



Additional Information for the Fourth Quarter and Year Ended December 31, 2005

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

Forward-Looking Disclaimer

Certain statements contained in the information herein are forward-looking and reflect the views of the Fund and Algonquin Power Management Inc. (the “Manager”) 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.

Key Financial Information

(C\$000)	Three Months ended December 31		Year ended December 31		
	2005	2004	2005	2004	2003
Revenue	\$ 50,917	\$ 40,726	\$ 179,324	\$ 160,523	\$ 147,613
Net earnings	8,918	(86)	21,788	22,802	44,507
Distribution to unitholders	16,015	16,015	64,061	63,370	62,402
Cash available for distribution	19,469	12,685	64,892	59,887	58,368
Per unit					
Net earnings	0.12	0.00	0.31	0.33	0.66
Distribution to unitholders	0.23	0.23	0.92	0.92	0.92
Cash available for distribution*	0.28	0.18	0.93	0.87	0.86

* Non-GAAP measurement

For the quarter ended December 31, 2005, the Fund reported total revenue of \$50.9 million as compared to \$40.7 million for the same period in 2004. Revenue for the fourth quarter of 2005 increased due to strong hydrology experienced in the Hydroelectric Division combined with improved average energy rates, primarily in New England and New York regions, improved production and average energy prices at the Cogeneration Division’s Windsor Locks facility and Fund’s decision to close the Sanger facility for a six month period and sell natural gas at favourable rates. Additionally, the Alternative Fuels Division experienced improved energy production, greater levels of waste processed at its Algonquin Power Energy from Waste (“EFW”) facility and higher average energy rates, and the Infrastructure Division experienced strong organic growth combined with new water and wastewater facilities purchased during the year. These factors resulted in increased revenue from the same period in the prior year. These amounts were partially offset by lower production in the Crossroads facility and a stronger Canadian dollar as compared to the same period in 2004.

For the quarter ended December 31, 2005, the average US exchange rate dropped by approximately 5% from the same period in 2004. For the year ended December 31, 2005, the average US exchange rate dropped by approximately 7.5% from the same period in 2004. As such, any quarterly or annual variance to revenue or expenses, in local currency, at one of the Fund’s US entities may be distorted by a change in the average exchange rate, upon conversion to the Fund’s reporting currency. Although the stronger Canadian dollar has an impact on both revenue and expenses generated by its US subsidiaries, the Fund has foreign exchange hedges in place, which mitigate the impact on cash available for distribution.

For the year ended December 31, 2005, the Fund reported revenue of \$179.3 million as compared to \$160.5 million for the same period in 2004. Revenue for the year ended December 31, 2005 increased due to improved average energy rates in the Hydroelectric Division, primarily in New England and New York regions, improved production and energy rates experienced at the Cogeneration Division's Windsor Locks facility, combined with no unplanned gas turbine outages at the Sanger facility, (two unplanned outages occurred in fiscal 2004). Additionally, the Alternative Fuels Division and the Infrastructure Division generated increased revenue from the same period in the prior year due to the factors previously noted in the quarterly discussion. These amounts were partially offset by lower hydrology in the Hydroelectric Division, lower overall production in the Cogeneration Division as a result of the factors previously noted in the quarterly discussion, lower levels of waste processed at the EFW facility and a stronger Canadian dollar as compared to the same period in 2004.

For the quarter ended December 31, 2005, net earnings were \$8.9 million as compared to a net loss of \$0.1 million for the same period in 2004. Net earnings for the fourth quarter of 2005 increased from the same period in 2004 due to the factors impacting revenue as previously noted. In addition, the Alternative Fuels Division experienced greater interest and other income from its subordinated debt facility provided to AirSource Power Fund I LP ("AirSource") and the sale of the partnership interest in certain gas collection systems. These amounts were partially offset by increased interest expense and future income tax expense booked in the quarter. Net earnings for the year ended December 31, 2005 were \$21.8 million, as compared to \$22.8 million for the same period in 2004. On a year to date basis, net earnings fell as a result of the write down of \$3.5 million related to the Crossroads facility, including the tax loss carry-forward associated with the facility, a reduced unrealized foreign exchange gain on US dollar denominated debt and higher interest expenses from the comparable period in the prior year. In addition, net earnings for the 2004 period 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 the factors increasing divisional earnings previously noted and the write off related to the Joliet facility.

Net earnings per trust unit were \$0.12 in the quarter ended December 31, 2005 as compared to \$ nil in the same period in 2004. Net earnings per trust unit for the year ended December 31, 2005 were \$0.31 as compared to \$0.33 per trust unit for the same period in the prior year. The Fund generated \$0.28 per trust unit of cash available for distribution for the quarter ended December 31, 2005, as compared to \$0.18 per trust unit for the same period in 2004. During the fourth quarter of 2005, the Fund maintained distributions at \$0.23 per trust unit, consistent with the same period in 2004.

The Fund generated \$0.93 per trust unit of cash available for distribution for the year ended December 31, 2005 as compared to \$0.87 for the same period in 2004. The Fund distributed \$0.92 per trust unit, consistent with the same period in 2004.

The information provided is supplemental to and should be read in conjunction with the Fund's audited consolidated financial statements for the year ended December 31, 2005. 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 a calculation used 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.

Significant Events and Transactions

The Fund completed the following significant transactions during 2005:

1. Financing for AirSource Power Fund I LP

The Fund provided a commitment for a total of \$74.4 million in subordinated debt to AirSource and subsidiary entities. AirSource is undertaking the completion of a 99 MW wind-powered generating facility near St. Leon, Manitoba which will sell its output to Manitoba Hydro pursuant to a 25 year power purchase 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 below \$73.3 million in senior debt but 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 expected to occur by the end of the first quarter of 2006. At the end of 2005, the Fund had advanced a total of \$20.5 million to AirSource, in addition to \$15.4 million in letters of credit. The Fund was paid a deferred commitment fee of \$3.3 million with respect to the investment.

2. Acquisition of Eight Water Distribution and Water Reclamation Facilities

The Fund completed the acquisition of eight water distribution and water reclamation facilities during 2005 for a total of \$15.8 million (US\$ 13.3 million). On March 11, 2005, the Fund completed the acquisition of four facilities in Texas and one in Illinois adding 4,200 equivalent residential customers to the Infrastructure Division. The acquisition of the remaining three facilities which are located in Missouri was completed on August 14, 2005, after regulatory approval was granted. These facilities added another 1,000 equivalent residential customers to the Infrastructure Division.

3. Acquisition of the Shares of Rio Rico Utilities Inc.

The Fund completed the acquisition of the shares of Rio Rico Utilities Inc. ("Rio Rico"), a water distribution and water reclamation facility in the Town of Rio Rico, Arizona on December 2, 2005. The acquisition of Rio Rico added 7,200 equivalent residential customers. The Fund paid cash consideration of \$10.2 million (US \$8.8 million). The Fund will also pay to the vendor an amount for each net additional customer connected with Rio Rico over the next three years.



HYDROELECTRIC DIVISION

(C\$000)	Three months ended December 31		Year ended December 31		Forecast Production
	2005	2004	2005	2004	2006
Performance (MW-hrs sold)					
Quebec Region	80,461	64,039	267,469	288,161	289,928
Ontario Region	32,437	28,319	104,216	137,310	146,639
New England Region	22,775	16,991	83,254	72,862	72,517
New York Region	27,698	20,288	71,974	79,891	87,194
Western Region	<u>19,737</u>	<u>12,506</u>	<u>81,521</u>	<u>63,931</u>	<u>67,248</u>
Total	183,108	142,143	608,434	642,155	663,526
Revenue					
Energy sales	\$13,872	\$10,282	\$44,102	\$43,268	
Expenses					
Operating expenses	\$(5,964)	\$(5,301)	\$(17,008)	\$(18,070)	
Other income	843	794	1,250	1,185	
Division operating profit (incl. other income)	\$8,751	\$5,775	\$28,344	\$26,383	

For the quarter ended December 31, 2005, revenue in the Hydroelectric Division was \$13.9 million in 2005 as compared to \$10.3 million in the same period in 2004. During the fourth quarter of 2005, the Hydroelectric Division generated electricity equal to 113.1% of long term averages as compared to 87% during the same period in 2004. The increase in generated electricity was the result of above average hydrology experienced in all regions in which the Fund operates, with the exception of Ontario where hydrology improved from the same period in the prior year but remained below long term averages. The increase in revenue was a result of higher overall production combined with improved average power rates in the New England and New York regions. The increase in revenue was partially offset as the energy rate escalation for the Long Sault Rapids facility was lower than the escalation received in the fourth quarter of 2004.

For the year ended December 31, 2005, revenue in the Hydroelectric Division was \$44.1 million as compared to \$43.3 million in the prior year. During fiscal 2005, the Fund's hydroelectric facilities generated electricity equal to 93.9% of long term averages as compared to 98.5% during the prior year. The decrease in generated electricity was the result of lower hydrology experienced during the first part of the year in the Quebec, Ontario and New York regions offset by improved hydrology in the Western and New England regions. Improved average power rates in New England and New York regions combined with improved hydrology in the New England and Western regions resulted in increased revenue. These factors were partially offset by lower hydrology in the Quebec, Ontario and New York regions.

Operating expenses increased to \$6.0 million for the quarter ended December 31, 2005 as compared to \$5.3 million in the same period in 2004. The increase in operating expenses was primarily due to higher unplanned repair and maintenance projects and increased costs directly tied to energy production, as compared to the same period in 2004. For the year ended December 31, 2005, operating expenses were \$17.0 million as compared to \$18.1 million in the prior year. The decrease was primarily due to reduced water fee charges as a result of lower output in the Ontario and Quebec regions and reduced property taxes in the Quebec region.

These operating expense decreases were offset by increased unplanned repair and maintenance projects initiated in the year, as compared to the same period in 2004.

For the quarter ended December 31, 2005, the Hydroelectric Division's operating profit increased to \$8.8 million as compared to \$5.8 million for the same period in 2004. For the year ended December 31, 2005, operating profit increased to \$28.3 million as compared to \$26.4 million for the same period in 2004. The increase in operating profit for both the quarter and the year ended December 31, 2005 was primarily the result of improved average power rates in the New England and New York regions combined with improved hydrology in the New England and Western regions. For both the quarter and the year ended December 31, 2005, operating profit was above Management's expectations.

On September 1, 2005, \$4.8 million was repaid on a note related to the Campbellford partnership. 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 retirement of this note.

During the third quarter, the Fund completed the purchase of a 2.5 MW hydroelectric generating facility in New York State. The facility was not anticipated to contribute to income during 2005 as certain repairs and upgrades were required before it became operational. These repairs and upgrades are on schedule and two of three turbines were on line as of January 2006. The third turbine is expected to come on line later in the first quarter of 2006.

Outlook

The Fund's 2006 forecast production is based on long term hydrological conditions. The Hydroelectric Division is expected to continue to benefit from above long term average hydrological conditions in the first quarter of 2006. In addition, the facilities in the New England and New York regions are expected to continue to benefit from higher market rates, similar to the rates experienced in 2005.

The Fund will continue to seek accretive hydroelectric acquisitions throughout 2006, with emphasis placed on the acquisition of facilities that provide diversification of regional hydrologic and market conditions. In addition, the Fund is continuing to examine the rationalization of smaller hydroelectric generating facilities that may no longer fit the Fund's preferred asset profile.

Certain hydroelectric generating facilities owned by the Fund qualify for consideration as "green" energy and the Fund continues 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 is also pursuing longer term power purchase agreements for the sale of green energy from those facilities that are currently selling electricity in the open market.



COGENERATION DIVISION

(C\$000)	Three Months Ended December 31		Year Ended December 31		Forecast Production
	2005	2004	2005	2004	2006
Performance (MW-hrs sold)	113,953	133,356	512,972	521,149	441,005
Revenue					
Energy sales	\$19,551	\$17,556	\$75,674	\$71,846	
Other revenue	<u>1,884</u>	<u>-</u>	<u>1,884</u>	<u>-</u>	
Total Revenue	\$21,435	\$17,556	\$77,558	\$71,846	
Expenses					
Operating expenses	\$(14,528)	\$(12,066)	\$(52,822)	\$(50,597)	
Interest and dividend income	1,275	749	3,471	4,024	
Division operating profit (incl. interest and dividend income)	\$8,182	\$6,239	\$28,207	\$25,273	

For the quarter ended December 31, 2005, revenue from the Cogeneration Division totaled \$21.4 million as compared to \$17.6 million in the same period in 2004. For the quarter ended December 31, 2005, the division's production fell as a result of a decision to close the Sanger facility for a six month period starting in November 2005 during the period in which Sanger is entitled to lower capacity payments. The natural gas purchased under a fixed contract normally consumed by the facility was sold at favourable fixed prices. In addition, there was reduced production at the Crossroads facility. These reductions were partially offset by increased production at the Windsor Locks facility. The increase in revenue was a result of a combination of higher production and energy prices at the Windsor Locks facility (increased fuel costs are passed on to the customer in the form of higher energy prices), other revenue generated from the sale of natural gas at the Sanger facility, offset by reduced production at the Crossroads facilities, as compared to the same period in 2004.

For the year ended December 31, 2005, revenue was \$77.6 million as compared to \$71.8 million during the same period in the prior year. During fiscal 2005, the division's production fell primarily as a result of the reasons noted for lower production in the fourth quarter. These reductions were partially offset by increased production at the Windsor Locks facility. The increased revenue was attributable to higher production and increased fuel costs that are passed on to the customer at the Windsor Locks facility, the sale of natural gas at Sanger, and due to no unplanned gas turbine outages at the Sanger facility, which was the case in 2004. The Fund earned lower interest income from its portfolio investments during the year ended December 31, 2005 as compared to the same period in 2004 due to the repayment of a note related to Cardinal Power of Canada LP ("Cardinal") which occurred in the second quarter of 2004, offset by increased dividends earned from its investments in the Kirkland and Cochrane facilities.

For the quarter ended December 31, 2005, operating expenses increased to \$14.5 million as compared to \$12.1 million in the same period in 2004. An increase in gas prices at the Windsor Locks facility and the inclusion of Dynafibres were the primary reasons for increased operating expenses. As at September 2005, the Fund completed the acquisition of Dynafibres, which operates out of the Sanger facility. The Fund previously owned 50% of the facility and accounted for its investment using the equity method. As a result, operating expenses increased by approximately \$0.9 million during the quarter as compared to the same period in the prior year. The increased operating expenses in the quarter were partially offset by a stronger Canadian dollar.

For the year ended December 31, 2005, operating expenses totaled \$52.8, million as compared to \$50.6 million during the same period in the prior year. The increase in operating expenses was primarily due to higher average fuel costs. This was partially offset by reduced unplanned repair and maintenance costs and the stronger Canadian dollar.

For the quarter ended December 31, 2005, operating profit was \$8.2 million as compared to \$6.2 million for the same period in 2004. For the year ended December 31, 2005, operating profit was \$28.2 million as compared to \$25.3 million. Operating profit for the fourth quarter and fiscal 2005 exceeded Management's expectations. During 2005, the Fund recognized an expense of \$3.5 million, representing a write down of its investment in the Crossroads facility to net realizable value. 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 will undergo a regularly scheduled four week major overhaul beginning at the end of the first quarter of 2006. It is expected that for the remainder of the year Windsor Locks will produce at or above prior year performance due to increased efficiencies following the overhaul, and favourable gas indexing provisions.

Following the end of the third quarter of 2005, the gas turbine at the Sanger facility was stopped and the fixed price natural gas normally consumed by the facility was sold at favourable fixed prices. This opportunity will continue until May 2006, and as a result, increased profits for the facility are expected for the first four months of 2006. The Fund is evaluating the replacement of the existing gas turbine at the Sanger facility with a newer, more efficient unit. Benefits of replacing the turbine could include higher efficiency, lower fuel costs, and greater ease of maintenance as well as supplying additional capacity and energy demands to the California energy market above and beyond the existing capacity of the plant.

With regards to the Crossroads facility, Management is in the process of monetizing the power purchase agreement and closing the facility.



ALTERNATIVE FUELS DIVISION

(C\$000)	Three months ended December 31		Year ended December 31		Forecast Production
	2005	2004	2005	2004	2006
Performance (MW-hrs sold)	57,538	57,192	213,735	124,721	270,232
Performance (tonnes of waste processed)	40,702	37,471	145,089	157,491	159,856
Revenue					
Energy sales	\$4,414	\$3,646	\$16,262	\$7,867	
Waste disposal sales	3,696	3,503	13,031	14,086	
Total revenue	\$8,110	\$7,149	\$29,293	\$21,953	
Expenses					
Operating expenses	\$(6,616)	\$(5,262)	\$(25,014)	\$(15,124)	
Interest and other income	2,523	622	6,494	1,352	
Division operating profit (incl. interest and dividend income)	\$4,017	\$2,509	\$10,773	\$8,181	

For the quarter ended December 31, 2005, revenue in the Alternative Fuels Division was \$8.1 million as compared to \$7.1 million in the same period in 2004. During the fourth quarter of 2005, the division's production increased as a result of improvements at its Landfill Gas ("LFG") and EFW facilities, partially offset by the closure of the Joliet facility. The increase in revenue from energy sales was due to a change in the production mix resulting in improved average power rates in the fourth quarter, as compared to the same period in 2004.

For the year ended December 31, 2005, revenue was \$29.3 million as compared to \$22.0 million for the same period in the prior year. During fiscal 2005, the division's energy production increased as a result of the inclusion of a full year of operations of the LFG facilities, partially offset by lower production from the EFW and Drayton Valley facilities and the closure of the Joliet facility in May 2005. Energy production revenue in fiscal 2005 increased as a result of the inclusion of a full year of revenue at the LFG facilities and improved average power prices when compared to the prior year. The LFG facilities contributed revenue of approximately \$10.7 million for fiscal 2005 compared to \$2.2 million for fiscal 2004. The increase in revenue was offset by lower waste quantities processed at EFW during the second and third quarter of 2005.

For the quarter ended December 31, 2005, operating expenses were \$6.6 million as compared to \$5.3 million for the same period in 2004. The increase in operating expenses for the quarter was primarily the result of increased fuel related costs at the LFG facilities as compared to the same period in the prior year. For the year ended December 31, 2005, operating expenses were \$25.0 million as compared to \$15.1 million for the same period in 2004. The increase in operating expenses in fiscal 2005 was primarily the result of increased fuel collection costs at the LFG facilities and increased repair and maintenance costs in the division. The fiscal 2005 operating expenses also include a full year of operating costs from the LFG facilities of \$11.0 million for fiscal 2005 compared to \$1.9 million for fiscal 2004.

The Fund earned higher interest and other income on its investments within the Alternative Fuels Division during the fourth quarter of 2005 and in fiscal 2005, as compared to the comparable periods in 2004, as a result of income from its investment in AirSource and Across America LFG LLC (“Across America”).

At the end of the fourth quarter of 2005, the Fund had advanced to AirSource a total of \$20.5 million as well as providing letters of credit of \$15.4 million. AirSource is constructing a 99 MW wind energy facility for which the Fund has provided a subordinated debt facility. During the fourth 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 resumed advancing funds to complete the construction of the facility in December 2005 once the AirSource senior debt facility of \$73 million was fully utilized. The Fund has committed a total of \$74.4 million to AirSource, including both the construction and acquisition facilities, representing a third of the cost of the project. Interest income earned on the AirSource investment was \$3.0 million (\$0.1 million in 2004).

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 fourth quarter of 2004. The sale of partnership interests in certain gas collection systems during the year ended December 31, 2005 resulted in an increase to other income of \$1.2 million.

For the quarter ended December 31, 2005, operating profit was \$4.0 million as compared to \$2.5 million in the same period in 2004. For the year ended December 31, 2005, operating profit was \$10.8 million as compared to \$8.2 million for the same period in 2004. Equipment availability and gas supply issues at the LFG facilities, and problems with the flue gas system at the EFW facility resulted in production and operating profits below Management’s expectations for both the quarter and for the year ended December 31, 2005.

Based on its assessment of operations, Management determined that two LFG facilities were uneconomical to operate and the facilities were shut down during the quarter with no impact to 2005 results. These facilities are not material to the division and their closure will not have a material impact on the future operations of the division.

Outlook

In 2006, the Alternative Fuels Division is expected to start realizing the benefits from actions taken to improve operating efficiencies. At the EFW facility, production and maintenance improvements completed in 2005 are expected to improve operating results over the course of 2006. In 2004, the Fund entered into an agreement to sell steam from the EFW facility to an industrial customer located in close proximity to the facility. In 2006, the facility will undertake the installation of the additional steam generation and transmission assets required to fulfill this agreement. This project is expected to be completed near the end of the year.

The Fund’s LFG facilities will continue to initiate several programs, including the implementation of preventative and repair maintenance programs, process changes, and various management improvement programs which are expected to result in reduced costs of operating the facilities.



INFRASTRUCTURE DIVISION

(C\$000)	Three months ended December 31		Year ended December 31		Forecast Total Connections 2006
	2005	2004	2005	2004	
Number of					
Water reclamation customers	25,911	20,703	25,911	20,703	28,011
Water distribution customers	30,398	19,318	30,398	19,318	33,253
Revenue					
Water reclamation and distribution	\$7,501	\$5,739	\$28,371	\$23,456	
Expenses					
Operating expenses	\$(3,410)	\$(2,136)	\$(11,847)	\$(10,849)	
Other income	21	1	44	9	
Division operating profit (incl. other income)	\$4,112	\$3,604	\$16,568	\$12,616	

For the quarter ended December 31, 2005, revenue in the Infrastructure Division increased to \$7.5 million as compared to \$5.7 million in the same period in 2004. The division's water reclamation customer base increased by 25% and the division's water distribution customer base increased by 57% for the quarter ended December 31, 2005 as compared to the quarter ended December 31, 2004. This growth was the result of organic growth and the purchase of nine facilities, as compared to the same quarter in the previous year. Five of these 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 facilities (located in Missouri). This approval was received on August 14, 2005. An additional facility (located in Arizona) was purchased on December 2, 2005.

Excluding the impact of these purchases, the division's facilities experienced organic growth of approximately 9% at both its water distribution and water reclamation facilities. For the year ended December 31, 2005, revenue increased to \$28.4 million as compared to \$23.5 million for the same period during the prior year. The increase in revenue for the fourth quarter and for fiscal 2005 was primarily due to the inclusion of nine water and waste water facilities purchased during the year as well as continued strong organic growth at existing facilities. The increase in revenue was partially offset by the stronger Canadian dollar. Overall, the additional facilities generated revenue of approximately \$1.3 million for the fourth quarter of 2005 (\$3.6 million for fiscal 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.

For the quarter ended December 31, 2005, operating expenses were \$3.4 million as compared to \$2.1 million in the same period in 2004, primarily due to the newly acquired facilities. For the year ended December 31, 2005, operating expenses were \$11.8 million as compared to \$10.8 million for the same period in the prior year. The increase in operating expenses was due to the inclusion of the operating costs of the newly acquired facilities of approximately \$0.6 million in the fourth quarter of the 2005 (\$1.4 million for fiscal 2005) offset by the stronger Canadian dollar.

For the quarter ended December 31, 2005, operating profit increased to \$4.1 million as compared to \$3.6 million for the same period during the prior year. For the year ended December 31, 2005, operating profit

increased to \$16.6 million as compared to \$12.6 million in the prior year. The increases were due to strong organic growth and the inclusion of the facilities that were purchased during the year.

Outlook

The Infrastructure Division is expected to continue growing during 2006 at levels similar to 2005, with approximately 5,000 budgeted new customer connections anticipated during the year. Growth is expected to occur primarily in Texas, as well as in Arizona, where the division services one of the fastest growing counties in the United States. Stable, continued growth in the balance of the Infrastructure Division's service areas are expected to contribute to the strong overall performance of the division.

The addition of the facilities in Texas, Missouri, and Illinois and Rio Rico Utilities in southern Arizona in 2005 has added a total of over 12,000 new customer connections and is expected to contribute to revenue growth in the division for 2006. The Fund continues to consider opportunities which provide sustainable accretive growth to enhance unitholder value.

The Fund has initiated rate cases for its Black Mountain and Gold Canyon facilities. The regulatory review of these rate cases is expected to be completed by early 2007. Management expects that these rate cases will ensure that the respective facility earns the rate of return on its capital investment as allowed by the regulatory authority under which the facility operates. Additional rate cases will be initiated in 2006 to ensure the approved rate base reflects the investment required to meet the demands of an expanding customer base at certain facilities owned by the Fund.

Recent changes in drinking water legislation within the United States has lead to the requirement for new arsenic treatment procedures to be implemented. This is scheduled for completion in early 2006 at the Litchfield Park Services Company ("LPSCO") facility. Once implemented, the system ensures full regulatory compliance for the provision of safe drinking water. Operating expenses are expected to increase as a result of these new processes. It is expected that a strong, continued focus on operating efficiencies and process evaluation will help to minimize any increases in operating expenses in 2006.

Additional significant capital improvement projects planned in the LPSCO service area include the design and construction of a new reservoir and pumping facilities, rehabilitation to existing wells, construction of a new well, and the design of an expansion to the existing wastewater treatment plant. All of these capital projects are being developed to meet the expected growth in the area.

Administrative Expenses

(C\$000)	Three months ended		Year ended	
	December 31		December 31	
	2005	2004	2005	2004
Administrative expenses	\$1,661	\$1,615	\$5,681	\$5,596
Management costs	206	196	825	777
Withholding taxes	647	135	1,177	483
Loss / (Gain) on foreign exchange	116	873	(1,744)	(2,601)
Interest expense	4,377	3,721	16,379	12,440
Write down of Fixed and Intangible Asset	812	1,932	3,533	1,932
Interest, dividend and other Income	(72)	(115)	(139)	(4,373)
Income tax expense	319	1,780	2,604	2,285

For the quarter ended December 31, 2005, withholding tax expense increased to \$0.6 million as compared to \$0.1 million for same period in 2004. For the year ended December 31, 2005, withholding tax expense increased to \$1.2 million as compared to \$0.5 million in the prior year. The expense increased as a result of additional cross-border notes requiring withholdings taxes.

Foreign exchange gains and losses primarily represent unrealized gains on US dollar denominated debt and do not impact cash available for distribution. For the quarter ended December 31, 2005 the Fund posted a foreign exchange loss of \$0.1 million versus a loss of \$0.9 million for same period in 2004. For the year ended December 31, 2005 the Fund posted a foreign exchange gain of \$1.7 million as compared to a gain of \$2.6 million for the same period in the prior year. At the end of the fourth quarter, the Fund had approximately \$40.3 million in US dollar denominated debt.

For the quarter ended December 31, 2005, interest expense increased to \$4.4 million as compared to \$3.7 million in the same period in 2004. For the year ended December 31, 2005, interest expense increased to \$16.4 million as compared to \$12.4 million for the same period in the prior year. The increase is due in part to the issuance of \$85.0 million in convertible debentures in the third quarter of 2004 which added \$0.1 million of interest expense in the fourth quarter (\$3.7 million for the year ended December 31, 2005). In addition, interest expense increased due to increased average levels of borrowing during the year, in part a result of the debt facility provided to AirSource and a higher interest rate charged on the Fund's credit facility.

For the year ended December 31, 2005, other income decreased to \$0.1 million as compared to \$4.4 million for the same period in 2004, primarily because the comparable period in 2004 includes income recognition of \$3.6 million for a note receivable prepayment relating to the Cardinal facility and a break fee earned as a result of a failed transaction. During fiscal 2005, the figure only includes interest income.

An income tax expense of \$0.3 million was booked in the fourth quarter of 2005 as compared to \$1.8 million in the fourth quarter of 2004. For the year ended December 31, 2005, income tax expense increased to \$2.6 million as compared to \$2.3 million for the same period in 2004. The increase in the year was a result of an increase in future income taxes.

Cash Available for Distribution

(C\$000)	Three months ended December 31		Year ended December 31	
	2005	2004	2005	2004
Cash flow from operating activities	\$17,499	\$12,241	\$55,680	\$66,585
Changes in working capital	2,140	(906)	7,932	(7,204)
Operating cash flow before working capital changes	19,639	11,335	63,612	59,381
Receipt of principal on notes receivable	804	983	4,959	4,164
Decrease / (Increase) in reserves	(17)	330	269	235
Repayment of long term liabilities	(469)	(340)	(1,380)	(863)
Maintenance capital expenditures	(589)	217	(2,167)	(1,804)
Other	101	160	(401)	(1,226)
Cash available for distribution	\$19,469	\$12,685	\$64,892	\$59,887
Cash available for distribution per trust unit	\$0.28	\$0.18	\$0.93	\$0.87
Distribution to unitholders	\$16,015	\$16,015	\$64,061	\$63,370
Distributions to unitholders per trust unit	\$0.23	\$0.23	\$0.92	\$0.92

During the quarter ended December 31, 2005 the Fund generated \$19.5 million in cash available for distribution as compared to \$12.7 million for the same period in 2004. For the year ended December 31, 2005,

the Fund generated \$64.9 million of cash available for distribution as compared to \$59.9 million for the same period in the prior year.

The Fund's distribution as a percentage of 'cash available for distribution' ("Payout Ratio") has improved to 98.7% in 2005. The Fund achieved Payout Ratios of 123.4% in 2002, 106.9% in 2003 and 105.8% in 2004.

In prior years, the shortfalls have been funded primarily by working capital. Should any future 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 \$0.28 of cash available for distribution for the quarter ended December 31, 2005 as compared to \$0.18 for the same period in 2004 and \$0.93 for the year ended December 31, 2005 as compared to \$0.87 for the same period in the prior year. The Fund distributed \$16.0 million during the quarters ended December 31 of both 2005 and 2004. For the year ended December 31, 2005 the Fund distributed \$64.1 million as compared to \$63.4 million for the same period during 2004.

On a per unit basis, the Fund maintained distributions at \$0.23 per trust unit for the quarter ended December 31, 2005, consistent with 2004, and \$0.92 for the year ended December 31, 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). For the year ended December 31, 2005, the Fund's return of capital was approximately 53% as compared to 62% for the same period in the prior year.

Dealings with Algonquin Power Group

Companies related to the Manager provide operations and technical services on a cost-recovery basis. Two of these companies meet the definition of a variable interest entity ("VIE"), as discussed below and are consolidated with the Fund. As such, any intercompany balances with respect to these companies have been eliminated. In addition, the Fund's head office premises are leased from an entity related to the Manager. Details are outlined in note 12 of the Fund's audited consolidated financial statements for the year ended December 31, 2005.

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.

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 hydroelectric facility and water distribution and water reclamation facilities as well as identifying efficiency opportunities to enhance unitholder value.

Cash available for distribution for 2006 is expected to remain in line with distributions to unitholders. Further organic growth in water distribution and reclamation services, continuing average long term hydrologic

conditions, the escalation of power prices in certain hydroelectric power purchase agreements, coupled with no unforeseen events should result in improved cash available for distribution.

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.

Algonquin Power Income Fund
Consolidated Balance Sheets
December 31, 2005 and December 31, 2004
(thousands of Canadian dollars)

Assets

Current assets	2005	2004
Cash and cash equivalents	\$ 11,363	\$ 34,348
Accounts receivable	29,206	25,819
Prepaid expenses	1,918	2,060
Current portion of notes receivable	2,791	2,589
Future income tax asset	-	18
	45,278	64,834
Long-term investments	57,489	48,561
Future non-current income tax asset	7,719	6,425
Capital assets, net of accumulated amortization	627,652	610,756
Intangible assets, net of accumulated amortization	76,848	83,677
Restricted cash	3,458	3,728
Deferred costs (net of accumulated amortization of \$2,425, 2004 - \$1,383)	5,357	6,815
	\$ 823,801	\$ 824,796
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 28,585	\$ 33,105
Due to Algonquin Power Group	62	99
Cash distribution payable	10,677	10,677
Current portion of long-term liabilities	1,445	1,666
Current income tax liability	435	596
Future income tax liability	1,143	1,449
	42,347	47,592
Long-term liabilities	157,002	120,085
Convertible debentures	85,000	85,000
Other long-term liabilities	10,435	8,960
Deferred credits	19,102	12,124
Future non-current income tax liability	56,917	55,764
Unitholders' equity		
Trust units	654,176	654,176
Deficit	(201,178)	(158,905)
	452,998	495,271
	\$ 823,801	\$ 824,796

Algonquin Power Income Fund
Consolidated Statements of Earnings and Deficit
For the years ended December 31, 2005 and December 31, 2004
(thousands of Canadian dollars except per trust unit)

Revenue	2005	2004
Energy sales	\$ 136,038	\$ 122,981
Waste disposal fees	13,031	14,086
Water reclamation and distribution	28,371	23,456
Other revenue	1,884	-
	<u>179,324</u>	<u>160,523</u>
 Expenses		
Operating	106,691	94,640
Amortization of capital assets	27,325	26,730
Amortization of intangible assets	6,463	5,565
Management costs	825	777
Administrative expenses	5,681	5,596
Withholding taxes	1,177	483
Gain on foreign exchange	(1,744)	(2,601)
	<u>146,418</u>	<u>131,190</u>
Earnings before undernoted	32,906	29,333
Interest expense	(16,379)	(12,440)
Interest, dividend and other income	11,398	10,943
Write down of fixed assets and intangible assets	(3,533)	(1,932)
	<u>(8,514)</u>	<u>(3,429)</u>
Earnings before income taxes and minority interest	24,392	25,904
Current income taxes	854	1,105
Future income taxes	1,750	1,180
	<u>2,604</u>	<u>2,285</u>
Minority interest	-	817
Net earnings	21,788	22,802
Deficit, beginning of year	(158,905)	(118,337)
Cash distributions	(64,061)	(63,370)
Deficit, end of year	\$ <u>(201,178)</u>	\$ <u>(158,905)</u>
Basic and diluted net earnings per trust unit	\$ <u>0.31</u>	\$ <u>0.33</u>

Algonquin Power Income Fund
Consolidated Statements of Cash Flows
For the years ended December 31, 2005 and December 31, 2004
(thousands of Canadian dollars)

	2005	2004
Operating Activities		
Net earnings	\$ 21,788	\$ 22,802
Items not affecting cash		
Amortization of capital assets	27,325	26,730
Amortization of intangible assets	6,463	5,565
Other amortization	1,339	2,331
Minority interest	-	817
Distribution received in excess of equity income	208	(16)
Future income taxes	1,750	1,180
Write down of fixed asset and intangible	3,533	1,932
AirSource commitment fee	3,228	500
Gain on foreign exchange	(2,023)	(2,460)
	<u>63,611</u>	<u>59,381</u>
Changes in non-cash operating working capital	(7,932)	7,204
	<u>55,679</u>	<u>66,585</u>
Financing Activities		
Cash distributions	(64,061)	(63,370)
Issue costs of trust units	-	(700)
Convertible debenture issue	-	85,000
Expenses of convertible debenture issue	205	(4,100)
Deferred costs	(1,154)	(2,305)
Increase in long-term liabilities	93,080	30,000
Decrease in long-term liabilities	(55,310)	(71,969)
Deferred credits	(290)	426
Other	317	(1,117)
	<u>(27,213)</u>	<u>(28,135)</u>
Investing Activities		
Decrease in restricted cash	270	235
Receipt of principal on notes receivable	9,697	21,988
Additions to capital assets	(15,912)	(17,336)
Increase in notes receivable	(16,241)	(13,917)
Acquisitions of operating entities net of cash acquired	(28,952)	(15,159)
	<u>(51,138)</u>	<u>(24,189)</u>
Effect of exchange rate differences on cash and cash equivalents	(313)	(1,151)
Increase / (decrease) in cash and cash equivalents	(22,985)	13,110
Cash and cash equivalents, beginning of year	<u>34,348</u>	<u>21,238</u>
Cash and cash equivalents, end of year	<u>\$ 11,363</u>	<u>\$ 34,348</u>