

THIRD QUARTER REPORT
SEPTEMBER 30, 2005



ALGONQUIN
 **POWER**
Income Fund

STABILITY PERFORMANCE OPPORTUNITY

Report to Unitholders

Algonquin Power Income Fund is pleased to report improved revenue and reliable generation for the third quarter of 2005 and nine months ended September 30, 2005.

During the quarter the Fund distributed \$0.23 per trust unit, consistent with the third quarter of 2004. The Fund continues to project stable and sustainable cash distributions for unitholders, supported by the Fund's diversified portfolio of assets.

Performance for the third quarter of 2005:

- Revenue increased to \$42.8 million in Q3 2005 from \$40.7 million in Q3 2004.
- Net earnings of \$9.5 million in Q3 2005 compared to \$11.5 million in Q3 2004.
- Net earnings per trust unit were \$0.14 in Q3 2005, compared to \$0.16 in Q3 2004.
- Cash available for distribution was \$14.9 million (\$0.21 per trust unit) in Q3 2005, down from \$15.9 million (\$0.23 per trust unit) in Q3 2004.

Although the Fund continued to experience lower than long term average hydrologic conditions during the quarter, the integration of the Landfill Gas Facilities (LFG) acquired at the end of last year, and water and waste water facilities purchased during the year contributed to the increased revenue. In addition, organic growth continued in the Infrastructure division, contributing to the higher revenue in the quarter and the stability of cash distributions to unitholders.

Operational Highlights

Hydroelectric

During the third quarter of 2005, the Fund's hydroelectric facilities generated electricity equal to 82% of long term averages compared to 114% during the same period in 2004, and 92% in the second quarter of this year. The Ontario, Quebec and New York regions continued to experience lower than average hydrologic conditions during the quarter, while the Western and New England regions experienced above average hydrologic conditions during the quarter. The New England region also experienced above average power rates for the quarter.

Operating profit for the hydroelectric division decreased to \$4.4 million during the third quarter of 2005, down from \$5.9 million in the third quarter of 2004. The decrease in operating profit is mostly attributed to the lower than average hydrologic conditions experienced in the Ontario, Quebec and New York regions.

Overall, the Hydroelectric Division performed below Management's expectations due to lower than long term average hydrologic conditions in the Ontario, Quebec and New York regions.

Cogeneration

The Fund's Cogeneration Division experienced slightly decreased revenue over the same quarter in 2004, partly due to lower production at the Fund's cogeneration facilities. Revenue in local currency was higher in the quarter than the comparable quarter in 2004 due to higher fuel costs that are passed on to the customer at the Windsor Locks facility.

Third quarter 2005 operating profit increased to \$7.6 million as compared to \$7.4 million for the same period in 2004. The increase was mainly due to lower operating costs over the comparable period in 2004.

Overall, the Cogeneration Division met Management's expectations for the third quarter of 2005.

Alternative Fuels

The Fund's Alternative Fuels Division posted increased revenue during the third quarter of 2005 when compared to the third quarter of 2004. The increase in revenue resulted from the inclusion of production from the LFG facilities that were acquired at the end of the third quarter in 2004. Higher revenue was offset by lower waste quantities processed at the Algonquin Power Energy-from-Waste (EFW) facility.

Operating profit for the Alternative Fuels division increased to \$2.4 million for the third quarter of 2005, up from \$2.0 million in the third quarter of 2004. The increase was due to higher revenue in addition to higher dividend and interest income primarily from the Fund's investment in AirSource Power Fund 1LP (Air Source) and Across America LFG LLC (Across America).

Overall, the Alternative Fuels Division performed below Management's expectations primarily due to lower revenue and higher costs at the EFW and LFG facilities.

Infrastructure

During the third quarter, the Fund's infrastructure division reported increased revenue and operating profit over the same period in 2004. The increase in the third quarter is due to the inclusion of eight additional facilities in Texas, Illinois, and Missouri. Five of the eight new facilities were purchased in March 2005 while three facilities located in Missouri required regulatory approval before the purchase was completed. The approval was received on August 14, 2005. Organic growth continued to positively contribute to revenue in the division.

Operating profit for the division in the third quarter of 2005 increased to \$5.1 million from \$3.5 million in the same period of 2004 mainly due to organic growth and the inclusion of the new facilities mentioned above.

Overall, the performance of the Infrastructure division met Management's expectations and it is anticipated that organic growth will continue to contribute to the success of the division. Water and wastewater facilities experienced annualized growth of 9.7% and 9.6% respectively, as at the end of the third quarter of 2005.

Outlook

As anticipated at the end of the third quarter, the Hydroelectric division achieved below average generation due to lower than average hydrology in the Ontario, Quebec and New York regions. As we enter the fourth quarter of 2005, we are seeing improving hydrologic conditions in Quebec, and above average hydrologic conditions in the Western and New England regions. Ontario remains below average for this time of year.

The Fund's cogeneration facilities are expected to continue performing at or above expectations for the remainder of the year. At the beginning of the fourth quarter, the Fund's Sanger facility was shut down and the fixed price natural gas supply for the facility was sold at a favourable fixed price, increasing anticipated profits for the next two quarters.

The LFG facilities are expected to be in line with Management's expectations following some personnel changes and equipment repairs. Following the end of the third quarter, the Fund also hired a new plant manager at the EFW facility, and has remedied issues with the filter systems that have caused issues over the last few quarters.

The infrastructure division is set to continue on budget throughout the remainder of the year due to organic growth and the addition of the new facilities.

Overall, Algonquin Power Income Fund's four divisions continue to provide the fund with strong diversification both operationally and geographically. Further diversification of the Fund continues to be an important strategy as we look to the future.

Thank you for your continued support and commitment to Algonquin Power Income Fund.



Ken Moore
Chairman

Management's Discussion and Analysis

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

For the quarter ended September 30, 2005, the Fund reported total revenue of \$42.8 million as compared to \$40.7 million for the same period in 2004. Revenue for the third quarter of 2005 increased due to the purchase of the Landfill Gas ("LFG") facilities at the end of the third quarter in 2004, water and waste water facilities purchased during the year, combined with higher cogeneration revenue, in local currency, and strong organic growth in the infrastructure division. These amounts were partially offset by lower hydrology experienced in the hydroelectric division, lower levels of waste processed at the Algonquin Power Energy from Waste ("EFW") facility, and a stronger Canadian dollar as compared to the same period in 2004. Although the stronger Canadian dollar has an impact on both revenue and expenses, the Fund has foreign exchange hedges in place, minimizing the impact on net earnings. For the nine months ended September 30, 2005, the Fund reported revenue of \$128.4 million as compared to \$119.8 million for the same period in 2004. Revenue for the nine months ended September 30, 2005 increased primarily for the reasons indicated in the discussion of the third quarter results above. A more detailed analysis of these factors is presented within the divisional analysis below.

Net earnings for the third quarter of 2005 were \$9.5 million as compared to \$11.5 million for the same period in 2004. Net earnings for the third quarter of 2005 fell from the same period in 2004 due to the factors impacting revenue above, and lower unrealized foreign exchange gains offset by an income tax recovery booked in the quarter. Net earnings for the nine months ended September 30, 2005 were \$12.9 million, as compared to \$22.9 million for the same period in 2004. On a year to date basis, earnings fell as a result of the write down related to the Crossroads facility, including the tax loss carry-forward associated with the facility, lower hydrology, and higher interest expenses from the comparable period of the prior year. In addition, net earnings for the 2004 period were increased due to the recognition of a one time gain in an amount of \$3.6 million on the prepayment of a note receivable. These factors were partially offset by organic growth and the purchase of eight water and wastewater facilities during the fiscal year in the infrastructure division. A more detailed analysis of these factors is presented within the divisional analysis below.

Net earnings per trust unit were \$0.14 in the third quarter of 2005 as compared to \$0.16 in the third quarter of 2004. Net earnings per trust unit for the nine months ended September 30, 2005 were \$0.18 as compared to \$0.33 per trust

unit for the same period in the prior year. The Fund generated \$0.21 per trust unit of cash available for distribution for the third quarter 2005, as compared to \$0.23 per trust unit for the third quarter of 2004. During the third quarter of 2005, the Fund maintained distributions at \$0.23 per trust unit, consistent with the same period in 2004.

The Fund generated \$0.65 per trust unit of cash available for distribution for the nine months ended September 30, 2005 as compared to \$0.69 for the same period in 2004. The Fund distributed \$0.69 per trust unit, consistent with the same period in 2004.

	Three Months ended		Nine Months ended	
	September 30		September 30	
	2005	2004	2005	2004
Revenues	42,790	40,682	128,406	119,797
Net earnings	9,462	11,485	12,871	22,888
Distribution to unitholders	16,015	16,015	48,045	47,354
Cash available for distribution	14,912	15,856	45,423	47,202
Per unit				
Net earnings	0.14	0.16	0.18	0.33
Distribution to unitholders	0.23	0.23	0.69	0.69
Cash available for distribution	0.21	0.23	0.65	0.69

The information in this Management's Discussion and Analysis is supplemental to and should be read in conjunction with the Fund's unaudited consolidated financial statements for the nine months ended September 30, 2005, as well as the audited consolidated financial statements and the related Management's Discussion and Analysis contained in the 2004 Annual Report. The Fund's financial statements are prepared in accordance with accounting principles generally accepted in Canada. The Fund's reporting currency is the Canadian dollar.

The term 'cash available for distribution' is used throughout this Management's Discussion and Analysis. Management uses this calculation to monitor the amount of cash generated by the Fund as compared to the amount of cash distributed by the Fund. '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 and analysis of 'cash available for distribution' can be found in this Management's Discussion and Analysis.



Hydroelectric Division

	Three Months ended September 30		Nine Months ended September 30	
	2005	2004	2005	2004
Performance (MW-hrs sold)				
Quebec Region	55,044	74,771	187,008	224,122
Ontario Region	17,504	34,186	71,779	108,991
New England Region	9,117	12,471	60,479	55,874
New York Region	5,381	16,595	44,276	59,603
Western Region	30,228	26,773	61,784	51,423
Total	117,274	164,796	425,326	500,013
Revenues				
Energy sales	\$ 8,679	\$ 9,800	\$30,230	\$32,986
Expenses				
Operating expenses	\$(4,342)	\$(3,980)	\$(11,044)	\$(12,769)
Other income	84	87	407	391
Division operating profit				
(incl. other income)	\$ 4,421	\$ 5,907	\$19,593	\$20,608

Third quarter revenue from the Hydroelectric Division was \$8.7 million in 2005 as compared to \$9.8 million in the third quarter of 2004. During the third quarter of 2005, the Fund's hydroelectric facilities generated electricity equal to 82% of long term averages as compared to 114% during the same period in 2004. The decline in generated electricity was the result of below average hydrology experienced in the Ontario, Quebec and New York regions as compared to above average hydrology experienced in the same period in 2004, and a stronger Canadian dollar as compared to the same period in 2004. The decrease in revenue was partially offset by above average hydrology experienced in the Western and New Hampshire regions and improvements in the average forecasted power rates, particularly in the New York and New England regions. For the nine months ended September 30, 2005, revenue from the Hydroelectric Division was \$30.2 million as compared to \$33.0 million in the prior year. Above average energy generated in the Western and New England regions and improvements in the average power rates were offset by below average generation from the Ontario, Quebec and New York regions, and a stronger Canadian dollar as compared to the same period in 2004.

Operating expenses increased to \$4.3 million for the third quarter of 2005 as compared to \$4.0 million in the third quarter of 2004. The increase was primarily due to higher unplanned repair and maintenance projects in the period offset by reduced variable costs of production, including property taxes, as compared to the

same period in 2004. For the nine months ended September 30, 2005, operating expenses were \$11.0 million as compared to \$12.8 million in the prior year. The decrease was primarily due to fewer unplanned repair and maintenance projects initiated in the first two quarters, reduced variable costs of production, and reduced property taxes in the Quebec region as compared to the same period in 2004. Overall, year-to-date operating expenses were lower than Management's expectations.

For the third quarter of 2005, the Hydroelectric Division's operating profit decreased to \$4.4 million as compared to \$5.9 million in the third quarter of 2004. For the nine months ended September 30, 2005, operating profit decreased to \$19.6 million as compared to \$20.6 million for the same period in 2004. The decrease in operating profit for both the quarter and year-to-date was primarily the result of below average hydrology. For both the quarter and on a year-to-date basis, operating profit was below Management's expectations primarily due to below average hydrology in the Ontario, Quebec and New York regions.

On September 1, 2005 \$4.8 million was repaid on the Campbellford Note. On this date, consolidation of the Campbellford investment ceased and equity accounting commenced. The proceeds of \$4.8 million were allocated to reduce the existing note receivable and the existing investment in Campbellford. Still included in long term investments is a prepayment fee owed in connection with the early repayment.

During the quarter, the Fund completed the purchase of a 2.5 MW hydro facility in New York State. The facility did not impact revenue or expenses in the third quarter and is expected to be operational in the first quarter of fiscal 2006.

Outlook

Overall, the Hydroelectric Division is expected to generate above average electrical production during the fourth quarter. Continued above average hydrological conditions in the New England and Western regions plus improving conditions in the Quebec region are expected to be partially offset by below average hydrological conditions in the Ontario region. In addition, the Fund's New England facilities are expected to continue to benefit from higher market prices.



Cogeneration Division

	Three Months ended September 30		Nine Months ended September 30	
	2005	2004	2005	2004
Performance (MW-hrs sold)	133,993	135,336	399,020	387,793
Revenues				
Energy sales	\$ 19,164	\$ 19,493	\$ 56,123	\$ 54,290
Expenses				
Operating expenses	\$(12,351)	\$(12,997)	\$(38,294)	\$(38,530)
Interest and dividend income	753	870	2,196	3,275
Division operating profit				
(incl. interest and dividend income)	\$ 7,566	\$ 7,366	\$ 20,025	\$ 19,035

Third quarter revenue from the Cogeneration Division totaled \$19.2 million as compared to \$19.5 million in the third quarter of 2004. The decrease in revenue was due to lower production and a stronger Canadian dollar as compared to the same period in 2004. The decrease in revenue was offset by higher prices as a result of increased fuel costs, primarily at the Windsor Locks facility. The increased fuel costs are passed on to the customer. The Fund's major facilities, Sanger and Windsor Locks met or exceeded Management's expectations during the quarter. For the nine months ended September 30, 2005, revenue was \$56.1 million as compared to \$54.3 million during the same period in the prior year. The increased revenue was attributable to higher production, increased fuel costs that are passed on to the customer and due to no unplanned gas turbine outages at the Sanger facility, which was the case in 2004. The Fund earned lower dividend income from its portfolio investments during the nine months ended September 30, 2005 as compared to the same period in 2004 due to the repayment of the Cardinal Power of Canada LP Note ("Cardinal") which occurred in the third quarter of 2004.

Operating expenses decreased to \$12.4 million in the third quarter of 2005 as compared to \$13.0 million in the third quarter of 2004 partially due to the stronger Canadian dollar. For the nine months ended September 30, 2005, expenses decreased to \$38.3 million as compared to \$38.5 million primarily due to reduced unplanned repair and maintenance costs and the stronger Canadian dollar, partially offset by higher fuel costs.

Operating profit for the third quarter of 2005 was \$7.6 million as compared to \$7.4 million for the third quarter of 2004. Operating profit for the nine months ended September 30, 2005 was \$20.0 million as compared to \$19.0 million for the same period in 2004. Operating profit for the third quarter and first three quarters of 2005 was in line with Management's expectations. During the second quarter of 2005, the Fund recognized an expense of \$2.7 million, representing a

write down of its investment in the Crossroads facility. The division operating profit does not reflect this expense as it is included in the Administrative section of this report.

Outlook

The Fund's Windsor Locks facility is expected to continue to perform at or above Management's expectations during the fourth quarter. Subsequent to the end of the third quarter, production at the Sanger facility was stopped and the fixed price natural gas normally consumed by the facility was sold at favourable fixed prices. As a result of this opportunity, increased profits are expected for the balance of 2005 and the first four months of 2006 for the facility. With regard to the ongoing operations at the Crossroads facility, Management is currently assessing its options in order to maximize unitholder value.

Alternative Fuels Division

	Three Months ended September 30		Nine Months ended September 30	
	2005	2004	2005	2004
Performance (MW-hrs sold)	50,033	22,803	156,197	67,528
Performance (tonnes of waste processed)	32,855	41,311	104,387	120,020
Revenues				
Energy sales	\$ 3,933	\$ 1,384	\$ 11,848	\$ 4,221
Waste disposal sales	<u>2,983</u>	<u>3,598</u>	<u>9,335</u>	<u>10,583</u>
Total revenues	\$ 6,916	\$ 4,982	\$ 21,183	\$ 14,804
Expenses				
Operating expenses	\$ (6,331)	\$ (3,272)	\$(18,398)	\$(9,862)
Interest and dividend income	1,795	277	3,971	730
Division operating profit				
(incl. interest and dividend income)	\$ 2,380	\$ 1,987	\$ 6,756	\$ 5,672

Third quarter revenue from the Alternative Fuels Division totaled \$6.9 million as compared to \$5.0 million in 2004. The increase in revenue was the result of an additional \$2.6 million in revenue generated by the LFG facilities purchased at the end of the third quarter of 2004. Lower waste quantities processed by the EFW facility and the stronger Canadian dollar partially offset increased revenues. For the nine months ended September 30, 2005, revenue was \$21.2 million as compared to \$14.8 million for the same period in the prior year. The increase in energy production revenue was the result of the inclusion of revenue and production from the LFG facilities acquired at the end of the third quarter in 2004. The LFG facilities contributed revenue of approximately \$7.7 million for the first nine months of 2005. The increase in revenue was offset by lower waste quantities

processed at EFW as a result of equipment problems, issues with the flue gas systems, and the stronger Canadian dollar.

Operating expenses for the third quarter of 2005 were \$6.3 million as compared to \$3.3 million for the same period in 2004. For the nine months ended September 30, 2005, operating expenses were \$18.4 million as compared to \$9.9 million for the same period during 2004. The increase for both the quarter and nine month period was primarily the result of the inclusion of operating costs from the LFG facilities of approximately \$2.9 million for the third quarter and \$7.6 million for the first nine months of 2005. In addition, higher costs were incurred at the EFW facility as compared to the same period in 2004 as a result of equipment problems and issues with the flue gas system.

Operating profit for the third quarter of 2005 was \$2.4 million as compared to \$2.0 million in the third quarter of 2004. Operating profit for the nine months ended September 30, 2005 was \$6.8 million as compared to \$5.7 million for the same period in 2004. Equipment availability and gas supply issues at the LFG facilities resulted in production and operating profits lower than Management's expectations. Operating profit for both the third quarter and for the nine months ended September 30, 2005 was below Management's expectations.

The Fund earned higher interest and dividend income on the portfolio investments within the Alternative Fuels division during the third quarter of 2005 and in the first nine months of 2005, as compared to the comparable periods in 2004, as a result of income from its investment in AirSource Power Fund I LP ("AirSource") and Across America LFG LLC ("Across America"). At the end of the third quarter of 2005, the Fund had advanced to AirSource a total of \$49.5 million. AirSource is a 99 MW wind energy facility in which the Fund participates through a subordinated debt investment. Across America, through its subsidiaries, owns and manages the landfill collection systems that provide landfill gas to the Fund's LFG facilities. The Across America note was funded at the end of the third quarter of 2004.

Subsequent to the end of the quarter, AirSource completed its long term senior debt facility with a bank syndicate. As a result, AirSource repaid a portion of the Fund's advances to date on the construction facility totaling \$44.5 million. The Fund will resume advancing funds to complete the construction of the facility once the AirSource senior debt facility of \$73 million is fully utilized. The Fund has committed a total of \$74.4 million to AirSource including both the construction and acquisition facilities.

Outlook

During the quarter, Management hired a new facility manager at the EFW facility

and revised the flue gas system that had been limiting production. These actions have resulted in improved waste processing by the end of the quarter and continued improvements are expected for the fourth quarter.

At the LFG facilities, personnel changes and equipment repairs implemented in the third quarter have been completed. Management continues to explore opportunities to enhance the profitability of these facilities. As a result, Management anticipates stronger results during the fourth quarter.

The Valley Power facility is expected to perform in line with Management's expectations.

Infrastructure Division

	Three Months ended September 30		Nine Months ended September 30	
	2005	2004	2005	2004
Number of				
Water reclamation customers	23,635	20,220	23,635	20,220
Water distribution customers	24,518	19,058	24,518	19,058
Revenues				
Water reclamation and distribution	\$ 8,031	\$ 6,407	\$ 20,870	\$ 17,717
Expenses				
Operating expenses	\$ (2,970)	\$ (2,941)	\$ (8,437)	\$ (8,713)
Other income	6	2	23	8
Division operating profit				
(incl. other income)	\$ 5,067	\$ 3,468	\$ 12,456	\$ 9,012

Third quarter 2005 revenue of the Infrastructure Division increased to \$8.0 million as compared to \$6.4 million in 2004. Revenue for the nine months ended September 30, 2005 increased to \$20.9 million as compared to \$17.7 million for the same period during the prior year. The increase in revenue for the third quarter and for the nine months ended September 30, 2005 was primarily due to the inclusion of eight water and waste water facilities purchased during the year as well as continued organic growth in its existing facilities. The increase in revenue was partially offset by the stronger Canadian dollar.

Five of the new facilities (four in Texas and one in Illinois) were purchased on March 11, 2005 while regulatory approval was required to complete the purchase of the other three assets (located in Missouri). This approval was received on August 14, 2005. Overall, these facilities generated additional revenue of approximately \$1.2 million for the third quarter of 2005 (\$2.3 million for the first nine months of 2005). These increases were offset by higher than normal rain in Arizona experienced in the first quarter of 2005 which reduced demand, and a stronger Canadian dollar.

Operating expenses in the third quarter of 2005 were \$3.0 million as compared to \$2.9 million in the third quarter of 2004 partially due to the addition of the new facilities. For the nine months ended September 30, 2005, operating expenses were \$8.4 million as compared to \$8.7 million for the same period during the prior year. The decrease was partially due to the stronger Canadian dollar. The decrease in operating costs was offset by higher costs of approximately \$0.4 million in the third quarter of the 2005 (\$0.8 million year to date) as a result of the inclusion of the new facilities that were purchased during the year.

Operating profit for the third quarter of 2005 increased to \$5.1 million as compared to \$3.5 million for the same period during the prior year. Operating profit for the nine months ended September 30, 2005 increased to \$12.5 million as compared to \$9.0 million in the prior year. The increases were due to organic growth and the inclusion of the additional facilities that were purchased during the year.

Outlook

Management anticipates the division will continue to perform in line with Management's expectations during the upcoming quarter. Organic growth in the customer base of the Fund's water distribution and reclamation facilities is expected to continue in 2005 at similar rates achieved since the end of the first quarter of 2004. Excluding the impact of the new facilities, the wastewater facilities experienced annualized growth of 9.6% in the first nine months of 2005 while the water facilities experienced annualized growth of 9.7% in the first nine months of 2005.

The Infrastructure Division has initiated a rate case at its Black Mountain facility. It is also currently preparing for rate cases at the Gold Canyon facility and two of the newly acquired Missouri facilities. Management expects that these rate cases will have a favourable impact on the rate of return of these facilities once completed.

Administrative expenses

	Three Months ended September 30		Nine Months ended September 30	
	2005	2004	2005	2004
Administrative expenses	\$ 1,386	\$ 1,354	\$ 4,021	\$ 3,981
Management costs	206	196	619	581
Withholding taxes	191	134	530	348
Gain on foreign exchange	(2,975)	(6,908)	(1,860)	(3,474)
Interest expense	4,123	3,339	12,002	8,719
Income from note receivable Prepayment	-	-	-	(3,634)
Write down of Fixed and Intangible Asset	-	-	2,721	-
Interest, dividend and other Income	(5)	(130)	(67)	(624)
Income tax expense (recovery)	(1,213)	561	2,285	506

Foreign exchange gains primarily represent unrealized gains on US dollar denominated debt and do not impact cash available for distribution. For the third quarter of 2005 the Fund posted a foreign exchange gain of \$3.0 million versus a gain of \$6.9 million for the third quarter of 2004. For the nine months ended September 30, 2005 the Fund posted a foreign exchange gain of \$1.9 million as compared to a gain of \$3.5 million for the same period in the prior year. At the end of the third quarter, the Fund had approximately \$40.6 million in US dollar denominated debt.

Interest expense increased to \$4.1 million in the third quarter of 2005 as compared to \$3.3 million in the third quarter of 2004. For the nine months ended September 30, 2005, interest expense increased to \$12.0 million as compared to \$8.7 million for the same period in 2004. The increase is due in part to the issuance of \$85 million in convertible debentures in the third quarter of 2004 which added \$0.3 million of interest expense in the third quarter (\$3.1 million for the nine month period ended September 30, 2005). In addition, interest expenses increased due to a higher interest rate charged on the Fund's operating facility and increased levels of borrowing during the year, in part a result of its investment in AirSource.

It should be noted that the comparable period in 2004 includes a one-time income recognition of \$3.6 million for a note receivable prepayment relating to the Cardinal facility. The Fund's loan to Cardinal totaling \$18.5 million was repaid during the previous year's second quarter plus a prepayment fee of \$3.6 million.

For the nine months ended September 30, 2005, other income decreased to \$0.1 million as compared to \$0.6 million for the same period in 2004, primarily because in 2004 a break fee was earned by the Fund as a result of a failed transaction. During the first nine months of 2005, the figure only included interest income.

An income tax recovery of \$1.2 million was booked in the third quarter of 2005 as compared to an expense of \$0.6 million in the third quarter of 2004. The income tax recovery primarily relates to future taxes. For the nine months ended September 30, 2005, income tax expense increased to \$2.3 million as compared to \$0.5 million for the same period in 2004.

Cash Available for Distribution

	Three Months ended September 30		Nine Months ended September 30	
	2005	2004	2005	2004
Cash flow from operating activities	\$ 14,694	\$ 24,729	\$ 36,205	\$ 54,344
Changes in working capital	(899)	(8,360)	5,792	(6,298)
Operating cash flow before working capital changes	13,795	16,369	41,997	48,046
Receipt of principal on notes receivable	1,103	578	4,155	3,181
Receipt of Commitment Fee from AirSource	988	-	1,976	-
Increase in reserves	313	(29)	286	(95)
Repayment of long-term liabilities	(229)	(168)	(911)	(523)
Maintenance capital expenditures	(577)	(795)	(1,578)	(2,021)
Other	(479)	(99)	(502)	(1,386)
Cash available for distribution	\$ 14,912	\$ 15,856	\$ 45,423	\$ 47,202
Cash available for distribution per trust unit	\$ 0.21	\$ 0.23	\$ 0.65	\$ 0.69
Distribution to unitholders	\$ 16,015	\$ 16,015	\$ 48,045	\$ 47,354
Distributions to unitholders per trust unit	\$ 0.23	\$ 0.23	\$ 0.69	\$ 0.69

During the third quarter of 2005 the Fund generated \$14.9 million in cash available for distribution as compared to \$15.9 million for the same period in 2004. For the nine months ended September 30, 2005, the Fund generated \$45.4 million of cash available for distribution as compared to \$47.2 million for the same period in 2004.

The Fund's payout ratio has been improving from 123.4% in 2002 to 106.9% in 2003 and 105.8% for 2004. At the end of the third quarter of 2005 the Fund's payout ratio was 105.8% and Management expects to achieve continued improvement by the end of 2005.

The shortfall between 'Cash available for distribution' and 'Distributions to unitholders' has been funded primarily by working capital. Should any further shortfall arise, Management expects to be able to cover the difference between cash generated and cash distributed through working capital, cash on hand or its credit facility. Working capital has been built up over time from public offerings.

On a per trust unit basis, the Fund generated \$0.21 of cash available for distribution for the third quarter of 2005 as compared to \$0.23 for the third quarter of 2004 and \$0.65 for the nine months ended September 30, 2005 as compared to \$0.69 for the same period during the prior year. The Fund distributed \$16.0 million during the third quarters of both 2005 and 2004. For the nine

months ended September 30, 2005 the Fund distributed \$48.0 million as compared to \$47.4 million for the same period during 2004.

On a per unit basis, the Fund maintained distributions at \$0.23 per trust unit for the third quarter of 2005, consistent with 2004, and \$0.69 for the nine months ended September 30, 2005, consistent with 2004.

Under Canadian tax rules, cash distributions consist of a return of capital portion (tax deferred) and a return on capital portion (taxable). During fiscal 2004, the Fund's return of capital was approximately 62%. Actual return of capital amounts for the year ended December 31, 2005 may differ from historical results as it is dependent upon the results of the current year's operations.

Liquidity and Capital Reserves

At the end of the third quarter of 2005 the Fund had \$13.8 million of cash and cash equivalents. As at September 30, 2005, the Fund had positive net working capital of \$3.3 million. The surplus is a combination of \$4.8 million repaid on the Campbellford Note, partially offset by the Fund financing its ongoing capital expenditures in the quarter from working capital

During the third quarter of 2005, the Fund incurred capital expenditures of \$2.7 million, as compared to \$6.9 million in the comparable period in 2004. During the first nine months of 2005, the Fund incurred capital expenditures of \$13.3 million, as compared to \$12.2 million in the comparable period in 2004. The expenditures during the third quarter in 2005 were primarily growth related expenditures in the Infrastructure division. Capital expenditure requirements are anticipated to be approximately \$20 million for all of fiscal 2005. The majority of these expenditures are growth related expenditures in the Infrastructure division, and to comply with new rules pertaining to arsenic levels. The Fund generally finances capital expenditures through working capital, its revolving credit facility and additional trust unit offerings.

Long-term liabilities increased to \$176.6 million at the end of the third quarter of 2005 as compared to \$107.6 million at the end of the third quarter of 2004. Long term liabilities primarily consist of project level debt of approximately \$89 million and an amount of \$88 million drawn on the Fund's revolving credit facility as compared to project level debt of \$92.6 million and an amount of \$15.0 million drawn on the Fund's revolving credit facility at the end of the third quarter of 2004. Project debt is paid at the project level where adequate cash flows are available to fund the project debt requirements and the debt is generally non-recourse to the Fund. Project debt repayments are deducted in the calculation of cash available for distribution.

The Fund has in place a \$145 million revolving credit facility of which \$125 million is to be used for acquisitions, investments and letters of credit, and the balance of \$20 million is to be used for operating requirements. At the end of the quarter, the Fund had drawn \$10.7 million on the operating portion of the revolving credit facility. The Fund had \$77.9 million drawn on the acquisition portion of the credit facility.

During the third quarter of 2005, the Fund drew an additional \$27.1 million on the revolving credit facility, primarily to fund the requirements of AirSource and acquire the Beaver Falls facility. The Fund's total commitment to AirSource is \$74.4 million of which the Fund intends to finance initially by utilizing the revolving credit facility. Since the Fund utilizes the revolving credit for growth capital expenditures including acquisitions, the revolving credit has been reduced in the past by the issuance of units to the public. It is anticipated that the revolving credit would be repaid by a future offering of units. At the end of the third quarter of 2005, the Fund had advanced \$49.5 million to AirSource in addition to providing letters of credit of \$15.4 million, for a total advance of \$64.9 million. Subsequent to the end of the quarter, AirSource repaid \$44.5 million to the Fund, representing the construction portion of the facility for the outstanding amount of \$20.4.

At the end of the third quarter of 2005 the Fund maintained a long-term debt-to-equity ratio (including long term liabilities, other long term liabilities and convertible debentures) of 59%. The Fund may settle these debentures, at its option, in cash, or, subject to certain conditions, in Fund units. Accordingly, if the convertible debentures are excluded from this calculation (calculated as equity), the long term debt-to-equity ratio would be reduced to 34%.

Contractual Obligations

Information concerning contractual obligations as of November 8, 2005 is shown below:

	Total	Due less than 1 year	Due 2 to 3 years	Due 4 to 5 years	Due after 5 years
Long-term debt obligations	262,537	974	90,806	2,669	168,088
Other obligations	65,002	558	58,878	642	4,924
Total obligations	327,529	1,532	149,684	3,311	173,012

Long term obligations normally include regular payments related to long-term debt and other obligations. These payments are included as a reduction to cash available for distribution. Included in the other obligations in the 2-3 year time frame is the Fund's commitment as of November 8, 2005 to invest a remaining \$54 million in AirSource. The Fund's obligation to AirSource will be funded initially utilizing the Fund's credit facility. The Fund's intentions are to repay the credit facility as discussed above by raising funds through a public unit offering.

During the quarter, Management reached an agreement with The Fund's senior lenders to extend its revolving credit facility under essentially the same terms for an additional two years, effective August 30, 2005.

Dealings with Algonquin Power Group

During the third quarter of 2005 companies related to the Manager provided operations and technical services on a cost-recovery basis. In addition, the Fund's head office premises are leased from an entity related to the Manager. Details are outlined in note 7 of the financial statements.

When appropriate for use in its operations, the Fund utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of the Manager. The Fund entered into an agreement and remitted \$1.3 million to this affiliate as an advance against expense reimbursement (including engine utilization reserves) for the Fund's business use of this aircraft. Under the terms of this arrangement, the Fund will have priority access to make use of the aircraft for a specified number of hours at a cost equal solely to the third party direct operating costs incurred when flying the aircraft; such direct operating costs do not provide the affiliate with any profit or return on or of the capital committed to the aircraft.

Risk Management

A comprehensive assessment of the Fund's business risks is set out in the 2004 Annual Information Form. These risks include the dependence upon Fund businesses, regulatory climate and permits, US versus Canadian dollar exchange rates, tax related matters, and commodity prices.

The Fund is entirely dependant upon the operations and assets of the Fund businesses. Accordingly, distributions to unitholders are dependent upon the profitability of each of the Fund businesses. The Fund continues to diversify its operations, both operationally (Hydro, Cogeneration, Alternative Fuels and Infrastructure) and geographically (Canada and US).

Profitability of the Fund businesses will be in part dependent on regulatory climates. In the case of some hydroelectric facilities, water rights are generally owned by governments who reserve the right to control water levels which may affect revenue. The water and waste water facilities are highly regulated and are subject to rate settings by state regulators. Management continually works with these authorities to manage the affairs of the business.

The Fund continues to benefit from forward contracts to hedge its U.S. dollar exchange rate relative to expected future monthly cash flows. At the end of the third quarter of 2005, the Fund had forward contracts to sell US dollars for

the remainder of 2005 totalling US \$5.6 million at an average rate of \$1.42 Canadian per US dollar. The Fund has entered into forward contracts that provide similar fixed exchange rate protection for 2006 to the beginning of 2010 totalling US\$ 82.2 million carrying an average rate of \$1.38. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Although the Fund is of the view that all expenses being claimed by the Fund are reasonable, there can be no assurance that the related tax authorities will agree. If these authorities successfully challenge the deductibility of these expenses, there may be an adverse effect on unitholders.

The Fund has fixed the price of its natural gas exposure until 2006 at the Sanger facility and to 2007 at the EFW facility. After this time, the EFW facility is the Fund's only natural gas exposure as the other facilities have pass through provisions in their energy agreements. Natural gas at the EFW facility will be re-contracted on a rolling basis.

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

Outlook

Management will continue to identify opportunities to optimize the performance of its portfolio. Management is focusing its efforts on integrating recently acquired facilities including the LFG facilities and water and waste water facilities and identifying efficiency opportunities to enhance unitholder value.

Management is expecting to generate improving cash available for distribution for 2005 assuming a number of factors including: further organic growth in water distribution and reclamation services; income generated from its subordinated debt to AirSource; continuing average to near average long-term hydrologic conditions; the escalation of power prices in certain hydroelectric power purchase agreements, coupled with no increase in unforeseen events.

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.

Management will continue 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, Management will continue 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 September 30, 2005.

Millions of dollars except per trust unit amounts

	4th Qtr 2004	1st Qtr 2005	2nd Qtr 2005	3rd Qtr 2005	Total
Revenues	40.7	40.6	45.0	42.8	169.1
Net earnings	(0.1)	1.8	1.6	9.5	12.8
Net earnings per trust unit	0.00	0.03	0.02	0.14	0.19
Total Assets	823.9	813.1	822.1	838.2	838.2
Long-term debt	226.2	235.6	261.8	286.8	286.8
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92
	4th Qtr 2003	1st Qtr 2004	2nd Qtr 2004	3rd Qtr 2004	Total
Revenues	39.7	37.2	41.9	40.7	159.5
Net earnings	6.5	3.3	8.1	11.5	29.4
Net earnings per trust unit	0.09	0.05	0.12	0.16	0.42
Total Assets	808.6	812.5	809.0	834.2	834.2
Long-term debt	185.4	186.4	189.7	214.6	214.6
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

Note:

The operations of the Fund are impacted by seasonal fluctuations. The Fund's hydroelectric energy assets are primarily "run-of-the-river" and as such fluctuate with the natural water flows. During the winter and summer periods, flows are generally slower while during the spring and fall periods flows are heavier.

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

Consolidated Balance Sheets
September 30, 2005 and December 31, 2004
(thousands of Canadian dollars)

	30-Sep-05 Unaudited	31-Dec-04
Assets		
Current assets		
Cash and cash equivalents	\$ 13,828	\$ 34,197
Accounts receivable	21,879	25,343
Prepaid expenses	1,962	1,790
Current portion of notes receivable	2,483	2,589
Future income tax asset	4	18
	<u>40,156</u>	<u>63,937</u>
Long-term investments (notes 4 and 7)	87,643	48,561
Future non-current income tax asset	2,052	6,425
Capital assets, net of amortization	621,158	610,756
Intangible assets, net of amortization	78,265	83,677
Funds held in reserve	3,442	3,728
Deferred costs	5,476	6,815
	<u>\$ 838,192</u>	<u>\$ 823,899</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 21,317	\$ 30,481
Due to Algonquin Power Group	2,047	1,826
Cash distribution payable	10,677	10,677
Current portion of long-term liabilities	1,532	1,666
Current income tax liability	399	596
Future income tax liability	846	1,449
	<u>36,818</u>	<u>46,695</u>
Long-term liabilities	176,563	120,085
Convertible debentures	85,000	85,000
Other long-term liabilities	10,444	8,960
Deferred credits	14,764	12,124
Future non-current income tax liability	54,506	55,764
Unitholders' equity		
Trust units	654,176	654,176
Deficit	(194,079)	(158,905)
	<u>460,097</u>	<u>495,271</u>
	<u>\$ 838,192</u>	<u>\$ 823,899</u>

See accompanying note to financial statements

Approved by the Trustees




Consolidated Statements of Earnings and Deficit
For the nine months ended September 30, 2005 and September 30, 2004
(thousands of Canadian dollars)
Unaudited

	3 months ended September 30		9 months ended September 30	
	2005	2004	2005	2004
Revenue				
Energy sales	\$ 31,776	\$ 30,678	\$ 98,201	\$ 91,498
Waste disposal fees	2,983	3,598	9,335	10,583
Water reclamation and distribution	8,031	6,406	20,870	17,716
	<u>42,790</u>	<u>40,682</u>	<u>128,406</u>	<u>119,797</u>
Expenses				
Operating	25,994	23,190	76,173	69,874
Amortization of capital assets	6,804	7,237	20,745	20,126
Amortization of intangible assets	1,455	1,460	4,963	4,093
Management costs	206	196	619	581
Administrative expenses	1,386	1,354	4,021	3,981
Withholding taxes	191	134	530	348
Gain on foreign exchange	(2,975)	(6,908)	(1,860)	(3,474)
	<u>33,061</u>	<u>26,663</u>	<u>105,191</u>	<u>95,529</u>
Earnings before undernoted	9,729	14,019	23,215	24,268
Interest expense	4,123	3,339	12,002	8,719
Interest, dividend and other income	(2,643)	(1,366)	(6,664)	(5,028)
Income from note receivable prepayment	-	-	-	(3,634)
Write down of facility (note 8)	-	-	2,721	-
	<u>1,480</u>	<u>1,973</u>	<u>8,059</u>	<u>57</u>
Earnings before income taxes and minority interest	8,249	12,046	15,156	24,211
Current income taxes	130	160	633	744
Future income taxes	(1,343)	401	1,652	(238)
	<u>(1,213)</u>	<u>561</u>	<u>2,285</u>	<u>506</u>
Minority interest	-	-	-	817
Net earnings	9,462	11,485	12,871	22,888
Deficit, beginning of the period	(187,526)	(138,273)	(158,905)	(118,337)
Cash distributions	(16,015)	(16,015)	(48,045)	(47,354)
Deficit, end of the period	<u>\$ (194,079)</u>	<u>\$ (142,803)</u>	<u>\$ (194,079)</u>	<u>\$ (142,803)</u>
Basic and diluted net earnings per trust unit	<u>\$ 0.14</u>	<u>\$ 0.16</u>	<u>\$ 0.18</u>	<u>\$ 0.33</u>

See accompanying notes to financial statements

Consolidated Statements of Cash Flows
For the nine months ended September 30, 2005 and September 30, 2004

(thousands of Canadian dollars)

Unaudited

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Operating Activities				
Net earnings	\$ 9,462	\$ 11,485	\$ 12,871	\$ 22,888
Items not affecting cash				
Amortization of capital assets	6,804	7,237	20,745	20,126
Amortization of intangible assets	1,455	1,460	4,963	4,093
Other amortization	306	600	980	1,704
Minority interest		-	-	817
Distribution received in excess of equity income	174	(111)	240	3
Write down of facility (note 8)	-	-	2,721	-
Future income taxes	(1,343)	401	1,652	(238)
Unrealized gain on foreign exchange	(3,063)	(4,703)	(2,175)	(1,347)
	<u>13,795</u>	<u>16,369</u>	<u>41,997</u>	<u>48,046</u>
Changes in non-cash operating working capital	899	8,360	(5,792)	6,298
	<u>14,694</u>	<u>24,729</u>	<u>36,205</u>	<u>54,344</u>
Financing Activities				
Cash distributions	(16,015)	(16,015)	(48,045)	(47,354)
Expenses of trust unit offering	-	-	-	(700)
Convertible debenture issue	-	85,000	-	85,000
Expenses of convertible debenture issue	-	(4,100)	-	(4,100)
Deferred costs	(307)	(99)	(759)	(679)
Net increase (decrease) in long-term liabilities	26,871	(56,274)	57,669	(56,629)
Deferred credits	611	(323)	1,677	482
Other	156	33	549	(704)
	<u>11,316</u>	<u>8,222</u>	<u>11,091</u>	<u>(24,684)</u>
Investing Activities				
Increase in reserve funds (note 3)	4,887	(29)	286	(95)
Receipt of principal on notes receivable	5,842	578	8,893	21,005
Additions to capital assets	(2,731)	(6,911)	(13,276)	(12,150)
Increase in note receivable	(22,172)	(11,186)	(45,260)	(11,186)
Acquisitions of operating entities (note 3)	(6,485)	(12,860)	(18,122)	(14,442)
	<u>(20,659)</u>	<u>(30,408)</u>	<u>(67,479)</u>	<u>(16,868)</u>
Effect of exchange rate differences on cash and cash equivalents	(530)	(1,059)	(186)	(768)
Increase (decrease) in cash and cash equivalents, beginning of the period	9,007	31,778	34,197	21,238
Cash and cash equivalents, end of the period	<u>\$ 13,828</u>	<u>\$ 33,262</u>	<u>\$ 13,828</u>	<u>\$ 33,262</u>
Supplemental disclosure of cash flow information				
Cash paid during the period for interest expense	\$ 5,104	\$ 2,883	\$ 13,049	\$ 8,222
Cash paid during the period for income taxes	\$ 63	\$ 694	\$ 404	\$ 1,018

Notes to the Consolidated financial Statements
For the six months ended June 30, 2005 and June 30, 2004
(in thousands of Canadian dollars except as noted)
(unaudited)

1. Basis of Presentation

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2004, as set out in the 2004 Annual Report since they do not contain all the disclosures that are in accordance with Canadian generally accepted accounting principles for annual financial statements. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies and methods of computation as were used for the audited consolidated financial statements for the year ended December 31, 2004.

2. Seasonality

The operations of the Fund are seasonal. The Fund's hydroelectric energy assets are primarily "run-of- the-river" and as such fluctuate with the natural water flows. During the winter and summer periods, flows are generally slower while during the spring and fall periods flows are heavier.

3. Acquisition of facility

i) On September 21, 2005, the Fund purchased the Beaver Falls Hydro Plant, a 2.5 MW hydro electric generating station located in Beaver Falls, New York, for cash consideration of \$1.0 million (US \$0.8 million). Electrical energy produced by the facility is sold to Niagara Mohawk under a power sales contract which expires in 2019. The Fund also incurred \$0.3 million (US \$0.3 million) of acquisition costs.

ii) On March 11, 2005, the Fund purchased all the assets used in the operation of five water and waste water facilities ("the systems") from Silverleaf Resorts Inc. for cash consideration of \$11.2 million (US \$ 9.4 million). A deposit in the amount of \$1.4 million (US \$1.1 million) was paid in 2004. The systems, which in aggregate serve approximately 5,500 equivalent residential connections, are located in Texas and Illinois. The purchase and sale agreement provided for the acquisition of 3 additional assets, subject to regulatory approval, located in Missouri serving approximately 1500 customers, for a purchase price of \$4.6 million (US \$3.8 million). On August 14, 2005, the Fund received approval from the regulator and completed the Missouri acquisitions. The Fund also incurred \$0.4 million (US \$0.3 million) of acquisition costs.

The acquisitions have 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:

	Infrastructure	Hydroelectric	Total
Fixed assets	\$ 12,625	\$ 1,286	\$ 13,911
Intangible assets	3,598	-	3,598
Total Purchase Price	\$ 16,223	\$ 1,286	\$ 17,509

Intangible assets include customer relationships (connections) which are amortized over 40 years

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

In accordance with the purchase and sale agreement for Litchfield Park Service Company and Woodmark Utility Company, the Fund is required to make additional payments to the previous owners for each additional customer connected to the utility. For Litchfield Park, these payments continue until 2008 and for Woodmark until 2007. As of September 30, 2005 the Fund has accrued \$1,982 (U.S \$1,618) as a growth premium, and increased intangible assets by a similar amount, gross of future tax liabilities of \$1,210.

4. Campbellford Note

On September 1, 2005, the principal on the Campbellford Note of \$4.8 million was repaid. On this date, consolidation of the Campbellford investment ceased and equity accounting commenced. The proceeds of \$4.8 million were allocated to reduce the existing note receivable and the existing investment in Campbellford. Included in long term investments is a prepayment fee owed as a result of the early repayment.

5. Commitment to AirSource

During the third quarter 2005, the Fund has provided an additional \$20.9 million of financing to Airsource Power Fund I LP ("AirSource") for the construction of the wind farm in St. Leon. At the end of the third quarter of 2005, the Fund received a \$2.0 million commitment fee, recorded as deferred credits at September 30, 2005. The fee is being amortized over the term of the financing facility. The Fund's total commitment to AirSource is \$74.4 million. At the end of the third quarter of 2005, the Fund has advanced \$49.5 million to AirSource in addition to providing letters of credit of \$15.4 million, for a total advance of \$64.9 million. (see note 10)

6. Long term debt

On August 30, 2005, the Fund renewed its revolving credit facility with a syndicate of Canadian banks. The credit facility matures August 30, 2007 and has a total credit limit of \$145.0 million and includes a \$20.0 million operating line. The credit facility is at bankers acceptance or LIBOR plus 1.125% provided the fund adheres to certain covenants. During the third quarter 2005, the Fund drew an additional \$27.1 million on the revolving credit facility to fund AirSource (see note 5) and acquire the Beaver Falls facility (see note 3). As at the end of the quarter, the fund had a total of approximately \$12 million available on the credit facility.

During the nine months ended September 30, 2005, the Fund has drawn \$58.6 million on the facility primarily to fund AirSource (see note 5) and the acquisitions (see note 3).

7. Algonquin Power Group

In accordance with the management agreement, on a cost recovery basis, the Fund paid Algonquin Power Management Inc. ("APMI") and its related companies for services provided. For the period ended September 30, 2005, the Fund paid APMI \$619 (2004 - \$581) for management services. In addition, the Fund paid Algonquin Power Systems Inc. \$9,867 (2004 - \$8,452) and Algonquin Water Services Inc. \$4,041 (2004 - \$3,572) for direct operational services.

The Fund has leased its head office facilities since 2001 from an entity owned by the shareholders of APMI on a net basis. Base lease costs for the quarter were \$74 (2004 - \$69) and additional rent representing operating costs was \$97 (2004 - \$32). Year to date base rent was \$222 (2004- \$189), and additional rent was \$164 (2004 - \$86).

When appropriate for use in its operations the Fund utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of APMI. The Fund entered into an agreement and remitted \$1.3 million to the affiliate as an advance against expense reimbursement (including engine utilization reserves) for the Fund's business use of the aircraft. Under the terms of this arrangement, the Fund will have priority access to make use of the aircraft for a specified number of hours at a cost equal solely to the third party direct operating costs incurred when flying the aircraft; such direct operating costs do not provide the affiliate with any profit or return on or of the capital committed to the aircraft.

8. Crossroads facility

During the second quarter, the Fund wrote down the cost of both the capital asset and intangible asset related to the Crossroads facility located in New Jersey to its fair value.

9. Segmented Information

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

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Revenue				
Canada	\$ 10,774	\$ 9,714	\$ 34,855	\$ 39,196
United States	<u>32,016</u>	<u>30,968</u>	<u>93,551</u>	<u>80,601</u>
	<u>\$ 42,790</u>	<u>\$ 40,682</u>	<u>\$ 128,406</u>	<u>\$ 119,797</u>
	September 30, 2005		December 31, 2004	
Capital Assets				
Canada		\$ 312,013		\$ 319,445
United States		<u>309,145</u>		<u>291,311</u>
		<u>\$ 621,158</u>		<u>\$ 610,756</u>
	September 30, 2005		December 31, 2004	
Intangible Assets				
Canada		\$ 25,760		\$ 27,262
United States		<u>52,505</u>		<u>56,415</u>
		<u>\$ 78,265</u>		<u>\$ 83,677</u>

Operational segments

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

Three months ended September 30, 2005

Revenue	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	8,679	19,164	3,933	-	-	31,776
Waste disposal fees	-	-	2,983	-	-	2,983
Water reclamation and distribution	-	-	-	8,031	-	8,031
Total Revenue	8,679	19,164	6,916	8,031	-	42,790
Operating expenses	4,342	12,351	6,331	2,970	-	25,994
Operating profit	4,337	6,813	585	5,061	-	16,796
Other administration costs	12	-	(26)	(23)	1,229	1,192
Interest expense	(1,270)	(230)	(101)	(282)	(2,240)	(4,123)
Interest, dividend income and other income	84	753	1,795	6	5	2,643
Write down of capital asset and intangible asset	-	-	-	-	-	-
Amortization of capital assets	(2,617)	(1,485)	(1,342)	(1,360)	-	(6,804)
Amortization of intangible assets	(1)	(707)	(564)	(183)	-	(1,455)
Earnings before income taxes and minority interest	545	5,144	347	3,219	(1,006)	8,249
Capital assets	277,093	92,848	93,803	157,414	-	621,158
Intangible assets	20	25,287	25,571	27,387	-	78,265
Capital expenditures	36	(607)	1,804	1,441	57	2,731
Acquisition of operating entities	1,286	-	-	5,199	-	6,485
Total Assets	292,003	148,736	188,786	193,152	15,515	838,192

Three months ended September 30, 2004

Revenue	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	9,800	19,493	1,384	-	-	30,677
Waste disposal fees	-	-	3,598	-	-	3,598
Water reclamation and distribution	-	-	-	6,407	-	6,407
Total Revenue	9,800	19,493	4,982	6,407	-	40,682
Operating expenses	3,980	12,997	3,272	2,941	-	23,190
Operating profit	5,820	6,496	1,710	3,466	-	17,492
Other administration costs	1	-	(76)	(22)	5,321	5,224
Interest expense	(1,281)	(192)	(88)	(304)	(1,474)	(3,339)
Interest, dividend income and other income	87	870	277	2	130	1,366
Income on note receivable prepayment	-	-	-	-	-	-
Amortization of capital assets	(2,383)	(1,839)	(1,274)	(1,741)	-	(7,237)
Amortization of intangible assets	-	(748)	(584)	(128)	-	(1,460)
Earnings before income taxes and minority interest	2,244	4,587	(35)	1,273	3,977	12,046
Capital assets	288,246	92,191	99,775	147,388	-	627,600
Intangible assets	21	34,522	28,513	18,991	-	82,047
Capital expenditures	-	934	-	5,580	397	6,911
Acquisition of operating entities	-	-	12,048	812	-	12,860
Total Assets	307,365	168,267	149,593	177,077	31,850	834,152

Revenue	Nine months ended September 30, 2005					
	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	30,230	56,123	11,848	-	-	98,201
Waste disposal fees	-	-	9,335	-	-	9,335
Water reclamation and distribution	-	-	-	20,870	-	20,870
Total Revenue	30,230	56,123	21,183	20,870	-	128,406
Operating expenses	11,044	38,294	18,398	8,437	-	76,173
Operating profit	19,186	17,829	2,785	12,433	-	52,233
Other administration costs	(83)	-	(96)	(77)	(3,054)	(3,310)
Interest expense	(3,804)	(681)	(298)	(862)	(6,357)	(12,002)
Interest, dividend income and other income	407	2,196	3,971	23	67	6,664
Write down of capital asset and intangible asset	-	(2,721)	-	-	-	(2,721)
Amortization of capital assets	(7,268)	(5,232)	(3,782)	(4,463)	-	(20,745)
Amortization of intangible assets	(1)	(2,681)	(1,771)	(510)	-	(4,963)
Earnings before income taxes and minority interest	8,437	8,710	809	6,544	(9,344)	15,156
Capital assets	277,093	92,848	93,803	157,414	-	621,158
Intangible assets	20	25,287	25,571	27,387	-	78,265
Capital expenditures	262	(452)	4,442	8,851	173	13,276
Acquisition of operating entities	1,286	-	-	16,836	-	18,122
Total assets	292,003	148,736	188,786	193,152	15,515	838,192

Revenue	Nine months ended September 30, 2004					
	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	32,986	54,290	4,221	-	-	91,497
Waste disposal fees	-	-	10,583	-	-	10,583
Water reclamation and distribution	-	-	-	17,717	-	17,717
Total Revenue	32,986	54,290	14,804	17,717	-	119,797
Operating expenses	12,769	38,530	9,862	8,713	-	69,874
Operating profit	20,217	15,760	4,942	9,004	-	49,923
Other administration costs	(114)	-	(115)	(59)	(1,148)	(1,436)
Interest expense	(3,893)	(565)	(252)	(845)	(3,164)	(8,719)
Interest, dividend income and other income	391	3,275	730	8	624	5,028
Income on note receivable prepayment	-	-	-	-	3,634	3,634
Amortization of capital assets	(7,215)	(4,866)	(3,524)	(4,521)	-	(20,126)
Amortization of intangible assets	-	(2,103)	(1,627)	(363)	-	(4,093)
Earnings before income taxes and minority interest	9,386	11,501	154	3,224	(54)	24,211
Capital assets	288,246	92,191	99,775	147,388	-	627,600
Intangible assets	21	34,522	28,513	18,991	-	82,047
Capital expenditures	-	1,106	173	10,380	491	12,150
Acquisition of operating entities	-	-	12,048	2,394	-	14,442
Total assets December 31, 2004	307,105	158,023	150,234	175,437	33,100	823,899

10. Subsequent Event

The senior debt for AirSource was finalized subsequent to the end of the quarter and on November 3, 2005 the Fund was repaid \$44,520 from its construction advances to AirSource. These funds will be used to pay down debt. The Fund still collects a standby charge on the undrawn portion of the loan and a charge on its letters of credit advanced to AirSource.

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HYDROELECTRIC



COGENERATION



ALTERNATIVE FUELS



INFRASTRUCTURE

