

ANNUAL REPORT 2004



ALGONQUIN
POWER
Income Fund

STABILITY PERFORMANCE OPPORTUNITY

ALGONQUIN POWER



Income Fund



HYDROELECTRIC



COGENERATION



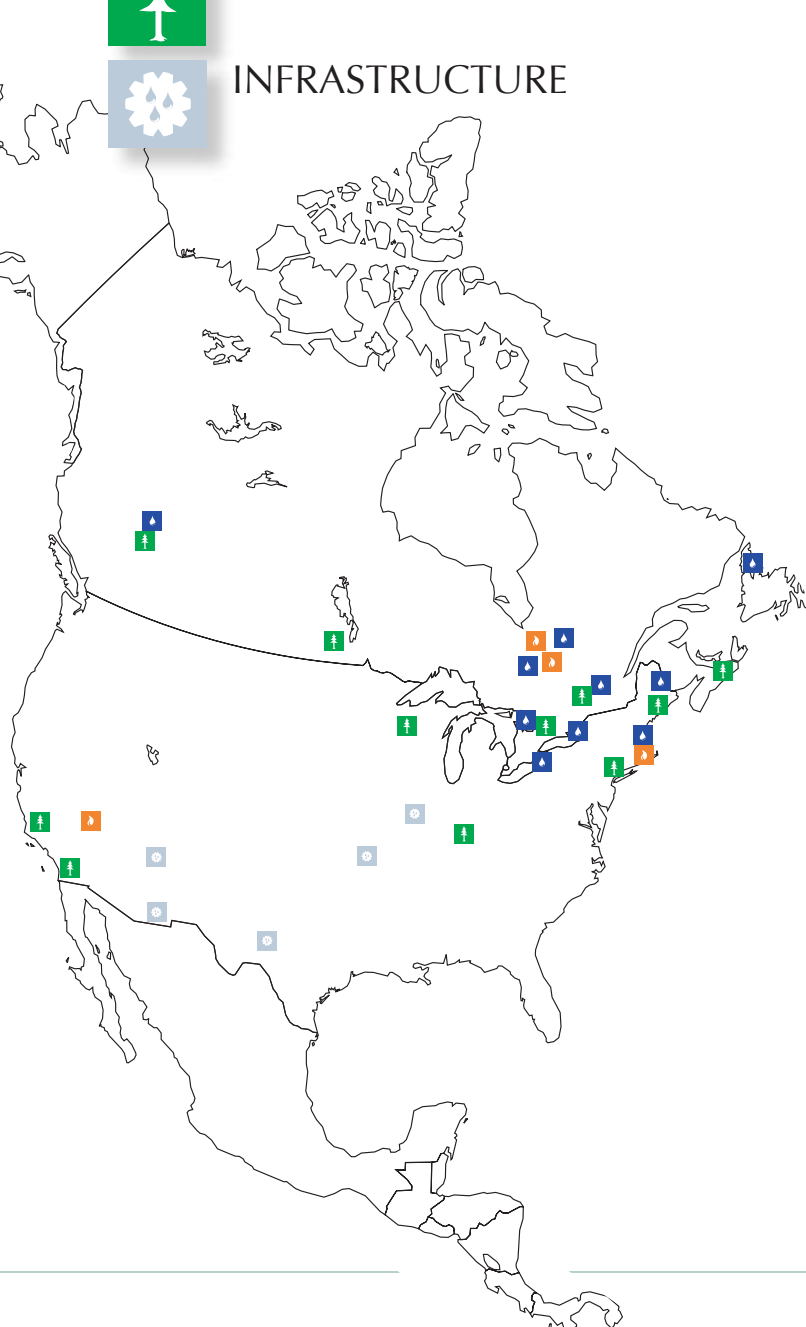
ALTERNATIVE FUELS



INFRASTRUCTURE

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FINANCIAL HIGHLIGHTS

Thousands of Canadian dollars except as noted

Years ended December 31	2004	2003	2002	2001	2000	1999
Energy Sales						
Hydroelectric	\$ 43,268	\$ 44,413	\$ 40,681	\$ 36,270	\$ 43,996	\$ 13,709
Cogeneration	71,846	61,890	23,566	—	—	—
Alternative fuels	7,867	6,423	4,994	1,020	—	—
Total energy sales	\$ 122,981	\$ 112,726	\$ 69,241	\$ 37,290	\$ 43,996	\$ 13,709
Waste disposal	14,086	14,650	10,697	—	—	—
Water reclamation/distribution	23,456	20,237	7,974	2,522	—	—
Interest, dividend and other income	6,681	6,608	6,851	5,157	2,697	5,896
Total revenue	\$ 167,204	\$ 154,221	\$ 94,763	\$ 44,969	\$ 46,693	\$ 19,605
Operating Profit (includes interest, dividend and other income)						
Hydroelectric	\$ 26,383	\$ 29,045	\$ 26,985	\$ 24,835	\$ 33,351	\$ 13,051
Cogeneration	25,273	23,773	15,069	1,166	—	—
Alternative fuels	8,181	9,328	7,292	719	—	—
Infrastructure	12,616	11,117	4,678	1,199	—	—
Other	739	278	851	2,530	1,063	2,016
Total operating profit	\$ 73,192	\$ 73,541	\$ 54,875	\$ 30,449	\$ 34,414	\$ 15,067
Net earnings	22,802	44,507	16,150	6,864	13,364	7,209
Per trust unit	0.33	0.66	0.28	0.17	0.54	0.37
Distributions to unitholders	63,370	62,402	55,192	37,302	24,755	18,467
Per trust unit	0.92	0.92	0.92	0.92	0.97	0.90
Cash available for distribution	59,887	58,368	44,742	28,813	19,235	13,779
Per trust unit	0.87	0.86	0.77	0.73	0.78	0.70
Balance Sheet Data						
Cash and cash equivalents	34,197	21,238	24,838	31,713	9,580	9,602
Working capital	17,242	9,337	15,376	19,011	2,024	(768)
Capital and intangible assets, and long-term investments	742,994	751,904	674,495	467,312	310,056	305,084
Total assets	823,899	808,624	723,038	512,384	328,502	325,988
Long-term liabilities and revolving credit facility (includes current portion)	206,017	166,713	86,099	50,665	73,244	83,985
Unitholders' equity	495,271	519,876	537,771	411,613	219,559	205,221
Number of units outstanding as of December 31	69,691,592	67,887,612	67,887,612	50,875,772	27,020,472	24,020,472

REPORT TO UNITHOLDERS

THE YEAR 2004 WAS ONE OF ACHIEVEMENT AND MEASURABLE PROGRESS FOR THE FUTURE.

A solid diversification strategy and improvements in operational performance enabled the Fund to provide predictable cash distributions to unitholders.

2004 ACHIEVEMENTS:

- **Algonquin Power Income Fund distributed \$0.92 per trust unit during 2004, consistent with 2003**
- **Revenue increased to \$160.5 million from \$147.6 million**
- **Cash available for distribution increased to \$59.9 million from \$58.4 million**
- **Cash available for distribution per trust unit increased to \$0.87 from \$0.86.**

The Fund has laid the groundwork for a diversified portfolio of power generation and infrastructure assets designed to contribute stable and increasing cash flows in this decade and beyond.

From this strong foundation of high quality assets distributed among four operating divisions, management anticipates that future growth- both organic and acquisitive- will result in further improved operating margins and distributions to unitholders.

The Fund's diversification strategy - established in 2001, accelerated in 2002, solidified in 2003 and 2004 - delivered strong overall performance this year. The Fund has generated continuously increasing cash available for distribution.

During 2004, the Fund generated \$59.9 million in cash available for distribution compared to \$58.4 million in 2003. Cash available for distribution per trust unit in 2004 was \$0.87 compared to \$0.86 in 2003.

The continuing maturation of the diversification strategy, management's focus on operational performance improvement and relatively strong hydrology underpinned results this year.

The benefits of the maturation process are evidenced in the overall balance of the Fund's portfolio. The Fund's assets are deployed in hydroelectric generation (37%), natural gas cogeneration (19%), alternative fuels or biomass-fired generating assets (18%) and infrastructure including water provision and recycling assets (21%) with the balance as administrative assets.

Operating profits (includes interest, dividend and other income) are also well-balanced among hydroelectric (37%), natural gas cogeneration (35%), alternative fuels or biomass-fired generating assets (11%) and

infrastructure (17%).

Reduced benefits from the prior year in unrealized foreign exchange gains and a reversal in future income tax from a future tax recovery to a tax expense adversely impacted net earnings which decreased from \$44.5 million to \$22.8 million. Net earnings per trust unit also decreased to \$0.33 from \$0.66.

Your Fund continues its policy to hedge a significant portion of its foreign currency exposure.

The Algonquin Power Income Fund is positioned well to provide stable and predictable cash distributions to unitholders.

PROGRESS FOR THE FUTURE

While improving overall results during the year, the Fund simultaneously completed strategic initiatives aimed at providing stable and predictable cash distributions to unitholders for the future.

In June, the Fund completed the take-over of certain of the convertible debentures of KMS Power Income Fund not previously owned by Algonquin Power Trust. The completion of this take-over bid created the opportunity for the Fund to streamline further its operations with KMS and develop increased efficiencies.

In July, the Fund completed an offering of 85,000 convertible unsecured subordinated debentures for gross proceeds of \$85 million. Net proceeds from the offering were used to re-pay debt and for general corporate purposes.

In October, the Fund acquired an interest in 12 landfill gas-powered generating stations capable of producing 36 megawatts of installed capacity for a consideration of \$11.4 million. Also, the Fund provided debt financing in the amount of \$8.0 million to Across America LFG LLC, a majority-owned subsidiary of a Fortune 50 company. Across America owns and manages the landfill gas collection systems that provide landfill gas to the 12 generating stations. The majority of these acquired facilities are located in the California basin. The increased

demand for electricity combined with open growth landfill sites is anticipated to generate growth in cash generation for the Fund.

In November, the Fund committed to lend \$69 million as subordinated debt to AirSource Power Fund I LP. AirSource is utilizing the Fund's monies along with equity raised (\$65 million) and other senior and subordinated debt to build a \$210 million wind power project in southern Manitoba. The project is the Province's first wind farm and will feature 63 wind turbine generators capable of generating 99 MW. The wind farm is expected to be one of the largest in North America.

OUTLOOK

The Fund continues to focus on its commitment to improve the performance of existing assets and to identify and secure accretive acquisitions to build the stability of distributions to unitholders, balance risk and enhance growth opportunities.

Cash generated by the Fund's four divisions is expected to continue growing, subject to continuation of average hydrologic conditions and the continuing benefits of portfolio diversification.

As evidenced by the Fund's investment this year in landfill gas-powered generation and the wind farm in Manitoba, management continues to seek complementary, accretive acquisitions that offer

highly predictable cash flows.

Your Fund continues to benefit from access to capital through markets and from established banking credit facilities. Your continuing support has been fundamental to our ability to maintain stable cash flows and to grow the portfolio. We will continue our progress in the coming year by focusing on stable distributions and operational performance and by capitalizing on opportunities and favourable market factors within targeted segments of the North American power generation industry.



Ken Moore
Chairman



Trustees: (L to R) Christopher Ball, George Steeves, and Ken Moore.

STABILITY

SUSTAINABLE CASH DISTRIBUTIONS

The Fund launched its diversification strategy in 2001 to create a balanced asset portfolio. The objective was to diversify across technologies, geography and end-use markets to minimize risk and provide stable distributions to unitholders.

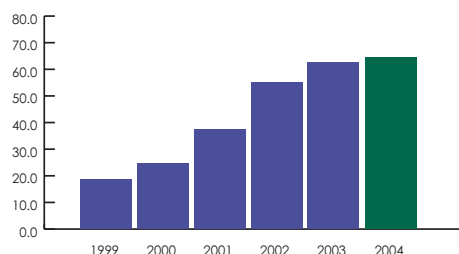
ASSET DEPLOYMENT

Three years ago, the Fund's assets were exclusively 'run-of-the-river' hydroelectric generating stations in selected geographic regions of Canada and the United States. Today, the Fund's assets are strategically deployed in hydroelectric generation (37%), natural gas cogeneration (19%), alternative fuels or biomass-fired generation (18%), and infrastructure, including potable water distribution and water reclamation services (21%). The balance is classified as administrative assets (5%).

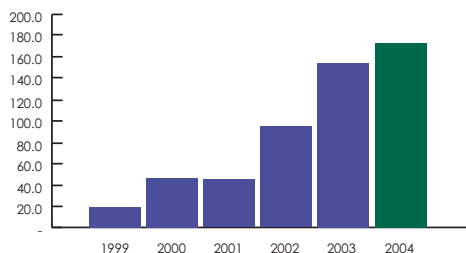
POWER PURCHASE AGREEMENTS

On a weighted average basis, power purchase agreements in place have an average lifespan of 15 years, contributing to strong and stable cash flows in hydroelectric generation, natural gas cogeneration and in the production of electricity from alternative fuels.

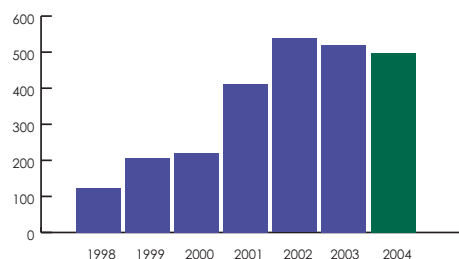
Annual distributions
\$ millions



Annual revenues
\$ millions



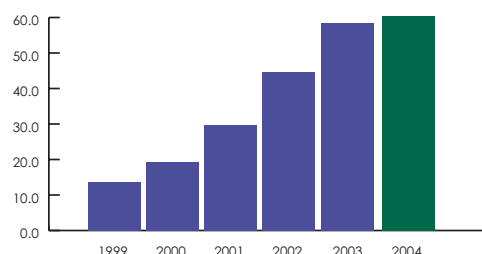
Unitholders' equity
\$ millions



REVENUES

Total revenue generated in 2004 is distributed among hydroelectric (27%), cogeneration (45%), alternative fuels (14%) and infrastructure (14%). During 2004, revenues were 94% of target across the Fund's four divisions.

Cash available for distribution
\$ millions



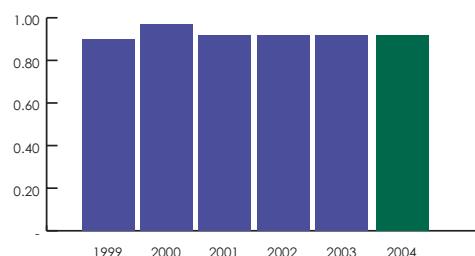
OPERATING PROFIT

Operating profit (includes interest, dividend and other income) before depreciation is distributed among hydroelectric (37%), cogeneration (35%), alternative fuels (11%), and infrastructure (17%). Further, operating profit is distributed across geographic and regulatory markets in Canada (Ontario 24%, Quebec and Atlantic Canada 21%, Western Canada 6%) as well as the United States (New England 20%, Arizona 17%, California 9%, New York 2% and other regions 1%). During 2004, operating profit was 94% of targeted performance across the four divisions.

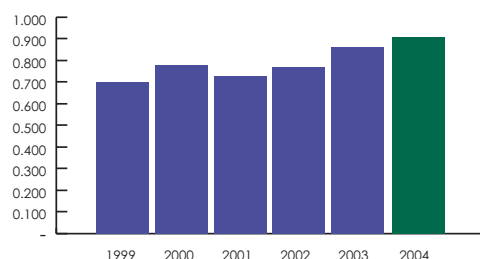
CASH AVAILABLE FOR DISTRIBUTION

The Fund's diversified asset portfolio has generated strong cash available for distribution. During 2004, the Fund generated \$59.9 million of cash available for distribution compared to \$58.4 million in 2003. Cash available for distribution per trust unit in 2004 was \$0.87 compared to \$0.86 in 2003.

Distribution to unitholders
\$ per trust unit



Cash available for distribution
\$ per trust unit



STABLE RATINGS

Financial leverage continues to be low with a debt to total capital ratio of 29%. The Fund retained its Standard & Poor's SR-2 (Very High) stability rating for a fifth consecutive year and an A- bank credit rating for the third consecutive year.

The strategic diversification in asset allocation has created greater balance in the Fund, providing increased stability in cash distributions. The move toward a more stable structure is evident through revenue and operating profit distributions in the Fund, along with a solid weighted average life-span of power purchase agreements. The Fund has improved overall risk exposure inherent in natural resource-based power generation, providing unitholders with sustainable cash distributions during 2004 and projected to continue through 2005.

PERFORMANCE

STRENGTHENING OPERATIONS BY INVESTING IN EQUIPMENT AND PEOPLE

The Algonquin Power Income Fund was created in 1997 to provide unitholders with stable, predictable income by capitalizing on the inherent advantages of independent power production. These advantages include low operating costs, long-term asset life, proven low-risk technology, reduced regulatory burden compared with large publicly-owned utilities and stipulated rate revenues from long-term power purchase agreements.

The Fund's experienced team of industry professionals is organized in a divisional management structure to focus on operational performance, synergies and economies of scale in each of the Fund's four divisions.

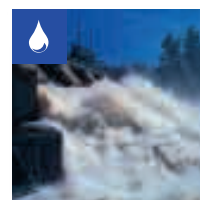
***During 2004, the
Fund's Manager
continued to invest
strategically to generate
operational performance
improvements.***

Approximately \$16 million was invested in the Infrastructure Division, including expansions of the Gold Canyon and Litchfield Park Services Company water treatment facilities in Arizona. The first phase of the Gold Canyon plant expansion is expected to come on stream in the first quarter, 2005. The expansion of Litchfield Park's Palm Valley water treatment plant will double the capacity of this operation. Both expansions are scheduled for full completion in 2005.

The Fund's Manager also continues to invest in people. Performance management training for key managers was completed during the year. A new health and safety program, launched in 2003, was continued and strengthened.

Our management team and these strategic investments in equipment and people yielded effective operational performances in the Fund's four divisions during the year.

HYDROELECTRIC DIVISION



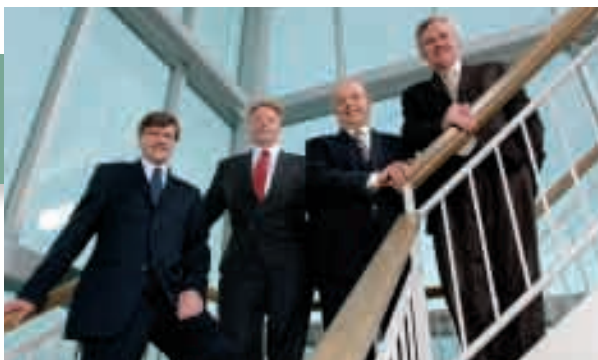
The Fund owns or has interests in 47 hydroelectric generating facilities in Ontario (5),

Quebec (12), Newfoundland (1), Alberta (1), New York State (12), New Hampshire (13), New Jersey (1) and Vermont (2) with total generating capacity of approximately 140MW. The Division's gross revenue is derived from the combination of energy production and power purchase rates.

Hydroelectric assets generated 101% of targeted revenue during 2004 and the Division's operating profit was 100% of forecast.

Hydrologic conditions approached long-term averages throughout the year in regions of North America where the Fund operates hydroelectric generating stations. Together, the Long Sault Rapids, Cote Ste.-Catherine and Dickson Dam facilities account for more than 40% of the total gross revenues for the Division. Long Sault generated 104% of targeted production during the year; Cote Ste.-Catherine and Dickson Dam each generated 97% of target.

(L to R) The Management Group: Peter Kampian, Chief Financial Officer, Ian Robertson, Executive Director, Business Development, Chris Jarratt, Executive Director, Operations and David Kerr, Executive Director, Safety and Environmental Compliance. Not shown: John Huxley, Executive Director, Administration.



COGENERATION DIVISION



This Division is comprised of three natural gas-fired generating stations

representing a total of approximately 110MW of installed capacity in Connecticut, California, and New Jersey. In addition, The Fund has investments in two natural gas-fired generating facilities with installed capacity of approximately 138MW across Ontario. Revenue from these operations is generated through the sale of thermal energy and electricity.

Cogeneration assets produced 100% of targeted revenue during the year while the Division's operating profit was 99 % of forecast.

ALTERNATIVE FUELS DIVISION



The Alternative Fuels Division consists of a 500-tonne/day energy-from-waste facility in

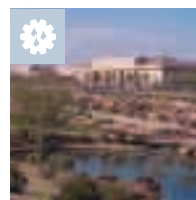
Ontario and investment interests in approximately 70MW of production in Alberta, Quebec and Nova Scotia. The Division acquired an interest in 12 landfill gas-powered generating stations in the United States, representing approximately 36MW of installed capacity during 2004.

The Division also made a commitment to invest approximately \$69 million in a wind energy project in Southern Manitoba.

Revenue is generated primarily from the sale of electricity, fees at the energy-from-waste facility, and interest and investment income from the other assets.

Alternative Fuels Division assets generated 90% of targeted revenue and the Division's operating profit was 90% of forecast.

INFRASTRUCTURE DIVISION



This Division includes six regulated water reclamation and distribution utilities in

Arizona and Texas. Revenue is generated from the sale of water and the treatment of wastewater.

The Division's assets generated 101% of targeted revenue and the Division's operating profit was 93% of forecast.

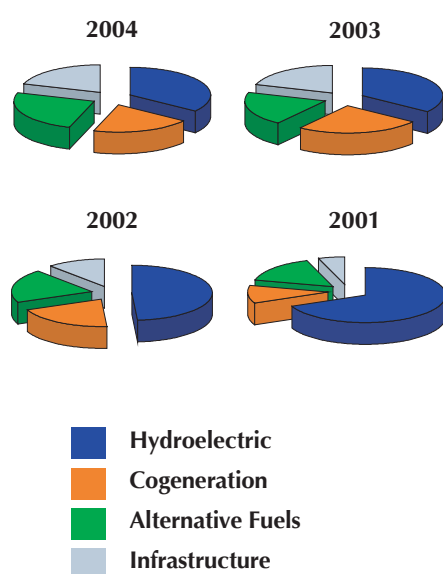
The investment in equipment and people in 2004 has contributed to the overall performance of the four divisions. Growth in the business precipitated this requirement and has contributed to the opportunities and advantages inherent in today's power production market. The Fund will continue to focus on performance enhancing opportunities in the future.

OPPORTUNITY

NORMAL HYDROLOGIC CONDITIONS, CONTINUED GROWTH & EMERGING MARKETS

The Fund expects to enjoy the benefits of the diversification strategy that was initiated in 2001 and continued through 2004. The benefits of the diversification strategy include minimizing risk and enhancing stability of distributions provided to unitholders.

In 2004, the Fund's assets were deployed in hydroelectric (37%), natural gas cogeneration (19%), alternative fuels (18%) and infrastructure (21%) with the balance as administrative assets (5%). The following chart shows the progression of the diversification strategy employed by the Fund since 2001.



While management continues to seek accretive acquisitions in each operating division, the Fund expects the strongest

growth opportunities to be realized within the Alternative Fuels and Infrastructure Divisions. As a result, management expects the Fund to evolve into a balanced portfolio of asset types that will further enhance stability of distributable cash to unitholders.

Management will continue to focus on improving the performance of the existing assets owned by the Fund. The Production Recovery Action Plan developed and completed for the Peel Energy-from-Waste facility during 2004 will be continuously refined and improved. Several of the initiatives have been implemented including technical improvements and key personnel changes. The positive results of these initiatives are expected to be realized throughout the balance of 2005.

HYDROLOGIC CONDITIONS

Widespread hydrologic conditions are a potential risk that can adversely affect the performance of the Fund's run-of-river hydroelectric assets. The hydrologic conditions in areas in which the Fund owns hydroelectric facilities returned closer to normal in 2003 and continued throughout most of 2004. Management expects these normal hydrologic conditions to continue in 2005, with higher levels of certainty associated with hydrologic conditions in the first quarter of 2005.

In 2005, January and February production-based revenue totalled 101% of target, demonstrating a strong start to the first quarter for the Hydroelectric Division. This indicates that the smaller contributing assets are performing well and compensating for the lower-than-target production and revenues at the larger Long Sault Rapids and Côte Ste-Catherine facilities during the first two months of 2005. Favourable power purchase rates at both the New York and New England market sites are also assisting in achieving target revenue performance of the Division. First quarter production in 2005 is expected to be at target, depending on freshet conditions in the various regions. Projected continued favourable market power purchase rates are expected to result in revenue above targets. Snow pack in many of the regions melted in mid-February, resulting in a 'spike' in production for the Division. However, the snow pack appeared to have been replenished by late February snowfalls that should produce a normal freshet, assuming average temperatures and precipitation conditions. Any deviation from target production levels in the quarter will likely be a result of lower than normal levels of precipitation during the coming months or colder than normal temperatures resulting in snow accumulation rather than increased river flows. However, no such deviation is evident in the current trend.

GROWTH OPPORTUNITY: INFRASTRUCTURE DIVISION

The Fund currently enjoys the benefit of a significant investment in infrastructure utility assets including water systems and water treatment assets located in the southern United States. These infrastructure assets are ideal for the Fund as they represent an asset class which produces stable, predictable and infinitely long-lived cash flows. In addition, due to the high population growth occurring within the regions served by the Fund's utilities, significant "organic" growth in operating earnings is expected by management. The Fund's infrastructure assets experienced organic customer growth of 8.8% in 2004, and management expects this growth rate to continue in 2005.

While the Fund's infrastructure utilities are generally located in areas experiencing high population growth, new residential and commercial development is also occurring in areas contiguous to and near utilities currently owned by the Fund. Management is anticipating an opportunity to grow the Infrastructure Division through expansion of existing utility boundaries.

During the first quarter of 2005, management completed the acquisition of eight facilities serving approximately 7,000 customers located in Illinois, Missouri and Texas.

Management will continue to seek accretive acquisitions that will further enlarge and enhance the Infrastructure Division. Specifically, acquisitions will be sought in areas that are experiencing high population growth to support stable and growing distributions to unitholders.



GROWTH OPPORTUNITY: ALTERNATIVE FUELS DIVISION

The Fund made two significant acquisitions in the Alternative Fuels Division in 2004 which are expected to make an accretive contribution to distributable cash in the future. Management expects to continue pursuing accretive acquisitions in 2005.

In 2004, the Fund committed to a \$69 million investment in a 99 megawatt wind energy project located in the town of St. Leon, 150 kilometers south of Winnipeg, Manitoba. The St. Leon project is being developed by AirSource Power Fund I LP, and is expected to be commissioned at the end of 2005, or early in 2006. With the deployment of the investment in the St. Leon Wind Energy Project, the Fund expects the Alternative Fuels Division to grow significantly in 2005. The St. Leon Wind Energy Project investment was structured in a manner which is expected to result in extremely stable and sustainable cash flows to the Fund. In addition, management expects the Fund to participate in a further opportunity to increase the investment in the St. Leon wind power facility upon the successful completion and commissioning of the project.

The Fund also made an investment in 12 operating energy from landfill gas projects located in the United States in 2004. While these acquisitions resulted in immediate contributions to distributable cash to unitholders, there exists significant opportunity to realize additional revenues from these assets through a variety of revenue

enhancements. Management expects to realize several of these revenue enhancement opportunities in 2005 and beyond.

EMERGING MARKET: WIND POWER

Worldwide, wind energy is the fastest growing source of electricity and the high growth rate of this sector is expected to be prevalent in Canada in the future. The current installed capacity of wind power in Canada is 444 megawatts and this is expected to grow to 5,600 megawatts by the end of 2012. The Fund's investment in the St. Leon Wind Energy Project represents an important entry into this emerging energy sector.

Wind energy projects have no fuel costs, low operating costs, are characterized as renewable energy and electricity produced is usually sold pursuant to long-term power purchase agreements. Accordingly, management believes that wind energy projects are ideal acquisition opportunities for the Fund as wind projects typically produce long-term and stable cash flows. Management will be actively pursuing accretive acquisition opportunities in wind energy projects that will further expand the Alternative Fuels Division.

OTHER EMERGING OPPORTUNITIES IN CANADA

Several Canadian provinces are taking initiatives to increase the level of non-utility energy generation. Requests for Proposal have been initiated recently in Ontario, Quebec, and British Columbia. The Fund will pursue some of these opportunities to continue strengthening its portfolio and enhance unitholder value. It is expected that the majority of opportunities will exist in cogeneration, wind power and alternative fuels.



MANAGEMENT'S DISCUSSION AND ANALYSIS

March 8, 2005.

All figures in thousands of Canadian dollars, except per unit values.



For the fourth quarter ended December 31, 2004, Algonquin Power Income Fund (the "Fund") reported revenue (excluding interest income) of \$40.7 million compared to \$39.7 million for the same period of 2003. During the fourth quarter of 2004, the Fund posted a net loss of \$0.1 million compared to net income in the fourth quarter of 2003 of \$6.4 million. On a per trust unit basis, this equated to break even results for the fourth quarter of 2004 compared to net income per trust unit of \$0.10 in the fourth quarter of 2003.

For the fourth quarter of 2004, the Fund generated \$0.18 per trust unit of cash available for distribution, compared

to \$0.26 for the same period in 2003.

The Fund maintained distributions during the quarter at \$0.23 per trust unit.

For the year ended December 31, 2004, the Fund reported revenue of \$160.5 million compared to \$147.6 million for 2003. Net earnings decreased to \$22.8 million compared to \$44.5 million for 2003. Net earnings per trust unit decreased to \$0.33 from \$0.66 in 2003.

The Fund generated \$0.87 per trust unit of cash available for distribution during 2004, compared to \$0.86 for 2003.

The Fund maintained year-to-date distributions per trust unit at \$0.92 for both 2004 and 2003.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three Months Ended December 31		Year Ended December 31		
	2004	2003	2004	2003	2002
Revenue	\$ 40,726	\$ 39,686	\$160,523	\$147,613	\$ 87,912
Net earnings (loss)	(86)	6,419	22,802	44,507	16,150
Distribution to Unitholders	16,015	15,600	63,370	62,402	55,192
Cash Available for Distribution	12,685	17,400	59,887	58,368	44,742
Per Unit					
Net earnings	0.00	0.10	0.33	0.66	0.28
Distribution to Unitholders	0.23	0.23	0.92	0.92	0.92
Cash Available for Distribution	0.18	0.26	0.87	0.86	0.77
Total Assets			823,899	808,624	723,038
Total Long Term Liabilities			214,045	174,739	92,549

For the fourth quarter of 2004, revenue increased marginally over the same period in 2003 due to the offsetting effects of improved revenue from the Alternative Fuels and Infrastructure Divisions, compared to the expected revenue decline in the Hydroelectric Division resulting from lower re-negotiated power rates in New Hampshire. The Infrastructure Division demonstrated solid performance with increasing revenues from continuing customer growth. Within the Alternative Fuels Division, an additional \$2.2 million in revenue resulting from the acquisition of the landfill gas (LFG) Facilities on September 30, 2004 was partially offset by lower waste disposal fees and energy revenue from the Peel Energy-from-Waste facility. The Cogeneration Division was able to offset lower revenue from the Sanger facility against increased sales of electrical and thermal energy at the Windsor Locks facility. In the Hydroelectric Division, electrical energy production was at 87% per cent of long-term averages during the fourth quarter of 2004, which was disappointing particularly when compared to the exceptional hydrology experienced in the fourth quarter of 2003 during which energy production exceeded 114% of long-term averages.

Net income during the fourth quarter of 2004 declined from that reported in the same period in 2003 due primarily to the decrease in earnings from the Hydroelectric Division caused by significantly weaker hydrologic conditions. The Alternative Fuels Division generated lower earnings during the quarter than the same period in the prior year due to higher repair and maintenance costs at the Peel Energy-from-Waste facility which were not

totally offset by the addition of the LFG Facilities. The Cogeneration Division posted higher earnings during the quarter as a result of higher revenue generated. Earnings during the quarter in the Infrastructure Division strengthened significantly compared with the same period in 2003 due to continuing customer growth. During the fourth quarter of 2004, the Fund realized a non-cash expense from the write-off of assets related to the Joliet facility following determination by the Fund that it was unlikely to realize on the long-term value of this asset. In addition, the Fund recognized an unrealized foreign exchange loss during the fourth quarter of 2004 as compared to a foreign exchange gain during the same period in 2003.

For the year ended December 31, 2004, the Fund posted increased revenue compared to revenue in 2003. Increased electrical and thermal energy revenue at the Cogeneration Division's Windsor Locks facility and higher revenue from the Infrastructure Division's Litchfield Park facility, both acquired during the first quarter of 2003, were the main contributors to the higher revenue posted by the Fund during 2004. The Alternative Fuels Division posted higher revenue as a result of the acquisition of the LFG Facilities at the end of the third quarter. These increases were offset by the anticipated decline in revenue in the Hydroelectric Division resulting from lower power rates following renegotiation of the power purchase agreements in return for a lump sum payment in mid-2003.

Net earnings for the year ended December 31, 2004 declined compared to net earnings reported in

2003 as a result of a reversal in future income taxes from a recovery in 2003 to an expense in 2004, a reduction in foreign exchange gains compared to 2003 and lower operating profit in the Hydroelectric Division. This decline was partially offset by note prepayment fees and higher profits experienced in the Cogeneration and Infrastructure Divisions.

The information in this Management's Discussion and Analysis is supplemental to and should be read in conjunction with the Fund's audited consolidated financial statements for the year ended December 31, 2004. The Fund's financial statements are prepared in accordance with accounting principles generally accepted in Canada. The Fund's reporting currency is the Canadian dollar.

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



SIGNIFICANT TRANSACTIONS

THE FUND COMPLETED FOUR SIGNIFICANT TRANSACTIONS DURING 2004:

1. FINANCING FOR AIRSOURCE POWER FUND I LP

During the fourth quarter, the Fund provided a commitment for a total of \$69.2 million in subordinated debt to AirSource Power Fund I LP ("AirSource") and subsidiary entities. AirSource is undertaking the completion of a 99 MW wind-powered generating facility near St. Leon, Manitoba (150 km southwest of Winnipeg) which will sell its output to Manitoba Hydro pursuant to a 25-year power sale agreement. The transaction represents the Fund's entry into the fast growing wind power generation industry which, similar to hydroelectric energy, generates electrical energy from a renewable natural resource. The debt investment by the Fund ranks in priority to the \$65 million equity flow-through tax assisted financing completed by AirSource in November 2004.

The subordinated debt commitment to AirSource will earn interest at the annual rate of 11.19% prior to project completion. This yield will be reduced to 10.74% following project commissioning which is planned to occur by the end of 2005. At the end of 2004, the Fund had advanced a total of \$5.5 million to AirSource and recognized a commitment fee of \$0.5 million as deferred revenue with respect to the investment.

2. INTEREST IN LANDFILL GAS ("LFG") FACILITIES

At the end of the third quarter, the Fund acquired interests in 12 landfill gas-powered generating stations representing approximately 36MW of installed capacity. The purchase price for the LFG Facilities was \$11.7 million (US \$9.3 million). The majority of the LFG Facilities were commissioned in the late 1990s with the electricity produced being sold to a number of large utilities pursuant to long-term power purchase agreements with an average termination date of 2011. Over two thirds of the installed capacity of the LFG Facilities is located at large open landfills which are continuing to accept waste including three regional landfills in the southern California basin which are permitted for operation for at least 25 years. Substantial opportunity exists for expansion of the generating capacity of these facilities as gas production continues to increase.

In addition to the purchase of the LFG Facilities, the Fund has provided debt financing in the amount of \$8.0 million (US\$6.7 million) to Across America LFG LLC, a majority-owned subsidiary of a Fortune 50 company. Across America LFG LLC, through its subsidiaries, owns and manages the landfill gas collection systems which provide landfill gas to the LFG Facilities.

3. CONVERTIBLE DEBENTURE OFFERING

In the third quarter, the Fund completed an offering of \$85 million of convertible unsecured debentures. The debentures are due July 31, 2011 and bear interest at 6.65% per annum, payable semi-annually in arrears. The debentures are to be repaid, at the option of the Fund, in cash or trust units and are convertible at any time prior to maturity at the option of the holder into trust units of the Fund at a conversion price of \$10.65 per trust unit. The debentures may not be redeemed by the Fund prior to July 31, 2007. Net proceeds from the debenture offering were used to repay the acquisition line of credit and to fund working capital. Given the nominal equity portion, the debentures are recorded as debt on the Fund's financial statements.

4. ACQUISITION OF OUTSTANDING DEBENTURES OF KMS POWER INCOME FUND

In the second quarter, Algonquin Power Trust (APT), a trust of which the Fund is the sole beneficiary, acquired all of the outstanding 10% convertible debentures of KMS Power Income Fund ("KMS"), which were not beneficially owned by the Fund, by way of a take-over bid with payment provided in the form of the Fund's trust units.

These four transactions have combined to strengthen the Fund's asset base, and diversify the Fund's portfolio of power generation assets and investments.



OPERATING RESULTS BY DIVISION

HYDROELECTRIC

All figures in thousands of Canadian dollars except as noted



	Three Months Ended December 31		Year Ended December 31		Forecast Production
	2004	2003	2004	2003	2005
Performance (MW-hrs sold)					
Quebec Region	64,039	79,789	288,161	265,452	289,018
Ontario Region	28,319	41,094	137,310	131,721	146,639
New England Region	16,991	26,805	72,862	84,400	72,519
New York Region	20,288	28,501	79,891	90,304	75,746
Western Region	12,506	10,805	63,931	59,947	67,248
Total	142,143	186,994	642,155	631,824	651,170
Revenues					
Energy Sales	\$ 10,282	\$ 11,340	\$ 43,268	\$ 44,413	
Expenses					
Operating Expenses	\$ (4,673)	\$ (3,613)	\$ (17,422)	\$ (15,862)	
Interest and Other Income	\$ 166	\$ 196	\$ 557	\$ 494	
Division Operating Profit (Includes Other Income)	\$ 5,775	\$ 7,923	\$ 26,403	\$ 29,045	

During the fourth quarter of 2004, revenue from the Hydroelectric Division was \$10.3 million compared to \$11.3 million for the same period in 2003. Electrical energy production was 87% of long-term averages during the fourth quarter of 2004. This is a decreased performance when compared to the exceptional hydrologic conditions experienced in the fourth quarter of 2003 during which energy production was 114% of long-term averages. Although the quantity of electrical energy produced quarter-over-quarter declined 24% to 142,143 MW-hrs, primarily due to less favourable hydrology, revenue declined only 8.8% to \$10.3 million due to escalations in the power purchase contracts and finalization of negotiations with Ontario Electricity Financial Corporation regarding the revised power

rate escalation formula for the Long Sault Rapids facility.

For the full year 2004, revenue from the Hydroelectric Division was \$43.3 million compared to \$44.4 million in 2003. Revenue for the year decreased despite improved energy production due primarily to the reduction in electricity rates paid in New Hampshire following the contract re-negotiation in May, 2003. Energy produced during 2004 represented 98.5% of long-term averages compared to 97% of long-term averages during the prior year.

Operating expenses for the Hydroelectric Division during the fourth quarter of 2004 were \$4.7 million, an increase over the \$3.6 million spent in the fourth quarter of 2003 due primarily to higher repair, maintenance and operating costs at the Côte Ste.

Catherine, Great Falls and Long Sault Rapids facilities. For 2004, Hydroelectric Division operating expenses of \$17.4 million were higher than the \$15.9 million in 2003 mainly due to these increased repair and maintenance costs.

The Hydroelectric Division's operating profit for the fourth quarter of 2004 was \$5.8 million versus \$7.9 million during the fourth quarter of 2003. For 2004, operating profit was \$26.4 million compared to \$29.0 million in 2003. Operating profit for 2004 was below management's expectations due to substantially weaker hydrologic conditions and higher divisional operating expenses, both encountered in the fourth quarter of 2004. Hydrologic conditions experienced during the first quarter of 2005 have generally reflected long-term average hydrology.

*• The Fund
intends to continue
to enhance
unitholder value
by improving
efficiency of
hydroelectric
operations and
pursuing acquisitions
which provide
sustainable accretion
to unitholders.*



OUTLOOK

For the majority of 2004, the regions in which the Fund operates facilities generally enjoyed improved hydrologic conditions, providing generation levels closer to long-term averages. Although this trend reversed during the fourth quarter of 2004, average hydrologic conditions are again being observed in the first quarter of 2005. Assuming continuation of average hydrologic conditions, the Hydroelectric Division is expected to perform in accordance with management's expectations for the remainder of 2005.

In 2005, the Fund intends to continue to enhance unitholder value by improving efficiency of the hydroelectric operations, continuing to seek opportunities to structure attractive power purchase contracts and pursuing hydroelectric acquisitions which provide sustainable accretion to unitholders. Continued

emphasis will be placed on acquisition of larger facilities which provide geographic diversification of regional hydrologic and market concentrations. In addition, the Fund will consider the rationalization of smaller generating facilities that may no longer fit the Fund's risk-return profile.

Certain hydroelectric generating facilities owned by the Fund qualify for consideration as "green" energy and the Fund plans to pursue revenue opportunities presented by the emerging markets for renewable energy credits in the United States and the trading of greenhouse gas credit emissions in Canada. The Fund also plans to pursue longer-term power purchase agreements for the sale of green energy from those facilities that are currently selling electricity in the open market.

COGENERATION

All figures in thousands of Canadian dollars except as noted



	Three Months Ended December 31		Year Ended December 31		Forecast Production
	2004	2003	2004	2003	2005
Performance (MW-hrs sold)	133,356	136,888	521,149	443,419	544,657
Revenues					
Energy Sales	\$ 17,556	\$ 17,179	\$ 71,846	\$ 61,890	
Expenses					
Operating Expenses	\$ (12,066)	\$ (12,162)	\$ (50,597)	\$ (42,758)	
Other Income	\$ 749	\$ 827	\$ 4,024	\$ 4,641	
Division Operating Profit (Includes Interest and Other Income)	\$ 6,239	\$ 5,844	\$ 25,273	\$ 23,773	

The Cogeneration Division posted revenue during the fourth quarter of 2004 of \$17.6 million, compared to \$17.2 million during the same period in 2003. During 2004, the Cogeneration Division produced revenue of \$71.8 million, an increase over the \$61.9 million recorded in 2003, with such increase partially attributed to the full-year inclusion of revenue from the Windsor Locks facility purchased in March, 2003. The Windsor Locks facility had provided additional revenue of approximately \$8.9 million during the first quarter of 2004 compared to 2003 which helped offset the cost of two unplanned operational outages at the Sanger facility during the first and second quarters.

Fourth quarter operating expenses in the Cogeneration Division were \$12.1 million compared to \$12.2 million in the same period, 2003. For the year ended December 31, 2004, operating expenses were \$50.6 million compared to \$42.8 million in 2003 due to the inclusion of a full-year of expenses from the Windsor Locks facility. This facility incurred operating expenses of approximately \$33.4 million in 2004, the first full year in which this asset was owned by the Fund. The Sanger facility experienced two unplanned gas turbine outages during the first and second quarters caused by a component failure. The cost of the required repairs was covered by insurance after taking into

consideration an insurance deductible of US \$300,000 per occurrence.

Operating profit for the Cogeneration Division in the fourth quarter increased to \$6.2 million from \$5.8 million in 2003. For the year ended December 31, 2004, operating profit increased to \$25.3 million from \$23.8 million in 2003. Operating profit for the fourth quarter met management's expectations. Operating profit for 2004 was below management's expectations primarily due to the unplanned outages at the Sanger facility incurred during the first and second quarters of 2004.



• The Fund anticipates increased revenue from electricity at Windsor Locks and increased sale of thermal energy at the Sanger Facility.



OUTLOOK

The Fund's focus for the Cogeneration Division will be on maintaining the reliable supply of generation from all facilities and pursuing opportunities to realize additional revenue. These opportunities include the sale of excess power generation, satisfaction of increasing electrical load requirements of the steam host at the Windsor Locks facility and sale of thermal energy at the Sanger facility. In addition, the Fund will continue to consider the sale of contracted natural gas when favourable pricing in the natural gas market exists.

ALTERNATIVE FUELS

All figures in thousands of Canadian dollars except as noted



	Three Months Ended December 31		Year Ended December 31		Forecast Production
	2004	2003	2004	2003	2005
Performance (MW-hrs sold)	57,192	25,782	124,721	97,335	312,176
Performance (tonnes waste processed)	37,471	41,354	157,491	155,250	178,490
Revenues					
Energy Sales	\$ 3,646	\$ 1,587	\$ 7,867	\$ 6,423	
Waste Disposal Sales	3,503	4,333	14,086	14,650	
Total	<u>\$ 7,149</u>	<u>\$ 5,920</u>	<u>\$ 21,953</u>	<u>\$ 21,073</u>	
Expenses					
Operating Expenses	\$ (5,262)	\$ (3,241)	\$ (15,124)	\$ (12,895)	
Interest, Dividend and Other Income	\$ 622	\$ 95	\$ 1,352	\$ 1,150	
Division Operating Profit (Includes Interest, Dividend and Other Income)	\$ 2,509	\$ 2,774	\$ 8,181	\$ 9,328	

Revenue reported during the fourth quarter of 2004 increased to \$7.1 million from \$5.9 million in 2003, primarily due to the addition of the LFG Facilities at the end of the third quarter of 2004. Energy sales increased to \$3.6 million in 2004 from \$1.6 million in 2003. For the year ended 2004, the Alternative Fuels Division reported revenue of \$22.0 million, representing an increase of approximately \$0.9 million over the \$21.1 million realized during 2003, attributed to electrical energy sales from the LFG Facilities that contributed \$2.2 million in revenue for the fourth quarter of 2004.

Operating expenses incurred in the Alternative Fuels Division were \$5.3 million in the fourth quarter of 2004, compared to \$3.2 million incurred during the fourth quarter, 2003. The primary

contributors to this increase were higher repair and maintenance costs at the Peel Energy-from-Waste facility and inclusion of post-acquisition operations, maintenance, repair and fuel costs at the LFG Facilities. For the year ended December 31, 2004, operating expenses were \$15.1 million compared to \$12.9 million during the prior year. The increase was due to higher operating costs for the Peel Energy-from-Waste and the inclusion of the costs relating to the newly acquired LFG Facilities. At the end of December 2004, the Fund recognized an expense of \$1.9 million, representing the write-off of the balance of the book value of the Joliet facility as it was deemed that the facility was no longer economically viable.

The Alternative Fuels Division recorded an operating profit of \$2.5 million during the fourth quarter of 2004 compared to \$2.8 million reported in the same period in 2003. For the fourth quarter, the Alternative Fuels Division performed below management's expectations due to higher repair and maintenance costs and lower than expected revenue. For the year ended December 31, 2004, operating profit was \$8.2 million compared to \$9.3 million in 2003. The Alternative Fuels Division performed below management's expectations for the full year primarily due to higher than anticipated repair and maintenance costs incurred at the Peel Energy-from-Waste facility and legal costs incurred in respect of the Joliet facility.

**• The Fund
has agreed
to sell thermal
energy to an
Industrial
customer
near the Peel
Energy-from-
Waste Facility.**



OUTLOOK

Management is pleased to report that the Fund's Production Recovery Action Plan implemented in 2004 at the Peel Energy-from-Waste facility is beginning to produce favourable results. This plan includes equipment constraint identification, prioritization of production improvement initiatives, restructuring of plant management and improved employee training.

The acquisition in September, 2004 of an interest in the LFG Facilities, representing approximately 36MW of installed capacity, increased the total electrical generation capacity of the Fund by 6%. Approximately 66% of the installed capacity of the LFG Facilities is located at large open landfills that are continuing to accept waste including three regional landfills permitted for operation for at least 25 years located

in the southern California basin. Substantial opportunity exists for expansion of the generating capacity of these facilities as waste accumulation continues to grow. In addition to the revenues from the sale of electricity, the Fund is able to enhance returns through the sale of certain renewable energy credits produced by these assets.

The Fund has entered into an agreement to sell steam from the Peel Energy-from-Waste facility to an industrial customer located in close proximity to the Peel Energy-from-Waste facility. To effect such sales, the Fund will be undertaking the installation of certain additional steam generation and transmission assets, anticipated to cost approximately \$8.1 million. This project is expected

to produce an internal rate of return in excess of 15% per annum over the 20-year term of the energy services agreement.

Management at the Peel Energy-from-Waste facility is in the process of renegotiating its collective bargaining agreement with its production employees. The current collective bargaining agreement expires April, 2, 2005.

The facilities owned by the Alternative Fuels Division are characterized as "green" energy. The Fund plans to pursue revenue opportunities presented by the emerging markets for renewable energy credits in the US and the trading of greenhouse gas credit emissions in Canada.

INFRASTRUCTURE

All figures in thousands of Canadian dollars except as noted



	Three Months Ended December 31		Year Ended December 31		Forecast Total Connections
	2004	2003	2004	2003	2005
Water Reclamation					
Customers	20,703	18,831	20,703	18,831	22,546
Water Distribution					
Customers	19,318	17,948	19,318	17,948	20,812
Revenues					
Water Reclamation and Distribution	\$ 5,739	\$ 5,247	\$ 23,456	\$ 20,237	
Expenses					
Operating Expenses	\$ (2,136)	\$ (2,465)	\$(10,849)	\$ (9,165)	
Other Income	\$ 1	\$ 13	\$ 9	\$ 45	
Division Operating Profit (Includes Other Income)	\$ 3,604	\$ 2,795	\$ 12,616	\$ 11,117	

Revenue earned by the Infrastructure Division during the fourth quarter of 2004 increased to \$5.7 million from \$5.2 million recorded during the same period in 2003. Demand from water distribution customers declined in the fourth quarter of 2004 as a result of higher than average precipitation in the geographic areas in which the majority of the Fund's water distribution assets are located. Strong organic growth from an expanding customer base continued during the fourth quarter, 2004. The water distribution customer count was 19,318, a 1.4% increase for the quarter. Water reclamation customer count was 20,703, a 2.4% increase for the quarter. The strong year-over-year growth was significant with water distribution customer count increasing 7.6% and water reclamation customer count rising by 9.9%.

For the year ended December 31, 2004, revenue increased to \$23.5 million from \$20.2 million in 2003 primarily as a result of organic growth through additional customer connections.

The Infrastructure Division incurred operating expenses of \$2.1 million in the fourth quarter of 2004, from \$2.5 million for the same period in 2003 primarily due to a year-to-date adjustment during the current period to reclassify certain expenses as administrative costs. For the year ended December 31, 2004, operating expenses increased to \$10.8 million from \$9.2 million in 2003. The increased costs for the full year resulted from additional costs related to the additional customer connections.

Operating profit for the fourth

quarter of 2004 increased to \$3.6 million in comparison to \$2.8 million earned in the fourth quarter of 2003. While operating profit increased, it remained below management's expectations primarily due to higher operating costs at the Litchfield Park, Gold Canyon and Bella Vista facilities. For the year ended December 31, 2004, operating profit increased to \$12.6 million from \$11.1 million in 2003. Similarly, while 2004 operating profits continued to rise over those recorded for 2003, the results were below management's expectations primarily due to slower-than-expected growth and lower water sales due to heavy rains in the Phoenix area where the Fund's Litchfield Park facility is located.

- *The Fund intends to pursue accretive acquisitions of water distribution and reclamation opportunities during 2005.*



OUTLOOK

The Fund expects organic growth to continue within existing utilities throughout 2005, providing continued revenue and operating profit growth for the Infrastructure Division. The Fund also intends to pursue opportunities for adding new customers through providing water distribution and water reclamation services in geographic areas contiguous to existing Fund utilities.

The Fund is in the process of expanding certain existing facilities to meet increasing service demands including the wastewater treatment plant owned by the Gold Canyon Sewer Company. Phase I of the expansion was completed in 2004 and Phase II is expected to be completed during 2005. Upon completion of the planned changes, the Gold Canyon treatment

facility will be capable of handling the high customer growth which is expected to continue over the next several years within the utility area. Within the Litchfield Park service area, several pipeline expansions were completed in 2004 that will facilitate continued land development and increasing customer connections over the next several years.

The Litchfield Park service area in Arizona is located in one of the fastest growing counties in the United States and intense growth is expected to have a positive impact on divisional revenue. Moderate growth also continues in the Infrastructure Division's service areas located in the east valley of central Arizona, southern Arizona and Texas resulting

in anticipated overall growth in the Infrastructure Division comparable to that achieved over the past 12 months.

The Fund has entered into a purchase and sale agreement to acquire eight water and wastewater systems, which, in aggregate, serve approximately 7,000 equivalent residential connections located in Texas, Missouri and Illinois. Closing of this transaction is anticipated to occur in mid-March 2005.

During 2005, the Fund intends to pursue accretive acquisitions of water distribution and water reclamation opportunities to enhance unitholder value. The Fund will target utilities located in high-growth regions in the United States that provide predictable and sustainable cash flows.

ADMINISTRATIVE EXPENSES

	Three Months Ended December 31		Year Ended December 31	
	2004	2003	2004	2003
Administrative Expenses	\$1,615	\$1,631	\$5,596	\$5,577
Business Development Costs	—	—	—	572
Management Costs	196	196	777	710
Withholding Taxes	135	97	483	525
(Gain) / Loss on Foreign Exchange	873	(2,810)	(2,601)	(17,364)
Interest Expense	3,721	3,228	12,440	11,631
Income Taxes Expense (Recovery)	1,780	1,701	2,285	(4,408)

For the fourth quarter and the full year of 2004, administrative expenses remained constant when compared to the corresponding periods of 2003.

The weakening of the Canadian dollar against the U.S. dollar resulted in an unrealized foreign exchange loss of \$0.9 million for the fourth quarter of 2004 compared to a gain of \$2.8 million in the same period in 2003. For the full year, the Fund posted a foreign exchange gain of \$2.6 million, of which \$2.5 million is unrealized, compared to a foreign exchange gain of \$17.4 million in 2003. The unrealized foreign exchange gain is primarily the result of fluctuations of the US dollar and its impact on the Fund's US dollar denominated debt obligations. At the end of the fourth quarter, the Fund had approximately \$42.2 million in

US dollar denominated debt.

Interest expense increased to \$3.7 million in the fourth quarter of 2004, from \$3.2 million in the fourth quarter, 2003. The increase is due to the combined effects of the issue of \$85 million convertible debentures in the third quarter of 2004 offset by a decrease in interest expense due to maturity of the KMS convertible debentures in the second quarter of 2004 and the indebtedness outstanding under the Fund's line of credit being repaid from the proceeds of the \$85 million convertible debenture offering. For the year ended December 31, 2004, interest expense increased to \$12.4 million from \$11.6 million in 2003.

During the fourth quarter of 2004, the Fund recorded an income tax expense of

\$1.8 million, including \$1.4 million related to future income tax expense. The difference represents a current income tax expense. In the fourth quarter of the prior year, the Fund recorded an income tax expense of \$1.7 million, substantially all of which was related to future income tax expense. For the year ended December 31, 2004, the Fund recorded an income tax expense of \$2.3 million, of which \$1.2 million was related to a future income tax expense with the difference of \$1.1 million representing a current income tax expense. These results compare to a \$4.4 million income tax recovery in the prior year, of which \$5.6 million was a future income tax expense and the balance was a current income tax expense.

CASH AVAILABLE FOR DISTRIBUTION

	Three Months Ended December 31		Year Ended December 31	
	2004	2003	2004	2003
Cash Flow from Operating Activities	\$12,090	\$12,533	\$66,434	\$58,209
Changes in Working Capital	(1,255)	4,660	(7,553)	322
Operating Cash Flow before				
Working Capital Changes	\$10,835	\$17,193	\$58,881	\$58,531
Receipt of Principal on Notes Receivable	983	1,348	4,164	3,194
Decrease / (Increase) in Reserves	330	110	235	319
Repayment of Long-term Liabilities	(340)	(329)	(863)	(828)
Maintenance Capital Expenditures	217	(153)	(1,804)	(1,325)
(net of capital grants and asset disposal)				
Other	660	(769)	(726)	(1,523)
Cash Available for Distribution	\$12,685	\$17,400	\$59,887	\$58,368
Cash Available for Distribution per trust unit	0.18	0.26	0.87	0.86
Distribution to Unitholders	\$16,015	\$15,600	\$63,370	\$62,402
Distribution to Unitholders per trust unit	0.23	0.23	0.92	0.92

During the fourth quarter of 2004, cash available for distribution decreased to \$12.7 million compared to \$17.4 million in the same period of 2003. On a per unit basis, the Fund generated \$0.18 of cash available for distribution in the fourth quarter of 2004, compared to \$0.26 during the fourth quarter of 2003. For the year ended December 31, 2004, the Fund generated \$59.9 million of cash available for distribution compared to

\$58.4 million during the same period in 2003. These results represent \$0.87 per trust unit for the year ended December 31, 2004, comparing favourably to \$0.86 per trust unit generated during 2003.

The Fund distributed \$16.0 million for the fourth quarter of 2004 and \$15.6 million for the fourth quarter of 2003. On a per unit basis, the Fund distributed \$0.23 per trust unit for the fourth quarter in both 2004 and

2003. The number of units increased due to units issued as the consideration to KMS debenture holders tendering their securities in 2004. For the year ended December 31, 2004, the Fund distributed \$63.4 million compared to \$62.4 million during 2003. Per unit distributions remained at \$0.92 per trust unit for both 2004 and 2003. The shortfall in cash available for distribution was funded from working capital.

DISTRIBUTION OUTLOOK FOR 2005

Management believes that with continuing average hydrologic conditions, the strong organic growth evident in water distribution and reclamation services, the

additional generating capacity represented by the LFG Facilities, interest earned on advances under the subordinated debt commitment made to AirSource Power

Fund I LP and the continued benefits of the portfolio diversification, cash generated by operations should be in line with or exceed current distribution levels for 2005.

LIQUIDITY AND CAPITAL RESERVES

At the end of 2004, the Fund had \$34.2 million of cash and cash equivalents and positive net working capital of \$17.2 million.

Long-term liabilities were \$120.1 million at the end of 2004, compared to \$165.1 million at the end of 2003.

In January 2005, the Fund re-negotiated its combined lines of credit available totalling \$145 million in either Canadian or US dollar currency for operating and acquisition requirements with a syndicate of chartered banks. The renegotiated credit facility provides for a general operating line of \$20 million, provision of letters of guarantee of approximately \$32 million with the balance for acquisition funding purposes. At the end of 2004, the Fund had \$30.0 million drawn

on the credit facility in addition to \$30.9 million represented by letters of guarantee that have been posted on behalf of the Fund. Under the terms of the renegotiated credit agreement, the Fund is required to pay a standby charge of 0.25% on the un-drawn portion of the credit facility, a reduction of 0.175% from the terms of the credit facility in force during 2004.

During 2005, the Fund anticipates to incur higher capital expenditures than incurred during 2004 due to continuing growth and regulatory requirements in the Infrastructure Division. Additional wastewater treatment capacity is likely to be required at the Litchfield Park facility in addition to the completion of the capacity increase currently underway

at the Gold Canyon facility. In addition, the water distribution utilities owned by the Fund will be required to comply with new rules pertaining to arsenic levels coming into effect in the United States at the beginning of 2006. The Fund has also committed to invest approximately \$8.1 million in steam generation and distribution equipment at the Peel Energy-from-Waste facility to enhance returns. The Fund anticipates financing these expenditures with cash flow generated from operations, the credit facility and additional trust unit offerings.

At the end of 2004, the Fund had a strong balance sheet with a long-term debt-to-equity ratio of 43%.

At the end of 2004, the Fund had the following contractual obligations for the next five years:

	2005	2006	2007	2008	2009
Long term debt obligations	\$ 932	\$ 1,017	\$ 1,109	\$ 1,216	\$ 1,327
Other obligations	734	438	4,377	392	260
Total Obligations	\$ 1,666	\$ 1,455	\$ 5,486	\$ 1,608	\$ 1,587

In addition to the above obligations, the Fund has commitments to pay certain additional amounts to the vendors of the Litchfield Park and Woodmark facilities which are tied to customer growth in these utilities. As the quantum of such

growth is not determinable, management is unable to quantify these amounts. The Fund has obligations with respect to lease and land and/or water rights for certain hydroelectric facilities. These obligations are based on

power production by these facilities and, since power production is related to future hydrologic conditions, such obligations are not quantifiable.

DEALING WITH ALGONQUIN POWER GROUP

During 2004, companies related to the Manager provided operations and technical services on a cost recovery basis, details of which are outlined in note 13 of the audited financial statements.

RISK MANAGEMENT

The Fund continues to enjoy the benefits of forward contracts to hedge its U.S. dollar exchange rate relative to expected future monthly cash flows. At the end of 2004, the Fund had forward contracts for 2005 totalling US \$24.3 million at an average rate of \$1.41 per US dollar. The Fund has entered into forward contracts that provide similar fixed exchange rate protection for 2006 to the end of 2009 totalling US\$74.5 million carrying an average rate of \$1.38.

The Fund has fixed the price of its natural gas exposure until 2006 at the Sanger facility and to 2007 at the Peel Energy-from-Waste facility. The power sales and natural gas supply agreements in place in respect of the natural gas powered generating facilities owned by the Fund have been structured to insulate the Fund from the economic impacts of the changing market price of natural gas. Under the terms of the energy services agreement relating to the sale of

steam from the Peel Energy-from-Waste facility to an industrial customer, the Fund has been able to mitigate against natural gas price exposure at the Peel Energy-from-Waste facility for the 20-year term of this agreement.

The Fund has adequate insurance on all of its facilities. This coverage includes property and casualty, boiler and machinery and liability insurance.

CRITICAL ACCOUNTING ESTIMATES

The Fund recognizes revenue derived from energy sales at the time energy is delivered. Water reclamation and distribution revenue is recognized when delivered to customers. Revenue from waste disposal is recognized on an actual tonnage of waste delivered to the plant at prices specified in the contract. Certain contracts include price reductions if specified thresholds are exceeded. Revenue for these contracts are recognized based on actual tonnage at the expected price for the contract year and any amount billed in excess of the expected is deferred.

The Fund books deferred credits received by the Infrastructure Division which relate to

advances from developers for water and sewage main extensions received. These advances usually carry repayment terms based on the revenue generated by the development in question ranging for a term of 10 years. At the end of the payment term, the unpaid portion of the advance converts to contribution in aid of construction and is not required to be repaid to the developer. The Fund records the deferred credits based on its expected repayments as determined by historical experience and industry practice.

The Fund records at cost capital assets such as land, facilities and equipment. Improvements that increase or prolong the

service life or capacity of an asset are also capitalized at cost. Intangible assets such as power purchase contracts acquired, licensing costs and customer relationship costs are recorded at cost. The Fund reviews capital and intangible assets for permanent impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable.

The Fund enters into forward contracts to hedge against its exposure to the US dollar. Gains and losses from these activities are reported as adjustments to the related revenue or expense account as they are settled.

OUTLOOK

The Fund will continue to identify opportunities to optimize the performance of its portfolio. Management is focusing its efforts on integrating recently acquired facilities and identifying efficiency opportunities to enhance unitholdervalue. Assuming continuing average long-term hydrologic conditions, the strong organic growth evident in water distribution and reclamation services, the additional generating capacity represented by the LFG Facilities, interest earned on advances under the subordinated debt commitment made to AirSource Power Fund I LP and the continued benefits of the portfolio diversification, cash

generated by the operations should be in line with or exceed current distribution levels for 2005.

The Fund will continue to look for opportunities to expand and continue its diversification strategy.

The Fund continues to be an industry leader in the areas of the environment and health and safety. The Fund maintains continuous health and safety training for all its operations and maintenance staff. All of the Fund's facilities are in compliance in all material respects with local and federal environmental regulations. The

Fund continues to upgrade the facilities' environmental controls utilizing best available technology.

The Fund plans to invest in information technology to reduce administrative costs by continuing the implementation of supply chain management systems and integrated billing and customer protocols.

In keeping with the emerging Ontario Securities Commission requirements, the Fund is in the process of completing the review and documentation of its controls and procedures for annual certification of the financial statements.

QUARTERLY FINANCIAL INFORMATION

The following is a summary of unaudited quarterly financial information for the two years ended December 31, 2004 and 2003.

\$ millions except per trust unit amounts

2004	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
Revenues	\$ 37.2	\$ 41.9	\$ 40.7	\$ 40.7	\$ 160.5
Net earnings (loss)	3.3	8.1	11.5	(0.1)	22.8
Net earnings per trust unit	0.05	0.12	0.16	0.00	0.33
Total assets	812.5	809.0	834.2	823.9	823.9
Long-term debt	186.4	189.7	214.6	226.2	226.2
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92
2003	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
Revenues	\$ 27.6	\$ 42.2	\$ 38.1	\$ 39.7	\$ 147.6
Net earnings	6.5	21.5	10.0	6.5	44.5
Net earnings per trust unit	0.10	0.32	0.15	0.09	0.66
Total assets	828.7	829.0	822.2	808.6	808.6
Long-term debt	185.7	178.6	177.8	185.4	185.4
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

RECENTLY ISSUED CANADIAN ACCOUNTING STANDARDS

Hedging Relationships

Accounting Guideline 13 ("AcG 13"), issued by the Canadian Institute of Chartered Accountants, is effective for the Fund's 2004 fiscal year. AcG 13 specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation and effectiveness of hedges, and the discontinuance of hedge accounting. The Fund has entered into a series of foreign exchange forward contracts, which are classified as hedging relationships, in order to mitigate its foreign exchange risk related to the U.S./Canadian dollar exchange rate. The Fund considers that these hedge instruments are effective hedges. The Fund reviews the effectiveness of hedge instruments on a quarterly basis. If management concluded that these hedge instruments were no longer effective, they would be marked-to-market and the effect would be recorded in income.

Asset Retirement Obligations

Section 3110 of the CICA Handbook, Asset Retirement Obligations, is applicable for the Fund's 2004 fiscal year. Under this standard, the asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The asset retirement costs are depreciated over the asset's useful life and included in depreciation and amortization expense on the Consolidated Statement of Earnings. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the Consolidated Statement of Earnings. Actual expenditures incurred are charged against the accumulated obligation. During the first quarter of 2004, the Fund completed an analysis of existing properties. This analysis reviewed existing contracts (leases, etc.) and current statutory requirements, and management has determined that a provision for retirement obligations is not currently required.

Impairment of Long-Lived Assets

Section 3063 of the CICA Handbook, Impairment of Long-Lived Assets, is applicable for the Fund's 2004 fiscal year. Under this standard, an impairment loss should be recognized when the carrying value of a long-lived asset is not recoverable and exceeds its fair value. There was no material impact on the Fund's earnings per unit in the 2004 fiscal year.

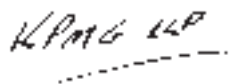
NOTE Certain statements contained in the information herein are forward-looking and reflect the Fund's and its Manager's views with respect to future events. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Forward-looking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

AUDITOR'S REPORT

We have audited the consolidated balance sheets of Algonquin Power Income Fund as at December 31, 2004 and 2003 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Canada
March 8, 2005

CONSOLIDATED BALANCE SHEETS

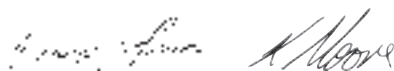
DECEMBER 31, 2004 AND 2003

(in thousands of Canadian dollars)

	2004	2003 (Restated Note 21)
Assets		
Current Assets		
Cash and cash equivalents	\$ 34,197	\$ 21,238
Accounts receivable	25,343	20,297
Prepaid expenses	1,790	1,530
Current portion of notes receivable (note 4)	2,589	1,478
Future income tax asset (note 12)	18	105
	<u>\$ 63,937</u>	<u>\$ 44,648</u>
Long-term investments (note 4)	48,561	59,190
Future non-current income tax asset (note 12)	6,425	6,809
Capital assets, net of accumulated amortization (note 5)	610,756	610,380
Intangible assets, net of accumulated amortization (note 6)	83,677	82,334
Funds held in reserve	3,728	3,963
Deferred costs (net of accumulated amortization of \$1,383, 2003 - \$657)	6,815	1,300
	<u>\$ 823,899</u>	<u>\$ 808,624</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	30,481	19,907
Due to Algonquin Power Group (note 13)	1,826	1,035
Cash distribution payable	10,677	10,400
Current portion of long-term liabilities (notes 8 and 10)	1,666	1,961
Current income tax liability	596	1,142
Future income tax liability (note 12)	1,449	866
	<u>\$ 46,695</u>	<u>\$ 35,311</u>
Long-term liabilities (notes 7 and 8)	120,085	165,117
Convertible debentures (note 9)	85,000	—
Other long-term liabilities (note 10)	8,960	9,622
Deferred credits	12,124	10,627
Future non-current income tax liability (note 12)	55,764	53,012
Minority interest (note 8)	—	15,059
Unitholders' equity		
Trust units (note 11)	654,176	638,213
Deficit	(158,905)	(118,337)
	<u>\$ 495,271</u>	<u>\$ 519,876</u>
Commitments and contingencies (notes 4 and 14)		
Guarantees (note 20)		
	<u>\$ 823,899</u>	<u>\$ 808,624</u>

See accompanying notes to the consolidated financial statements

Approved by the Trustees



CONSOLIDATED STATEMENTS OF EARNINGS & DEFICIT

DECEMBER 31, 2004 AND 2003

(in thousands of Canadian dollars except as noted and per trust unit)

	2004	2003
Revenue		
Energy sales	\$ 122,981	\$ 112,726
Waste disposal fees	14,086	14,650
Water reclamation and distribution	23,456	20,237
	<u>160,523</u>	<u>147,613</u>
Expenses		
Operating (note 13)	94,012	80,680
Amortization of capital assets	27,762	25,424
Amortization of intangible assets	6,465	4,950
Management costs (note 13)	777	710
Administrative expenses	5,596	5,577
Business development	-	572
Withholding taxes	483	525
(Gain) / loss on foreign exchange	(2,601)	(17,364)
	<u>132,494</u>	<u>101,074</u>
Earnings before undernoted	28,029	46,539
Interest expense	(12,440)	(11,631)
Interest, dividend and other income	6,681	6,608
Income from note receivable prepayment	3,634	-
	<u>(2,125)</u>	<u>(5,023)</u>
Earnings before income taxes and minority interest	25,904	41,516
Current income taxes (note 12)	1,105	1,175
Future income taxes (note 12)	1,180	(5,583)
	<u>2,285</u>	<u>(4,408)</u>
Minority interest	817	1,417
Net earnings	22,802	44,507
Deficit, beginning of year	(118,337)	(100,442)
Cash distributions (note 16)	(63,370)	(62,402)
Deficit, end of year	<u>\$ (158,905)</u>	<u>\$ (118,337)</u>
Basic and diluted net earnings per trust unit (note 17)	<u>\$ 0.33</u>	<u>\$ 0.66</u>

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

DECEMBER 31, 2004 AND 2003

(in thousands of Canadian dollars except as noted and per trust unit)

	2004	2003
Operating Activities		
Net earnings	\$ 22,802	\$ 44,507
Items not affecting cash		
Amortization of capital assets	27,762	25,424
Amortization of intangible assets	6,465	4,950
Other amortization	2,331	2,934
Minority interest	817	1,417
Distribution received in excess of equity income	(16)	242
Future income taxes	1,180	(5,583)
(Gain) / loss on foreign exchange	(2,460)	(15,360)
	58,881	58,531
Changes in non-cash operating working capital	7,553	(322)
	66,434	58,209
Financing Activities		
Cash distributions	(63,370)	(62,402)
Issue costs of trust units	(700)	-
Convertible debenture issue (note 9)	85,000	-
Expenses of convertible debenture issue (note 9)	(4,100)	-
Deferred costs	(2,305)	(641)
Increase in long-term liabilities	30,000	112,833
Decrease in long-term liabilities	(71,969)	(42,228)
Other	(1,117)	(358)
Deferred credits	426	411
	(28,135)	7,615
Investing Activities		
Decrease in reserve funds	235	319
Receipt of principal on notes receivable	21,988	3,194
Additions to capital assets	(17,336)	(12,071)
Additions to intangible assets	-	(289)
Power Purchase Contract Renegotiation (note 3)	-	25,357
Acquisition of notes receivable	(13,917)	-
Acquisitions of operating entities net of cash acquired (note 2)	(15,159)	(84,895)
	(24,189)	(68,385)
Effect of exchange rate differences on cash and cash equivalents	(1,151)	(1,039)
Increase / (decrease) in cash and cash equivalents	12,959	(3,600)
Cash and cash equivalents, beginning of year	21,238	24,838
Cash and cash equivalents, end of year	\$ 34,197	\$ 21,238
Supplemental disclosure of cash flow information		
Cash paid during the year for interest expense	\$ 9,441	\$ 9,551
Cash paid during the year for income taxes	\$ 1,624	\$ 854
Non-cash issue of trust units to retire convertible debentures of KMS (note 8)	\$ 16,663	\$ -

See accompanying notes to the consolidated financial statements

NOTES

DECEMBER 31, 2004 AND 2003

(in thousands of Canadian dollars)

Algonquin Power Income Fund (the "Fund") is an open-ended, unincorporated trust established pursuant to the Declaration of Trust dated September 8, 1997, as amended, under the laws of the Province of Ontario. The Fund's principal business activity is the ownership, directly or indirectly, of generating and infrastructure facilities.

The Fund is managed by Algonquin Power Management Inc. ("APMI"), a company wholly-owned by the shareholders of Algonquin Power Corporation Inc. ("APC"). A subsidiary of APC, Algonquin Power Systems Inc. ("APS"), is responsible for the operation of the Fund's facilities. Algonquin Water Services LLC ("AWS"), a partnership jointly owned by APC and the Fund, manages and operates the water reclamation and distribution facilities in Arizona. Collectively, these entities are referred to as the Algonquin Power Group.

1. Significant accounting policies

(a) New accounting policies

(i) Asset retirement obligations:

The fair value of estimated asset retirement obligations is recognized in the consolidated balance sheets when identified and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The asset retirement costs are depreciated over the asset's estimated useful life and included in amortization expense on the consolidated statement of earnings and deficit. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the consolidated statement of earnings and deficit. Actual expenditures incurred are charged against the accumulated obligation.

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

(ii) Derivatives contracts

The Fund enters into forward contracts to hedge against possible fluctuations in its exposure to the U.S. dollar. Gains and losses from these activities are reported as adjustments to the related revenue account as they are settled and no balance is carried on the consolidated balance sheet.

The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Fund formally documents all relationships between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Fund also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(iii) Impairment of long-lived assets

The Fund reviews capital assets and intangible assets for permanent impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to expected future cash flows. If the carrying amount exceeds the expected future cash flows, the asset is written down to its fair market value.

(b)Basis of consolidation

The consolidated financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in Canada and include the consolidated accounts of all of its subsidiaries. The Fund consolidates its proportionate share in the Campbellford Limited Partnership ("Campbellford") and the Valley Power Limited Partnership.

All significant intercompany transactions and balances have been eliminated.

(c)Cash and cash equivalents

Cash and cash equivalents include cash deposited at banks and highly liquid investments with original maturities of 90 days or less.

(d)Funds held in reserve

Cash reserves segregated from the Fund's cash balances are maintained in accounts administered by a separate agent and disclosed separately in these consolidated financial statements as the Fund cannot access this cash without the prior authorization of parties not related to the Fund.

(e)Capital assets

Capital assets such as land, facilities and equipment are recorded at cost. Development costs, including the cost of acquiring or constructing facilities together with the related interest costs during the period of construction, are capitalized. Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

The facilities, equipment and overhauls are amortized on a straight-line basis over their estimated useful lives. For facilities, these periods range from 15 to 40 years. Facility equipment and overhauls are amortized over 3 to 6 years.

(f) Intangible assets

Power purchase contracts acquired are amortized on a straight-line basis over the remaining term of the contract. These periods range from 6 to 15 years from date of acquisition.

The costs attributable to establishing exemptions from Federal Energy Regulatory Commission licensing requirements in the United States are being amortized on a straight-line basis over 5 years.

Customer relationships are amortized on a straight-line basis over 40 years.

(g) Notes receivable

Notes receivable are carried at cost. A provision for credit losses on notes receivable is charged to the statement of earnings and deficit to cover any losses of principal and accrued interest.

(h) Deferred costs

Deferred costs, which include the costs of arranging the credit facility, costs associated with periodic customer rate reviews with the utility governing bodies for the water reclamation and distribution facilities and costs of various reorganizations which provide benefits for a number of years, are amortized on a straight-line basis over the term of the expected benefit, being 2 to 5 years.

(i) Long-term investments

Investments in which the Fund has significant influence, but not control or joint control, are accounted using the equity method. The Fund records its share in the income or loss of its investees in interest, dividend and other income in the consolidated statement of earnings and deficit. All other equity investments where the Fund does not have significant influence or control are accounted for under the cost method. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, distributions of earnings and additional investments.

(j) Deferred credits

Certain of the water companies receive advances from developers for water and sewage main extensions. The amounts advanced are generally repaid over a period of 10 years based on 10% of the revenues generated by housing/development in the area developed. Advances not refunded within ten years do not require repayment. The estimate of non-refundable amounts is credited against capital assets. The Fund also receives contributions in aid of construction with no repayment requirements in which the full amount is immediately treated as a capital grant and netted against capital assets.

Deferred water rights result from a hydroelectric generating facility that has a 50-year water lease with the first 10 years of the water lease requiring no payment. An average rate was estimated over the life of the lease and a deferral was booked based on this estimate which is being drawn down in the last 40 years.

(k) Recognition of revenue

Revenue derived from energy sales, which are mostly under long-term power purchase contracts, is recorded at the time electrical energy is delivered.

Water reclamation and distribution revenues are recorded when delivered to customers.

Revenue from waste disposal is recognized on actual tonnage of waste delivered to the plant at prices specified in the contract. Certain contracts include price reductions if specified thresholds are exceeded. Revenue for these contracts is recognized based on actual tonnage at the expected price for the contract year and any amount billed in excess of the expected rate is deferred.

Interest and dividend income from long-term investments is recorded as earned.

(l) Foreign currency translation

The Fund's United States subsidiaries and partnership interests are considered to be functionally integrated with the Canadian operations. All monetary assets and liabilities denominated in United States dollars are translated into Canadian dollars at year-end exchange rates, whereas non-monetary assets and liabilities are translated at the rate in effect at the transaction date. The revenues and expenses of these integrated operations are translated at the average rate of exchange in effect during the period. The foreign currency translation adjustment is reflected in the consolidated statement of earnings and deficit. Amortization of assets translated at historical exchange rates are translated at the same exchange rate as the assets to which they relate.

(m) Income taxes

As the Fund is an unincorporated trust, it is entitled to deduct distributions to unitholders to the extent of its taxable income and consequently, it is expected that the Fund will not be liable for any material tax as this will be the responsibility of the individual unitholder. Any provision for income taxes will relate solely to the income taxes of the Fund's wholly-owned subsidiaries.

Income taxes are accounted for using the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment or substantive enactment.

A valuation allowance is recorded against future tax assets to the extent that it is more likely than not that the future tax asset will not be realized.

(n) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the years presented, management has made a number of estimates and valuation assumptions, including the useful lives and recoverability of capital assets and intangible assets, the recoverability of notes receivable and long-term investments, the recoverability of future tax assets, the portion of aid-in construction payments that will not be repaid, and the fair value of financial instruments and derivatives. These estimates and valuation assumptions are based on present conditions and management's planned course of action as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

2. Acquisitions

On September 30, 2004, the Fund acquired an interest in 12 landfill gas-powered generating stations ("LFG Facilities") representing approximately 36MW of installed capacity for a total consideration of \$11,374 (U.S. \$9,000). The majority of the LFG Facilities were commissioned in the late 1990s. The electricity produced is sold to a number of large utilities pursuant to long-term power purchase agreements with an average termination date of 2011.

The acquisition has been accounted for using the purchase method, with earnings from operations included from the date of acquisition.

The consideration paid by the Fund has been allocated to net assets acquired as follows:

	Alternative Fuels
Working capital	\$ 1,350
Capital assets	8,621
Intangible assets	1,746
Total purchase price	11,717
Less: cash acquired	(343)
Cash consideration paid	\$ 11,374

Intangible assets represent the value of power purchase contracts acquired with the LFG Facilities and are amortized over the remaining life of the contracts from date of acquisition ranging from 2 to 17 years.

On March 10, 2003 the Fund acquired a 56MW cogeneration generating facility in Windsor Locks, Connecticut and the related power sales contracts for total consideration of \$44,009 (U.S. \$30,028). The Windsor Locks generating station sells electricity to Connecticut Light and Power Company pursuant to a long-term power purchase agreement ending in 2010. In addition, the facility delivers steam energy and a small portion of electricity to a speciality fiber composites mill located adjacent to the facility pursuant to an energy services agreement ending in 2018.

On February 25, 2003 the Fund acquired the shares of Litchfield Park Services Company ("Litchfield Park") located in Phoenix, Arizona for \$34,928 (U.S. \$23,401) in the Infrastructure operating segment. At December 31, 2004 the company services approximately 24,500 water and wastewater customers.

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:

	Cogeneration	Infrastructure	Total
Working capital	\$ —	\$ (470)	\$ (470)
Funds held in reserve	—	1,786	1,786
Capital assets	31,614	67,858	99,472
Intangible assets	12,395	7,220	19,615
Long-term liabilities assumed	—	(20,981)	(20,981)
Other long-term liabilities assumed	—	(2,445)	(2,445)
Deferred credits	—	(2,128)	(2,128)
Future non-current income tax liability	—	(15,912)	(15,912)
Total purchase price	44,009	34,928	78,937
Less: cash acquired	—	(1,452)	(1,452)
Cash consideration paid	\$ 44,009	\$ 33,476	\$ 77,485

Intangible assets in cogeneration include power purchase contracts that are amortized over the term of the contracts from 6 to 15 years. Intangible assets in infrastructure include customer relationships that are amortized over 40 years.

In accordance with the purchase and sale agreements of Litchfield Park, Woodmark Utility Company and Gold Canyon Sewer Company, additional amounts are required to be paid to the vendors for additional customers connected with the different facilities. For Litchfield Park, these payments continue until 2008 and for Woodmark until 2007. There are no further payments required for Gold Canyon. The additional payments are capitalized as part of the customer relationship intangible asset, gross of future income taxes of \$2,279 (2003 -\$ 4,658).

	2004	2003
Litchfield Park	\$ 3,626	\$ 7,039
Woodmark	159	-
Gold Canyon	-	371
	\$ 3,785	\$ 7,410
In US \$	\$ 2,944	\$ 5,635

3. Power purchase contract renegotiation

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

4. Long-term investments

	2004	2003
Debt and share interests in four (2003 - five) generating facilities, ranging from 12.1% to 32.4% interest	\$ 30,556	\$ 52,315
A 45% partnership interest in the Algonquin Power (Rattle Brook) Partnership	3,787	3,860
	34,343	56,175

Campbellford Note

Note bearing interest of 9.9415% repayable in monthly blended installments (principal and interest) of \$32, maturing February 28, 2015.

3,023	3,213
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Across America Note

Note bearing interest of 12.00% repayable in quarterly installments, (principal and interest) of US\$ 635, maturing January 31, 2008

8,004	-
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Airsource Note

Note bearing interest of 11.189% maturing September 30, 2014. Interest decreases to 10.739% after conversion. No principal payments until January 1, 2009.

5,512	-
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Other

268	1,280
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16,806	4,493
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51,150	60,668
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2,589	1,478
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Less: current portion

\$ 48,561	\$ 59,190
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The notes above are secured by the underlying assets of the respective facilities.

On September 30, 2004, the Fund provided debt financing in the amount of \$8,004 (U.S. \$6,650) to Across America LFG LLC ("Across America") a majority owned subsidiary of a Fortune 50 company. Across America through its subsidiaries owns and manages the landfill gas collection systems which provide landfill gas to the LFG Facilities. The balance due within the year in the amount of \$2,104 (US\$ 1,748) is included as part of the current portion of notes receivable.

During the fourth quarter of 2004, the Fund agreed to provide between \$69,200 and \$90,800 in subordinated debt to AirSource Power Fund I LP, a 99 MW wind energy facility to be constructed near St. Leon, Manitoba. As of December 31, 2004, the Fund has provided financing in the amounts of \$5,512.

On April 30, 2004, the loan to Cardinal Power of Canada LLP, the owner of the Cardinal Power Cogeneration facility, was repaid. The Fund received proceeds of \$22,200, of which \$18,600 represented the principal outstanding plus accrued interest and the remaining \$3,634 represented a prepayment fee.

5. Capital assets

	Cost	2004 Accumulated amortization	Net book value
Land	\$ 11,504	\$ -	\$ 11,504
Facilities	676,120	85,228	590,892
Equipment	12,623	4,263	8,360
	<u>\$ 700,247</u>	<u>\$ 89,491</u>	<u>\$ 610,756</u>

Facilities include \$89,889 (2003 - \$90,693) of net assets under capital lease, \$849 (2003 - \$0) of construction in process. In addition \$18,557 (2003 - \$1,234) of contributions received in aid of construction have been credited to facilities' cost.

At the end of 2004, the Fund wrote off the cost and the accumulated amortization related to the Joliet facility. Cost written off amounted to \$2,476 and the accumulated amortization totaled \$1,444, for a net book value of \$ 1,032 which has been included in amortization expense. Management deemed that the facility was no longer economically viable.

The Fund has entered into an agreement to sell steam from the Peel Energy-from-Waste facility to an industrial customer located in close proximity. To effect such sales, the Fund will incur the costs of certain additional steam generation and transmission assets. The Fund has committed to contractual arrangements to complete the project totaling approximately \$8,100. The Fund has incurred amounts totaling \$849 included in assets under construction. Cash flow generated from this project in excess of 15% will be shared with APC.

	Cost	2003 Accumulated amortization (Restated Note 21)	Net book value
Land	\$ 11,444	\$ -	\$ 11,444
Facilities	651,714	62,627	589,087
Equipment	12,616	2,767	9,849
	<u>\$ 675,774</u>	<u>\$ 65,394</u>	<u>\$ 610,380</u>

6. Intangible assets

	Cost	2004 Accumulated amortization	Net book value
Power purchase contracts	\$ 73,966	\$ 11,417	\$ 62,549
Customer relationships	21,423	528	20,895
Licenses and agreements	696	463	233
	<u>\$ 96,085</u>	<u>\$ 12,408</u>	<u>\$ 83,677</u>

	Cost	2003 Accumulated amortization	Net book value
Power purchase contracts	\$ 74,044	\$ 7,280	\$ 66,764
Customer relationships	15,361	83	15,278
Licenses and agreements	1,044	752	292
	<u>\$ 90,449</u>	<u>\$ 8,115</u>	<u>\$ 82,334</u>

Included in amortization of intangible assets is the write off of the Joliet power and gas contract for an amount of \$900 (note 5).

7. Revolving credit facility

In January 2005, the Fund renegotiated its revolving credit agreement increasing the availability from \$115,000 to \$145,000 with a syndicate of Canadian banks, maturing August 31, 2006. The facility includes a \$20,000 operating line. At December 31, 2004, \$30,000 (2003 - \$70,910) has been drawn on the revolving credit facility and no amount was outstanding on the operating line. In addition, the availability of the revolving credit facility has been reduced by \$30,878 (2003 \$30,669) for certain outstanding letters of credit. The terms of the credit agreement require the Fund to pay a standby charge of 0.25% on the unused portion of the revolving credit facility and 1.0%, plus the banker's acceptance or LIBOR interest rates on the drawn portion of the revolving credit facility. In addition the Fund has to maintain certain financial covenants. The facility is secured by a fixed and floating charge over all Fund entities.

8. Long-term liabilities

	2004	2003
Senior Debt Long Sault Rapids		
Interest at rates varying from 10.16% to 10.21% repayable in monthly blended installments of \$402, maturing December, 2028.	\$ 43,310	\$ 43,710
Senior Debt Chute Ford		
Interest rate of 11.55% repayable in monthly blended installments of \$64, maturing April, 2020.	5,473	5,596
Sanger Bonds		
California Pollution Control Finance Authority Variable Rate Demand Resource Recovery Revenue Bonds Series 1990A, payable monthly, maturing September, 2020. U.S. \$19,200. The effective interest rate for 2004 is 1.29%. (2003 - 1.11%).	23,109	24,814

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	2004	2003
KMS Convertible Debentures		
Interest rate of 10%: interest payable semi-annually June and December, maturing June, 2004.	-	751
Bella Vista Water Loans		
Water Infrastructure Financing Authority of Arizona interest rates of 6.10% and 6.26% repayable in monthly and quarterly installments, maturing December, 2017 and March, 2020. The balance of these notes at December 31, 2004 was U.S. \$141 and U.S. \$1,872 respectively (2003 – U.S.\$147 and U.S. \$1,937).	2,422	2,693
Litchfield Park Services Company Bonds		
1999 and 2001 IDA Bonds. Interest rates of 5.87% and 6.71% repayable in semi-annual installments, maturing October 2023 and October 2031. The balance of these notes at December 31, 2004 was U.S. \$5,254 and U.S. \$8,423, respectively, (2003 – U.S. \$5,417 and U.S \$8,457).	16,462	17,931
Revolving credit facility (Note 7)		
Revolving line of credit interest rate is equal to bankers' acceptance or LIBOR plus 125 basis points. The effective rate of interest for 2004 was 4.56% (2003 – 4.57%).	30,000	70,910
Other	241	308
	\$ 121,017	\$ 166,713
Less: current portion	(932)	(1,596)
	<u>\$ 120,085</u>	<u>\$ 165,117</u>

Each of the facility level debt is secured by the respective facility with no other recourse to the Fund. The loans have certain financial covenants which must be maintained on a quarterly basis. Interest paid on the long-term liabilities was \$12,000. (2003 – \$11,201)

Principal payments due in the next five years and thereafter are:

2005	\$ 932
2006	31,017
2007	1,109
2008	1,216
2009	1,327
Thereafter	85,416
	<u>\$ 121,017</u>

During the second quarter 2004, the Fund completed the acquisition of the remaining 52.7% of the outstanding principal amount of the convertible debentures of KMS Power Income Fund by issuing 1,803,980 trust units of the Fund for total consideration of \$16,663. This transaction brought the ownership to 100% and eliminated all minority interest.

On July 20, 2004, the Fund issued 85,000 convertible unsecured subordinated debentures at a price of \$1 per debenture for gross proceeds of \$85,000 and net proceeds of \$80,900. The debenture issue costs of \$4,100 are deferred and amortized over the term of the convertible debentures. The debentures are due July 31, 2011 and bear interest at 6.65% per annum, payable semi-annually in arrears on January 31 and July 31 each year starting January 31, 2005. The convertible debentures are convertible into trust units of the Fund at the option of the holder at a conversion price of \$10.65 per trust unit, being a ratio of approximately 93.8967 trust units per \$1 principal amount of debentures in trust units or cash. The debentures may not be redeemed by the Fund prior to July 31, 2007. The Fund performed an evaluation of the embedded holder option and determined that its value was nominal and as a result the entire amount of the debenture is classified as a liability.

10. Other long-term liabilities

10. Other long-term liabilities	2004	2003
Joliet Subsidy Loan		
In accordance with Illinois law, a significant portion of the revenue received by KMS Joliet for the sale of electricity to the utility represents a subsidy. Repayment arrangements satisfactory to the State of Illinois must be implemented by 2007. U.S. \$3,277.	\$ 3,942	\$ 3,915
Melo Roos		
Obligation for real estate taxes for the Sanger plant due October 1, 2011 at interest rates varying from 4.75% to 5.55%. U.S. \$1,370 (2003 – U.S.\$1,530)	1,649	1,977
Customer Deposits	2,850	3,212
Capital Leases	853	508
Other	400	375
	<u>\$ 9,694</u>	<u>\$ 9,987</u>
Less: current portion	(734)	(365)
	<u>\$ 8,960</u>	<u>\$ 9,622</u>
Principal payments due in the next five years and thereafter are:		
2005	\$ 734	
2006	438	
2007	4,376	
2008	392	
2009	260	
Thereafter	3,494	
	<u>\$ 9,694</u>	
Interest paid on other long-term liabilities was \$440. (2003 – \$430).		

11. Trust units

Authorized trust units

The Declaration of Trust provides that an unlimited number of units may be issued. Each unit represents an undivided beneficial interest in any distribution from the Fund and in the net assets in the event of termination or wind-up. All units are the same class with equal rights and privileges.

Trust units are redeemable at the holder's option at amounts related to market prices at the time subject to a maximum of \$250 in cash redemptions in any particular calendar month. Redemptions in excess of this amount shall be paid by way of a distribution in kind of a pro rata amount of certain of the Fund's assets, including the securities purchased by the Fund, but not to include the generating facilities.

Issued trust units

	Number of units	Amount
Balance as at December 31, 2003 and 2002	\$ 67,887,612	\$ 638,213
Issued pursuant to acquisition of the remaining 52.7% of the outstanding principal amount of convertible debentures of KMS Power Income Fund. (Note 8)	1,803,980	16,663
Issue costs		(700)
Balance as at December 31, 2004	\$ 69,691,592	\$ 654,176

12. Income taxes

The provision for income taxes in the consolidated statements of earnings represents an effective tax rate different than the Canadian enacted statutory rate of 33.66% (2003 – 35.6%). The differences are as follows:

	2004	2003
Earnings before income tax and minority interest	\$ 25,904	\$ 41,516
Less: income taxed directly in hands of unitholders, not the Fund	(36,090)	(32,817)
Earnings / (losses) of taxable entities	(10,186)	8,699
Computed income tax expense (recovery) at Canadian statutory rate	(3,429)	3,097
Increase (decrease) resulting from:		
Change in substantively enacted tax rate	-	1,218
Operating in countries with different income tax rates	996	1,121
Valuation allowances	6,090	4,535
Manufacturing and processing deduction	53	14
Large corporations tax, alternative minimum tax and state taxes	635	222
Unrealized foreign exchange rate difference	2,296	(2,302)
Unrealized foreign exchange rate differences on US entity debt	(5,614)	(12,663)
Other	1,258	350
Income tax expense / (recovery)	\$ 2,285	\$ (4,408)

The tax effect of temporary differences at the Fund's subsidiaries that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2004 and 2003 are presented below:

	2004	2003 (Restated Note 21)
Future tax assets:		
Non-capital loss, debt restructuring charges and currently non-deductible interest carryforwards	\$ 14,626	\$ 12,911
Unrealized foreign exchange differences on US entity debt	15,109	10,800
Customer advances in aid of construction – difference between net book value and tax value	3,794	-
Total future tax assets	33,529	23,711
Less: Valuation allowance	(24,002)	(17,911)
	9,527	5,800
Future tax liabilities:		
Capital assets – differences between net book value and undepreciated capital cost	(43,495)	(23,861)
Intangible assets – difference between net book value and cumulative eligible capital	(15,678)	(23,427)
Customer advances in aid of construction – difference between net book value and tax value	-	(5,721)
Other	(1,124)	(755)
Total future tax liabilities	(60,297)	(53,764)
Net future tax liability	\$ (50,770)	\$ (47,964)
Classified in the financial statements as:		
Future current income tax asset	\$ 18	\$ 105
Future non-current income tax asset	6,425	6,809
Future current income tax liability	(1,449)	(866)
Future non-current income tax liability	(55,764)	(53,012)
	\$ (50,770)	\$ (46,964)

2003 includes a reduction in future non-current income tax liability of \$11,671 due to Litchfield Park future income tax liability set up on acquisition in error.

At December 31, 2004, the Fund itself has financing expenses and underwriters' fees of \$9,148 (2003 - \$9,266) which will be deductible by the Fund and which will reduce the ultimate amount taxable to the unitholders over the next four years. This will be offset by additions to the unitholders' taxable income since the Fund's capital assets have an accounting basis that exceeds their tax basis by \$6,643 (2003 - \$5,095). In addition, two trusts wholly-owned by the Fund have capital assets with an accounting basis which exceeds their tax basis by \$3,850 (2003 - \$5,852).

13. Algonquin Power Group

(a) Management Agreement

APMI provides management services including advice and consultation concerning business planning, support, guidance and policy making and general management services. In 2004 and 2003, APMI was paid on a cost recovery basis for all costs incurred and charged \$777 (2003-\$710). APMI is also entitled to an incentive fee of 25% on all distributable cash generated in excess of \$0.92 per trust unit. During 2004 and 2003 no incentive fees were earned by APMI.

(b) Operations

The Fund's power generating facilities have direct operations contracts with APS. The direct operations contracts provide for the day-to-day services required to operate and maintain the facilities in addition to planning of capital repairs, compliance monitoring for environmental permits and administration of power purchase agreements. In 2004 and 2003, APS was paid \$12,823 (2003 - \$11,386) on a cost recovery basis for all costs incurred.

(c) Water reclamation and distribution

The water reclamation and distribution facilities have direct operations contracts with AWS. The direct operations contracts provide for the day-to-day services required to operate and maintain the facilities. In 2004 and 2003, AWS was paid \$4,883 (2003 - \$5,176) on a cost recovery basis for all costs incurred.

(d) Other

During 2004, the Fund reimbursed APC \$nil (2003 - \$250) for legal fees paid by APC on behalf of the Fund to outside counsel.

14. Commitments and contingencies

(a) Land and Water Leases

Certain of the operating entities have entered into agreements to lease either the land and/or the water rights for the hydroelectric generating facility or to pay in lieu of property tax an amount based on electricity production. The terms of these leases continue up to 2048. These payments typically have a fixed and variable component. The variable fee is generally linked to actual power production or gross revenue. The Fund incurred \$2,919 during 2004 (2003 - \$2,865) in respect of these agreements for the consolidated facilities.

(b) Commitments and contingencies

The Fund has entered into a purchase and sale agreement to acquire eight water and wastewater systems from Silverleaf Resort, Inc. The systems, which in aggregate serve approximately 7,000 equivalent residential connections, are located in Texas, Missouri and Illinois. Closing of this transaction is anticipated to be mid-March, 2005. The total purchase price is estimated to be US \$ 13,200, net of a refundable deposit of US \$ 1,000, included in deferred charges at December 31, 2004.

The Fund and its subsidiaries are involved in various claims and litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Fund's exposure to such litigation to be material to these financial statements.

15. Fair value of financial instruments and derivatives

The carrying amount of the Fund's cash and cash equivalents, accounts receivable, funds held in reserve, accounts payable and accrued liabilities, due to Algonquin Power Group and cash distribution payable, approximate fair market value.

The carrying amount of the Fund's long-term investments is dependent on the underlying operations and accordingly a fair

value is not readily available. The Fund has long-term liabilities at fixed interest rates. The fair value of these long-term liabilities at current rates would be \$121,931 (2003- \$182,410). The fair value of other long-term liabilities approximates their carrying value, with the exception of the Joliet subsidy which is not readily available.

Deferred credits include payments made by developers to the Infrastructure Division of which a portion based on revenue for the development in question needs to be paid back over time. These amounts do not bear interest and the amount to be repaid is uncertain and fair value not determinable.

The Fund's cogeneration facility in Mahwah, New Jersey is currently paying market rates for its natural gas purchases since its contract expired in April, 2004. The facility had entered into price swap contracts to fix the price paid for a portion of the natural gas purchases for the facility. The contracts fixed the price of natural gas at U.S.\$6.40 per mmbtu for 22,000 mmbtus per month from June, 2003 to April, 2004. Each month there was a settlement on the difference between the fixed price and the spot price based on the Texas Eastern M-3 price. There is no fair value of the contract at December 31, 2004 (2003 U.S. \$2).

The Fund has entered into foreign exchange contracts to manage its exposure to the U.S. dollar as significant cash flows are generated in the U.S. The Fund sells specific amounts of currencies at predetermined dates and exchange rates that are matched with the anticipated operational cash flows. Contracts in place at December 31, 2004 include forward contracts of U.S.\$98,812 until 2009 at a weighted average exchange rate of \$1.4014. The fair value of the outstanding futures contracts is \$16,600 at December 31, 2004 (2003 – \$10,782).

16. Cash distributions

Distributable income, as defined in the Declaration of Trust, is distributed monthly. Distributions are declared to unitholders-of-record on the last day of the month and are distributed 45 days after declaration. The monthly distribution for 2004 was \$0.0766 per trust unit for each month for a total of \$0.92 for 2004, the same as 2003.

17. Basic and diluted net earnings per trust unit

Net earnings per trust unit has been calculated using the weighted average number of units outstanding during the year. The weighted average number of units outstanding for 2004 was 68,821,431 (2003 – 67,887,612). The net earnings per trust unit for 2004 was \$0.33 (2003 - \$0.66). The effect of conversion of the convertible debentures into trust units was not included in the computation of fully-diluted net earnings per trust unit as the effect of conversion would be anti-dilutive.

18. Segmented information

	2004	2003
Revenue		
Canada	\$ 51,725	\$ 45,629
United States	108,798	101,891
	<u>\$ 160,523</u>	<u>\$ 147,520</u>
Capital assets		
Canada	\$ 319,445	\$ 328,283
United States	291,311	282,097
	<u>\$ 610,756</u>	<u>\$ 610,380</u>
Intangible assets		
Canada	\$ 27,262	\$ 29,130
United States	56,415	53,204
	<u>\$ 83,677</u>	<u>\$ 82,334</u>

Revenues are attributable to the two countries based on the location of the underlying generating and infrastructure facilities.

Operational segments

The Fund identifies four business categories it operates in. The operations and assets for these segments are outlined below.

12 months ended December 31, 2004

	Hydro	Cogeneration	Alternative Fuels	Infrastructure	Admin	Total
Revenue						
Energy sales	43,268	71,846	7,867	-	-	122,981
Waste disposal fees	-	-	14,086	-	-	14,086
Water reclamation and distribution	-	-	-	23,456	-	23,456
Total Revenue	43,268	71,846	21,953	23,456	-	160,523
Operating expenses	17,442	50,597	15,124	10,849	-	94,012
Operating profit	25,826	21,249	6,829	12,607	-	66,511
Other administration costs	(137)	-	(152)	(84)	(3,882)	(4,255)
Interest expense	(5,177)	(772)	(355)	(1,135)	(5,001)	(12,440)
Interest, dividend and other income	557	4,024	1,352	9	739	6,681
Income from note receivable prepayment					3,634	3,634
Amortization of capital assets	(9,598)	(6,741)	(5,933)	(5,490)	-	(27,762)
Amortization of intangible assets	(1)	(2,849)	(3,112)	(503)	-	(6,465)
Earnings before income taxes and minority interest	11,470	14,911	(1,371)	5,404	(4,510)	25,904
Capital assets	285,860	90,868	94,562	139,466	-	610,756
Intangible assets	21	33,775	28,775	21,106	-	83,677
Capital expenditures (excl. acquisitions)	-	1,514	476	14,833	513	17,336
Intangible expenditures	-	-	-	-	-	-
Total assets	307,105	158,023	150,234	175,437	33,100	823,899

12 months ended December 31, 2003

	Hydro	Cogeneration	Alternative Fuels	Infrastructure	Admin	Total
Revenue						
Energy sales	44,413	61,890	6,423	-	-	112,726
Waste disposal fees	-	-	14,650	-	-	14,650
Water reclamation and distribution	-	-	-	20,237	-	20,237
Total Revenue	44,413	61,890	21,073	20,237	-	147,613
Operating expenses	15,862	42,758	12,895	9,165	-	80,680
Operating profit	28,551	19,132	8,178	11,072	-	66,933
Other administration costs	(277)	-	(128)	(81)	10,466	9,980
Interest expense	(5,224)	(666)	(290)	(2,283)	(3,168)	(11,631)
Interest, dividend and other income	494	4,641	1,150	45	278	6,608
Amortization of capital assets	(9,889)	(5,647)	(4,398)	(5,490)	-	(25,424)
Amortization of intangible assets	(346)	(2,489)	(2,024)	(91)	-	(4,950)
Earnings before income taxes and minority interest	13,309	14,971	2,488	3,172	7,576	41,516
Capital assets	289,317	96,616	90,753	133,694	-	610,380
Intangible assets	23	36,623	30,141	15,547	-	82,334
Capital expenditures	8	37,762	295	85,149	-	123,214
Intangible expenditures	-	12,395	-	14,919	-	27,314
Total assets	308,700	191,941	131,899	158,033	18,051	808,624

All energy sales are earned from contracts with large public utilities. The following utilities contributed more than 10% of these total revenues in either 2004 or 2003: Ontario Electricity Financial Corporation 10% (2003 – 10%); Hydro Québec 15% (2003-14%); Pacific Gas and Electric 15% (2003-18%); and Connecticut Light and Power 24% (2003-31%). The Fund has mitigated its credit risk to the extent possible by selling energy to these large utilities in various North American locations.

19. Joint venture investments

	Ownership Interest	Fund's Proportionate Share				Cash flow Generated from Operations ended December 31	
		Income Before Income Tax Year ended December 31		Net Assets December 31			
		2004	2003	2004	2003	2004	2003
Valley Power Limited Partnership	50%	\$ 281	\$ 173	\$ 9,016	\$ 8,912	\$ 875	\$ 741
Campbellford Limited Partnership	50%	277	188	3,729	3,921	511	422
		\$ 558	\$ 361	\$12,745	\$12,833	\$ 1,386	\$ 1,163

20. Guarantees

In the normal course of operations, the Fund executes agreements that provide letters of credit to third parties to secure certain amounts of indebtedness or performance. At December 31, 2004, letters of credit outstanding amounted to \$26,705.

21. Restatement

Capital assets and the future income tax liability have been reduced \$11,617 in 2003 to correct an error related to the determination of the tax basis of aid-in-construction payments on acquisition of certain infrastructure facilities. This restatement has no impact to net income or cash available for distribution to unitholders.

CORPORATE INFORMATION AND CONTACTS

Trustees

Kenneth Moore, Chairman – Managing Partner, NewPoint Capital Partners Inc.
 Christopher J. Ball - Executive Vice-President, Corpfinance International Limited
 George Steeves – Principal, True North Energy (1169417 Ontario Inc.)

The Management Group

Algonquin Power Management Inc.
 Chris K. Jarratt, Chief Executive Officer and Director
 John M.H. Huxley, Director
 Ian E. Robertson, Director
 David C. Kerr, Director

Algonquin Power Income Fund

Peter Kampian,
 Chief Financial Officer

Head Office

2845 Bristol Circle
 Oakville, Ontario, L6H 7H7
 Telephone: (905) 465-4500
 Fax: (905) 465-4514

Email: apif@algonquinpower.com
 Website: www.algonquinpower.com

Registrar and Transfer Agent

CIBC Mellon Trust Company
 320 Bay Street PO Box 1
 Toronto, Ontario, M5H 4A6

Annual General Meeting

April 26, 2005, 4:00 p.m.
 Blake, Cassels & Graydon LLP
 199 Bay Street, Floor 23
 Toronto, Ontario, M5L 1A9

Stock Exchange

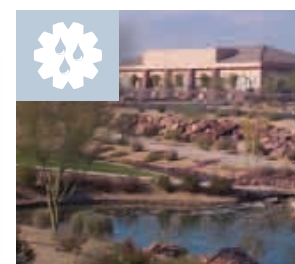
The Toronto Stock Exchange: APF.UN

Auditors

KPMG LLP
 Toronto, Ontario

Legal Counsel

Blake, Cassels & Graydon LLP
 Toronto, Ontario



THE FUND OWNS AND OPERATES 300 MW GENERATING CAPACITY. ITS WATER RECLAMATION AND DISTRIBUTION ASSETS PROVIDE SERVICE TO 40,000 CONNECTIONS.

Year	Asset	Regions	Facilities	Capacity (MW)	Connections	Events
1997	Hydroelectric	4	14	19		Initial Public Offering, \$80 Million
1998	Hydroelectric	5	29	69		Secondary Offering, \$65 Million
1999	Hydroelectric	5	38	101		Secondary Offerings, \$100 Million
2000	Hydroelectric	5	41	171		Secondary Offering, \$28 Million
2001	Hydroelectric	6	47	141	4,500	Secondary Offerings, \$235 Million
	Cogeneration		Interest in 3	288		
	Alternative Fuels		Interest in 3	66		
	Infrastructure		2			
2002	Hydroelectric	6	47	141	13,500	Secondary Offerings, \$171 Million
	Cogeneration		Interest in 3 Own/Operate 2	288 54		
	Alternative Fuels		Interest in 3 Own/Operate 2	66 13		
	Infrastructure		5			
2003	Hydroelectric	6	47	141	36,800	
	Cogeneration		Interest in 3 Own/Operate 3	288 110		
	Alternative Fuels		Interest in 3 Own/Operate 2	66 13		
	Infrastructure		6			
2004	Hydroelectric	6	47	141	40,000	Convertible Debenture Offering, \$85 Million
	Cogeneration		Interest in 2 Own/Operate 3	138 110		
	Alternative Fuels		Interest in 4 Own/Operate 14	166 49		
	Infrastructure		6			

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