

# re:GENERATING

Q1/2009



ALGONQUIN  
 POWER

# Report to Unitholders

I am pleased to report that Algonquin had a successful first quarter of 2009, posting increased revenue, growth in adjusted net earnings, and stable EBITDA, which are very positive results in light of the current economic climate and global business environment. Algonquin Power has grown since 1997 with a focus on stabilizing cash-flow, mitigating risk, and growing conservatively. Algonquin's portfolio of assets has a low-risk business profile backed by long-term contracts in regulated industries, which has clearly resulted in a company that can successfully weather through a recessed economy.

During the first quarter, Algonquin focused efforts on debt reduction, reducing funds drawn on the credit facility by 5%, demonstrating progress in the goal of improving financial flexibility during this challenging economic climate. These efforts have placed Algonquin in a unique position to continue progressing with our goals to invest in the business and to be able to leverage emerging growth opportunities.

Demonstrating a successful growth strategy, on April 23, 2009, Algonquin was pleased to announce plans to co-acquire an electrical generation and regulated distribution utility through a strategic partnership with Emera Inc. Algonquin Power and Emera will each own 50% of the newly formed California Pacific Electric Company, which intends to acquire the California-based electricity distribution and related generation assets of NV Energy, Inc. This is a very positive step in strengthening the utilities business and leveraging Algonquin's proven utility management and independent power generation expertise, while Emera brings an undeniable wealth of expertise and experience owning and operating local electrical distribution utilities to the transaction. This transaction enhances Algonquin's cash flow quality and stability and will contribute to the long-term success of Algonquin Power.

Further on the plans for growth, Algonquin continues to focus on pursuing additional acquisitions of high quality assets that will contribute to long-term stability of the company, as well as through Greenfield development and projects within our existing assets.

In the Renewable Energy division, we have been successfully progressing with the Red Lily Wind Project in south-eastern Saskatchewan and have a Power Purchase Agreement with SaskPower in place for the 25 MW first phase of the facility, and recently Algonquin received several important provincial and federal approvals for the project. Additionally in the Renewable Energy division, Algonquin continues to explore options to build on the success of the St. Leon Wind Energy project, including pursuing a future adjacent project and/or pursuing an increase in the installed capacity of the existing facility. These projects have a potential generation capacity of over 85 MW. We are also very encouraged by discussions with the Ontario Power Authority that indicate that energy procurement initiatives in Ontario will be positively influenced by the Green Energy Act introduced

recently by the Ontario government. In anticipation of this, the Development division is working on several projects totalling approximately 250 MW that may qualify under the Green Energy Act.

In the Thermal Energy division, we are moving forward with plans to market an additional 14MW of production from our Sanger Cogeneration facility as a result of the major re-powering project completed in 2007. Of the 14 MW, an additional 6 MW can be exported with the existing facility while an upgrade of the line voltage by Pacific Gas and Electric Company is required to access the full 14 MW. The line upgrade is anticipated during or after 2010, while we are expecting to reach agreement on the sale of the 6 MW of power beginning in the second half of 2009. Additionally in the Thermal Energy division, Algonquin is pursuing the re-development of the Windsor Locks facility in Connecticut, as the Power Purchase Agreement reaches maturity in 2010. A variety of options for alternative sales of energy or re-powering of the facility are being considered and we will keep you updated as we move forward.

In the Utility Services division, we have been focused on investing in the assets over the past several years and as a result we are in the process of filing and initiating rate adjustments with the regulators at a number of facilities which are expected to result in increased rates for services provided. While a firm forecast of rate increases is not possible, the potential result is an expected increase in annual EBITDA of more than \$10 million by mid-2010.

While we will continue to focus on conservatively managing the business, our direction will also be on managing for the long-term success of the company while growing investor value. Your continued commitment to investing in clean, renewable power and sustainable infrastructure is valued by us. You are encouraged to obtain further detail about the performance of the Company in the Management's Discussion & Analysis. Thank you for your continued interest in Algonquin Power.

(signed) Ken Moore

**Ken Moore**  
*Chairman*

# Management's Discussion and Analysis

(All figures are in thousands of Canadian dollars, except per trust unit and convertible debenture values or where otherwise noted)

Algonquin Power Income Fund ("Algonquin" or the "Company") has prepared the following discussion and analysis to provide information to assist its unitholders' understanding of the financial results for the three months ended March 31, 2009. This discussion and analysis should be read in conjunction with Algonquin's unaudited consolidated interim financial statements for the three months ended March 31, 2009 and 2008 and the notes thereto. This material is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Algonquin website at [www.AlgonquinPower.com](http://www.AlgonquinPower.com). Additional information about Algonquin, including the Annual Information Form for the year ended December 31, 2008 can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

This Management's Discussion and Analysis ("MD&A") is based on information available to management as of May 6, 2009.

## **Caution concerning forward looking statements and non-GAAP Measures**

Certain statements included herein contain forward-looking information within the meaning of certain securities laws. These statements reflect the views of Algonquin and Algonquin Power Management Inc. ("APMI"), the entity which provides management services to Algonquin (including advice and consultation concerning business planning, support, guidance and policy making) with respect to future events, based upon assumptions relating to, among others, the performance of Algonquin's assets and the business, interest and exchange rates, commodity market prices, and the financial and regulatory climate in which it operates. These forward looking statements include, among others, statements with respect to the expected performance of Algonquin, its future plans and its distributions to unitholders. Statements containing expressions such as "outlook", "believes", "anticipates", "continues", "could", "expect", "may", "will", "project", "estimates", "intend", "plan" and similar expressions generally constitute forward-looking statements.

Since forward-looking statements relate to future events and conditions, by their very nature they require us to make assumptions and involve inherent risks and uncertainties. Algonquin and APMI caution that although we believe our assumptions are reasonable in the circumstances, these risks and uncertainties give rise to the possibility that our actual results may differ materially from the expectations set out in the forward-looking statements. Material risk factors include the continued volatility of world financial markets; the impact of movements in exchange rates and interest rates; the effects of changes in environmental and other laws and regulatory policy applicable to the energy and utilities sectors; decisions taken by regulators on monetary policy and the taxation of income funds; and the state of the Canadian and the United States ("U.S.") economy and accompanying business climate. Algonquin and APMI caution that this list is not exhaustive, and other factors could adversely affect our results. Given these risks, undue reliance should not be placed on these forward-looking statements, which apply only as of their dates. Algonquin reviews

material forward-looking information it has presented, at a minimum, on a quarterly basis. Although Algonquin and APMI 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. Algonquin and APMI 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, except as required by law.

The terms “cash available for distribution”, “cash available for distribution after growth and maintenance capital expenditures”, “adjusted net earnings” and “earnings before interest, taxes, depreciation and amortization” (“EBITDA”) are used throughout this MD&A. The terms “cash available for distribution”, “cash available for distribution after growth and maintenance capital expenditures”, “adjusted net earnings” and EBITDA are not recognized measures under Canadian generally accepted accounting principles (“GAAP”). There is no standardized measure of “cash available for distribution”, “cash available for distribution after growth and maintenance capital expenditures”, “adjusted net earnings” and EBITDA, consequently Algonquin’s method of calculating these measures may differ from methods used by other companies and therefore may not be comparable to similar measures presented by other companies. A calculation and analysis of “cash available for distribution”, “cash available for distribution after growth and maintenance capital expenditures”, “adjusted net earnings” and EBITDA can be found throughout this MD&A.

## Overview

Algonquin is a company that owns and has interests in a diverse portfolio of clean, renewable power generation and sustainable infrastructure assets across North America, including 42 renewable energy facilities, 13 thermal energy facilities, and 18 water distribution and wastewater facilities. Algonquin was established in 1997 and produces stable earnings through a diversified portfolio of renewable energy and utility assets.

Algonquin owns 41 hydroelectric facilities operating in Ontario, Québec, Newfoundland, Alberta, New York State, New Hampshire, Vermont and New Jersey with a combined generating capacity of 140 MW. Algonquin also owns a 99 MW wind farm in Manitoba. The renewable energy facilities are generally facilities operating under long term power purchase agreements with major utilities that have an average remaining contract life of 18 years. Algonquin’s 13 Thermal Energy Facilities operate under power purchase agreements (“PPAs”) with an average remaining contract life of 10 years with a combined generating capacity of 356 MW. In addition to its electricity generating assets, Algonquin also owns in its Utility Services business unit 18 regulated water distribution and wastewater facilities in Arizona, Illinois, Missouri and Texas. These utility operating companies are regulated investor-owned utilities subject to regulation, including rate regulation, by the public utility commissions of the states in which they operate.

## Business Strategy

Algonquin's business strategy is to maximize long term unitholder value by strengthening its position as a strong renewable energy and infrastructure company. Algonquin is focused on growth in cash flow and earnings in the business segments in which it operates. Algonquin currently makes monthly cash distributions to unitholders of \$0.02 per trust unit per month or \$0.24 per trust unit per annum. This level of cash distributions allows for both an immediate return on investment for unitholders and retention of sufficient cash to fund growth opportunities, fund anticipated tax liabilities when the new tax policies affecting income trusts are implemented, and mitigate the impact of volatility in foreign exchange rates.

Algonquin's operations are aligned into two major business units: *Power Generation & Development, and Utility Services.*

The Power Generation & Development business unit develops and operates a diversified portfolio of electrical energy generation facilities. Within this business unit there are three distinct divisions: Renewable Energy, Thermal Energy and Development. The Renewable Energy division operates Algonquin's hydro-electric and wind power facilities. The Thermal Energy division operates co-generation, energy from waste, steam production and other thermal facilities. The Development division develops Algonquin's greenfield power generation projects, pursues accretive acquisitions of electrical energy generation facilities as well as development of organic growth opportunities within Algonquin's existing portfolio of renewable energy and thermal energy facilities. The renewable power and thermal energy generation business of Algonquin is managed with an emphasis on growth through the development of green-field projects and opportunities within Algonquin's existing portfolio. This involves building on Algonquin's expertise in the origination of greenfield renewable energy projects, building upon Algonquin's existing portfolio of assets for further growth, and capitalizing on opportunities that may emerge in the current turbulence of the capital markets.

The Utility Services business unit targets delivery of long term shareholder value by profitably operating and strategically managing a portfolio of utility and utility-like infrastructure businesses and delivering continued growth in earnings by discerningly identifying opportunities which accretively expand its business portfolio. The current focus of the Utility Services business unit is on the provision of safe, reliable transportation and delivery of water and wastewater treatment in its service area. To leverage its experience in the regulated water utility sector, Utility Services is committed to expanding its operations into other regulated essential utilities such as electricity and natural gas distribution. In this regard, on April 23, 2009, Algonquin announced that it plans to co-acquire an electrical generation and regulated distribution utility through a strategic partnership with Emera Inc. ("Emera"). Algonquin and Emera will each own 50% of the newly formed California

Pacific Electric Company (“California Pacific”), which intends to acquire the California-based electricity distribution and related generation assets (the “California Utility”) of NV Energy, Inc. for the purchase price of approximately US \$116 million, subject to certain working capital and other closing adjustments.

Algonquin and Emera will jointly own and operate the California Utility through California Pacific, leveraging Algonquin’s utility and power generating capabilities and Emera’s proven electrical utility operational expertise. The California Utility currently provides electric distribution service to approximately 47,000 customers in the Lake Tahoe region.

The transaction is subject to state and federal regulatory approval, and is expected to occur in mid 2010. Algonquin’s share of California Pacific’s operations is expected to add approximately US\$15 million of revenue and US\$10 million of EBITDA based on current rate case filings before the regulator. As an element of the California Utility strategic partnership, Emera has also agreed to a treasury subscription of approximately 8.5 million trust units of Algonquin at a price of \$3.25 per unit, completed by way of subscription receipt. Delivery of the trust units under the subscription receipts is planned to occur simultaneously with the acquisition of the California Utility and Algonquin intends to use the proceeds received to largely fund Algonquin’s equity commitment for the acquisition of the California Utility of approximately US \$27 million.

## **Corporate Governance**

The Board of Trustees announced on April 23 2009 that the President and CEO of Emera, Chris Huskilson, has been invited to join the Board of Trustees of Algonquin. The Board of Trustees and management of Algonquin believe that Mr. Huskilson’s utility and power experience will make a strong addition to the Board and will support Algonquin’s long term strategy and corporate governance activities.

Algonquin’s slate of proposed Trustees in respect of the election of Trustees by Unitholders at the annual general meeting shall continue to be determined by the Trustees and APMI in accordance with the Algonquin’s governance policies and procedures. It is contemplated that Mr. Huskilson will stand for election as a Trustee at the next annual general meeting of Unitholders.

## 2009 First Quarter Operating Results

### Key Selected Quarterly Financial Information

	Three Months ended March 31	
	2009	2008
Revenue	\$ 52,165	\$ 47,976
EBITDA <sup>2</sup>	21,114	21,644
Cash provided by Operating Activities	13,703	14,712
Net earnings (Loss)	4,243	(1,554)
Adjusted net earnings <sup>2</sup>	7,919	3,916
Distribution to Unitholders <sup>1</sup>	4,774	17,481
Cash available for distribution <sup>2</sup>	13,577	15,920
Per trust unit		
Net earnings (Loss)	\$ 0.05	\$ (0.02)
Adjusted net earnings <sup>2</sup>	0.10	0.05
Diluted net earnings (loss)	0.05	(0.02)
Cash provided by Operating Activities	0.17	0.20
Distribution to Unitholders	0.06	0.23
Total Assets	974,216	949,636
Long Term Debt	286,325	295,575

<sup>1</sup> Includes distributions to non-controlling interest.

<sup>2</sup> Non-GAAP measurement, see applicable section later in this MD&A.

For the three months ended March 31, 2009, Algonquin reported total revenue of \$52.2 million as compared to \$48.0 million during the same period in 2008, a \$4.2 million or 8.7% increase. The increase in revenue from energy sales in the quarter was primarily the result of an increase of \$0.8 million due to higher energy production generated from Canadian facilities in the Renewable Energy division and \$1.8 million due to the Brampton Cogeneration Inc. (“BCI”) facility being operational in the Thermal Energy division as compared to the same period in 2008. These increases were partially offset by a decrease of \$1.5 million due to reduced average energy rates at the Sanger and Windsor Locks facilities in the Thermal Energy division and \$1.6 million due to lower weighted average energy rates and energy production generated from U.S. facilities in the Renewable Energy division, as compared to the same period in 2008. Algonquin reported increased revenue of \$5.5 million from U.S. operations as a result of the weaker Canadian dollar. A more detailed analysis of these factors is presented within the business unit analysis.

For the three months ended March 31, 2009, Algonquin experienced an average U.S. exchange rate of approximately \$1.24 as compared to \$1.00 in the same period in 2008. As such, any year over year variance in revenue or expenses, in local currency, at any of Algonquin's U.S. entities are affected by a change in the average exchange rate, upon conversion to Algonquin's reporting currency. Although a weaker Canadian dollar relative to the U.S. dollar has an impact on both revenue and expenses generated by its U.S. subsidiaries, Algonquin has foreign exchange forward contracts in place, which partially offset the impact on earnings (see Risk Management).

EBITDA in the three months ended March 31, 2009 decreased by \$0.5 million to \$21.1 million compared to \$21.6 million in the same period in 2008, a decrease of 2.4%. The decrease in EBITDA is primarily related to decreased dividend, interest and other income as well as increased administrative expenses.

For the three months ended March 31, 2009, net earnings totalled \$4.2 million as compared to a net loss of \$1.6 million during the same period in 2008. The increase in net earnings as compared to 2008 was primarily the result of a \$6.1 million recovery in future income taxes primarily due to the final determinations made for claiming discretionary deductions on 2008 income tax returns, the impact of which reduces future income tax liabilities previously recorded, \$1.6 million due to losses on derivative financial instruments contracts settled in the period and decreased unrealized mark to market losses on derivative financial instruments, as a result of reduced interest rates and the weaker Canadian dollar, \$1.6 million of reduced interest expense due to lower rates on Algonquin's variable interest rate debt booked in the period. These items were partially offset by \$1.2 million due to increased amortization expense and \$0.3 million due to lower earnings on portfolio investments.

Net earnings per trust unit totalled \$0.05 for the quarter ended March 31, 2009 as compared to a net loss of \$0.02 per trust unit during the same period in 2008.

Unrealized mark to market losses on derivative financial instruments resulting from changes in foreign exchange rates relate to contract periods which extend to fiscal 2013. Unrealized mark to market losses on derivative financial instruments resulting from changes in interest rates relate to contract periods which extend to fiscal 2015. The following chart provides a summary of the period over period changes between realized and unrealized mark to market gains and losses of derivative financial instruments:

	Three months ended March 31		Change
	2009	2008	
Foreign Exchange Contracts:			
Unrealized mark to market loss/(gain) on derivative financial instruments	\$ 2,317	\$ 4,478	\$ (2,161)
Realized loss/(gain) on derivative financial instruments	510	(2,103)	\$ 2,613
	<u>\$ 2,827</u>	<u>\$ 2,375</u>	<u>\$ 452</u>
Interest Rate Swap Contracts:			
Unrealized mark to market loss/(gain) on derivative financial instruments	\$ (398)	\$ 2,806	\$ (3,204)
Realized loss/(gain) on derivative financial instruments	1,069	(62)	\$ 1,131
	<u>\$ 671</u>	<u>\$ 2,744</u>	<u>\$ (2,073)</u>
Derivative Financial Instruments Total:			
Unrealized mark to market loss/(gain) on derivative financial instruments	\$ 1,919	\$ 7,284	\$ (5,365)
Realized loss/(gain) on derivative financial instruments	1,579	(2,165)	\$ 3,744
Total loss/(gain) on derivative financial instruments	<u>\$ 3,498</u>	<u>\$ 5,119</u>	<u>\$ (1,621)</u>

During the quarter ended March 31, 2009, cash provided by operating activities totalled \$13.7 million or \$0.17 per trust unit as compared to cash provided by operating activities of \$14.7 million, or \$0.20 per trust unit during the same period in 2008. The change in cash provided by operating activities after changes in working capital in the quarter ended March 31, 2009, is primarily due to increased realized losses from derivative financial instruments, increased levels of trade accounts receivable, partially offset by decreased interest expense, as compared to the same period in 2008.

## Outlook

The Power Generation & Development division is expecting normal to above long term average resource conditions in the second quarter of 2009. It is expecting lower weighted average energy rates at Algonquin's U.S. facilities will persist through the second quarter of 2009. Throughput at the EFW facility is expected to continue at levels experienced in 2008. The Windsor Locks and Sanger facilities are expected to operate below Algonquin's expectations for the second quarter of 2009 due to the lower than expected natural gas costs and reduced demand for steam resulting

from the continuing economic slow down in the U.S. Algonquin's power development team will continue to pursue new opportunities for power generation projects in both Canada and the United States. The Power Generation and Development division will continue to focus on cost containment and productivity improvement measures that will maximize margins and EBITDA throughout 2009.

Utility Services is expecting limited organic growth due to the slowdown in the U.S. housing market. Utility Services has initiated rate cases at a number of its utilities and will initiate additional rate cases in 2009. These rate cases are discussed in further detail within this MD&A (see UTILITY SERVICES: Outlook). While a firm forecast of rate increases at these facilities is not possible as the rate case processes are in progress, the resolution of rate cases is expected to potentially result in increased annual EBITDA at Utility Services of more than \$10 million. The regulatory reviews of the rates and tariffs for these facilities are expected to conclude in the second half of 2009, with the new rates and tariffs going into effect between mid 2009 and the first half of 2010, depending on the state in which the facility operates. The business unit will also continue to consider accretive water and wastewater utility acquisition opportunities, as well as acquisitions in other regulated utilities, such as electricity distribution.

In all of its business units, Algonquin is committed to the growth and development of Algonquin's team through various training programs, challenging assignments and learning opportunities. In addition, Algonquin ensures continuous environmental, health and safety training for its operations and maintenance staff. Algonquin will continue to invest in information technology to reduce operating and administrative costs.

Overall, Algonquin's business units will focus on priorities that enable Algonquin to be an innovative, respected and socially responsible participant in the renewable energy, power and utility businesses and to maximize value for Algonquin in the current state of the financial markets. With a mix of complementary regulated and non-regulated businesses, Algonquin strives to enhance unitholder value through stable cash flows, sustainable cash distributions and a managed risk profile.

## POWER GENERATION & DEVELOPMENT

### Renewable Energy Division

	Three months ended March 31	
	2009	2008
<b>Performance</b> (MW-hrs sold)		
Quebec Region	65,498	67,396
Ontario Region	39,058	38,272
Manitoba Region	109,960	105,507
New England Region	22,074	28,488
New York Region	23,161	29,303
Western Region	10,348	10,050
<b>Total</b>	<b>270,099</b>	<b>279,016</b>
<b>Revenue</b>		
Energy sales	\$ 18,964	\$ 19,829
<b>Expenses</b>		
Operating expenses	(5,312)	(4,930)
Other income	244	343
Division operating profit (including other income)	\$ 13,896	\$ 15,242

### 2009 First Quarter Operating Results

For the quarter ended March 31, 2009 the Renewable Energy division produced 270,099 MW-hrs of electricity, as compared to 279,016 MW-hrs produced in the same period in 2008, a decrease of 3.2%. The level of production in 2009 represents sufficient renewable energy to supply the equivalent of 60,000 homes with renewable power. Using new standards of thermal generation, as a result of renewable energy production, the equivalent of 148,500 tons of CO<sub>2</sub> gas was prevented from entering the atmosphere in the first quarter of 2009.

As Algonquin's facilities in the New England region are primarily subject to market rates, the average revenue earned per MW-hr sold can vary significantly from the same period in the prior year.

Algonquin's facilities in the other regions are subject to varying rates, by facility, as set out in the facility's individual power purchase agreement ("PPA"). As such, while most of Algonquin's PPAs include annual rate increases, a change to the weighted average production levels resulting in higher average production from facilities which earn lower energy rates can result in a lower weighted average energy rate earned by the division, as compared to the same period in the prior year.

During the quarter ended March 31, 2009, the division generated electricity equal to 107.7% of long term projected average resources (wind and hydrology) as compared to 112.2% during the same period in 2008. In the first three months of 2009, a number of regions experienced resources at significantly higher levels than long term average, including the Quebec region which was 16.4% above long term averages, the New York region, which was 12.8% above long term averages and the New England region, which was 10.5% above long term averages. All other regions experienced results in line with or above long term average resources in the quarter ended March 31, 2009.

For the quarter ended March 31, 2009, revenue from energy sales in the Renewable Energy division totalled \$19.0 million, as compared to \$19.8 million during the same period in 2008. Revenue from Algonquin's U.S. facilities decreased \$0.7 million due to a decrease in weighted average energy rates of approximately 25% in the New England region and decreased \$0.9 million due to lower average hydrology, as compared to the same period in 2008. Revenue from Algonquin's Canadian facilities decreased \$0.4 million due to a decrease in weighted average energy rates of approximately 4%, as compared to the same period in 2008. These decreases were partially offset by an increase of \$0.3 million due to the strong wind resource experienced at the St. Leon facility and an increase of \$0.5 million in the Quebec, Ontario and Western regions, resulting from higher energy production as compared to the same period in 2008. The division reported increased revenue of \$0.5 million from U.S. operations as a result of the weaker Canadian dollar.

For the quarter ended March 31, 2009, operating expenses totalled \$5.3 million, as compared to \$4.9 million during the same period in 2008, an increase of \$0.4 million. Operating expenses were impacted by increased costs of \$0.5 million associated with the pursuit of various growth and development activities, as compared to the same period in 2008. These increases were partially offset by \$0.2 million in decreased variable costs tied to production and lower operating costs of \$0.3 million as compared to the same period in 2008. The division reported increased expenses of \$0.3 million from U.S. operations as a result of the weaker Canadian dollar.

For the quarter ended March 31, 2009, operating profit totalled \$13.9 million, as compared to \$15.2 million during the same period of 2008, representing a decrease of 8.6%. For the quarter ended March 31, 2009, operating profit did not meet Algonquin's expectations primarily due to lower weighted average energy rates in the U.S.

## Divisional Outlook – Renewable Energy

The Renewable Energy division is expected to perform at or above long term average resource conditions in the second quarter of 2009. In addition, the facilities in the New York and New England region are expected to continue to experience reduced market rates as compared to the rates experienced in 2008 as a result of a decrease in demand for electricity due to the current economic climate in those markets.

As a result of certain legislation passed in Quebec (Bill C93), Algonquin's Renewable Energy division is required to undertake technical assessments of eleven of the twelve hydroelectric facility dams owned or leased within the Province of Quebec. Algonquin anticipates incurring costs of \$0.1 million during 2009 to complete the required assessments in order to determine the work required and estimate capital cost of compliance with the legislation. Upon completion of these assessments, Algonquin is required to submit plans for undertaking any remedial measures that are identified to comply with the legislation. As a result of nine completed and two partially completed assessments underway, Algonquin has initially identified capital expenditures estimated at approximately \$15.8 million. Algonquin anticipates that these expenditures will be required to be invested over the next five years as follows:

	Total	2009	2010	2011	2012	2013
Estimated Bill C-93 Capital Expenditures	<b>15,800</b>	3,700	5,200	1,600	2,800	2,500

The majority of these capital costs are associated with the Donnacona, St. Alban and Mont-Laurier facilities. Algonquin does not anticipate any significant impact on power generation or associated revenue while the dam safety work is ongoing. Algonquin continues to explore several alternatives to mitigate the capital costs of modifications, including cost sharing with other stakeholders and revenue enhancements which can be achieved through the modifications.

## POWER GENERATION & DEVELOPMENT: Thermal Energy Division

	Three months ended March 31	
	2009	2008
Performance (MW-hrs sold)	<b>142,396</b>	153,590
Performance (tonnes of waste processed)	<b>41,283</b>	38,297
Revenue		
Energy sales	\$ <b>18,538</b>	\$ 16,081
Less:		
Cost of Sales – Fuel *	<b>(9,869)</b>	(8,898)
Net Energy Sales Revenue	\$ <b>8,669</b>	\$ 7,183
Waste disposal sales	<b>3,683</b>	3,715

	<b>Three months ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Other revenue	<b>1,308</b>	847
Total net revenue	<b>\$ 13,660</b>	\$ 11,745
Expenses		
Operating expenses *	<b>(8,275)</b>	(7,287)
Interest and other income	<b>864</b>	1,009
Division operating profit (including interest and dividend income)	<b>\$ 6,249</b>	\$ 5,467

\* Cost of Sales – Fuel consists of natural gas and fuel costs at the Sanger and Windsor Locks facilities, where changes in these costs are passed to the customer in the energy price.

## 2009 First Quarter Operating Results

In the first quarter of 2009, the Thermal Energy division's EFW facility processed 41,283 tonnes of municipal solid waste as compared to 38,297 tonnes processed in the same period of 2008, an increase of 7.8%. This level of production resulted in the diversion of approximately 29,250 tonnes of waste from landfill sites in the first quarter of 2009.

During the quarter ended March 31, 2009, the business unit's performance decreased by 2,000 MW-hrs at the Sanger Facility, partially offset by increased energy production of 2,000 MW-hrs at the Windsor Locks facility, as compared to the same period in 2008. The overall decrease in energy production is due to steam generated by the incineration process at the EFW facility now being utilized by BCI for steam sales to a nearby industrial customer rather than being used to generate electricity. During the quarter ended March 31, 2009, the business unit's BCI steam sales facility was operating for the full quarter having reached commercial operation in June 2008. Although this has resulted in the decrease in electrical generation from EFW's steam turbine of 8,500 MW-hrs, the decrease was more than offset by the new steam sales by BCI. Throughput at the EFW facility improved from the same period in 2008, in part due to new enhanced design boiler tube installation completed in the second quarter of 2008.

For the quarter ended March 31, 2009, revenue in the Thermal Energy division totalled \$23.5 million, as compared to \$20.6 million during the same period in 2008, an increase of \$2.9 million. For the first quarter, energy sales revenue at the Thermal Energy division totalled \$18.5 million, as compared to \$16.1 million during the same period in 2008, an increase of \$2.4 million. The increase in revenue from energy sales, as compared to the first quarter of 2008, was primarily due to an increase of \$0.2 million as a result of increased production at the Windsor Locks facility and \$1.8 million as a result of the BCI steam sales facility achieving commercial operation in June 2008. These increases were

offset by a decrease of \$1.1 million at the Sanger facility as a result of lower production and energy rates, in part due to lower natural gas prices, \$0.4 million at the Windsor Locks facility as a result of lower demand for steam, \$0.3 million at the LFG facilities as a result of lower energy rates, and \$0.5 million at the EFW facility as a result of a portion of the steam generated by the incineration processes being used by BCI instead of being used to generate electricity. The division reported increased revenue of \$3.1 million from operations as a result of the weaker Canadian dollar, as compared to the same period of 2008.

Revenue from waste disposal sales for the quarter ended March 31, 2009 totalled \$3.7 million, consistent with the same period in 2008. The facility earned lower average rates for each tonne of waste processed in the quarter, primarily the result of the arrangement to process higher priced airline waste at the facility ceasing in December 2008.

For the quarter ended March 31, 2009, fuel costs at Sanger and Windsor Locks totalled \$9.9 million, as compared to \$8.9 million during the same period in 2008, an increase of \$1.0 million. The division reported increased fuel costs of \$1.9 million as a result of the weaker Canadian dollar. This increase was partially offset by a decrease in natural gas expense at Sanger of \$0.9 million (40%), primarily the result of a 33% decrease in the price for natural gas as compared to the same period in 2008. In addition, production decreased 5%, decreasing the volume of natural gas used in ongoing operation of the facility as compared to the same period in 2008. Natural gas expense at the Windsor Locks facility remained consistent with the same period in 2008 as the result of a small decline in the price for natural gas being offset by a slight increase in production.

For the quarter ended March 31, 2009, operating expenses, excluding fuel costs at Windsor Locks and Sanger, totalled \$8.2 million, as compared to \$7.3 million during the same period in 2008, an increase of \$0.9 million. The increase in operating expenses for the quarter was primarily due to \$0.8 million of operating costs of the BCI steam sales project as compared to the same period in 2008. These increases were partially offset by decreased operating expenses of \$0.6 million at the EFW facility and \$0.3 million due to decreased operating costs at the Valley Power facility, primarily the result of lower repair and maintenance expenses as compared to the prior period. The reported operating costs at the BCI facility exclude the cost of purchasing steam from the EFW facility as this is eliminated upon consolidation. The division reported increased operating expenses of \$0.7 million from U.S. operations as a result of the weaker Canadian dollar.

For the quarter ended March 31, 2009, the Thermal Energy division's operating profit totalled \$6.2 million, as compared to \$5.5 million during the same period in 2008, representing an increase of 14.3%. Operating profit in the Thermal Energy division although higher than the previous year did not meet Algonquin's overall expectations for the three months ended March 31, 2009, due to

weaker gas prices and lower demand for steam from the Division's co-generation assets resulting from the current economic slow down in the U.S.

### **Divisional Outlook – Thermal Energy**

The Thermal Energy division's EFW facility is expected to operate in line with Algonquin's expectations during the second quarter of 2009. Operations at the EFW facility have improved due in part to a new enhanced design for boiler tubes installed in 2008 and this improved performance is expected to continue through 2009.

The Thermal Energy division's Windsor Locks and Sanger facilities are expected to operate below Algonquin's expectations for the second quarter of 2009 due to the lower than expected natural gas costs and reduced demand for steam resulting from the continuing economic slow down in the U.S. The Windsor Locks facility has a planned hot gas path inspection occurring in Q2 2009 lasting approximately 7 days which will result in an expected reduction in operating profit of \$0.3 million, as compared to its otherwise expected operating profit.

As a result of the re-powering of the Sanger facility, 14MW of additional production is available. An additional 6 MW can be exported with the existing 69 kV substation while an upgrade of the existing line voltage by Pacific Gas and Electric Company ("PG&E") to 115 kV is required to access the full 14 MW potential. Once PG&E upgrades the existing line voltage to 115 kV, Sanger will install a new substation with additional investment of approximately U.S. \$2.0 million. PG&E's upgrade is anticipated during or after fiscal 2010. The Sanger facility is expecting to reach agreement on the sale of an additional 6 MW of power beginning in the second half of 2009.

## **POWER GENERATION & DEVELOPMENT:**

### **Development Division**

The Development division works to identify, develop and construct new renewable and high efficiency thermal energy generating facilities, as well as to identify, develop and construct other accretive projects that maximize the potential of Algonquin's existing facilities. Development is focused on projects in North America with a commitment to working proactively with all stakeholders, including local communities. The Development division is led by five full time employees based out of Algonquin's head office. In addition, the division has access to and support from all of the available resources and experience throughout Algonquin to assist it in the development of projects, including finance, engineering and technical services, as well as regulatory compliance. The division also utilizes existing industry relationships to assist in the identification, evaluation, development and construction of projects, including those in the financial, legal, engineering, technical, and construction sectors.

The Development division may also create opportunities through the acquisition of prospective projects that are at various stages of development. The turbulence in the economic environment is also opening up opportunities for Algonquin to acquire third party development projects experiencing financial difficulty or source capital equipment from financially distressed third party projects at discounted prices, which can serve to increase expected returns for Algonquin's development efforts.

The business strategy is to focus on high quality renewable and high efficiency thermal energy generation projects that benefit from low operating costs using proven technology that can generate sustainable and increasing cash flows in order to achieve a high return on invested capital.

Algonquin's approach to project development is to maximize the utilization of internal resources while minimizing external costs to move development projects forward to the point where most major elements and uncertainties of a project are quantified prior to the commencement of project construction. Major elements and uncertainties of a project include, but are not limited to, signing a power purchase agreement, obtaining the required financing commitments to develop the project, completion of environmental permitting, and fixing the cost of the major capital components of the project. It is not until all major aspects of a project are secured that Algonquin will actually begin construction of the project.

### **Current Development Projects**

Following up on the repowering of the Sanger facility in late 2007 and the commissioning of the BCI facility in 2008, the Development division has focussed resources on identifying new development projects internally and externally, as well as pursuing the development opportunities already identified as having potential to be in line with Algonquin's investment criteria.

Algonquin continues to advance the Red Lily Wind Project in south-eastern Saskatchewan (the "Project") through a joint development agreement with an unrelated third party. In July 2008, a 25 MW PPA for the first phase of the Project ("Phase I") was executed with SaskPower after Phase I was successfully bid into a SaskPower Environmentally Preferred Power Strategy Request for Proposal. In October 2008, Algonquin submitted a Notice of Project Application with Natural Resources Canada ("NRC") under the ecoENERGY for Renewable Power Program for Phase I, and, in December 2008, Algonquin submitted its stage two documentation, the Technical Information Package for Phase I of the Project. In March 2009, NRC granted approval of the project Technical Information Package. Algonquin is currently waiting for the final contribution agreement from NRC for Phase I. Algonquin has also submitted to NRC the Environmental Impact Assessment documentation for review in relation to obtaining funding under the federal ecoENERGY program and expects a ruling in Q2 2009 with respect to Phase I of the Project. On April 13, 2009, the Saskatchewan Environmental Assessment Branch confirmed that Algonquin had satisfied the requirements under the Provincial

Environmental Assessment Act for Phase I. In addition to the focused effort on Phase I, Algonquin has secured additional property and is assessing the viability of an expanded project. The viability of the expanded project will be conditional upon actual operating results from Phase I.

Successful development of wind projects such as Red Lily are subject to significant risks and uncertainties including ability to obtain financing on acceptable terms, currency fluctuations affecting the cost of major capital components such as wind turbines, price escalation for construction labour and other construction inputs, construction risk that the project is built without mechanical defects, and is completed on time and within budget estimates. In the event the Project is developed, it is currently estimated to require 16 turbines with a capital investment of approximately \$60 - 65 million. Annual energy production from the wind farm is estimated to be 92,000 MW-hrs and annual gross revenue is estimated to be \$8.9 million. The current estimate of the earliest time the Project could be completed is March 31, 2011.

Algonquin is also pursuing the re-development of the Windsor Locks facility in Connecticut. As the PPA with Connecticut Light & Power reaches PPA maturity in 2010, a variety of options for alternative sales of energy or re-powering of the facility's prime power plant with equipment to match the current steam demand of the paper mill host are being considered. The energy services agreement with the paper mill will, if not further extended by mutual agreement, continue until 2017. One option being explored by Algonquin involves selling approximately 10MW of electrical capacity to an adjoining industrial customer in a "behind-the-meter" configuration.

Algonquin has completed preliminary engineering and a financial feasibility analysis on a 12 MW combined cycle high efficiency thermal energy generation project located in Ontario. Additional, information will be provided in the event that this project evolves.

### **Future Development Projects – Greenfield Projects**

There are a number of future greenfield development projects which are being actively pursued by the Development division. These projects encompass several new wind energy projects, including six wind projects in Canada having a potential generation capacity of over 250 MW, hydroelectric projects at different stages of investigation, and thermal energy generation projects. The projects being examined are located both in Canada and the United States.

During 2008, Algonquin invested \$0.5 million to acquire the rights, including land options, meteorological towers and historical wind data related to a potential 80 MW Canadian wind project. In the event the project is developed, it is currently estimated to require an investment of up to \$250 million and would be constructed after environmental approvals are granted, a process that has been initiated and is currently estimated to require 2 to 3 years to complete.

In 2008, Algonquin made a strategic decision to maintain land option agreements for two wind projects in Quebec in anticipation of future provincial tenders expected to be released in May of 2009 for wind projects of a 25 MW maximum size. In addition, Algonquin has maintained a relationship with a development co-op comprised of landowners and other small investors for the potential development of a third project in response to the expected call for tender.

Discussions with the Ontario Power Authority indicate that energy procurement initiatives will be positively influenced by the Green Energy Act introduced by the Ontario government through Bill 150 on February 23, 2009. The Green Energy Act is intended to provide the catalyst for the development of 50,000 new green economy jobs and is viewed by Algonquin as positive for the development of renewable energy in Ontario. In anticipation of this, the Development division is maintaining relationships with potential partners for the development of a number of projects that could qualify under anticipated procurement initiatives undertaken by the Ontario Power Authority in accordance with the Green Energy Act. In addition, Algonquin Power has applied to become applicant of record for three crown land sites under the Ministry of Natural Resources wind power site release program.

Each project being contemplated is subject to a significant level of due diligence and financial modeling to ensure it satisfies return and diversification objectives established for the Development division. Accordingly, the likelihood of proceeding with some or all of these projects depends on the outcome of due diligence, material contract negotiations, the structure of future calls for tender, and request for proposal programs. To maximize Algonquin's opportunities for development, new renewable and high efficiency thermal energy generating facilities are being pursued utilizing a variety of technologies and in diverse geographic locations.

### **Future Development Projects – Existing Facilities**

The following sets out a summary of potential development projects at existing facilities which are being examined by the Development division.

#### *Renewable Energy*

The St. Leon Wind Project achieved commercial operation status under its PPA with the Manitoba Hydro Electric Board in June 2006, and has been performing at or above expected levels of production. Algonquin is exploring multiple options to continue to build on the success of this project including pursuing a future adjacent project and/or pursuing an increase in the installed capacity of the existing facility. The projects being reviewed have a potential generation capacity of over 85 MW. In the event these projects are developed, it is currently estimated to require an investment of approximately \$250 million.

## *Thermal Energy*

The EFW facility in the Thermal Energy division of the Power Generation & Development business unit is designed to incinerate over 500 tonnes per day of municipal solid waste from the Region of Peel to produce steam that is used in the production of electricity and internal steam load at a nearby recycled paper board manufacturing mill. Algonquin established BCI to operate the required facilities to supply steam to the nearby paper board customer and pursue additional steam load customers.

The Development division is currently reviewing several proposals at the EFW facility to expand its power generation and waste processing throughput capacity. Throughput capacity could be expanded by between 40,000 and 100,000 tonnes annually depending on the proposal that is selected. If the expansion is pursued, depending on the alternative chosen, an investment of between \$60 million to \$250 million would be required. Algonquin is currently evaluating the feasibility of an expanded facility including associated capital and operating costs and financing terms. Algonquin is also engaged in discussions with the Region of Peel to establish a new long term contract for a reliable supply of municipal solid waste.

As a result of the re-powering of the Sanger facility, 14MW of additional production is available, in excess of what is currently being sold under the existing PPA under which the facility operates. The Development division is currently reviewing the options to market this increased capacity at the Sanger Facility. See Divisional Outlook – Thermal Energy section for more details on the sale of this additional power.

## **Divisional Outlook - Development**

Algonquin believes that future opportunities for power generation projects will continue to arise given that many jurisdictions, both in Canada and the United States, continue to increase targets for renewable and other clean power generation projects. Most recently the Ontario government announced plans to enact the Green Energy Act. As announced, this legislation will require the responsible power purchase authority to grant priority and obligatory purchase of green energy projects, an obligation for all utilities to grant priority grid access to green energy projects, and a system of tariffs as the primary procurement mechanism for renewable and clean energy. The intention of the proposed legislation is to make development of renewable energy projects significantly easier than the prior process of formal bids in response to requests for proposals from the responsible power authority.

The North American renewable energy market is experiencing substantial growth, supported by increases in the demand for greater installed capacity of renewable energy projects. Canada has seen average annual growth of over 30% for the last 5 years in the wind energy industry, with a

current installed capacity of 1,856 MW. Industry observers expect that renewable energy generated from wind in Canada will grow to 12,000 MW by 2016. This expectation is supported by various provincial objectives including: Ontario - 4,600 MW by 2020; Quebec - 4,500 MW by 2016, Alberta - 2,500 MW in additional transmission options, Manitoba - 1,000 by 2017 and an additional 800 MW by 2015 in the Maritime Provinces and anticipated initiatives in Saskatchewan. By the end of December 2008, the U.S. wind industry had an installed capacity of over 25,300 MW.

Algonquin will continue to actively pursue development projects which provide the opportunity to exhibit accretive growth. Algonquin anticipates its involvement in many future opportunities as initiatives designed to support independent power producers are being supported by virtually every Canadian province and a significant number of U.S. states. The Obama-Biden New Energy for America Plan supports 10% of electricity in the United States being generated from renewable sources by 2012 and 25% by 2025. The demand for additional renewable power is also expected to benefit from the desire by various government entities to increase infrastructure spending.

## UTILITY SERVICES

	<b>Three months ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Number of		
Wastewater customers	<b>32,994</b>	33,098
Wastewater treated (millions of gallons)	<b>500</b>	500
Water distribution customers	<b>36,393</b>	36,145
Water sold (millions of gallons)	<b>1,050</b>	1,000
Revenue		
Wastewater treatment	<b>\$ 5,532</b>	4,393
Water distribution	<b>3,932</b>	2,942
Other Revenue	<b>208</b>	169
	<b>\$ 9,672</b>	\$ 7,504
Expenses		
Operating expenses	<b>(6,106)</b>	(4,378)
Other income	-	47
Business Unit operating profit (including other income)	<b>\$ 3,566</b>	\$ 3,173

### 2009 First Quarter Operating Results

Utility Services had 32,994 wastewater customers as at March 31, 2009, as compared to 33,098 as at March 31, 2008, a decrease of 104 in the period or 0.3%. Utility Services had 36,393 water distribution customers as at March 31, 2009, as compared to 36,145 as at March 31, 2008, an increase of 248 in the

period or 0.7%. Utility Services' marginal change in water distribution and wastewater treatment customer base during the period primarily relates to limited organic growth at the division's facilities, partially offset by the slow down in U.S. new residential home sales, primarily in the area serviced by the Litchfield Park facility ("LPSCo").

During the quarter ended March 31, 2009, Utility Services provided approximately 1.05 billion U.S. gallons of water to its customers, treated approximately 500 million U.S. gallons of wastewater, and sold approximately 55 million U.S. gallons of effluent.

For the quarter ended March 31, 2009, Utility Services' revenue totalled \$9.7 million as compared to \$7.5 million during the same period in 2008. Revenue from wastewater treatment totalled \$5.5 million, as compared to \$4.4 million during the same period in 2008, an increase of \$1.1 million. Revenue from water distribution totalled \$3.9 million, as compared to \$2.9 million during the same period in 2008, an increase of \$1.0 million. Utility Services reported increased revenue from operations of \$1.9 million in the first quarter of 2009 as a result of the weaker Canadian dollar as compared to the same period in 2008. The first quarter water distribution revenue was impacted by increased revenue of \$0.1 million at the LPSCo facility and organic growth and increased customer demand at twelve water distribution facilities. The first quarter wastewater treatment revenue was impacted by \$0.2 million resulting from increased revenue from effluent, increased customer demand at seven wastewater treatment facilities, partially offset by lower revenue of \$0.2 million resulting from a reduction in rates at the Gold Canyon facility, as compared to the same period in 2008.

For the quarter ended March 31, 2009, operating expenses totalled \$6.1 million, as compared to \$4.4 million during the same period in 2008. Utility Services reported higher expenses from operations of \$1.3 million as a result of the weaker Canadian dollar, as compared to the same period in 2008. Operating expenses increased \$0.1 million as a result of increased power and chemical expenses and \$0.4 million as a result of increased billing, administrative and operational expenses, as compared to the same period in 2008.

For the quarter ended March 31, 2009, operating profit totalled \$3.6 million as compared to \$3.2 million during the same period in 2008, representing an increase of 12.4%. Utility Services' operating profit exceeded Algonquin's expectations for the three months ended March 31, 2009.

## Outlook – Utility Services

Notwithstanding the slow down in the U.S. economy, Utility Services is not expecting any material reduction in customers in fiscal 2009. Utility Services continues to provide water distribution and wastewater treatment services, primarily in the southern and south-western United States, in

communities with a history of long term growth that provides opportunities for organic growth over the long term.

Utility Services is in the process of filing and initiating rate cases at a number of its facilities. The Black Mountain facility filed a rate case in December 2008 using a June 30, 2008 test year. The LPSCo facility filed a rate case in March 2009 using a September 2008 test year. The Rio Rico facility is preparing to initiate a rate case during the second quarter of 2009, using a test year ended December 31, 2008. The Bella Vista, Northern Sunrise and Southern Sunrise facilities are preparing to initiate rate cases in 2009 using a March 31, 2009 test year. All of these facilities are located in Arizona. Five Texas utilities filed rate cases in April 2009, with test years ended December 31, 2008.

The following table sets out some particulars with respect to the status of the rate cases as at April 30, 2009:

<b>Facility</b>	<b>Test Year Ending</b>	<b>Status of Rate Case Application</b>	<b>Estimated U.S. \$ Revenue Increase as Filed</b>	<b>Estimated Timing of Rate Increase</b>
Black Mountain	Q2 2008	Filed, achieved sufficiency	\$ 0.9 million	Q1 2010
LPSCo	Q3 2008	Filed	\$ 12.5 million	Q3 2010
Rio Rico	Q4 2008	In preparation		Q3 2010
Bella Vista	Q1 2009	In preparation		Q4 2010
Texas Utilities (Silverleaf)	Q4 2008	Filed	\$ 1.2 million	Q2 2009
Tall Timbers	Q4 2008	Filed	\$ 0.2 million	Q2 2009
Woodmark	Q4 2008	In preparation		Q3 2009

It is anticipated that regulatory review of the proposed rates and tariffs for the Arizona facilities would be completed in the second half of 2009 and early 2010, with the new rates and tariffs going into effect throughout 2010. Due to differences in the regulatory approach between Arizona and Texas, it is anticipated that changes in the rates and tariffs for the Texas facilities would take effect in mid 2009. An exact determination of increased revenues from all rate case applications is not possible at this time as the rate case processes are in the early stages and are subject to regulatory approval. However, it is estimated that over the course of fiscal 2010, an increase in revenue of more than U.S. \$10.0 million will be achieved. Rate cases ensure that a particular facility appropriately recovers its operating costs and earns the rate of return on its capital investment as allowed by the regulatory authority under which the facility operates. Algonquin monitors the rates of return on each of its utility investments to determine the appropriate time to file a rate case in order to ensure it earns the full regulatory approved rate of return on its investments.

As part of normal rate case review process, existing customers and other interested parties are permitted to intervene when an increase in existing water distribution and waste-water treatment rates is requested. In fiscal 2008, the Arizona Corporation Commission (“ACC”), upon a formal application filed by the Residential Utility Consumer Office (“RUCO”), the state funded consumer advocate, reheard certain issues related to the Gold Canyon rate case originally decided in June 2007. The rehearing petition targeted two aspects of the original decision: Capital Structure and Excess Plant Capacity. The rehearing resulted in a decision to deem a portion of rate base as ‘excess capacity’ and disallowed Gold Canyon from earning a return on these assets at this time and a decision to impute a hypothetical capital structure and hence reduce the rates for Gold Canyon utility services from those which were previously approved in the original decision. The revised rates are estimated to result in reduced 2009 annual revenues of approximately U.S. \$0.6 million.

Algonquin believes the revised decision is not consistent with current legislation, is at odds with existing precedents, is inconsistent with the evidence record in this rate case proceeding and the issues decided on were not properly before the ACC for rehearing. The rate case review procedures also provides the utility with a number of options should it disagree with the decision in the rate case review process, including filing an appeal of this ACC decision to the Arizona State Court of Appeals. Gold Canyon filed an appeal of the rehearing decision with the court early in the quarter ended March 31, 2009 requesting that it be either revised or set aside allowing for a return to the original decision decided June 2007. This appeal process is in the early stages with Gold Canyon having just filed the open brief and as such Algonquin is not able to estimate the likelihood of this rehearing decision being reversed or revised.

## CORPORATE

	Three months ended March 31	
	2009	2008
Corporate and other expenses:		
Administrative expenses	2,387	2,046
Management costs	213	222
Loss / (Gain) on foreign exchange	577	351
Interest expense	5,513	7,130
Interest, dividend and other Income	(3)	(30)
Loss on derivative financial instruments	3,498	5,119
Income tax expense (recovery)	(4,992)	1,191

## OVERVIEW

### 2009 First Quarter Corporate and Other Expenses

During the quarter ended March 31, 2009, administrative expenses totalled \$2.4 million, as compared to \$2.0 million in the same period in 2008. The expense increase in the three months ended March 31, 2009 was due to added requirements to administer Algonquin, including additional legal and regulatory costs.

For the quarter ended March 31, 2009, interest expense totalled \$5.5 million as compared to \$7.1 million in the same period in 2008. Decreased interest expense was related to lower interest rates and fees charged on Algonquin's variable interest credit facilities, as compared to the prior year.

Loss on derivative financial instruments consists of realized and unrealized mark to market losses on foreign exchange forward contracts and interest rate swaps during the quarter. The unrealized portion of any mark to market gains or losses on derivative instruments does not impact Algonquin's current cash position.

An income tax recovery of \$5.0 million was recorded in the first quarter of 2009, as compared to an expense of \$1.2 million during the same period in 2008. The primary reason for this recovery relates to the final determinations made for claiming discretionary deductions on 2008 income tax returns, the impact of which reduces future income tax liabilities previously recorded. This resulted in an increased future tax recovery recorded in the three months ended March 31, 2009. (see Risk Management – Changes to income tax laws).

### Reconciliation of EBITDA to net earnings

EBITDA is a metric used by many investors to compare companies on the basis of ability to generate cash from operations. Algonquin uses these calculations to monitor the amount of cash generated by Algonquin as compared to the amount of cash distributed by Algonquin. Algonquin uses EBITDA to assess the operating performance of Algonquin without the effects of depreciation and amortization expense which are derived from a number of non-operating factors, accounting methods and assumptions. Algonquin believes that presentation of this measure will enhance an investor's understanding of Algonquin's operating performance. EBITDA is not intended to be representative of cash provided by operating activities or results of operations determined in accordance with GAAP.

The following table is derived from and should be read in conjunction with the Consolidated Statement of Operations. This supplementary disclosure is intended to more fully explain disclosures related to EBITDA and provides additional information related to the operating performance of Algonquin. Investors are cautioned that this measure should not be construed as an alternative to GAAP consolidated net earnings.

	<b>Three months ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Net earnings (loss)	\$ 4,243	\$ (1,554)
Add:		
Income tax provision (recovery)	<b>(4,992)</b>	1,191
Interest expense	<b>5,513</b>	7,130
(Gain) / loss on derivative financial instruments	<b>3,498</b>	5,119
(Gain) / loss on foreign exchange	<b>577</b>	351
Amortization	<b>11,667</b>	10,427
Other	<b>608</b>	(1,020)
EBITDA	<b>\$ 21,114</b>	\$ 21,644

For the quarter ended March 31, 2009, EBITDA decreased by \$0.5 million compared to the same period in 2008. The decrease in EBITDA is due to \$0.3 million in lower interest dividend and other income earned in the year and \$0.3 million in increased administration expenses, as compared to the previous year.

### **Reconciliation of adjusted net earnings/(loss) to net earnings/(loss)**

Adjusted net earnings is a metric used by many investors to compare net earnings from operations without the effects of certain volatile primarily non-cash items that generally have no current economic impact and are viewed as not directly related to a company's operating performance. Net earnings/(loss) of Algonquin can be impacted positively or negatively by gains and losses on derivative financial instruments, including foreign exchange forward contracts, interest rate swaps as well as to movements in foreign exchange rates on foreign currency denominated debt and working capital balances. Algonquin uses adjusted net earnings to assess the net earnings of Algonquin without the effects of gains or losses on foreign exchange, foreign exchange forward contracts, interest rate swaps as these are primarily non-cash items that are not reflective of the performance of the underlying business of Algonquin. Algonquin believes that analysis and presentation of net earnings or loss on this basis will enhance an investor's understanding of the operating performance of Algonquin's businesses. It is not intended to be representative of net earnings or loss determined in accordance with GAAP.

The following table is derived from and should be read in conjunction with the Consolidated Statement of Operations. This supplementary disclosure is intended to more fully explain disclosures related to adjusted net earnings and provides additional information related to the operating performance of Algonquin. Investors are cautioned that this measure should not be construed as an alternative to GAAP consolidated net earnings.

The following table shows the reconciliation of net earnings/(loss) to adjusted net earnings exclusive of these items:

	<b>Three months ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Net earnings (loss)	\$ 4,243	\$ (1,554)
Add:		
Loss on derivative financial instruments, net of tax	3,099	5,119
Loss on foreign exchange, net of tax	577	351
Adjusted net earnings	\$ 7,919	\$ 3,916
Adjusted net earnings per unit	\$ 0.10	\$ 0.05

### Cash Available for Distribution

The following tables are derived from and should be read in conjunction with the Consolidated Statement of Cash Flows. This supplementary disclosure is intended to more fully explain disclosures related to cash available for distribution and provides additional information related to the cash flows of Algonquin including the amount of cash available for distribution to unitholders. Investors are cautioned that these measures should not be construed as an alternative to GAAP consolidated statement of cash flows.

	<b>Three months ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Cash provided by (used in) Operations	\$ 13,703	14,712
Changes in working capital	1,414	2,444
	15,117	17,156
Receipt of principal on notes receivable	164	75
Repayment of long term liabilities	(920)	(176)
Maintenance capital expenditures <sup>1</sup>	(681)	(870)
Other – non-recurring <sup>2</sup>	(103)	(265)
Cash available for distribution	\$ 13,577	\$ 15,920
Add Back:		
Maintenance expenditures	681	870
Deduct:		
Net growth, maintenance and other expenditures	(5,654)	(13,229)
Cash available for distribution after growth and maintenance capital expenditures	\$ 8,604	\$ 3,561
Distribution to Unitholders	\$ 4,774	\$ 17,481

	Three months ended March 31			
	2009		2008	
Per Trust Unit				
Cash provided by Operations	\$	<b>0.17</b>	\$	0.19
Cash available for distribution	\$	<b>0.17</b>	\$	0.21
Cash available for distribution after net growth and maintenance expenditures	\$	<b>0.11</b>	\$	0.05
Distributions to Unitholders	\$	<b>0.06</b>	\$	0.23
Distributions declared during the period	\$	<b>0.06</b>	\$	0.23

<sup>1</sup> Maintenance expenditures include plant and equipment expenditures capitalized in accordance with GAAP, which are of a replacement or regulatory nature or represent a major maintenance cost intended to maintain Algonquin's current operations and current level of distributable cash and refunds of developer contributions in Utility Services. The expenditures are amortized over the expected life of the respective asset and the amount amortized in the period is deducted in the calculation of cash available for distribution.

<sup>2</sup> Other includes various non-recurring adjustments including gain on sale of capital assets and any cash generated from operations that may not be available for immediate distribution to unitholders.

The change in cash provided by operating activities after changes in working capital in the quarter ended March 31, 2009 is primarily due to realized losses from derivative financial instruments and increased receivables, partially offset by decreased interest expense, as compared to the same period in 2008.

During the quarter ended March 31, 2009, Algonquin generated \$13.6 million (\$0.17 per trust unit) in cash available for distribution, as compared to \$15.9 million, (\$0.21 per trust unit) for the same period in 2008. The decrease in cash available for distribution is mostly due to realized losses from derivative financial instruments and increased principal repayments of long term liabilities as compared to the same period in 2008. These decreases were partially offset by decreased interest expense on variable interest rate debt, as compared to the same period in 2008. Algonquin distributed \$4.8 million (\$0.06 per trust unit) during the quarter ended March 31, 2009, as compared to \$17.5 million (\$0.23 per trust unit) in the same period in 2008.

Algonquin's Payout Ratio was 35.2% during the quarter ended March 31, 2009 (2008 – 109.8%).

Distributions paid can be different from distributions declared during a period. Monthly distributions are declared by Algonquin for unitholders of record on the last business day of each month and are paid within 15 days following each month end. Prior to October 20, 2008, Algonquin's cash distributions payable to Algonquin's unitholders were \$0.92 per unit per annum and the payable period was 45 days following each month end.

## Excess (deficiency) of Cash Flows and Net Earnings Over Distributions Paid

The following chart presents excess or deficiency in cash flows from operating activities and net earnings over distributions paid for the three months ended March 31, 2009 and 2008, and for the years ended December 31, 2008 and 2007.

	Three months ended		Year ended December 31	
	2009	March 31 2008	2008	2007
Cash flow from operating activities	\$ 13,703	\$ 14,712	\$ 66,874	\$ 40,427
Distributions paid during the period	(4,774)	(17,481)	(57,755)	(69,923)
Excess (shortfall) of cash flows from operating activities over cash distributions paid	\$ 8,929	\$ (2,769)	\$ 9,119	\$ (29,496)
Net earnings (loss)	\$ 4,243	\$ (1,554)	\$ (19,038)	\$ 24,763
Distributions paid during the period	(4,774)	(17,481)	(57,755)	(69,923)
Shortfall of net earnings over cash distributions paid	\$ (531)	\$ (19,035)	\$ (76,793)	\$ (45,160)

The shortfall of net earnings over cash distributions and of cash flows from operating activities over cash distributions have been funded through working capital management, issuing of additional trust units, convertible debenture offerings, cash on hand, or additional borrowings under Algonquin's revolving credit facility.

Algonquin considers the amount of cash generated by the business, cash required for Algonquin's growth initiatives, funds required to satisfy current or future obligations including taxes in determining sustainable, normalized monthly distributions of cash to its unitholders. In general, Algonquin does not take into account quarterly working capital fluctuations as these tend to be temporary in nature. Algonquin does not generally consider net income in setting the level of distributions as this is a non-cash calculation and does not reflect the level of cash flow generated by Algonquin. In particular Algonquin has a relatively high level of depreciation and amortization expense and has significant volatility in income due to fluctuations from the quarterly mark to market valuations of its hedging instruments and interest rate swaps.

## Summary of Property, Plant and Equipment Expenditures by Business Unit

	Three months ended March 31	
	2009	2008
<b>POWER GENERATION &amp; DEVELOPMENT</b>		
<b>Renewable Energy Division</b>		
Maintenance expenditures	\$ 147	\$ 91
Growth and other expenditures	151	409
Total	\$ 298	\$ 500
<b>Thermal Energy Division</b>		
Maintenance expenditures	\$ 506	\$ 916
Growth and other expenditures	548	2,726
Total	\$ 1,054	\$ 3,642
<b>UTILITY SERVICES BUSINESS UNIT</b>		
Capital Investment in rate baseable Assets	\$ 4,302	\$ 9,036
<b>Consolidated (includes Corporate)</b>		
Maintenance expenditures	\$ 652	\$ 1,058
Capital investment in rate base	4,303	9,036
Growth and other expenditures	699	3,135
Total	\$ 5,654	\$ 13,229

During the quarter ended March 31, 2009, Algonquin incurred growth and other property, plant and equipment expenditures of \$0.7 million, as compared to \$3.1 million during the comparable period in 2008. In addition, Utility Services invested \$4.3 million in property, plant and equipment during the quarter ended March 31, 2009, as compared to \$9.0 million during the comparable period in 2008.

During the quarter ended March 31, 2009, the Thermal Energy division's expenditures primarily relate to an investment at the Dynafibres facility. In the comparable period, the expenditures primarily related to the completion of the Sanger re-powering project and investment in the BCI steam sales facility. Both projects were completed in the prior year.

During the quarter ended March 31, 2009, the Utility Services' capital investment in property, plant and equipment primarily relate to the substantial completion and commissioning of projects initiated in 2008. All of these investments will be included in the rate case applications currently in process as previously noted. Utility Services has initiated rate cases at a number of its facilities and the capital projects completed by Utility Services since the last rate cases will be included in the applications. Rate cases are designed to allow a particular facility to appropriately recover its

operating costs and earn the rate of return on its capital investment as allowed by the regulatory authority under which the facility operates.

Property, plant and equipment expenditures for the remainder of the 2009 fiscal year are anticipated to be between \$9.5 million and \$12.5 million, including approximately \$1.8 million related to ongoing requirements in Utility Services, \$4.0 million related to the Thermal division, and \$1.7 million related to the Renewable Energy division. Algonquin also anticipates incurring approximately \$3.0 million related to the initial phase of the Windsor Locks repowering and an amount of \$3.0 million related to initial anticipated expenditures at the Donnacona facility related to Bill C-93 in Quebec.

Algonquin anticipates that it can generate sufficient liquidity through internally generated operating cash flows, working capital to finance its property, plant and equipment expenditures and other commitments. Algonquin also has the ability to finance these expenditures through its revolving credit facility as well as through advances from developers.

## Liquidity and Capital Reserves

The following chart sets out the amounts drawn, letters of credit issued and outstanding amounts available to Algonquin under its senior banking credit facilities (the “Facilities”):

	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Total bank credit facility	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000
Less: unexercised accordion	(32,250)	(32,250)	(32,250)	(32,250)	(50,000)
Committed bank credit facilities	\$ 192,750	\$ 192,750	\$ 192,750	\$ 192,750	\$ 175,000
Funds Drawn on credit facilities	(129,500)	(137,000)	(144,800)	(150,000)	(140,000)
Letters of Credit issued	(37,600)	(37,500)	(33,200)	(31,200)	(27,100)
Remaining available bank facilities	<b>\$ 25,650</b>	<b>\$ 18,250</b>	<b>\$ 14,750</b>	<b>\$ 11,550</b>	<b>\$ 7,900</b>
Cash on Hand	900	5,900	7,400	6,100	9,200
Total liquidity and capital reserves	<b>\$ 26,550</b>	<b>\$ 24,150</b>	<b>\$ 22,150</b>	<b>\$ 17,650</b>	<b>\$ 17,100</b>

As at and for the period ended March 31, 2009, Algonquin is in compliance with the covenants under its Facilities.

Algonquin has an unexercised amount of \$32.3 million remaining on the accordion feature. In addition to total liquidity and capital reserves noted above and based on the covenants included in the Facilities, \$6.2 million of the unexercised accordion feature would, if exercised, be available to be drawn as at March 31, 2009. Algonquin’s bank syndicate is not obligated to fund any additional

draw requests on the accordion feature. In this event, Algonquin is able to bring additional lenders into its banking syndicate.

As at March 31, 2009, Algonquin had drawn \$129.5 million on its Facilities as compared to \$137.0 million as at December 31, 2008. In addition to amounts actually drawn, Algonquin also had \$37.6 million in outstanding letters of credit. Therefore, at March 31, 2009, Algonquin had \$25.7 million of committed and available bank facilities and \$0.9 million of cash, resulting in \$26.6 million of total liquidity and capital reserves. Algonquin has strengthened its total liquidity and capital reserves position during the latter half of the prior fiscal year and continues to improve its liquidity position in 2009. This improvement is due primarily to the reduced cash distributions payable to Algonquin's unitholders and reduced investments in property, plant and equipment in the quarter ended March 31, 2009 as compared to comparable period in 2008.

## Contractual Obligations

Information concerning contractual obligations as of March 31, 2009 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	\$ 289,642	\$ 3,337	\$ 202,916	\$ 3,494	\$ 79,895
Interest on Long term debt obligations	\$ 120,845	18,397	34,296	20,248	47,904
Accounts Payable	\$ 34,119	34,119	-	-	-
Derivative financial instruments:					
Currency Forward	\$ 19,736	5,252	12,210	2,274	-
Derivative financial instruments:					
Interest Rate Swap	\$ 16,421	5,255	7,509	2,852	805
Lease Payments	\$ 535	129	327	5	74
Other obligations	\$ 12,350	260	515	515	11,060
Total obligations	\$ 493,648	\$ 66,749	\$ 257,773	\$ 29,388	\$ 139,738

Long term obligations include regular payments related to long term debt and other obligations.

## Unitholders' Equity and Convertible Debentures

As at March 31, 2009, Algonquin had 77,906,106 issued and outstanding trust units with a total of 79,577,115 trust units issued and outstanding on a fully diluted basis.

Algonquin may issue an unlimited number of trust units. Each trust unit is transferable and represents an equal, undivided beneficial interest in any distribution from Algonquin and the net assets of Algonquin. All units are of the same class and with equal rights and privileges and are not

subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders.

On August 1, 2008, Algonquin issued 3,507,143 trust units in exchange for cash and securities of approximately \$27.0 million or \$7.69 per unit. The unit issue was pursuant to an agreement entered into on June 27, 2008 between Algonquin, Highground Capital Corporation (“Highground”) and CJIG Management Inc. (“CJIG”). Under the agreement CJIG would acquire all of the issued and outstanding common shares of Highground, and Algonquin would issue 3,507,143 trust units, of which 3,065,183 trust units would be received by Highground shareholders as part of the agreement with the remaining trust units being retained by CJIG.

Pursuant to the takeover bid of AirSource Power Fund I LP (“Airsourc”), on September 29, 2006 Algonquin issued trust units and a subsidiary issued trust units which are exchangeable into trust units of Algonquin at the holder’s option (the “Exchangeable Units”). Algonquin issued 331,822 trust units during the three months ended March 31, 2009, pursuant to the conversion of Exchangeable Units. As at March 31, 2009, there were 1,671,006 trust units of Algonquin remaining to be issued pursuant to the conversion of Exchangeable Units. Subsequent to March 31, 2009, approximately 4,000 trust units of Algonquin were issued, pursuant to the conversion of Exchangeable Units.

In 2004, Algonquin issued 85,000 convertible unsecured debentures at a price of \$1,000 for each debenture. The debentures bear interest at 6.65% per annum and are convertible into trust units of Algonquin 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 \$1,000 principal. Until July 30, 2009, the debentures may be redeemed by Algonquin if the underlying trust unit price is equal to or exceeds a price of \$13.31 (125% of the conversion price of \$10.65). During the period of July 31, 2009 until the debenture’s maturity, Algonquin can redeem the debentures for 100% of the face value of debenture with cash, or for 105% of the face value of debenture with additional trust units. As at March 31, 2009, no convertible debentures had been presented for conversion and there were 84,964 convertible debentures outstanding.

In November 2006, Algonquin issued 60,000 convertible unsecured debentures at a price of \$1,000 for each debenture maturing on November 30, 2016. The debentures bear interest at 6.2% per annum and are convertible into trust units of Algonquin at the option of the holder at a conversion price of \$11.00 per trust unit, being a ratio of approximately 90.9 trust units for each \$1,000 principal. The debentures may not be redeemed by Algonquin prior to November 30, 2010. During the period of November 30, 2010 until November 29, 2012, the debentures may be redeemed by Algonquin if the underlying trust unit price is equal to or exceeds a price of \$13.75 (125% of the conversion price of \$11.00). During the period of November 30, 2012 until the debenture’s maturity,

Algonquin can redeem the debentures for 100% of the face value of debenture with cash, or for 105% of the face value of debenture with additional trust units. As at March 31, 2009, no convertible debentures had been presented for conversion.

## Management of Capital Structure

Algonquin views its capital structure in terms of its debt levels, both at a project and an overall company level, in conjunction with its equity balances.

Algonquin's objectives when managing capital are:

- To maintain appropriate debt and equity levels in conjunction with standard industry practices and to limit financial constraints on the use of capital.
- To ensure capital is available to finance capital expenditures sufficient to maintain existing assets.
- To ensure generation of cash is sufficient to fund sustainable distributions to unitholders as well as meet current tax and internal capital requirements.
- To maintain sufficient cash reserves on hand to ensure sustainable distributions made to unitholders.
- To have proper credit facilities available for ongoing investment in growth and investment in development opportunities.

Algonquin monitors its cash position on a regular basis to ensure funds are available to meet current normal as well as capital and other expenditures. In addition, Algonquin continuously reviews its capital structure to ensure its individual business units are using a capital structure which is appropriate for their respective industries as well as in the context of the change in taxation impacting Algonquin commencing in 2011.

## Unitholders' Rights Plan

Algonquin has adopted a Unitholders' Rights Plan (the "Plan"). The Plan is designed to ensure the fair treatment of unitholders in any transaction involving a potential change of control of Algonquin and will provide the Board of Trustees and unitholders with adequate time to evaluate any unsolicited take-over bid and, if appropriate, to seek out alternatives to maximize unitholder value. The Toronto Stock Exchange (the "Exchange") has accepted notice for filing of the Plan and the Plan was approved by unitholders at Algonquin's annual and special meeting held on April 24, 2008 for a three year period thereafter. The Plan is similar to rights plans adopted by many other Canadian income trusts and corporations. Until the occurrence of certain specific events, the rights will trade with the trust units of Algonquin and be represented by certificates representing the Units. The rights become exercisable only when a person, including any party related to it or acting jointly with

it, acquires or announces its intention to acquire twenty percent (20%) or more of the outstanding Units of Algonquin without complying with the Permitted Bid provisions of the Plan. Should a non-Permitted Bid be launched, each right would entitle each holder of Units (other than the acquiring person and persons related to it or acting jointly with it) to purchase additional Units of Algonquin at a fifty percent (50%) discount to the market price at the time.

It is not the intention of the Plan to prevent take-over bids but to ensure their proper evaluation by the market. Under the Plan, a Permitted Bid is a bid made to all unitholders for all of their Units on identical terms and conditions that is open for no less than 60 days. If at the end of 60 days at least fifty percent (50%) of the outstanding Units, other than those owned by the offeror and certain related parties, have been tendered and not withdrawn, the offeror may take up and pay for the Units but must extend the bid for a further ten days to allow all other unitholders to tender.

## Related Party Transactions

The following related party transactions occurred during the quarter ended March 31, 2009:

- Algonquin is managed by APMI which provides management services including advice and consultation concerning business planning, support, guidance and policy making and general management services. An entity owned by the majority of the shareholders of APMI is the general partner of Algonquin Airlink Limited Partnership and is the general partner of Algonquin Property LP which leases the corporate office to Algonquin. Green Wing Algonquin Power Development Inc (“GWAP”) is an entity majority owned by APMI which provides construction services. Collectively these entities are called the Algonquin Power Group.
- For the three months ended March 31, 2009, APMI was paid on a cost recovery basis for all costs incurred and charged \$0.2 million (2008 - \$0.2 million).
- As part of the project to re-power the Sanger facility, Algonquin entered into an agreement with APMI to undertake certain construction management services on the project. APMI is entitled to a development supervision fee plus a contingency fee for its construction management role on the project. During the three month period ended March 31, 2009, APMI was paid \$nil (2008 - \$15).
- Algonquin 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 three month period ended March 31, 2009 were \$0.1 million (2008 - \$0.1 million).

- Algonquin utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of APMI. During the three month period ended March 31, 2009, Algonquin incurred costs in connection with the use of the aircraft of \$0.1 million (2008 - \$0.1 million) and amortization expense related to the advance against expense reimbursements of \$56 (2008 - \$33).
- In accordance with the construction services agreement related to the St. Leon facility, GWAP, a company controlled by APMI, was paid \$nil (2008 - \$0.1 million) during the three month period ended March 31, 2009 for construction services.
- Pursuant to the St. Leon Limited Partnership Agreement, in 2006, St. Leon Wind Energy LP (“St. Leon LP”), a subsidiary of Airsource and the legal owner of the St. Leon facility, was required to issue 100 Class B units to GWAP. The holders of the Class B Units are entitled to 2.5% of the income allocations and cash distributions from St. Leon LP for a 5 year period commencing after June 17, 2008, two years after the date the facility achieved commercial operations pursuant to the PPA. Such income allocations and cash distributions shall be increased by 2.5% for each successive 5 year period, to a maximum of 10.0%. In any particular period, cash distributions to the holders of the Class B Units are only to be made after distributions have been made to the other partners, in an aggregate amount, equal to the debt service on the outstanding debt in respect of such period. The holders of the Class B units are entitled to cash distributions of \$0.1 million during the three months ended March 31, 2009 (2008 - \$nil).
- On March 10, 2008, Algonquin advanced \$225 to the Trustees for purposes of enabling the Trustees to purchase additional Units of Algonquin. The loans are subject to promissory notes issued in favour of Algonquin which are payable upon demand, currently bear interest at 2% per annum, and are recorded as a reduction in Trust Units on the consolidated balance sheet. During the three months ended March 31, 2009 a principal repayment of \$6 was made (2008 - \$nil).
- Pursuant to the Highground transaction that occurred on June 27, 2008 between Algonquin, Highground and CJIG, APMI is entitled to a fee of approximately \$0.2 million. This fee has been accrued and included in accounts payable on the consolidated balance sheet and as of March 31, 2009 was not paid.
- APMI is entitled to 50% of the cash flow above 15% return on investment for the BCI project pursuant to its project management contract. During the three months ended March 31, 2009 and 2008 no amounts were paid under this agreement. In 2008, APMI also earned a construction supervision fee of \$0.1 million in relation to the development of this project as of March 31, 2009 this amount has not been paid.

## Risk Management

Algonquin proactively manages its risk exposures in a prudent manner. Algonquin maintains adequate insurance on all of its facilities. This includes property and casualty, boiler and machinery, and liability insurance. It has also initiated a number of programs and policies such as employee health and safety programs, environmental safety programs, and currency hedging policies to manage its risk exposures.

There are a number of risk factors relating to the business of Algonquin. Some of these risks include the dependence upon Algonquin businesses, regulatory climate and permits, U.S. 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. The risks discussed below are not intended as a complete list of all exposures that Algonquin may encounter. A further assessment of Algonquin's business risks is also set out in the 2008 Annual Information Form.

### *Mechanical and operational risks*

Algonquin is entirely dependant upon the operations and assets of Algonquin businesses. Accordingly, distributions to unitholders are dependent upon the profitability of each of Algonquin's businesses. This profitability could be impacted by equipment failure, the failure of a major customer to fulfill its contractual obligations under its PPA, 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. The water distribution networks of the water utilities operates under pressurized conditions within pressure ranges approved by regulators. Should the water distribution network become compromised or damaged, the resulting release of pressure could result in serious injury or death to individuals or damage to other property.

These risks are mitigated through the diversification of Algonquin's operations, both operationally (Renewable Energy, Thermal Energy and Utility Services) and geographically (Canada and U.S.), the use of regular maintenance programs, maintaining adequate insurance and the establishment of reserves for expenses. In addition, Algonquin's existing long term PPAs minimize the risk of reductions in average energy pricing.

### *Regulatory risk*

Profitability of Algonquin businesses is in part dependant on regulatory climates in the jurisdictions in which it operates. 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 utility facilities are highly regulated and are subject to rate settings by state regulators. The operating companies are regulated utilities subject to the full regulation of the public utility commissions for the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. These utilities operate under cost-of-service regulation as administered by these state authorities. The utilities use a historic test year subject to certain adjustments for known and measureable changes in the establishment of rates for the utility and pursuant to this method the determination of the rate of return on approved rate base and deemed capital structure, together with the reasonable and prudent costs, establishes the revenue requirement upon which each utility's customer rates are determined. These regulatory bodies have the authority to establish the allowed rate of return on approved rate base and also determine which investments are approved for inclusion in the rate base which in both cases can affect the profitability of the division. If the utilities are unable to obtain government approval of requested rate increases, or if rate increases are untimely or inadequate to cover capital investments and to recover expenses, profitability could be affected.

Federal, state and local environmental laws and regulations impose substantial compliance requirements on water and wastewater utility operations. Operating costs could be significantly affected in order to comply with new or stricter regulatory requirements.

Water and wastewater utilities could be subject to condemnation or other methods of taking by government entities under certain conditions. While any taking by government entities would require compensation be paid to Algonquin, and while Algonquin believes it would receive fair market value for any assets that are taken, there is no assurance that the value received for assets taken will be in excess of book value.

Algonquin regularly works with these authorities to manage the affairs of the business.

### *Asset Retirement Obligations*

Algonquin completes periodic reviews of potential asset retirement obligations that may require recognition. As part of this process, Algonquin considers the contractual requirements outlined in its operating permits, leases and other agreements, the probability of the agreements being extended, the likelihood of being required to incur such costs in the event there is an option to require decommissioning in the agreements, the ability to quantify such expense, the timing of incurring the potential expenses as well as business and other factors which may be considered in evaluating if such obligations exist and estimating the fair value of such obligations. Based on its assessments, Algonquin does not have any significant retirement obligation liabilities and has not recorded any liability in its financial statements.

Generally, Algonquin's hydroelectric facilities are subject to some form of a water use agreement. The terms of these agreements vary by facility as they are agreements made with the local government body that regulates electrical energy generators and can extend over many years. Certain of the agreements contain clauses which allow the regulating body the option to require Algonquin to decommission the facility upon the expiry or termination of the agreements. Other facilities have no specific obligations other than to maintain the facility in good working order. Algonquin has options in many of its existing water use agreements to renew or extend the agreements and anticipates being in a position to extend the majority of its agreements and continue to operate its facilities. Based on historical general practice within the regions in which Algonquin has facilities, Algonquin has assessed the probability of being required to decommission a facility upon the expiry of a water use agreement to be remote. As such, the any potential asset retirement obligation expense has been assessed as insignificant as the obligation would be incurred well into the future and there is a remote likelihood of being required to decommission a facility.

The Renewable Energy division's St. Leon facility does not own the property on which its turbines are located. In 2004, St. Leon entered into long term right of way agreements with land owners which allowed it to construct and maintain the wind turbines used by the facility on their property. These agreements are for minimum terms of 40 years and, upon expiry or termination, provide the land owners with title to the equipment if it is not decommissioned by Algonquin at its option. While Algonquin anticipates being in a position to renew or extend the existing PPA in 2025, in the event that Algonquin is unable to renew or extend the agreement, or identify another purchaser of the energy, Algonquin may choose to decommission the facility. Algonquin has assessed there to be a remote likelihood of incurring any cost to decommission the wind farm.

The Thermal Energy division's EFW facility owns the property on which its facility operates. EFW's current waste incineration agreement expires in 2012 with two five year options to extend. While Algonquin anticipates being in a position to renew or extend the existing contract in 2012, in the event that Algonquin is unable to renew or extend the agreement, Algonquin may choose to close the facility but has no legal obligation to remove the assets. Under the terms of the contract, the responsibility for removal of the bulk of any hazardous material generated in the operation of the facility remains with EFW's primary customer. As such, the potential expense to bring the facility in line with current environmental standards in the event it is eventually closed has been assessed as insignificant based on the quantification of costs to remediate the facility, expectation that the existing contract can be extended or renewed and that the potential timing of such an event, although unlikely would be well in the future.

The Utility Services business unit's facilities operate under agreements with a state or municipal regulator to provide the sole water distribution and/or wastewater treatment services in its area of operations, as set out in the agreements. In general, these facilities are operated with the assumption that its services will be required in perpetuity and there are no contractual decommissioning requirements. In order to remain in compliance with the applicable regulatory bodies, Utility Services has regular maintenance programs at each facility to ensure its equipment is properly maintained and replaced on a cyclical basis. These maintenance expenses, expenses associated with replacing aging wastewater treatment facilities and expenses associated with providing new sources of water can generally be included in the facility's rate base and thus the facility is allowed to earn a return on its investment.

### *Environmental Risks*

Algonquin faces a number of environmental risks that are normal aspects of operating within the renewable power generation, thermal power generation and utilities business segments which have the potential to become environmental liabilities. Many of these risks are mitigated through the maintenance of adequate insurance which include property, boiler and machinery, environmental and excess liability policies. Algonquin has assessed the likelihood of these risks becoming a contingent environmental liability as remote; therefore Algonquin has not recorded any contingent liabilities on its financial statements.

To manage these risks responsibly, Algonquin has Environmental and Compliance departments within the different operating units of the businesses which are responsible for monitoring all of Algonquin's operations, ensuring all operating facilities are in compliance with environmental regulations and preparing regulatory submissions as required. The departments comprise of 7.0 full time equivalent positions based out of head office and have an annual budget of approximately \$1.0 million, which includes wages, travel and other costs. Facility specific permitting and compliance expenses are direct operating expenses of each facility and are excluded from these expenses.

Algonquin's procedures in place to prevent and minimize any impact of possible oil spills and soil contamination meet generally accepted industry practices. Algonquin's field personnel perform inspections of oil and chemical storage areas on a minimum of a quarterly basis. Algonquin has 24 hour, 365 day emergency response and spill procedures in place in the event there is an oil or chemical spill.

The Renewable Energy division faces a number of environmental risks that are normal aspects of operating within its business segment. The primary environmental risks associated with the operation of a hydroelectric facility include possible dam failure which results in upstream or

downstream flooding; equipment failure which result in oil or other lubricants being spilled into the waterway. In addition, the operation of a hydroelectric facility may cause the water in the associated waterway to flow faster, or slower, which could result in water flow issues which impact fish population, water quality and potential increases in soil erosion around a dam facility. In order to monitor and mitigate these risks, Algonquin completes facility inspections at minimum on an annual basis and ensures its facilities are in compliance with the appropriate regulatory requirements for the specific facility. Federal regulators in the U.S. inspect certain hydroelectric facilities on an annual basis and complete an environmental inspection every 3-5 years.

The primary environmental risks associated with the operation of a wind farm include potential harm to the local and migratory bird population, harm to the local bat population as well as concerns over noise levels and visual 'harm' to the scenic environment around the wind farm. As part of the Federal and Provincial approval of the St. Leon wind project, certain pre-construction and post construction monitoring studies were required. No significant issues were identified as a result of these studies. In order to monitor and mitigate these risks, Algonquin completes facility inspections at minimum on an annual basis and ensures its facilities are in compliance with the appropriate regulatory requirements for the specific facility.

The Thermal Energy division faces a number of environmental risks that are normal aspects of operating within its business segment. The primary environmental risks associated with the operation of a cogeneration facility include potential air quality and emissions issues, soil contamination resulting from oil spills and issues around the storage and handling of chemicals used in normal operations. In order to monitor and mitigate these risks, and to remain within the regulatory requirements appropriate for the specific facility, Algonquin maintains continuous emissions monitoring systems, performs regular stack testing and tests the calibration of monitoring. The primary environmental risks associated with the operation of an incineration facility include potential air quality, odour and emissions issues, soil contamination resulting from oil or other chemical spills and issues around the storage and handling of municipal solid waste. In order to monitor and mitigate these risks, and to remain within the regulatory requirements appropriate for the specific facility, Algonquin maintains continuous emissions monitoring systems, performs annual stack testing and completes an annual technical evaluation of ash composition.

The Utility Services business unit faces a number of environmental risks that are normal aspects of operating within its business segment. The primary environmental risks associated with the operation of a wastewater treatment facility include potential air quality and odour

management issues, wastewater spills and surface and ground water contamination. In order to monitor and mitigate these risks, and to remain within the regulatory requirements appropriate for the specific facility, Algonquin maintains an ongoing sampling and testing programs as required in its operational jurisdiction, including annual field investigations by management. It also has a preventative maintenance program to reduce the risk of leaks and other mechanical failures within the wastewater collection system and at the wastewater treatment plants that it operates.

The primary environmental risks associated with the operation of a water distribution facility include risk of groundwater contamination by contaminants such as bacterial, synthetic, organic and inorganic pollutants, consumption and availability of groundwater and ensuring water quality continues to meet and exceed Environmental Protection Agency and state standards. In order to monitor and mitigate these risks, and to remain within the regulatory requirements appropriate for the specific facility, Algonquin maintains a regular sampling and testing program as required in its operational jurisdiction. It also has a preventative maintenance program to reduce the risk of leaks and other mechanical failures within the water distribution systems that it operates.

Federal drinking water legislation in the United States requires all drinking water systems to meet new standards respecting levels of naturally occurring arsenic in drinking water. Pursuant to the requirements of the drinking water legislation, an additional arsenic treatment system has been placed online at one of LPSCo's reservoir well sites to ensure continued full compliance with the regulatory requirements. The costs of complying with the new standards form part of a facility's rate base for rate case purposes.

Water distribution facilities depend on an adequate supply of water to meet present and future demands of customers. Drought conditions could interfere with sources of water supply used by the utilities and affect their ability to supply water in sufficient quantities to existing and future customers. An interruption in the water supply could have an adverse effect on the results of operations of the utilities. Government restrictions on water usage during drought conditions could also result in decreased demand for water, even if supplies are adequate, which could adversely affect revenues and earnings

### *Specific Environmental Risks*

#### *Greenhouse Gas Initiatives:*

Several Northeastern US States have formed a coordination group to develop a multi state greenhouse gas mitigation action plan. This group, the Regional Greenhouse Gas Initiative ("RGGI"), has received backing from several states where Algonquin operates facilities including

Connecticut and New Jersey. RGGI drafted a model cap and trade legislation that has been endorsed by all of the states involved in the initiative. The cap and trade program will be implemented to regulate CO<sub>2</sub> emissions from large electrical generation facilities, including the Windsor Locks facility. The RGGI regulation to implement a greenhouse gas cap and trade program was passed in Connecticut in late August 2008.

The Windsor Locks facility is the only Algonquin site that is currently affected by the RGGI regulations. As such Algonquin will be required to purchase approximately 250,000 tons of CO<sub>2</sub> allowances per year, equivalent to the total annual CO<sub>2</sub> emissions from the Windsor Locks facility for the 2009 to 2012 fiscal years. Algonquin is entitled to apply for allowances and/or purchase allowances at a base price of \$2.00 per tonne from the state of Connecticut. Algonquin has submitted an application on October 31, 2008 for allowances under the available programs. For 2009, Algonquin has currently estimated the cost of compliance with the RGGI requirements for the Windsor Locks facility to be between \$0.4 and \$0.5 million.

Seven U.S. States (including Arizona and California) and four Canadian provinces (including Manitoba, Ontario and Quebec) have formed a group called the Western Climate Initiative (“WCI”). This group recently released details of its Regional Cap-and-Trade Program, which is scheduled to start on January 1, 2012. Each member state/province is now responsible for developing the draft design of the Regional Cap-and-Trade Program and taking the necessary steps to implement the Program within its jurisdiction. Algonquin owns and operates the Sanger facility in California and the EFW facility in Ontario and holds investments in two others in Ontario which could be impacted by this program. As this process has just begun, it is too early to determine the potential financial impact on Algonquin and means available to mitigate this financial impact, if any.

The Carbon Disclosure Project (“CDP”) is an independent non-profit organization that represents institutional investors managing over \$57.0 trillion of assets. The CDP is specifically working to encourage companies world wide to quantify and disclose their greenhouse gas emissions and to outline what actions the companies are taking to address climate change risk, both from potential physical impacts but also from regulatory changes that may result in an effort to address climate change.

Algonquin submitted a baseline greenhouse gas emissions inventory to the CDP at the end of June 2008. The emissions data includes both direct emissions from our processes as well as indirect emissions from purchased power. The emissions inventory has been developed based on guidance from the Greenhouse Gas Protocol. This submission will allow comparisons with other firms to be made, and will also be useful as a baseline for addressing climate change regulations.

*Renewable Energy Division:*

As a result of certain legislation passed in Quebec (Bill C93), Algonquin is undertaking technical assessments of its hydroelectric facility dams owned or leased within the Province of Quebec. This is discussed in greater detail within the analysis of results in the Renewable Energy Division.

The province of Ontario is considering enacting new legislation similar to Bill C93 in Quebec. Algonquin operates four hydroelectric facilities in Ontario. While it is too early to assess the costs of compliance, it is possible that modifications to certain dam structures may be required in order to be compliant with any new regulations should they come into effect. Any capital costs associated with the anticipated modifications are expected to be significantly lower than the expected capital costs related to the Quebec facilities, as there are fewer facilities in Ontario and they are of newer construction.

*Utility Services:*

Algonquin owns and operates the LPSCo facility, a water distribution and waste-water treatment utility servicing City of Litchfield Park, and parts of the City of Goodyear, the City of Avondale and the County of Maricopa, Arizona, where groundwater pollutants originally caused by a former aerospace manufacturing plant in the nearby city of Goodyear are progressing toward three of the twelve wells that provide water to the LPSCo service area. The United States Environmental Protection Agency (“EPA”) began monitoring these groundwater pollutants in 1981 and has been tracking the gradual underground movement since. In addition to actively participating in EPA monthly technical meetings in regards to this monitoring program, LPSCo closely monitors its wells for these groundwater pollutants through the sampling and testing of water from wells that are potentially at risk of contamination. To date there have not been any detectable levels of the pollutants in the water from wells used by the utility. EPA’s monitoring and control efforts have not indicated that the concentrations are being reduced or fully captured and additional remedial efforts by the EPA to fully capture the plume and reduce concentrations are underway. In the event that any of the wells which are most immediately at risk exceed permitted contaminant levels, LPSCo would undertake the appropriate actions which may include removing the well at risk from the water distribution system of the utility. In this event, there would remain sufficient production and reservoir capacity within the balance of the water distribution system to adequately service the needs of all of the customers of the utility. In addition LPSCo has identified alternate sites where replacement wells can be established to replace this lost capacity. The cost of establishing a new well is estimated to be between \$1.5 million and \$3.0 million depending on the location, depth and other factors. The cost of commissioning a well forms part of the rate base for the utility. Other factors that can impact the cost of a well include, but are not limited to, any requirement to construct wellhead treatment for pollutants,

volume of water available at the new site, and acquisition of land and groundwater rights. Algonquin does not believe it is exposed to a material liability and has not recorded a contingent environmental liability on its financial statements.

Algonquin's policy is to record estimates of environmental liabilities when they are known or considered probable and the related liability is estimable. There are no known material environmental liabilities as at March 31, 2009.

### *Seasonal fluctuations and hydrology*

The hydroelectric operations of Algonquin 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 generally higher. The ability of these assets to generate income may be impacted by changes in water availability 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. For Algonquin's water utilities, demand for water is affected by weather conditions and temperature. Demand for water during warmer months is generally greater than cooler months due to requirements for irrigation, swimming pools, cooling systems and other outside water use. If there is above normal rainfall or rainfall is more frequent than normal the demand for water may decrease adversely affecting revenues.

### *Wind resource*

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 cash could be impacted.

### *Foreign currency risk*

Currency fluctuations may affect the cash flows Algonquin would realize from its operations, as certain Algonquin businesses sell electricity or provide utility services in the United States and receive proceeds from such sales in U.S. dollars. Such Algonquin businesses also incur costs in U.S. dollars. At Algonquin's current exchange rate, approximately 45% of EBITDA and 60% of cash is generated in U.S. dollars. Algonquin estimates that, on an unhedged basis, a \$0.05 increase in the strength of the U.S. dollar relative to the Canadian dollar would result in increased reported revenue from U.S. operations of approximately \$5.8 million and increased reported expenses

from U.S. operations of approximately \$4.1 million or a net impact of \$1.7 million (\$0.02 per trust unit) on an annual basis.

Algonquin attempts to manage this risk through the use of forward contracts. Algonquin's policy is not to utilize derivative financial instruments for trading or speculative purposes.

At March 31, 2009, Algonquin had effectively hedged all of its remaining expected net 2009 U.S. dollar cash flow at \$1.11. During the quarter ended March 31, 2009 Algonquin realized a \$0.3 million loss on forward contracts settled during the period. As at April 30, 2009, Algonquin has total forward contracts to sell U.S. dollars from fiscal 2009 to fiscal 2013 totalling U.S. \$107.8 million, carrying an average rate of \$1.06.

The following chart sets out the amount of foreign exchange forward contracts outstanding as at March 31, 2009, hedge proceeds and average hedged rates over the term of the contracts:

	Total	2009	2010	2011	2012	2013
Total U.S. \$ Hedged	\$ 107,848	\$ 24,993	\$ 33,165	\$ 29,660	\$ 16,640	\$ 3,390
Total Can. \$ Proceeds	\$ 113,878	27,750	34,507	30,427	17,443	3,751
<b>Unrealized Gain (loss)</b>	<b>(\$ 19,750)</b>	<b>(3,650)</b>	<b>(6,750)</b>	<b>(6,100)</b>	<b>(2,900)</b>	<b>(350)</b>
Average Hedged Rate	\$ 1.064	\$ 1.111	\$ 1.040	\$ 1.026	\$ 1.048	\$ 1.107
Impact of a \$0.05 move in exchange rates	\$ <b>5,393</b>	\$ <b>1,250</b>	\$ <b>1,658</b>	\$ <b>1,483</b>	\$ <b>832</b>	\$ <b>170</b>

Based on the fair value of the forward contract using the exchange rates as at March 31, 2009, the exercise of these forward contracts will result in the use of \$3.6 million in the remainder of fiscal 2009, the use of cash of \$6.8 million in fiscal 2010 and result in the use of cash of \$9.3 million for the remainder of the hedged period beyond 2010. Assuming a decrease in the strength of the US dollar relative to the Canadian dollar of \$0.05 at March 31, 2009, with a corresponding increase in the forward yield curve, the fair value of the outstanding forward exchange contracts would increase by \$5.4 million, reducing the expected use of cash by \$1.2 million during the remainder of fiscal 2009, \$1.6 million in fiscal 2010, and \$2.3 million for the remainder of the hedged period beyond 2010.

### *Market price risk*

The majority of Algonquin's facilities are subject to long term PPAs. However, certain of Algonquin's hydroelectric facilities in the New England and New York regions sell energy at current spot market rates. In this regard, each \$1.00 change in the market prices per MW-hr would result in a change in revenue of \$0.1 million on an annualized basis.

### *Credit/Counterparty risk*

Algonquin is subject to credit risk through its trade receivables. Algonquin does not believe this risk to be significant as over 93% of Renewable Energy division's revenue, 83% of Thermal Energy division's revenue, and over 70% of total revenue is earned from large utility customers having a credit rating of BBB or better, and revenue is generally invoiced and collected within 45 days.

The remaining revenue is primarily earned by the Utility Services business unit. In this regard, the credit risk related to Utility Services accounts receivable balances of US \$3.0 million is spread over approximately 69,000 customers, resulting in an average outstanding balance of less than \$50 per customer. Algonquin has processes in place to monitor and evaluate this risk on an ongoing basis including background credit checks and security deposits from new customers.

### *Interest rate risk*

Algonquin has a number of project specific and other debt facilities that are subject to a variable interest rate. These facilities and the sensitivity to changes in the variable interest rates charged are discussed below:

- Algonquin's senior debt facility had a balance of \$129.5 million as at March 31, 2009. Assuming the current level of borrowings over an annual basis, a 1% change in the variable rate charged would impact interest expense by \$1.3 million annually. Algonquin has fixed for floating interest rate swaps in an amount of \$100.0 million until December 31, 2010, and fixed the interest expense on \$100.0 million of borrowings at approximately 3.46% for 2009, and 4.125% for 2010. This reduces volatility in the interest expense on this debt. The financial impact of any changes in interest rates are partially offset between the change in interest expense and the change in value of the interest rate swap. At March 31, 2009, the mark to market value of the interest rate swap was a net \$5.3 million liability (March 31, 2008 – asset of \$6.4 million).
- Algonquin's project debt at the St. Leon facility had a balance of \$71.7 million as at March 31, 2009. Assuming the current level of borrowings over an annual basis, a 1% change in the variable rate charged would impact interest expense by \$0.7 million annually. Although the underlying debt with the project lenders carries variable rate of interest tied to the Canadian bank's prime rate, Algonquin has entered into a fixed for floating interest rate swap on this project specific debt until September 2015 which mirrors the underlying debt's interest and principal repayment schedule. This minimizes volatility in the interest expense on this debt. The financial impact of interest rate changes are effectively offset between the change in interest expense and the change in value of the interest rate swap.

Algonquin has effectively fixed its interest expense on its senior debt facility at 5.47%. At March 31, 2009, the mark to market value of the interest rate swap was a liability of \$10.0 million (March 31, 2008 – liability of \$2.7 million).

- Algonquin's project debt at its Sanger cogeneration facility has a balance of U.S. \$19.2 million as at March 31, 2009. Assuming the current level of borrowings over an annual basis, a 1% change in the variable rate charged would impact interest expense by \$0.2 million annually.

### *Liquidity risk*

Liquidity risk is the risk that Algonquin will not be able to meet its financial obligations as they fall due. Algonquin's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due.

On October 20, 2008, in order to strengthen Algonquin's financial position and support its growth initiatives, Algonquin reduced the cash distributions payable to Algonquin's unitholders to \$0.24 per unit per annum commencing with the October 2008 distribution.

As at March 31, 2009, Algonquin had cash on hand of \$0.9 million and \$25.7 million available to be drawn on committed credit facilities from its bank syndicate. See the Liquidity and Capital Reserves section for a more detailed discussion and chart of the funds available to Algonquin under its credit facilities.

Algonquin's Facilities and project specific debt total approximately \$286.3 million. In the event that Algonquin 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. Algonquin attempts to manage the risk associated with floating rate interest loans through the use of interest rate swaps.

The cash available for distribution generated from several of Algonquin's operating facilities are subordinated to senior project 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 Algonquin losing its investment in such operating facility. Algonquin actively manages cash availability at its operating facilities to ensure they are adequately funded and minimize the risk of this possibility.

### *Commodity price risk*

Algonquin's exposure to commodity prices is primarily limited to exposure to natural gas price risk. In this regard, a discussion of this risk is set out as follows:

- Algonquin's Sanger facility's PPA includes provisions which reduce its exposure to natural gas price risk. In this regard, a \$1.00 increase in the price of natural gas per mmbtu, based on expected production levels, would result in an increase in expenses of approximately \$1.1 million on an annual basis. However, because the facility's energy price is linked to the price of natural gas, this increase would result in a corresponding increase in revenue of \$1.4 million or a net increase in operating profits of approximately \$0.2 million.
- Algonquin's Windsor Locks facility's PPA includes provisions which reduce its exposure to natural gas price risk. In this regard, a \$1.00 increase in the price of natural gas per mmbtu, based on expected production levels, would result in an increase in expenses of approximately \$2.8 million on an annual basis. However, because the facility's energy price is linked to the price of natural gas, this increase would result in a corresponding increase in revenue of \$3.3 million or a net increase in operating profits of approximately \$0.6 million.
- Algonquin's BCI facility's energy services agreement includes provisions which reduce its exposure to natural gas price risk. In this regard, a \$1.00 increase in the price of natural gas per mmbtu, based on expected production levels, would result in an increase in expenses of approximately \$0.3 million on an annual basis. However, because the facility's energy price is linked to the price of natural gas, this increase would result in a corresponding increase in revenue of \$0.4 million or a net increase in operating profits of approximately \$0.1 million.

### *Litigation risks and other contingencies*

Algonquin and certain of its subsidiaries are involved in various litigations, claims and other legal proceedings that arise from time to time in the ordinary course of business. Any accruals for contingencies related to these items are recorded in the financial statements at the time it is concluded that a material financial loss is likely and the related liability is estimable. Anticipated recoveries under existing insurance policies are recorded when reasonably assured of recovery.

As reported in previous public filings of Algonquin, Trafalgar Power, Inc. and Christine Falls Power Corporation (collectively, "Trafalgar") commenced an action in 1999 in U.S. District Court against Algonquin, APMI and various other entities related to them in connection with the sale of the Trafalgar Class A Note and Class B Notes by Aetna Life Insurance Company to a subsidiary of Algonquin, and Algonquin and the foreclosure on the security for the Notes, which included interests in certain hydroelectric generating facilities in New York which are owned by Trafalgar (the "Trafalgar Facilities"). In 2001, Trafalgar and other entities also filed for Chapter 11 reorganization in bankruptcy court and also filed a multi-count adversary complaint against certain Algonquin entities, which complaint was then transferred to the District Court. In 2006, the District Court decided that Aetna had complied with the provisions concerning the

sale of the A and B Notes and that Algonquin was therefore the holder and owners of the B Note (the “Trafalgar Class B Note”), and further that all claims asserted by Trafalgar with respect to the transfer of the Notes were without merit. Further, on November 6, 2008, the claims that were remaining in the District Court were dismissed by summary judgement. This decision provides further support for Algonquin’s efforts to enforce its rights under the loan documents and the U.S. Bankruptcy Code in the bankruptcy proceeding. On November 21, 2008, Trafalgar requested that the summary judgement be vacated based on alleged new evidence. The new evidence has, in the view of Algonquin, been falsified, and Algonquin has vigorously contested the request and has also taken further investigative steps in relation to the falsification. The motion was submitted for decision by the Court on January 9, 2009. The likelihood of the summary judgement being vacated is low. Following disposition of this motion, an appeal by Trafalgar is expected.

Although APMI paid one half of the external legal fees incurred up to July 1, 2002 with respect to this dispute, Algonquin is funding the litigation. In the event of a recovery by Algonquin of all or part of the funds, Algonquin and the APMI will divide such amounts in proportion to the amount of legal fees funded, after reimbursement of expenses.

On December 19, 1996, the Attorney General of Québec (“Québec AG”) filed suit in Québec Superior Court against Algonquin Développement Côte Ste-Catherine Inc. (Développement Hydromega), a predecessor company to an Algonquin subsidiary. The Québec AG at trial claimed \$5.4 million for amounts that the Algonquin entities have been paying to the federal authority under its water lease with the authority. The Algonquin entities brought the Attorney General of Canada into the proceedings. On March 27, 2009, the Superior Court dismissed the claim of the Québec AG. It is expected that the Québec AG will appeal because of the division of powers constitutional issue at hand. The Côte Ste-Catherine Facility currently pays water lease dues to the federal government, but if the Québec AG is successful in any appeal, an adjustment and/or increase of such amounts is possible.

### *Obligations to serve*

Algonquin’s utility facilities may be located within areas of the United States experiencing 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, Algonquin may be required to access capital markets or obtain additional borrowings to finance these future construction obligations.

### *Changes to income tax laws*

Changes to income tax laws and the current tax treatment of mutual fund trusts could negatively impact Algonquin. Although Algonquin 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 not be changed in the future or that Canada Revenue Agency (“**CRA**”) will agree with this position. If Algonquin ceases to qualify as a mutual fund trust, the return to Unitholders may be adversely affected.

Algonquin will be deemed not to be a mutual fund trust if it can be reasonably considered that Algonquin, having regard to all the circumstances, was established or maintained primarily for the benefit of non-resident persons. On September 16, 2004, the Minister of Finance released certain proposals (the “**September 2004 Proposals**”) that a trust, such as Algonquin, would lose its status as a mutual fund trust under the Tax Act if, at any time, the aggregate fair market value of all of its issued and outstanding units held by one or more non-resident persons and/or by partnerships which are not Canadian partnerships under the Tax Act, is more than 50% of the aggregate fair market value of all issued and outstanding units of the trust, unless no more than 10% (based on fair market value) of the trust’s property at any time is taxable Canadian property and certain other types of specified property. These proposals did not provide any means of rectifying the loss of mutual fund trust status. On December 6, 2004, the Minister of Finance suspended implementation of these proposals pending further consultation with the private sector. Bill C-52, which received Royal Assent on June 22, 2007, amended the Tax Act to provide that a trust will be deemed not to be a mutual fund trust after any time when it can reasonably be considered that the trust was established or maintained primarily for the benefit of non-resident persons, unless at that time all or substantially all of its property is property other than taxable Canadian property. It is not clear whether this amendment supersedes the September 2004 Proposals.

On June 22, 2007, Bill C-52 was enacted, which included legislation to impose a tax on certain income distributed to Unitholders by certain publicly traded income trusts and partnerships (the “**SIFT Rules**”). The SIFT Rules apply to “specified investment flow-throughs” (“**SIFTs**”) which includes trusts resident in Canada whose units are listed or traded on a stock exchange or other public market if the trust holds one or more “non-portfolio properties”.

Pursuant to SIFT Rules, Algonquin will constitute a SIFT trust. Management has concluded that Algonquin would have been a SIFT trust on October 31, 2006 had the SIFT Rules been in force on that date. Therefore, pursuant to the applicable grandfathering rules therein, the SIFT Rules will not apply to Algonquin until the earlier of its first taxation year that ends in 2011 or its transition

year which includes the first day after December 15, 2006 on which Algonquin exceeds normal growth guidelines (the “**Guidelines**”) issued by the Department of Finance on December 15, 2006, revised on December 5, 2008 and as may be further amended from time to time. Provided Algonquin does not exceed normal growth as determined by the Guidelines, the SIFT Rules will apply to Algonquin starting with its 2011 taxation year. However, no assurances can be given that Algonquin will not become subject to the SIFT Rules prior to 2011 and loss of its grandfathered status could have a material and adverse impact on the value of the Trust Units.

Certain amendments to the SIFT Rules which were included in Bill C-10 received Royal Assent on March 12, 2009. These amendments include changes to SIFT definition to exclude trusts and partnerships whose equity is not publicly traded, and is wholly owned by a SIFT, a real estate investment trust, a taxable Canadian corporation, another entity meeting this test, or any combination of these types of entities. Algonquin has a subsidiary partnership that may not meet this ownership requirement and therefore this entity may be subject to SIFT tax commencing in 2011, or earlier if it exceeds its normal growth guidelines.

Once the SIFT Rules apply, Algonquin will be subject to tax in respect of non-portfolio earnings which it distributes at a rate intended to approximate the general corporate tax rate. Any non-portfolio earnings distributed by Algonquin will be taxable to the Unitholder as if the distribution were a taxable dividend from a taxable Canadian corporation and will be deemed to be an “eligible dividend” eligible for the enhanced gross-up and tax credit. Dividend income and income received directly from foreign sources is excluded from the definition of non-portfolio earnings and therefore will not be taxable in Algonquin.

When the SIFT Rules apply to Algonquin, the imposition of tax under the SIFT Rules could materially reduce Algonquin’s after tax earnings.

Although Algonquin is of the view that all expenses being claimed by Algonquin are reasonable and that the cost amount of Algonquin’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.

On October 31, 2003, the Department of Finance released, for public consultation, draft proposed amendments (the “**October 2003 Proposals**”) to the Tax Act that would require, for taxation years commencing after 2004, that there be a reasonable expectation of profit from a business or property for a taxpayer to realize a loss from such business or property, and that makes it clear that a profit for this purpose does not include capital gains. On February 23, 2005, the Minister

of Finance announced that the Department of Finance is developing an alternative to the October 2003 Proposals which will be released for comment in the near future. Such alternative proposal has not yet been released. The October 2003 Proposals could affect Algonquin's ability to deduct its expenses, although Algonquin does not expect to be adversely affected by the October 2003 Proposals.

## Critical Accounting Estimates

Algonquin prepared its Consolidated Financial Statements in accordance with GAAP. An understanding of Algonquin's accounting policies is necessary for a complete analysis of results, financial position, liquidity and trends. Refer to Note 1 to the Consolidated Financial Statements for additional information on accounting principles. The Consolidated Financial Statements are presented in Canadian dollars rounded to the nearest thousand, except per unit amounts and except where otherwise noted.

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions relating to reported amounts of revenue and expenses, reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Algonquin regularly evaluates the assumptions and estimates that are used in the preparation of Algonquin's Consolidated Financial Statements. Estimates and assumptions used by management are based on past experience and other factors deemed reasonable in the circumstances. Since these estimates and assumptions involve varying degrees of judgment and uncertainty, the amounts reported in the financial statements could in the future prove to be inaccurate.

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

Algonquin records as other liabilities amounts received by Utility Services which relate to advances from developers for water distribution and water reclamation main extensions received. These advances usually carry repayment terms based on the revenue generated by the development in question ranging over a specified period of time. At the end of the payment term, the unpaid portion of the advance converts to contribution in aid of construction and is not required to be repaid to the developer. The amount recorded as other liabilities is based on Algonquin's expected repayments as determined by historical experience and industry practice.

Estimates are also made related to the useful life of long-lived assets. These estimates are used to determine amortization expense. Estimates of an asset's useful life are based on past experience with similar assets taking into account technological or other changes. If these estimates prove to be inaccurate, management may have to shorten the anticipated useful life of the assets recorded in the financial statements resulting in higher amortization expense in future periods or possibly an impairment charge to reflect the write-down in the value of the asset.

Algonquin also regularly assesses whether there has been an impairment to long term investments, notes receivable, capital and intangible assets, and recoverability of future tax assets based on circumstances that may indicate Algonquin will not be able to recover the assets entire carrying value. Should impairment be deemed to have occurred, Algonquin would reduce the carrying value of that asset in the financial statements and deduct this amount from earnings. Algonquin cannot predict future events that could create impairment, or how future events might affect the carrying value of the assets' values reported in the financial statements.

## Quarterly Financial Information

The following is a summary of unaudited quarterly financial information for the two years ended March 31, 2009.

<b>Millions of dollars (except per trust unit amounts)</b>	<b>2nd Quarter 2008</b>	<b>3rd Quarter 2008</b>	<b>4th Quarter 2008</b>	<b>1st Quarter 2009</b>
Revenue	\$ 54.2	\$ 55.1	\$ 56.5	\$ 52.2
Net earnings /(loss)	8.0	(4.4)	(21.1)	4.2
Net earnings / (loss) per trust unit	0.10	(0.06)	(0.27)	0.05
Total Assets	951.1	962.7	977.0	974.2
Long term debt*	469.6	460.9	462.9	457.6
Distribution per trust unit	0.23	0.23	0.06	0.06
	<b>2nd Quarter 2007</b>	<b>3rd Quarter 2007</b>	<b>4th Quarter 2007</b>	<b>1st Quarter 2008</b>
Revenue	\$ 47.8	\$ 46.5	\$ 44.3	\$ 48.0
Net earnings from continuing operations	(2.6)	13.0	7.5	(1.6)
Net earnings	(2.3)	12.2	7.6	(1.6)
Net earnings from continuing operations per trust unit	(0.04)	0.17	0.12	(0.02)
Net earnings per trust unit	(0.03)	0.16	0.10	(0.02)
Total Assets	1,049.0	1,024.1	954.1	949.6
Long term debt*	410.0	421.0	445.1	460.6
Distribution per trust unit	0.23	0.23	0.23	0.23

\* Long term debt includes long term liabilities, convertible debentures and other long term obligations

The quarterly results are impacted by various factors including seasonal fluctuations and acquisitions of facilities as noted in this MD&A.

Quarterly revenues have fluctuated between \$44.3 million and \$56.5 million over the prior two year period. A number of factors impact quarterly results including seasonal fluctuations, hydrology and winter and summer rates built into the PPAs. There are two additional significant factors impacting revenues year over year. The fluctuation in the strength of the Canadian dollar has resulted in significant changes in reported revenue from U.S. operations, as well as realized gains on financial instruments were recorded as revenue in the comparable quarters of 2007. Additionally, revenue has generally trended up due to facility acquisitions, including the St. Leon wind facility in September 2006, and organic growth in the Utility Services business unit.

Quarterly net earnings have fluctuated between net earnings of \$13.0 million and a net loss of \$21.1 million over the prior two year period. Recent earnings have been significantly impacted by non-cash factors such as future tax expense due to the enactment of Bill C-52 and gains and losses on financial instruments due to Algonquin's adoption of Section 3855 and the discontinuation of hedge accounting under Section 3865.

## Changes in Accounting Policies

Algonquin's accounting policies are described in Note 1 to the Consolidated Financial Statements for the quarter ended March 31, 2009. There have been no changes to the critical accounting policies as disclosed in Algonquin's audited Consolidated Financial Statements for the quarter ended March 31, 2009 except as disclosed below.

### *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

Effective January 1, 2009, Algonquin has adopted EIC 173, Credit Risk and Fair Value of Financial Assets and Financial Liabilities, which clarifies that the credit risk of counterparties should be taken into account in determining the fair value of derivative instruments. EIC 173 has been applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value for the period ended March 31, 2009. The impact of adopting EIC 173 was a decline of \$2,542 to the recorded amount of the financial derivative liability and an increase of \$494 in future income tax liability at December 31, 2008 and a \$2,048 decrease in deficit. The impact of the change from December 31, 2008 to March 31, 2009 was not material.

### *Goodwill and Intangible Assets*

Effective January 1, 2009, Algonquin has adopted the CICA Handbook Section 3064, Goodwill and intangible assets. Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the

recognition criteria. This section also provides further information on the recognition of internally generated intangible assets. As for subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062, Goodwill and Other Intangible Assets.

Section 3064 was adopted retrospectively and prior periods have been restated to reflect the change. Costs related to deferred rate cases in the Utilities division were determined to not meet the definition of an intangible asset and the recognition criteria of Section 3064. The impact as at January 1, 2008 was a decrease in other assets of \$1,093 with a corresponding increase in deficit. Effects on earnings in the periods ended March 31, 2009 and March 31, 2008 were not material.

### *Future Accounting Changes not yet Adopted*

#### *Consolidated Financial Statements*

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. Earlier adoption is permitted. Algonquin is currently evaluating the impact of adopting this standard on its consolidated financial statements.

#### *Non-Controlling Interests*

In January 2009, the CICA issued Handbook Section 1602, Non-Controlling Interests, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for 2011. Earlier adoption is permitted. Algonquin is currently evaluating the impact of adopting this standard on its consolidated financial statements.

#### *Business combinations*

In January 2009, the CICA issued Handbook Section 1582, Business combinations, which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with

acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Algonquin is currently evaluating the impact of adopting this standard on its consolidated financial statements.

#### *Changeover to International Financial Reporting Standards*

In 2011, Algonquin is required to change the accounting framework under which financial statements are prepared in Canada to International Financial Reporting Standards (“IFRS”). For the quarter ended March 31, 2011, Algonquin will report quarterly comparative financial information using IFRS. The exact impact on Algonquin’s financial statements of moving to IFRS is not completely known at this time; however, one area of potential change may involve the valuation of property, plant and equipment on the balance sheet. Experience in other jurisdictions has shown that earnings may tend to become more volatile and there will be an increase in the volume and complexity of financial disclosures.

In this regard, Algonquin is currently developing a conversion plan in order to ensure that it is prepared for the conversion and to minimize any disruption the conversion may cause. We note that this conversion plan is subject to change as a result of ongoing and subsequent changes to IFRS standards and interpretations. Algonquin’s key personnel have received and will continue to invest in various training courses with regards to IFRS rules and the impact it will have on Algonquin’s reporting requirements. In addition, Algonquin has initiated a high level diagnostic and qualitative assessment of its operations in order to identify the main areas where IFRS conversion will have the largest impact on Algonquin and considers the difficulties surrounding the application of IFRS. Algonquin is currently looking to hire a specialist to co-ordinate and manage the changeover process. Once the training has been completed, a more detailed conversion plan will be developed.

With regards to the impact of IFRS on Algonquin’s banking and other financial covenants, Algonquin’s senior secured revolving operating and acquisition credit facilities mature on January, 14, 2011. Accordingly, Algonquin will be in a position to review and amend any financial covenants impacted by IFRS during the renewal process.

Algonquin’s Audit Committee is involved with this process and will be provided formal updates on a quarterly basis and as required.

# Consolidated Balance Sheets

(Unaudited) (thousands of Canadian dollars)

March 31, 2009    December 31, 2008  
(restated see note 2)

## ASSETS

### Current assets:

Cash	\$	866	\$	5,902
Accounts receivable		28,371		26,600
Prepaid expenses		2,423		2,832
Income tax receivable		1,561		1,538
Current portion of notes receivable		490		485

Long-term investments and notes receivable

Future non-current income tax asset

Property, plant and equipment

Intangible assets

Restricted cash

Deferred financing costs

Other assets (note 2)

	\$	974,216	\$	977,037
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## LIABILITIES AND UNITHOLDERS' EQUITY

### Current liabilities:

Accounts payable and accrued liabilities	\$	34,119	\$	34,074
Distributions payable		1,587		1,587
Current portion of long-term liabilities		4,481		4,236
Current portion of derivative liabilities (note 8)		10,508		8,438
Current income tax liability		628		541
Future income tax liability		1,133		1,191

Long-term liabilities

Convertible debentures

Other long-term liabilities

Future non-current income tax liability (note 2)

Derivative liabilities (notes 2 and 8)

Non controlling interest

Unitholders' equity:

Trust units (note 3)		725,374		722,215
Deficit		(358,370)		(358,904)
Accumulated other comprehensive income / (loss)		(17,170)		(22,535)

		349,834		340,776
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Commitments and contingencies

\$	974,216	\$	977,037
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See accompanying notes to consolidated financial statements

Approved by the Trustees

(signed) George Steeves

(signed) Ken Moore

## Consolidated Statement of Deficit

(Unaudited) (thousands of Canadian dollars)

	Three months ended March 31,	
	2009	2008
		(restated see note 2)
Balance, beginning of period	\$ (358,904)	\$ (283,820)
Changes in accounting policies (note 2)	955	(1,093)
Balance, beginning of period as restated	(357,949)	(284,913)
Net earnings / (loss)	4,243	(1,554)
Distributions	(4,664)	(16,938)
Balance, end of period	\$ (358,370)	\$ (303,405)

See accompanying notes to consolidated financial statements

## Consolidated Statements of Comprehensive Income / (Loss) and Accumulated Other Comprehensive Income / (Loss)

(Unaudited) (thousands of Canadian dollars)

	Three months ended March 31,	
	2009	2008
		(restated see note 2)
<b>Net earnings / (loss)</b>	\$ 4,243	\$ (1,554)
Other comprehensive income (loss):		
Forward exchange contracts settled in the period	(684)	(1,077)
Translation of self sustaining foreign operations	4,956	(3,155)
Other comprehensive income (loss)	4,272	(4,232)
Total comprehensive income / (loss)	\$ 8,515	\$ (5,786)
<b>Accumulated other comprehensive income / (loss):</b>		
Balance, beginning of the period	\$ (21,442)	\$ (43,890)
Other comprehensive income / (loss)	4,272	(4,232)
Balance, end of the period	\$ (17,170)	\$ (48,122)

See accompanying notes to consolidated financial statements

# Consolidated Statements of Operations

(Unaudited) ( thousands of Canadian dollars, except per unit amounts)

	Three months ended March 31,	
	2009	2008
	(restated see note 2)	
<b>Revenue:</b>		
Energy sales	\$ 37,502	\$ 35,910
Waste disposal fees	3,683	3,715
Water reclamation and distribution	9,672	7,504
Other revenue	1,308	847
	<b>52,165</b>	<b>47,976</b>
<b>Expenses</b>		
Operating	29,562	25,493
Amortization of property, plant and equipment	9,829	8,623
Amortization of intangible assets	1,838	1,804
Management costs (note 4)	213	222
Administrative expenses	2,387	2,046
Loss on foreign exchange	577	351
	<b>44,406</b>	<b>38,539</b>
<b>Earnings before undernoted</b>		
	<b>7,759</b>	<b>9,437</b>
Interest expense	5,513	7,130
Interest, dividend income and other income	(1,111)	(1,429)
Loss on derivative financial instruments (note 8)	3,498	5,119
	<b>7,900</b>	<b>10,820</b>
<b>Loss from operations before income taxes and minority interest</b>		
	<b>(141)</b>	<b>(1,383)</b>
<b>Income tax expense (recovery)</b>		
Current	201	307
Future	(5,193)	884
	<b>(4,992)</b>	<b>1,191</b>
Minority interest in earnings (loss) of subsidiaries	608	(1,020)
<b>Net earnings / (loss)</b>	<b>\$ 4,243</b>	<b>\$ (1,554)</b>
Basic net earnings / (loss) per trust unit (note 5)	<b>\$ 0.05</b>	<b>\$ (0.02)</b>
Diluted net earnings / (loss) per trust unit (note 5)	<b>\$ 0.05</b>	<b>\$ (0.02)</b>
See accompanying notes to consolidated financial statements		

# Consolidated Statements of Cash Flows

(Unaudited) ( thousands of Canadian dollars )

	Three months ended March 31,	
	2009	2008
	(restated see note 2)	
<b>Cash provided by (used in):</b>		
<b>Operating Activities:</b>		
Net earnings / (loss)	\$ 4,243	\$ (1,554)
Items not affecting cash:		
Amortization of property, plant and equipment	9,829	8,623
Amortization of intangible assets	1,838	1,804
Other amortization	261	300
Distributions received in excess of equity income	841	253
Future income taxes	(5,193)	884
Unrealized loss on derivative financial instruments	1,919	7,284
Minority interest	608	(1,020)
Unrealized foreign exchange loss on long term debt	771	582
	<b>15,117</b>	<b>17,156</b>
Changes in non-cash operating working capital	<b>(1,414)</b>	<b>(2,444)</b>
	<b>13,703</b>	<b>14,712</b>
<b>Financing Activities:</b>		
Cash distributions (note 6)	<b>(4,664)</b>	(16,938)
Cash distributions to non-controlling interest (notes 4 and 6)	<b>(259)</b>	(543)
Trustee loans	6	(225)
Deferred financing costs	<b>(17)</b>	(260)
Increase in long term liabilities	<b>2,500</b>	15,000
Decrease in long term liabilities	<b>(10,920)</b>	(1,227)
Increase in other long term liabilities	5	-
	<b>(13,349)</b>	<b>(4,193)</b>
<b>Investing Activities:</b>		
Decrease / (increase) in restricted cash	<b>69</b>	1,023
Decrease/ (increase) in other assets	<b>(1)</b>	134
Receipt of principal on notes receivable	<b>164</b>	269
Increase in long term investments	-	(76)
Net additions to property, plant and equipment	<b>(5,654)</b>	(12,950)
Acquisitions of operating entities	-	(279)
	<b>(5,422)</b>	<b>(11,879)</b>
Effect of exchange rate differences on cash	<b>32</b>	211
Decrease in cash	<b>(5,036)</b>	<b>(1,149)</b>
Cash, beginning of the period	<b>5,902</b>	10,361
Cash, end of the period	<b>\$ 866</b>	\$ 9,212
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for interest expense	<b>\$ 5,910</b>	\$ 7,509
Cash paid during the period for income taxes	<b>\$ 118</b>	\$ 234

See accompanying notes to consolidated financial statements

# Notes to the Unaudited Interim Consolidated Financial Statements

Three month period ended March 31, 2009 and 2008 (in thousands of Canadian dollars except as noted and per trust unit)

## 1. Basis of presentation:

These unaudited interim consolidated financial statements of Algonquin Power Income Fund (“Algonquin”) should be read in conjunction with the audited consolidated financial statements of Algonquin for the year ended December 31, 2008, as set out in Algonquin’s 2008 annual report. The notes presented in these unaudited interim consolidated financial statements include only significant changes and transactions occurring since Algonquin’s last year end, and are not fully inclusive of all disclosures required by Canadian generally accepted accounting principles for annual financial statements.

Algonquin’s operating results are subject to seasonal fluctuations that materially impact quarter-to-quarter operating results and, thus, one quarter’s operating results are not necessarily indicative of a subsequent quarter’s operating results. Algonquin’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. Algonquin’s water and wastewater utility assets revenues fluctuate depending on demand for water. During drier, hotter periods of the year which occurs generally in the summer demand for water is generally higher than during cooler, wetter periods of the year.

These unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the 2008 annual financial statements, except for the adoption of new accounting standards described in note 2.

## 2. Adoption of New Accounting Standards

CICA Section 3064 – Goodwill and intangible assets

Effective January 1, 2009, Algonquin has adopted the CICA Handbook Section 3064, Goodwill and intangible assets. Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. This section also provides further information on the recognition of internally generated intangible assets. As for subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062, Goodwill and Other Intangible Assets.

Section 3064 was adopted retrospectively and prior periods have been restated to reflect the change. Costs related to deferred rate cases in the Utilities division were determined to not meet the definition of an intangible asset and the recognition criteria of Section 3064. The impact as at January 1, 2008 was a decrease in other assets of \$1,093 with a corresponding increase in deficit. Effects on earnings in the periods ended March 31, 2009 and March 31, 2008 were not material.

Effective January 1, 2009, Algonquin has adopted EIC 173, Credit Risk and Fair Value of Financial Assets and Financial Liabilities, which clarifies that the credit risk of counterparties should be taken into account in determining the fair value of derivative instruments. EIC 173 has been applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value for the period ended March 31, 2009. The impact of adopting EIC 173 was a decline of \$2,542 to the recorded amount of the financial derivative liability and an increase of \$494 in future income tax liability at December 31, 2008 and a \$2,048 decrease in deficit. The impact of the change from December 31, 2008 to March 31, 2009 was not material.

## 3. Trust Units

Trust Units consist of the following:

	Three months March 31, 2009	Three months March 31, 2008
Balance of Trust units, beginning of period	\$ 721,953	\$ 691,734
Issued on conversion of Algonquin (AirSource) Power LP exchangeable units	3,153	818
Balance of Trust Units, end of period	725,106	692,552

	Three months March 31, 2009	Three months March 31, 2008
Trustee Loans	(211)	-
Equity component of convertible debentures	479	479
Trust Units	\$ 725,374	\$ 693,031

#### Number of trust units

	Three months March 31, 2009	Three months March 31, 2008
Trust units, beginning of period	77,574,372	73,644,356
Issued on conversion of Algonquin (AirSource) Power LP exchangeable units	331,737	88,075
Trust units, end of period	77,906,109	73,732,431

#### 4. Related party transactions

Algonquin is managed by Algonquin Power Management Inc. ("APMI") which provides management services including advice and consultation concerning business planning, support, guidance and policy making and general management services. An entity owned by the majority of the shareholders of APMI is the general partner of Algonquin Airlink Limited Partnership and is the general partner of Algonquin Property LP which leases the corporate office to Algonquin. Green Wing Algonquin Power Development Inc ("GWAP") is an entity majority owned by APMI which provides construction services. Collectively these entities are called the Algonquin Power Group.

For the three months ended March 31, 2009, APMI was paid on a cost recovery basis for all costs incurred and charged \$213 (2008 - \$222).

As part of the project to re-power the Sanger facility, Algonquin entered into an agreement with APMI to undertake certain construction management services on the project. APMI is entitled to a development supervision fee plus a contingency fee for its construction management role on the project. During the three month period ended March 31, 2009, APMI was paid \$nil (2008 - \$15).

Algonquin 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 three month period ended March 31, 2009 were \$82 (2008 - \$74).

Algonquin utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of APMI. During the three month period ended March 31, 2009, Algonquin incurred costs in connection with the use of the aircraft of \$80 (2008 - \$60) and amortization expense related to the advance against expense reimbursements of \$56 (2008 - \$33).

In accordance with the construction services agreement related to the St. Leon facility, GWAP, a company controlled by APMI, was paid \$nil (2008 - \$134) during the three month period ended March 31, 2009 for construction services.

Pursuant to the St. Leon Limited Partnership Agreement, in 2006, St. Leon Wind Energy LP ("St. Leon LP"), a subsidiary of Airsource and the legal owner of the St. Leon facility, was required to issue 100 Class B units to GWAP. The holders of the Class B Units are entitled to 2.5% of the income allocations and cash distributions from St. Leon LP for a 5 year period commencing after June 17, 2008, two years after the date the facility achieved commercial operations pursuant to the PPA. Such income allocations and cash distributions shall be increased by 2.5% for each successive 5 year period, to a maximum of 10.0%. In any particular period, cash distributions to the holders of the Class B Units are only to be made after distributions have been made to the other partners, in an aggregate amount, equal to the debt service on the outstanding debt in respect of such period. The holders of the Class B units are entitled to cash distributions of \$148 during the three month ended March 31, 2009 (2008 - \$nil).

On March 10, 2008, Algonquin advanced \$225 to the Trustees for purposes of enabling the Trustees to purchase additional Units of Algonquin. The loans are subject to promissory notes issued in favour of Algonquin which are payable upon demand, currently bear interest at 2% per annum, and are recorded as a reduction in Trust Units on the consolidated balance sheet. During the three months ended March 31, 2009 a principal repayment of \$6 was made (2008 - \$nil).

Pursuant to the Highground transaction that occurred on June 27, 2008 between Algonquin, Highground and CJIG, APMI was entitled to a fee of approximately \$240 which was recorded in 2008. This amount is included in accounts payable on the consolidated balance sheet as of March 31, 2009.

APMI is entitled to 50% of the cash flow above 15% return on investment for the BCI project pursuant to its project management contract. During the three months ended March 31, 2009 and 2008, no amounts were paid under this agreement. In 2008, APMI earned a construction supervision fee of \$100 in relation to the development of this project as of March 31, 2009 this amount is accrued and included in accounts payable on the consolidated balance sheet as of March 31, 2009.

#### 5. Basic and diluted net earnings per trust unit

Basic and diluted earnings per trust unit have been calculated on the basis of the weighted average number of units outstanding during the period. The weighted average number of units outstanding during the period are as follows:

	Three months March 31, 2009	Three months March 31, 2008
Weighted average trust units – basic	77,697,846	73,689,639
Trust units issuable on conversion of exchangeable units	1,916,065	2,427,119
Weighted average trust units – diluted	<u>79,613,911</u>	<u>76,116,758</u>

Trust units issuable on conversion of exchangeable units are calculated based on the weighted average exchangeable units outstanding during the period at the period end exchange rate. Since there was a loss in the period ended March 31, 2008, the effect of the exchangeable units was not dilutive.

Units potentially issuable on the conversion of the convertible debentures are anti-dilutive and are not included in the calculation of diluted weighted average units for the three months ended March 31, 2009 and 2008.

#### 6. Cash distributions

Distributions are declared to Unitholders of record on the last day of the month and are distributed 15 days after declaration. The monthly distribution in 2009 was \$0.02 per trust unit for each month for a total of \$0.06 for the three months ended March 31, 2009 (\$0.076 per trust unit per month and a total of \$0.23 for the first quarter of 2008). Total distributions for the three months ended March 31, 2009 were \$4,664 (2008 - \$16,938).

Total distributions to the Unitholders of the Algonquin (Airsourc) Power LP exchangeable units for the three months ended March 31, 2009 were \$110 (2008 - \$543) which have been recorded as a reduction in non controlling interest on the unaudited consolidated Balance Sheet.

All cash distributions of Algonquin are made on a discretionary basis as determined by the Trustees of Algonquin.

#### 7. Segmented Information

Algonquin identifies two business categories it operates in: Power Generation & Development, and Utility Services. The Power Generation & Development business unit develops and operates a portfolio of electrical energy generation facilities. Within this business unit there are three divisions: Renewable Energy, Thermal Energy and Development. The Renewable Energy division operates the Company's hydro-electric and wind power facilities. Thermal Energy division operates co-generation, energy from waste, steam production and other thermal facilities. The Development division develops Algonquin's greenfield power generation projects as well as any expansion of Algonquin's existing portfolio of renewable energy and thermal energy facilities.

The Utility Services business unit provides transportation and delivery of water and wastewater in its service areas.

The operations and assets for these segments are as follows:

##### Geographic Segments

Algonquin and its subsidiaries operate in the independent power and utility industries in both Canada and the United States. Information on operations by geographic area is as follows:

	Three months March 31, 2009	Three months March 31, 2008
Revenue		
Canada	\$ 21,852	\$ 20,502
United States	<u>30,313</u>	<u>27,474</u>
	\$ 52,165	\$ 47,976
Capital assets		
Canada	\$ 457,772	\$ 465,258
United States	<u>350,009</u>	<u>299,498</u>
	\$ 807,781	\$ 764,756
Intangible assets		
Canada	\$ 51,375	\$ 55,002
United States	<u>45,074</u>	<u>42,015</u>
	\$ 96,449	\$ 97,017
Other assets		
Canada	\$ 795	\$ 1,342
United States	<u>1,006</u>	<u>139</u>
	\$ 1,801	\$ 1,481

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

#### Reporting segments

The reporting segments are Renewable Energy, Thermal Energy and Utility Services. The development activities are reported under Renewable Energy or Thermal Energy as appropriate. For purposes of evaluating divisional performance, Algonquin allocates the realized portion of the gain on financial instruments to specific divisions. This allocation is determined when the initial foreign exchange forward contract is entered into. The unrealized portion of any gains or losses on derivatives instruments is not considered in management's evaluation of divisional performance and is therefore allocated and reported in the corporate segment. Interest expense is allocated to the divisions based on the project level debt related to the facilities in each division. Interest expense on the revolving credit facility and convertible debentures is reported in the corporate segment. The interest rate swaps relate to specific debt facilities and gains and losses are allocated in the same manner as interest expense.

The operations and assets for these segments are as follows:

## Three months ended March 31, 2009

	Power Generation & Development			Utility	Corporate	Total
	Renewable	Thermal	Total	Services		
	Energy	Energy				
<b>Revenue</b>						
Energy sales	\$ 18,964	\$ 18,538	\$ 37,502	\$ -	\$ -	\$ 37,502
Waste disposal fees	-	3,683	3,683	-	-	3,683
Water reclamation and distribution	-	-	-	9,672	-	9,672
Other revenue	-	1,308	1,308	-	-	1,308
Total revenue	18,964	23,529	42,493	9,672	-	52,165
<b>Operating expenses</b>						
	5,312	18,144	23,456	6,106	-	29,562
	13,652	5,385	19,037	3,566	-	22,603
Other administration costs	(73)	(20)	(93)	-	(2,507)	(2,600)
Foreign exchange loss	-	-	-	-	(577)	(577)
Interest expense	(1,625)	(143)	(1,768)	(434)	(3,311)	(5,513)
Interest, dividend and other income	244	864	1,108	-	3	1,111
Gain / (loss) on						
derivative financial instruments	(210)	(379)	(589)	(131)	(2,778)	(3,498)
Amortization of property,						
plant and equipment	(4,195)	(3,304)	(7,499)	(2,330)	-	(9,829)
Amortization of intangible assets	(658)	(972)	(1,630)	(208)	-	(1,838)
Net earnings / (loss) before income taxes,						
minority interest and						
comprehensive income	7,135	1,431	8,566	463	(9,170)	(141)
Property, plant and equipment	\$ 407,486	\$ 189,614	\$ 597,100	\$ 210,681	\$ -	\$ 807,781
Intangible assets	32,597	33,381	65,978	30,471	-	96,449
Total assets	459,099	264,342	723,441	248,044	2,731	974,216
Capital expenditures	298	1,054	1,352	4,302	-	5,654
Acquisition of operating entities	-	-	-	-	-	-

## Three months ended March 31, 2008

	Power Generation & Development			Utility	Corporate	Total
	Renewable	Thermal	Total	Services		
	Energy	Energy				
Revenue						
Energy sales	\$ 19,829	\$ 16,081	\$ 35,910	\$ -	\$ -	\$ 35,910
Waste disposal fees	-	3,715	3,715	-	-	3,715
Water reclamation and distribution	-	-	-	7,504	-	7,504
Other revenue	-	847	847	-	-	847
Total revenue	19,829	20,643	40,472	7,504	-	47,976
Operating expenses	4,930	16,185	21,115	4,378	-	25,493
	14,899	4,458	19,357	3,126	-	22,483
Other administration costs	(82)	(76)	(158)	(66)	(2,044)	(2,268)
Foreign exchange loss	-	-	-	-	(351)	(351)
Interest expense	(2,358)	(263)	(2,621)	(192)	(4,317)	(7,130)
Interest, dividend and other income	343	1,009	1,352	47	30	1,429
Gain / (loss) on						
derivative financial instruments	(2,743)	1,177	(1,566)	926	(4,479)	(5,119)
Amortization of property,						
plant and equipment	(3,996)	(3,162)	(7,158)	(1,465)	-	(8,623)
Amortization of intangible assets	(641)	(984)	(1,625)	(179)	-	(1,804)
Net earnings / (loss) before income taxes,						
minority interest and						
comprehensive income	5,422	2,159	7,581	2,197	(11,161)	(1,383)
Property, plant and equipment	\$ 420,718	\$ 195,882	\$ 616,600	\$ 148,156	\$ -	\$ 764,756
Intangible assets	34,262	37,304	71,566	25,451	-	97,017
Total assets	479,330	277,208	756,538	180,655	12,443	949,636
Capital expenditures	500	3,642	4,142	8,757	51	12,950
Acquisition of operating entities	-	-	-	279	-	279

**8. Derivative instruments***a) Foreign Currency Risk*

The Company uses a combination of foreign exchange forward contracts and spot purchases to manage its foreign exchange exposure on cash flows generated from operations. Algonquin only enters into foreign exchange forward contracts with major Canadian financial institutions, thus reducing credit risk on these forward contracts. As at March 31, 2009, Algonquin had U.S. \$107,848 in outstanding foreign exchange forward contracts carrying an average rate of \$1.064. At March 31, 2009, the fair value of the foreign exchange forward contracts was a \$18,363 liability.

*b) Interest Rate Risk*

The Company is exposed to interest rate fluctuations related to certain of its debt obligations, including certain project specific debt and its revolving credit facility.

Algonquin's project debt at the St. Leon facility has a balance of \$71,717 as at March 31, 2009. The Company has

entered into a fixed for floating interest rate swap related to this debt covering the period to September 2015. At March 31, 2009, the fair value of the interest rate swap was a \$9,975 liability.

Algonquin's senior revolving credit facility has a balance of \$129,500 as at March 31, 2009. The Company has entered into a fixed for floating interest rate swap related to \$100,000 of this debt covering the period to December 2010. At March 31, 2009, the fair value of this interest rate swap was a \$5,277 liability.

As of March 31, 2009, the fair values of derivatives liabilities are as follows:

	March 31, 2009	December 31, 2008
<b>Derivative liabilities:</b>		
Interest Rate SWAP – St Leon	\$ 9,975	\$ 11,288
Interest Rate SWAP – revolving credit facility	5,277	5,531
Foreign exchange forward contracts	18,363	16,735
	\$ 33,615	\$ 33,554
Less: current portion	(10,508)	(8,438)
<b>Total long term derivative liabilities</b>	<b>\$ 23,107</b>	<b>\$ 25,116</b>

Loss on derivative financial instruments consist of the following:

	Three months March 31, 2009	Three months March 31, 2008
Unrealized loss on derivative financial instruments:		
Foreign exchange contracts	\$ 2,317	\$ 4,478
Interest swaps	(398)	2,806
Total unrealized loss on derivative financial instruments	\$ 1,919	\$ 7,284
Realized loss/(gain) on derivative financial instruments:		
Foreign exchange contracts	\$ 510	\$ (2,103)
Interest rate swaps	1,069	(62)
Total realized loss/(gain) on derivative financial instruments	\$ 1,579	\$ (2,165)
Loss on derivative financial instruments	\$ 3,498	\$ 5,119

#### 9. Subsequent event

On April 23, 2009, Algonquin announced that it plans to co-acquire an electrical generation and regulated distribution utility through a strategic partnership with Emera Inc. ("Emera"). Algonquin and Emera will each own 50% of the newly formed California Pacific Electric Company ("California Pacific"), which intends to acquire the California-based electricity distribution and related generation assets (the "California Utility") of NV Energy, Inc. for the purchase price of approximately US \$116 million, subject to certain working capital and other closing adjustments. Algonquin and Emera will jointly own and operate the California Utility through California Pacific. The California Utility currently provides electric distribution service to approximately 47,000 customers in the Lake Tahoe region. The transaction is subject to state and federal regulatory approval, and is expected to occur in mid 2010.

As an element of the California Utility strategic partnership, Emera has also agreed to a treasury subscription of approximately 8.5 million trust units of Algonquin at a price of \$3.25 per unit, completed by way of subscription receipt. Delivery of the trust units under the subscription receipts is planned to occur simultaneously with the closing of the acquisition of the California Utility.

#### 10. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

## **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

## **The Management Group**

### **Algonquin Power Management Inc.**

Chris K. Jarratt, Chief Executive Officer and Director  
David C. Kerr, Director  
Ian E. Robertson, Director

### **Algonquin Power Income Fund**

David Bronicheski, Chief Financial Officer

## **Head Office**

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Website: [www.algonquinpower.com](http://www.algonquinpower.com)

## **Registrar and Transfer Agent**

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

## **Annual & Special Meeting**

June 29, 2009, 4:00 p.m.  
Blake, Cassels & Graydon LLP  
199 Bay Street, Floor 23, Toronto, Ontario

## **Stock Exchange**

The Toronto Stock Exchange: APF.UN, APF.DB, APF.DB.A

## **Auditors**

KPMG LLP  
Toronto, Ontario

## **Legal Counsel**

Blake, Cassels & Graydon LLP  
Toronto, Ontario

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