250,000). A separate agreement with the Town of Tilton provides for payments in lieu of property taxes based on gross revenues generated by the facility.

Rights to all necessary lands have been obtained in order to operate and maintain the transmission line for the facility.
The Hopkinton Facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on March 14, 1984 (FERC project No. 5735) for a 250 kilowatt facility. The main compliance conditions associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility and there be no storage of water upstream of the facility; (ii) a minimum flow of two cubic feet per second must be released downstream of the dam, when available, to maintain the instream fisheries and water quality; and (iii) at the time of issuance of the FERC exemption order, the U.S. Fish and Wildlife Service requested a downstream passage for Atlantic salmon seeded by the resource agencies. If there is a successful arrival of naturally migrating salmon, an upstream fish ladder will be required. The cost of installing such fish ladder, if required, is not expected to be significant. In addition, protection measures at the intake will also be required during the downstream migration of smolts, the cost of which is not expected to be significant.

The Milton facility is located on the Salmon River on the Maine-New Hampshire border, approximately 70 km from Manchester, New Hampshire with an installed capacity of 1,335 kilowatts. The facility is located at a site which was historically utilized for electrical and mechanical energy production for mill purposes. The facility was substantially rehabilitated and expanded in 1986 and includes a 3,800 foot penstock leading from the intake to the powerhouse. The Milton facility is owned by SFR Hydro Corporation.

The Milton facility sells all energy produced to PSNH pursuant to a power purchase agreement dated July 17, 1982. The agreement terminates on July 1, 2012 and stipulates a fixed rate for the sale of energy over its term.

SFR Hydro Corporation acquired all land necessary for the operation of the Milton facility from Iron Mountain Records Management Inc. In addition to direct ownership of certain parcels of land, SFR Hydro Corporation holds certain permanent easements on land and buildings employed by the facility. As a result of its ownership of the facility site, SFR Hydro Corporation was granted the water rights for the Salmon River available at the facility site for the operation of the facility.

The Milton facility received an exemption from the licencing of a small hydroelectric generating facility from FERC in June 30, 1981 (FERC Project No. 3984). The main compliance issues associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility; and (ii) a minimum flow of 25 cubic feet per second must be released downstream of the dam between April and June, when available, to maintain the instream fisheries and water quality.

The Mine Falls facility is a 3,000 kilowatt hydroelectric generating station located on the Nashua River near the City of Nashua, New Hampshire. The site is comprised of two turbine-generators housed
in a new concrete powerhouse located at the site of a historic concrete dam. The site was commissioned in 1986. The Mine Falls facility is owned by the Mine Falls Limited Partnership.

**Power Purchase Agreement**

A power purchase agreement dated March 25, 1984 was entered into between Seaward Development-Mine Falls Inc. and PSNH. The agreement was amended on November 14, 1985 and was assigned to the Mine Falls Partnership on December 10, 1985. The agreement expires on December 31, 2005. Under the amended terms, PSNH continues to purchase all electrical energy from the facility at a fixed rate of US$0.09/kW-hr over the remainder of the term.

**Land and Water Rights**

The land, physical structures and water rights associated with the facility are leased from the City of Nashua pursuant to a lease dated May 2, 1984. The lease has a term of 40 years and expires in 2024. Payments pursuant to the lease are based on a percentage of gross revenues earned from the sale of energy from the facility.

**FERC Licence**

The City of Nashua and Seaward Construction Company Inc. received a FERC Licence (FERC Project No. 3442) for a small hydroelectric generating facility on March 26, 1985 with installed capacity of 3,032 kilowatts. The interest of Seaward Construction Company Inc. was assigned to the Mine Falls Partnership on November 5, 1985. The main compliance issues associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility; (ii) a minimum flow of 20 cubic feet per second must be released over the dam plus a minimum flow of 10 cubic feet per second must be released into an adjacent watershed, when available, to maintain the instream fisheries and water quality, and (iii) the existing upstream fish hoist system, while it appears to function properly, has not received final acceptance by FERC.

**Great Falls Facility**

The Great Falls facility is a 10,950 kilowatt hydroelectric generating station located on the Passaic River near the City of Paterson, New Jersey. The site was originally utilized for the production of electrical energy and was decommissioned in January 1969. The powerhouse was declared a National Historic Landmark in 1971. In 1986, the facility underwent a major rehabilitation with the installation of three new turbine-generators and new electrical and control equipment and was recommissioned in December 1986. The Great Falls facility is owned by the Great Falls Hydroelectric Company (the “Great Falls Partnership”), a Maryland limited partnership.

**Power Purchase Agreement**

A power purchase agreement dated September 6, 1985 was entered into between the Great Falls Hydroelectric Company and Public Service Electric and Gas Company ("PSE&G"). The agreement was amended on February 9, 1998 and expires in 2002. Under the amended terms, PSE&G continues to purchase all electrical energy from the facility. The rates paid for such energy and capacity are based on the local marginal energy pricing paid by PSE&G for energy and capacity. In 2000, the average blended energy price was approximately US$0.034/kW-hr.
Land and Water Rights

The land, physical structures and water rights associated with the facility are leased from the Paterson Municipal Utilities Authority pursuant to a lease dated September 10, 1984. The lease expires on March 10, 2021. Payments pursuant to the lease are based on a percentage of gross revenues earned from the sale of energy from the facility, with a minimum annual payment.

FERC Licence

The Great Falls facility received an exemption from the licensing of a small hydroelectric generating facility from FERC on March 1, 1981 for a 7,500 kilowatt facility, which exemption was amended on September 6, 1985 (FERC Project No. 2814) to allow for a 10,950 kilowatt facility. The main compliance issues associated with the facility are that: (i) it operate as an instantaneous run-of-the-river facility and there be no storage of water upstream of the facility; and (ii) a minimum flow of 50 cubic feet per second must be released over the dam for aesthetic purposes (increasing to 200 cubic feet per second in 2001), when available, to maintain the instream fisheries and water quality.

Worcester Facility

The facility is located on the North Branch of Winnooskie River, in the Town of Worcester, Vermont approximately 10 miles north of Montpelier, Vermont. The facility is located at a concrete gravity dam 80 feet long and 21 feet in height. It is a run-of-the-river facility and is rated at 180 kilowatts. The facility has one Ossberger Cross-Flow turbine.

Power Purchase Agreement

The agreement with Vermont Power Exchange, Inc. is for a term of 30 years. From August 15, 1986 until August 15, 2016, the specified settlement rates set out in the agreement will be paid to the producer.

Land and Water Rights

A Fund entity, Worcester Hydro Company, Inc., owns all land necessary for the operation of the facility. Certain permanent easements on land and buildings are also held by the Worcester Hydro Company, Inc. As a result of its ownership of the generating station site, Worcester Hydro Company, Inc. was granted the water rights for the facility.

FERC Licence

The facility received an exemption from licensing for a small hydroelectric generating station facility from FERC on June 11, 1985. The exemption order is for a generating facility of less than 5,000 kilowatts. The facility was commissioned in 1985.

The main compliance conditions associated with the facility are that: (1) it must operate as an instantaneous run-of-the-river facility and there can be no storage of water upstream of the facility; and (ii) a minimum flow of ten cubic feet per second must be released downstream of the dam, when available, to maintain the instream fisheries and water quality.
Wastewater Treatment Facility

Black Mountain Sewer Corporation

The Black Mountain Sewer Corporation (“Black Mountain”), formerly the Boulders Carefree Sewer Corporation, was established in 1978 to support the development of the Boulders Resort and golf course. This exclusive resort is located ten miles north of Scottsdale, Arizona and is in the town of Carefree. Black Mountain currently serves approximately 1,600 residential and commercial customers.

The existing plant is located in the residential portion of the Boulders Resort. The plant was designed to treat 150,000 US gallons per day of sewage, and is currently permitted for 120,000 US gallons per day. The plant currently runs at capacity and the reclaimed water it produces is piped to a lake on the Boulders golf course for re-use. The utility currently bypasses up to 228,000 US gallons per day during the year to the City of Scottsdale wastewater treatment plant in accordance with an agreement entered into in 1996. Black Mountain has purchased capacity on this system for US$6.00 per US gallon in the past for a total of 318,000 US gallons and pays US$1.50 per 1,000 US gallons to process this sewage in such facility.

The Black Mountain facility is an activated sludge plant and produces a good quality effluent that meets or exceeds quality standards for effluent discharges. This is accomplished by post-process filtration utilizing a sand filter.

Black Mountain has expanded to service the town of Carefree under a regulated agreement called a Certificate of Convenience and Necessity (“CC&N”).

Certificate of Convenience and Necessity

This facility has had a CC&N, or mandate to provide wastewater services to its customers, for 23 years. The utility is regulated by the Arizona Corporation Commission, which regulates rates.

Arizona Department of Environmental Quality

This facility is also regulated and must comply with guidelines established by the Arizona Department of Environmental Quality to meet or exceed certain environmental conditions for discharge and re-use.

SHARE AND LOAN CAPITAL

Loan Capital of the Fund

The Fund has available a line of credit (the “Credit Line”) provided by the National Bank of Canada in the maximum principal amount of $50,000,000 to be utilized in respect of the acquisition of facilities by the Fund. As security for repayment of such line of credit, the Fund has, among other things, pledged the shares of Algonquin Canada and Algonquin America.
Interest

Any amounts outstanding under the Credit Line bears interest at a rate equal to the National Bank of Canada prime rate plus 25 basis points, payable monthly. An annual standby fee equal to 35 basis points of the undrawn portion of the Credit Line will be payable monthly.

Redemption

The credit agreement in respect of the Credit Line stipulates that mandatory annual payments of 10% of the amount of the Credit Line outstanding as of September 30, 2002 will be made by the Fund. The balance of the Credit Line is due and payable as of the maturity of the Credit Line, which is September 30, 2002. As of May 14, 2001, no amounts were outstanding the Credit Line.

Share Capital of Algonquin Canada

The authorized share capital of Algonquin Canada consists of 500,000,000 common shares without par value. At December 31, 2000, there were 50,838,444 common shares of Algonquin Canada outstanding and all shares are presently owned by the Fund.

The distribution policy of Algonquin Canada will continue to be to distribute all of its available cash, subject to applicable law and to Algonquin Canada retaining appropriate working capital reserves. At the end of each quarter, Algonquin Canada’s board of directors will determine whether Algonquin Canada has sufficient cash to return as capital or declare as a dividend for that quarter and, if so, what the amount of capital returned or dividend will be. The decision of what amount, if any, to return as capital or declare as a dividend is to be a conservative estimate based on the results of each calendar quarter. An adjustment, if appropriate, to the total amount of capital returned or dividend payable for a fiscal year will be paid prior to March 31 of the following year.

Loan Capital of Algonquin Canada

At December 31, 2000, Algonquin Canada has issued and outstanding Canada Notes in the aggregate principal amount of approximately $3.5 million due December 31, 2037, issued and outstanding Canada 1998 Notes in the aggregate principal amount of approximately $11.3 million due June 30, 2038 and issued and outstanding Canada 1999 Notes in the aggregate principal amount of approximately $7.3 million due June 30, 2039. The Canada 1999 Note was issued by Algonquin Canada with respect to the acquisition of the Franklin Facility. The Canada Notes rank pari passu with the Canada 1998 Notes and the Canada 1999 Notes.

Interest

The Canada Note bears interest at the rate of 9% per annum, payable quarterly on the Record Dates. The Canada 1998 Note bears interest at the rate of 6% per annum, payable quarterly on the Record Dates. The Canada 1999 Note bears interest at the rate of 11% per annum, payable quarterly on the Record Dates.

The Canada Note, Canada 1998 Note and Canada 1999 Note provide that Algonquin Canada may defer payment of interest to the extent that its earnings before interest, taxes, depreciation and amortization are inadequate to pay interest thereon. Any interest deferred for a period exceeding 12 months will be capitalized as part of the principal outstanding under such notes, as applicable.
Redemption

The principal amounts of the Canada Note, Canada 1998 Note and Canada 1999 Note shall be retired prior to their maturity from available cash after payment of interest on the Canada Note, interest on the Canada 1998 Note and interest on the Canada 1999 Note in respective amounts as may be determined by Algonquin Canada’s board of directors. In any event, the principal amount of the Canada Note, the Canada 1998 Note and the Canada 1999 Note remaining outstanding on their respective due dates will be immediately due and payable.

Ranking

All Canada Notes rank pari passu with the Canada 1998 Notes and Canada 1999 Notes. The Canada Note, Canada 1998 Note and Canada 1999 Note are jointly secured by all assets of Algonquin Canada. At the discretion of its board of directors, Algonquin Canada has the ability to postpone repayment of the Canada Note, Canada 1998 Note and Canada 1999 Note and subordinate the security related thereto to any indebtedness and related security that may be incurred by Algonquin Canada in the future.

Default

Each of the Canada Note, the Canada 1998 Note and the Canada 1999 Note provide that any of the following will constitute an event of default: (i) default in payment of the principal when due; (ii) default on any senior indebtedness for borrowed money; (iii) certain events of winding-up, liquidation, bankruptcy, insolvency, receivership, general assignment for the benefit of creditors or proceedings with respect to a compromise or arrangement under applicable bankruptcy or insolvency legislation; (iv) the taking of possession by an encumbrancer of all or substantially all of the property of Algonquin Canada; (v) ceasing to carry on in the ordinary course the business of Algonquin Canada; (vi) default in performing any material lease, licence or other agreement whereby any material property or rights of Algonquin Canada may be forfeited or terminated; and (vii) default in the observance or performance of any other covenant or condition of the note and the continuance of such default for a period of 30 days after notice in writing has been given to Algonquin Canada specifying such default and requiring Algonquin Canada to rectify same.

Limitations on Issuances of Shares and Debt

The Governance Agreement provides that Algonquin Canada is not permitted to issue any shares or incur any debt other than in the ordinary course of business without the approval of the Fund and contains restrictions on further borrowings by Algonquin Canada. The Fund has approved the issue of the additional common shares as disclosed herein.

Share Capital of Algonquin America

The authorized share capital of Algonquin America consists of 1,000 shares of common stock without par value. There are 301 shares of Algonquin America outstanding and all shares are presently held by Algonquin Canada.

The distribution policy of Algonquin America will continue to be to distribute all of its available cash, subject to applicable law and to Algonquin America retaining appropriate working capital reserves. At the end of each quarter, Algonquin America’s board of directors will determine whether Algonquin America has sufficient cash to return as capital or declare as a dividend for that quarter and, if so, what
the amount of capital returned or dividend will be. The decision of what amount, if any, to return as capital or declare as a dividend is to be a conservative estimate based on the results of each calendar quarter. An adjustment, if appropriate, to the total amount of the capital returned or dividend payable for a fiscal year will be paid prior to March 31 of the following year.

**Loan Capital of Algonquin America**

At December 31, 2000, Algonquin America had issued and outstanding US 1998 Note in the principal amount of approximately $12.1 million (approximately US$ 8.0 million), US 1999 Notes (Nos. 1 and 2) in the aggregate principal amount of approximately $28.8 million (approximately US$19.2 million) and US 2000 Notes (Nos. 1, 2 and 3) in the aggregate principal amount of approximately $11.3 million (approximately US$ 7.5 million).

**Interest**

The US 1998 Note and the US 1999 Notes (Nos. 1 and 2) bear interest at the rate of 11% per annum, both payable quarterly on the Record Dates. The US 2000 Notes bear interest at the rate of 7% per annum, payable quarterly on the Record Dates.

The interest and principal on the US 1998 Note, the US 1999 Notes (Nos. 1 and 2) and the US 2000 Notes are payable in Canadian funds. The US 1998 Note, the US 1999 Notes (Nos. 1 and 2) and the US 2000 Notes provide that Algonquin America may defer payment of interest to the extent that its earnings before interest, taxes, depreciation and amortization are inadequate to pay the interest on such notes. Any interest deferred for a period exceeding 12 months will be capitalized as part of the principal outstanding under such notes, as applicable.

**Redemption**

The principal amounts of the US 1998 Note, the US 1999 Notes (Nos. 1 and 2) and the US 2000 Notes shall be retired prior to their maturity from available cash after payment of interest on the US 1998 Note, interest on the US 1999 Notes (Nos. 1 and 2) and interest on the US 2000 Notes in respective amounts as may be determined by Algonquin America’s board of directors. In any event, the principal amount of the US 1998 Note, the US 1999 Notes (Nos. 1 and 2) and the US 2000 Notes remaining outstanding on their respective due dates will be immediately due and payable by Algonquin America.

**Ranking**

The US 1998 Note, the US 1999 Notes (Nos. 1 and 2) and the US 2000 Notes all rank pari passu with each other. The US 1998 Notes, the US 1999 Notes (Nos. 1 and 2) and the US 2000 Notes are jointly secured by all assets of Algonquin America. At the discretion of Algonquin America’s board of directors, Algonquin America has the ability to postpone any repayment of any of the US 1998 Note, the US 1999 Notes (Nos. 1 and 2) and the US 2000 Notes and subordinate the security related thereto to any indebtedness and related security that may be incurred by Algonquin America in the future.

**Default**

Each of the US 1998 Note, the US 1999 Notes (Nos. 1 and 2) and the US 2000 Notes provide that any of the following will constitute an event of default: (i) default in payment of the principal when due; (ii) default on any senior indebtedness for borrowed money; (iii) certain events of winding-up, liquidation, bankruptcy, insolvency, receivership, general assignment for the benefit of creditors or
proceedings with respect to a compromise or arrangement under applicable bankruptcy or insolvency legislation; (iv) the taking of possession by an encumbrancer of all or substantially all of the property of Algonquin America; (v) ceasing to carry on in the ordinary course the business of Algonquin America; (vi) default in performing any material lease, licence or other agreement whereby any material property or rights of Algonquin America may be forfeited or terminated; and (vii) default in the observance or performance of any other covenant or condition of the note and the continuance of such default for a period of 30 days after notice in writing has been give to Algonquin America specifying such default and requiring Algonquin America to rectify same.

Limitations on Issuances of Shares and Debt

The Governance Agreement provides that Algonquin America is not permitted to issue any shares or incur any debt other than in the ordinary course of business without the approval of the Fund and Algonquin Canada and contains restrictions on further borrowings by Algonquin America.

Unit and Loan Capital of Algonquin Power Trust

All of the outstanding units of the Algonquin Power Trust are held beneficially and of record by the Fund. In addition, Algonquin Power Trust has issued certain notes to the Fund which have terms and provisions which are substantially the same as those contained in the US 2000 Notes.

THE INDEPENDENT POWER GENERATION INDUSTRY

As mentioned above, the Fund is engaged indirectly in the business of generating and marketing electrical energy within the independent power generation industry.

General

Description of a Hydroelectric Facility

A hydroelectric generating facility consists of a number of components, including a dam, headrace canal or penstock, intake structure, electromechanical equipment consisting of a turbine(s), a generator(s), draft tube and tailrace canal. In addition, there are electrical switchgear and controls equipment which are necessary to interconnect the facility with the receiving electrical grid system.

Typical Hydroelectric Generating Station

A dam structure is required to create or increase the natural elevation difference between the upstream reservoir and the downstream tailrace (referred to as “head”), as well as to provide sufficient depth within the reservoir for an intake. Dam structures are also used to create an upstream reservoir which allows water to be stored within a headpond. Virtually all dam structures used for hydroelectric generation purposes have spillways for discharging water which is surplus to the demand of the generating station. A spillway dam can be either an overtopping section of the dam (uncontrolled spillway) or an opening within the dam itself (sluiceway). Sluiceway structures must be equipped with a mechanism for blocking the opening(s) during periods when the hydroelectric generating facility can adequately handle the river flow. This can be accomplished using a variety of methods ranging from simple wooden logs (referred to as stoplogs) to automatically controlled and sophisticated steel gates.
Water flows are conveyed from the upstream reservoir to the generating equipment via a penstock or headrace canal. A penstock is a pipeline capable of operating under pressure, and is normally constructed of steel or other suitable materials. A headrace canal is a channel which conveys water from the reservoir to the intake in a hydraulically efficient manner.

The intake structure is a water intake located at the entrance to a penstock or at the end of a headrace canal. The purpose of the intake structure is to collect water from the upstream reservoir. Intake structures are normally equipped with steel or plastic screens (referred to as trashracks) which prevent debris and ice found in the reservoir from entering into the turbine equipment. Intake structures must be adequately submerged to prevent the entertainment of air into the water passages.

The electromechanical equipment consists of the turbine(s) and generator(s) used to transform the hydraulic energy into electrical energy. A turbine is a series of blades which rotate a shaft as a result of water flowing over or through the blades. A variety of turbines are used depending on the site. The generator is connected to the turbine (sometimes using a gearbox) and converts mechanical energy into electrical energy.

The electromechanical equipment is typically contained within a powerhouse building. The purpose of the powerhouse is to provide a solid structural foundation for the equipment and protect the equipment from the environment.

The water which has flowed through the hydraulic turbine(s) is discharged back to the natural watercourse through a draft tube and tailrace. The purpose of these two components is to return the flows back to the environment in a “hydraulically smooth” fashion.

The electrical equipment consists of switchgear, controls, a transformer substation and frequently a transmission line. The purpose of the electrical equipment is to transform the electrical energy produced by the generator into a form which is acceptable to the receiving electrical grid. This usually involves increasing the voltage and controlling the electrical frequency. A transmission line is often required to interconnect a facility with the grid. The majority of hydroelectric generating facilities are also equipped with remote monitoring equipment, which allows the facility to be monitored and operated from a remote location.

Canada

In Canada, the provinces have legislative authority over the supply of energy. In the past, the majority of the electrical supply within the Canadian provinces is provided by large Crown corporations such as Ontario Hydro and Hydro-Québec or smaller, investor owned utilities. These large utilities have been primarily responsible for the generation, transmission and distribution of electricity. In the mid-1980's, however, the rapid growth of projected energy demand, projections of dramatic increases in energy rates and advances in new generation technology led provincial governments to develop policies to encourage independent power generation. These policies were meant to encourage larger utilities to purchase power from independent power producers pursuant to long term power purchase agreements which would supply power to the provincial power grid in parallel to the utilities' own generation. In the late 1980's and early 1990's, British Columbia, Alberta, Ontario, Québec, Nova Scotia and Newfoundland established programs to actively seek independently produced power. By the late 1990’s, many of the large utilities started the process of restructuring the energy market. To date British Columbia, Alberta, and Ontario have made progress on restructuring and introducing competition into the energy market.
Ontario

By the mid-1980's, the majority of energy produced in Ontario was the responsibility of Ontario Hydro. In 1987 however, the provincial utility and the provincial government developed policies and programs to encourage the addition of new generation by independent power generators. Over 90 of these independent generators or non-utility generators entered into long term power purchase agreements with Ontario Hydro. These projects represent over 1,225 megawatts of energy from a variety of fuels, such as water, natural gas and wood wastes.

In 1998, the provincial government started the process of restructuring the energy market in Ontario. This restructuring includes the elimination of the large provincial utility, Ontario Hydro, that had enjoyed a monopoly in Ontario and the introduction of new generators and retailers of electricity into a competitive market.

Ontario has continued this process of reshaping the electricity industry throughout 1999 and into the year 2000. Following the passage of the Energy Competition Act, 1998 (the “Energy Act”) in October, 1998, Ontario Hydro has been successfully restructured and separated into a number of new, successor companies such as Ontario Power Generation Corporation and Ontario Electricity Financial Corporation, among others. The regulatory framework for wholesale and retail competition has been developed by the Ontario government through the Ontario Energy Board (the “OEB”). While transitional issues such as pricing and metering continue to be discussed by the OEB, full competition in the energy market is scheduled to commence in the spring of 2002.

The restructuring of Ontario Hydro and the Ontario energy market has not had a material impact on the long term purchase agreement for each generating facility located in Ontario in which the Fund has an interest. Ontario Electricity Financial Corporation now holds all rights, obligations and liabilities under such power purchase contracts. This Ontario government agency will continue to purchase the energy generated by the Ontario facilities in which the Fund has an interest pursuant to the existing contracts. The Fund has also received a licence to generate from the OEB as required by the Energy Act.

Québec

In September 1990, the Québec government adopted a policy allowing private power producers to build, operate and manage hydroelectric generating facilities with a capacity of less than 25 megawatts, as well as the development of larger cogeneration facilities. The program set out the terms and conditions of long term waterpower leases with the Québec government and power purchase agreements with Hydro-Québec which would apply to all private power producers. Between 1991 and 1993, Hydro-Québec negotiated and signed agreements with private producers for the purchase of a total of 474 megawatts from hydroelectric generating facilities, wind powered facilities and cogeneration plants fuelled by biomass and natural gas.

Newfoundland

In anticipation of an increase in electricity demand in the Province of Newfoundland, Newfoundland and Labrador Hydro began seeking generating capacity from independent power producers in 1990. In April 1990, a new policy was developed stating that Newfoundland and Labrador Hydro was prepared to relinquish its franchise rights to private developers on any hydroelectric project up to ten megawatts or greater under certain conditions. By 1992, however, the energy demand forecast for the province changed significantly and the utility indicated that it would limit the number of private generators that could sell power to the utility pursuant to long term power purchase agreements. In
April 1992, the utility issued a request for proposals from private generators for a total of 50 megawatts of new generation. In December 1993, Newfoundland and Labrador Hydro announced that it would issue power purchase agreements to four small hydroelectric projects located on the island of Newfoundland totalling 38 megawatts. The utility also announced that it would purchase electricity from these facilities commencing on October 1, 1998. In 1998, the provincial government announced a moratorium on the development of small hydroelectric projects in Newfoundland. The government announced a review of environmental issues associated with such development and a review of the need for additional generation capacity. The government cancelled two of the four facilities that were proceeding to construction. The Rattle Brook and Star Lake facilities were the two facilities completed and commissioned in 1998.

United States

In 1978, The United States Congress enacted the Public Utility Regulatory Policies Act ("PURPA") in response to a belief that the electric generation industry in the United States was too heavily dependent on foreign oil. Energy production in the United States is regulated by the Federal Energy Regulatory Commission. By enacting PURPA, Congress enabled private power producers to supply electricity to the large utilities throughout the country. FERC, pursuant to the PURPA legislation, mandated the development of policies by state utility commissions and utilities themselves that enable private producers to build power facilities. The key policy issue was the development of long term power purchase agreements with fixed, long term power purchase rates. The long term rates were based on projections of the utilities' Avoided Costs. Today, due to market forces and economic changes, many of these long term agreements are priced far above current market rates. While these higher costs are burdensome to the utilities, most have recognized these costs as Stranded Costs.

In 1992, the United States Congress empowered FERC to begin opening up the wholesale electric marketplace to competition. Order 888 issued by FERC on April 24, 1996 established the rules associated with wholesale market competition. It is projected by FERC and others that the United States and Canada will evolve to the point where the generating component of electricity will be open to competition and no longer be subject to price regulation.

New York State

Following the implementation of PURPA in 1978, New York State aggressively pursued the development of independent power production. There are currently over 300 independent power facilities now in operation in New York State and independent power producers have added more than 6,000 megawatts of new electric generating capacity.

New Hampshire

New Hampshire has one large, investor-owned utility, Public Service Company of New Hampshire, which is a subsidiary of Northeast Utilities ("NU"), as well as a number of smaller regional utilities. With the passing of PURPA in 1978, the New Hampshire legislature passed the Limited Electrical Energy Producers Act which directed the New Hampshire Public Utilities Commission to encourage the State's utilities to purchase independently produced power from a variety of sources. The state legislature also granted the NHPUC authority to set long term rates for renewable energy sources and beginning in 1984, the PSNH issued power purchase agreements with long term fixed power purchase rates that helped stimulate the development of small hydroelectric generating facilities. While these rates were based on PSNH's own projected energy costs at that time, the contracted rates are now
well above today's market rates for electricity. The NHPUC also issued rate orders to utilities such as PSNH to purchase electricity from certain power producers at stipulated power purchase rates.

The State of New Hampshire is now going through the deregulation process pursuant to FERC's Order 888. During this period of industry restructuring, the State's utilities are requesting that the NHPUC consider rescinding or amending the rate orders the NHPUC has issued which require the purchases of power from independent power producers' generating facilities. The NHPUC has determined that the State's utilities should divest themselves of all generating assets and sell their power purchase agreements with independent power producers to third parties. The utilities, most notably PSNH and NU, are now negotiating with the NHPUC to determine how to deal with the Stranded Costs of selling above market priced power purchase agreements to third parties. PSNH is attempting to reduce its costs associated with these power purchase agreements with independent power producers and this action may impact the current rates paid for independently produced power.

As part of the review of PSNH's claim in respect of Stranded Costs, the NHPUC has requested a hearing into the issue that PSNH has and continues to purchase power from independent power producers during periods of "light loading". Light loading is defined as those periods of time during which the base load generating units are supplying energy on the margin, which has been estimated to occur approximately 15% of the time. The NHPUC is reviewing whether PSNH should have curtailed purchases of energy and capacity from independent power producers pursuant to both long term agreements and rate orders during such periods of light loading. PSNH asserts that the costs of purchases from independent power producers during periods of light loading has been factored into the calculation of the rates paid to the independent power producers under their rate orders and agreements and therefore the decision of PSNH not to curtail any purchases should not be considered in the review of Stranded Costs. PSNH maintains that it is required to purchase all energy produced by independent power producers under the agreements and rate orders at all times, including during periods of light loading.

Vermont

Following the implementation of PURPA in 1978, the State of Vermont agreed to encourage the development of independent power production. The electrical distribution system of the State is comprised of approximately 26 small, local utilities and for efficiency it was determined that one purchaser, the Vermont Electrical Exchange, Inc., should act as purchasing agent for all State utilities. Consequently, Vermont Electrical Exchange, Inc. has entered into a number of contracts with private producers under which it purchases power from these independent power producers and, in turn, delivers such power to member utilities. In August 1999, 18 electric utilities petitioned the Vermont Public Service Board requesting the board to alter, modify and construe existing power purchase agreements, including the one power purchase contract held by the Fund. The independent power producers affected by the petition, including the Fund, are aggressively opposing the utilities’ position before the board.

New Jersey

In the late 1970's, with an energy crisis emerging, the federal government enacted the Public Utility Regulatory Policies Act. This government legislation was intended to encourage private power producers to develop generating facilities using renewable energy (for example, small hydro). Under the new PURPA regulation, the Federal Energy Regulatory Commission was allowed to implement its own directives to ensure utilities purchase energy under long term contracts produced by PURPA “Qualifying Facilities”. In 1981 and 1983 the New Jersey Board of Public Utilities ordered the PURPA be executed, which in turn authorized State utilities and Qualifying Facilities to negotiate long term contracts.
In 1992, the federal Energy Policy Act was passed, which brought competition to the wholesale electric marketplace. This legislation bestowed upon the FERC the authorization to ensure fair competition, more specifically open access, non-discriminatory transmission and access to information in the wholesale marketplace. In the early 1990's, as a result of the new bulk energy market, the New Jersey Board of Public Utilities challenged in court the validity of the long term contracts with independent power producers. The intention was to necessitate the buy-out of uneconomical independent power producer contracts. However, in 1995, the legal dispute was overruled by the United States Court of Appeals for the Third Circuit. The basis of the decision was that the New Jersey Board of Public Utilities disobeyed the FERC and PURPA regulations.

Further changes to the New Jersey energy marketplace have taken place over the last few years. In February 1999, the State of New Jersey enacted the Electric Discount and Energy Competition Act. This regulation encourages competition in the energy markets, including electricity generation, in New Jersey. On August 1, 1999, New Jersey finally deregulated the electric and gas utility business throughout the State.

**Competition and Green Power Pricing**

Unlike electricity generated by fossil fuels such as natural gas and coal which are subject to potentially dramatic and unexpected price swings due to disruptions in supply or abnormal changes in demand, the supply of hydroelectric power is not subject to commodity fuel price volatility or risk. In addition, the generation of hydroelectric power does not involve significant ongoing capital and operating costs to ensure strict compliance with environmental regulations, which is a significant advantage over power generated by burning waste or utilizing landfill gases.

Deregulation has increased demand for privately generated power from a variety of sources including fossil fuels, waste, wind and water. Taking into account capital costs, wind power is generally more expensive than traditional forms of generated power. Fossil fuels are harmful to the environment; and waste burning power generation requires producers to abide by stringent and costly environmental regulations.

With deregulation and opening of competition in the electricity marketplace, there will be an increase in the opportunity for the energy customer to choose the type of generation producing the electricity. Over 30 utilities in the United States now offer their customers Green Power at a premium price. Green Power is electricity generated from renewable energy sources that do not contribute to greenhouse gas emissions. Green Power includes technologies such as small hydroelectric (generally defined as facilities of less than 20 megawatts in capacity), bioenergy, landfill gas, wind and photovoltaic. The U.S. Department of Energy has suggested that in a competitive marketplace, utilities and energy marketers will utilize Green Power pricing to strengthen their image with their customers and build customer loyalty. Further, the Department has found that most utility customers want their utilities to pursue environmentally benign options for generating electricity and some customers are willing to pay extra to receive power generated by renewable resources. The Department believes that as deregulation and open competition evolve, the Green Power approach will help offset the relatively higher costs of renewable power compared to less costly gas-fired generation.

In April 1997, Natural Resources Canada announced that, as part of the federal Green Power Procurement program, the federal government entered into an agreement to purchase up to 13,100 megawatt hours per year of Green Power from a utility to supply electricity to buildings owned by Natural Resources Canada and Environment Canada. Further, at that time, the Minister of the
Environment announced that Environment Canada will be greening up to 20 per cent of its nation-wide electrical consumption before 2010 to assist the growth of the Green Power sector while reducing the greenhouse gas emissions caused by the Department's use of electricity. Natural Resources Canada has announced that the Green Power Procurement program is one of several initiatives that form a new federal strategy on renewable energy.

Studies prepared for IPPSO and the Fund by an independent consultant found that for existing generating assets, small hydroelectric generating facilities are the lowest cost producer compared to all other forms of generating sources. This is due to such facilities having the lowest fuel, maintenance, capital addition, operating and environmental costs. For new generation, small hydroelectric is the lowest cost producer, after industrial co-generation, in relation to total costs and the lowest cost producer with respect to variable production costs. Hydroelectric generating facilities have a long useful operating life and many facilities over 80 years old continue to operate reliably today.

Deregulation and competition will expand the existing market for electricity for generators that can compete at market rates.

OTHER CONSIDERATIONS

Competition

The Fund competes for hydroelectric project acquisitions with individuals, corporations and institutions (both Canadian and foreign) which are seeking or may seek hydroelectric project investments similar to those desired by the Fund. Availability of investment funds and an increase in interest in hydroelectric project investments may increase competition for hydroelectric investments, thereby increasing purchase prices. Many of these investors have greater financial resources than those of the Fund or operate according to more flexible conditions.

The Fund will access public markets to finance hydroelectric project acquisitions if funds are not immediately available. In addition, the Fund believes that the Manager in its role as administrator and manager provides the Fund with a competitive advantage with its experience in identifying strategic investment opportunities.

Significant deregulation and opening of competition is occurring in the electricity marketplace. The Fund is in a strong competitive position since, for new generation, small hydroelectric is the lowest cost producer, after industrial co-generation, in relation to total costs and is the lowest cost producer with respect to variable production costs. Reference is made to “The Independent Power Generation Industry - Competition and Green Power Pricing”.

Environmental Matters

The Facilities encompass operations which require adherence to environmental standards imposed by regulatory bodies through licences, permits, policies and legislation. Failure to operate the Facilities in strict compliance with these regulatory standards may expose the Facilities to claims, clean-up costs and loss of operating licences and permits.

The Manager has an environmental management program including environmental policies and procedures that involve long term environmental monitoring programs, reporting, government liaison and the development and implementation of emergency action plans as related to environmental matters.
Environmental protection requirements did not have a significant financial or operational effect on the Fund’s capital expenditures, earnings and competitive position for the twelve months ended December 31, 2000. Further, such requirements are not expected to have a significant impact in future years, although, management of the Fund expects that more stringent environmental standards will continue to be implemented by various governmental agencies.

Employees

Algonquin Canada currently has 23 employees who are involved in the operation of the hydroelectric facilities. In addition, Algonquin Power and Power Systems currently have approximately 117 employees who may in the course of their duties perform duties which would customarily be performed by employees of the Fund. Labour relations have been stable to date and there has not been any disruption in operations as a result of labour disputes with employees. These employees are non-unionized.

Foreign Operations

The Fund holds interests in 28 hydroelectric generating facilities in New York State, New Hampshire, Vermont and New Jersey accounting for approximately 51% of the Fund’s gross revenue for the twelve month period ended December 31, 2000.

Currency fluctuations may affect the cash flow which the Fund will realize from its operations, as certain of the Fund Businesses sell electricity in the United States and receive proceeds from such sales in U.S. dollars. Such Fund Businesses also incur costs in U.S. dollars.

Intellectual Property

The “Algonquin” name and trademark and related marks and designs are licensed to the Fund by Algonquin Power under a non-exclusive, royalty-free trademark licence agreement (the “Licence Agreement”) dated December 23, 1997 between Algonquin Power and the Fund. Subject to the terms of the Licence Agreement, this licence will remain in effect for as long as the Management Agreement is in effect. The Fund, by using the “Algonquin” name, has the benefit of the goodwill and recognition associated with Algonquin Power and its affiliates’ use of the “Algonquin” name in the energy sector for the past nine years.

Seasonality

Based on the type of power purchase agreements in place at all of the facilities in which the Fund has an interest, the revenue generated by the facilities is proportional to the amount of electrical energy generated. In addition, the amount of energy generated at the facilities is dependent upon available water flows. Accordingly, the Fund’s revenues are affected by low and high water flow caused by seasonal rains and melts, with the result that revenues are higher in the spring and fall and are lower in the summer and winter. Engineering studies have been undertaken to assess the amount of energy which can be expected to be generated from each facility on an average annual basis. Furthermore, the majority of the facilities have significant operating histories with which to compare the theoretical estimates in the engineering studies. Due to geographic diversity of the facilities, the variability of total revenues is minimized.
Customers

The Fund Businesses derive their revenues from the sale of electricity to large utilities. For the twelve months ended December 31, 2000, the Fund Businesses’ revenues were derived as follows: Niagara Mohawk - approximately 25%; Ontario Electricity Financial Corporation - approximately 16%; Hydro Québec - approximately 33%; PSNH - approximately 24%; and others - approximately 2%.

SELECTED FINANCIAL INFORMATION

The following sets out certain selected financial information for the Fund:

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Operating Revenue</td>
<td>135</td>
<td>1,720</td>
<td>1,760</td>
<td>2,731</td>
<td>1,992</td>
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<td>Operating Expenses</td>
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<td>874</td>
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<td>Interest Expense</td>
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<td>-94</td>
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<td>Net Income</td>
<td>(2,431)</td>
<td>737</td>
<td>805</td>
<td>1,365</td>
<td>288</td>
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<td>Net Income per Trust Unit</td>
<td>(0.30)</td>
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<td>0.09</td>
<td>0.09</td>
<td>0.02</td>
<td>0.29</td>
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<td>Total Assets</td>
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<td>78,311</td>
<td>137,688</td>
<td>135,096</td>
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<td>Total Long Term Debt</td>
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<td>4,799</td>
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<td>4,758</td>
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<td>Distributions per Trust Unit</td>
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<td>0.235</td>
<td>0.200</td>
<td>0.225</td>
<td>0.835</td>
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(Thousands of dollars, except for per Trust Unit amounts)

<table>
<thead>
<tr>
<th></th>
<th>Three months ended March 31, 1999</th>
<th>Three months ended June 30, 1999</th>
<th>Three months ended September 30, 1999</th>
<th>Three months ended December 31, 1999</th>
<th>Year ended December 31, 1999</th>
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<tbody>
<tr>
<td>Operating Revenue</td>
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<td>3,957</td>
<td>3,946</td>
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<td>Operating Expenses</td>
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<td>Income Taxes</td>
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<td>Net Income</td>
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<td>Net Income per Trust Unit</td>
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<td>Total Assets</td>
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<td>Total Long Term Debt</td>
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<td>30,714</td>
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<td>Distributions per Trust Unit</td>
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<td>0.200</td>
<td>0.220</td>
<td>0.240</td>
<td>0.900</td>
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(Thousands of dollars, except for per Trust Unit amounts)
(thousands of dollars, except for per Trust Unit amounts)

<table>
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<th>Three months ended March 31, 2000</th>
<th>Three months ended June 30, 2000</th>
<th>Three months ended September 30, 2000</th>
<th>Three months ended December 31, 2000</th>
<th>Year ended December 31, 2000</th>
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</thead>
<tbody>
<tr>
<td>Operating Revenue</td>
<td>12,585</td>
<td>14,134</td>
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<td>Income Taxes</td>
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<td>(103)</td>
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<td>Net Income</td>
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<td>Net Income per Trust Unit</td>
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<td>Distributions per Trust Unit</td>
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<td>0.2425</td>
<td>0.2425</td>
<td>0.2425</td>
<td>0.97</td>
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NOTES:

(1) The Fund was created on September 8, 1997. The Fund acquired its interests in the Algonquin Note, the Canada Note, the US Note, the Marsh Facilities, the Donnacona Facility, seven of the facilities comprising the New York Development and two of the facilities comprising the New Hampshire Development on December 23, 1997. Before that date, the Fund had nominal assets. Accordingly, information reflects activity only for the period from December 23, 1997 to December 31, 1997.

DISTRIBUTION POLICY

The following outlines the distribution policy of the Fund as contained in the Declaration of Trust, including any restrictions on the ability to make distributions.

The amount of Distributable Cash to be distributed annually per Trust Unit will be equal to a pro rata share of interest, royalty and dividend income, taxable deemed dividends, lease payments or other income from the Leases received by the Fund in the year less: (i) administrative expenses of the Fund; (ii) amounts which may be paid by the Fund in connection with any cash redemptions of Trust Units; (iii) amounts required for the business and operations of the Fund, including amounts required to pay the deferred portion of the purchase price for any assets acquired by the Fund, directly or indirectly; and (iv) capitalized interest with respect to any notes held by the Fund. Any income of the Fund which is applied to any cash redemptions of Trust Units or is otherwise unavailable for cash distribution will be distributed to Unitholders in the form of additional Trust Units. Such additional Trust Units will be issued pursuant to exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing. In addition, on December 31 of each year, Unitholders will be entitled to receive a distribution of the amount, if any, by which the income of the Fund including any net capital gains for purposes of the Tax Act in respect of the year (calculated without reference to paragraph 82(1)(b) and to subsection 104(6) of the Tax Act) less any deductible non-capital or capital losses of prior years exceeds all amounts otherwise distributed or made payable in respect of the year.

The Trustees declared and made annual distributions totalling $24,755,000 during 2000. Such amounts were broken down into four quarterly payments based upon anticipated Distributable Cash flows of the Fund for that quarter. The Fund will include in its quarterly distributions cash dividends or returns of capital, if any, received from Algonquin Canada. Quarterly distributions are due and payable to
Unitholders of record on the last day of each calendar quarter and are expected to be paid on or before the 45th day of the following calendar quarter without interest or penalty.

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

Management’s Discussion and Analysis of Financial Condition and Results of Operations

Algonquin Power Income Fund, a publicly-traded Canadian income fund, is a leading consolidator of small hydroelectric generating facilities in Canada and the United States. This position has been achieved by the Fund through a successful acquisition strategy. At December 31, 2000, the Fund had 27,020,472 units issued and outstanding and owned directly or indirectly 41 hydroelectric generating facilities with an installed capacity of approximately 116 megawatts.

*Significant Transactions*

During the third quarter of 2000, the Fund completed a public offering which raised net proceeds of $25.7 million by issuing 3.0 million Trust Units. The proceeds from the public offering were used primarily to pay down the revolving line of credit and complete the acquisition of two hydroelectric generating facilities in New Hampshire and one in New Jersey. These additional generating facilities added approximately 15 megawatts of capacity.

In 1997 and 1998, the Fund acquired notes receivable and participation and other interests in the Long Sault Rapids, Trafalgar, Chute Ford, Rawdon and St. Alban facilities, which entitled the Fund to 100% of the cash flow of these facilities. These notes were accounted for as notes receivable and participation and other interests, since management determined that all the benefits and risks of ownership had not passed fully to the Fund, primarily as a result of the uncertainty regarding the ultimate ownership of these facilities. During 1999, management concluded that effective ownership of these eleven facilities had passed to the Fund and, as such, has consolidated these facilities in the balance sheet of the Fund at December 31, 1999. Operating results for 2000 are presented on a consolidated basis in the Fund’s accounts for these eleven facilities.

*Operating Results*

On a year over year basis, the Fund posted improved revenues, net earnings, earnings per Trust Unit, cash flow generated and cash distributions. Energy sales reported were $44.0 million (1999 - $13.7 million). Revenues from interest income and income from participation agreements totalled $2.5 million (1999 – $5.7 million). Total revenue was $46.5 million (1999 - $19.4 million). Energy sales during 2000 were higher than 1999 by $30.3 million due to the consolidation of the eleven hydroelectric generating facilities which contributed $19.0 million of energy sales, a full year of production from the eight hydroelectric generating facilities acquired during 1999 which added incremental energy sales of $9.8 million and the addition of three hydroelectric generating facilities during 2000 which added $736,000 in energy sales. The $3.2 million decrease in interest and participation income is due primarily to the fact that the eleven facilities now consolidated previously had contributed $3.1 million in interest and participation income. This was partially offset by the addition of the Franklin note acquired during 1999. During 2000, all but two facilities (Franklin and Rattlebrook) were consolidated in the accounts of the Fund.

The chart (below) reports revenue on a total consolidated basis and reconciles the amount to that reported in the financial statements:
Revenues

Consolidated Energy revenue

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States sites</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New York</td>
<td>11,325</td>
<td>8,211</td>
</tr>
<tr>
<td>New England</td>
<td>11,673</td>
<td>4,732</td>
</tr>
<tr>
<td>Subtotal</td>
<td>22,998</td>
<td>12,943</td>
</tr>
<tr>
<td>Canadian sites</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quebec</td>
<td>15,100</td>
<td>10,360</td>
</tr>
<tr>
<td>Ontario</td>
<td>7,461</td>
<td>7,450</td>
</tr>
<tr>
<td>Newfoundland</td>
<td>570</td>
<td>559</td>
</tr>
<tr>
<td>Subtotal</td>
<td>23,131</td>
<td>18,369</td>
</tr>
<tr>
<td>Total</td>
<td>46,129</td>
<td>31,312</td>
</tr>
</tbody>
</table>

Interest Income (less withholding tax)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>970</td>
<td>1,348</td>
</tr>
<tr>
<td>Total Consolidated Revenue</td>
<td>47,099</td>
<td>32,660</td>
</tr>
</tbody>
</table>

Total Revenue Reported

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add: Energy Sales For Non-Consolidated Hydroelectric Facilities</td>
<td>2,138</td>
<td>16,798</td>
</tr>
<tr>
<td>Less: Interest Income on Facilities Consolidated</td>
<td>(1,131)</td>
<td>(1,874)</td>
</tr>
<tr>
<td>Less: Participation Income on Facilities Consolidated</td>
<td>(401)</td>
<td>(1,625)</td>
</tr>
<tr>
<td>Total</td>
<td>47,099</td>
<td>32,660</td>
</tr>
</tbody>
</table>

During 2000, all regions posted improved revenues compared to the prior year due to the addition of three hydroelectric generating facilities in New England, receiving a full year of production from facilities acquired during 1999 (three in New England and five in Quebec) and improved hydrologic conditions in 2000 versus 1999. During both 2000 and 1999, revenues were below forecast due to rainfall levels below normal historic averages. Precipitation in 2000 started off strong, but worsened during the third and fourth quarters, resulting in dryer than normal conditions for the full year.

Interest income represents income from cash invested in short term deposits and interest received on the Algonquin Note.

2000 operating expenses increased from 1999 by $7.7 million to $12.3 million due to the consolidation of the eleven facilities, the costs of operating the eight facilities acquired during 1999 for a full year and the addition of three hydroelectric generating facilities during 2000. Operating expenses during 2000 were higher than forecasted due to higher equipment repair costs. During 1999 operating costs were in line with forecast.

The Fund’s management fees and operations supervisory fees remained constant at $408,000 and $308,000, respectively. There were no rate increases in management fees during 2000 despite further acquisitions during that period.
During 2000, the Fund recorded administrative expenses of $1.3 million (1999 - $1.3 million). Higher legal and unitholder communications expenses resulting from the increased number of facilities and larger Fund capitalization were offset by a reduction in consulting fees.

The increase in interest expense of $7.4 million to $8.9 million (1999 - $1.5 million) primarily represents project debt at the Coté Ste-Catherine, Long Sault Rapids and Glenford facilities and the interest and related amortization of financing fees associated with the revolving line of credit. The interest expense for the Long Sault Rapids and Glenford facilities was not consolidated in the accounts of the Fund during 1999 and the Coté Ste-Catherine facility was not acquired until the third quarter of 1999.

Cash flow was higher than the prior year due to the addition of three hydroelectric generating facilities during 2000, a full year of production from facilities acquired during 1999 and improved hydrologic conditions during 2000 versus 1999. Cash flow was below forecast during 2000 due to lower profits resulting from hydrologic conditions less than historic norms and higher operating costs as discussed above. During 2000, the Fund utilized hydrology reserves to supplement annual distributions.

Financial Position

As at December 31, 2000, the Fund had positive net working capital of $2.0 million (1999 – negative $235,000) and had $9.6 million of cash and cash equivalents.

Long-term debt at December 31, 2000 was $73.2 million (1999 – $77.1 million). This debt primarily represents the non-recourse project debt at the Coté Ste-Catherine, Long Sault Rapids and Glenford facilities.

Risk Management

Due to the Fund’s ownership of hydroelectric generating facilities in the United States, the Fund’s results from operations are affected by the exchange rate between the Canadian and US dollar. The Fund has attempted to reduce the impact of exchange rate fluctuations by agreeing to pay certain of its obligations in US dollars. Management fees payable to the Manager of the Fund and the operations supervisory fees payable to Algonquin Power Systems Inc. are in US dollars. As well, the principal payments on certain promissory notes are payable in US dollars. Together, this has the effect of transferring much of the foreign exchange risk out of the Fund.

On an annual basis the Fund utilizes currency options to hedge quarterly distributions and protect a minimum downside position.

In 2001, six of the New York facilities representing seven per cent of the energy production reverted to current market rates either due to the expiration of the power purchase agreements or contract stipulations requiring this change. In anticipation of these changes, the Fund has established reserves to supplement distributions until the acquisition of other accretive assets help mitigate the impact of these rate changes.

Outlook

To date, the Manager has pursued an acquisition strategy which specifically targeted hydroelectric generating facilities or developments. While the primary avenue for growth of the Fund is anticipated to remain the continued acquisition of hydroelectric generating facilities, the Trustees and the Manager have agreed to broaden the scope of potential investment opportunities which may be presented
by the Manager to the Fund. The Trustees believe that the stability and sustainability of cash flows to Unitholders may be enhanced through a diversification of the current asset portfolio.

The Fund will consider investment opportunities which provide stable cashflow from renewable resource facilities. Potential investment candidates could include wind and biomass powered generating stations or wastewater facilities within a regulated utility. Opportunities which provide long term, statistically predictable future cash flows whose risk profile is generally consistent with the existing portfolio of hydroelectric generating assets will be considered. All investment opportunities will continue to be required to meet the Fund’s acquisition guidelines established by the Trustees. These guidelines provide that all acquisitions must be expected to result in an increase in Distributable Cash per Trust Unit.

During the first quarter of 2001, the Fund completed a public offering of 7.6 million units and raised $74.8 million in gross proceeds. The proceeds are to be used to acquire facilities that meet the Fund’s acquisition criteria.

**CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Blake, Cassels & Graydon LLP, counsel to the Fund (“Counsel”), the following summary describes the principal Canadian federal income tax considerations pursuant to the Tax Act and the regulations thereunder generally applicable to a Unitholder who acquires Trust Units and who, for purposes of the Tax Act, is resident in Canada, holds the Trust Units as capital property and deals at arm’s length with the Fund, Algonquin Power and the Manager and is not affiliated with the Fund, Algonquin Power or the Manager. Generally, Trust Units will be considered to be capital property to a Unitholder provided the Unitholder does not hold the Trust Units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Trust Units as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the election permitted by subsection 39(4) of the Tax Act. This summary is not applicable to a Unitholder that is a “financial institution” for purposes of the mark-to-market rules, to a Unitholder an interest in which is a “tax shelter investment” or to any such Unitholder that is a “specified financial institution”, all within the meaning of the Tax Act. Any such Unitholder should consult its own tax advisor with respect to an investment in Trust Units.

This summary is based upon the provisions of the Tax Act and the Income Tax Regulations (the “Regulations”) in force as of the date hereof, all specific proposals to amend the Tax Act or the Regulations that have been publicly announced by the Minister of Finance prior to the date hereof (the “Proposed Amendments”), certificates of the Fund, Algonquin Canada, Algonquin Power and others as to certain factual matters and Counsel’s understanding of the current published administrative and assessing policies of the Canada Customs and Revenue Agency (“Revenue Canada”). This summary is also based on the assumption that the Fund will at all times comply with the Declaration of Trust.

This summary is not exhaustive of all possible Canadian federal income tax consequences and, except for the Proposed Amendments, does not take into account or anticipate any changes in the law or in the administrative or assessing policies of Revenue Canada, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein. No assurance can be given that the Proposed Amendments will be enacted as currently proposed or at all.
This summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Trust Units or any Unitholder. Consequently, prospective purchasers and Unitholders should consult their own tax advisors with respect to their particular circumstances.

Status of the Fund

This summary assumes that the Fund qualifies and will continue to qualify as a “mutual fund trust” as defined in the Tax Act. In order to so qualify, Trust Units representing at least 95% of the fair market value of all Trust Units of the Fund must have conditions attached thereto that included conditions requiring the Fund to accept, at the demand of the holder thereof and at prices determined and payable in accordance with the conditions, the surrender of the Trust Units, or fractions or parts thereof, that are fully paid. In addition, there must at all times be at least 150 Unitholders of the Fund each of whom owns not less than one “block” of Trust Units having a fair market value of not less than $500. A “block” of Trust Units means 100 Trust Units if the fair market value of one Trust Unit is less than $25. Further, the undertaking of the Fund must be restricted to the investing of its funds in property (other than real property or an interest in real property), the acquiring, holding, maintaining, improving, leasing or managing of any real property (or an interest in real property) that is capital property of the Fund, or a combination of these activities. The Fund will be deemed not to be a mutual fund trust if it can reasonably be considered that the Fund, having regard to all the circumstances, was established or is maintained primarily for the benefit of non-resident persons. While Counsel cannot provide an opinion on matters of fact such as the foregoing, Counsel understands that the Fund intends, and this summary assumes, that at all relevant times these and other applicable requirements will be satisfied and that the Fund is not established nor will it be maintained primarily for the benefit of non-resident persons, so that the Fund qualifies and will continue to qualify as a mutual fund trust at all relevant times. In the event the Fund does not qualify as a mutual fund trust, the income tax considerations would in some respects be materially different from those described below.

If the Fund ceases to qualify as a mutual fund trust, the Fund may be required to pay a tax under Part X.2 or Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the Fund may have adverse income tax consequences for certain Unitholders, including non-resident persons.

The Fund has been registered by Revenue Canada as a registered investment for purposes of the Tax Act. Accordingly, the Fund may be subject to a special tax under Part XI of the Tax Act if it acquires or holds foreign property in excess of the limits provided in the Tax Act, or enters into certain agreements to acquire shares of a corporation at a price that may differ from the fair market value of the shares at the time of acquisition. Counsel has been advised by the Fund that it does not expect to make excessive investments in foreign property or enter into any such agreements, and accordingly the Fund should not be subject to tax under Part XI of the Tax Act.

Taxation of the Fund

The Fund is subject to taxation in each taxation year on its taxable income for the year, including net realized taxable capital gains, less the portion thereof that is paid or payable in the year to Unitholders and which is deducted by the Fund in computing its income for purposes of the Tax Act. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid in the year by the Fund or the Unitholder is entitled in that year to enforce payment of the amount. The taxation year of the Fund is the calendar year.

The Fund will generally be entitled to deduct its expenses incurred to earn such income provided such expenses are reasonable and otherwise deductible, and it will be entitled to claim capital cost
allowance with respect to its undepreciated capital cost in any facility equipment held by the Fund, subject to the provisions of the Tax Act in that regard. Counsel can express no opinion with respect to matters of fact, such as the reasonableness of expenses or the accuracy of capital costs. The Donnacona Facility Equipment, the Ste-Brigitte Facility Equipment and the Belleterre Facility Equipment are currently leasing properties and specified energy property of the Fund and, accordingly, capital cost allowance claimed in respect thereof is currently deductible by the Fund only to the extent of the Fund’s income from such property (determined without reference to paragraph 20(1)(a) of the Tax Act). The Fund may deduct in computing its income for a year a portion of the reasonable expenses of the issue of Trust Units paid by the Fund from the proceeds of the public offerings of its Units. Such portion of issue expenses deductible by the Fund in a taxation year is determined pursuant to the Tax Act and is generally equal to that portion of 20% of the total issue expenses that the number of days in the Fund’s taxation year is of 365 days, to the extent that the issue expenses were not otherwise deductible in a preceding year.

Under the Declaration of Trust, an amount equal to all of the income of the Fund for each year (determined without reference to paragraph 82(1)(b) and subsection 104(6) of the Tax Act), together with the taxable and non-taxable portion of any capital gains realized by the Fund in the year (excluding capital gains which may be realized by the Fund upon a distribution in specie of the Fund Assets in connection with a redemption of a Trust Unit) net of the Fund’s deductions and expenses, will be payable in the year to the holders of the Trust Units by way of cash distributions, subject to the exceptions described below.

Under the Declaration of Trust, income of the Fund may be used to finance cash redemptions of Trust Units and accordingly such income so utilized will not be payable to holders of the Trust Units by way of cash distributions but rather will be payable in the form of additional Trust Units (“Reinvested Trust Units”).

A distribution by the Fund to a Unitholder of a portion of the assets of the Fund upon a redemption of Trust Units will be treated as a disposition thereof by the Fund for proceeds equal to their fair market value (determined, in the case of an interest in the debt obligations held by the Fund, without taking into account any accrued interest) and will give rise to income (or loss) and/or a capital gain (or a capital loss) to the Fund to the extent that the fair market value of the Fund Assets so distributed exceeds (or is exceeded by) the cost amount to the Fund of the respective portion of the Fund Assets immediately prior to the distribution. In addition, the Fund will be required to include in its income any interest that had accrued on any of the Fund Notes and other accrued but unpaid income, if any, in respect of the Fund Assets so disposed of up to the date of distribution to the extent not otherwise included in its income for the year of disposition or a previous year. On a redemption of Trust Units, capital gains arising in the Fund attributable to an in specie distribution of Fund Assets and certain income of the Fund will be payable to the redeeming Unitholder, with the result that the taxable portion of such gains and such income should generally be taxable to the redeeming Unitholder and not the Fund. Nevertheless, the Declaration of Trust provides that income of the Fund which is required to satisfy any tax liabilities on the part of the Fund will not be payable to the Unitholders.

For purposes of the Tax Act, the Fund generally intends to deduct in computing its income the full amount available for deduction in each year to the extent of its taxable income for the year otherwise determined. Therefore, as a result of such deduction from income and the Fund’s entitlement to a capital gains refund within the meaning of the Tax Act, Counsel has been advised by the Fund that the Fund does not expect that it will be liable for any material amount of tax under Part I of the Tax Act. However, Counsel can provide no opinion in this regard.
Taxation of the Unitholders

A Unitholder will generally be required to include in computing income for a particular taxation year the Unitholder’s portion of the income of the Fund for a taxation year, including net realized taxable capital gains, that is paid or payable to the Unitholder in that particular year, notwithstanding that any such amount may be payable in Reinvested Trust Units.

Provided that appropriate designations are made by the Fund, such portions of its net taxable capital gains, taxable dividends from taxable Canadian corporations and foreign source income as are paid or payable to a Unitholder will effectively retain their character and be treated as such in the hands of the Unitholder for the purposes of the Tax Act. Accordingly, such amounts will generally be taken into account in determining the Unitholder’s foreign tax credits and, in the case of a Unitholder that is an individual, the Unitholder’s entitlement to the dividend tax credit. Such amounts will also be taken into account in determining the Unitholder’s liability, if any, for alternative minimum tax under the Tax Act.

Any amount in excess of the income of the Fund that is paid or payable by the Fund to a Unitholder in a year should not generally be included in the Unitholder’s income for the year. However, where such an amount is paid or becomes payable to a Unitholder, other than as proceeds of disposition or deemed disposition of Trust Units or any part thereof, the amount will generally reduce the adjusted cost base of the Trust Units held by such Unitholder, except to the extent that the amount represents the Unitholder’s share of the non-taxable portion of the net realized capital gains of the Fund for the year, the taxable portion of which was designated by the Fund in respect of the Unitholder.

The adjusted cost base of a Trust Unit to a Unitholder will include all amounts paid or payable by the Unitholder for the Trust Unit, with certain adjustments. Trust Units issued to a Unitholder in lieu of a cash distribution of income (including net capital gains) will have a cost equal to the amount of such income and this cost will be averaged with the adjusted cost base of all other Trust Units held as capital property in accordance with the detailed provisions of the Tax Act in that regard.

Upon the disposition or deemed disposition by a Unitholder of a Trust Unit, whether on redemption or otherwise, the Unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition (excluding any amount payable by the Fund which represents an amount that must otherwise be included in the Unitholder’s income as described above) are greater (or less) than the aggregate of the Unitholder’s adjusted cost base of the Trust Unit and any reasonable costs of disposition. Where Trust Units are redeemed and any Fund Assets are distributed in specie to the Unitholder, the proceeds of disposition to the Unitholder of the Trust Units will be equal to the fair market value of the Fund Assets so distributed (excluding any amount that is paid or made payable in a year out of the income or capital gains of the Fund for the year or any amount that is payable by the Fund which must otherwise be included in the Unitholder’s income).

Under the Proposed Amendments, one-half of any capital gain realized by a Unitholder on the disposition of a Trust Unit and the amount of any net taxable capital gains designated by the Fund in respect of a Unitholder will be included in the Unitholder’s income under the Tax Act in the taxation year in which the disposition occurs or in respect of which a net taxable capital gains designation is made by the Fund. To the extent that the adjusted cost base of a Trust Unit would otherwise be less than zero in any taxation year of a Unitholder, the negative amount will be deemed to be a capital gain realized by the Unitholder in such taxation year from the disposition of the Trust Unit and the amount of such capital gain will be added to the adjusted cost base of the Trust Unit. Subject to certain specific rules in the Tax Act and the Proposed Amendments (including certain transitional provisions therein), one-half of any

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capital loss realized on the disposition of a Trust Unit may be deducted against one-half of any capital gains realized by the Unitholder in the year of disposition, in the three preceding taxation years or in any subsequent taxation years.

The cost amount to a Unitholder, immediately after a redemption of Trust Units of the Unitholder, of any Fund Assets distributed to the Unitholder by the Fund upon such redemption or upon the termination of the Fund, will be equal to the fair market value of such Fund Assets at the time of the distribution less, in the case of a Fund Note, any accrued interest thereon. The redeeming Unitholder will be required to include in income interest on any Fund Note acquired (including interest that had accrued prior to the date of the acquisition of the interest in the Fund Note by the Unitholder) in accordance with the provisions of the Tax Act. To the extent that the Unitholder is required to include in income any interest that had accrued prior to the date of the acquisition of the Fund Notes by the Unitholder, an offsetting deduction may be available. Where a Unitholder is entitled to deduct, in computing the Unitholder’s income under the Tax Act, all or part of the cost amount of any Fund Assets acquired by the Unitholder on a redemption of Trust Units, such acquisition and deduction may be subject to the “Matchable Expenditure” provisions of the Tax Act.

Taxable capital gains realized by a Unitholder that is an individual may give rise to alternative minimum tax, depending on the Unitholder’s circumstances.

Holders are advised to consult their own tax advisors prior to exercising their redemption rights.

Tax Exempt Unitholders

The Trust Units will generally be qualified investments for trusts (“Plans”) governed by registered retirement savings plans (“RRSPs”), registered retirement income funds (“RRIFs”), deferred profit sharing plans (“DPSPs”) and, under the Proposed Amendments, registered education savings plans (“RESPs”) under the Tax Act, subject however to the specific provisions of any particular Plan and the Fund maintaining its status as a mutual fund trust or continuing to be a registered investment under the Tax Act. The Plans will generally not be liable for tax in respect of any distributions received from the Fund or any capital gains realized on the disposition of any Trust Units. Where a Plan receives Fund Assets as a result of a redemption of Trust Units, such Fund Assets will likely not be qualified investments under the Tax Act for the Plans and could give rise to adverse consequences to the Plans (and, in the case of RRSPs or RRIFs, to the annuitants thereunder) including, in the case of RESPs, revocation of such Plans. Accordingly, Plans that own Trust Units should consult their own tax advisors before deciding to exercise the redemption rights thereunder.

If the Fund ceases to qualify as a mutual fund trust and the Fund’s registration as a registered investment under the Tax Act is revoked, the Trust Units will cease to be qualified investments under the Tax Act for Plans. Where, at the end of a month, a Plan holds Trust Units or other properties that are not qualified investments, the Plan may, in respect of that month, be required to pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Trust Units or other properties at the time such Trust Units or other properties were acquired by the Plan. In addition, where a trust governed by an RRSP (or an RRIF) holds (or acquires, respectively) Trust Units or other properties that are not qualified investments, the trust will become taxable on income attributable to the Trust Units or other properties while they are not qualified investments. Where a trust governed by an RESP acquires or holds Trust Units or other properties that are not qualified investments, the Plan may become revocable and its registration may be revoked by the Minister of National Revenue. Where a trust is governed by a DPSP and acquires property that are not qualified investments, the trust will be required to pay a tax equal to
the fair market value of the property at the time of its acquisition. Where a trust governed by an RRSP or RRIF acquires property that is not a qualified investments the annuitant under the RRSP or RRIF will be required to include the fair market value of such property in income for tax purposes.

Under the Tax Act, trusts governed by RRSPs, RRIFs, DPSPs, and registered pension plans and registered investments are subject to a special tax under Part XI of the Tax Act in respect of investments in foreign property in excess of limits specified within the Tax Act. Provided the Fund continues to be a registered investment for purposes of the Tax Act, Counsel is of the opinion that the Trust Units will not, at the time of their issue pursuant hereto, constitute foreign property for Plans, registered pension plans or other persons subject to tax under Part XI of the Tax Act.

If the Trust Units are acquired by a Unitholder at a time when they are not foreign property and subsequently Trust Units become foreign property, such Trust Units will not be treated as “foreign property” of such Unitholder for Plans, registered pension plans or other persons subject to tax under Part XI of the Tax Act.

ELIGIBILITY FOR INVESTMENT

In the opinion of Blake, Cassels & Graydon LLP (“Counsel”) as at the date hereof, eligibility of the Trust Units for investment by purchasers to whom the following statutes apply is, in certain cases, governed by criteria which such purchasers are required to establish as policies or guidelines pursuant to the applicable statute (and, where applicable, the regulations thereunder) and is subject to compliance with the prudent investment standards and general investment provisions provided therein:

- Insurance Companies Act (Canada)
- an Act respecting insurance (Québec) (in respect of insurers other than guarantee fund corporations, mutual associations and professional corporations)
- Trust and Loan Companies Act (Canada)
- Loan and Trust Corporations Act (Alberta)
- an Act respecting trust companies and savings companies (Québec) (for a trust company investing its own funds and deposits it receives and a savings company (as defined therein) investing its funds)
- Pension Benefits Standards Act, 1985 (Canada)
- Pension Benefits Act (Ontario)
- Supplemental Pension Plans Act (Québec)
- Financial Institutions Act (British Columbia)
- Pension Benefit Standards Act (British Columbia)

Subject to the assumptions, limitations and restrictions described under “Canadian Federal Income Tax Considerations” being met, and to the provisions of any particular plan, in the opinion of such Counsel, as at the date hereof, the Trust Units will also be qualified investments for trusts governed by RRSPs, RRIFs, and DPSPs, under the Proposed Amendments, RESPs and will not constitute foreign property for trusts governed by RRSPs, RRIFs, DPSPs or other entities subject to Part XI of the Tax Act. See “Canadian Federal Income Tax Considerations” for additional comments. Trusts governed by RESPs are not subject to restrictions on their holdings of foreign property under the Tax Act.
MARKET FOR SECURITIES

The Trust Units have been listed and posted for trading on The Toronto Stock Exchange since December 23, 1997 under the symbol “APF.UN”.

TRUSTEES OF THE FUND

The following table sets forth certain information with respect to the Trustees of the Fund. Unless otherwise indicated, the Trustees of the Fund have been in their principal occupations for more than five years. The Fund has no officers.

<table>
<thead>
<tr>
<th>Name and Municipality of Residence</th>
<th>Principal Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>GEORGE L. STEEVES Markham, Ontario</td>
<td>Division Manager, Earthtech Canada Inc. since January 2001 (engineering firm). Prior to January 2001, President, Cumming Cockburn Limited (engineering firm).</td>
</tr>
<tr>
<td>KENNETH MOORE Toronto, Ontario</td>
<td>Managing Partner, Newpoint Capital Partners Inc., an investment banking firm. Prior to 1997, Mr. Moore was a partner with Crosbie &amp; Company Inc., a merchant banking firm. Prior to 1993, Mr. Moore was a Vice-President with Barclays Bank of Canada.</td>
</tr>
</tbody>
</table>

All of the Trustees have served in such capacity since September 8, 1997, with the exception of Mr. Moore, who became a Trustee on December 18, 1998. Each of the Trustees will serve as a Trustee of the Fund until the next annual meeting of Unitholders or until his successor is elected in accordance with the Declaration of Trust.

Approximately 0.31% of the Trust Units are beneficially owned, directly or indirectly, by the Trustees of the Fund and the directors and senior officers of the Manager, as a group.

The Fund does not have an executive committee of the Trustees. The Fund is required to have an audit committee. Messrs. Steeves, Moore and Bradley are members of the audit committee.
DIRECTORS AND EXECUTIVE OFFICERS OF THE MANAGER AND POWER SYSTEMS

The following sets out certain information with respect to the directors and executive officers of the Manager and Power Systems. Unless otherwise indicated, the directors and officers have been in their principal occupations for more than five years.

<table>
<thead>
<tr>
<th>Name and Municipality of Residence</th>
<th>Office</th>
<th>Principal Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHRISTOPHER K. JARRATT Oakville, Ontario</td>
<td>Chief Executive Officer and Director of the Manager and Director of Powers Systems</td>
<td>Principal of Algonquin Power</td>
</tr>
<tr>
<td>IAN E. ROBERTSON Oakville, Ontario</td>
<td>Director of the Manager and of Power Systems</td>
<td>Principal of Algonquin Power</td>
</tr>
<tr>
<td>JOHN M.H. HUXLEY Toronto, Ontario</td>
<td>Director of the Manager and of Power Systems</td>
<td>Principal of Algonquin Power</td>
</tr>
<tr>
<td>DAVID C. KERR Toronto, Ontario</td>
<td>Director of the Manager and Secretary and Director of Power Systems</td>
<td>Principal of Algonquin Power</td>
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<tr>
<td>PETER KAMPIAN Cambridge, Ontario</td>
<td>Chief Financial Officer of the Manager and of Power Systems</td>
<td>Chief Financial Officer of Algonquin Power</td>
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<tr>
<td>ROBERT DODDS Mississauga, Ontario</td>
<td>President of Power Systems</td>
<td>President of Power Systems</td>
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RISK FACTORS

The following are certain additional risk factors relating to the business of the Fund. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this annual information form and the documents incorporated by reference herein.

Investment Eligibility

The Fund will endeavour to ensure that the Trust Units continue to be qualified investments for trusts governed by RRSPs, RRIFs, DPSPs and, under the Proposed Amendments, RESPs (collectively, the “Plans”), under the Tax Act and will not be “foreign property” to such Plans. If the Fund ceases to qualify as a mutual fund trust, the Trust Units will cease to be qualified investments for the Plans. Where, at the end of any month, a Plan holds Trust Units that are not qualified investments, the Plan must, in
respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1% of the fair market value of the Trust Units at the time Trust Units were acquired by the Plan. The annuitant under a Plan could also be subject to penalty taxes in such a case. One of the ways in which the Fund could cease to qualify as a mutual fund trust would be if non-residents of Canada (“non-residents”) within the meaning of the Tax Act were to become the beneficial owners of a majority of the Trust Units. There can be no assurance that income tax laws and the treatment of mutual fund trusts will not be changed in a manner which adversely affects Unitholders (see also “Canadian Federal Income Tax Considerations”).

**Dependence upon Algonquin Canada**

The Fund will be entirely dependent upon the operations and assets of the Fund Businesses. Accordingly, distributions to Unitholders will be dependent upon the ability of Algonquin Canada to pay interest on the notes issued by it to the Fund and to declare and pay dividends in respect of the Algonquin Canada Shares. Algonquin America to pay interest on the notes issued by it to the Fund, SLI to pay interest on the SLI St-Alban Note, N-R Power to pay interest on the LSR Nicholls Note, Algonquin Power to pay interest on the Glenford Note, the LSR Algonquin Note and the Algonquin Note and the Algonquin Power Trust to pay interest on notes issued by it to the Fund and to make distributions to the Fund. The profitability of Algonquin Canada may be affected by expiry of the present long-term power purchase agreements to which certain of the Fund Businesses are a party.

**Completion of Acquisitions**

In any additional offerings, the Manager intends to utilize the net proceeds from the additional offering (the “Net Proceeds”) to complete the acquisitions detailed in the prospectus, promptly following the closing of an additional offering. While Fund Businesses generally enter into agreements governing the purchase and sale of potential facility interests to be acquired, there can be no assurances that the vendors of such facility interests will close the transactions of purchase and sale. In the event the Manager is unsuccessful in completing any particular acquisition within 30 days from closing of an additional offering, the Manager intends to utilize the portion of the Net Proceeds plus accrued interest thereon (i) firstly, to retire any indebtedness of the Fund or its Facilities then outstanding and (ii) secondly, the balance thereof shall be distributed pro-rata to Unitholders as a return of capital.

**Regulatory Climate and Permits**

Profitability of the Fund Businesses will be in part dependent upon the continuation of a favourable regulatory climate with respect to the continuing operations and the future growth and development of the independent power production industry as a whole and, in particular, with respect to the hydroelectric power segment of the industry. Should the regulatory regime be modified in a manner which adversely affects the treatment of such facilities, including increases in taxes and permit fees, Distributable Cash may be adversely affected.

The operation of hydroelectric generating facilities is highly regulated. Water rights are generally owned by government and government agencies reserve the right to control water levels. The failure to obtain all necessary licences or permits, including renewals thereof or modifications thereto, may adversely affect Distributable Cash.

In the United States, FERC issues licences for the construction, operation and maintenance of hydroelectric generating facilities. Facilities are required to be licensed or have valid exemptions from FERC. Failure to maintain such licences, including amendments or modifications thereto, may result in the owner being unable to operate the licensed facility and could adversely affect Distributable Cash.

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The U.S. facilities obtain certain benefits and exemptions because of their Qualifying Facility status (“QF Status”) under PURPA. If any facility were to lose its QF Status, the facility would no longer be entitled to the exemptions and benefits thereof. Loss of QF Status may also require the facility to cease selling electricity at the rates set forth in the existing power purchase agreements to the extent they exceed current short run avoided costs. Under certain circumstances, loss of QF Status on a retroactive basis could lead to, among other things, claims by the utility customers for a refund of payments previously made.

Environmental and Safety Considerations

The facilities encompass operations which require adherence to environmental and safety standards imposed by regulatory bodies. Failure to operate the facilities in strict compliance with these regulatory standards may expose the facilities to claims and clean-up costs.

Equipment Failure

There is a risk of equipment failure due to wear and tear, design error or operator error, among other things, which could adversely affect revenues and Distributable Cash. Regular maintenance programs, insurance and maintenance funds partially mitigate this risk.

Commodity Prices

Distributable Cash will, in part, depend upon prices to be paid for energy purchased by customers. Such commodity pricing will vary over time. Over the long term, unexpected fluctuations in such pricing may impact upon Distributable Cash.

Labour Relations

While labour relations have been stable to date and there have not been any disruptions in operations as a result of labour disputes with employees, the maintenance of a productive and efficient labour environment cannot be assured. Employees of the Fund Businesses and their material subcontractors are non-unionized. In the event of a strike or lock-out, the ability of Algonquin Canada to generate Distributable Cash may be impaired.

Reliance on the Manager and Power Systems and Potential Conflicts of Interest

Unitholders will be dependent upon the Manager for the administration of the Fund and upon the Manager and Power Systems for the management and operation of the facilities.

There may be situations in which conflicts of interest may arise between the Manager, Power Systems and their respective officers and directors in relation to the interests of the Fund. The Manager and its affiliated entities may engage in activities similar to the activities of the Fund. The Manager or affiliated entities may acquire, own, manage and administer other facilities in the independent power production industry and, in particular, in the hydroelectric power segment of the industry. Provisions in business corporations act legislation provides certain procedures to be followed by directors and officers and remedies available against them where such procedures are not followed in the event of conflicts of interest.
Dependence Upon Key Customers

The customers that currently purchase power from the facilities are large utilities. If, for any reason, such customers were unable to fulfill their contractual obligations under the power purchase agreements, Distributable Cash would decline.

Delays in Distributions

Payments by Algonquin Canada and Algonquin Power Trust to the Fund may be delayed by restrictions imposed by lenders, disruptions in service, recovery by the Manager of its expenses or the establishment of reserves for expenses.

Nature of Trust Units

The Trust Units are dissimilar to conventional debt instruments in that there is no principal amount owing directly to Unitholders. The Trust Units do not represent a traditional investment and should not be viewed by investors as shares of Algonquin Canada or its subsidiaries. Each Trust Unit represents an equal undivided beneficial interest in the Fund. The Fund’s sole assets will be the Fund Assets and other permitted investments.

Unitholder Limited Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Fund or its obligations and affairs. The Declaration of Trust also provides that the Trustees and the Fund will make all reasonable efforts to include as a specific term of any obligations or liabilities being incurred by the Fund or by the Trustees on behalf of the Fund a contractual provision to the effect that neither the Unitholders nor the Trustees have any personal liability or obligations in respect thereof. Personal liability may arise in respect of claims against the Fund that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The Manager believes that the possibility of any personal liability of this nature arising is unlikely.

The operations of the Fund will be conducted, upon the advice of counsel, in such a way and in such jurisdictions so as to avoid as far as reasonably possible any material risk of liability on the Unitholders for claims against the Fund.

Uncertain Trust Unit Market

The Fund cannot predict at what price the Trust Units will continue to trade and there can be no assurance that an active trading market in the Trust Units will be sustained.

Units of a publicly traded income fund will not necessarily trade at values determined solely by reference to the underlying value of its assets.

One of the factors that may influence the market price of the Trust Units is the annual distribution on the Trust Units. An increase in market interest rates may lead purchasers of Trust Units to demand a higher annual distribution and this could adversely affect the market price of the Trust Units. In addition, the market price for the Trust Units may be affected by changes in general market conditions, fluctuations in the market for equity or debt securities and numerous other factors beyond the control of the Fund.
There can be no assurance that the Fund will be in a position to redeem Trust Units when requested to do so.

Climate

Based on the type of power purchase agreements in place at all of the facilities in which the Fund has an interest, the revenue generated by the facilities is proportional to the amount of electrical energy generated. In addition, the amount of energy generated at the facilities is dependent upon available water flows. Accordingly, revenues will be significantly affected by low and high water flows within the watercourses on which the facilities are located. Engineering studies have been undertaken to assess the amount of energy which can be expected to be generated from each facility on an average annual basis. Furthermore, the majority of the facilities have significant operating histories with which to compare the theoretical estimates determined in the engineering studies. However, there can be no assurance that the historical water availability will remain unchanged or that no material hydrologic event will impact the hydrologic conditions which exist within a watercourse. It is, however, anticipated that due to the geographic diversity of the facilities, variability of total revenues will be minimized.

Severe flooding may damage the facilities. Insurance and geographical diversity may partially reduce this risk.

Exchange Rates

Currency fluctuations may affect the cash flow which the Fund will realize from its operations, as certain of the Fund Businesses sell electricity in the United States and receive proceeds from such sales in US dollars. Such Fund Businesses also incur costs in US dollars.

Loan Defaults

The cash flows from several of the facilities are subordinated to senior debt. There is a risk that any particular loan may go into default if there is a breach in complying with such covenants and obligations resulting in the lender realizing on its security and, indirectly, causing the Fund to lose its investment in such facility.

Revolving Credit Facility

The Fund has negotiated a $50 million revolving credit facility with a major Canadian bank, which will mature September 30, 2002. Under the terms of the revolving credit facility, the Fund may acquire hydroelectric assets that meet the Fund’s acquisition guidelines. At December 31, 2000, no amounts were outstanding under the facility. The terms of the credit agreement require the Fund to pay a standby charge of 0.35% on the unused portion of the revolving credit facility and maintain certain financial covenants. The facility is secured by, among other things, a fixed and floating charge over all the entities owned by the Fund.

Tax Related Risks

There can be no assurance that income tax laws and the tax treatment of mutual fund trusts will not be changed in a manner which adversely affects Unitholders. In addition, adverse tax consequences may arise to Unitholders and to the Fund in the event that the Fund ceases to qualify as a “mutual fund trust” under the Tax Act, including potential liability for Part XII.2 taxes under the Tax Act. Although the Fund is of the view that all expenses being claimed by the Fund are reasonable and that the cost
amount of the Fund’s depreciable properties have been correctly determined, there can be no assurance that Revenue Canada will agree. If Revenue Canada successfully challenges the deductibility of such expenses or the correctness of such cost amounts, the return to Unitholders may be adversely affected.

**ADDITIONAL INFORMATION**

Additional information, including Trustees’ remuneration and indebtedness, principal holders of Trust Units, options to purchase securities of the Fund and interests of insiders in material transactions, as applicable, is contained in the Fund’s prospectus dated September 12, 2000 and the Fund’s information circular for the annual and special meeting of Unitholders to be held on May 24, 2001. Additional financial information is provided in the Fund’s financial statements for the year ended December 31, 2000. A copy of such documents may be obtained upon request from the Fund.

The Fund will also provide to any person upon request to the Fund:

(a) when Trust Units are in the course of a distribution pursuant to a short form prospectus or when a preliminary short form prospectus has been filed in respect of a distribution of Trust Units,

   (i) one copy of the Fund’s Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;

   (ii) one copy of the comparative financial statements of the Fund for its most recently completed financial year together with the accompanying report of the auditors and one copy of any interim financial statements of the Fund subsequent to the financial statements for its most recently completed financial year;

   (iii) one copy of the Fund’s information circular in respect of its most recent annual meeting of Unitholders that involved the election of Trustees or one copy of any annual filing prepared in lieu of that information circular, as appropriate; and

   (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any other documents referred to in (a)(i), (ii) and (iii) above, provided the Fund may require the payment of a reasonable charge if the request is made by a person who is not a Unitholder.
SCHEDULE A
GLOSSARY

In this Annual Information Form, unless the context otherwise requires:

"Administration Agreement" means the agreement between the Manager and the Fund dated December 23, 1997, pursuant to which the Manager provides administrative services to the Fund;

"Advance Payment Account" means a provision in the power purchase agreements between Niagara Mohawk and Trafalgar in respect of the Kayuta Lake facility and the Adams facility which tracks the amounts paid to Trafalgar from these two facilities which is either above or below Niagara Mohawk's actual Avoided Costs. Payments to Trafalgar above the Avoided Costs results in a positive balance to the account and a payment below the Avoided Costs results in a negative balance to the account. At the end of the contract period, a positive balance results in Trafalgar owing Niagara Mohawk the balance and a negative balance results in Niagara Mohawk owing Trafalgar the balance;

"affiliate" means an affiliate within the meaning of the Securities Act (Ontario);

"Algonquin America" means Algonquin Power Fund (America) Inc., a Delaware corporation wholly-owned by Algonquin Canada;

"Algonquin America Holdco" means Algonquin Power Fund (America) Holdco Inc., a Delaware corporation wholly-owned by Algonquin America;

"Algonquin Canada" means Algonquin Power Fund (Canada) Inc., an Ontario corporation wholly-owned by the Fund;

"Algonquin Canada Shares" means common shares of Algonquin Canada;


"Algonquin Note" means the 9.25% secured, subordinated note due January 1, 2005 of Algonquin Power in the original principal amount of approximately $7.9 million issued by Algonquin Power to the Fund on December 23, 1997;

"Algonquin Power" means Algonquin Power Corporation Inc., an Ontario corporation;

"Algonquin Power (Long Sault) Partnership" means the partnership formed between the Algonquin LSR Companies, which partnership owns a 50% undivided interest in the Long Sault Rapids Facility;

"Algonquin Power Trust" means the Algonquin Power Trust, an unincorporated open-ended trust established under the laws of Ontario and of which the Fund is the sole beneficiary;

"Arthurville Facility" means a 650 kilowatt hydroelectric generating facility located on the Du Sud River near Saint-Raphaël-de-Bellechasse, approximately 40 kilometers east of Québec City;

"Ashuelot Facility" means the 900 kilowatt hydroelectric generating facility located on the Ashuelot River approximately 0.2 kilometres upstream of the highway bridge at Hinsdale, New Hampshire and which is owned by the HDI III Partnership;
"associate" means an associate within the meaning of the Securities Act (Ontario);

"Avery Dam Facility" means the 260 kilowatt hydroelectric generating facility located on the Winnipesaukee River near the City of Laconia, New Hampshire and which is owned by the Avery Dam Partnership;

"Avery Dam Partnership" means Avery Hydroelectric Associates, a New Hampshire limited partnership comprised of Algonquin America and Algonquin America Holdco, and which owns the Avery Dam Facility;

"Avoided Costs" means costs a utility does not incur to add new generating capacity to the system by purchasing electricity from an independent or parallel generator;

"Belleterre Facility" means the 2,200 kilowatt hydroelectric generating facility located on the Winneway River, in the Municipality of Laforce, Québec and which is owned by Algonquin Canada;

"Belleterre Facility Equipment" means the equipment relating to the Belleterre Facility and related personal property, but does not include the real property on which the equipment is located or any other immovables;

"Belleterre Facility Lease" means the lease agreement dated February 3, 1998 pursuant to which the Fund leases the Belleterre Facility Equipment to Algonquin Canada;

"Burt Dam Partnership" means Burt Dam Power Company, a New York general partnership comprised of Algonquin America and Algonquin America Holdco, and which owns the Burt Dam Facility;

"Burt Dam Facility" means the 600 kilowatt hydroelectric generating facility located on the Eighteen Mile Creek in the Town of Newfane, New York and which is owned by the Burt Dam Partnership;

"Business Corporations Act" means the Business Corporations Act (Ontario);

"Campbellford Facility" means a 4,000 kilowatt hydroelectric generating facility located at Lock No. 14 on the Trent-Severn Waterway approximately four kilometers north of Campbellford, Ontario;

"Canada Note" means the 9% secured, subordinated note due December 31, 2037 of Algonquin Canada in the original principal amount of approximately $22.4 million issued by Algonquin Canada to the Fund on December 23, 1997;

"Canada 1998 Note" means the 6% secured, subordinated note due on June 30, 2038 of Algonquin Canada in the original principal amount of approximately $11.3 million issued by Algonquin Canada to the Fund on July 7, 1998;

"Canada 1999 Note" means the 11% secured, subordinated note due on June 30, 2039 of Algonquin Canada in the original principal amount of approximately $7.3 million issued by Algonquin Canada to the Fund on May 4, 1999.

"Clement Dam Facility" means the 2,400 kilowatt hydroelectric generating facility located on the Winnipesaukee River near the Town of Tilton, New Hampshire;
"Co-Owners" means Algonquin Power (Long Sault) Partnership, an Ontario partnership, and N-R Power Partnership, an Ontario partnership, the co-owners of the Long Sault Rapids Facility;

"Côte Ste-Catherine Facility" means the 11,120 kilowatt hydroelectric generating facility located on the St. Lawrence River near Montreal, Québec, which facility was constructed in three separate phases commissioned in 1989, 1993 and 1996, respectively;

"Declaration of Trust" means the declaration of trust dated as of September 8, 1997, as amended, as the same may be further amended, supplemented or restated from time to time, pursuant to which the Fund was created;

"Distributable Cash" means all amounts received by the Fund in respect of dividends or return of capital on the Algonquin Canada Shares and interest or repayment of principal on the Fund Notes, lease payments pursuant to the Leases, payments pursuant to the LSR Royalty Interests, plus the income, if any, from other permitted investments, less amounts that may be paid by the Fund in connection with any cash redemptions of Trust Units, capitalized interest with respect to the Fund Notes and amounts reasonably required for the business and operations of the Fund;

"Donnacona Facility" means the 4,800 kilowatt hydroelectric generating facility located on the lower portion of the Jacques Cartier River, near the Town of Donnacona, Québec and which facility is owned by the Donnacona Partnership;

"Donnacona Facility Equipment" means certain equipment relating to the Donnacona Facility and related personal property, but does not include the real property on which the equipment is located or any other immovables;

"Donnacona Facility Lease" means the lease agreement dated November 30, 1997 pursuant to which the Fund leases the Donnacona Facility Equipment to the Donnacona Partnership;

"Donnacona Holdco" means Donnacona Holdings Inc., an Ontario corporation wholly-owned by Algonquin Canada, and which owns a 0.01% interest in the Donnacona Partnership;

"Donnacona Partnership" means Société Hydro-Donnacona S.E.N.C., a Québec general partnership comprised of Algonquin Canada holding a 99.99% interest and its wholly-owned subsidiary, Donnacona Holdco, holding a 0.01% interest;

"Extraordinary Resolution" means a resolution passed by a majority of not less than 66 2/3% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66 2/3% of the Trust Units entitled to be voted on such resolution;

“Facilities” means hydroelectric generating facilities in which the Fund has an interest, directly or indirectly;

“FERC” means the Federal Energy Regulatory Commission;

"Franklin Facility" means the 1,820 kilowatt hydroelectric generating facility located on the Winnipesaukee River near the Town of Franklin, New Hampshire;
"Fund" means the Algonquin Power Income Fund, an unincorporated open-ended trust established under the laws of Ontario;

"Fund Assets" means the Algonquin Canada Shares, units and notes of the Algonquin Power Trust, the Fund Notes, the Lease Payment Rights, the LSR Royalty Interests and any other securities or assets held directly or indirectly by the Fund from time to time;

"Fund Businesses" means the businesses carried on by Algonquin Canada, Algonquin Power Trust, Algonquin America, the Donnacona Partnership, the Nicholls LSR Companies, the Algonquin LSR Companies, the Co-Owners, the HDI Partnership, the Glenford Partnership, the Rattle Brook Partnership, the Avery Dam Partnership, the Burt Dam Partnership, the Hadley Falls Partnership, the HDI III Partnership, the Hollow Dam Partnership, the Lakeport Corporation, the Moretown Partnership and any other business a subsidiary of the Fund may acquire or any other business carried on by a corporation, partnership or other entity, the shares, partnership interests or other equity interest, as the case may be, of which the Fund acquires;

"Fund Notes" means any notes issued by Algonquin Power Trust to the Fund, the Canada Note, the Canada 1998 Note, the US 1998 Note, the Canada 1999 Note, the US 1999 Notes (Nos. 1 and 2), the US 2000 Notes, the LSR Subordinate Note, the Algonquin Note and the Trafalgar Class B Note;

"Glenford Facility" means the 4,950 kilowatt hydroelectric generating facility located on the Ste-Anne River near the Village of Ste-Christine d'Auvergne, Québec and which is owned by the Glenford Partnership;

"Glenford Minority Inc." means an Ontario corporation which is currently wholly-owned by Algonquin Power and which holds a 0.01% limited partnership interest in the cash distributions and income allocations from the Glenford Partnership;

"Glenford Note" means the 8.5% secured, subordinated note due July 1, 2023 of Algonquin Power in the principal amount of approximately $5.0 million issued to Algonquin Canada on July 7, 1998;

"Glenford Partnership" means Société en Commandite Chute Ford, a limited partnership formed under the laws of Québec comprised of Algonquin Power and Glenford Minority Inc.;

"Glenford Senior Debt" means financing in the outstanding principal amount of approximately $6.1 million provided by Corpfinance International Limited to the Glenford Partnership;

"Governance Agreement" means the agreement entered into on December 23, 1997 between the Fund, the Manager, Algonquin Canada and Algonquin America dealing with the composition of the board of directors of Algonquin Canada and other matters;

"Gregg Falls Facility" means the 3,500 kilowatt hydroelectric generating facility located at the Piscataquog River near the Town of Goffstown, New Hampshire;

"Great Falls Facility" means a 10,950 kilowatt hydroelectric generating facility located on the Passaic River near the City of Paterson, New Jersey and which is owned by the Great Falls Hydroelectric Company;

"Great Falls Partnership" means Great Falls Hydroelectric Company, a Maryland limited partnership which owns the Great Falls Facility;
"Hadley Falls Partnership" means Hadley Falls Associates, a New Hampshire limited partnership comprised of Algonquin America and Algonquin America Holdco, and which owns the Hadley Falls Facility;

"Hadley Falls Facility" means the 250 kilowatt hydroelectric generating facility located at the Hadley Falls Dam near the Town of Goffstown, New Hampshire and which is owned by the Hadley Falls Partnership;

"HDI Partnership" means HDI Associates I, an Indiana general partnership comprised of Algonquin America and Algonquin America Holdco, which owns the Lochmere Facility and the Hopkinton Facility;

"HDI III Partnership" means HDI Associates III, a New Hampshire limited partnership comprised of Algonquin America and Algonquin America Holdco, and which owns the Lower Robertson Facility and the Ashuelot Facility;

"Hollow Dam Facility" means the 900 kilowatt hydroelectric generating facility located on the West Branch of the Oswegatchie River in the Town of Fowler, New York and which is owned by the Hollow Dam Partnership;

"Hollow Dam Partnership" means Hollow Dam Power Company, a New York general partnership comprised of Algonquin America and Algonquin America Holdco, and which owns the Hollow Dam Facility;

"Hopkinton Facility" means the 250 kilowatt hydroelectric generating facility located on the Contoocook River in the Village of Contoocook, New Hampshire and which generating facility is owned by the HDI Partnership;

"Hydraska Facility" means the 2,250 kilowatt hydroelectric generating facility located on the Yamaska River near the Town of Ste-Hyacinthe, Québec;

"Hydro Snemo Facility" means the 2,600 kilowatt hydroelectric generating facility located on the Rivière-du-Loup near the Town of Rivière-du-Loup, Québec;

"kilowatt hour" or "kW-hr" means an hour during which one kilowatt of electrical energy has been continuously produced;

"kilowatts" or "kW" means 1,000 watts of electrical power;

"Kings Falls Facility" means a 1,750 kilowatt hydroelectric generating facility located on the Deer River, near the Town of Copenhagen in Lewis County, New York;

"Lakeport Corporation" means Lakeport Hydroelectric Corporation, an S Corporation under United States law whose sole shareholder is Algonquin America, and which owns the Lakeport Facility;

"Lakeport Facility" means the 600 kilowatt hydroelectric generating facility located on the Winnipesaukee River near the Town of Lakeport, New Hampshire and which is owned by the Lakeport Corporation;

"Leases" means the Donnacona Facility Lease, the Ste-Brigitte Facility Lease and the Belleterre Facility Lease;
"Lochmere Facility" means the 1,200 kilowatt hydroelectric generating facility located on the Winnipesaukee River, in the Village of Lochmere, New Hampshire and which facility is owned by the HDI Partnership;

"Long Sault Rapids Facility" means the 18,000 kilowatt hydroelectric generating facility located on the Abitibi River, near the Town of Cochrane, Ontario and which facility is owned by the Co-Owners;

"Lower Robertson Facility" means the 960 kilowatt hydroelectric generating facility located on the Ashuelot River approximately one kilometre upstream of the Highway bridge at Hinsdale, New Hampshire and which is owned by the HDI III Partnership;

"LSR Algonquin Note" means the 9% secured, subordinated note due January 1, 2038 of Algonquin Power in the principal amount of approximately $10.3 million issued to Algonquin Canada on April 17, 1998;

"LSR Brace Royalty Interest" means the cash flows generated by the Long Sault Rapids Facility paid pursuant to an agreement dated November 1, 1989, as amended November 2, 1989, between N-R Power, Nirabro Industries Ltd., Mr. Tim Richardson and Mr. John Brace respecting certain payments to be paid for ten years commencing April 1, 1998, which obligation was assigned by N-R Power to the Co-Owners and which was acquired by the Fund on April 17, 1998;

"LSR McKenzie Royalty Interest" means the cash flows generated by the Long Sault Rapids Facility paid pursuant to an agreement dated September 12, 1994 between N-R Power and Mr. Rodney S. McKenzie respecting payments of $150,000 per year payable in arrears for a period of 20 years commencing April 1, 1998, which obligation was assigned by N-R Power to the Co-Owners and which was acquired by the Fund on April 17, 1998;

"LSR Nicholls Note" means the 9% secured, subordinated note due January 1, 2038 of N-R Power in the principal amount of approximately $6.6 million issued to Algonquin Canada on April 17, 1998;

"LSR Richardson Royalty Interest" means the cash flows generated by the Long Sault Rapids Facility paid pursuant to an agreement dated December 11, 1992 between N-R Power and Mr. Tim Richardson respecting payments of $83,333 per year payable in arrears for a period of six years commencing April 1, 1998, which obligation was assigned by N-R Power to the Co-Owners and which was acquired by the Fund on April 17, 1998;

"LSR Senior Debt" means financing in the principal amount of approximately $45,000,000 provided jointly and severally to Algonquin Power (Long Sault) Partnership and N-R Power Partnership as co-owners of the Long Sault Rapids Facility by a syndicate of life insurance lenders, with The Clarica Life Insurance Company as one of the lenders and acting as agent for the other lenders;

"LSR Royalty Interests" means the LSR Brace Royalty Interest, the LSR McKenzie Royalty Interest and the LSR Richardson Royalty Interest, all acquired by the Fund on April 17, 1998;

"LSR Subordinate Note" means the 14.14% secured, subordinated note in the principal amount of $2,000,000 issued jointly and severally by Algonquin Power (Long Sault) Corporation Inc., Energy Acquisition (Long Sault) Ltd., Nicholls Holdings Inc. and Radtke Holdings Inc. and acquired by the Fund on April 17, 1998;
"Management Agreement" means the agreement between the Manager, Algonquin Canada, Algonquin America and certain of the Fund Businesses, entered into on December 23, 1997, as amended, and pursuant to which the Manager or its delegate provides management services to Algonquin Canada and certain other Fund Businesses;

"Manager" means Algonquin Management Inc., an Ontario corporation wholly-owned by the shareholders of Algonquin Power;

"megawatt hour" or "MW-hr" means 1,000 kilowatt hours of electrical energy;

"Milton Facility" means the 1,335 kilowatt hydroelectric generating facility located on the Salmon River on the Maine-New Hampshire border, approximately 70 km from Manchester, New Hampshire and which is owned by SFR Hydro Corporation;

"Mine Falls Facility" means the 3,000 kilowatt hydroelectric generating facility located on the Nashua River near the City of Nashua, New Hampshire and which is owned by the Mine Falls Limited Partnership;

"Mont Laurier Facility" means the 2,725 kilowatt hydroelectric generating facility located on the Rivière-du-Lièvre in the Town of Mont Laurier, Québec;

"Moretown Partnership" means Moretown Hydro Energy Company, a Vermont partnership comprised of Algonquin America and Algonquin America Holdco, and which owns the Moretown Facility;

"Moretown Facility" means the 1,200 kilowatt hydroelectric generating facility located on the Mad River near the Town of Moretown, Vermont and which is owned by the Moretown Partnership;

"Newfoundland Development" means the Rattle Brook Facility;

"New England Development" means the Gregg Falls Facility, the Pembroke Facility, the Clement Dam Facility, the Franklin Facility, the Moretown Facility, the Lochmere Facility, the Lower Robertson Facility, the Ashuelot Facility, the Lakeport Facility, the Avery Dam Facility, the Hadley Falls Facility, the Hopkinton Facility, the Milton Facility, the Mine Falls Facility, the Great Falls Facility and the Worcester Facility;

"New York Development" means the following hydroelectric generating facilities: Ogdensburg, Forestport, Herkimer, Hollow Dam, Christine Falls, Burt Dam, Cranberry Lake, Kayuta Lake, Adams, Kings Falls, Otter Creek and Phoenix;

"NHPUC" means the New Hampshire Public Utilities Commission;

"Niagara Mohawk" means Niagara Mohawk Power Corporation;

"Nicholls LSR Companies" means Nicholls Holdings Inc., an Ontario corporation, and Radtke Holdings Inc., an Ontario corporation;

"N-R Power" means N-R Power & Energy Corp., an Ontario corporation;

"N-R Power Partnership" means the partnership formed between the Nicholls LSR Companies, which partnership owns a 50% undivided interest in the Long Sault Rapids Facility;
"Off-peak" means hours other than On-peak hours;

"On-peak" means hours between 7:00 a.m. and 11:00 p.m., local time, Monday to Friday, inclusive, but excluding public holidays;

"Ontario Development" means the following hydroelectric generating facilities: Long Sault Rapids, Glen Miller Dam, Hurdman Dam, Drag Lake Dam, Burgess Dam and Campbellford;

"Operations Supervisory Agreement" means the agreement between Algonquin Canada and Power Systems entered into on December 23, 1997, as amended, and pursuant to which Power Systems provides operations and supervisory services to certain of the Fund Businesses;

"Otter Creek Facility" means the 530 kilowatt hydroelectric generating facility located on the Otter Creek, near the Town of Craig, New York;

"Pembroke Facility" means the 2,600 kilowatt hydroelectric generating facility located on the Suncook River near the Town of Pembroke, New Hampshire;

"Phoenix Facility" means the 3,500 kilowatt hydroelectric generating facility located on the Oswego River, in the Town of Phoenix, Onondaga County, New York;


"PSNH" means Public Service Company of New Hampshire, a large, investor-owned utility;

"Québec Development" means the Côte Ste-Catherine Facility, the Ste-Raphaël Facility, the Mont Laurier Facility, the Hydro Snemo Facility, the Hydraska Facility, the Saint-Alban Facility, the Glenford Facility, the Donnacona Facility, the Ste-Brigitte Facility, the Rawdon Facility, the Belleterre Facility and the Arthurville Facility;

"Rattle Brook Facility" means the 4,000 kilowatt hydroelectric generating facility located on the Rattle Brook, near the Village of Jackson's Arm, Newfoundland and which is owned by the Rattle Brook Partnership;

"Rattle Brook Partnership" means the Algonquin Power (Rattle Brook) Partnership, a Newfoundland partnership currently comprised of Algonquin Power Corporation (Rattle Brook) Inc., wholly-owned by the shareholders of Algonquin Power, and 3033083 Nova Scotia Limited, wholly-owned by Algonquin Canada;

"Rawdon Facility" means the 2,500 kilowatt hydroelectric generating facility located on the Ouareau River approximately one kilometre from the Village of Rawdon, Québec;

"run-of-the-river" means a mode of operation of a hydroelectric generating facility where there is a continuous discharge of water from the facility with no storage and release of water;

"Saint-Alban Facility" means the 8,200 kilowatt hydroelectric generating facility located on the Ste-Anne River approximately one kilometre from the Village of Saint-Alban, Québec and which is owned by SLI;
"Saint-Alban Transfer Date" means the date upon which the title of the leasehold interest may be transferred to Algonquin Canada in accordance with the terms of the lease and which is expected to occur on or about May, 2001;

"SLI" means SNC-Lavalin Inc., a Canadian corporation which owns the Saint-Alban Facility;

"SLI Saint-Alban Note" means the secured note due on the Saint-Alban Transfer Date of SLI in the principal amount of approximately $15.0 million issued to a trust company acting on behalf of Algonquin Canada on July 7, 1998;

"Ste-Brigitte Facility" means the 4,200 kilowatt hydroelectric generating facility located on the Nicolet River, in the Municipality of Ste-Brigitte-des-Saults, Québec and which is owned by Algonquin Canada;

"Ste-Brigitte Facility Equipment" means the equipment relating to the Ste-Brigitte Facility and related personal property, but does not include the real property on which the equipment is located or any other immovables;

"Ste-Brigitte Facility Lease" means the lease agreement dated November 30, 1997 pursuant to which the Fund leases the Ste-Brigitte Facility Equipment to Algonquin Canada;

"Ste-Raphaël Facility" means the 3,500 kilowatt hydroelectric generating facility located on the Rivière de Sud near Québec City;

"Stranded Costs" means costs incurred by a utility during the normal course of business prior to deregulation that can no longer be paid by the rate base due to changes to various factors, including price, the economy, system requirements, government policies and technology;

"Tax Act" means the Income Tax Act (Canada);

"Trafalgar" means Trafalgar Power, Inc., a Delaware corporation;

"Trafalgar Class A Note" means the 9.75% secured note due February 10, 2003 jointly and severally of the Trafalgar Companies in the principal amount of approximately $0.0 million (US$0.0 million) as at December 31, 2000;

"Trafalgar Class B Note" means the 6.10% secured, subordinated note due December 31, 2010 jointly and severally of the Trafalgar Companies in the principal amount of approximately $22.8 million (US$15.8 million) as at December 31, 2000;

"Trafalgar Companies" means Trafalgar and Christine Falls Corporation, a New York corporation;

"Trafalgar Contingency Participation" means the contingent management fee paid to the operator of the Trafalgar Facilities pursuant to the Trafalgar Operations Contract and the Trafalgar Indenture;

"Trafalgar Indenture" means the collateral trust indenture between the Trafalgar Companies and a security trustee dated July 1, 1988, as amended and restated on January 15, 1996, which governs the terms of the Trafalgar Class A Note and the Trafalgar Class B Note, among other things;

"Trafalgar Facilities" means the following hydroelectric generating facilities: Ogdensburg, Forestport, Herkimer, Christine Falls, Cranberry Lake, Kayuta Lake and Adams;
"Trafalgar Operating Cashflow" means the cash flows generated from the operation of the Trafalgar Facilities after payment of direct operating costs, including, without limitation, property taxes, supplies and consumables and amounts due to Algonquin Power under the Trafalgar Operations Contract, prior to deduction of amounts payable in respect of the Trafalgar Contingency Participation;

"Trafalgar Operations Contract" means the agreement dated January 15, 1996 between Algonquin Power and the Trafalgar Companies, pursuant to which Algonquin Power provides operations and management services for the Ogdensburg, Forestport, Herkimer, Christine Falls, Cranberry Lake, Kayuta Lake and Adams facilities;

"Trafalgar Operations Subcontract" means the agreement dated December 23, 1997 between Algonquin Power and Algonquin Canada, pursuant to which Algonquin Canada provides those services to be provided by Algonquin Power in connection with the operation of the Ogdensburg, Forestport, Herkimer, Christine Falls, Cranberry Lake, Kayuta Lake and Adams facilities under the Trafalgar Operations Contract;

"Trust Units" means units of the Fund, each unit representing an equal undivided beneficial interest in the Fund;

"Trustee" means a trustee of the Fund from time to time;

"Unitholders" means the holders of Trust Units from time to time;

"US 1998 Note" means the 11% secured, subordinated note due June 30, 2038 of Algonquin America in the aggregate principal amount of $15.1 million (US$9.8 million) issued by Algonquin America to the Fund on July 7, 1998;

"US 1999 Note (No. 1)" means the 11% secured, subordinated note due June 30, 2039 of Algonquin America in the aggregate principal amount of $8.8 million (US $5.7 million) issued by Algonquin America to the Fund on May 4, 1999;

"US 1999 Note (No. 2) " means the 11% secured, subordinated note due June 30, 2039 of Algonquin America in the aggregate principal amount of approximately $20.3 million (approximately US$13.2 million) to be issued by Algonquin America to the Fund on December 2, 1999;

"US 2000 Notes " means the 7% secured subordinated note due June 30, 2039 for No. 1 and August 31, 2039 for Nos. 2 and 3 in the aggregate principal amount of $0.9 million (approximately US $0.6 million) for No. 1, $4.9 million (approximately US$3.3 million) for No. 2 and $5.4 million (approximately US $3.7 million) for No. 3 issued by Algonquin America to the Fund on July 7, 2000, September 6, 2000 and September 15, 2000, respectively; and

"Worcester Facility" means the 180 kilowatt hydroelectric generating facility located on the North Branch of Winnooskie River, in the Town of Worcester, Vermont.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALGONQUIN POWER INCOME FUND</td>
<td>1</td>
</tr>
<tr>
<td>BUSINESS</td>
<td>1</td>
</tr>
<tr>
<td>DEVELOPMENT OF THE BUSINESS</td>
<td>2</td>
</tr>
<tr>
<td>THE DEVELOPMENTS</td>
<td>15</td>
</tr>
<tr>
<td>SHARE AND LOAN CAPITAL</td>
<td>59</td>
</tr>
<tr>
<td>THE INDEPENDENT POWER GENERATION INDUSTRY</td>
<td>63</td>
</tr>
<tr>
<td>OTHER CONSIDERATIONS</td>
<td>69</td>
</tr>
<tr>
<td>SELECTED FINANCIAL INFORMATION</td>
<td>71</td>
</tr>
<tr>
<td>DISTRIBUTION POLICY</td>
<td>72</td>
</tr>
<tr>
<td>MANAGEMENT’S DISCUSSION AND ANALYSIS</td>
<td>72</td>
</tr>
<tr>
<td>CANADIAN FEDERAL INCOME TAX CONSIDERATIONS</td>
<td>76</td>
</tr>
<tr>
<td>ELIGIBILITY FOR INVESTMENT</td>
<td>81</td>
</tr>
<tr>
<td>MARKET FOR SECURITIES</td>
<td>82</td>
</tr>
<tr>
<td>TRUSTEES OF THE FUND</td>
<td>82</td>
</tr>
<tr>
<td>DIRECTORS AND EXECUTIVE OFFICERS OF THE MANAGER AND POWER SYSTEMS</td>
<td>83</td>
</tr>
<tr>
<td>RISK FACTORS</td>
<td>83</td>
</tr>
<tr>
<td>ADDITIONAL INFORMATION</td>
<td>88</td>
</tr>
<tr>
<td>SCHEDULE A GLOSSARY</td>
<td>1</td>
</tr>
</tbody>
</table>