



Additional Information for the Second Quarter of 2006

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

Algonquin Power Income Fund (the “Fund”) has prepared the following information to assist its unitholders’ understanding of the financial results for the six months ended June 30, 2006. This information is supplemental to and should be read in conjunction with the Fund’s unaudited interim consolidated financial statements for the six months ended June 30, 2006 as well as the audited consolidated financial statements and the related Management’s Discussion and Analysis contained in the 2005 Annual Report.

This document is based on information available to management as of August 8, 2006.

Forward-Looking Disclaimer

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

Key Financial Information

(C\$000)	Three Months ended		Six Months ended	
	June 30		June 30	
	2006	2005	2006	2005
Revenues	47,096	45,016	96,569	85,616
Net earnings	13,840	1,569	21,158	3,409
Distribution to unitholders	16,016	16,015	32,031	32,030
Cash available for distribution*	16,025	16,709	32,446	30,538
Per unit				
Net earnings	0.20	0.02	0.30	0.05
Distribution to unitholders	0.23	0.23	0.46	0.46
Cash available for distribution	0.23	0.24	0.47	0.44

* Non-GAAP measurement, see ‘Cash Available for Distribution’.

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

For the six months ended June 30, 2006, the Fund reported revenue of \$96.6 million compared to \$85.6 million during the same period of 2005. Revenue for the six months ended June 30, 2006 increased due to strong hydrology experienced in the Hydroelectric Division, the Fund’s decision to close the Sanger Facility for a six

month period and sell natural gas at favourable rates, combined with the reasons indicated in the discussion of the second quarter results above. A more detailed analysis of these factors is presented within the divisional analysis.

For the quarter ended June 30, 2006, the average US exchange rate dropped by approximately 10% from the same period of 2005 (a decline of approximately 8% for the six month period ended June 30, 2006). As such, any quarterly variance to revenue or expenses, in local currency, at any of the Fund's US entities may be distorted by a change in the average exchange rate, upon conversion to the Fund's reporting currency. Although the stronger Canadian dollar has an impact on both revenue and expenses generated by its US subsidiaries, the Fund has foreign exchange hedges in place, which partially mitigate the impact on cash available for distribution.

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

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

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

The Fund generated \$0.23 per trust unit of cash available for distribution for the quarter ended June 30, 2006, as compared to \$0.24 per trust unit during the same period of 2005. During the second quarter of 2006, the Fund maintained distributions at \$0.23 per trust unit, consistent with the same period of 2005. In the six months ended June 30, 2006, the Fund generated \$0.47 per trust unit of cash available for distribution compared to \$0.44 during the same period of 2005. The Fund distributed \$0.46 per trust unit, consistent with the same period of 2005.

The term 'cash available for distribution' is a calculation used to monitor the amount of cash generated by the Fund as compared to the amount of cash distributed by the Fund. The term 'cash available for distribution' is not a recognized measure under accounting principles generally accepted in Canada. The Fund's method of calculating 'cash available for distribution' may differ from methods used by other companies and accordingly may not be comparable to similar measures presented by other companies. A calculation and analysis of 'cash available for distribution' can be found later in this document.

Outlook

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

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

The Fund maintains continuous health and safety training for all its operations and maintenance staff. All of the Fund's facilities are in compliance in all material respects with local and federal environmental regulations.

Management will continue to further invest in information technology to reduce administrative costs by continuing the implementation of supply chain management systems and integrated billing and customer protocols.

In keeping with the emerging Ontario Securities Commission requirements, Management continues to move towards the completion of the review and documentation of its controls and procedures for annual certification of the financial statements.



HYDROELECTRIC DIVISION

(C\$000)	Three months ended June		Six Months ended June	
	2006	2005	2006	2005
Performance (MW-hrs sold)				
Quebec Region	87,313	82,343	156,073	131,964
Ontario Region	32,015	27,949	67,946	54,275
New England Region	23,997	28,589	48,788	51,362
New York Region	21,732	17,543	48,507	38,895
Western Region	18,956	<u>21,631</u>	<u>29,490</u>	<u>31,556</u>
Total	184,013	178,055	350,804	308,052
Revenues				
Energy sales	\$12,209	\$11,532	\$24,641	\$21,551
Expenses				
Operating expenses	\$(3,895)	\$(3,286)	\$(8,029)	\$(6,702)
Other income	439	202	867	323
Division operating profit (incl. other income)	\$8,753	\$8,448	\$17,479	\$15,172

For the quarter ended June 30, 2006, revenue in the Hydroelectric Division was \$12.2 million as compared to \$11.5 million during the same period of 2005. During the second quarter of 2006, the Hydroelectric Division generated electricity equal to 93% of long term averages or approximately 14,000 Mw-hrs below long term averages as compared to 92% during the same period of 2005. Hydrology in the Ontario region improved to 80% of long term average hydrology as compared to the same period of 2005, primarily due to improved hydrology at the Long Sault facility. Generated electricity in the New York region increased as compared to the same period of 2005 as a result of improved hydrology and the inclusion of 1,200 MW-hrs of production from the Beaver Falls facility, purchased in the third quarter of 2005. The increase in generated

electricity was the result of improved average hydrology experienced in the Quebec, Ontario and New York regions and a return to long term average hydrology in the New England and Western regions where the Fund operates hydroelectric facilities. The increase in revenue was a result of higher overall production. Increased revenue from the US facilities was partially offset by the effects of a stronger Canadian dollar.

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

Operating expenses increased to \$3.9 million for the quarter ended June 30, 2006 as compared to \$3.3 million during the same period of 2005. The increase in operating expenses was primarily due to an increase in property taxes and in variable costs directly tied to energy production, as compared to the same period of 2005. For the six months ended June 30, 2006, operating expenses were \$8.0 million compared to \$6.7 million in the prior year. The increase in operating expenses was primarily due to the reasons noted above, as well as an increase in repair and maintenance projects initiated, as compared to the same period of 2005.

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

Outlook

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

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

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



COGENERATION DIVISION

(C\$000)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Performance (MW-hrs sold)	111,945	133,401	215,858	265,026
Revenues				
Energy sales	\$16,228	\$19,040	\$31,843	\$36,959
Other revenue	1,936	-	7,381	-
Total Revenue	\$18,164	\$19,040	\$39,224	\$36,959
Expenses				
Operating expenses	\$(12,043)	\$(12,792)	\$(27,272)	\$(25,943)
Interest and dividend income	1,186	725	1,918	1,443
Division operating profit (incl. interest and dividend income)	\$7,307	\$6,973	\$13,870	\$12,459

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

For the six months ended June 30, 2005, revenue was \$31.8 million compared to \$37.0 million during the same period of the prior year. The decrease in revenue is attributable to reduced production, approximately 22,000 MW-hrs at the Windsor Locks facility and a further 28,000 MW-hrs at the Sanger facility, as well as the effects of a stronger Canadian dollar. These decreases were partially offset by higher energy rates. Other revenue primarily consists of sales of natural gas at the Sanger facility and revenue of \$1.2 million.

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

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

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

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

Outlook

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

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

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



ALTERNATIVE FUELS DIVISION

(C\$000)	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Performance (MW-hrs sold)	58,102	49,298	117,377	106,163
Performance (tonnes of waste processed)	37,944	33,901	77,316	71,532
Revenues				
Energy sales	\$3,913	\$3,763	\$8,266	\$7,915
Waste disposal sales	3,415	3,036	7,136	6,352
Total revenues	\$7,328	\$6,799	\$15,402	\$14,267
Expenses				
Operating expenses	\$(6,350)	\$(5,966)	\$(13,569)	\$(12,067)
Interest and other income	2,231	1,259	3,938	2,177
Division operating profit (incl. interest and other income)	\$3,209	\$2,092	\$5,771	\$4,377

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

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

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

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

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

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

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

At the end of the second quarter of 2006, the Fund had advanced to AirSource a total of \$40.0 million and provided letters of credit of \$15.4 million for a total advance of \$55.4 million. As a result of the acquisition of AirSource, the assets and liabilities of AirSource are consolidated within the balance sheet of the Fund. While all the wind turbines at the facility have been constructed and commissioned, a number of technical concerns remain to be addressed by the prime contractor, Vestas-Canadian Wind Technology, Inc. ("Vestas"). As a result of these concerns, there are certain holdback and project milestone payments to Vestas (representing the balance of facility construction costs) that remain outstanding as at June 30, 2006. These amounts are now included as an accrued liability on the balance sheet.

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

For the quarter ended June 30, 2006, operating profit was \$3.2 million as compared to \$2.1 million during the same period of 2005. Operating profit for the six months ended June 30, 2006 was \$5.8 million as compared to \$4.4 million during the same period of 2005. Improvement in investment income and operating profit at the EFW facility was offset by equipment availability and gas supply issues at the LFG facilities, and

problems with fuel supply at the Drayton Valley facility, resulting in operating profit below Management's expectations for the quarter and six months ended June 30, 2006.

Outlook

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

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

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



INFRASTRUCTURE DIVISION

(C\$000)	Three months ended June 30		Six Months ended June 30	
	2006	2005	2006	2005
Number of				
Waste-water customers	28,379	22,866	28,379	22,866
Water distribution customers	31,733	23,394	31,733	23,394
Revenues				
Waste-water and water distribution	\$9,395	\$7,645	\$17,302	\$12,839
Expenses				
Operating expenses	\$(3,738)	\$(2,978)	\$(7,217)	\$(5,467)
Other income	21	17	26	17
Division operating profit (incl. other income)	\$5,678	\$4,684	\$10,111	\$7,389

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

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

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

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

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

Outlook

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

The Fund has rate cases under way for its Black Mountain and Gold Canyon facilities. The regulatory review of these rate cases is expected to be completed by the end of 2006 and 2007 respectively. In addition, rate cases for three facilities in Missouri in progress are expected to be completed early in the second quarter of 2007. Management expects that these rate cases will help to ensure that the respective facility earns the rate of return on its capital investment as allowed by the regulatory authority under which the facility operates.

Additional planned capital improvement projects expected to occur in late 2006 in the Litchfield Park Services Company service area to increase the water distribution capacity, to meet the expected growth in the area and to satisfy the requirements of the regulatory authorities in Arizona.

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

Administrative Expenses

(C\$000)	Three months ended		Six months ended	
	June 30		June 30	
	2006	2005	2006	2005
Administrative expenses	\$2,308	\$1,576	\$3,777	\$2,974
Management costs	217	206	434	412
Loss (gain) on foreign exchange	(2,370)	784	(2,263)	1,116
Interest expense	5,051	3,995	9,651	7,879
Write down of fixed and intangible assets	-	2,721	-	2,721
Interest, dividend and other income	(21)	(15)	(37)	(62)
Income tax expense (recovery)	(2,448)	2,358	(2,201)	3,499

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

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

For the quarter ended June 30, 2006, interest expense increased to \$5.0 million as compared to \$4.0 million during the same period of 2005. For the six months ended June 30, 2006, interest expense increased to \$9.7 million as compared to \$7.9 million during the same period of 2005. The increase is due to increased average levels of borrowing during the year, in part a result of the debt facility provided to AirSource and a higher interest rate charged on the Fund's credit facility.

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

Cash Available for Distribution

(C\$000)	Three months ended June 30		Six Months ended June 30	
	2006	2005	2006	2005
Cash flow from operating activities	\$20,973	\$19,743	\$36,026	\$22,501
Changes in working capital	(4,374)	(3,364)	(3,293)	6,691
Operating cash flow before working capital changes	16,599	16,379	32,733	29,192
Receipt of principal on notes receivable	669	1,344	2,036	3,052
Repayment of long-term liabilities	(410)	(444)	(610)	(682)
Maintenance capital expenditures	(816)	(549)	(1,463)	(1,001)
Other	(17)	(21)	(250)	(23)
Cash available for distribution	\$16,025	\$16,709	\$32,446	\$30,538
Cash available for distribution per trust unit	\$0.23	\$0.24	\$0.47	\$0.44
Distribution to unitholders	\$16,016	\$16,015	\$32,031	\$32,030
Distributions to unitholders per trust unit	\$0.23	\$0.23	\$0.46	\$0.46

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

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

In prior years, the shortfalls have been funded primarily by working capital. Should any future shortfall arise, management expects to be able to cover the difference between cash generated and cash distributed through working capital, cash on hand or its credit facility. Working capital has been built up over time from public offerings.

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

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

Liquidity and Capital Reserves

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

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

Long term liabilities increased to \$265.8 million at June 30, 2006 as compared to \$151.9 million at June 30, 2005. Long term liabilities primarily consist of project level debt of approximately \$160.0 million and an amount of \$105.8 million drawn on the Fund's revolving credit facility as compared to project level debt of \$90.0 million and an amount of \$61.5 million drawn on the Fund's revolving credit facility at the end of the second quarter of 2005. Project debt increased primarily due to the inclusion of senior debt totalling \$73.3 million related to the St. Leon Wind Energy facility. Project debt is paid at the project level where adequate cash flows are available to fund project debt requirements and the debt is generally non-recourse to the Fund. Project debt repayments are deducted in the calculation of cash available for distribution.

The Fund has in place a \$175 million revolving credit facility of which \$145 million is to be used for acquisitions, investments and letters of credit and \$20 million is to be used for operating requirements. At the quarter ended June 30, 2006, the Fund had drawn \$105.8 million on its revolving credit facility. Subsequent to June 30, 2006, the Fund's lenders extended the existing credit facility for a one year term to mature July 2008.

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

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

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

Contractual Obligations

Information concerning contractual obligations as of August XX, 2006 is shown below:

	Total	Due less than 1 year	Due 2 to 3 years	Due 4 to 5 years	Due after 5 years
Long term debt obligations	\$352,187	\$ 1,427	\$109,808	\$4,541	\$236,411
Other obligations	24,910	4,900	6,048	1,040	12,922
Total obligations	\$377,097	\$ 6,327	\$115,856	\$5,581	\$249,333

Long term obligations normally include regular payments related to long term debt and other obligations. These payments are included as a reduction to cash available for distribution. Included in the other obligations in the due less than 1 year time frame is the Fund's commitment as of August 8, 2006 of \$9.0 million regarding the installation of the additional steam generation and transmission assets required for the sale of steam from the EFW facility. The Fund's commitment with regards to funding the balance of facility construction costs at the St. Leon Wind Energy facility is included in accrued liabilities and therefore has been excluded from Contractual Obligations.

Unitholders' Equity and Convertible Debentures

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

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

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

Algonquin Power Income Fund
Consolidated Balance Sheets
June 30, 2006 and December 31, 2005
(thousands of Canadian dollars)

Assets

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

Algonquin Power Income Fund
Consolidated Statements of Earnings and Deficit
For the six months ended June 30, 2006 and June 30, 2005
(thousands of Canadian dollars)
Unaudited

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

Algonquin Power Income Fund
Consolidated Statements of Cash Flows
For the six months ended June 30, 2006 and June 30, 2005
(thousands of Canadian dollars)
Unaudited

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Operating Activities				
Net earnings	\$ 13,840	\$ 1,569	\$ 21,158	\$ 3,409
Items not affecting cash				
Amortization of capital assets	7,078	7,036	14,133	13,941
Amortization of intangible assets	1,292	1,967	2,578	3,508
Other amortization	190	306	657	674
Distribution received in excess of equity income	(58)	7	(128)	66
Write down of facility	-	2,721	-	2,721
Future income taxes	(3,060)	2,106	(3,083)	2,995
Unrealized (gain) / loss on foreign exchange	(2,683)	667	(2,582)	890
	<u>16,599</u>	<u>16,379</u>	<u>32,733</u>	<u>28,204</u>
Changes in non-cash operating working capital	<u>4,374</u>	<u>3,364</u>	<u>3,293</u>	<u>(6,691)</u>
	<u>20,973</u>	<u>19,743</u>	<u>36,026</u>	<u>21,513</u>
Financing Activities				
Cash distributions	(16,016)	(16,015)	(32,031)	(32,030)
Deferred financing costs	(290)	(205)	(499)	(452)
Net increase in long-term liabilities	7,546	23,056	35,798	30,798
Other	132	181	356	1,066
Deferred credits	-	48	49	393
	<u>(8,628)</u>	<u>7,065</u>	<u>3,673</u>	<u>(225)</u>
Investing Activities				
Increase in restricted cash	(358)	(118)	(432)	(4,602)
Receipt of principal on notes receivable	669	1,344	2,036	3,052
Increase in long term investments	-	(22,100)	-	(23,088)
Additions to capital assets	(6,007)	(5,476)	(12,569)	(10,545)
Acquisitions of operating entities	3,103	(695)	(21,917)	(11,637)
	<u>(2,593)</u>	<u>(27,045)</u>	<u>(32,882)</u>	<u>(46,820)</u>
Effect of exchange rate differences on cash and cash equivalents	<u>(108)</u>	<u>135</u>	<u>(124)</u>	<u>343</u>
Increase / (decrease) in cash	9,644	(102)	6,693	(25,189)
Cash and cash equivalents, beginning of the period	<u>8,412</u>	<u>9,110</u>	<u>11,363</u>	<u>34,197</u>
Cash and cash equivalents, end of the period	\$ <u>18,056</u>	\$ <u>9,008</u>	\$ <u>18,056</u>	\$ <u>9,008</u>
Supplemental disclosure of cash flow information				
Cash paid during the period for interest expense	\$ 3,642	\$ 2,993	\$ 9,043	\$ 7,945
Cash paid during the period for income taxes	\$ 799	\$ 200	\$ 1,257	\$ 341