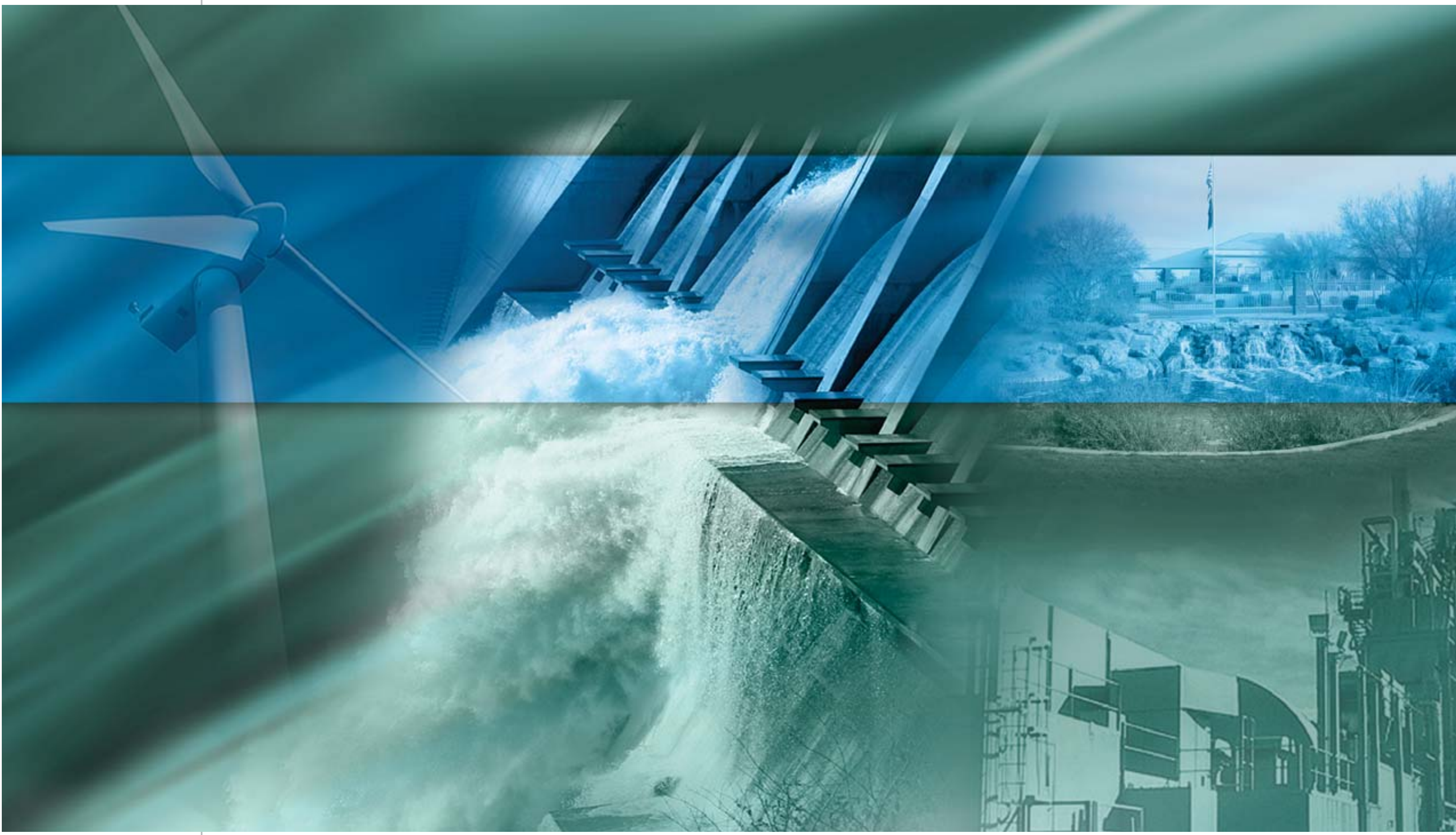
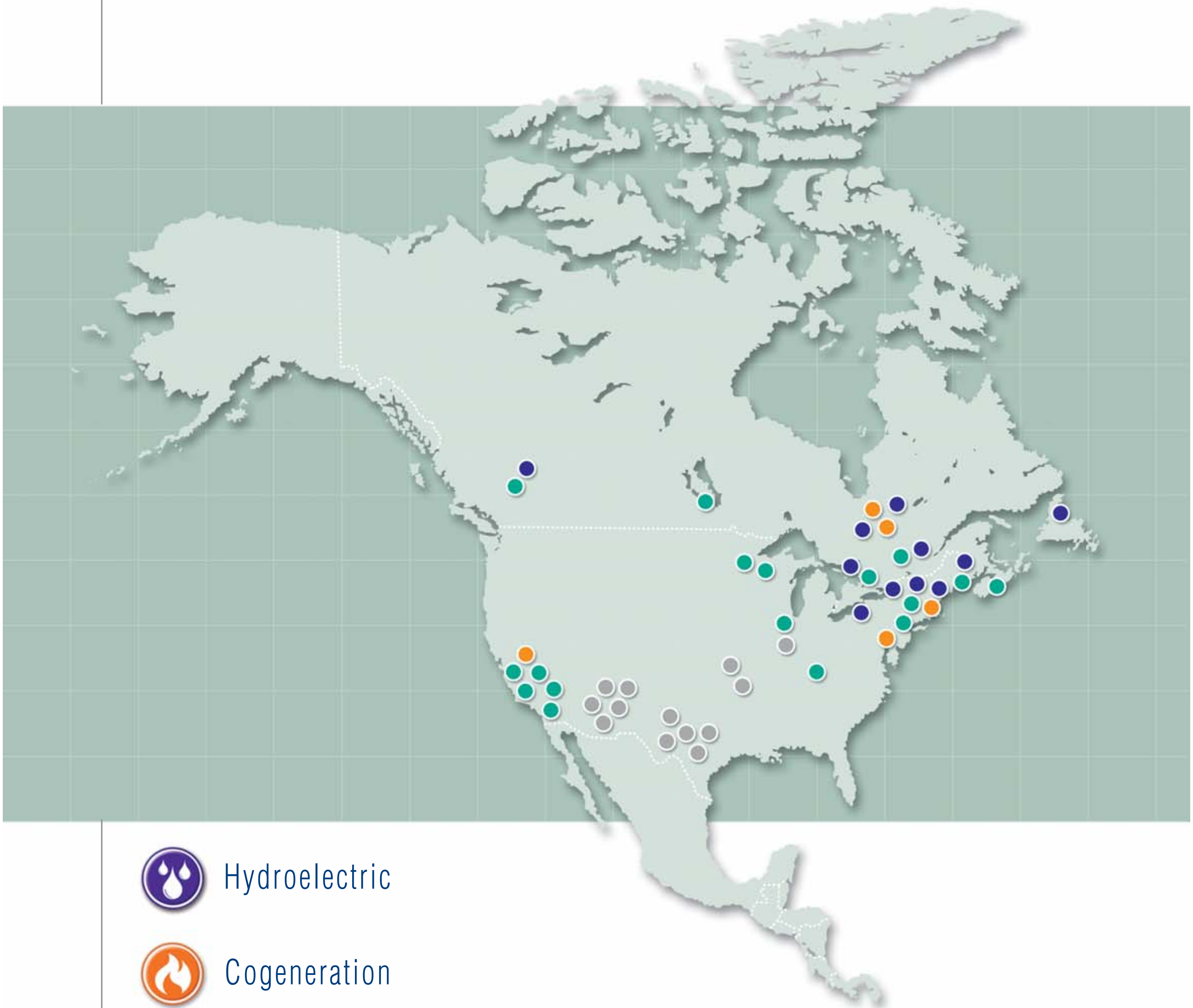


ANNUAL REPORT **2005**

Algonquin Power Income Fund



Hydroelectric

Cogeneration

Alternative Fuels

Infrastructure

Algonquin Power Income Fund

Table of Contents

2005 ANNUAL REPORT

Algonquin Power Income Fund

Algonquin Power Income Fund is an open-ended investment trust that owns or has interests in a diverse portfolio of power generating and infrastructure assets across North America, including 48 hydroelectric facilities, five natural gas-fired cogeneration facilities, 17 alternative fuels facilities and 15 water reclamation and distribution facilities. Algonquin Power was established in 1997 to provide unitholders with sustainable, highly stable and growing cash flows through a diversified portfolio of energy and infrastructure assets. The Fund's units and convertible debentures are traded on the Toronto Stock Exchange under the symbols APF.UN and APF.DB, respectively.

Rawdon, Québec

Sanger, California

Algonquin Power Energy-from-Waste, Ontario

Litchfield Park Service Company, Arizona

Financial Highlights

	2005	2004	2003	2002	2001	2000
Energy Sales						
Hydroelectric	44,102	43,268	44,413	40,681	36,270	43,996
Cogeneration	75,674	71,846	61,890	23,566	-	-
Alternative Fuels	16,262	7,867	6,423	4,994	1,020	-
Total Energy Sales	136,038	122,981	112,726	69,241	37,290	43,996
Waste Disposal	13,031	14,086	14,650	10,697	-	-
Water Distribution/Reclamation	28,371	23,456	20,237	7,974	2,522	-
Other Revenue	1,884	-	-	-	-	-
Total Revenue	179,324	160,523	147,613	87,912	39,812	43,996
Operating Profit						
Hydroelectric	28,344	26,383	29,045	26,985	24,835	33,351
Cogeneration	28,207	25,273	23,773	15,069	1,166	-
Alternative Fuels	10,773	8,181	9,328	7,292	719	-
Infrastructure	16,568	12,616	11,117	4,678	1,199	-
Other	139	4,373	278	851	2,530	1,063
Total Operating Profit	84,031	76,826	73,541	54,875	30,449	34,414
Earnings (before int exp, write-down of fixed and intangible assets)	44,304	40,276	53,147	26,726	18,662	23,937
Net earnings	21,788	22,802	44,507	16,150	6,864	13,364
Net earnings per trust unit	0.31	0.33	0.66	0.28	0.17	0.54
Distribution to unitholders	64,061	63,370	62,402	55,192	37,302	24,755
per trust unit	0.92	0.92	0.92	0.92	0.92	0.97
Cash available for distribution	64,892	59,887	58,368	44,742	28,813	19,235
per trust unit	0.93	0.87	0.86	0.77	0.73	0.78
Balance Sheet Data						
Cash and cash equivalents	11,363	34,348	21,238	24,838	31,713	9,580
Working capital	2,931	17,242	9,337	15,376	19,011	2,024
Capital and intangible assets and long term investments	761,989	742,994	751,904	674,495	467,312	310,056
Total Assets	823,801	824,796	808,624	723,038	512,384	328,502
Long-term liabilities and revolving credit facility (includes convertible debentures and current portion)	243,007	206,017	166,713	86,099	50,665	73,244
Unitholders equity	452,998	495,271	519,876	537,771	411,613	219,559
Number of units outstanding as of December 31	69,691,592	69,691,592	67,887,612	67,887,612	50,875,772	27,020,472

Report to Unitholders

In 2005 the fund achieved positive asset growth and operational performance, enhancing unitholder value.

2005 Achievements

- Revenue increased to $179.3 million from $160.5 million
- Cash available for distribution increased to $64.9 million from $59.9 million
- Cash available for distribution per trust unit increased to $0.93 from $0.87
- Algonquin Power Income Fund distributed $0.92 per trust unit during 2005, consistent with 2004

Strong by nature

Algonquin Power Income Fund had a strong year in 2005 as the Fund's exceptional group of employees and associates, along with a diversified portfolio of power generation and infrastructure assets, delivered a solid year of financial results.

The diversification strategy has been a strong focus since 2001, and has provided the Fund with an asset balance across four divisions, delivering reliable, strong overall performance. This is evident in the Fund's historical performance of steadily increasing cash available for distribution, which has grown by an average of 6% per trust unit annually since 2001.

In last year's Report to Unitholders, I wrote about the Fund's commitment to improve the performance of existing assets and to identify and secure accretive acquisitions to build the stability of distributions to unitholders, balance risk and enhance growth opportunities. I can say with confidence, that the year 2005 was very successful in this respect, with the Fund announcing several acquisitions and new projects over the course of the year.

In January 2005, the Fund announced the acquisition of eight infrastructure facilities, expanding the division into Texas, Missouri, and Illinois, and growing the number of customer connections by approximately 5,000 to a total nearing 50,000 connections. Later in the year, one additional facility in Arizona was added to the Infrastructure Division, bringing the total number of customer connections to more than 56,000. The division continues to provide attractive returns while maintaining stability through a regulated utility environment.

During the third quarter of 2005, the Fund's hydroelectric division completed the purchase of Beaver Falls Hydroelectric Generating Station, a 2.5 MW hydroelectric facility located near Beaver Falls, New York. This asset was operational in the first quarter of 2006 and is expected to be accretive to the Fund, contributing to the growing levels of cash available for distribution.

In the Alternative Fuels Division in 2005, the Fund continued to work on improving production at the Algonquin Power Energy-from-Waste facility. Some of the actions taken included the hiring of a new facility manager and improvements to equipment that had been limiting production. These actions resulted in improving waste processing to expected levels by the end of the year. The Fund's Alternative Fuels Division also continued its commitment to lend

$74.4 million as subordinated debt to AirSource Power Fund I LP, the owner of a 99 MW wind farm in southern Manitoba. AirSource is utilizing the funds along with equity raised ($65 million) and other senior and subordinated debt to build a $210 million wind power project in southern Manitoba. The project is scheduled for completion in early 2006.

In addition to the operational events of 2005, Algonquin Power Income Fund was added to the S&P/TSX Composite Index effective after the close of business on Friday, December 16, 2005. Inclusion in the S&P/TSX Composite Index reflects the growth and stability the Fund has achieved over the past few years. The Fund is honoured to be keeping company with Canada's top performing enterprises.

Financial Review – A Mature Balance

As the Fund continues to mature, growing in strength and confidence throughout each of the Fund's four divisions, a new focus is emerging toward enhancing the Fund's existing assets and strengthening the balanced foundation on which the Fund is based.

The Fund's asset distribution remains stable across the four divisions with hydroelectric generation making up 36% of the asset base, natural gas cogeneration at 18%, alternative fuels at 20% and infrastructure assets including water distribution and water reclamation facilities making up 25% of the Fund's asset mix.

For the year 2005, the Fund's assets generated total revenue of $179.3 million, growing 11.7% over revenue of $160.5 million in 2004.

Net earnings for 2005 were $21.8 million, compared to $22.8 million in net earnings for 2004. On a per unit basis, the Fund generated $0.31 per unit compared to $0.33 per unit for 2004.

Cash available for distribution during 2005 reached $64.9 million compared to $59.9 million in 2004. On a per unit basis, the Fund generated $0.93 per unit by the end of 2005, compared to $0.87 per unit in 2004, marking a significant milestone for the Fund.

Confidence moving forward

Over the past few years, the Fund has focused on becoming more diversified across technologies and geographies to gain financial strength and stability. Although these strategies continue to be a very strong theme for the Fund, the primary focus of Algonquin Power Income Fund in the coming year is to build on the balance and strength the Fund has achieved over the past few years while seeking new business initiatives that will create accretive opportunities for the Fund. As always, the underlying motivation continues to be the enhancement of unitholder value.

The Fund will continue to improve the performance of existing assets with a focused and disciplined approach, and foster organic growth through the effective management of the four operating divisions. Stability for the Fund has been and will always be the basis for key decisions regarding the Fund business.

To the Fund's unitholders, employees and associates, your continued interest, support, and commitment to the Fund is appreciated in all aspects of the Fund's business. I look forward to another year of delivering on the Fund's potential and working to exceed our performance objectives.

K Moore

Ken Moore
Chairman

Algonquin Power Divisions

Four divisions provide technical, geographic,

Hydroelectric

The Hydroelectric Division is comprised of 48 run-of-river hydroelectric generating facilities located in Ontario, Quebec, New York, New England, and Alberta. These facilities primarily operate based on natural river flows without storing water for later use. The Division's gross revenue is derived from the combination of energy production and power purchase rates. Benefits of these facilities include low operating costs, proven technology, and virtually perpetual asset life. Combined with long-term power purchase agreements, these benefits provide the Fund with strong assets that deliver predictable cash flows.

Cogeneration

Algonquin Power has an interest in two and owns and operates three cogeneration facilities located in Ontario, New Jersey, California and Connecticut. Cogeneration is the simultaneous production of electricity and thermal energy from a single fuel source, in this case, natural gas. Revenue is generated through the sale of this thermal energy and electricity. Benefits of cogeneration technology include predictable generation, low technology risk and long term power purchase agreements. Cogeneration facilities are not subject to environmental fluctuations and therefore provide efficient and predictable cash flows to the Fund.

48 hydroelectric facilities, 143 MW, average power purchase agreement life of 13 years.

Rivière-du-Loup, Québec

Five natural gas fired cogeneration facilities, 248 MW, average power purchase agreement life of 9.2 years.

Windsor Locks, Connecticut

and regulatory diversification.

Alternative Fuels

The Alternative Fuels Division consists of a 500-tonne/day energy-from-waste facility in Ontario and investment interests in approximately 70 MW of production in Alberta, Quebec and Nova Scotia. The Division acquired an interest in 12 landfill gas-powered generating stations in the United States, representing approximately 36 MW of installed capacity during 2004.

The Division has also provided a commitment for a total of approximately $74 million of subordinated debt to the owner of a wind energy project in Southern Manitoba.

Revenue is generated from the sale of electricity, fees at the energy-from-waste facility, and interest and investment income from the other assets.

Infrastructure

The Infrastructure Division includes 15 regulated water distribution and water reclamation facilities located in Arizona, Texas, Illinois and Missouri. Revenue is generated from the sale of water and the treatment of waste water. Infrastructure facilities offer a captive customer base within a regulated environment. These infrastructure assets are ideal for the Fund as they represent an asset class which produces stable, predictable, long-lived cash-flows.

During 2005, management completed the acquisition of nine facilities serving approximately 12,000 customers located in Arizona, Illinois, Missouri, and Texas. The Infrastructure Division experienced approximately 9% organic growth in 2005, and management expects the organic growth rate to continue into 2006.

17 alternative fuels facilities, 211 MW, average power purchase life of 13.5 years.

Prima Deschecha, California

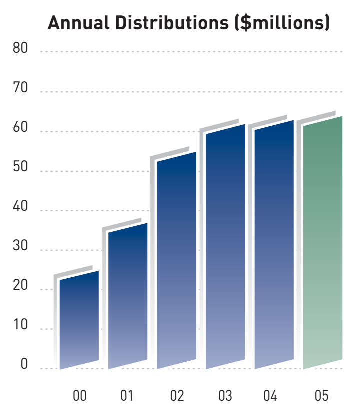
15 infrastructure facilities, over 56,000 connections.

Black Mountain Sewer Company, Arizona

Strength and Stability

A strong history of diversification has resulted in a well balanced portfolio.

In 2001, the Fund identified the requirement to diversify its asset portfolio in order to create a balanced, lower risk operating environment in which to provide stability and predictability to unitholders of the Fund. Prior to diversification, dating back to 1997, the Fund owned 14 run-of-river hydroelectric generating assets. Since 2001, the Fund has sought out accretive acquisitions in order to introduce additional generating technologies, and diverse geographies and regulatory environments. The Fund's experienced team of industry professionals is organized in a divisional management structure to focus on operational performance, synergies and economies of scale in each of the Fund's four divisions. The result: a balanced, predictable business with stable cash distributions to unitholders.



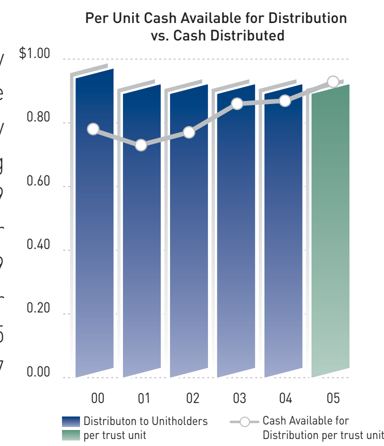
Power Purchase Agreements and Rate Cases

Power generated by the Hydroelectric, Cogeneration, and Alternative Fuels Divisions is sold based on power purchase agreements held for each generating facility. The agreements range in length, and on a weighted average basis, power purchase agreements in place have an average span of 12 years. In the Infrastructure Division, rates paid by end consumers are determined by appealing a rate case to the regulatory body in which each facility resides, and are renegotiated periodically based on capital expenditures and anticipated rates of return.

Power purchase agreements have been and continue to be a strong asset for the Fund and contribute to long term returns and viability of the facilities. Rates in the Infrastructure Division contribute to stability in rates of return in the growing regions where the Fund's facilities are located.

Cash Available for Distribution

The Fund's strength and stability is evident through cash available for distribution generated by the diverse asset portfolio. During 2005, the Fund generated $64.9 million of cash available for distribution compared to $59.9 million in 2004. Cash available for distribution per trust unit in 2005 was $0.93 compared to $0.87 in 2004.

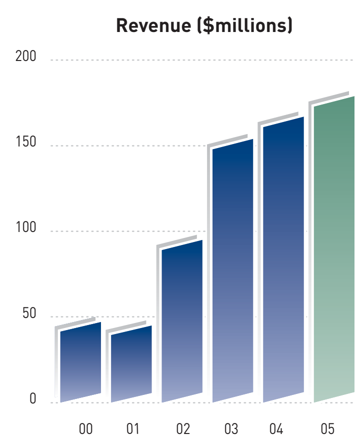


Balance

Fund Assets

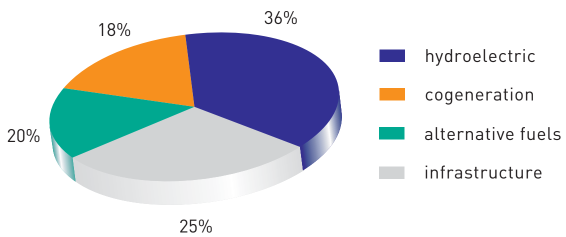
Over the past few years, the Fund has improved overall risk exposure inherent in natural resource-based power generation, resulting in sustainable cash distributions during 2005. The move toward a more stable structure is also evident through revenue growth and operating profit for the Fund.

Throughout 2005, the Fund continued to diversify its asset portfolio by adding nine water distribution and reclamation facilities in Texas, Missouri, Illinois and Arizona, and one hydroelectric generating



(L to R) The Management Group
Peter Kampian, Chief Financial Officer;
Ian Robertson, Executive Director, Business Development;
Chris Jarratt, Executive Director, Operations;
David Kerr, Executive Director, Safety and Environmental Compliance

facility located in New York State. At the end of 2005, the Fund's assets were strategically deployed with 36% hydroelectric generation, 18% natural gas cogeneration, 20% alternative fuels, and 25% water distribution and reclamation in the Infrastructure Division.



Since inception, Algonquin Power Income Fund has grown from owning strictly hydroelectric generating assets to having a well balanced, diversified portfolio of generating and infrastructure assets that provide unitholders with stable, predictable distributions.

Confidence

Opportunities for the Future

The strategic diversification in asset allocation has created greater balance in the Fund, providing increased stability in cash distributions and a strong basis on which to move toward new opportunities in the future. Financial leverage continues to be low at 31%, and the Fund has maintained a Standard and Poor's stability rating of SR-2 (very high) for the sixth consecutive year.

For 2006, the Fund will continue to seek long-lived assets with low operating costs, low risk technology, and stipulated rate revenues from long-term power purchase agreements.

Management will continue to focus on improving the performance of Fund assets throughout 2006, particularly in the Alternative Fuels Division where several programs have been initiated including the implementation of preventative repair and maintenance programs, process changes, and various management improvement programs which are expected to result in reduced costs of operating the facilities.

Hydrology remains a fluctuating element in the Hydroelectric Division, however by the fourth quarter of 2005 hydrology rose above long-term averages, continuing into 2006. The Fund anticipates higher levels of hydrology to continue throughout the first two quarters of 2006, providing generating levels above long-term averages. In addition, the Fund expects to continue seeing higher market rates for power in New York and New England regions where the Fund owns hydroelectric generating assets.

During 2005, the Fund provided a commitment for a total of $74.4 million in subordinated debt to AirSource Power Fund I LP, which is undertaking the completion of a 99 MW wind-powered generating facility near St. Leon, Manitoba. The facility will sell its output to Manitoba Hydro pursuant to a 25 year power purchase agreement. The transaction represents the Fund's entry into the fast-growing wind power generation industry which, similar to hydroelectric energy, generates electrical energy from a renewable natural resource.

At the end of 2005, the Fund took an opportunity to stop the gas turbine at the Sanger facility and sell the fixed price natural gas normally consumed by the facility at favourable fixed prices. This opportunity will continue until May 2006, and as a result, increased profits for the facility are expected for the first four months of 2006. During 2006, the Fund also plans to evaluate the replacement of the existing gas turbine at the Sanger facility with a newer, more efficient unit. Benefits of replacing the turbine could include higher efficiency, lower fuel costs, and greater ease of maintenance as well as supplying additional capacity and energy demands to the California energy market above and beyond the existing capacity of the plant.

Corporate Governance

Ensuring the trust of unitholders

The Trustees of Algonquin Power Income Fund have taken steps to ensure that unitholders are well protected by approving and implementing clear Corporate Governance standards and practices. At least annually, the trustees, in conjunction with their duties as members of the corporate governance committee, review the Fund's approach to Corporate Governance. A summary of these guidelines is offered below.

Independence

The Board of Trustees is comprised of three Trustees who are independent of the Fund. The Trustees establish independence standards in accordance with the requirements of the Toronto Stock Exchange and other provincial securities regulations. At least annually, the independence of each trustee is determined in accordance with these standards.

Trustee Committees, Charters and Evaluation

The trustees have established the following committees of the trustees: the audit committee and the corporate governance committee, comprised of all of the trustees. The trustees have approved charters for each committee and at least annually, each charter is reviewed and amended based on recommendations of the corporate governance committee and the chair of the trustees. In addition, the trustees evaluate and review the performance of the trustees, each of its committees, and the adequacy of the Corporate Governance mandate.

Trustee Meetings

Regular meetings of the Trustees are held at least quarterly to review financial and operational results, and monthly to determine and approve cash distributions to unitholders. At least annually, the Trustees hold meetings at which Fund Managers are not present.

Access to Management and Outside Advisors.

The Trustees have unrestricted access to the management and employees of the Fund, its subsidiary entities and the manager and employees of Algonquin Power Systems Inc. whose duties include providing services to the Fund and Fund entities. At the Fund's expense, the Trustees have the authority to retain external legal counsel, consultants or other advisors to assist them in fulfilling their responsibilities.

Strategic Planning and Business Plans

At least annually, the trustees review and if advisable, approve the Fund's strategic planning process, short and long term strategic plans, and business plans prepared by the Fund Manager in light of emerging trends, the competitive environment, risk issues and significant business practices. Periodic reviews and amendments to plans may occur at any time each year according to changes in the Fund's business climate.

Integrity of Financial Information

The trustees, in conjunction with their duties as members of the audit committee, review the integrity of the Fund's financial information and systems, the effectiveness of internal controls and Management's assertions on internal control and disclosure control procedures.

Risk management

At least annually, the Trustees review reports provided by the Manager of material risks associated with the businesses and operations of the Fund's subsidiary entities, review the implementation by the Manager of systems to manage these risks and review reports by the Manager relating to the operation of and any material deficiencies in these systems.

Verification of Controls

The trustees verify that internal financial, non-financial and business control and information systems have been established by the Managers and that the Fund is applying appropriate standards of corporate conduct for these controls.

Human Resource Management

At least annually, the Trustees with the assistance of the Manager, review the Fund's approach to human resource management and executive compensation, succession plans for the chair of the trustees and the senior management of the Fund, and verify the integrity of the Manager and its principals.

Ethics Reporting

At least annually, the Trustees review reports provided by the Manager relating to compliance with, or material deficiencies of the Fund's code of business conduct and ethics.

Communications and Disclosure

The trustees, in conjunction with the Manager review the Fund's overall communications strategy, including measures for receiving feedback from the Fund's unitholders, and management's compliance with the Funds' disclosure policies and procedures.

(L to R) The Trustees: George Steeves, Christopher Ball, and Ken Moore

Management's Discussion and Analysis

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

Algonquin Power Income Fund (the "Fund") has prepared the following discussion and analysis to provide information to assist its Unitholders' understanding of the financial results for the twelve months ended December 31, 2005. This discussion and analysis should be read in conjunction with the Fund's audited consolidated financial statements for the years ended December 31, 2005 and 2004 and the notes thereto. This material is available on SEDAR at www.sedar.com and on the Fund's website at www.AlgonquinPower.com. Additional information about the Fund, including the Renewal Annual Information Form for the year ended December 31, 2005 can be found on SEDAR at www.sedar.com.

This management's discussion and analysis is based on information available to management as of March 7, 2006.

Rattle Brook, Newfoundland

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.

St. Leon Wind Energy Substation, Manitoba

Key Financial Information

	Three Months ended December 31		Year ended December 31		
	2005	**2004**	**2005**	**2004**	**2003**
Revenue	**$ 50,918**	$ 40,726	**$ 179,324**	$ 160,523	$ 147,613
Net earnings	**8,917**	(86)	**21,788**	22,802	44,507
Distribution to unitholders	**16,016**	16,016	**64,061**	63,370	62,402
Cash available for distribution	**19,468**	12,685	**64,891**	59,887	58,368
Per unit					
Net earnings	**0.13**	0.00	**0.31**	0.33	0.66
Distribution to unitholders	**0.23**	0.23	**0.92**	0.92	0.92
Cash available for distribution*	**0.28**	0.18	**0.93**	0.87	0.86

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

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

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

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

For the quarter ended December 31, 2005, net earnings were $8.9 million as compared to a net loss of $0.1 million for the same period in 2004. Net earnings for the fourth quarter of 2005 increased from the same period in 2004 due to the factors impacting revenue as previously noted. In addition, the Alternative Fuels Division experienced greater interest and other income from its subordinated debt facility provided to AirSource Power Fund I LP ("AirSource") and the sale of the partnership interest in certain gas collection systems. These amounts were partially offset by increased interest expense and future income tax expense booked in the quarter. Net earnings for the year ended December 31, 2005 were $21.8 million, as compared to $22.8 million for the same period in 2004. On a year to date basis, net earnings fell as a result of the write down of $3.5 million related to the Crossroads facility, including the tax loss carry-forward associated with the facility, a reduced unrealized foreign exchange gain on US dollar denominated debt and higher interest expenses from the comparable period in the prior year. In addition, net earnings for the 2004 period increased due to the recognition of a one-time gain in an amount of $3.6 million on the prepayment of a note receivable. These factors were partially offset by the factors increasing divisional earnings previously noted and the write off related to the Joliet facility.

Net earnings per trust unit were $0.13 in the quarter ended December 31, 2005 as compared to $ nil in the same period in 2004. Net earnings per trust unit for the year ended December 31, 2005 were $0.31 as compared to $0.33 per trust unit for the same period in the prior year. The Fund generated $0.28 per trust unit of cash available for distribution for the quarter ended December 31, 2005, as compared to $0.18 per trust unit for the same period in 2004. During the fourth quarter of 2005, the Fund maintained distributions at $0.23 per trust unit, consistent with the same period in 2004.

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

The information in this Management's Discussion and Analysis is supplemental to and should be read in conjunction with the Fund's audited consolidated financial statements for the year ended December 31, 2005. The Fund's financial statements are prepared in accordance with accounting principles generally accepted in Canada. The Fund's reporting currency is the Canadian dollar.

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

Significant Events and Transactions

The Fund completed the following significant transactions during 2005:

1. **Financing for AirSource Power Fund I LP**

   The Fund advanced funds on its total commitment of $74.4 million in subordinated debt to AirSource and subsidiary entities. AirSource is undertaking the completion of a 99 MW wind-powered generating facility near St. Leon, Manitoba which will sell its output to Manitoba Hydro pursuant to a 25 year power purchase agreement. The transaction represents the Fund's entry into the fast-growing wind power generation industry which, similar to hydroelectric energy, generates electrical energy from a renewable natural resource. The debt investment by the Fund ranks below $73.3 million in senior debt but in priority to the $65 million equity flow-through tax assisted financing completed by AirSource in November 2004.

The subordinated debt commitment to AirSource will earn interest at the annual rate of 11.19% prior to project completion. This yield will be reduced to 10.74% following project commissioning which is expected to occur by the end of the first quarter of 2006. At the end of 2005, the Fund had advanced a total of $20.5 million to AirSource, in addition to $15.4 million in letters of credit. The Fund was paid a deferred commitment fee of $3.2 million with respect to the investment.

2. Acquisition of Eight Water Distribution and Water Reclamation Facilities

The Fund completed the acquisition of eight water distribution and water reclamation facilities during 2005 for a total of $15.8 million (US$ 13.2 million). On March 11, 2005, the Fund completed the acquisition of four facilities in Texas and one in Illinois adding 4,200 equivalent residential customers to the Infrastructure Division. The acquisition of the remaining three facilities which are located in Missouri was completed on August 14, 2005, after regulatory approval was granted. These facilities added another 1,000 equivalent residential customers to the Infrastructure Division.

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

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

St. Leon Wind Energy, Manitoba

Hydroelectric Division

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

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

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

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

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

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

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

Outlook

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

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

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

Beaver Falls, New York

Cogeneration Division

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

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

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

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

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

For the quarter ended December 31, 2005, operating profit was $8.2 million as compared to $6.2 million for the same period in 2004. For the year ended December 31, 2005, operating profit was $28.2 million as compared to $25.3 million. Operating profit for the fourth quarter and fiscal 2005 exceeded Management's expectations. During 2005, the Fund recognized an expense of $3.5 million, representing a write down of its investment in the Crossroads facility to net realizable value. The division operating profit does not reflect this expense as it is included in the Administrative section of this report.

Outlook

The Fund's Windsor Locks facility will undergo a regularly scheduled four week major overhaul beginning at the end of the first quarter of 2006. It is expected that for the remainder of the year Windsor Locks will produce at or above prior year performance due to increased efficiencies following the overhaul, and favourable gas indexing provisions.

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

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

Sanger, California

Alternative Fuels Division

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

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

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

For the quarter ended December 31, 2005, operating expenses were $6.6 million as compared to $5.3 million for the same period in 2004. The increase in operating expenses for the quarter was primarily the result of increased fuel related costs at the LFG facilities as compared to the same period in the prior year. For the year ended December 31, 2005, operating expenses were $25.0 million as compared to $15.1 million for the same period in 2004. The increase in operating expenses in fiscal 2005 was primarily the result of increased fuel collection costs at the LFG facilities and increased repair and maintenance costs in the division. The fiscal 2005 operating expenses also include a full year of operating costs from the LFG facilities of $11.0 million for fiscal 2005 compared to $2.0 million for fiscal 2004.

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

At the end of the fourth quarter of 2005, the Fund had advanced to AirSource a total of $20.5 million as well as providing letters of credit of $15.4 million. AirSource is constructing a 99 MW wind energy facility for which the Fund has provided a subordinated debt facility. During the fourth quarter, AirSource completed its long term senior debt facility with a bank syndicate. As a result, AirSource repaid a portion of the Fund's advances to date on the construction facility totaling $44.5 million. The Fund resumed advancing funds to complete the construction of the facility in December 2005 once the AirSource senior debt facility of $73 million was fully utilized. The Fund has committed a total of $74.4 million to AirSource, including both the construction and acquisition facilities, representing a third of the cost of the project. Interest income earned on the AirSource investment was $3.0 million ($0.1 million in 2004).

Across America, through its subsidiaries, owns and manages the landfill collection systems that provide landfill gas to the Fund's LFG facilities. The Across America note was funded at the end of the fourth quarter of 2004. The sale of partnership interests in certain gas collection systems during the year ended December 31, 2005 resulted in an increase to other income of $1.2 million.

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

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

Outlook

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

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

Algonquin Power Energy-from-Waste, Ontario

Infrastructure Division

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

For the quarter ended December 31, 2005, revenue in the Infrastructure Division increased to $7.5 million as compared to $5.7 million in the same period in 2004. The division's water reclamation customer base increased by 25% and the division's water distribution customer base increased by 57% for the quarter ended December 31, 2005 as compared to the quarter ended December 31, 2004. This growth was the result of organic growth and the purchase of nine facilities, as compared to the same quarter in the previous year. Five of these facilities (four in Texas and one in Illinois) were purchased on March 11, 2005 while regulatory approval was required to complete the purchase of the other three facilities (located in Missouri). This approval was received on August 14, 2005. An additional facility (located in Arizona) was purchased on December 2, 2005.

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

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

For the quarter ended December 31, 2005, operating profit increased to $4.1 million as compared to $3.6 million for the same period during the prior year. For the year ended December 31, 2005, operating profit increased to $16.6 million as compared to $12.6 million in the prior year. The increases were due to strong organic growth and the inclusion of the facilities that were purchased during the year.

Outlook

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

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

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

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

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

Fox River, Illinois

Administrative Expenses

	Three months ended December 31		Year ended December 31	
	2005	**2004**	**2005**	**2004**
Administrative expenses	**$ 1,661**	$ 1,615	**$ 5,681**	$ 5,596
Management costs	**206**	196	**825**	777
Withholding taxes	**647**	135	**1,177**	483
Loss / (Gain) on foreign exchange	**116**	873	**(1,744)**	(2,601)
Interest expense	**4,377**	3,721	**16,379**	12,440
Write down of fixed and intangible assets	**812**	1,932	**3,533**	1,932
Interest, dividend and other income	**(72)**	(115)	**(139)**	(4,373)
Income tax expense	**319**	1,779	**2,604**	2,285

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

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

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

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

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

Algonquin Power Energy-from-Waste, Ontario

Cash Available for Distribution

	Three months ended December 31		Year ended December 31	
	2005	**2004**	**2005**	**2004**
Cash flow from operating activities	**$ 17,498**	$ 12,241	**$ 55,679**	$ 66,585
Changes in working capital	**2,140**	(906)	**7,932**	(7,204)
Operating cash flow before working capital changes	**19,638**	11,335	**63,611**	59,381
Receipt of principal on notes receivable	**804**	983	**4,959**	4,164
Decrease / (Increase) in restricted cash	**(17)**	330	**269**	235
Repayment of long term liabilities	**(469)**	(340)	**(1,380)**	(863)
Maintenance capital expenditures	**(589)**	217	**(2,167)**	(1,804)
Other	**101**	160	**(401)**	(1,226)
Cash available for distribution	**$ 19,468**	$ 12,685	**$ 64,891**	$ 59,887
Cash available for distribution per trust unit	**$ 0.28**	$ 0.18	**$ 0.93**	$ 0.87
Distribution to unitholders	**$ 16,016**	$ 16,016	**$ 64,061**	$ 63,370
Distribution to unitholders per trust unit	**$ 0.23**	$ 0.23	**$ 0.92**	$ 0.92

During the quarter ended December 31, 2005 the Fund generated $19.5 million in cash available for distribution as compared to $12.7 million for the same period in 2004. For the year ended December 31, 2005, the Fund generated $64.9 million of cash available for distribution as compared to $59.9 million for the same period in the prior year.

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

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

On a per trust unit basis, the Fund generated $0.28 of cash available for distribution for the quarter ended December 31, 2005 as compared to $0.18 for the same period in 2004 and $0.93 for the year ended December 31, 2005 as compared to $0.87 for the same period in the prior year. The Fund distributed $16.0 million during the quarters ended December 31 of both 2005 and 2004. For the year ended December 31, 2005 the Fund distributed $64.1 million as compared to $63.4 million for the same period during 2004.

On a per unit basis, the Fund maintained distributions at $0.23 per trust unit for the quarter ended December 31, 2005, consistent with 2004, and $0.92 for the year ended December 31, 2005, consistent with 2004.

Under Canadian tax rules, cash distributions consist of a return of capital portion (tax deferred) and a return on capital portion (taxable). For the year ended December 31, 2005, the Fund's return of capital was approximately 53% as compared to 62% for the same period in the prior year.

Liquidity and Capital Reserves

For the quarter ended December 31, 2005, the Fund had $11.4 million of cash and cash equivalents. As at December 31, 2005, the Fund had positive net working capital of $2.9 million. The surplus is in part a result of the Fund generating excess cash over distributions.

During the quarter ended December 31, 2005, the Fund incurred capital expenditures of $2.6 million, as compared to $5.2 million in the comparable period in 2004. During the year ended December 31, 2005, the Fund incurred capital expenditures of $15.9 million, as compared to $17.3 million for the comparable period in 2004. Capital expenditures during the quarter ended December 31, 2005 were primarily growth related expenditures in the Infrastructure Division. Capital expenditure requirements are anticipated to be approximately $34 million for all of fiscal 2006. The majority of these expenditures are growth related expenditures in the Infrastructure Division, in part to comply with new rules pertaining to arsenic treatment procedures.

Long term liabilities increased to $157.0 million at December 31, 2005 as compared to $120.1 million at December 31, 2004. Long term liabilities primarily consist of project level debt of approximately $87.7 million and an amount of $69.3 million drawn on the Fund's revolving credit facility as compared to project level debt of $90.1 million and an amount of $30.0 million drawn on the Fund's revolving credit facility at the end of the fourth quarter of 2004. Project debt is paid at the project level where adequate cash flows are available to fund the project debt requirements and the debt is generally non-recourse to the Fund. Project debt repayments are deducted in the calculation of cash available for distribution.

The Fund has in place a $145 million revolving credit facility of which $125 million is to be used for acquisitions, investments and letters of credit, and the balance of $20 million is to be used for operating requirements. At the quarter ended December 31, 2005, the Fund had drawn $69.3 million on the acquisition portion of the revolving credit facility. The Fund had $nil drawings on the operating portion of the revolving credit facility.

Subsequent to the end of the year, the Fund drew an additional $26.4 million on its credit facility to fund the construction requirements of AirSource and working capital requirements. In addition, Management reached an agreement with the Fund's senior lenders to increase its credit facility by $30.0 million to $175.0 million. There were no material changes to the terms and conditions of the Fund's credit facility. This increase is effective until July 2006. 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.

During the quarter ended December 31, 2005, the Fund repaid $43.8 million on its credit facility as a result of AirSource repaying a portion of its subordinated debt. The Fund also drew $24.5 million on its facility to further fund the requirements of AirSource and to acquire the infrastructure facility in Arizona. The Fund's total commitment to AirSource is $74.4 million of which the Fund intends to finance initially by utilizing the revolving credit facility. Since the Fund utilizes the revolving credit for growth capital expenditures including acquisitions, the revolving credit has been reduced in the past by the issuance of units and/or debentures to the public. It is anticipated that the revolving credit would be repaid by a future offering of units and/or debentures. At the quarter ended December 31, 2005, the Fund had advanced $20.5 million to AirSource in addition to providing letters of credit of $15.4 million, for a total advance of $35.9 million. Included in the drawings on the credit facility subsequent to the end of the year was $22.9 million to fund the construction requirements of AirSource.

For the quarter ended December 31, 2005 the Fund maintained a long term debt-to-equity ratio (including long term liabilities, other long term liabilities and convertible debentures) of 56%. 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 would be reduced to 31%.

Contractual Obligations

Information concerning contractual obligations as of March 7, 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	$ 243,006	$ 1,005	$ 71,600	$ 2,753	$ 167,648
Other obligations	33,013	22,579	4,901	549	4,984
Total obligations	$ 276,019	$ 23,584	$ 76,501	$ 3,302	$ 172,632

Hollow Dam, New York

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 one year time frame is the Fund's commitment as of March 7, 2006 to advance an additional $15.6 million to AirSource with regards to fulfilling its commitment to AirSource and its commitment of $6.5 million regarding the installation of the additional steam generation and transmission assets required for the sale of steam from the EFW facility.

Unitholders' Equity and Convertible Debentures

As at December 31, 2005, the Fund had 69,691,592 issued and outstanding units. As at March 7, 2006, no additional units had been issued or redeemed.

In 2004, the Fund 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 the Fund at the option of the holder at a conversion price of $10.65 per trust unit, being a ratio of approximately 93.90 trust units for each $1,000 principal. The debentures may not be redeemed by the Fund prior to July 31, 2007. As at December 31, 2005, there were 85,000 convertible debentures outstanding. As at March 7, 2006, no debentures had been presented for conversion.

Dealings with Algonquin Power Group

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

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

Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"). AcG-15 addresses the application of consolidation principles to certain entities that are subject to control on a basis of control other than ownership of voting interests. AcG-15 addresses when an enterprise should include the assets, liabilities and results of activities of such an entity in its consolidated financial statements.

The Fund adopted AcG-15 on a retroactive basis. The adoption had no impact on net earnings or opening deficit. Under the new guidelines, the Fund consolidated the accounts of Algonquin Power Systems Inc and Algonquin Water Services LLC with the accounts of the Fund. There was no material impact on the Fund.

Risk Management

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

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

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

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

Currency fluctuations may affect the cash flows the Fund would realize from its operations, as certain of the Fund businesses sell electricity in the United States and receive proceeds from such sales in US dollars. Such Fund businesses also incur costs in US dollars. The Fund attempts to manage this risk through the use of forward contracts. At the quarter ended December 31, 2005, the Fund had forward contracts to sell US dollars for fiscal 2006 to fiscal 2010 totaling US$ 97.8 million carrying an average rate of $1.34. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Fund has a credit facility and project specific debt of approximately $157.0 million. In the event that the Fund was required to replace these facilities with borrowings having less favourable terms or higher interest rates, the level of cash generated for distribution may be negatively impacted.

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

Changes to income tax laws and the current tax treatment of mutual fund trusts could negatively impact the Fund. Although the Fund is of the view that it currently qualifies under current legislation as a mutual fund trust, there can be no assurance that the legislation will be changed in the future or that Canada Revenue Agency ("CRA") will agree with this position. If the Fund ceases to qualify as a mutual fund trust, the return to unitholders may be adversely affected. In addition, although the Fund is of the view that all expenses being claimed by the Fund are reasonable and that the cost amount of the Fund's depreciable properties have been correctly determined, there can be no assurance that CRA or the Internal Revenue Service will agree. A successful challenge by either agency regarding the deductibility of such expenses or the correctness of such cost amounts could impact the return to Unitholders.

The Fund's water distribution and water reclamation utilities may be located within areas of the United States experiencing high growth. These utilities may have an obligation to service new residential, commercial and industrial customers. While expansion to serve new customers will likely result in improved future cash flows, it may require significant up front capital commitments in the immediate term. Accordingly, the Fund may be required to access capital markets or obtain additional borrowings to finance these future construction obligations.

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

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

Critical Accounting Estimates

The Fund recognizes revenue derived from energy sales at the time energy is delivered. Water reclamation and distribution revenue is recognized when 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.

The Fund books deferred credits received by the Infrastructure Division 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 for a term of 10 years. 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 Fund records the deferred credits based on its expected repayments as determined by historical experience and industry practice.

The Fund records at cost capital assets such as land, facilities and equipment. Improvements that increase or prolong the service life or capacity of an asset are also capitalized at cost. Intangible assets such as power purchase contracts acquired, licensing costs and customer relationship costs are recorded at cost. The Fund reviews capital and intangible assets for permanent impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable.

The Fund enters into forward contracts to hedge against its exposure to the US dollar. Gains and losses from these activities are reported as adjustments to the related revenue or expense account as they are settled.

Outlook

Management will continue to identify opportunities to optimize the performance of its portfolio. Management is focusing its efforts on integrating recently acquired facilities including the hydroelectric facility and water distribution and water reclamation facilities as well as identifying efficiency opportunities to enhance unitholder value.

Cash available for distribution for 2006 is expected to remain in line with distributions to unitholders. Further organic growth in water distribution and reclamation services, continuing average long term hydrologic conditions, the escalation of power prices in certain hydroelectric power purchase agreements, coupled with no unforeseen events should result in improved cash available for distribution.

The Fund continues to be an industry leader in the areas of the environment and health and safety. The Fund maintains continuous health and safety training for all its operations and maintenance staff. All of the Fund's facilities are in compliance in all material respects with local and federal environmental regulations. The Fund continues to upgrade the facilities' environmental controls utilizing best available technology.

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

In keeping with the emerging Ontario Securities Commission requirements, Management will continue the process of completing the review and documentation of its controls and procedures for annual certification of the financial statements.

Disclosure Controls and Procedures

In accordance with the requirements of the Securities Act (Ontario) and other provincial securities legislation, the CEO and CFO of the Fund are required to certify annually that they have designed the Fund's disclosure controls and have evaluated their effectiveness for the applicable period. Disclosure controls are those controls and procedures which ensure that information that is required to be disclosed by Multilateral Instrument 52-109, the Ontario Securities Commission and other provincial regulators is recorded, processed and reported within the time frames specified by regulators.

During 2005, the Fund commenced a review of its Disclosure Policy, and the amended policy was approved by the Trustees of the Fund in December of 2005. In addition, the Disclosure Committee's structured operating routines were further developed, supported by the Disclosure Committee Charter. The underlying importance of this work has been reinforced with the Manager and CFO. Accordingly, it is now written policy that information must be forwarded to the Manager and/or the CFO on a timely basis so that decisions can be made regarding required external disclosures. Although this process has existed for some time, it has now been formalized in written operating procedures.

The Trustees of the Fund have concluded that the disclosure polices and procedures of the Fund will provide reasonable assurance that the Fund's policy of providing timely, consistent, fair and accurate disclosure of material information will be achieved.

Quarterly Financial Information

The following is a summary of unaudited quarterly financial information for the two years ended December 31, 2005.

Millions of dollars except per trust unit amounts

	1st Qtr 2005	2nd Qtr 2005	3rd Qtr 2005	4th Qtr 2005	Total
Revenue	40.6	45.0	42.8	50.9	179.3
Net earnings	1.8	1.6	9.5	8.9	21.8
Net earnings per trust unit	0.03	0.02	0.14	0.13	0.31
Total assets	813.1	822.1	838.2	823.8	823.8
Long term debt	235.6	261.8	286.8	271.5	271.5
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

	1st Qtr 2004	2nd Qtr 2004	3rd Qtr 2004	4th Qtr 2004	Total
Revenue	37.2	41.9	40.7	40.7	160.5
Net earnings	3.3	8.1	11.5	(0.1)	22.8
Net earnings per trust unit	0.05	0.12	0.16	0.00	0.33
Total assets	812.5	809.0	834.2	824.8	824.8
Long term debt	186.4	189.7	214.6	226.2	226.2
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

The quarterly results are impacted by various factors including seasonal fluctuations and acquisition of facilities as noted in this management's discussion and analysis.

Recently Issued Canadian Accounting Standards

Financial Instruments

In January 2005, the CICA issued the following Handbook sections: Section 3855 - "Financial Instruments – Recognition and Measurement", Section 1530 – "Comprehensive Income" and Section 3865 – "Hedges". These new standards will be effective for interim and annual financial statements commencing in 2007. The new standards will require presentation of a separate statement of comprehensive income. Foreign exchange gains and losses on the translation of the financial statements of self-sustaining subsidiaries previously recorded in a separate section of shareholders' equity will be presented in comprehensive income. Derivative financial instruments will be recorded in the balance sheet at fair value and the changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income. The existing principals of Accounting Guideline 13 will be substantially unchanged for hedge documentation. The Fund is assessing the impact of the new standards.

Belleterre, Québec

Windsor Locks, Connecticut

Tajiguas, California

Gold Canyon Sewer Company, Arizona

Auditors' Report

To the Unitholders of Algonquin Power Income Fund

We have audited the consolidated balance sheets of Algonquin Power Income Fund as at December 31, 2005 and 2004 and the consolidated statements of earnings and deficits and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Toronto, Canada
March 7, 2006

Consolidated Balance Sheets

December 31, 2005 and December 31, 2004

(thousands of Canadian dollars)

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ 11,363	$ 34,348
Accounts receivable	29,206	25,819
Prepaid expenses	1,918	2,060
Current portion of notes receivable (note 3)	2,791	2,589
Future income tax asset (note 11)	-	18
	45,278	64,834
Long-term investments (note 3)	57,489	48,561
Future non-current income tax asset (note 11)	7,719	6,425
Capital assets, net of accumulated amortization (note 4)	627,652	610,756
Intangible assets, net of accumulated amortization (note 5)	76,848	83,677
Restricted cash	3,458	3,728
Deferred costs (net of accumulated amortization of $2,425, (2004 - $1,383)	5,357	6,815
	$ 823,801	$ 824,796
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 28,585	$ 33,105
Due to Algonquin Power Group (note 12)	62	99
Cash distribution payable	10,677	10,677
Current portion of long-term liabilities (notes 7 and 9)	1,445	1,666
Current income tax liability	435	596
Future income tax liability (note 11)	1,143	1,449
	42,347	47,592
Long-term liabilities (notes 6 and 7)	157,002	120,085
Convertible debentures (note 8)	85,000	85,000
Other long-term liabilities (note 9)	10,435	8,960
Deferred credits	19,102	12,124
Future non-current income tax liability (note 11)	56,917	55,764
Unitholders' equity		
Trust units (note 10)	654,176	654,176
Deficit	(201,178)	(158,905)
	452,998	495,271
Commitments and contingencies (notes 2 and 13)		
Guarantees (note 20)		
Subsequent events (note 21)		
	$ 823,801	$ 824,796

See accompanying notes to the consolidated financial statements

Approved by the Trustees

George Steeves

K Moore

Consolidated Statements of Earnings and Deficit

For the years ended December 31, 2005 and December 31, 2004
(thousands of Canadian dollars except per trust unit)

	2005	2004
Revenue		
Energy sales	$ 136,038	$ 122,981
Waste disposal fees	13,031	14,086
Water reclamation and distribution	28,371	23,456
Other revenue	1,884	-
	179,324	160,523
Expenses		
Operating	106,691	94,640
Amortization of capital assets	27,325	26,730
Amortization of intangible assets	6,463	5,565
Management costs (note 12)	825	777
Administrative expenses	5,681	5,596
Withholding taxes	1,177	483
Gain on foreign exchange	(1,744)	(2,601)
	146,418	131,190
Earnings before undernoted	32,906	29,333
Interest expense	(16,379)	(12,440)
Interest, dividend and other income (note 17)	11,398	10,943
Write down of fixed assets and intangible assets (notes 4 and 5)	(3,533)	(1,932)
	(8,514)	(3,429)
Earnings before income taxes and minority interest	24,392	25,904
Current income taxes (note 11)	854	1,105
Future income taxes (note 11)	1,750	1,180
	2,604	2,285
Minority interest	-	817
Net earnings	21,788	22,802
Deficit, beginning of year	(158,905)	(118,337)
Cash distributions (note 15)	(64,061)	(63,370)
Deficit, end of year	$ (201,178)	$ (158,905)
Basic and diluted net earnings per trust unit (note 16)	$ 0.31	$ 0.33

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and December 31, 2004
(thousands of Canadian dollars)

	2005	2004
Operating Activities		
Net earnings	$ 21,788	$ 22,802
Items not affecting cash		
Amortization of capital assets	27,325	26,730
Amortization of intangible assets	6,463	5,565
Other amortization	1,339	2,331
Minority interest	-	817
Distribution received in excess of equity income	208	(16)
Future income taxes	1,750	1,180
Write down of fixed and intangible assets	3,533	1,932
AirSource commitment fee (note 3)	3,228	500
Gain on foreign exchange	(2,023)	(2,460)
	63,611	59,381
Changes in non-cash operating working capital	(7,932)	7,204
	55,679	66,585
Financing Activities		
Cash distributions	(64,061)	(63,370)
Issue costs of trust units	-	(700)
Convertible debenture issue (note 8)	-	85,000
Expenses of convertible debenture issue (note 8)	205	(4,100)
Deferred costs	(1,154)	(2,305)
Increase in long-term liabilities	93,080	30,000
Decrease in long-term liabilities	(55,310)	(71,969)
Deferred credits	(290)	426
Other	317	(1,117)
	(27,213)	(28,135)
Investing Activities		
Decrease in restricted cash	270	235
Receipt of principal on notes receivable	9,697	21,988
Additions to capital assets	(15,912)	(17,336)
Acquisition of notes receivable	(16,241)	(13,917)
Acquisitions of operating entities net of cash acquired (note 2)	(28,952)	(15,159)
	(51,138)	(24,189)
Effect of exchange rate differences on cash and cash equivalents	(313)	(1,151)
Increase / (decrease) in cash and cash equivalents	(22,985)	13,110
Cash and cash equivalents, beginning of year	34,348	21,238
Cash and cash equivalents, end of year	$ 11,363	$ 34,348
Supplemental disclosure of cash flow information		
Cash paid during the year for interest expense	$ 15,753	$ 9,441
Cash paid during the year for income taxes	$ 871	$ 1,624
Non-cash		
Issue of trust units to retire convertible debentures of KMS	$ -	$ 16,663

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars except as noted and per trust unit)

Algonquin Power Income Fund (the "Fund") is an open-ended, unincorporated trust established pursuant to the Declaration of Trust dated September 8, 1997, as amended, under the laws of the Province of Ontario. The Fund's principal business activity is the ownership, directly or indirectly, of generating and infrastructure facilities, through investments in securities of subsidiaries including limited partnerships and other trusts. The activities of the subsidiaries may be financed through equity contributions, interest bearing notes and third party project debt as described in the notes to the financial statements. The revolving credit facility and the convertible debentures are direct obligations of the Fund.

The Trustees declare on a monthly basis, distributions to the Unitholders. Currently such distributions are $0.92 per unit on an annualized basis.

The Fund is managed by Algonquin Power Management Inc. ("APMI"), a company wholly owned by the four principal employees of APMI who provide management services for the Fund. A majority of the shareholders of APMI indirectly own Algonquin Airlink Limited Partnership which owns an aircraft the Fund charters. The shareholders of APMI own Algonquin Property LP which leases the corporate office to the Fund. Collectively, these entities are referred to as the Algonquin Power Group.

1. Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in Canada and include the consolidated accounts of all of its subsidiaries. The Fund consolidates its proportionate share in the Valley Power Limited Partnership.

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"). AcG-15 addresses the application of consolidation principles to certain entities that are subject to control on a basis of control other then ownership of voting interests. AcG-15 addresses when an enterprise should include the assets, liabilities and results of activities of such an entity in its consolidated financial statements. The Fund adopted AcG-15 on a retroactive basis. The adoption had no impact on net earnings or opening deficit.

All significant intercompany transactions and balances have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents include cash deposited at banks and highly-liquid investments with original maturities of 90 days or less.

(c) Restricted cash

Cash reserves segregated from the Fund's cash balances are maintained in accounts administered by a separate agent and disclosed separately in these consolidated financial statements as the Fund cannot access this cash without the prior authorization of parties not related to the Fund.

(d) Capital assets

Capital assets, being land, facilities and equipment, are recorded at cost. Development costs, including the cost of acquiring or constructing facilities together with the related interest costs during the period of construction are capitalized. Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

The facilities and equipment, which include overhauls, are amortized on a straight-line basis over their estimated useful lives. For facilities these periods range from 15 to 40 years. Facility equipment is amortized over 2 to 10 years.

(e) Intangible assets

Power purchase contracts acquired are amortized on a straight-line basis over the remaining term of the contract. These periods range from 6 to 15 years from date of acquisition.

Customer relationships are amortized on a straight-line basis over 40 years.

(f) Impairment of long-lived assets

The Fund reviews capital assets and intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to expected future cash flows. If the carrying amount exceeds the expected future cash flows, the asset is written down to its fair market value.

(g) Notes receivable

Notes receivable are carried at cost. A provision for credit losses on notes receivable is charged to the statement of earnings and deficit to cover any losses of principal and accrued interest.

(h) Deferred costs

Deferred costs, which include the costs of arranging the credit facility, costs associated with the issuance of convertible debentures, costs associated with periodic customer rate reviews with the utility governing bodies for the water reclamation and distribution facilities, are amortized on a straight-line basis over the term of the expected benefit being 2 to 7 years.

(i) Long-term investments

Investments in which the Fund has significant influence but not control or joint control are accounted using the equity method. The Fund records its share in the income or loss of its investees in interest, dividend and other income in the consolidated statement of earnings and deficit. All other equity investments where the Fund does not have significant influence or control are accounted for under the cost method. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in value, distributions of earnings and additional investments.

(j) Deferred credits

Certain of the water companies receive advances from developers for water and sewage main extensions. The amounts advanced are generally repaid over a period of 10 years based on 10% of the revenues generated by the housing/development in the area developed. Generally, advances not refunded within the specified period are not required to be repaid. The estimate of non-refundable amounts is credited against capital assets. The Fund also receives contributions in aid of construction with no repayment requirements in which the full amount is immediately treated as a capital grant and netted against capital assets.

Deferred water rights result from a hydroelectric generating facility which has a fifty-year water lease with the first ten years of the water lease requiring no payment. An average rate was estimated over the life of the lease and a deferral was booked based on this estimate which is being drawn down in the last forty years.

Commitment fees received associated with the financing to AirSource are amortized over the term of the financing facility, being 9 years (note 3).

(k) Recognition of revenue

Revenue derived from energy sales, which are mostly under long-term power purchase contracts, is recorded at the time electrical energy is delivered.

Water reclamation and distribution revenues are recorded when delivered to customers.

Revenue from waste disposal is recognized on 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 rate is deferred.

Interest and dividend income from long-term investments is recorded as earned.

(l) Foreign currency translation

The Fund's United States subsidiaries and partnership interests are considered to be functionally integrated with the Canadian operations. All monetary assets and liabilities denominated in United States dollars are translated into Canadian dollars at year-end exchange rates, whereas non-monetary assets and liabilities are translated at the rate in effect at the transaction date. The revenues and expenses of these integrated operations are translated at the average rate of exchange in effect during the period. The foreign currency translation adjustment is reflected in the consolidated statement of earnings and deficit. Amortization of assets translated at historical exchange rates are translated at the same exchange rate as the assets to which they relate.

(m) Derivatives contracts

The Fund enters into forward contracts to hedge against possible fluctuations in its exposure to the US dollar. Gains and losses from these activities are reported as adjustments to the related revenue account as they are settled and no balance is carried on the consolidated balance sheet.

The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Fund also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(n) Asset retirement obligations

The fair value of estimated asset retirement obligations is recognized in the consolidated balance sheets when identified and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The asset retirement costs are depreciated over the asset's estimated useful life and included in amortization expense on the consolidated statement of earnings and deficit. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the consolidated statement of earnings and deficit. Actual expenditures incurred are charged against the accumulated obligation.

(o) Income taxes

As the Fund is an unincorporated trust, it is entitled to deduct distributions to unitholders to the extent of its taxable income and consequently, it is expected that the Fund will not be liable for any material tax as this will be the responsibility of the individual unitholder. Any provision for income taxes will relate solely to the income taxes of the Fund's wholly owned subsidiaries.

Income taxes are accounted for using the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment or substantive enactment.

A valuation allowance is recorded against future tax assets to the extent that it is more likely than not the future tax asset will not be realized.

(p) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the years presented, management has made a number of estimates and valuation assumptions, including the useful lives and recoverability of capital assets and intangible assets, the recoverability of notes receivable and long-term investments, the recoverability of future tax assets, the portion of aid-in construction payments that will not be repaid, and the fair value of financial instruments and derivatives. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

(q) Comparatives

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

2. Acquisitions

A) i) On March 11, 2005, the Fund purchased all the assets used in the operation of five water distribution and water reclamation facilities ("the systems") for cash consideration of $11.2 million (US $ 9.4 million). A deposit in the amount of $1.4 million (US $1.0 million) was paid in 2004. The systems, which in aggregate serve approximately 4,200 equivalent residential connections, are located in Texas and Illinois. The purchase and sale agreement provided for the acquisition of 3 additional assets, subject to regulatory approval, located in Missouri serving approximately 1,000 customers, for a purchase price of $4.6 million (US $3.8 million). On August 14, 2005, the Fund received approval from the regulator and completed the Missouri acquisitions. The Fund also incurred $0.4 million (US $0.3 million) of acquisition costs.

ii) On September 21, 2005, the Fund purchased the Beaver Falls Hydro Plant, a 2.5 MW hydro electric generating station located in Beaver Falls, New York, for cash consideration of $1.0 million (US $0.8 million). Electrical energy produced by the facility is sold to Niagara Mohawk under a power sales contract which expires in 2019. The Fund also incurred $0.1 million (US $0.1 million) of acquisition costs. The Fund has included $1.8 million (US $1.5 million) in deferred credits related to below market hydro rates in the power purchase agreement which will be amortized over the term of the agreement.

iii) On December 2, 2005, the Fund acquired the shares of Rio Rico Utilities Inc. ("Rio Rico") located in the Town of Rio Rico, Arizona, for $10.2 million (US $8.8 million), in the Infrastructure operating segment. The company owns and operates the potable water distribution and water reclamation utility assets. The Fund also incurred $0.2 million (US $0.2 million) of acquisition costs. The Fund will also pay to the vendor for additional customers connected with Rio Rico over the next three years. At December 31, 2005, Rio Rico services approximately 7,200 water and wastewater customers.

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

	Infrastructure	Hydroelectric	Total
Working capital	$ 609	$ -	$ 609
Fixed assets	19,647	2,910	22,557
Intangible assets	3,361	-	3,361
Future non-current income tax asset	3,369	-	3,369
Customer deposits	(154)	-	(154)
Deferred credits	(163)	(1,770)	(1,933)
Total purchase price	26,669	1,140	27,809
Less: cash acquired	(187)	-	(187)
Less: deposit paid in 2004	(1,368)	-	(1,368)
Cash consideration paid	$ 25,114	$ 1,140	$ 26,254

Intangible assets in infrastructure include customer relationships that are amortized over 40 years.

B) On September 30, 2004, the Fund acquired an interest in 12 landfill gas powered generating stations (the "LFG Facilities") representing approximately 36MW of installed capacity for total consideration of $11,374 (US $9,000). The majority of the LFG facilities were commissioned in the late 1990's. The electricity produced is sold to a number of large utilities pursuant to long-term power purchase agreements with an average termination date of 2011.

The acquisition has been accounted for using the purchase method, with earnings from operations included from the date of acquisition.

The consideration paid by the Fund has been allocated to net assets acquired as follows:

	Alternative Fuels
Working capital	$ 1,350
Capital assets	8,621
Intangible assets	1,746
Total purchase price	11,717
Less: cash acquired	(343)
Cash consideration paid	$ 11,374

Intangible assets represent the value of power purchase contracts acquired with the LFG facilities and are amortized over the remaining life of the contracts from date of acquisition ranging from 1 to 16 years.

C) In accordance with the purchase and sale agreements of Litchfield Park and Woodmark Utility Company additional amounts are required to be paid to the vendors for additional customers connected to the facilities. For Litchfield Park, these payments continue until 2008 and for Woodmark until 2007. The additional payments of $2,698 (2004-$3,783) are capitalized as part of the customer relationship intangible asset, gross of future income taxes of $1,627 (2004-$2,279).

	2005	2004
Litchfield Park	$ 2,584	$ 3,624
Woodmark	114	159
	$ 2,698	$ 3,783
In US$	$ 2,300	$ 2,944

3. Long-term investments

	2005	2004
Debt and equity interests, ranging in ownership between 12.1% to 32.4%, in four generating facilities.	$ 27,346	$ 30,556
A 45% partnership interest in the Algonquin Power (Rattle Brook) Partnership	3,719	3,787
A 50% partnership interest in Campbellford Limited Partnership	392	-
	31,457	34,343
Campbellford Note Note bearing interest of 9.9415% repayable in monthly blended installments (principal and interest) of $32, maturing February 28, 2015.	-	3,023
Across America Note Note bearing interest of 12.00% repayable in quarterly installments, (principal and interest) of US$ 635, maturing January 31, 2008.	6,185	8,004
Airsource Note Note bearing interest of 11.189% maturing September 30, 2014. Interest decreases to 10.739% after conversion. No principal payments until January 1, 2009.	20,481	5,512
Airlink Advance (note 12) Advance for expense reimbursement for business use of aircraft	1,212	-
Other	945	268
	28,823	16,807
	60,280	51,150
Less: current portion	2,791	2,589
	$ 57,489	$ 48,561

The above notes are secured by the underlying assets of the respective facilities.

On September 1, 2005, the principal on the Campbellford Note of $4,738 was repaid. On this date, consolidation of the Campbellford investment ceased and equity accounting commenced. The proceeds of $4,738 were allocated to reduce the existing note receivable and the existing investment in Campbellford. A prepayment fee is due as a result of the early prepayment and included in other above.

During 2005, the Fund has provided an additional $14,969 of financing to AirSource Power Fund I LP ("AirSource") for the construction of the wind farm in St. Leon and $15,395 in letters of credit. The total outstanding balance at December 31, 2005 was $20,481. The Fund received a $3,228 commitment fee in 2005, which has been deferred and is being amortized over the term of the financing facility being 9 years. The Fund's total commitment to AirSource is $74,400.

4. Capital assets

		2005	
	Cost	Accumulated amortization	Net book value
Land	$ 11,504	$ -	$ 11,504
Facilities	712,845	104,650	608,195
Equipment	14,584	6,631	7,953
	$ 738,933	$ 111,281	$ 627,652

Facilities include $90,296 (2004 - $89,889) of net assets under capital lease and $8,433 (2004 - $849) of construction in process. In addition, $11,329 (2004 - $18,557) of contributions received in aid of construction have been credited to facilities cost.

The Fund has entered into an agreement to sell steam from the Algonquin Power Energy-from-Waste facility to an industrial customer located in close proximity to the Algonquin Power Energy-from-Waste facility. To effect such sales, the Fund will incur the costs of certain additional steam generation and transmission assets. The Fund has committed to contractual arrangements to the project totaling approximately $9,800. The Fund has incurred amounts totaling $2,418 (2004 -$849) included in assets under construction. APC is entitled to 50% of the cashflow above 15% return on investment.

During 2005, the Fund wrote down the cost of both the capital asset and intangible asset related to the Crossroads facility located in New Jersey to its estimated fair value.

		2004	
	Cost	Accumulated amortization	Net book value
Land	$ 11,504	$ -	$ 11,504
Facilities	676,120	85,228	590,892
Equipment	12,623	4,263	8,360
	$ 700,247	$ 89,491	$ 610,756

During 2004, the Fund wrote off the cost of both the capital asset and intangible asset related to the Joliet facility located in Illinois. Management deemed that the facility was no longer economically viable.

5. Intangible assets

	2005		
	Cost	Accumulated amortization	Net book value
Power purchase contracts	$ 73,966	$ 25,234	$ 48,732
Customer relationships	29,109	1,167	27,942
Licenses and agreements	696	522	174
	$ 103,771	$ 26,923	$ 76,848

	2004		
	Cost	Accumulated amortization	Net book value
Power purchase contracts	$ 73,966	$ 11,417	$ 62,549
Customer relationships	21,423	528	20,895
Licenses and agreements	696	463	233
	$ 96,085	$ 12,408	$ 83,677

6. Revolving credit facility

In August 2005, the Fund renewed its revolving credit facility with a syndicate of Canadian banks. The credit facility matures August 30, 2007, and has a total credit limit of $145,000 and includes a $20,000 operating line. At December 31, 2005, $69,300 (2004 - $30,000) has been drawn on the revolving credit facility and no amount was outstanding on the operating line. In addition, the availability of the revolving credit facility has been reduced by $44,883 (2004- $30,878) for certain outstanding letters of credit. The terms of the credit agreement require the Fund to pay a standby charge of 0.30% on the unused portion of the revolving credit facility and maintain certain financial covenants. The facility is secured by a fixed and floating charge over all Fund entities.

7. Long-term liabilities

	2005	2004
Senior Debt Long Sault Rapids		
Interest at rates varying from 10.16% to 10.21% repayable in monthly blended installments of $402, maturing December, 2028.	$ 42,868	$ 43,310
Senior Debt Chute Ford		
Interest rate of 11.55% repayable in monthly blended installments of $64, maturing April, 2020.	5,335	5,473
Sanger Bonds		
California Pollution Control Finance Authority Variable Rate Demand Resource Recovery Revenue Bonds Series 1990A, payable monthly, maturing September, 2020. US $19,200. The effective interest rate for 2005 is 2.50%. (2004 – 1.29%).	22,385	23,109
Bella Vista Water Loans		
Water Infrastructure Financing Authority of Arizona Interest rates of 6.10% and 6.26% repayable in monthly and quarterly installments, maturing December, 2017 and March, 2020. The balance of these notes at December 31, 2005 was US $134 and US $1,802 respectively (2004 – US $141 and US $1,872).	2,257	2,422
Litchfield Park Service Company Bonds		
1999 and 2001 IDA Bonds. Interest rates of 5.87% and 6.71% repayable in semi-annual installments, maturing October 2023 and October 2031. The balance of these notes at December 31, 2005 was US $5,086 and US $8,339, respectively (2004 – US $5,254 and US $8,423).	15,653	16,462
Revolving credit facility (note 6)		
Revolving line of credit interest rate is equal to bankers acceptance or LIBOR plus 1.125 %. The effective rate of interest for 2005 was 4.16% (2004 – 4.56%).	69,300	30,000
Other	209	241
	$ 158,007	$ 121,017
Less: current portion	(1,005)	(932)
	$ 157,002	$ 120,085

Each of the facility level debt is secured by the respective facility with no other recourse to the Fund. The loans have certain financial covenants, which must be maintained on a quarterly basis. Non compliance with the covenants could restrict cash distributions to the Fund from specific facilities. Interest paid on the long-term liabilities was $9,588 (2004 – $12,000).

Principal payments due in the next five years and thereafter are:

2006	$ 1,005
2007	1,097
2008	70,503
2009	1,313
2010	1,440
Thereafter	82,649
	$ 158,007

8. Convertible debentures

In 2004, the Fund issued 85,000 convertible unsecured subordinated debentures at a price of $1 per debenture for gross proceeds of $85,000 and net proceeds of $81,105. The debenture issue costs of $3,895 are deferred and amortized over the term of the convertible debentures. The debentures are due July 31, 2011 and bear interest at 6.65% per annum, payable semi-annually in arrears on January 31 and July 31 each year. The convertible debentures 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 93.8967 trust units per $1 principal amount of debentures in trust units or cash. The debentures may not be redeemed by the Fund prior to July 31, 2007. The Fund performed an evaluation of the embedded holder option and determined that its value was nominal and as a result the entire amount of the debenture is classified as a liability.

Total interest on the convertible debentures in 2005 was $5,653 (2004 - $2,555).

9. Other long-term liabilities

	2005	2004
Subsidy		
A portion of the revenue received by a subsidiary of the Fund for the sale of electricity was considered a subsidy. US $3,685.	$ 4,049	$ 3,942
Bonds Payable		
Obligation to the City of Sanger due October 1, 2011 at interest rates varying from 5.15% to 5.55%. US $1,205 (2004 – US $1,370).	1,405	1,649
Customer Deposits		
Each facility in the Infrastructure Division is obligated by its respective State Regulator to collect a deposit from each customer of its facilities when services are connected. The deposits are refundable when allowed under the facilities' regulatory agreement.	3,061	2,850
Capital Leases		
Obligation for equipment leases.	2,360	853
Other	-	400
	10,875	9,694
Less: current portion	(440)	(734)
	$ 10,435	$ 8,960

Principal payments due in the next five years and thereafter are:

2006	$ 440
2007	4,497
2008	404
2009	274
2010	275
Thereafter	4,985
	$ 10,875

Interest paid on other long-term liabilities was $315 (2004 – $440).

10. Trust units

Authorized trust units

The Declaration of Trust provides that an unlimited number of units may be issued. Each unit represents an undivided beneficial interest in any distribution from the Fund and in the net assets in the event of termination or wind-up. All units are the same class with equal rights and privileges.

Trust units are redeemable at the holder's option at amounts related to market prices at the time subject to a maximum of $250 in cash redemptions in any particular calendar month. Redemptions in excess of this amount shall be paid by way of a distribution in kind of a pro rata amount of certain of the Fund's assets, including the securities purchased by the Fund, but not to include the generating facilities.

Issued trust units

	Number of units	**Amount**
Balance as at December 31, 2003	67,887,612	$ 638,213
Issued pursuant to acquisition of the remaining 52.7% of the outstanding principal amount of convertible debentures of KMS Power Income Fund.	1,803,980	16,663
Issue costs		(700)
Balance as at December 31, 2005 and 2004	69,691,592	$ 654,176

11. Income taxes

The provision for income taxes in the consolidated statements of earnings represents an effective tax rate different than the Canadian enacted statutory rate of 33.61% (2004 – 33.66%). The differences are as follows:

	2005	2004
Earnings before income tax and minority interest	$ 24,392	$ 25,904
Less: income taxed directly in hands of unitholders, not the Fund	(35,163)	(36,090)
Earnings / (losses) of taxable entities	(10,771)	(10,186)
Computed income tax expense (recovery) at Canadian statutory rate	(3,620)	(3,429)
Increase (decrease) resulting from:		
Change in substantively enacted tax rate	1,259	-
Operating in countries with different income tax rates	223	996
Valuation allowances	9,191	6,090
Manufacturing and processing deduction	121	53
Large corporations tax, alternative minimum tax and state taxes	8	249
Unrealized foreign exchange rate difference	(680)	(828)
Other	(3,898)	(846)
Income tax expense	$ 2,604	$ 2,285

The tax effect of temporary differences at the Fund's subsidiaries that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2005 and 2004 are presented below:

	2005	2004
Future tax assets:		
Non-capital loss, debt restructuring charges and currently non-deductible interest carryforwards	$ 15,079	$ 14,626
Unrealized foreign exchange differences on US entity debt	17,330	15,109
Customer advances in aid of construction – difference between net book value and tax value	4,572	3,794
Total future tax assets	36,981	33,529
Less: Valuation allowance	(33,193)	(24,002)
	3,788	9,527
Future tax liabilities:		
Capital assets – differences between net book value and undepreciated capital cost	(39,690)	(43,495)
Intangible assets – difference between net book value and cumulative eligible capital	(12,759)	(15,678)
Other	(1,680)	(1,124)
Total future tax liabilities	(54,129)	(60,297)
Net future tax liability	$ (50,341)	$ (50,770)
Classified in the financial statements as:		
Future current income tax asset	$ -	$ 18
Future non-current income tax asset	7,719	6,425
Future current income tax liability	(1,143)	(1,449)
Future non-current income tax liability	(56,917)	(55,764)
	$ (50,341)	$ (50,770)

At December 31, 2005, the Fund itself has financing expenses and underwriters' fees of $4,665 (2004 - $9,148) which will be deductible by the Fund and which will reduce the ultimate amount taxable to the unitholders over the next four years. This will be offset by additions to the unitholders' taxable income since the Fund's capital assets have an accounting basis which exceeds their tax basis by $8,111 (2004 - $6,643). In addition, two trusts wholly owned by the Fund have capital assets with an accounting basis which exceeds their tax basis by $1,706 (2004 - $3,850).

12. Algonquin Power Group

In addition to the transactions described in note 3 with AirSource and note 4 with APC, the following related party transactions occurred:

APMI provides management services including advice and consultation concerning business planning, support, guidance and policy making and general management services. In 2005 and 2004, APMI was paid on a cost recovery basis for all costs incurred and charged $825 (2004-$777). APMI is also entitled to an incentive fee of 25% on all distributable cash generated in excess of $0.92 per trust unit. During 2005 and 2004 no incentive fees were earned by APMI.

The Fund has leased its head office facilities since 2001 from an entity owned by the shareholders of APMI on a net basis. Base lease costs for 2005 were $296 (2004 - $263) and additional rent representing operating cost was $198 (2004 - $120).

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

13. Contingencies

(a) Land and Water Leases

Certain of the operating entities have entered into agreements to lease either the land and/or the water rights for the hydroelectric generating facility or to pay in lieu of property tax an amount based on electricity production. The terms of these leases continue up to 2048. These payments typically have a fixed and variable component. The variable fee is generally linked to actual power production or gross revenue. The Fund incurred $2,394 during 2005 (2004 - $2,919) in respect of these agreements for the consolidated facilities.

(b) Contingencies

The Fund and its subsidiaries are involved in various claims and litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Fund's exposure to such litigation to be material to these financial statements.

14. Fair value of financial instruments and derivatives

The carrying amount of the Fund's cash and cash equivalents, accounts receivable, funds held in reserve, accounts payable and accrued liabilities, due to Algonquin Power Group and cash distribution payable, approximate fair market value.

The carrying amount of the Fund's long-term investments is dependant on the underlying operations and accordingly a fair value is not readily available. The Fund has long-term liabilities at fixed interest rates. The fair value of these long-term liabilities at current rates would be $160,284 (2004 - $121,931). The book value of these long-term liabilities is $158,007 (2004 - $121,017). The fair value of other long-term liabilities approximates their carrying value, with the exception of the Joliet subsidy which is not readily available.

Deferred credits include payments made by developers to the Infrastructure Division of which a portion based on revenue for the development in question needs to be paid back over time. These amounts do not bear interest and the amount to be repaid is uncertain and not determinable. The carrying value is estimated based on historical payment patterns.

The Fund has entered into foreign exchange contracts to manage its exposure to the US dollar as significant cash flows are generated in the US. The Fund sells specific amounts of currencies at predetermined dates and exchange rates which are matched with the anticipated operational cash flows. Contracts in place at December 31, 2005 amounted to US $97,808 until 2010 at a weighted average exchange rate of $1.34. The fair value of the outstanding futures contracts is $17,053 at December 31, 2005 (2004 – $16,600).

15. Cash distributions

Distributable income, is distributed monthly. Distributions are declared to unitholders of record on the last day of the month and are distributed 45 days after declaration. The monthly distribution for 2005 was $0.0766 per trust unit for each month for a total of $0.92 for 2005, the same as 2004.

16. Basic and diluted net earnings per trust unit

Net earnings per trust unit has been calculated using the weighted average number of units outstanding during the year. The weighted average number of units outstanding for 2005 was 69,691,592 (2004 – 68,821,431). The net earnings per trust unit for 2005 was $0.31 (2004 - $0.33). The effect of conversion of the convertible debentures into trust units was not included in the computation of fully diluted net earnings per trust unit as the effect of conversion would be anti-dilutive.

17. Other income

Other income includes the following items:

	2005	2004
Interest income	$ 4,884	$ 2,846
Dividend income	3,470	2,928
Income from note receivable prepayment	-	3,634
Sale of gas collection partnership interest	1,204	-
Equity income	333	378
Other	1,507	1,157
	$ 11,398	$ 10,943

18. Segmented information

	2005	2004
Revenue		
Canada	$ 48,679	$ 51,725
United States	130,645	108,798
	$ 179,324	$ 160,523
Capital assets		
Canada	$ 309,669	$ 319,445
United States	317,983	291,311
	$ 627,652	$ 610,756
Intangible assets		
Canada	$ 25,260	$ 27,262
United States	51,588	56,415
	$ 76,848	$ 83,677

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

Operational segments

The Fund identifies four business categories it operates in: hydro, natural gas cogeneration, alternative fuels and infrastructure assets. The operations and assets for these segments are outlined on the following page:

Revenue	Year ended December 31, 2005 Hydro	Cogeneration	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	44,102	75,674	16,262	-	-	136,038
Waste disposal fees	-	-	13,031	-	-	13,031
Water reclamation and distribution	-	-	-	28,371	-	28,371
Other revenue	-	1,884	-	-	-	1,884
Total Revenue	44,102	77,558	29,293	28,371	-	179,324
Operating expenses	17,008	52,822	25,014	11,847	-	106,691
Operating profit	27,094	24,736	4,279	16,524	-	72,633
Other administration costs	(99)	-	(130)	(106)	(5,604)	(5,939)
Interest expense	(5,068)	(987)	(385)	(1,140)	(8,799)	(16,379)
Interest, dividend and other income	1,250	3,471	6,494	44	139	11,398
Write down of capital and intangible assets	-	(3,533)	-	-	-	(3,533)
Amortization of capital assets	(9,672)	(6,714)	(5,155)	(5,784)	-	(27,325)
Amortization of intangible assets	(1)	(3,429)	(2,336)	(697)	-	(6,463)
Earnings before income taxes and minority interest	13,504	13,544	2,767	8,841	(14,264)	24,392
Capital assets	276,850	91,591	93,072	166,139	-	627,652
Intangible assets	20	22,295	26,438	28,095	-	76,848
Capital expenditures	436	(120)	5,234	10,127	235	15,912
Acquisition of operating entities	1,140	-	-	27,812	-	28,952
Total assets	295,834	146,158	162,431	206,900	12,478	823,801

Revenue	Year ended December 31, 2004 Hydro	Cogeneration	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	43,268	71,846	7,867	-	-	122,981
Waste disposal fees	-	-	14,086	-	-	14,086
Water reclamation and distribution	-	-	-	23,456	-	23,456
Total Revenue	43,268	71,846	21,953	23,456	-	160,523
Operating expenses	18,070	50,597	15,124	10,849	-	94,640
Operating profit	25,198	21,249	6,829	12,607	-	65,883
Other administration costs	(137)	-	(152)	(84)	(3,882)	(4,255)
Interest expense	(5,177)	(772)	(355)	(1,135)	(5,001)	(12,440)
Interest, dividend and other income	1,185	4,024	1,352	9	4,373	10,943
Write down of capital and intangible assets	-	-	(1,932)	-	-	(1,932)
Amortization of capital assets	(9,598)	(6,741)	(4,901)	(5,490)	-	(26,730)
Amortization of intangible assets	(1)	(2,849)	(2,212)	(503)	-	(5,565)
Earnings before income taxes and minority interest	11,470	14,911	(1,371)	5,404	(4,510)	25,904
Capital assets	285,860	90,868	94,562	139,466	-	610,756
Intangible assets	21	33,775	28,775	21,106	-	83,677
Capital expenditures	-	1,514	476	14,833	513	17,336
Acquisition of operating entities	-	-	11,374	3,785	-	15,159
Total assets	307,280	158,023	150,234	176,159	33,100	824,796

All energy sales are earned from contracts with large public utilities. The following utilities contributed more than 10% of these total revenues in either 2005 or 2004: Ontario Electricity Financial Corporation 7% (2004 – 10%), Hydro Québec 13% (2004-15%), Pacific Gas and Electric 12% (2004-15%), and Connecticut Light and Power 25% (2004-24%). The Fund has mitigated its credit risk to the extent possible by selling energy to these large utilities in various North American locations.

19. Joint venture investments

		Fund's Proportionate Share					
	Ownership Interest	Income / (loss) Before Income Tax Year ended December 31		Net Assets December 31		Cashflow Generated from Operations Year ended December 31	
		2005	**2004**	**2005**	**2004**	**2005**	**2004**
Valley Power Limited Partnership	50%	$ 152	$ 281	$ 8,463	$ 9,016	$ 746	$ 875
Campbellford Limited Partnership	50%	(94)	-	3,312	-	140	-
		$ 58	$ 281	$ 11,775	$ 9,016	$ 886	$ 875

20. Guarantees

In the normal course of operations, the Fund executes agreements that provide letters of credit to third parties to secure certain amounts of indebtedness or performance. At December 31, 2005, letters of credit outstanding amounted to $44,883 (2004 - $26,705).

21. Subsequent events

Subsequent to year end, the Fund drew an additional $26.4 million on its credit facility, of which, $22.9 million was used to fund the construction requirements of AirSource. In addition, Management reached an agreement with the Fund's senior lenders to increase its revolving credit facility by $30.0 million to bring the total to $175.0 million. There are no material changes to the terms and conditions of the Fund's revolving credit facility. This increase is effective until July 28, 2006.

Corporate Information and Contacts

Trustees

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

The Management Group

Algonquin Power Management Inc.
Chris K. Jarratt, Chief Executive Officer and Director
John M.H. Huxley, Director
Ian E. Robertson, Director
David C. Kerr, Director

Algonquin Power Income Fund

Peter Kampian, Chief Financial Officer

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

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

Annual General Meeting
April 27, 2005, 4:00 p.m.
Blake, Cassels & Graydon LLP
199 Bay Street, Floor 23
Toronto, Ontario

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

Auditors
KPMG LLP
Toronto, Ontario

Legal Counsel
Blake, Cassels & Graydon LLP
Toronto, Ontario

Algonquin Power: Portfolio of Assets

YEAR	ASSETS	FACILITIES	CAPACITY (MW) / CONNECTIONS
1997	Hydroelectric	14	19
1998	Hydroelectric	29	69
1999	Hydroelectric	38	101
2000	Hydroelectric	41	115
2001	Hydroelectric	47	141
	Cogeneration	Interest in 3	288
	Alternative Fuels	Interest in 3	66
	Infrastructure	2	4,500 connections
2002	Hydroelectric	47	141
	Cogeneration	Interest in 3 Own Operate 2	288 54
	Alternative Fuels	Interest in 3 Own Operate 2	66 13
	Infrastructure	5	13,500 connections
2003	Hydroelectric	47	141
	Cogeneration	Interest in 3 Own Operate 3	288 110
	Alternative Fuels	Interest in 3 Own Operate 2	66 13
	Infrastructure	6	36,800 connections
2004	Hydroelectric	47	141
	Cogeneration	Interest in 2 Own Operate 3	138 110
	Alternative Fuels	Interest in 4 Own Operate 14	165 49
	Infrastructure	6	40,000 connections
2005	Hydroelectric	48	143
	Cogeneration	Interest in 2 Own Operate 3	138 110
	Alternative Fuels	Interest in 4 Own Operate 13	165 46
	Infrastructure	15	56,000 connections

www.algonquinpower.com