

FIRST QUARTER REPORT
MARCH 30, 2005



ALGONQUIN
 **POWER**
Income Fund

STABILITY PERFORMANCE OPPORTUNITY

Report to Unitholders

For the first quarter of 2005, Algonquin Power Income Fund (the "Fund") increased cash available for distribution.

During the quarter the Fund distributed \$0.23 per trust unit, consistent with the first quarter of 2004. The Fund's diversified portfolio of assets contributes to stable and predictable cash distributions to unitholders.

Performance highlights from the first quarter of 2005 include:

- Revenue increased to \$40.6 million in Q1 2005 from \$37.2 million in Q1 2004.
- Net earnings of \$1.8 million in Q1 2005 compared to \$3.3 million in Q1 2004.
- Net earnings per trust unit decreased to \$0.03 in Q1 2005 compared to \$0.05 in Q1 2004.
- Cash available for distribution increased to \$13.9 million (\$0.20 per trust unit) in Q1 2005 from \$13.1 million (0.19 per trust unit) in Q1 2004.

The Fund continues to progress with the integration of Land Fill Gas (LFG) facilities acquired late in 2004 and water/waste water facilities acquired during this quarter. Efficiencies gained through the integration of these facilities will enhance unitholder value by contributing to stable and increasing cash flows throughout the remainder of 2005.

Operational Highlights

Hydroelectric

The Fund's Hydroelectric Division experienced delays in the spring thaw due to prolonged cold weather in Ontario and Quebec. In addition, lower water levels were observed in the St. Lawrence River due to seaway repairs, impacting the Cote Ste. Catherine facility. The Long Sault facility, normally accounting for 20% of gross revenue also experienced significantly lower than normal hydrology in the first quarter of 2005. As a result, power generated by the Fund's hydroelectric facilities was 87% of long-term average power output for an overall decrease of 9.2% over the same period of the previous year.

Regardless of the challenges faced in these facilities, operating profit remained stable at \$6.7 million for the first quarter of 2005, consistent with the first quarter of 2004. This was achieved through lower repair and maintenance costs resulting in a 21% decrease in operating expenses over the first quarter of 2004.

Overall, operating profit in the Hydroelectric Division was below management expectations due to weaker than expected hydrologic conditions.

Cogeneration

The Fund's Cogeneration Division experienced increased revenues over the same quarter in 2004, partly due to improved natural gas price indexing included in certain facility rates. Also contributing to higher revenues was an increased availability rate at the Sanger facility, which had experienced an outage during the first quarter of

2004. First quarter 2005 operating expenses also increased over the first quarter of 2004 due to the same reason.

Overall, operating profit in the Cogeneration Division exceeded management's expectations for the first quarter of 2005.

Alternative Fuels

The Fund's Alternative Fuels Division posted increased revenues and operating profits during the first quarter of 2005. The increased performance is mostly due to the inclusion of \$2.8 million in revenue from the LFG facilities acquired late in 2004. Operating profit was below the same period in the prior year due to lower waste quantities processed at the Algonquin Energy-from-Waste ("Peel") facility, increased costs resulting from management changes at the Peel facility, and higher repair and maintenance costs at the Valley Power facility. These factors were partially offset by the addition of the LFG facilities. The repairs at the Valley Power facility have been completed ahead of schedule, returning the facility to regular performance levels sooner than anticipated.

It is expected that an efficiency improvement at the Peel Energy-from-Waste facility will be realized over the coming months, as new high efficiency air filters have been installed, increasing overall waste throughput.

Overall, the Alternative Fuels Division performed below managements' expectations.

Infrastructure

During the quarter, the Fund completed the purchase of five water and wastewater facilities in Texas and Illinois. In addition to this acquisition, organic growth from an expanding customer base helped offset the lower demand for water during the quarter due to significant increases in the amount of rainfall in the Arizona region. Operating profit increased only slightly over the prior year and was below managements' expectations primarily due to this lower demand for water and heavy rains in the region.

Divisional performance is expected to increase in future quarters as the Fund's water and wastewater facilities experienced annualized growth of 10% and 8% respectively during the first quarter of 2005.

Overall, Algonquin Power Income Fund achieved increased cash available for distribution for unitholders as a result of a strong base of diversified high value assets distributed among the Fund's four operating divisions. As always, management continues to focus on improving the performance of existing assets and securing accretive acquisitions to solidify the stability of distributions to unitholders.

Thank you for your continued support and commitment to Algonquin Power Income Fund.



Ken Moore, *Chairman*

Management's Discussion and Analysis

May 9, 2005

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

For the quarter ended March 31, 2005, Algonquin Power Income Fund (the "Fund") reported total revenue of \$40.6 million compared to \$37.2 million for the same period in 2004. Net earnings for the quarter were \$1.8 million compared to \$3.3 million for the same period in 2004. Net earnings per trust unit decreased to \$0.03 in the first quarter of 2005, from \$0.05 earned in the first quarter of 2004. The Fund generated \$0.20 per trust unit of cash available for distribution, compared to \$0.19 during the first quarter of 2004. During the first quarter of 2005, the Fund maintained distributions at \$0.23 per trust unit, consistent with the same period in 2004.

Operating Results

	Q1 2005	Q1 2004
Revenues	40,600	37,220
Net Earnings	1,840	3,336
Distribution to Unitholders	16,015	15,601
Cash Available for Distribution	13,920	13,063
Per Unit		
Net Earnings	0.03	0.05
Distribution to Unitholders	0.23	0.23
Cash Available for Distribution	0.20	0.19

Revenue for the first quarter of 2005 increased primarily due to the inclusion of revenue from the newly acquired landfill gas facilities (LFG) and improved results from the Fund's co-generation facilities. Net earnings for the first quarter of 2005 were lower than the prior year, mainly as a result of higher interest expenses during the first quarter of 2005 versus the first quarter of 2004, offset partly by a decrease in unrealized foreign exchange losses. The Fund also posted a future tax expense during the first quarter of 2005 compared to a future tax recovery in the first quarter of 2004.

The Fund completed the acquisition of five water and wastewater facilities on March 11, 2005. In addition the Fund intends to complete the acquisition of three water and wastewater facilities in Missouri when regulator approval is completed.

The information in this Management's Discussion and Analysis is supplemental to and should be read in conjunction with the Fund's unaudited consolidated financial statements for the three months ended March 31, 2005, as well as the audited consolidated financial statements and the related Management's Discussion and Analysis contained in the 2004 Annual Report. The Fund's financial statements are

prepared in accordance with accounting principles generally accepted in Canada. The Fund's reporting currency is the Canadian dollar.

The term 'cash available for distribution' is used throughout this Management's Discussion and Analysis. '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 of 'cash available for distribution' can be found in this Management's Discussion and Analysis.



Hydroelectric Division

	Q1 2005	Q1 2004
Performance (MW-hrs sold)		
Quebec Region	49,621	60,857
Ontario Region	26,326	36,728
New England Region	22,773	16,567
New York Region	21,352	19,445
Western Region	<u>9,925</u>	<u>9,586</u>
TOTAL	129,997	143,183
Revenues		
Energy Sales	\$ 10,019	\$ 11,012
Expenses		
Operating Expenses	\$ (3,416)	\$ (4,349)
Interest and Other Income	\$ 121	\$ 71
Division Operating Profit		
(includes Interest and Other Income)	\$ 6,724	\$ 6,734

First quarter revenue from the Hydroelectric Division was \$10.0 million in 2005 compared to \$11.0 million in 2004. During the first quarter of 2005, the Fund's hydroelectric facilities generated electricity equal to 87% of long term averages compared to 96% during the same period in the prior year. This represented an overall decrease in production of 9.2% in the first quarter of 2005 compared to the first quarter of 2004. The Quebec and Ontario regions posted the largest decreases in energy production due to cold weather and consequential ice. The New York and New England regions showed improved energy generation over the same period in the prior year and the western region remained consistent over the same period in the prior year.

Operating expenses decreased to \$3.4 million for the first quarter of 2005 compared to \$4.3 million in the first quarter of 2004. The reduction is primarily due to lower repair and maintenance costs experienced during the first quarter of 2005.

The Division's operating profit of \$6.7 million for the first quarter of 2005 was

consistent with the operating profit generated for the same period in 2004. Operating profit was below management's expectations primarily due to lower than the long term average hydrological conditions.

Outlook

Prolonged cold weather in the Ontario and Quebec regions in which the Fund's hydroelectric facilities are located have delayed the spring thaw, contributing to the reduced hydrology compared to the same period last year. In addition, repairs on the St. Lawrence Seaway over an extended period resulted in lower water levels in the St. Lawrence River and reduced production at another of the Fund's larger facilities at Cote Ste. Catherine. One of the Fund's larger facilities, Long Sault, which accounts for 20% of the total gross revenue, also experienced significantly reduced hydrological conditions. Accordingly, it is expected that the Hydroelectric Division will improve at average to above average levels during the second quarter.

 Cogeneration Division

	Q1 2005	Q1 2004
Performance (MW-hrs sold)	131,625	134,110
Revenues		
Energy Sales	\$ 17,919	\$ 16,021
Expenses		
Operating Expenses	\$ (13,151)	\$ (12,418)
Interest and Dividend Income	\$ 718	\$ 1,146
Division Operating Profit (includes Interest and Dividend Income)	\$ 5,486	\$ 4,749

First quarter revenue from the Cogeneration Division totaled \$17.9 million in 2005 compared to \$16.0 million in 2004. The increase was in part a result of higher energy sales to the paper mill and improved pricing due to natural gas price indexing at the Windsor Locks facility, as well as the 2004 results being negatively impacted by a gas turbine failure at the Sanger facility. The Fund posted lower dividend income earned by the portfolio investments during the first quarter in 2005 compared to the same period in 2004 due to the sale of the Cardinal Notes in the second quarter of 2004.

Operating expenses increased to \$13.2 million in the first quarter of 2005 from \$12.4 million in the first quarter of 2004. Higher fuel costs were posted by the division resulting from the Sanger facility operating for the full quarter with no interruption during the first quarter of 2005 and higher operating costs due to increased energy demand from the adjacent paper mill at the Windsor Locks facility.

Operating profit for the first quarter of 2005 was \$5.5 million compared to \$4.7 million in the first quarter of 2004. Operating profit for the first quarter of 2005 exceeded management's expectations.

Outlook

The Fund's focus will be on maintaining the reliable supply of generation from all facilities and pursuing opportunities to realize additional revenue. The Fund will continue to consider the sale of contracted natural gas when favourable pricing in the natural gas markets exists. In addition the Fund will assess opportunities to maximize returns on its assets, including renegotiating the energy contracts.



Alternative Fuels Division

	Q1 2005	Q1 2004
Performance (MW-hrs sold)	56,866	27,004
Performance (tonnes waste processed)	37,631	38,468
Revenues		
Energy Sales	\$ 4,152	\$ 1,496
Waste Disposal Sales	3,316	3,424
TOTAL	\$ 7,468	\$ 4,920
Expenses		
Operating Expenses	\$ (6,101)	\$ (3,225)
Interest and Dividend Income	\$ 918	\$ 218
Division Operating Profit		
(includes Interest and Dividend Income)	\$ 2,285	\$ 1,913

First quarter revenue from the Alternative Fuels Division totaled \$7.5 million in 2005 compared to \$4.9 million in 2004. The increase in energy revenue in the first quarter of 2005 over the same period in 2004, was primarily the result of the inclusion of revenue from the LFG facilities. The LFG facilities, which were acquired at the end of the third quarter in 2004, contributed approximately \$2.8 million (U.S. \$2.3 million). The revenue added by LFG was partially offset by lower waste quantities processed at the Algonquin Energy-from-Waste facility ("Peel") due to equipment problems during the beginning of the quarter and continued issues with the flue gas systems and an unplanned outage at the Valley Power facility. The Fund posted higher interest and dividend income earned by the portfolio investments during the first quarter in 2005 as a result of income from the AirSource Power Fund I LP ("AirSource") loan as well as the addition of the Across America LFG LLC note. The Across America note was funded at the end of the third quarter in 2004. Funding for the AirSource note initially began at the end of November 2004. At the end of the first quarter of 2005, the Fund had advanced to AirSource a total of \$6.5 million. Subsequent to the end of the quarter, the Fund advanced another \$10.5 million to AirSource.

Operating expenses were \$6.1 million for the first quarter of 2005, compared to \$3.2 million in 2004. The increase in expenses was primarily caused by the inclusion of operating costs from the LFG facilities of approximately \$2.3 million, which were

purchased at the end of the third quarter in 2004. The Fund incurred higher repair and maintenance costs at the Valley Power facility compared to the same period in the prior year as a result of an unplanned outage and the acceleration of a planned major maintenance into the first quarter originally scheduled for April. The costs of the repairs associated with the unplanned outage are being claimed under applicable insurance, after taking into consideration an insurance deductible of \$100,000 per occurrence. In addition, during the first quarter of 2005, higher costs were incurred at the Peel facility as compared to the same period in 2004 as a result of management changes at the facility. Higher repairs and maintenance costs were incurred at the Peel facility due to the costs associated with the installation of new filter cartridges.

On April 5, 2005, management at the Peel facility successfully concluded its negotiations with its production employees, resulting in the ratification of a new, three year, collective bargaining agreement. This collective bargaining agreement was in line with management's expectations.

Operating profit for this period amounted to \$2.3 million in 2005 as compared to \$1.9 million in the first quarter of 2004. Operating profit was below management's expectations primarily due to lower revenue and higher costs at Peel and Valley Power.

Outlook

At the Peel facility, new air filter cartridges were installed which improve air flow and burning efficiency. Accordingly, a higher throughput of waste is anticipated in the second quarter. Improvements continue at the LFG facilities and as a result these facilities are expected to perform closer to their potential. With the scheduled maintenance completed ahead of expectations at Valley Power, this facility is also anticipated to perform well in the second quarter. The Fund has notified the limited partners of the gas distribution facilities of its intention to terminate operations at the Joliet facility. The Joliet assets were written off at the end of 2004.



Infrastructure Division

	Q1 2005	Q1 2004
Number of		
Water reclamation customers	22,589	19,362
Water distribution customers	22,330	18,333
Revenues		
Water Reclamation and Distribution	\$ 5,194	\$ 5,267
Expenses		
Operating Expenses	\$ (2,489)	\$ (2,601)
Other Income	\$ -	\$ 3
Division Operating Profit (includes Other Income)	\$ 2,705	\$ 2,669

First quarter revenue from the Infrastructure Division totaled \$5.2 million in 2005 compared to \$5.3 million in 2004. The decrease in revenue is primarily the result of lower water sales at Litchfield Park Service Company ("Litchfield Park") in the quarter due to much higher than normal rain in the Arizona regions where the Fund's facilities primarily operate. This was offset by continued strong organic growth from an expanding customer base as well as the purchase, on March 11, 2005, of five water and wastewater facilities in Texas and Illinois.

Operating expenses decreased slightly to \$2.5 million in the first quarter of 2005 from \$2.6 million in the first quarter of 2004. This decrease is primarily due to reduced costs resulting from lower water sales, offset by higher wastewater costs resulting from the wet weather.

Operating profit for the first quarter of 2005 remained consistent with the first quarter of 2004 at \$2.7 million. Operating profit was below management's expectations, primarily due to lower water sales resulting from high rains.

Outlook

Management anticipates the division will perform on budget during the upcoming quarter. Organic growth in the customer base of the Fund's water distribution and reclamation facilities is expected to continue in 2005 at similar rates achieved since the end of the first quarter of 2004. Excluding the impact of the facilities purchased late in the quarter, the wastewater facilities experienced annualized growth of 8% in the first quarter of 2005 while the water facilities experienced annualized growth of 10% in the first quarter of 2005. The Division's largest system, Litchfield Park in Arizona, is located in one of the fastest growing counties in the United States.

Administrative expenses

	Q1 2005	Q1 2004
Administrative Expenses	\$1,245	\$1,299
Management Costs	206	188
Withholding Taxes	153	81
(Gain) / Loss on foreign exchange	332	1,410
Interest Expense	3,884	2,682
Income Tax Expense (Recovery)	1,141	(581)
Other Income	(47)	(432)

Note: Interest and administrative expenses are included for all divisions.

Administrative expenses were \$1.2 million for the first quarter of 2005 compared to \$1.3 million for the first quarter of 2004.

The Fund posted an unrealized foreign exchange loss of \$0.3 million in the first quarter of 2005 versus a loss of \$1.4 million in the first quarter of 2004 as a result of strengthening of the US dollar versus the Canadian dollar. This strengthening impacted the US dollar denominated loans of the Fund. At the end of the first quarter, the Fund had approximately \$42.4 million in US dollar denominated debt.

Interest expense increased to \$3.9 million in the first quarter of 2005 from \$2.7 million in the first quarter of 2004 as a result of the issuance of \$85 million in convertible debentures at the beginning of the third quarter of 2004.

Other income declined to \$47,000 from \$432,000 primarily because in 2004 a break fee was earned by the Fund as a result of a failed transaction. During the first quarter of 2005 the figure only included interest income.

Cash Available for Distribution

	Q1 2005	Q1 2004
Cash Flow from operating activities	\$ 1,770	\$ 11,322
Changes in working capital	10,055	1,223
Operating cash flow before working capital changes	11,825	12,545
Receipt of principal on notes receivable	1,708	1,527
Decrease / (increase) in reserves	91	5
Repayment of long-term liabilities	(238)	(182)
Maintenance capital expenditures	(452)	(536)
Commitment Fee Received from AirSource	988	-
Other	(2)	(296)
Cash Available for Distribution	\$ 13,920	\$ 13,063
Cash Available for Distribution per Trust Unit	\$ 0.20	\$ 0.19
Distribution to Unitholders	\$ 16,015	\$ 15,601
Distributions to Unitholders per Trust Unit	\$ 0.23	\$ 0.23

During the first quarter of 2005, the Fund generated \$13.9 million of cash available for distribution compared to \$13.1 million in the same period in 2004. On a per unit basis, the Fund generated \$0.20 of cash available for distribution for the first quarter of 2005 compared to \$0.19 during the first quarter of 2004. The Fund distributed \$16.0 million during the first quarter of 2005 as compared to \$15.6 million in the first quarter of 2004. On a per unit basis, the Fund maintained distributions at \$0.23 per trust unit for the first quarter of 2005, consistent with 2004.

Liquidity and Capital Reserves

At the end of the first quarter of 2005 the Fund had \$9.1 million of cash and cash equivalents. At March 31, 2005 the Fund had a positive net working capital of \$2.2 million. During 2005, the Fund has also added a \$20.0 million operating line of credit from which nil was drawn at the end of the first quarter of 2005.

Long-term liabilities increased to \$128.1 million at the end of the first quarter 2005 compared to \$120.1 million at the end of 2004. The increase was a result of borrowing an additional \$8.0 million for the acquisition of five waste water facilities during the first quarter of 2005. At the end of the first quarter of 2005, the Fund had drawn \$37.9 million on the acquisition line of credit compared to \$30.0 million at the end of 2004. In addition, \$10.5 million was borrowed in April 2005 to fund additional requirements by AirSource.

At the end of the first quarter of 2005 the Fund maintained a long-term debt (including long term liabilities, other long term liabilities and convertible debentures) to equity ratio of 46.2 per cent. When the convertible debentures are excluded from this calculation, the long term debt to equity ratio is reduced to 24.2 per cent.

Contractual Obligations

Information concerning contractual obligations 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	214,015	950	2,169	2,596	208,300
Other obligations	9,948	713	4,808	622	3,805
Total obligations	<u>223,963</u>	<u>1,663</u>	<u>6,977</u>	<u>3,218</u>	<u>212,105</u>

Dealings with Algonquin Power Group

During the first quarter of 2005 companies related to the Manager provided operations and technical services on a cost-recovery basis. Details of the quarterly payments are outlined in note 6 of the first quarter financial statements.

Risk Management

The Fund continues to diversify its operations, both operationally (Hydro, Cogeneration, Alternative Fuels and Infrastructure) and geographically (Canada and US). The Fund continues to enjoy the benefits of forward contracts to hedge its U.S. dollar exchange rate relative to expected future monthly cash flows. At the end of the first quarter of 2005, the Fund had forward contracts to sell US dollars for the remainder of 2005 totalling US \$20.5 million at an average rate of \$1.40 Cdn per US dollar. The Fund has entered into forward contracts that provide similar fixed exchange rate protection for 2006 to the beginning of 2010 totalling US\$ 82.2 million carrying an average rate of \$1.38. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Fund has fixed the price of its natural gas exposure until 2006 at the Sanger facility and to 2007 at the Algonquin Energy-from-Waste facility. After this time, the Algonquin Energy-from-Waste 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 Algonquin Energy-from-Waste facility will be re-contracted on a rolling basis.

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

Subsequent Event

Subsequent to the end of the quarter, the Fund's Joliet facility provided notice to the limited partners of the gas collection systems and to the land fill operator of its intention to terminate operations at the Joliet facility. The Joliet facility has become uneconomical to operate.

Outlook

The Fund will continue to identify opportunities to optimize the performance of its portfolio. Management is focusing its efforts on integrating recently acquired facilities including the LFG facilities and water/waste water facilities and identifying efficiency opportunities to enhance unitholder value. Assuming continuing average long-term hydrologic conditions, further organic growth in water distribution and reclamation services, expansion of generating capacity of the LFG facilities as gas production continues to increase with additional waste placement, drawdown of the commitment to provide subordinated debt to AirSource Power Fund I LP coupled with no unforeseen events, the Fund is expecting to generate cash available for distribution consistent with anticipated distributions for 2005.

The Fund will continue to look for opportunities to expand and continue its diversification strategy.

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.

The Fund plans 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 emerging securities law requirements, the Fund is in the process of completing the review and documentation of its controls and procedures for annual certification of its financial statements.

Quarterly Financial Information

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

millions of dollars except per trust unit amounts

	2nd Qtr 2004	3rd Qtr 2004	4th Qtr 2004	1st Qtr 2005	Total
Revenues	41.9	40.7	40.7	40.6	163.9
Net earnings	8.1	11.5	(0.1)	1.8	21.3
Net earnings per trust unit	0.12	0.16	0.00	0.03	0.31
Total Assets	809.0	834.2	823.9	813.1	813.1
Long-term debt	189.7	214.6	226.2	235.6	235.6
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

	2nd Qtr 2003	3rd Qtr 2003	4th Qtr 2003	1st Qtr 2004	Total
Revenues	44.2	38.1	39.7	37.2	159.2
Net earnings	21.5	10.0	6.5	3.3	41.3
Net earnings per trust unit	0.32	0.15	0.09	0.05	0.61
Total Assets	829.0	822.2	808.6	812.5	812.5
Long-term debt	178.6	177.8	185.4	186.4	186.4
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

Note: Certain statements contained herein are forward-looking and reflect the Fund's and its manager's views 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.

Consolidated Balance Sheets
March 31, 2005 and December 31, 2004
(thousands of Canadian dollars)

	31-Mar-05 Unaudited	31-Dec-04
Assets		
Current assets		
Cash and cash equivalents	\$ 9,110	\$ 34,197
Accounts receivable	27,191	25,343
Prepaid expenses	1,797	1,790
Current portion of notes receivable	2,756	2,589
Future income tax asset	13	18
	<u>40,867</u>	<u>63,937</u>
 Long-term investments	 47,636	 48,561
Future non-current income tax asset	7,063	6,425
Capital assets, net of amortization (note 3)	617,879	610,756
Intangible assets, net of amortization (note 3)	85,921	83,677
Funds held in reserve (note 3)	8,212	3,728
Deferred costs	5,500	6,815
	<u>\$ 813,078</u>	<u>\$ 823,899</u>
 Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 23,565	\$ 30,481
Due to Algonquin Power Group (note 6)	624	1,826
Cash distribution payable	10,677	10,677
Current portion of long-term liabilities	1,663	1,666
Current income tax liability	654	596
Future income tax liability	1,430	1,449
	<u>38,613</u>	<u>46,695</u>
 Long-term liabilities (note 5)	 128,065	 120,085
Convertible debentures	85,000	85,000
Other long-term liabilities	9,235	8,960
Deferred credits (note 4)	13,295	12,124
Future non-current income tax liability	57,774	55,764
Unitholders' equity		
Trust units	654,176	654,176
Deficit	(173,080)	(158,905)
	<u>481,096</u>	<u>495,271</u>
	<u>\$ 813,078</u>	<u>\$ 823,899</u>

See accompanying notes to financial statements

Approved by the Trustees




Consolidated Statements of Earnings and Deficit
For the three months ended March 31, 2005 and March 31, 2004
(thousands of Canadian dollars)
Unaudited

	2005	2004
Revenue		
Energy sales	\$ 32,090	\$ 28,529
Waste disposal fees	3,316	3,424
Water reclamation and distribution	5,194	5,267
	<u>40,600</u>	<u>37,220</u>
Expenses		
Operating (note 6)	25,157	22,593
Amortization of capital assets	6,905	6,397
Amortization of intangible asset	1,541	1,308
Management costs	206	188
Administrative expenses	1,245	1,299
Withholding taxes	153	81
Loss on foreign exchange	332	1,410
	<u>35,539</u>	<u>33,276</u>
Earnings before undernoted	5,061	3,944
Interest expense	3,884	2,682
Interest, dividend income and other income	(1,804)	(1,870)
	<u>2,080</u>	<u>812</u>
Earnings before income taxes and minority interest	2,981	3,132
Current income taxes	252	248
Future income taxes	889	(829)
	1,141	(581)
Minority interest	-	377
Net earnings	1,840	3,336
Deficit, beginning of the period	(158,905)	(118,337)
Cash distributions	(16,015)	(15,601)
Deficit, end of the period	<u>\$ (173,080)</u>	<u>\$ (130,602)</u>
Basic and diluted net earnings per trust unit	<u>\$ 0.03</u>	<u>\$ 0.05</u>

Consolidated Statements of Cash Flows
For the three months ended March 31, 2005 and March 31, 2004
(thousands of Canadian dollars)
Unaudited

	2005	2004
Operating Activities		
Net earnings	\$ 1,840	\$ 3,336
Items not affecting cash		
Amortization of capital assets	6,905	6,397
Amortization of intangible assets	1,541	1,308
Other amortization	368	568
Minority interest	0	377
Distribution received in excess of equity income	59	112
Future income taxes	889	(829)
Unrealized loss on foreign exchange	223	1,276
	<u>11,825</u>	<u>12,545</u>
Changes in non-cash operating working capital	<u>(10,055)</u>	<u>(1,223)</u>
	<u>1,770</u>	<u>11,322</u>
Financing Activities		
Cash distributions	(16,015)	(15,601)
Deferred financing costs	(247)	(12)
Net increase/ (decrease) in long-term liabilities	7,742	(182)
Other	212	(257)
Deferred credits	1,018	103
	<u>(7,290)</u>	<u>(15,949)</u>
Investing Activities		
Increase / (decrease) in reserve funds (note 3)	(4,484)	5
Receipt of principal on notes receivable	1,708	1,527
Acquisition of note receivable	(988)	-
Additions to capital assets	(5,069)	(2,665)
Acquisitions of operating entities (note 3)	(10,942)	(864)
	<u>(19,775)</u>	<u>(1,997)</u>
Effect of exchange rate differences		
on cash and cash equivalents	<u>208</u>	<u>113</u>
Decrease in cash	<u>(25,087)</u>	<u>(6,511)</u>
Cash and cash equivalents, beginning of the period	34,197	21,238
Cash and cash equivalents, end of the period	<u>\$ 9,110</u>	<u>\$ 14,727</u>
Supplemental disclosure of cash flow information		
Cash paid during the period for interest expense	\$ 4,952	\$ 2,479
Cash paid during the period for income taxes	\$ 141	\$ 128

Notes to the Consolidated financial Statements
For the three months ended March 31, 2005 and March 31, 2004
(in thousands of Canadian dollars except as noted)
(unaudited)

1. Basis of Presentation

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2004, as set out in the 2004 Annual Report since they do not contain all the disclosures that are in accordance with Canadian generally accepted accounting principles for annual financial statements. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies and methods of computation as were used for the audited consolidated financial statements for the year ended December 31, 2004.

2. Seasonality

The operations of the Fund are seasonal. The Fund's hydroelectric energy 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.

3. Acquisition of facility

On March 11, 2005, the Fund purchased all the assets used in the operation of five water and waste water facilities (the "systems") from Silverleaf Resorts Inc. for cash consideration of \$11.2 million (US \$ 9.4 million) of which \$10.9 million has been paid during the first quarter of 2005. The systems, which in aggregate serve approximately 5,500 equivalent residential connections, are located in Texas and Illinois. The purchase and sale agreement provides for the acquisition of 3 additional assets located in Missouri serving approximately 1,500 customers, for a purchase price of \$4.6 million (US \$3.8 million). The acquisition of the Missouri assets requires formal approval from the regulator in the state of Missouri. The Fund has deposited \$4.6 million (US \$3.8 million) in an escrow account to be released when the purchase of the Missouri assets is approved. This amount has been included in funds held in reserve on the balance sheet. The Fund also incurred \$0.4 million (US \$0.3 million) of acquisition costs.

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:

Fixed assets	\$	8,939
Intangible assets		2,710
Total Purchase Price	\$	<u>11,649</u>

Intangible assets include customer relationships which are amortized over 40 years.

The purchase price allocation has been based on the best information available at the reporting date; however, adjustments to the purchase price and purchase price allocation may be made in subsequent quarters as more information is obtained

In accordance with the purchase and sale agreement for Litchfield Park Service Company and Woodmark Utility Company, the Fund is required to make additional payments to the

previous owners for each additional customer connected to the utility. For Litchfield Park, these payments continue until 2008 and for Woodmark until 2007. As of March 31, 2005 the Fund has accrued \$662 (U.S \$539) as a growth premium, and increased intangible assets by a similar amount, gross of future tax liabilities of \$414.

4. Commitment fee

During the first quarter 2005, the Fund has provided an additional \$1.0 million of financing to Airsource Power Fund I LP ("AirSource") in connection with the construction of a wind farm in St. Leon, Manitoba. The Fund also received a \$1.0 million commitment fee, recorded as deferred credits at March 31, 2005. The fee will be amortized over the term of the financing facility. The Fund's total commitment to AirSource is \$69.3 million. At the end of the first quarter of 2005, the Fund has advanced \$6.5 million to AirSource in addition to providing letters of credit of \$15.4 million, for total utilization of the commitment of \$21.9 million. Subsequent to the end of the quarter, the Fund advanced an additional \$10.5 million to AirSource.

5. Long term debt

During the first quarter 2005, the Fund drew an additional \$8.0 million on the revolving credit facility to fund the acquisition of the eight water and waste water facilities in Texas, Missouri and Illinois (note 3). Subsequent to the end of the quarter, the Fund drew an additional \$10.5 million to fund requirements of AirSource.

6. Algonquin Power Group

During the quarter, and in accordance with the management agreement, on a cost recovery basis, the Fund paid Algonquin Power Management Inc. ("APMI") and its related companies for services provided on a cost recovery basis. During the first quarter of 2005, the Fund paid APMI \$206 (2004 - \$188) for management services. In addition, the Fund paid Algonquin Power Systems Inc. \$2,995 (2004 - \$2,926) and Algonquin Water Services Inc. \$1,216 (2004 - \$1,009) for direct operation services.

7. Segmented Information

The Fund and its subsidiaries operate in the independent power industry in both Canada and the United States. Information on operations by geographic area is as follows:

	March 31, 2005	March 31, 2004
Revenue		
Canada	\$ 11,379	\$ 12,291
United States	<u>29,221</u>	<u>24,929</u>
	<u>\$ 40,600</u>	<u>\$ 37,220</u>
	March 31, 2005	March 31, 2004
Capital Assets		
Canada	\$ 317,180	\$ 326,300
United States	<u>300,699</u>	<u>292,202</u>
	<u>\$ 617,879</u>	<u>\$ 618,502</u>
	March 31, 2005	March 31, 2004
Intangible Assets		
Canada	\$ 26,761	\$ 28,707
United States	<u>59,160</u>	<u>53,725</u>
	<u>\$ 85,921</u>	<u>\$ 82,432</u>

Operational segments

The Fund identifies four business categories it operates in: hydro, natural gas co-generation, alternative fuels and infrastructure assets. The operations and assets for these segments are outlined below:

	Three months ended March 31, 2005					
Revenue	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	10,019	17,919	4,152	-	-	32,090
Waste disposal fees	-	-	3,316	-	-	3,316
Water reclamation and distribution	-	-	-	5,194	-	5,194
Total Revenue	10,019	17,919	7,468	5,194	-	40,600
Operating expenses	3,416	13,151	6,101	2,489	-	25,157
Operating profit	6,603	4,768	1,367	2,705	-	15,443
Other administration costs	(58)	-	(35)	(24)	(1,819)	(1,936)
Interest expense	(1,267)	(214)	(104)	(288)	(2,011)	(3,884)
Interest, dividend income and other income	121	718	918	-	47	1,804
Amortization of capital assets	(2,375)	(1,850)	(1,181)	(1,499)	-	(6,905)
Amortization of intangible assets	-	(747)	(643)	(151)	-	(1,541)
Earnings before income taxes and minority interest	3,024	2,675	322	743	(3,783)	2,981
Capital assets	283,581	89,453	93,870	150,975	-	617,879
Intangible assets	21	34,617	26,543	24,740	-	85,921
Capital expenditures	-	454	489	4,049	77	5,069
Intangible expenditures	-	-	-	-	-	-
Total assets	301,427	165,296	146,897	188,941	10,517	813,078

	Three months ended March 31, 2004					
Revenue	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Energy sales	11,012	16,021	1,496	-	-	28,529
Waste disposal fees	-	-	3,424	-	-	3,424
Water reclamation and distribution	-	-	-	5,267	-	5,267
Total Revenue	11,012	16,021	4,920	5,267	-	37,220
Operating expenses	4,349	12,418	3,225	2,601	-	22,593
Operating profit	6,663	3,603	1,695	2,666	-	14,627
Other administration costs	(56)	-	(17)	(12)	(2,893)	(2,978)
Interest expense	(1,298)	(180)	(73)	(212)	(919)	(2,682)
Interest, dividend income and other income	71	1,146	218	3	432	1,870
Amortization of capital assets	(2,370)	(1,527)	(1,131)	(1,369)	-	(6,397)
Amortization of intangible assets	-	(677)	(522)	(109)	-	(1,308)
Earnings before income taxes and minority interest	3,010	2,365	170	967	(3,380)	3,132
Capital assets	292,866	94,219	90,399	141,018	-	618,502
Intangible assets	22	35,947	29,619	16,844	-	82,432
Capital expenditures	-	232	(97)	2,472	58	2,665
Intangible expenditures	-	-	-	-	-	-
Total assets (December 31, 2004)	307,105	158,023	150,234	175,437	33,100	823,899

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

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Legal Counsel

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Toronto, Ontario



HYDROELECTRIC



COGENERATION



ALTERNATIVE FUELS



INFRASTRUCTURE

