AMENDED
SECOND QUARTER REPORT
JUNE 30, 2006

Report to Unitholders

Algonquin Power Income Fund is pleased to report a successful second quarter of 2006, with strong revenue, net earnings and cash available for distribution. During the quarter the Fund significantly expanded the Alternative Fuels Division with the acquisition of the St. Leon Wind Energy facility, and announced the appointment of a Chief Operating Officer.

The following summaries outline some key performance figures for the Fund:

Performance Summary for the second quarter of 2006:

- Revenue of $47.1 million in Q2 2006 compared to $45.0 million in Q2 2005.
- Net earnings of $13.8 million ($0.20 per trust unit) in Q2 2006 compared to $1.6 million ($0.02 per trust unit) in Q2 2005.
- Cash available for distribution of $16.0 million ($0.23 per trust unit) in Q2 2006 compared to $16.7 million ($0.24 per trust unit) in Q2 2005. Distributions for the second quarter of both 2006 and 2005 were $0.23 per trust unit.

Performance Summary for the first six months of 2006:

- Revenue of $96.6 million for the first six months of 2006 compared to $85.6 million in the first six months of 2005.
- Net earnings of $21.2 million ($0.30 per trust unit) for the first six months of 2006 compared to $3.4 million ($0.05 per trust unit) for the first six months of 2005.
- Cash available for distribution of $32.4 million ($0.47 per trust unit) in the first six months of 2006 compared to $30.5 million ($0.44 per trust unit) for the same period in 2005. Distributions for both the first half of 2006 and 2005 were $0.46 per trust unit.

The Fund experienced improved hydrological conditions in the Hydroelectric Division during the quarter, particularly in the Ontario, Quebec and New York regions. In the Fund's Cogeneration Division, improved average energy prices were experienced at the Windsor Locks facility and the favourable sale of fixed price natural gas at the Sanger facility continued throughout the month of April. The Alternative Fuels Division experienced overall improved energy production and greater levels of waste processed at the Algonquin Power Energy from Waste ("EFW") facility compared to the same period in 2005, and the Infrastructure Division experienced continued strong growth in the areas served, particularly Texas and Arizona.

Second Quarter Highlights

Hydroelectric

During the second quarter of 2006, the Fund's hydroelectric facilities generated electricity equal to 93% of long term averages compared to 92% during the same period in 2005. The increase in electricity generated over the comparable period in the previous year is primarily due to stronger hydrology in the Ontario region, particularly at the Fund's Long Sault Rapids facility. The New York region experienced increased electricity generated due to improved hydrology.

Operating profit including other income for the hydroelectric division increased to $8.8 million during the second quarter of 2006, up from $8.4 million in the second quarter of 2005. The increase in operating profit is primarily due to improved overall hydrology in the division.

Overall, the Hydroelectric Division exceeded Management expectations due to higher than long term average hydrologic conditions in the division.

Cogeneration

The Fund's Cogeneration Division experienced lower energy production compared to the same period in 2005, however revenue remained stable as a result of higher energy rates at the Windsor Locks and Crossroads facilities where increased fuel costs are passed on to the customer, and due to the favourable re-sale of the fixed price natural gas at the Sanger facility. Lower production was due primarily to a scheduled major overhaul at the Windsor Locks facility completed during the month of April, and the intentional temporary shut-down of the Sanger facility for the natural gas sale contract.

Second quarter 2006 operating profit including interest and dividends increased to $7.3 million, as compared to $7.0 million for the same period in 2005.

Overall, the Cogeneration Division exceeded Management's expectations for the second quarter of 2006.

Alternative Fuels

The Fund's Alternative Fuels Division reported increased revenue during the second quarter of 2006 when compared to the second quarter of 2005. The increase in revenue resulted from an increase in production at the Fund's Landfill Gas ("LFG") and Energy-from-Waste ("EFW") facilities, and higher waste quantities processed at the EFW facility during the quarter. The Fund also earned higher interest and other income during the quarter when compared to the same quarter in 2005 due to the investment in AirSource Power Fund 1 LP ("Airsource").

Operating profit including interest and other income for the Alternative Fuels division increased to $3.2 million for the second quarter of 2006, an increase from $2.1 million in the second quarter of 2005. The increase was primarily due to higher interest income from the Fund's investment in AirSource, and higher operating profit at the EFW facility.

Overall, due to equipment availability and gas supply issues at the LFG facilities, the Alternative Fuels Division performed below Management's expectations during the second quarter of 2006.

During the quarter, the Fund acquired over 90% of the units of AirSource Power Fund I LP (AirSource), an entity that, along with its affiliates, constructed St. Leon Wind Energy, a 99 megawatt wind generating facility located near the Town of St. Leon, Manitoba, that consists of 63 1.65 MW wind turbine generators. Following the end of the quarter, the Fund exercised its compulsory acquisition right under the AirSource limited partnership agreement to acquire the remaining outstanding units.

Infrastructure

During the second quarter of 2006, the Fund's Infrastructure Division reported increased revenue over the same period in 2005. The increase in revenue in the second quarter is due to growth in the areas served, the inclusion of facilities that were acquired and integrated during 2005, and the 2005 results being negatively impacted by above average rainfall in Arizona during the second quarter of 2005.

Operating profit including other income for the division in the second quarter of 2006 increased to $5.7 million from $4.7 million in the same period of 2005 mainly due to strong organic growth and the inclusion of the additional facilities acquired during 2005.

Overall, the performance of the Infrastructure Division met Management's expectations for the second quarter of 2006.

Outlook

The Fund welcomes Mr. Vito Ciciretto to the position of Chief Operating Officer. Mr. Cicretto is responsible for the overall operations of the Fund's Hydroelectric, Cogeneration, Alternative Fuels and Infrastructure Divisions. Mr. Ciciretto began his role with the Fund at the beginning of August 2006, bringing valuable senior management experience to the Fund's four operating divisions.

In the Hydroelectric Division, the Fund anticipates higher than long term average hydrology in the New York and New England regions for the third quarter of 2006. Lower than long term average hydrology is predicted for the Ontario and Alberta regions for the third quarter of 2006, and average hydrology is expected in the Quebec region for the same period. Facilities in the New York region are anticipated to continue experiencing higher than forecasted market rates, while facilities in the New England region are anticipated to experience rates in line with expectations for the third quarter of 2006.

The Fund's Windsor Locks cogeneration facility is expected to perform in line with management's expectations for the remainder of the year after the scheduled overhaul was completed in April. The Sanger facility was restarted in May of 2006 following the completion of the natural gas sale contract and will continue receiving higher capacity payments for the period. The Sanger facility is expected to perform in line with management's expectations during the quarter. The Fund will continue to evaluate the replacement of the existing gas turbine at the facility with a new, more efficient unit.

Integration of the Funds newly acquired St. Leon Wind Energy facility is expected to occur during the third quarter of 2006. The facility is expected to perform in line with management's expectations during the quarter while final construction matters will be addressed throughout the remainder of the year. Management continues to implement preventative repair and maintenance programs at the Fund's LFG facilities and continued production and maintenance improvements are expected to enhance performance at the Fund's EFW facility.

The infrastructure division is expected to continue growing at current rates throughout the remainder of 2006, primarily in Texas and Arizona. The Fund's rate cases initiated at the beginning of 2006 for two of its Arizona facilities continue, with resolutions expected in late 2006 and mid 2007. Rate cases for three additional facilities in Missouri are under way, with resolution expected in the first half of 2007. Rate cases take place to ensure that these facilities earn a rate of return on the capital improvements made at the facilities, and outcomes are determined by the regulatory authorities that govern the areas where the facilities are located.

As always, The Fund continues to focus on generating cash available for distribution in line with cash distributions made to unitholders, while striving to maintain a balanced and stable investment for unitholders.

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)

Algonquin Power Income Fund (the "Fund") has prepared the following discussion and analysis to provide information to assist its unitholders' understanding of the financial results for the six months ended June 30, 2006. This discussion and analysis is supplemental to and should be read in conjunction with the Fund's unaudited interim consolidated financial statements for the six months ended June 30, 2006 as well as the audited consolidated financial statements and the related Management's Discussion and Analysis contained in the 2005 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. This material is available on SEDAR at www.sedar.com and on the Fund's website at www.AlgonquinPower.com. Additional information about the Fund, including the Annual Information Form for the year ended December 31, 2005, can be found on SEDAR at www.sedar.com.

This Management's Discussion and Analysis is based on information available to management as of August 8, 2006.

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

	Three Months ended June 30		Six Months ended June 30	
	2006	**2005**	**2006**	**2005**
Revenues	**47,096**	45,016	96,569	85,616
Net earnings	**13,840**	1,569	21,158	3,409
Distribution to unitholders	**16,016**	16,015	32,031	32,030
Cash available for distribution*	**16,025**	16,709	32,446	30,538
Per unit				
Net earnings	**0.20**	0.02	0.30	0.05
Distribution to unitholders	**0.23**	0.23	0.46	0.46
Cash available for distribution*	**0.23**	0.24	0.47	0.44

* Non-GAAP measurement, see 'Cash Available for Distribution' in this management's discussion and analysis.

For the quarter ended June 30, 2006, the Fund reported total revenue of $47.1 million as compared to $45.0 million during the same period of 2005. Revenue for the second quarter of 2006 increased from the same period in the prior year due to improved average energy prices at the Cogeneration Division's Windsor Locks facility, greater levels of waste processed at its Energy-from-Waste ("EFW") facility, improved hydrological conditions in the Hydro Divison, continued organic growth in the Infrastructure Division combined with the positive impact of the water distribution and waste-water facilities purchased during 2005. These factors were partially offset by a scheduled overhaul at the Windsor Locks facility which resulted in lower production, and a stronger Canadian dollar as compared to the same period of 2005.

For the six months ended June 30, 2006, the Fund reported revenue of $96.6 million compared to $85.6 million during the same period of 2005. Revenue for the six months ended June 30, 2006 increased due to strong hydrology experienced in the Hydroelectric Division, the Fund's decision to close the Sanger Facility for a six month period and sell natural gas at favourable rates, combined with the reasons indicated in the discussion of the second quarter results above. A more detailed analysis of these factors is presented within the divisional analysis.

For the quarter ended June 30, 2006, the average US exchange rate dropped by approximately 10% from the same period of 2005 (a decline of approximately 8% for the six month period ended June 30, 2006). As such, any quarterly variance to revenue or expenses, in local currency, at any 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 partially mitigate the impact on cash available for distribution.

For the quarter ended June 30, 2006, net earnings were $13.8 million as compared to $1.6 million during the same period of 2005. Net earnings for the second quarter of 2006 increased from the same period of 2005 due to an unrealized foreign exchange gain on US dollar denominated debt, a recovery of future income taxes, increased interest and other income on its investments in the Alternative Fuels Division and the impact of the higher quarterly revenue, as discussed previously. Additionally, the 2005 results included a write-down of the Fund's investment in the Crossroads facility. These increases were partially offset by increased interest expense.

Net earnings for the six months ended June 30, 2006 were $21.2 million, compared to $3.4 million during the same period of 2005. Net earnings for the six months ended June 30, 2006 increased from the same period of 2005 due to the reasons indicated in the discussion of the second quarter results, above. A more detailed analysis of these factors is presented within the divisional analysis.

Net earnings per trust unit were $0.20 in the quarter ended June 30, 2006 as compared to $0.02 during the same period of 2005. For the six months ended June 30, 2006, net earnings per trust unit were $0.30 as compared to $0.05 during the same period of 2005.

The Fund generated $0.23 per trust unit of cash available for distribution for the quarter ended June 30, 2006, as compared to $0.24 per trust unit during the same period of 2005. During the second quarter of 2006, the Fund maintained distributions at $0.23 per trust unit, consistent with the same period of 2005. In the six months ended June 30, 2006, the Fund generated $0.47 per

trust unit of cash available for distribution compared to $0.44 during the same period of 2005. The Fund distributed $0.46 per trust unit, consistent with the same period of 2005.

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. The term '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.

Outlook

Management anticipates that the Fund's four divisions will continue to generate cash available for distribution for the remainder of 2006 in line with distributions to unitholders. Management also expects that continued organic growth in the water distribution and waste-water business, continued average long term hydrologic conditions, the achievement of projections at the St. Leon Wind Energy facility, improvements at the EFW facility, and the continued stable performance of the Cogeneration Division, coupled with no unforeseen events will enable the Fund to achieve current levels of cash available for distribution.

Management continues to identify opportunities to optimize the performance of its portfolio as well as ensuring that the recently acquired facilities including the wind energy facility and water distribution and waste-water facilities are integrated into the Fund's operations. Management is currently reviewing the recent unit acquisition of AirSource Power Fund I LP ("AirSource") with respect to integrating these operations into the Alternative Fuels Division.

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.

Management will continue to further 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 continues to move towards the completion of the review and documentation of its controls and procedures for annual certification of the financial statements.

Hydroelectric Division

	Three months ended June 30		Six Months ended June 30	
	2006	2005	2006	2005
Performance (MW-hrs sold)				
Quebec Region	**87,313**	82,343	156,073	131,964
Ontario Region	**32,015**	27,949	67,946	54,275
New England Region	**23,997**	28,589	48,788	51,362
New York Region	**21,732**	17,543	48,507	38,895
Western Region	**18,956**	21,631	29,490	31,556
Total	**184,013**	178,055	350,804	308,052
Revenues				
Energy sales	**$ 12,209**	$ 11,532	$ 24,641	$ 21,551
Expenses				
Operating expenses	**$ (3,895)**	$ (3,286)	$ (8,029)	$ (6,702)
Other income	**439**	202	867	323
Division operating profit				
(incl. other income)	**$ 8,753**	$ 8,448	$ 17,479	$ 15,172

For the quarter ended June 30, 2006, revenue in the Hydroelectric Division was $12.2 million as compared to $11.5 million during the same period of 2005. During the second quarter of 2006, the Hydroelectric Division generated electricity equal to 93% of long term averages or approximately 14,000 Mw-hrs below long term averages as compared to 92% during the same period of 2005. Hydrology in the Ontario region improved to 80% of long term average hydrology as compared to the same period of 2005, primarily due to improved hydrology at the Long Sault facility. Generated electricity in the New York region increased as compared to the same period of 2005 as a result of improved hydrology and the inclusion of 1,200 MW-hrs of production from the Beaver Falls facility purchased in the third quarter of 2005. The increase in generated electricity was the result of improved average hydrology experienced in the Quebec, Ontario and New York regions and a return to long term average hydrology in the New England and Western regions where the Fund operates hydroelectric facilities. The increase in revenue was a result of higher overall production. Increased revenue from the US facilities was partially offset by the effects of a stronger Canadian dollar.

For the six months ended June 30, 2006, revenue from the Hydroelectric Division was $24.6 million compared to $21.6 million during the same period of 2005. During the six months ended June 30, 2006, the Hydroelectric Division generated electricity equal to 101% of long term averages or approximately 2,500 Mw-hrs above long term averages as compared to 90% or approximately 35,000 Mw-hrs below long term averages during the same period of 2005.

Operating expenses increased to $3.9 million for the quarter ended June 30, 2006 as compared to $3.3 million during the same period of 2005. The increase in operating expenses was primarily due to an increase in property taxes and in variable costs directly tied to energy production, as compared to the same period of 2005. For the six months ended June 30, 2006, operating

expenses were $8.0 million compared to $6.7 million in the prior year. The increase in operating expenses was primarily due to the reasons noted above, as well as an increase in repair and maintenance projects initiated, as compared to the same period of 2005.

For the quarter ended June 30, 2006, the Hydroelectric Division's operating profit increased to $8.8 million as compared to $8.4 million during the same period of 2005. For the six months ended June 30, 2006, operating profit increased to $17.5 million as compared to $15.2 million during the same period of 2005. The increase in operating profit for the quarter ended June 30, 2006 was primarily the result of improved overall hydrology in the division. For the quarter ended June 30, 2006, operating profit exceeded Management's expectations.

Outlook

The Fund's 2006 forecast production is based on long term hydrological conditions. The Fund's hydroelectric facilities located in the New York and New England regions are expected to perform above long-term averages during the third quarter of 2006 due to forecasts of higher than average expected rainfall in the Northeastern United States. The Fund's facilities located in the Quebec region are expected to perform in line with expectations for the third quarter and the remainder of the year. The Fund's facilities located in northern Ontario and Alberta are expected to perform below long-term averages during the third quarter due to drier conditions expected in these regions.

The Fund will continue to seek accretive hydroelectric acquisitions throughout the remainder of 2006, with emphasis placed on the acquisition of facilities that provide diversification of regional hydrologic and market conditions. In addition, the Fund intends to examine the possibility of rationalizing smaller hydroelectric generating facilities that may no longer fit the Fund's preferred asset profile, and may initiate the sale of certain small hydroelectric assets upon completion of this review. These potential sales are not expected to materially impact the division's future operating results.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2006	**2005**	**2006**	**2005**
Performance (MW-hrs sold)	**111,945**	133,401	215,858	265,026
Revenues				
Energy sales	**$ 16,228**	$ 19,040	$ 31,843	$ 36,959
Other revenue	**1,936**	-	7,381	-
Total revenue	**$ 18,164**	$ 19,040	$ 39,224	$ 36,959
Expenses				
Operating expenses	**$ (12,043)**	$ (12,792)	$ (27,272)	$ (25,943)
Interest and dividend income	**1,186**	725	1,918	1,443
Division operating profit				
(incl. interest and dividend income)	**$ 7,307**	$ 6,973	$ 13,870	$ 12,459

For the quarter ended June 30, 2006, revenue from the Cogeneration Division totaled $18.2 million as compared to $19.0 million during the same period of 2005. For the quarter ended June 30, 2006, the division's production decreased as compared to the same period of 2005. Production in the second quarter decreased by approximately 18,000 MW-hrs as a result of the scheduled major overhaul at the Windsor Locks facility and a further 3,000 MW-hrs from the decision to temporarily shut down the Sanger facility during the fourth quarter of 2005. The natural gas purchased under a fixed contract normally consumed by the facility was sold at favourable fixed prices. The Sanger facility recommenced operations in May 2006. The decrease in energy sales revenue was a result of lower production as explained above and the effects of a stronger Canadian dollar. These effects were partially offset by higher energy prices at the Windsor Locks and Crossroads facilities where increased fuel costs are passed on to the customer in the form of higher energy prices. Other revenue primarily consists of April sales of natural gas at the Sanger facility.

For the six months ended June 30, 2005, revenue was $31.8 million compared to $37.0 million during the same period of the prior year. The decrease in revenue is attributable to reduced production, approximately 22,000 MW-hrs at the Windsor Locks facility and a further 28,000 MW-hrs at the Sanger facility, as well as the effects of a stronger Canadian dollar. These decreases were partially offset by higher energy rates. Other revenue primarily consists of sales of natural gas at the Sanger facility.

The Fund earned higher dividend income from its portfolio investments during the second quarter and for the six months ended June 30, 2006 compared to the same periods of 2005.

For the quarter ended June 30, 2006, operating expenses decreased to $12.0 million as compared to $12.8 million during the same period of 2005. Operating expenses decreased as a result of a stronger Canadian dollar and lower gas usage, partially offset by higher operating expenses.

For the six months ended June 30, 2006, operating expenses increased to $27.3 million from $25.9 million primarily due to higher fuel expenses of $1.3 million, and higher operating expenses. The stronger Canadian dollar partially offset these increased expenses.

For the quarter ended June 30, 2006, operating profit was $7.3 million as compared to $7.0 million during the same period of 2005. Operating profit for the six months ended June 30, 2006 was $13.9 million compared to $12.5 million during the same period of 2005. Operating profit for the second quarter exceeded Management's expectations.

Outlook

Following the regularly scheduled overhaul of the Fund's Windsor Locks facility, it is expected that for the remainder of the year, the facility will produce in line with management's expectations. The Sanger facility was restarted in the second quarter following the contracted sale of natural gas normally consumed by the facility, and is expected to operate in line with management's expectations during the third quarter.

In the third quarter, the Fund entered into a three year agreement at the Sanger facility which outlines the specific calculation of the variable energy rate the site earns.

The Fund continues to evaluate the replacement of the existing gas turbine at the Sanger facility with a newer, more efficient unit. Expected benefits of replacing the turbine include higher efficiency, lower fuel usage, and greater ease of maintenance as well as supplying additional capacity and energy demands to the California energy market and a significant extension of the useful life of the facility.

Alternative Fuels Division

	Three months ended June 30		Six months ended June 30	
	2006	**2005**	**2006**	**2005**
Performance (MW-hrs sold)	**58,102**	49,298	117,377	106,163
Performance (tonnes of waste processed)	**37,944**	33,901	77,316	71,532
Revenues				
Energy sales	**$ 3,913**	$ 3,763	$ 8,266	$ 7,915
Waste disposal sales	**3,415**	3,036	7,136	6,352
Total revenue	**$ 7,328**	$ 6,799	$ 15,402	$ 14,267
Expenses				
Operating expenses	**$ (6,350)**	$ (5,966)	$ (13,569)	$ (12,067)
Interest and other income	**2,231**	1,259	3,938	2,177
Division operating profit				
(incl. interest and other income)	**$ 3,209**	$ 2,092	$ 5,771	$ 4,377

For the quarter ended June 30, 2006, revenue in the Alternative Fuels Division was $7.3 million as compared to $6.8 million during the same period of 2005. During the second quarter of 2006, the division's production increased primarily as a result of an increase of approximately 9,000 MW-hrs at its LFG facilities and a further 2,500 MW-hrs from the EFW facility. Revenue from energy sales and waste disposal sales increased due to greater production in the quarter as

compared to the same period of 2005. The division reported lower revenue, in Canadian dollars, from its US operations as a result of a stronger Canadian dollar.

For the six months ended June 30, 2006, revenue was $15.4 million compared to $14.3 million during the same period of 2005. Revenue from energy sales and waste disposal sales increased due to greater production in the period as compared to the same period of 2005. The division reported lower revenue, in Canadian dollars, from its US operations as a result of a stronger Canadian dollar.

For the quarter ended June 30, 2006, operating expenses were $6.4 million as compared to $6.0 million during the same period of 2005. The increase in operating expenses for the quarter was primarily the result of increased fuel related costs as compared to the same period of 2005. A stronger Canadian dollar reduced the division's US dollar operating expenses.

For the six months ended June 30, 2006, operating expenses were $13.6 million compared to $12.1 million during the same period of 2005. The increase in operating expenses for the quarter was primarily the result of increased fuel related costs of $1.1 million and an increase in repair and maintenance costs of $0.7 million as compared to the same period of 2005. A stronger Canadian dollar reduced the division's US dollar operating expenses.

The Fund earned higher interest and other income on its investments within the Alternative Fuels Division during the second quarter of 2006 and for the six months ended June 30, 2006, as compared to during the same periods of 2005 as a result of its investment in AirSource.

On June 29, 2006, the Fund acquired 92.37% of the outstanding partnership units of AirSource. AirSource has constructed the St. Leon Wind Energy facility, comprised of 63 wind turbine generators, each with a capacity of 1.65 MW, totalling approximately 99 MW of installed capacity located near the Town of St. Leon, Manitoba. The facility is the first wind farm in the province of Manitoba, and is currently one of the largest wind turbine farms in Canada. The Fund issued 2,099,261 units and Algonquin (AirSource) Power LP, an affiliate of the Fund, ("Algonquin AirSource") issued 3,863,554 exchangeable units for consideration valued at $55.9 million. Total purchase price, including all closing costs, was $56.8 million. Algonquin AirSource units provide the holder with the distribution privileges equivalent to what they would receive if the units were exchanged for Fund units, as long as AirSource generates adequate cash flow. Algonquin AirSource units are exchangeable into Fund units at the holder's option at the rate of one Algonquin AirSource unit for 0.9808 Fund units.

Subsequent to the end of the quarter, the Fund exercised its compulsory acquisition rights under the AirSource limited partnership agreement to acquire the remaining partnership units of AirSource. The Fund issued 283,717 Fund Units and Algonquin AirSource issued 206,818 Exchangeable Units to acquire the remaining 496,090 AirSource units.

At the end of the second quarter of 2006, the Fund had advanced to AirSource a total of $40.0 million as well as providing letters of credit of $15.4 million for a total advance of $55.4 million. As a result of the acquisition of AirSource, the assets and liabilities of AirSource are consolidated within the balance sheet of the Fund. While all the wind turbines at the facility have been constructed and commissioned, a number of technical concerns remain to be addressed by the prime contractor, Vestas-Canadian Wind Technology, Inc. ("Vestas"). As a result of these concerns, there are certain holdback and project milestone payments to Vestas (representing

the balance of facility construction costs) that remain outstanding as at June 30, 2006. These amounts are now included as an accrued liability on the balance sheet.

Interest income earned on the AirSource investment was $1.8 million in the second quarter of 2006 as compared to $0.7 million during the same period of 2005 and $3.0 million in the six months ended June 30, 2006 as compared to $1.1 million during the same period of 2005.

For the quarter ended June 30, 2006, operating profit was $3.2 million as compared to $2.1 million during the same period of 2005. Operating profit for the six months ended June 30, 2006 was $5.8 million as compared to $4.4 million during the same period of 2005. Improvement in investment income and operating profit at the EFW facility was offset by equipment availability and gas supply issues at the LFG facilities, and problems with fuel supply at the Drayton Valley facility, resulting in operating profit below Management's expectations for the quarter and six months ended June 30, 2006.

Outlook

During the third quarter of 2006, the Fund will integrate the operations of the St. Leon Wind Energy facility into the Alternative Fuels Division, following the successful take-over bid during the second quarter.

For the remainder of 2006, the Alternative Fuels Division will continue to realize the benefits of actions taken to improve operating efficiencies. At the EFW facility, an action plan is in place for the remainder of the year, including some major planned maintenance items, which should result in the facility meeting expectations for the third quarter.

The availability of the Fund's Landfill Gas facilities is expected to improve during the third quarter of 2006, due to actions taken in the first half of 2006 including the implementation of preventative and repair and maintenance programs, process changes, and various management improvement programs.

Infrastructure Division

	Three months ended June 30		Six Months ended June 30	
	2006	**2005**	**2006**	**2005**
Number of				
Waste-water customers	**28,379**	22,866	28,379	22,866
Water distribution customers	**31,733**	23,394	31,733	23,394
Revenues				
Waste-water and water distribution	**$ 9,395**	$ 7,645	$ 17,302	$ 12,839
Expenses				
Operating expenses	**$ (3,738)**	$ (2,978)	$ (7,217)	$ (5,467)
Other income	**21**	17	26	17
Division operating profit (incl. other income)	**$ 5,678**	$ 4,684	$ 10,111	$ 7,389

For the quarter ended June 30, 2006, revenue in the Infrastructure Division increased to $9.4 million as compared to $7.6 million during the same period of 2005. The increase in revenue for the second quarter was primarily due to the inclusion of water distribution and waste-water facilities purchased during the prior year, continued strong organic growth at existing facilities as well as the comparable 2005 results being negatively impacted by higher than normal rain in Arizona. The increase in revenue was partially offset by the stronger Canadian dollar.

The growth in the division's waste-water and water distribution customer base includes organic growth of 8% (approximately 2,100 waste-water customers and approximately 1,900 water distribution customers) for the quarter ended June 30, 2006 as compared to the quarter ended June 30, 2005. The remaining increase in customers results from the inclusion of three facilities (located in Missouri) which were purchased on August 14, 2005, and one facility (located in Arizona) which was purchased on December 2, 2005.

Revenue for the six months ended June 30, 2006 increased to $17.3 million from $12.8 million during the same period of 2005. The increase in revenue for the six months ended June 30, 2006 was the result of the reasons indicated in the discussion of the second quarter results above. Overall, the four new facilities generated additional revenue of approximately $1.1 million during the second quarter of 2006 ($2.1 million during the six months ended June 30, 2006).

For the quarter ended June 30, 2006, operating expenses were $3.7 million as compared to $3.0 million during the same period of 2005. For the six months ended June 30, 2006, operating expenses were $7.2 million as compared to $5.5 million during the same period of 2005. The increase in operating expenses was primarily due to the inclusion of the operating costs of the facilities acquired in 2005 of approximately $0.7 million during the second quarter of 2006 and $1.5 million during the first six months of 2006 ($nil during same periods of 2005), offset by the stronger Canadian dollar.

For the quarter ended June 30, 2006, operating profit increased to $5.7 million as compared to $4.7 million during the same period of 2005. Operating profit for the six months ended June 30, 2006 increased to $10.1 million from $7.4 million during the same period of 2005. The increase was due to strong organic growth and the inclusion of the facilities that were purchased during the year. Operating profit met Management's expectations for the quarter ended June 30, 2006.

Outlook

The current rate of organic growth at the Infrastructure Division is expected to continue during the remainder of 2006, primarily in Texas, as well as in Arizona, where the division services one of the fastest growing counties in the United States. In the third quarter of 2006, the Fund anticipates improved performance at the Arizona water distribution facilities due to increased water sales brought on by unseasonably hot weather conditions in the area.

The Fund has rate cases under way for its Black Mountain and Gold Canyon facilities. The regulatory review of these rate cases is expected to be completed by the end of 2006 and 2007 respectively. In addition, rate cases in progress for three facilities in Missouri are expected to be completed early in the second quarter of 2007. Management expects that these rate cases will help to 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 planned capital improvement projects expected to occur in late 2006 in the Litchfield Park Services Company service area to increase the water distribution capacity, to meet the expected growth in the area and to satisfy the requirements of the regulatory authorities in Arizona.

The Fund continues to pursue opportunities to expand its existing water distribution and waste-water facilities and to acquire other utilities in the United States.

Administrative Expenses

	Three months ended June 30		Six months ended June 30	
	2006	**2005**	**2006**	**2005**
Administrative expenses	$ 2,308	$ 1,576	$ 3,777	$ 2,974
Management costs	217	206	434	412
Loss (gain) on foreign exchange	(2,370)	784	(2,262)	1,116
Interest expense	5,051	3,995	9,651	7,879
Write down of fixed and intangible assets	-	2,721	-	2,721
Interest, dividend and other income	(21)	(15)	(37)	(62)
Income tax expense (recovery)	(2,448)	2,358	(2,201)	3,499

During the quarter ended June 30, 2006, administrative expenses increased to $2.3 million from $1.6 million. During the six months ended June 30, 2006, administrative expenses increased to $3.8 million from $3.0 million. The increase primarily relates to the costs associated with several business development opportunities undertaken during the period.

Foreign exchange gains and losses primarily represent unrealized gains or losses on US dollar denominated debt and do not impact cash available for distribution. For the quarter ended June 30, 2006 the Fund posted a foreign exchange gain of $2.4 million versus a loss of $0.8 million during same period of 2005. For the six months ended June 30, 2006 the Fund posted a foreign exchange gain of $2.3 million versus a loss of $1.1 million during same period of 2005. At the end of the first quarter, the Fund had approximately $40.7 million in US dollar denominated debt.

For the quarter ended June 30, 2006, interest expense increased to $5.0 million as compared to $4.0 million during the same period of 2005. For the six months ended June 30, 2006, interest expense increased to $9.7 million as compared to $7.9 million during the same period of 2005. The increase is 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.

An income tax recovery of $2.4 million was booked in the second quarter of 2006 as compared to an expense of $2.4 million during the same period of 2005. An income tax recovery of $2.2 million was booked in the six months ended June 30, 2006 as compared to an expense of $3.5 million during the same period of 2005. The recovery was the result of a reduction in expected future income taxes due to a reduction in expected future tax rates and the impact of tax losses generated by certain facilities of the Fund.

Cash Available for Distribution

	Three months ended June 30		Six Months ended June 30	
	2006	2005	2006	2005
Cash flow from operating activities	$ 20,973	$ 19,743	$ 36,026	$ 22,501
Changes in working capital	(4,374)	(3,364)	(3,293)	6,691
Operating cash flow before working capital changes	16,599	16,379	32,733	29,192
Receipt of principal on notes receivable	669	1,344	2,036	3,052
Repayment of long-term liabilities	(410)	(444)	(610)	(682)
Maintenance capital expenditures	(816)	(549)	(1,463)	(1,001)
Other	(17)	(21)	(250)	(23)
Cash available for distribution	$ 16,025	$ 16,709	$ 32,446	$ 30,538
Cash available for distribution per trust unit	$ 0.23	$ 0.24	$ 0.47	$ 0.44
Distribution to unitholders	$ 16,016	$ 16,015	$ 32,031	$ 32,030
Distributions to unitholders per trust unit	$ 0.23	$ 0.23	$ 0.46	$ 0.46

During the quarter ended June 30, 2006 the Fund generated $16.0 million in cash available for distribution as compared to $16.7 million for the same period of 2005. During the six months ended June 30, 2006, the Fund generated $32.5 million in cash available for distribution as compared to $30.5 million for the same period of 2005.

The Fund's distribution as a percentage of 'cash available for distribution' ("Payout Ratio") was improved to 99.9% during the second quarter of 2006 and 98.7% during the six months ended June 30, 2006. The Fund achieved improving Payout Ratios of 123.4% in 2002, 106.9% in 2003, 105.8% in 2004 and 98.7% in 2005.

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 $0.23 of cash available for distribution during the quarter ended June 30, 2006 as compared to $0.24 during the same period of 2005. The Fund distributed $16.0 million during the quarters ended June 30 of both 2006 and 2005. For the six months ended June 30, 2006, on a per trust unit basis, the Fund generated $0.47 of cash available as compared to $0.44 during the same period of 2005. The Fund distributed $32.0 million during the six months ended June 30 of both 2006 and 2005.

On a per unit basis, the Fund maintained distributions at $0.23 per trust unit for the quarter ended June 30, 2006, and $0.46 per trust unit during the six months ended June 30, 2006, consistent with 2005.

Liquidity and Capital Reserves

For the quarter ended June 30, 2006, the Fund had $18.1 million of cash and cash equivalents. As at June 30, 2006, the Fund had negative net working capital of $28.6 million. The shortfall is primarily the result of construction costs to complete the St. Leon Wind Energy facility, which are now included in accrued liabilities. The Fund has adequate credit capacity to meet these requirements.

During the quarter ended June 30, 2006, the Fund incurred capital expenditures of $6.0 million, as compared to $5.5 million during the comparable period of 2005. During the six months ended June 30, 2006, the Fund incurred capital expenditures of $12.6 million, as compared to $10.5 million during the comparable period of 2005. Capital expenditures during the quarter and six months ended June 30, 2006 were primarily growth related expenditures in the Infrastructure Division and the planned major maintenance at the Windsor Locks facility. Capital expenditure requirements, excluding the Fund's commitment to AirSource, are anticipated to be approximately $15.3 million during the remainder of fiscal 2006. The majority of these expenditures pertain to the Infrastructure Division and are required due to growth and to comply with regulatory requirements.

Long term liabilities increased to $265.8 million at June 30, 2006 as compared to $151.9 million at June 30, 2005. Long term liabilities primarily consist of project level debt of approximately $160.0 million and an amount of $105.8 million drawn on the Fund's revolving credit facility as compared to project level debt of $90.0 million and an amount of $61.5 million drawn on the Fund's revolving credit facility at the end of the second quarter of 2005. Project debt increased primarily due to the inclusion of senior debt totalling $73.3 million related to the St. Leon Wind Energy facility. Project debt is paid at the project level where adequate cash flows are available to fund 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 $175 million revolving credit facility of which $155 million is to be used for acquisitions, investments and letters of credit and $20 million is to be used for operating requirements. At the quarter ended June 30, 2006, the Fund had drawn $105.8 million on its revolving credit facility. Subsequent to June 30, 2006, the Fund's lenders extended the existing credit facility for a one year term to mature July 2008.

During the quarter ended June 30, 2006, the Fund drew $8.0 million on its facility to fund capital requirements. Since the Fund utilizes the revolving credit facility for growth capital expenditures including acquisitions, the revolving credit has been reduced in the past by the issuance of units and/or debentures to the public. The Fund is considering an offering of trust units and/or debentures to fund growth capital, its commitment to Airsource and to reduce the outstanding amount on its credit facility.

The Fund intends to finance its capital expenditures and other commitments through working capital, its revolving credit facility and through additional trust unit and/or debenture offerings.

For the quarter ended June 30, 2006 the Fund maintained a long term debt-to-equity ratio (including long term liabilities, other long term liabilities and convertible debentures) of 72.5%. The Fund may settle the outstanding convertible debentures, at its option, in cash, or, subject to certain conditions, in Fund units. Accordingly, if the convertible debentures are excluded from debt in this calculation (included as equity), the long term debt-to-equity ratio as at June 30, 2006 would be reduced to 47.4%.

Contractual Obligations

Information concerning contractual obligations as of August 10, 2006 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	$352,187	$ 1,427	$109,808	$4,541	$236,411
Other obligations	24,910	4,900	6,048	1,040	12,922
Total obligations	$377,097	$ 6,327	$115,856	$5,581	$249,333

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 due less then 1 year time frame is the Fund's commitment as of August 8, 2006 of $9.0 million regarding the installation of the additional steam generation and transmission assets required for the sale of steam from the EFW facility. The Fund's commitment with regards to funding the balance of facility construction costs at the St. Leon Wind Energy facility is included in accrued liabilities and therefore has been excluded from Contractual Obligations.

Unitholders' Equity and Convertible Debentures

Pursuant to the takeover bid of AirSource, on June 30, 2006, 2,099,261 Fund units were issued. In addition, Algonquin AirSource issued units, which are exchangeable into 3,789,373 Fund units at the holder's option. As Algonquin AirSource units provide the holder with distribution privileges equivalent to what they would receive if the units converted into Fund units, the Fund effectively issued, on a fully diluted basis, 5,888,634 units on June 29, 2006.

As at June 30, 2006, the Fund had 71,792,730 issued and outstanding units with a total of 75,582,104 units issued and outstanding on a fully diluted basis. Subsequent to quarter end, a further 283,717 Fund units and 206,818 exchangeable units were issued to acquire the remaining un-tendered AirSource units, in conjunction with the takeover bid.

In 2004, the Fund issued 85,000 convertible unsecured debentures at a price of $1 for each debenture. The debentures bear interest at 6.65% per annum and are convertible into trust units of the Fund at the option of the holder at a conversion price of $10.65 per trust unit, being a ratio of approximately 93.9 trust units for each $1 principal. The debentures may not be redeemed by the Fund prior to July 31, 2007. As at June 30, 2006, there were 84,980 convertible debentures outstanding as a result of the conversion of certain debentures into units.

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 5 of the Fund's unaudited consolidated financial statements for the quarter ended June 30, 2006.

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 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

There are a number of risk factors relating to the business of the Fund. Some of these risks include the dependence upon Fund businesses, regulatory climate and permits, US versus Canadian dollar exchange rates, tax related matters, commodity prices, gross capital requirements, labour relations, reliance on key customers and environmental health and safety considerations. A more comprehensive assessment of the Fund's business risks is set out in the 2005 Renewal Annual Information Form.

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. This profitability could be impacted by equipment failure, the failure of a major customer to fulfill its contractual obligations under its power purchase agreement, reductions in average energy prices, a strike or lock-out at a facility and expenses related to claims or clean-up to adhere to environmental and safety standards. These risks are mitigated through the diversification of the Fund's operations, both operationally (Hydro, Cogeneration, Alternative Fuels and Infrastructure) and geographically (Canada and US), the use of regular maintenance programs, maintaining adequate insurance and the establishment of reserves for expenses. In addition, the Fund's existing long term power purchase agreements minimize the risk of reductions in average energy pricing.

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 distribution 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 hydroelectric operations of the Fund are impacted by seasonal fluctuations. These assets are primarily "run-of-river" and as such fluctuate with the natural water flows. During the winter and summer periods, flows are generally lower while during the spring and fall periods flows are higher. The ability of these assets to generate income may be impacted by changes in water availability changes or other material hydrologic events within a watercourse. It is, however, anticipated that due to the geographic diversity of the facilities, variability of total revenues will be minimized.

The strength and consistency of the wind resource will vary from the estimate set out in the initial wind studies that were relied upon to determine the feasibility of the Facility. If weather patterns change or the historical data proves not to accurately reflect the strength and consistency of the actual wind, the assumptions underlying the financial projections as to the amount of electricity to be generated by the Facility may be different and distributable cash could be impacted.

There remain certain completion risks associated with the St. Leon Wind Energy facility. Although the wind turbines are operational, there are certain deficiencies that must be

completed in order to finalize the project. Management is working with Vestas to resolve these deficiencies. The terms of the power purchase agreement ("PPA") provide that Manitoba Hydro may terminate the PPA in certain circumstances. One circumstance in which the PPA may be terminated by Manitoba Hydro is in the event that the Commercial Operation Date, as defined in the PPA, does not occur by December 31, 2006. Management is monitoring the progress and is taking appropriate steps to ensure the Commercial Operation Date occurs prior to this deadline.

Currency fluctuations may affect the cash flows the Fund would realize from its operations, as certain of the Fund Businesses sell electricity in the United States and receive proceeds from such sales in US dollars. Such Fund Businesses also incur costs in US dollars. The Fund attempts to manage this risk through the use of forward contracts. At the quarter ended June 30, 2006, the Fund had forward contracts to sell US dollars for fiscal 2006 to fiscal 2010 totalling US$ 82.3 million carrying an average rate of $1.34. The Fund generally follows hedge accounting to account for these transactions. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Fund has a credit facility and project specific debt of approximately $266.2 million. In the event that the Fund was required to replace these facilities with borrowings having less favourable terms or higher interest rates, the level of cash generated for distribution may be negatively impacted. The Fund attempts to manage the risk associated with floating rate interest loans through the use of interest rate swaps. The Fund has a fixed for floating interest rate swap on its AirSource project specific debt until September 2015 in the notional amount of $73.3 million in order to minimize volatility in the interest expense on this debt facility. The Fund has effectively fixed its interest expense on its senior debt facility at 5.47%. The Fund uses hedge accounting to account for these transactions. At June 30, 2006 the interest rate swap had a positive value of $2.7 million.

The cash available for distribution generated from several of the Fund's facilities are subordinated to senior debt. In the event that there was a breach of covenants or obligations with regards to any of these particular loans which was not remedied, the loan could go into default which could result in the lender realizing on its security and the Fund losing its investment in such facility. The Fund actively manages its operations to minimize the risk of this possibility.

Changes to income tax laws and the current tax treatment of mutual fund trusts could negatively impact the Fund. Although the Fund is of the view that it currently qualifies under current legislation as a mutual fund trust, there can be no assurance that the legislation will be changed in the future or that Canada Revenue Agency ("CRA") will agree with this position. If the Fund ceases to qualify as a mutual fund trust, the return to unitholders may be adversely affected.

In addition, although the Fund is of the view that all expenses being claimed by the Fund are reasonable and that the cost amount of the Fund's depreciable properties have been correctly determined, there can be no assurance that CRA or the Internal Revenue Service will agree. A successful challenge by either agency regarding the deductibility of such expenses or the correctness of such cost amounts could impact the return to unitholders.

The Fund's water distribution and waste-water utilities may be located within areas of the United States experiencing high growth. These utilities may have an obligation to service new residential, commercial and industrial customers. While expansion to serve new customers will

likely result in increased future cash flows, it may require significant capital commitments in the immediate term. Accordingly, the Fund may be required to access capital markets or obtain additional borrowings to finance these future construction obligations.

The Fund has fixed the price of its natural gas exposure at the EFW facility until 2007. The EFW facility is the Fund's only natural gas exposure as all 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 maintains adequate insurance on all of its facilities. This includes property and casualty, boiler and machinery, and liability insurance.

Quarterly Financial Information

The following is a summary of unaudited quarterly financial information for the two years ended June 30, 2006.

Millions of dollars except per trust unit amounts

	3rd Qtr 2005	**4th Qtr 2005**	**1st Qtr 2006**	**2nd Qtr 2006**	**Total**
Revenue	42.8	50.9	49.5	47.1	190.3
Net earnings	9.5	8.9	7.3	13.8	39.5
Net earnings per trust unit	0.14	0.13	0.11	0.20	0.58
Total Assets	838.2	823.8	839.2	1,030.0	1,030.0
Long term debt	286.8	271.5	300.1	376.6	376.6
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

	3rd Qtr 2004	**4th Qtr 2004**	**1st Qtr 2005**	**2nd Qtr 2005**	**Total**
Revenue	40.7	40.7	40.6	45.0	167.0
Net earnings	11.5	(0.1)	1.8	1.6	14.8
Net earnings per trust unit	0.16	0.00	0.03	0.02	0.21
Total Assets	834.2	824.8	813.1	822.1	822.1
Long term debt	214.6	226.2	235.6	261.8	261.8
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

The quarterly results are impacted by various factors including seasonal fluctuations and acquisition of facilities as noted in this Management's Discussion and Analysis.

Consolidated Balance Sheets

June 30, 2006 and December 31, 2005
(thousands of Canadian dollars)

Assets

Current assets	**June 30, 2006 Unaudited**	**December 31, 2005**
Cash and cash equivalents	$ 18,056	$ 11,363
Accounts receivable	27,748	29,206
Prepaid expenses	3,305	1,918
Current portion of notes receivable	1,763	2,791
	50,872	45,278
Long-term investments	36,265	57,489
Future non-current income tax asset	8,056	7,719
Capital assets, net of amortization (note 3)	809,259	627,652
Intangible assets, net of amortization (note 3)	115,040	76,848
Restricted cash	3,795	3,458
Deferred costs	6,684	5,357
	$ 1,029,971	$ 823,801
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 65,322	$ 28,585
Due to Algonquin Power Group	200	62
Cash distribution payable	11,128	10,677
Current portion of long-term liabilities	1,826	1,445
Current income tax liability	135	435
Future income tax liability	833	1,143
	79,444	42,347
Long-term debt (note 4)	265,795	157,002
Convertible debentures	84,980	85,000
Other long-term liabilities	10,358	10,435
Deferred credits	15,455	19,102
Future non-current income tax liability (note 3)	71,229	56,917
Minority interest	4,622	-
Non controlling interest (note 3)	35,999	-
Unitholders' equity		
Trust units	674,140	654,176
Deficit	(212,051)	(201,178)
	462,089	452,998
	$ 1,029,971	$ 823,801

Subsequent events - note 4

Commitments - note 7

See accompanying notes to financial statements

Approved by the Trustees

Consolidated Statements of Earnings and Deficit

For the six months ended June 30, 2006 and June 30, 2005
(thousands of Canadian dollars)
Unaudited

	Three months ended June 30		Six months ended June 30	
	2006	**2005**	**2006**	**2005**
Revenue				
Energy sales	$ 32,350	$ 34,335	$ 64,750	$ 66,425
Waste disposal fees	3,415	3,036	7,136	6,352
Waste-water and water distribution	9,395	7,645	17,302	12,839
Other revenue	1,936	-	7,381	-
	47,096	45,016	96,569	85,616
Expenses				
Operating	26,026	25,022	56,087	50,179
Amortization of capital assets	7,078	7,036	14,133	13,941
Amortization of intangible assets	1,292	1,967	2,578	3,508
Management costs	217	206	434	412
Administrative expenses	2,308	1,576	3,777	2,974
(Gain) / loss on foreign exchange	(2,370)	784	(2,262)	1,116
	34,551	36,591	74,747	72,130
Earnings before undernoted	12,545	8,425	21,822	13,486
Interest expense	5,051	3,995	9,651	7,879
Interest, dividend income and other income	(3,898)	(2,218)	(6,786)	(4,022)
Write down of facility	-	2,721	-	2,721
	1,153	4,498	2,865	6,578
Earnings before income taxes	11,392	3,927	18,957	6,908
Current income taxes	612	252	882	504
Future income taxes	(3,060)	2,106	(3,083)	2,995
	(2,448)	2,358	(2,201)	3,499
Net earnings	13,840	1,569	21,158	3,409
Deficit, beginning of the period	(209,875)	(173,080)	(201,178)	(158,905)
Cash distributions	(16,016)	(16,015)	(32,031)	(32,030)
Deficit, end of the period	$ (212,051)	$ (187,526)	$ (212,051)	$ (187,526)
Basic and diluted net earnings per trust unit	$ 0.20	$ 0.02	$ 0.30	$ 0.05

Consolidated Statements of Cash Flows

For the six months ended June 30, 2006 and June 30, 2005
(thousands of Canadian dollars)
Unaudited

	Three months ended June 30		Six months ended June 30	
	2006	**2005**	**2006**	**2005**
Operating Activities				
Net earnings	$ 13,840	$ 1,569	$ 21,158	$ 3,409
Items not affecting cash				
Amortization of capital assets	7,078	7,036	14,133	13,941
Amortization of intangible assets	1,292	1,967	2,578	3,508
Other amortization	190	306	657	674
Distribution received in excess of equity income	(58)	7	(128)	66
Write down of facility	-	2,721	-	2,721
AirSource commitment fee	-	-	-	988
Future income taxes	(3,060)	2,106	(3,083)	2,995
Unrealized (gain) / loss on foreign exchange	(2,683)	667	(2,582)	890
	16,599	16,379	32,733	29,192
Changes in non-cash operating working capital	4,374	3,364	3,293	(6,691)
	20,973	19,743	36,026	22,501
Financing Activities				
Cash distributions	(16,016)	(16,015)	(32,031)	(32,030)
Deferred financing costs	(290)	(205)	(499)	(452)
Net increase in long-term liabilities	7,546	23,056	35,798	30,798
Other	132	181	356	78
Deferred credits	-	48	49	393
	(8,628)	7,065	3,673	(1,213)
Investing Activities				
Increase in restricted cash	(358)	(118)	(432)	(4,602)
Receipt of principal on notes receivable	669	1,344	2,036	3,052
Increase in long term investments	-	(22,100)	-	(23,088)
Additions to capital assets	(6,007)	(5,476)	(12,569)	(10,545)
Acquisitions of operating entities (note 3)	3,103	(695)	(21,917)	(11,637)
	(2,593)	(27,045)	(32,882)	(46,820)
Effect of exchange rate differences on cash and cash equivalents	(108)	135	(124)	343
Increase / (decrease) in cash	9,644	(102)	6,693	(25,189)
Cash and cash equivalents, beginning of the period	8,412	9,110	11,363	34,197
Cash and cash equivalents, end of the period	$ 18,056	$ 9,008	$ 18,056	$ 9,008
Supplemental disclosure of cash flow information				
Cash paid during the period for interest expense	$ 3,642	$ 2,993	$ 9,043	$ 7,945
Cash paid during the period for income taxes	$ 799	$ 200	$ 1,257	$ 341

Notes to the Consolidated Financial Statements

For the six months ended June 30, 2006 and June 30, 2005
(thousands of Canadian dollars)
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, 2005, as set out in the 2005 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, 2005.

2. Seasonality

The operations of Algonquin Power Income Fund (the "Fund") are seasonal. The Fund's hydroelectric energy assets are primarily "run-of-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 June 29, 2006, the Fund completed the acquisition of 92.37% of the outstanding partnership units of AirSource Power Fund I LP ("AirSource"). AirSource has constructed the St. Leon Wind Energy facility, comprised of 63 1.65 megawatt turbines totalling approximately 99 megawatts of installed capacity located near the Town of St. Leon Manitoba. The facility is the first wind farm in the province of Manitoba, and one of the largest wind turbine farms in Canada to date. The Fund issued 2,099,261 Fund trust units ("Fund Units") and Algonquin (AirSource) Power LP ("Algonquin AirSource") an affiliate of the Fund issued 3,863,554 exchangeable units ("Exchangeable Units") for a total consideration valued at $55.9 million. Total purchase price, including acquisition costs, was $56.8 million. In accordance with the terms of the offer, holders of the AirSource units elected to receive either an Exchangeable Unit for each unit tendered or 0.9808 Fund Units for each unit tendered. Unitholders of Algonquin AirSource are entitled to receive 3,789,373 Fund Units. The Exchangeable Units entitle the holders to receive distributions and the Fund intends that such distributions be equivalent to Fund distributions, as long as the facility generates adequate cashflow.

Subsequent to quarter end, the Fund exercised its compulsory acquisition rights under the AirSource limited partnership agreement to acquire the remaining Units of AirSource not already owned by the Fund. The Fund issued 283,717 Fund Units and Algonquin AirSource issued 206,818 Exchangeable Units to acquire the remaining 496,090 AirSource units.

The acquisitions have been accounted for using the purchase method, with earnings from operations included since the date of acquisition. The consideration paid by the Fund has been allocated to net assets acquired as follows:

		Total
Working capital (net of cash received $1,662)	$	(35,691)
Deferred costs		5,215
Capital assets		183,036
Intangible assets		35,907
Other assets (note 4(ii))		2,700
Current portion of long term debt		(397)
Long term debt		(114,503)
Minority interest		(4,622)
Non current future tax liability		(16,515)
Total purchase price	$	55,130
Add: cash acquired		1,662
Trust and exchangeable units issued being non cash consideration		(55,942)
Cash consideration	$	850

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. The Exchangeable Units are classified on the Fund's balance sheet as 'Non controlling interest'.

Intangible assets represent the value of the power purchase and interconnect agreements with Manitoba Hydro, entered into by AirSource in 2004, and other non tangible assets. These assets will be amortized over their expected useful lives.

During the first six months of the year, the Fund provided an additional $19.5 million of financing to AirSource. As of June 29, 2006, the Fund had advanced $40.0 million to AirSource as well as providing letters of credit of $15.4 million, for a total advance of $55.4 million. As a result of the acquisition of the majority of the outstanding partnership units of AirSource at the end of the second quarter, the Fund consolidated the balance sheet of AirSource in its accounts.

(ii) In accordance with the purchase and sale agreements for Litchfield Park Service Company ("LPSCo"), Woodmark Utility Company ("Woodmark"), and Rio Rico Utilities ("Rio Rico"), the Fund is required to make additional payments to the previous owners for each additional customer connected to the utility. For LPSCo, these payments continue until 2008, for Woodmark until 2009 and for Rio Rico until 2008. As of June 30, 2006 the Fund has accrued $1,547 (U.S $1,355) as a growth premium, and increased intangible assets by a similar amount, gross of future tax liabilities of $615.

4. Long term debt

i) During the first six months of the year, the Fund drew an additional $36.5 million on the revolving credit facility, primarily to fund the construction requirements of AirSource and other capital requirements.

During the first quarter 2006, the Fund reached an agreement with the Fund's senior lenders to increase its revolving credit facility by $30.0 million to bring the total available credit to $175.0 million. Subsequent to the end of the second quarter, the credit facility of $175.0 million was extended for another one year term to mature July 2008. There were no material changes to the terms and conditions of the Fund's revolving credit facility.

ii) AirSource has arranged senior debt financing of $73.3 million which bears interest at bankers acceptance rate plus a margin of 1.0% for the drawn portion and 0.375% on the undrawn portion and matures five years after term conversion from construction debt to senior term debt. The obligations are secured by a general security agreement over all the assets of AirSource, with no recourse to the Fund. Certain financial covenants must be maintained once the facility achieves commercial operation as defined by the debt agreement. AirSource is required to achieve commercial operations as defined by the turn key construction contract with Vestas-Canadian Wind Technologies, Inc. ("Vestas") in order to convert the construction debt to senior term debt by September 30, 2006. Should this milestone not be achieved, the senior debt will be in default, unless the senior lenders consent to an extension of this date. On November 1, 2005, AirSource entered into a fixed for floating interest rate swap until September 2015 in the notional amount of $73.3 million in order to reduce the interest rate variability on its senior debt facility. AirSource has effectively fixed its interest expense on its senior debt facility at 4.47%. At the time of the purchase, the swap had a notional value of $2,718, which has been included in the purchase price allocation.

Also included in the debt of AirSource is $1.6 million of development debt financing from Algonquin Power Venture Fund Inc which bears interest at 11.25% per annum. Prior to December 31, 2008, payments in respect of development debt financing will consist of interest only. The debt will mature on December 31, 2011. The obligations of AirSource are secured by a general security agreement over all the assets of AirSource with no recourse to the Fund.

5. Algonquin Power Group

In accordance with the management agreement, the Fund paid Algonquin Power Management Inc. ("APMI") and it's related companies for services provided on a cost recovery basis. For the period ended June 30, 2006, the Fund paid APMI $434 (2005 - $412) for management 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 period ended June 30, 2006 were $148 (2005 - $148) and additional rent representing operating costs was $89 (2005 - $67).

6. 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 June 30		**Six months ended June 30**	
	2006	**2005**	**2006**	**2005**
Revenue				
Canada	$ 13,396	$ 12,702	$ 27,107	$ 24,081
United States	33,700	32,314	69,462	61,535
	$ 47,096	$ 45,016	$ 96,569	$ 85,616

	June 30, 2006	**June 30, 2005**
Capital Assets		
Canada	$ 487,984	$ 317,340
United States	321,275	291,311
	$ 809,259	$ 608,651

	June 30, 2006	**June 30, 2005**
Intangible Assets		
Canada	$ 62,866	$ 26,260
United States	52,174	51,576
	$ 115,040	$ 77,836

Operational segments

The Fund identifies four business categories it operates in: hydroelectric, co-generation, alternative fuels and infrastructure. The results of operations of the St Leon Wind Energy facility will be included in the Fund's Alternative Fuels Division. The operations and assets for these segments are outlined below:

	Three months ended June 30, 2006					
Revenue	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	12,209	16,228	3,913	-	-	32,350
Waste disposal fees	-	-	3,415	-	-	3,415
Waste-water and water distribution	-	-	-	9,395	-	9,395
Other revenue	-	1,936	-	-	-	1,936
Total Revenue	12,209	18,164	7,328	9,395	-	47,096
Operating expenses	3,895	12,043	6,350	3,738	-	26,026
Operating profit	8,314	6,121	978	5,657	-	21,070
Other administration costs	(199)	-	(17)	(39)	100	(155)
Interest expense	(1,254)	(291)	(99)	(249)	(3,158)	(5,051)
Interest, dividend income and other income	439	1,186	2,231	21	21	3,898
Amortization of capital assets	(2,566)	(1,644)	(1,308)	(1,560)	-	(7,078)
Amortization of intangible assets	-	(523)	(565)	(204)	-	(1,292)
Earnings before income taxes	4,734	4,849	1,220	3,626	(3,037)	11,392
Capital assets	272,707	87,850	278,871	169,831	-	809,259
Intangible assets	19	21,248	63,917	29,856	-	115,040
Capital expenditures	343	2,117	887	2,620	40	6,007
Acquisition of operating entities	-	-	(3,630)	527	-	(3,103)
Total assets	290,867	140,575	370,993	211,275	16,261	1,029,971

	Three months ended June 30, 2005					
Revenue	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	11,532	19,040	3,763	-	-	34,335
Waste disposal fees	-	-	3,036	-	-	3,036
Waste-water and water distribution	-	-	-	7,645	-	7,645
Total Revenue	11,532	19,040	6,799	7,645	-	45,016
Operating expenses	3,286	12,792	5,966	2,978	-	25,022
Operating profit	8,246	6,248	833	4,667	-	19,994
Other administration costs	(37)	-	(35)	(30)	(2,464)	(2,566)
Interest expense	(1,267)	(237)	(93)	(292)	(2,106)	(3,995)
Interest, dividend income and other income	202	725	1,259	17	15	2,218
Write down of facility	-	(2,721)	-	-	-	(2,721)
Amortization of capital assets	(2,276)	(1,897)	(1,259)	(1,604)	-	(7,036)
Amortization of intangible assets	-	(1,227)	(564)	(176)	-	(1,967)
Earnings before income taxes	4,868	891	141	2,582	(4,555)	3,927
Capital assets	280,545	95,826	93,288	153,153	-	622,812
Intangible assets	20	26,072	26,058	25,686	-	77,836
Capital expenditures	226	1,854	(4)	3,361	39	5,476
Acquisition of operating entities	-	-	-	695	-	695
Total assets	298,088	156,961	166,365	192,344	8,366	822,124

Revenue	Six months ended June 30, 2006 Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	24,641	31,843	8,266	-	-	64,750
Waste disposal fees	-	-	7,136	-	-	7,136
Waste-water and water distribution	-	-	-	17,302	-	17,302
Other revenue	-	7,381	-	-	-	7,381
Total Revenue	24,641	39,224	15,402	17,302	-	96,569
Operating expenses	8,029	27,272	13,569	7,217	-	56,087
Operating profit	16,612	11,952	1,833	10,085	-	40,482
Other administration costs	(222)	-	(62)	(73)	(1,592)	(1,949)
Interest expense	(2,524)	(550)	(193)	(537)	(5,847)	(9,651)
Interest, dividend income and other income	867	1,918	3,938	26	37	6,786
Amortization of capital assets	(4,994)	(3,120)	(2,742)	(3,277)	-	(14,133)
Amortization of intangible assets	-	(1,046)	(1,130)	(402)	-	(2,578)
Earnings before income taxes	9,739	9,154	1,644	5,822	(7,402)	18,957
Capital assets	272,707	87,850	278,871	169,831	-	809,259
Intangible assets	19	21,248	63,917	29,856	-	115,040
Capital expenditures	655	3,564	1,346	6,947	57	12,569
Acquisition of operating entities	-	-	20,370	1,547	-	21,917
Total assets	290,867	140,575	370,993	211,275	16,261	1,029,971

Revenue	Six months ended June 30, 2005 Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	21,551	36,959	7,915	-	-	66,425
Waste disposal fees	-	-	6,352	-	-	6,352
Waste-water and water distribution	-	-	-	12,839	-	12,839
Total Revenue	21,551	36,959	14,267	12,839	-	85,616
Operating expenses	6,702	25,943	12,067	5,467	-	50,179
Operating profit	14,849	11,016	2,200	7,372	-	35,437
Other administration costs	(95)	-	(70)	(54)	(4,283)	(4,502)
Interest expense	(2,534)	(451)	(197)	(580)	(4,117)	(7,879)
Interest, dividend income and other income	323	1,443	2,177	17	62	4,022
Write down of facility	-	(2,721)	-	-	-	(2,721)
Amortization of capital assets	(4,651)	(3,747)	(2,440)	(3,103)	-	(13,941)
Amortization of intangible assets	-	(1,974)	(1,207)	(327)	-	(3,508)
Earnings before income taxes	7,892	3,566	463	3,325	(8,338)	6,908
Capital assets	280,545	95,826	93,288	153,153	-	622,812
Intangible assets	20	26,072	26,058	25,686	-	77,836
Capital expenditures	226	2,308	485	7,410	116	10,545
Acquisition of operating entities	-	-	-	11,637	-	11,637
Total assets	298,088	156,961	166,365	192,344	8,366	822,124

7. Commitments

The acquisition of the majority of the AirSource units resulted in the Fund consolidating the commitments of AirSource.

AirSource has entered into a Turn–key Construction Contract (the "Contract") with Vestas for the construction of the Facility. The Contract price is $176.1 million, including approved change orders, and is payable on the achievement of specified milestones. At the date of acquisition, $148.7 million has been paid to Vestas and $27.4 million was accrued. The performance of Vestas under the Contract is secured by a standby letter of credit in favour of St Leon Wind Energy GP Inc (the owner of the Facility) totalling $13.8 million. Certain obligations of the Facility are secured by a stand by letter of credit in favour of Vestas, totalling $14.6 million.

At June 30, 2006 the Facility has not been deemed in commercial operation. Vestas is obligated to pay liquidated damages for each day commercial operation is not achieved subsequent to February 8, 2006 up to a maximum of 20% of the contract price. As of June 30, 2006 Vestas has paid $8.1 million in liquidated damages. Vestas is entitled to substantially all revenue received from Manitoba Hydro-Electric Board ("Manitoba Hydro") during this time period.

The Contract price includes a two year warranty period for the wind turbines and one year warranty period for the balance of plant after the facility is deemed to be in commercial operation as defined by the contract.

In accordance with the Power Purchase Agreement ("PPA") with Manitoba Hydro, the Facility earns a rate of $21 per MWh of electricity generated during construction. The rate is increased to normal PPA rates once the Facility has achieved commercial operations. Manitoba Hydro has the right to terminate the PPA if substantial completion is not achieved by December 31, 2006.

8. Comparatives

Certain comparative amounts have been reclassified to conform with current period financial presentation.

Corporate Information and Contacts

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

The Management Group
Algonquin Power Management Inc.
Chris K. Jarratt, Chief Executive Officer and Director
Ian E. Robertson, Director
David C. Kerr, Director

Algonquin Power Income Fund
Peter Kampian, Chief Financial Officer
Vito Ciciretto, Chief Operating Officer

Head Office
2845 Bristol Circle
Oakville, ON L6H 7H7
Telephone – 905-465-4500
Fax – 905-465-4514
Email: apif@algonquinpower.com
Website: www.algonquinpower.com

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

Auditors
KPMG LLP
Toronto, Ontario

Legal Counsel
Blake, Cassels & Graydon LLP
Toronto, Ontario

Stock Exchange
The Toronto Stock Exchange: APF.UN and APF.DB

Hydroelectric

Cogeneration

Alternative Fuels

Infrastructure

www.algonquinpower.com