2007 first quarter report

march 31, 2007

Algonquin Power Income Fund

Report to Unitholders

Algonquin Power Income Fund is pleased to report that overall results for the Fund were in line with expectations for the first quarter of 2007, a time of year that is subject to seasonal fluctuations. The Fund experienced production slightly above long-term averages in the Hydroelectric Division, lower production in the Cogeneration Division due to the closure of the Crossroads facility, and increased production in the Alternative Fuels Division primarily due to the addition of the St. Leon Wind Energy ("St. Leon") facility. The Infrastructure Division performed slightly below expectations due to slowing growth and cooler and wetter weather in areas served by the division.

During the quarter the Fund distributed $0.23 per trust unit, consistent with the first quarter of 2006, and reported cash available for distribution of $0.20 per trust unit. The Fund continues to focus on growing cash available for distribution through the Fund's portfolio of renewable generating, co-generation and infrastructure assets.

Performance Summary for the first quarter of 2007:

- Revenue was $49.5 million, consistent with Q1 2006.
- Net earnings of $6.2 million in Q1 2007 as compared to $7.3 million in Q1 2006.
- Cash available for distribution of $15.1 million ($0.20 per trust unit) in Q1 2007 compared to $16.3 million ($0.23 per trust unit) in Q1 2006. Distributions remained at $0.23 per trust unit during the first quarter of both 2007 and 2006.

First Quarter Highlights

Hydroelectric

During the first quarter of 2007, the Fund's hydroelectric facilities generated electricity equal to 102% of long term averages compared to 111% during the same period in 2006, due to the Quebec and New York regions, which experienced hydrology above long term averages. The overall decrease in revenue was primarily the result of lower overall energy production when compared to the same period in 2006, which is expected during this time of year, combined with lower average energy rates at the U.S. facilities.

Operating profit including other income for the hydroelectric division was $8.3 million during the first quarter of 2007, as compared to $8.7 million in the first quarter of 2006. The decrease in operating profit is primarily due to lower production experienced in the regions in which the Fund operates hydroelectric facilities when compared to the same period last year.

Overall, the Hydroelectric Division exceeded Management expectations during the quarter due to higher than expected hydrology when compared to seasonal estimates.

Cogeneration

The Fund's Cogeneration Division experienced lower revenue compared to the same period in 2006, primarily due to lower energy rates at the Windsor Locks facility arising from lower natural gas prices, and the closure of the Crossroads facility. Production increased in Q1 2007 when compared to the same period in 2006 due to the fact that the Sanger facility was in a voluntary shutdown last year in favour of selling natural gas.

First quarter 2007 operating profit including interest and dividends was $5.1 million, as compared to $6.6 million for the same period in 2006. The decrease is mainly due to the lower energy rates at the Windsor Locks facility.

Overall, the Cogeneration Division did not meet Management's expectations for the first quarter of 2007.

Alternative Fuels

The Fund's Alternative Fuels Division reported increased revenue during the first quarter of 2007 when compared to the first quarter of 2006. The increase in revenue resulted from an increase in production due to the acquisition of the St. Leon facility in 2006.

Operating profit including interest and other income for the Alternative Fuels division increased to $6.9 million for the first quarter of 2007 as compared to $2.6 million in the first quarter of 2006. The increase was primarily due to the inclusion of the St. Leon facility in the results for the division.

Improvements continue to be made at the Fund's Energy-from-Waste ("EFW") facilities, and operational strategy is the focus at the Landfill Gas ("LFG") facilities. Overall the Alternative Fuels Division performed below Management's expectations during the first quarter of 2007.

Infrastructure

During the first quarter of 2007, the Fund's Infrastructure Division reported slightly lower revenue as compared to the same period in 2006. The decreased revenue in the first quarter is primarily due to the seasonal cooler and wetter conditions in the areas served. When compared to the first quarter of 2006, the division's water distribution customer base increased by 9% and the waste-water treatment customer base increased by 11%.

Operating profit including other income for the division in the first quarter of 2007 was $3.5 million compared to $4.4 million in the same period of 2006. The decrease is mainly due to slowing customer growth and cooler and wetter weather during the quarter.

Overall, the performance of the Infrastructure Division did not meet Management's expectations for the first quarter of 2007.

Outlook

In the Hydroelectric Division, the Fund anticipates performance equivalent to long term averages for the second quarter of 2007. Facilities in the Quebec region will be undergoing assessments as a result of certain legislation passed in Quebec, and there may be subsequent remedial work on the facilities to ensure compliance with the legislation. The Fund will also continue to examine and possibly rationalize smaller hydroelectric generating facilities that no longer fit the Fund's profile.

At the Windsor Locks facility, decreased fuel costs are passed on to the customer in the form of lower energy prices. This contract reduces but does not completely eliminate the facility's exposure to natural gas price risk, and as such, Management expects lower than anticipated natural gas prices to reduce operating profits from the Windsor Locks facility for the remainder of 2007. The Sanger facility is expected to meet Management's expectations throughout the remainder of 2007. The re-powering project at the Sanger facility is continuing to progress on budget and is on track to be completed by the end of the fourth quarter of 2007.

In the Alternative Fuels Division, the performance of the St. Leon facility is expected to continue at or above management's expectations throughout the second quarter of 2007. At the EFW facility, certain improvement projects are expected to continue through the second quarter, and a planned 14 day maintenance outage will occur in May. Production and maintenance improvements will continue to be the main focus at the Fund's EFW facility during the second quarter, and at the Fund's LFG facilities, operating strategy will be the main focus. The investment in a gas treatment facility late in the fourth quarter of 2006 is expected to meet Management's expectations for the second quarter.

The Infrastructure Division is expecting slowing organic growth in the second quarter of 2007 due to a general slowdown in the residential housing market in the United States. The Fund has rate cases underway in order to ensure that facilities earn a rate of return on recently undertaken capital improvements. The rate cases are determined by the regulatory authorities that govern the areas where the facilities are located. Significant capital projects are planned in one of the Fund's service areas during the remainder of 2007 and into 2008. In particular, these projects are expected to increase the water distribution capacity and waste-water treatment capacity, in order to meet the demands of existing customers as well as expected growth in the area served.

Overall, Algonquin Power Income Fund anticipates that the Fund will meet Management's expectations during the second quarter of 2007. Management is seeking to augment the Fund's renewable energy portfolio with accretive clean energy assets, while continuing to ensure a technological, geographical, market and regulatory balance. Throughout the remainder of 2007 the Fund will also continue to focus on performance of its portfolio of renewable generating, co-generation and infrastructure assets, maximizing opportunities through sound and prudent business strategies and practices.

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

[signed] Ken Moore

Ken Moore
Chairman

Management's Discussion and Analysis

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

Algonquin Power Income Fund (the "Fund") has prepared the following discussion and analysis to provide information to assist its Unitholders' understanding of the financial results for the three months ended March 31, 2007. This discussion and analysis should be read in conjunction with the Fund's unaudited consolidated financial statements for the three months ended March 31, 2007 as well as the audited consolidated financial statements, the notes thereto and the related Management's Discussion and Analysis contained in the 2006 Annual Report. This material is available on SEDAR at www.sedar.com and on the Fund's website at www.AlgonquinPower.com. Additional information about the Fund, including the Annual Information Form for the year ended December 31, 2006 can be found on SEDAR at www.sedar.com.

This Management's Discussion and Analysis is based on information available to Management as of May 8, 2007.

Forward-Looking Disclaimer

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

Key Financial Information

(C$000)	Three Months ended March 31	
	2007	**2006**
Revenue	**$ 49,466**	$ 49,471
Net earnings	**6,199**	7,318
Total Assets	**1,035,808**	839,023
Long Term Debt	**234,233**	183,315
Distribution to unitholders	**17,481**	16,015
Cash available for distribution*	**15,091**	16,347
Per trust unit		
Net earnings	**0.08**	0.11
Distribution to unitholders	**0.23**	0.23
Cash available for distribution*	**0.20**	0.23

* Non-GAAP measurement, see 'Cash Available for Distribution' in this Management's Discussion and Analysis.

For the quarter ended March 31, 2007, the Fund reported total revenue of $49.5 million consistent with the same period in 2006. During the first quarter of 2007, increases in revenue due to the acquisition of the St. Leon Wind Energy facility ("St. Leon") were offset by decreases from the closure of the Crossroads facility in December of 2006, and lower energy rates at the Windsor Locks facility. In the comparable period in 2006, realized gain on financial instruments was recorded in revenue. Realized gains on financial instruments of $0.8 million were recorded as a 'Gain on financial instruments' in the statement of earnings in the first quarter of 2007.

For the quarter ended March 31, 2007, the average U.S. exchange rate increased by approximately 1.5%, as compared to the same period in 2006. As such, any quarterly variance to revenue or expenses, in local currency, at any of the Fund's U.S. entities may be distorted by a change in the average exchange rate, upon conversion to the Fund's reporting currency. Although the weaker Canadian dollar has an impact on both revenue and expenses generated by its U.S. subsidiaries, the Fund has foreign exchange forward contracts in place, which partially mitigate the impact on cash available for distribution.

For the quarter ended March 31, 2007, net earnings were $6.2 million as compared to $7.3 million during the same period in 2006. Net earnings for the first quarter of 2007 decreased from the same period in 2006 due to increased interest expense, the deduction of earnings related to non-controlling minority interest, lower energy rates at Windsor Locks and lower interest and dividend income from the Fund's portfolio of investments. In addition, the comparable period in 2006 included a positive impact from the temporary shutdown of the Sanger facility and the sale of natural gas. These factors were partially offset by earnings from the St. Leon facility, a recovery of future income taxes and gain on financial instruments. A more detailed analysis of these factors is presented within the divisional analysis.

Net earnings per trust unit were $0.08 for the quarter ended March 31, 2007 as compared to $0.11 during the same period in 2006 due to the explanations discussed above.

The Fund generated $0.20 per trust unit of cash available for distribution for the quarter ended March 31, 2007, as compared to $0.23 per trust unit during the first quarter of 2006. During the quarter ended March 31, 2007, the Fund maintained distributions at $0.23 per trust unit, consistent with distributions in the first quarter of 2006.

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

Outlook

On February 26, 2007, the Fund announced that it had entered into a support agreement ("Support Agreement") with Clean Power Income Fund ("CPIF") pursuant to which an entity of the Fund agreed to make an offer to CPIF unit holders to acquire all of the outstanding CPIF units in exchange for units of the Fund on a one for 0.6152 basis plus a contingency value receipt. The Fund also announced that a Fund entity will make an offer to acquire all of the outstanding 6.75% convertible debentures issued by CPIF in exchange for the Fund's convertible debentures. Subsequent to the end of the quarter, the Fund announced that it was allowing its offer to acquire all of the outstanding trust units and convertible debentures of CPIF to expire. In connection with the termination by the Board of Trustees of Clean Power Operating Trust of the Support Agreement, a termination fee of $1.75 million is payable to the Fund. In addition, the Fund is entitled to reimbursement of its expenses to a maximum of $850,000 from CPIF. Subsequent to quarter end, the Fund received the termination fee and reimbursement of its expenses from CPIF.

Management anticipates that the Fund will continue to generate cash available for distribution for 2007 in line with distributions to unitholders. Management also expects continued growth in the water distribution and waste-water business, average long term hydrologic conditions, the achievement of average wind projections at the St. Leon facility, continued operational improvements at the Algonquin Power Energy-from-Waste facility ("EFW"), and the continued stable performance of the Cogeneration Division. This coupled with no unforeseen events will enable the Fund to continue cash distributions in 2007 at sustained levels.

Management continues to identify and implement initiatives aimed at the continual improvement in the performance of the business and seeks opportunities to optimize the overall performance of its portfolio. In addition, the Fund is committed to ensuring that newly acquired facilities are integrated into the Fund's operations.

Management is committed to the growth and development of the Fund's people through various training programs, challenging assignments and learning opportunities. In addition, the Fund ensures continuous environmental, health and safety training for its operations and maintenance staff. Such training helps ensure that the Fund's facilities are in compliance in all material respects with local and federal environmental regulations.

Management will continue to invest in information technology to reduce administrative costs and will continue the implementation of supply chain management initiatives throughout the Fund and integrated billing and customer protocols within the Infrastructure Division.

Overall, Algonquin Power Income Fund continues to focus on priorities that enable the Fund to be an innovative, respected and socially responsible participant in the energy, power and utility business sectors, enhancing unitholder value through stable, sustainable cash distributions generated by sound operational and management practices.

Hydroelectric Division

(C$000)	Three months ended March 31	
	2007	**2006**
Performance (MW-hrs sold)		
Quebec Region	**62,138**	68,760
Ontario Region	**34,817**	35,931
New England Region	**20,863**	24,791
New York Region	**25,581**	26,775
Western Region	**9,885**	10,534
Total	**153,284**	166,791
Revenue		
Energy sales	**$ 11,982**	$ 12,432
Expenses		
Operating expenses	**$ (4,028)**	$ (4,134)
Other income	**320**	428
Division operating profit (including other income)	**$ 8,274**	$ 8,726

For the quarter ended March 31, 2007, revenue in the Hydroelectric Division was $12.0 million as compared to $12.4 million during the same period in 2006. During the first quarter of 2007, the Hydroelectric Division generated electricity equal to 102% of long term averages as compared to 111% during the same period in 2006. The Quebec and New York regions experienced above long term average hydrology in the first quarter of 2007, as compared to the same period in 2006 when all regions experienced above long term average hydrology. The decrease in revenue, as compared to the first quarter of 2006, was primarily the result of lower energy production across all regions combined with lower average energy rates at the U.S. facilities.

For the quarter ended March 31, 2007, operating expenses decreased to $4.0 million as compared to $4.1 million during the same period in 2006. The decrease in operating expenses was primarily due to a reduction in costs directly tied to energy production as compared to the same period in 2006.

For the quarter ended March 31, 2007, operating profit was $8.3 million as compared to $8.7 million in the same period in 2006. For the quarter ended March 31, 2007, operating profit was above Management's expectations.

Outlook

The Fund's 2007 forecast production is based on the assumption of long term average hydrological conditions. The Hydroelectric Division is expected to perform at long term average hydrological conditions in the second quarter and the remainder of 2007.

As a result of certain legislation passed in Quebec (Bill C93), the Fund is required to undertake technical assessments of dams owned or leased within the Province of Quebec. The Fund anticipates incurring approximately $0.5 million over the remainder of 2007 and into 2008 to complete the required assessments. Upon completion of these assessments, the Fund will be required to submit plans for undertaking any remedial measures that may be required to comply with the legislation. While Management expects that impact to the majority of its owned or leased dam structures will be minimal, it is likely that modifications to certain dam structures will be required in order to be compliant with the new regulations. Management will explore several alternatives to mitigate the costs of modifications including cost sharing with other stakeholders and revenue enhancements which can be achieved through the modifications.

The Fund will continue to seek accretive hydroelectric acquisitions throughout 2007, 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 no longer fit the Fund's preferred asset profile.

Cogeneration Division

(C$000)	Three months ended March 31	
	2007	**2006**
Performance (MW-hrs sold)	**125,471**	103,913
Revenue		
Energy sales	**$ 15,504**	$ 15,614
Other revenue	**676**	5,445
Total Revenue	**$ 16,180**	$ 21,059
Expenses		
Operating expenses	**$ (12,710)**	$ (15,228)
Interest and dividend income	**921**	732
Gain on financial instrument	**710**	-
Division operating profit (including interest and dividend income)	**$ 5,101**	$ 6,563

For the quarter ended March 31, 2007, revenue from the Cogeneration Division totaled $16.2 million as compared to $21.1 million during the same period in 2006. For the quarter ended March 31, 2007, the division's production increased as compared to the same period in 2006, primarily due to increased production at the Sanger facility. In the comparable period in 2006, Sanger had no production as the facility was voluntarily shutdown in favour of selling natural gas. In addition, the comparable period includes production from the Crossroads facility, which was closed in December 2006. Revenue from energy sales was consistent with the comparable period in 2006. An increase in revenue due to greater production at the Sanger facility as compared to the same period in 2006 was offset by lower energy rates realized at the Windsor Locks facility where decreased fuel costs are passed on to the customer in the form of lower energy prices, and the closure of the Crossroads facility. In the comparable period in 2006, realized gain on financial instruments of $0.7 million was recorded as revenue. The decrease was partially offset by increased production at the Sanger facility. For the quarter ended March 31, 2007, other revenue totaled $0.7 million as compared to $5.4 million during the same period in 2006. Other revenue in the comparable period in 2006 primarily consisted of the sale of natural gas at the Sanger facility which did not occur in 2007.

For the quarter ended March 31, 2007, operating expenses decreased to $12.7 million as compared to $15.2 million during the same period in 2006. Operating expenses decreased primarily due to the closure of the Crossroads facility which totaled $2.2 million in the comparable period in 2006.

Gain on financial instruments consists of realized gains on the foreign exchange forward contracts settled in the first quarter of 2007.

For the quarter ended March 31, 2007, operating profit decreased to $5.1 million as compared to $6.6 million during the same period in 2006. Operating profit in the Cogeneration Division for the first quarter of 2007 did not meet Management's expectations.

Outlook

At the Windsor Locks facility, decreased fuel costs are passed on to the customer in the form of lower energy prices. This contract reduces but does not completely eliminate the facility's exposure to natural gas price risk. Management expects lower than anticipated natural gas prices to reduce operating profits from the Windsor Locks facility for the remainder of 2007.

The Sanger facility is expected to meet Management's expectations throughout the remainder of 2007. The re-powering project at the Sanger facility is continuing to progress on budget and is on track to be completed by the end of the fourth quarter of 2007.

Alternative Fuels Division

(C$000)	Three months ended March 31	
	2007	**2006**
Performance (MW-hrs sold)	**149,981**	59,275
Performance (tonnes of waste processed)	**38,655**	39,372
Revenue		
Energy sales	**$ 3,410**	$ 4,353
Waste disposal sales	**3,532**	3,721
Other revenue	**6,534**	-
Total revenue	**$ 13,476**	$ 8,074
Expenses		
Operating expenses	**$ (7,442)**	$ (7,219)
Interest and other income	**757**	1,706
Gain on financial instrument	**111**	-
Division operating profit (including interest and dividend income)	**$ 6,902**	$ 2,561

For the quarter ended March 31, 2007, revenue in the Alternative Fuels Division was $13.5 million as compared to $8.1 million during the same period in 2006. During the quarter ended March 31, 2007, the division's performance increased primarily as a result of the inclusion of production from the St. Leon facility acquired at the end of the second quarter in 2006. Revenue for the quarter ended March 31, 2007 increased due to the inclusion of the St. Leon facility revenue, offset by lower production and reduced average energy prices at the Land-Fill Gas facilities ("LFG") as compared to the same period in 2006. In the comparable period in 2006, realized gain on financial instruments of $0.1 million was recorded as revenue.

Other revenue consists of liquidated damages earned by the St. Leon facility. Liquidated damages are intended to approximate the expected revenue of the facility once it is fully operational and are meant to minimize any downside to the owners of delays in project completion. While all the wind turbines at the facility have been constructed and commissioned, completion of certain aspects of the project under the turnkey construction contract have been delayed and remain to be addressed by the prime contractor, Vestas-Canadian Wind Technology, Inc. ("Vestas"). During the period of time when liquidated damages are received from Vestas, electricity sales received from Manitoba Hydro, after deducting certain costs, are payable to Vestas to the time of commercial operation, as defined in the turnkey construction contract.

For the quarter ended March 31, 2007, operating expenses were $7.4 million as compared to $7.2 million during the same period in 2006. Operating expenses for the quarter increased as a result of the inclusion of operating expenses of $0.6 million from the St. Leon facility, offset partially by lower fuel related expenses of $0.4 million at the LFG and EFW facilities as compared to the same period in 2006.

The Fund earned lower interest and other income on its investments within the Alternative Fuels Division during the quarter ended March 31, 2007, as compared to the same periods in 2006, primarily as a result of the acquisition of AirSource Power Fund I LP ("AirSource") and consequently consolidating AirSource into the Fund. As a result, the Fund recognized no income from the note in the quarter ended March 31, 2007 as compared to $1.2 million in the same period in 2006. Also included in other income for the first quarter of 2007 was $0.2 million related to the recognition of a receivable associated with the generation of landfill gas production tax credits.

Gain on financial instruments consists of realized gains on the foreign exchange forward contracts settled in the first quarter of 2007.

For the quarter ended March 31, 2007, operating profit was $6.9 million as compared to $2.6 million during the same period in 2006. Improvements continue to be made at the Fund's EFW facility but operating profit was still below Management's expectations for the quarter ended March 31, 2007.

Outlook

In the remainder of 2007 the Alternative Fuels Division will continue to focus on operational improvements and equipment availability at the EFW facility. Certain planned improvements that began in the first quarter of 2007 will continue in the second quarter with a mid-year target completion date. A 14 day planned maintenance outage is expected to occur in May. These activities are expected to provide an improvement in incinerator availability for the remainder of 2007. The steam sales supply line project is on track to be completed by the end of the fourth quarter of 2007.

The performance of the St. Leon facility is expected to continue at or above Management's expectations throughout 2007. Management continues to work toward resolution of the outstanding items under the turnkey construction contract.

The Fund is currently undertaking a strategic review of its LFG facilities and is taking operational initiatives to reduce operating costs at these facilities. The investment in a gas treatment facility late in the fourth quarter of 2006 is expected to run with high availability and is anticipated to perform well for the remainder of 2007.

Infrastructure Division

(C$000)	Three months ended March 31	
	2007	**2006**
Number of		
Waste-water customers	**29,330**	26,523
Water distribution customers	**34,043**	31,126
Revenue		
Waste-water and distribution	**$ 7,828**	$ 7,906
Expenses		
Operating expenses	**$ (4,386)**	$ (3,479)
Other income	**33**	5
Loss on financial instrument	**(21)**	-
Division operating profit (including other income)	**$ 3,454**	$ 4,432

For the quarter ended March 31, 2007, revenue in the Infrastructure Division was $7.8 million as compared to $7.9 million during the same period in 2006. The division's waste-water distribution customer base grew by 1% during the quarter ended March 31, 2007 and 11% from the same period in 2006. The division's water distribution customer base grew by 4% during the quarter ended March 31, 2007 and 9% from the same period in 2006. The increase in water distribution customers includes approximately 1,200 customers related to assets and regulatory licenses near the town of Sierra Vista, Arizona, acquired in the first quarter of 2007. The decrease in revenue for the first quarter was primarily due to cooler and wetter than normal weather in Arizona. In the comparable period in 2006, realized gain on financial instruments of $0.5 million was recorded as revenue. This was offset by continued yet slowing growth at existing facilities during the quarter as compared to the same period in 2006.

For the quarter ended March 31, 2007, operating expenses were $4.4 million as compared to $3.5 million during the same period in 2006. The increase in operating expenses was primarily the result of increased operating expenses due to customer growth, as compared to the same period in 2006.

Loss on financial instruments consists of realized losses on the foreign exchange contracts settled in the first quarter of 2007.

For the quarter ended March 31, 2007, operating profit decreased to $3.5 million as compared to $4.4 million during the same period in 2006. Operating profit did not meet Management's expectations for the quarter ended March 31, 2007.

Outlook

The Infrastructure Division is expecting a reduction in the organic growth rate during the remainder of 2007 due to a general slowdown in the residential housing market in the United States. The Infrastructure Division is expected to continue contributing to the strong overall performance of the Fund, in part because the division services one of the fastest growing counties in the United States.

The regulatory review of the rates and tariffs for the Gold Canyon facility is still in progress with a conclusion expected in the second quarter of 2007. The rate case initiated for the three Missouri facilities has been approved, resulting in an increase in rates of 140%, effective during the second quarter of 2007. Rate cases 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. The resolution of these rate cases is expected to positively impact results in the division. The Fund will continue to evaluate the effective returns on each of its utility investments to determine the appropriate time to file rate cases in order to ensure it earns the regulatory approved return on investment.

Federal drinking water legislation in the United States requires all drinking water systems to meet standards respecting levels of naturally occurring arsenic in drinking water. Water from certain Litchfield Park Services Company ("LPSCO") well sites requires arsenic treatment. The first arsenic treatment system was installed at one of the LPSCO well sites in late 2006. Additional arsenic treatment systems are scheduled for installation in the second quarter of 2007 and first quarter of 2008. The phased installation of the systems ensures continued full compliance with the regulatory requirements.

Significant capital projects are planned in the LPSCO service area during the remainder of 2007 and into 2008. In particular, these projects are expected to increase the water distribution capacity and waste-water treatment capacity within the utility's jurisdiction, in order to meet the demands of existing customers as well as expected growth.

The Fund continues to pursue accretive opportunities to expand the Infrastructure Division in areas where the Fund already operates and to acquire other utilities in high growth areas in the United States.

Administrative Expenses

(C$000)	Three months ended March 31	
	2007	**2006**
Administrative expenses	**$ 1,678**	$ 1,468
Management costs	**217**	217
Loss / (Gain) on foreign exchange	**(932)**	107
Interest expense	**6,393**	4,600
Interest, dividend and other income	**(65)**	(16)
Gain on financial instruments	**481**	-
Income tax expense (recovery)	**(1,612)**	247

During the quarter ended March 31, 2007, administrative expenses increased to $1.7 million from $1.5 million as compared to the same period in 2006. The increase for the quarter was due to the added requirements to administer the Fund, including additional staff.

Foreign exchange gains and losses primarily represent unrealized gains or losses on U.S. dollar denominated debt and do not impact cash available for distribution. For the quarter ended March 31, 2007 the Fund reported a foreign exchange gain of $0.9 million as compared to a loss of $0.1 million during same period in 2006. At the end of the first quarter of 2007, the Fund had approximately $34.4 million in U.S. dollar denominated debt.

For the quarter ended March 31, 2007, interest expense increased to $6.4 million as compared to $4.6 million during the same period in 2006. The increase was due to increased average levels of debt during the quarter, additional interest due as a result of the convertible debenture issue in November 2006, the project financing related to the St. Leon facility and a higher interest rate charged on the Fund's credit facility.

Gains or losses on financial instruments represent changes in the unrealized value of the Fund's foreign currency hedges and interest rate swap and do not impact cash available for distribution. As the Fund discontinued hedge accounting in 2006, there are no comparable figures for the first quarter in 2006.

An income tax recovery of $1.6 million was booked in the first quarter of 2007, as compared to an expense of $0.2 million during the same period in 2006. The recovery was the result of a reduction in expected future income taxes due to the impact of tax losses generated by certain facilities of the Fund.

Cash Available for Distribution

(C$000)	Three months ended March 31	
	2007	2006
Cash flow from operating activities	**$ 9,687**	$ 15,053
Changes in working capital	**6,278**	1,081
Operating cash flow before working capital changes	**15,965**	16,134
Receipt of principal on notes receivable	**379**	1,367
Repayment of long term liabilities	**(221)**	(200)
Maintenance capital expenditures *	**(934)**	(624)
Other	**(98)**	(330)
Cash available for distribution	**$ 15,091**	$ 16,347
Cash available for distribution per trust unit	**$ 0.20**	$ 0.23
Distribution to unitholders	**$ 17,481**	$ 16,015
Distributions to unitholders per trust unit	**$ 0.23**	$ 0.23

* This includes capital expenditures capitalized in accordance with GAAP, which are of a replacement or regulatory nature or represent a major maintenance cost. The expenditure is amortized over the expected life of the respective asset and the amount amortized in the period is deducted in the calculation of cash available for distribution.

During the quarter ended March 31, 2007 the Fund generated $15.1 million in cash available for distribution as compared to $16.3 million for the same period in 2006.

The Fund's distribution as a percentage of 'cash available for distribution' ("Payout Ratio") was 115.8% during the quarter ended March 31, 2007. The Fund achieved improving annual Payout Ratios of 123.4% in 2002, 106.9% in 2003, 105.8% in 2004, 98.7% in 2005 and 99.2% in 2006. The Fund has generated more funds than it distributed for the previous two consecutive years.

The shortfall during the quarter was 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.

On a per trust unit basis, the Fund generated $0.20 of cash available for distribution during the quarter ended March 31, 2007 as compared to $0.23 during the same period in 2006. The Fund distributed $17.5 million during the quarter ended March 31, 2007 as compared to $16.0 million during the same period in 2006.

On a per trust unit basis, the Fund maintained distributions at $0.23 for the quarter ended March 31, 2007, consistent with 2006.

Liquidity and Capital Reserves

For the quarter ended March 31, 2007, the Fund had $8.3 million of cash and cash equivalents. As at March 31, 2007, the Fund had negative net working capital of $25.8 million. For purposes of this calculation, working capital excludes cash and cash equivalents, current portion of notes receivable, current portion of long term liabilities and cash distributions payable. The shortfall is primarily the result of construction costs to complete the St. Leon facility, which are included in accrued liabilities. The Fund has adequate credit capacity to meet these requirements.

During the quarter ended March 31, 2007, the Fund incurred capital expenditures of $4.8 million, as compared to $6.6 million during the comparable period in 2006. Capital expenditures during the quarter ended March 31, 2007 were primarily growth related expenditures in the Infrastructure Division. In addition, capital expenditures of approximately $1.0 million related to the planned re-powering project at the Sanger facility were incurred during the quarter ended March 31, 2007. Capital expenditure requirements are anticipated to be approximately $52 million during the remainder of fiscal 2007, including $13.0 million related to the completion of the Sanger re-powering project, $11.0 million related to the steam sale project and $24.0 million related to ongoing growth and regulatory requirements in the Infrastructure Division. 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.

Long term debt increased to $234.2 million at March 31, 2007 as compared to $228.0 million at December 31, 2006. Long term liabilities primarily consist of project level debt of $160.2 million and an amount of $74.0 million drawn on the Fund's revolving credit facility as compared to project level debt of $87.5 million and an amount of $97.8 million drawn on the Fund's revolving credit facility at the end of the first quarter of 2006. Project debt increased primarily due to the inclusion of senior debt totalling $73.3 million related to the St. Leon facility. Project debt is paid at the project level where adequate cash flows are available to fund project debt requirements and the debt is generally non-recourse to the Fund. Project debt repayments are deducted in the calculation of cash available for distribution.

The Fund has in place a $175 million revolving credit facility of which $155 million is to be used for acquisitions, investments and letters of credit and $20 million is to be used for operating requirements. At the quarter ended March 31, 2007, the Fund had drawn $74.0 million on its revolving credit facility in addition to letters of credit.

During the quarter ended March 31, 2007, the Fund drew $7.0 million on its credit facility to fund capital requirements. Subsequent to the end of the quarter, the Fund drew an additional $6.0 million on its credit facility to fund capital requirements. Since the Fund utilizes the revolving credit facility for growth capital expenditures including acquisitions, the revolving credit has been reduced in the past by the issuance of units and/or debentures to the public.

For the quarter ended March 31, 2007 the Fund maintained a long term debt-to-equity ratio (including long term liabilities, other long term liabilities, and convertible debentures) of 80.9%. The exchangeable trust units issued in conjunction with the purchase of AirSource have been included in equity for purposes of this calculation. 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 and included in equity in this calculation as at March 31, 2007 would be reduced to 40.0%.

Contractual Obligations

Information concerning contractual obligations as of May 8, 2007 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	$ 235,862	$ 1,510	$ 79,941	$ 8,358	$ 146,053
Other obligations	40,856	22,901	3,460	1,002	13,493
Total obligations	$ 276,718	$ 24,411	$ 83,401	$ 9,360	$ 159,546

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 'due in less than one year' is the Fund's commitments, as of May 8, 2007 regarding the installation of the additional steam generation assets from the EFW facility and related to the completion of the Sanger re-powering project.

Unitholders' Equity and Convertible Debentures

As at March 31, 2007, the Fund had 73,303,692 issued and outstanding trust units with a total of 76,068,620 trust units issued and outstanding on a fully diluted basis.

Pursuant to the takeover bid of AirSource, on June 29, 2006, the Fund issued trust units and a subsidiary issued trust units which are exchangeable into trust units of the Fund at the holder's option (the "Exchangeable Units"). The Exchangeable Units provide the holder with distribution privileges equivalent to what they would receive if the trust units converted into trust units of the Fund. During the first quarter of 2007, 429,479 trust units of the Fund were issued pursuant to the conversion of Exchangeable Units. As at March 31, 2007, there were 2,764,970 trust units of the Fund remaining to be issued pursuant to the conversion of Exchangeable Units. Subsequent to March 31, 2007, a further 73,162 trust units of the Fund were issued pursuant to the conversion of Exchangeable Units.

In July 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 93.9 trust units for each $1,000 principal. The debentures may not be redeemed by the Fund prior to July 31, 2007. As at March 31, 2007, there were 84,980 convertible debentures outstanding as a result of the conversion of certain debentures into units in 2006.

In November 2006, the Fund issued 60,000 convertible unsecured debentures at a price of $1,000 for each debenture maturing on November 30, 2016. The debentures bear interest at 6.2% per annum and are convertible into trust units of the Fund at the option of the holder at a conversion price of $11.00 per trust unit, being a ratio of approximately 90.9 trust units for each $1,000 principal. The debentures may not be redeemed by the Fund prior to November 30, 2010. As at March 31, 2007, no convertible debentures had been presented for conversion.

Dealings with Algonquin Power Group

Algonquin Power Management Inc. ("APMI") provides management services including advice and consultation concerning business planning, support, guidance and policy making and general management services. In the first quarter of 2007, APMI was paid on a cost recovery basis for all costs incurred and charged $217 (2006 - $217).

The Fund has leased its head office facilities since 2001 from an entity owned by the shareholders of APMI on a net basis. Base lease costs for the first quarter of 2007 were $74 (2006 - $74) and additional rent representing operating costs was $nil (2006 - $34).

As part of the project to re-power the Sanger facility, the Fund has entered into an agreement with APMI to undertake certain construction management services on the project. APMI is entitled to a development supervision fee plus a contingency fee for its construction management role on the project. During the first quarter of 2007, APMI was paid $29 (2006 - nil).

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.

The Fund has entered into an agreement to sell steam from the EFW facility to an industrial customer located in close proximity to the facility. To affect such sales, the Fund will incur the costs of certain additional steam generation and transmission assets. An entity owned by APMI is entitled to 50% of the cash flow above 15% return on investment due to its management role on the project.

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, U.S. versus Canadian dollar exchange rates, tax related matters, commodity prices, gross capital requirements, labour relations, reliance on key customers and environmental health and safety considerations. A more comprehensive assessment of the Fund's business risks is set out in the 2006 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 U.S.), 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 is in part dependent on regulatory climates. In the case of some hydroelectric facilities, water rights are generally owned by governments who reserve the right to control water levels which may affect revenue. The water distribution and waste-water facilities are highly regulated and are subject to rate settings by state regulators. Management continually works with these authorities to manage the affairs of the business.

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

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

There remain certain completion risks associated with the St. Leon facility. Although the wind turbines are operational, there are certain deficiencies as defined in the turn-key contract that must be completed in order to finalize the project. Management is working with Vestas to resolve these deficiencies.

Currency fluctuations may affect the cash flows the Fund would realize from its operations, as certain of the Fund businesses sell electricity or provide water distribution and waste water treatment services in the United States and receive proceeds from such sales in U.S. dollars. Such Fund businesses also incur costs in U.S. dollars. At the Fund's current exchange rate, approximately 50% of EBITDA and 60% of distributable cash is generated in U.S. dollars. The Fund estimates that, on an unhedged basis, a $0.01 change in the Canadian/US exchange rate impacts distributable cash by $0.005 per trust unit on an annual basis. The Fund attempts to manage this risk through the use of forward contracts. At March 31, 2007, the Fund had effectively hedged 95% of its remaining expected 2007 U.S. dollar cash flow at $1.343 and 77% of its expected 2008 U.S. dollar cash flow at $1.261. The Fund has total forward contracts to sell U.S. dollars for fiscal 2007 to fiscal 2010 totalling U.S. $75.6 million carrying an average rate of $1.29. 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 $234.2 million. In the event that the Fund was required to replace these facilities with borrowings having less favourable terms or higher interest rates, the level of cash generated for distribution may be negatively impacted. The Fund attempts to manage the risk associated with floating rate interest loans through the use of interest rate swaps. The Fund has a fixed for floating interest rate swap on its St. Leon project specific debt until September 2015 in the amount of $73.3 million in order to minimize volatility in the interest expense on this debt facility. The Fund has effectively fixed its interest expense on its senior debt facility at 5.47%.

The 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 not 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.

On December 21, 2006, the Minister of Finance (Canada) (the "Minister") introduced draft legislation to impose a tax on distributions from certain publicly traded income trusts and partnerships (the "SIFT Proposals"). On March 29, 2007, the Minister introduced Bill C-52 in the House of Commons to implement the SIFT Proposals. The SIFT Proposals will apply to "specified investment flow-throughs" ("SIFT") which will include trusts resident in Canada whose units are listed on a stock exchange or other public market if the trust holds one or more "non-portfolio properties". Based on the SIFT Proposals, the Fund is a SIFT. As a SIFT, the Fund will not be entitled to any deduction in computing its income in respect of any part of its distributions to Unitholders that are attributable either to a business it carries on in Canada or to income (other than dividends from taxable Canadian corporations) from, or capital gains in respect of, non-portfolio properties ("non-portfolio earnings"). Non-portfolio properties include investments in a "subject entity". The main kinds of subject entities are corporations and trusts resident in Canada and partnerships which meet certain residence related criteria. A subject entity will be a non-portfolio property if the Fund holds securities of the entity that have a fair market value that is greater than 10% of the entity's equity value or more than 50% of the equity value of the Fund is attributable to the subject entity and affiliated entities.

Starting with the 2011 taxation year, a SIFT will be subject to tax in respect of non-portfolio earnings which it distributes at a rate that is equivalent to the federal general corporate tax rate plus 13% on account of provincial tax. Any non-portfolio earnings distributed by a SIFT will be taxable to the unitholder as if the distribution were a taxable dividend from a taxable Canadian corporation and will be deemed to be an "eligible dividend" eligible for the enhanced gross-up and tax credit. There will be circumstances where an existing trust may lose its transitional relief where its equity capital grows beyond certain dollar limits measured by reference to that trust's market capitalization at the close of trading on October 31, 2006.

No assurance can be given as to the precise form that the SIFT Proposals will take if and when enacted. If the SIFT Proposals apply to the Fund in 2011 and, provided the corporate rate reductions are enacted as proposed, it is anticipated that generally the tax paid by the Fund and a Unitholder who is a taxable Canadian resident individual on distributed non-portfolio earnings would be substantially equivalent to the tax that would be payable on such distributions by such Unitholders if the SIFT Proposals were not enacted. However, no assurance can be given in this regard. Non-resident Unitholders and Canadian resident Unitholders which are exempt from tax would be negatively affected by the application of the SIFT Proposals if enacted as proposed based on the Fund's current investments.

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

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

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

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

Controls and Procedures

Disclosure Control and Procedures

In accordance with the requirements of the Securities Act (Ontario) and other provincial securities legislation, the CEO and CFO of the Fund certify interim quarterly and annual filings 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. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Fund is appropriately accumulated and communicated to Management to allow timely decisions regarding required disclosure.

As of the end of the first quarter of 2007, an evaluation was carried out, under the supervision and with the participation of Management, including the CEO and CFO, of the effectiveness of the design and operation of the Fund's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that disclosure controls and procedures were effective.

Internal Control over Financial Reporting

The CEO and CFO of the Fund are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

For the quarter ended March 31, 2007, no changes were made in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Changes in internal controls over financial reporting

The Fund's CFO resigned effective April 5, 2007 and his responsibilities were assumed by the Fund's Controller. As a result of this change and in order to maintain effective controls over financial reporting, responsibilities for operating certain financial controls were reallocated within the finance department in order to preserve adequate segregation of duties. There were no other changes in our internal controls over financial reporting identified in connection with the evaluation that occurred during the quarter ended that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Quarterly Financial Information

The following is a summary of unaudited quarterly financial information for the two years ended March 31, 2007.

Millions of dollars except per trust unit amounts

	2nd Qtr 2006	**3rd Qtr 2006**	**4th Qtr 2006**	**1st Qtr 2007**	**Total**
Revenue	$ 47.1	$ 51.1	$ 53.7	$ 49.5	201.4
Net earnings	13.8	5.0	1.8	6.2	26.8
Net earnings per trust unit	0.20	0.07	0.02	0.08	0.37
Total Assets	1,030.0	1,024.2	1,048.3	1,035.8	1,035.8
Long term debt*	376.6	379.6	411.0	401.8	401.8
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

	2nd Qtr 2005	3rd Qtr 2005	4th Qtr 2005	1st Qtr 2006	Total
Revenue	$ 45.0	$ 42.8	$ 50.9	$ 49.5	$ 188.2
Net earnings	1.6	9.5	8.9	7.3	27.3
Net earnings per trust unit	0.02	0.14	0.13	0.11	0.40
Total Assets	822.1	838.2	823.8	839.0	839.0
Long term debt*	261.8	286.8	271.5	300.1	300.1
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

* Long term debt includes long term liabilities, convertible debentures, other long term obligations and deferred credits.

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

Critical Accounting Policies

The Fund's accounting policies are described in Note 2 to the consolidated financial statements for the year ended December 31, 2006 except as disclosed in Note 2 to the consolidated financial statements for the period ended March 31, 2007. There have been no changes to the critical accounting policies as disclosed in the Fund's annual MD&A for the year ended December 31, 2006.

Effective January 1, 2007, the Fund adopted three new Canadian Institute of Chartered Accountants accounting standards ("CICA"): CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; and Section 1530, Comprehensive Income. These sections apply to fiscal years beginning on or after October 1, 2006. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognised in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated.

Under the new standards financial instruments must be classified into one of the following five categories; held-for-trading, held to maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Initially all financial assets and financial liabilities are recorded on the consolidated balance sheet at fair value. After initial recognition, the financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost. The effective interest related to the financial liabilities and the gain or loss arising from the change in the fair value of a financial asset or liability classified as held-for-trading is included in net income for the period in which it arises. Available for sale instruments are measured at fair value with gains and losses, net of tax, recognized in other comprehensive income until the financial asset is derecognised and all cumulative gain or loss is then recognised in net income.

Consolidated Balance Sheets

March 31, 2007 and December 31, 2006
(thousands of Canadian dollars)

	Mar. 31, 2007 Unaudited	Dec. 31, 2006
Assets		
Current assets		
Cash and cash equivalents	**$ 8,347**	$ 13,465
Accounts receivable	**44,661**	41,291
Prepaid expenses	**3,742**	2,777
Current portion of notes receivable	**2,017**	2,337
	58,767	59,870
Long-term investments	**30,230**	29,976
Future non-current income tax asset	**8,202**	7,639
Capital assets, net of accumulated amortization (Note 4)	**806,961**	810,474
Intangible assets, net of accumulated amortization	**110,390**	111,978
Restricted cash	**6,295**	6,753
Deferred costs (net of accumulated amortization) (Note 2)	**2,292**	8,246
Other assets	**12,671**	13,388
	$1,035,808	$1,048,324
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 72,870**	$ 75,011
Cash distribution payable	**11,653**	11,659
Current portion of long-term liabilities	**1,937**	1,876
Current income tax liability	**304**	141
Future income tax liability	**991**	848
	87,755	89,535
Long-term liabilities (Notes 2 and 5)	**234,233**	228,021
Convertible debentures (Note 2)	**138,965**	144,501
Other long-term liabilities	**12,090**	10,711
Deferred credits	**16,535**	27,780
Future non-current income tax liability	**69,822**	71,257
Non controlling interest	**28,371**	31,804
Unitholders' equity		
Trust units	**688,494**	684,414
Equity component of convertible debentures	**479**	479
Deficit	**(251,249)**	(240,178)
Accumulated other comprehensive income (Note 2)	**10,313**	-
	448,037	444,715
	$1,035,808	$1,048,324

Subsequent events (Notes 5 and 9)
See accompanying notes to financial statements

Approved by the Trustees (signed) George Steeves (signed) Ken Moore

Consolidated Statement of Changes in Unitholders' Equity

For the three months ended March 31, 2007 and March 31, 2006
(thousands of Canadian dollars)
(unaudited)

	Mar. 31, 2007	Mar. 31, 2006
Trust units		
Balance, beginning of period	**$ 684,414**	$ 654,176
Issued on conversion of Algonquin (AirSource) Power LP exchangeable units	**4,080**	-
Conversion of convertible debentures	**-**	20
Balance, end of period	**$ 688,494**	$ 654,196
Equity component of convertible debentures	**$ 479**	$ -
Deficit		
Balance, beginning of period	**$ (240,178)**	$ (201,178)
Changes in accounting policies (Note 2)	**211**	-
Balance, beginning of period as adjusted	**(239,967)**	(201,178)
Net earnings	**6,199**	7,318
Distributions	**(17,481)**	(16,015)
Balance, end of period	**$ (251,249)**	$ (209,875)
Accumulated other comprehensive income (loss)		
Balance, beginning of period	**$ -**	$ -
Changes in accounting policies (Note 2)	**11,167**	-
Movements during the period (Note 2)	**(854)**	
Balance, end of period	**$ 10,313**	$ -

Consolidated Statements of Earnings and Comprehensive Income

For the three months ended March 31, 2007 and March 31, 2006
(thousands of Canadian dollars)
Unaudited

	2007	2006
Revenue		
Energy sales	**$ 30,896**	$ 32,399
Waste disposal fees	**3,532**	3,721
Water reclamation and distribution	**7,828**	7,906
Other revenue	**7,210**	5,445
	49,466	49,471
Expenses		
Operating	**28,566**	30,060
Amortization of capital assets	**9,394**	7,055
Amortization of intangible assets	**1,922**	1,286
Management costs (Note 6)	**217**	217
Administrative expenses	**1,678**	1,468
Loss / (gain) on foreign exchange	**(932)**	107
	40,845	40,193
Earnings before undernoted	**8,621**	9,278
Interest expense	**6,393**	4,600
Interest, dividend income and other income	**(2,096)**	(2,887)
Gain on financial instruments	**(911)**	-
	3,386	1,713
Earnings before income taxes and minority interest	**5,235**	7,565
Current income taxes	**195**	270
Future income taxes	**(1,807)**	(23)
	(1,612)	247
Minority interest	**648**	-
Net earnings and comprehensive income	**$ 6,199**	$ 7,318
Basic and diluted net earnings per trust unit	**$ 0.08**	$ 0.11

Consolidated Statements of Cash Flows

For the three months ended March 31, 2007 and March 31, 2006
(thousands of Canadian dollars)
Unaudited

	2007	2006
Operating Activities		
Net earnings	**$ 6,199**	$ 7,318
Items not affecting cash		
Amortization of capital assets	**9,394**	7,055
Amortization of intangible assets	**1,922**	1,286
Other amortization	**473**	467
Distribution received in excess of equity income	**3**	(70)
Future income taxes	**(1,807)**	(23)
Minority interest	**648**	-
Unrealized gain on financial instruments	**(136)**	-
Unrealized loss/(gain) on foreign exchange	**(731)**	101
	15,965	16,134
Changes in non-cash operating working capital	**(6,278)**	(1,081)
	9,687	15,053
Financing Activities		
Cash distributions	**(16,763)**	(16,015)
Cash distributions non controlling interest	**(723)**	-
Deferred financing costs	**(133)**	(209)
Increase in long term liabilities	**7,000**	28,252
Increase in other long term liabilities (Note 5)	**1,400**	-
Decrease in long term liabilities	**(258)**	-
Other	**110**	223
Deferred credits	**-**	50
	(9,367)	12,301
Investing Activities		
Decrease in restricted cash	**(144)**	(74)
Deferred charges	**(99)**	-
Receipt of principal on notes receivable	**379**	1,367
Increase in long term investments	**(358)**	(24,000)
Additions to capital assets	**(4,789)**	(6,562)
Proceeds from sale of fixed asset and intangible asset	**147**	-
Acquisitions of operating entities (Note 4)	**(530)**	(1,020)
	(5,394)	(30,289)
Effect of exchange rate differences on cash and cash equivalents	**(44)**	(16)
Decrease in cash	**(5,118)**	(2,951)
Cash and cash equivalents, beginning of the period	**13,465**	11,363
Cash and cash equivalents, end of the period	**$ 8,347**	$ 8,412
Supplemental disclosure of cash flow information		
Cash paid during the period for interest expense	**$ 6,262**	$ 5,401
Cash paid during the period for income taxes	**$ 44**	$ 458

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2007 and March 31, 2006
(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, 2006, as set out in the 2006 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, 2006, except as discussed in note 2.

2. Changes in Accounting Policies

Effective January 1, 2007, the Fund adopted three new Canadian Institute of Chartered Accountants accounting standards ("CICA"): CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; and Section 1530, Comprehensive Income. These sections apply to fiscal years beginning on or after October 1, 2006. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognised in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated.

Under the new standards financial instruments must be classified into one of the following five categories; held-for-trading, held to maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Initially all financial assets and financial liabilities are recorded on the consolidated balance sheet at fair value. After initial recognition, the financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost. The effective interest related to the financial liabilities and the gain or loss arising from the change in the fair value of a financial asset or liability classified as held-for-trading is included in net income for the period in which it arises. Available for sale instruments are measured at fair value with gains and losses, net of tax, recognized in other comprehensive income until the financial asset is derecognised and all cumulative gain or loss is then recognised in net income.

The Fund has classified its cash and cash equivalents, accounts receivable, restricted cash, accounts payable and distribution payable as held-for-trading, which are measured at fair value. Long-term investments are classified as loans and receivables, which are measured at amortized cost or as available-for-sale, and are measured at cost as there is no liquid market for these investments. Long-term liabilities, convertible debentures, and other long-term liabilities are classified as other financial liabilities, which are measured at amortized cost, using the effective interest method.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception. Costs considered as commitment fees paid to financial institutions are recorded in deferred costs, and amortized on a straight-line basis over the term of the debt. With respect to the transaction costs attributable to long-term debt, the impact was a decrease in deferred costs of $272, a decrease in long-term debt of $119, and an increase in deficit of $153; with respect to transaction costs attributable to convertible debentures, the impact was a decrease in deferred costs of $5,171, a decrease in convertible debentures of $5,536 and a decrease in deficit of $365

The Fund has entered into forward 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 rates and exchange rates which are matched with the anticipated operational cash flows. At December 31, 2006 the Fund ceased designating its forward selling US funds as hedges and recorded the fair value of those contracts of $11,167 as other assets and deferred credits; on the adoption of the new standards on financial instruments the deferred credits balance was transferred into accumulated other comprehensive income of $11,167. These contracts are measured at fair value and the change in fair value is included in the statement of earnings; the Fund recorded a gain of $481 for the three months ended March 31, 2007 (2006 - $ Nil). The balances from accumulated other comprehensive income are released as the contracts are settled.

In 2006, AirSource entered into a fixed for floating interest rate swap until September 2015 in the notional amount of $73.3 million in order to reduce the interest rate variability on its senior debt facility. The Fund has selected not to use hedge accounting for the swap transaction and records the fair value of the swap on the balance sheet. Any gain or loss in fair value is recognized in the statement of earnings.

The components of accumulated other comprehensive income (loss) as at March 31, 2007 and other comprehensive income (loss) for the three months then ended were as follows:

Accumulated other comprehensive income	**Opening Balance January 1, 2007**	**Changes in the period**	**Ending Balance March 31, 2007**
Deferred gain on the forward contracts	$ 11,167	(854)	$ 10,313

3. Seasonality

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

4. Acquisition of facilities

(i) On February 13, 2007 Southern Sunrise Water Company Inc, and Northern Sunrise Water Company Inc. both indirect wholly owned subsidiaries of the Fund, completed the acquisition of the assets and regulatory licences related to the provision of utility service to approximately 1,500 water distribution customers located near the Town of Sierra Vista, Arizona for cash consideration of $815 (U.S. $698). The Fund also incurred $348 (U.S. $300) of acquisition costs. At December 31, 2006, the Fund had $582 (U.S. $498) in escrow pending the approval of regulatory authorities. A deposit in the amount of $234 (U.S. $200) was paid in 2004 which was recorded in deferred costs.

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 preliminary allocated to net assets acquired as follows:

	Total
Fixed assets	$ 1,164
Total purchase price	$ 1,164
Consideration:	
Prior year deposit paid	$ 234
Funds released from escrow	582
Cash	348
Total purchase price consideration	$ 1,164

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.

(ii) In accordance with the purchase and sale agreement for Litchfield Park Service Company, Woodmark Utility Company, and Rio Rico Utilities the Fund is required to make additional payments to the previous owners for each additional customer connected to the utility. For Litchfield Park and Rio Rico, these payments continue until 2008 and for Woodmark until 2009. As of March 31, 2007 the Fund has accrued $272 (U.S $232) (March 31, 2006 –$1,020, U.S. $883) as a growth premium, and increased intangible assets by a similar amount, gross of future tax liabilities of $61 (March 31, 2006 – $364).

5. Long Term Debt

The Fund drew an additional $7.0 million on the revolving credit facility during the first quarter of 2007, primarily to fund the Sanger Re-Powering Project and the growth premium for the Infrastructure assets. Subsequent to the end of the quarter, the Fund drew an additional $6.0 million on its credit facility to fund capital requirements.

During the quarter, Algonquin Power Venture Fund advanced project debt maturing on September 30, 2014 of $1.4 million at 9.75% related to the St. Leon facility. This note is secured by the underlying assets of the St. Leon facility.

6. Algonquin Power Group

In accordance with the management agreement, the Fund paid Algonquin Power Management Inc. ("APMI") and its related companies for services provided on a cost recovery basis. For the first quarter 2007, the Fund paid APMI $217 (2006 - $217) for management services.

The Fund has leased its head office facilities since 2001 from an entity owned by the shareholders of APMI on a net basis. Base lease costs for the quarter were $74 (2006 - $74) and additional rent representing operating costs was $nil (2006 - $34).

As part of the project to re-power the Sanger facility, the Fund has entered into an agreement with APMI to undertake certain construction management services on the project. APMI is entitled to a development supervision fee plus a contingency fee for its construction management role on the project. During the first quarter of 2007, APMI was paid $29 (2006 - $nil).

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, 2007	March 31, 2006
Revenue		
Canada	**$ 19,871**	$ 13,711
United States	**29,595**	35,760
	$ 49,466	$ 49,471

	March 31, 2007	March 31, 2006
Capital Assets		
Canada	**$ 477,214**	$ 307,016
United States	**329,747**	320,154
	$ 806,961	$ 627,170

	March 31, 2007	March 31, 2006
Intangible Assets		
Canada	**$ 59,568**	$ 24,759
United States	**50,822**	52,187
	$ 110,390	$ 76,946

	March 31, 2007	March 31, 2006
Other Assets		
Canada	**$ 12,671**	$ -
United States	**-**	-
	$ 12,671	$ -

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, 2007					
	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Revenue						
Energy sales	11,982	15,504	3,410	-	-	30,896
Waste disposal fees	-	-	3,532	-	-	3,532
Water reclamation and distribution	-	-	-	7,828	-	7,828
Other revenue	-	676	6,534	-	-	7,210
Total Revenue	11,982	16,180	13,476	7,828	-	49,466
Operating expenses	4,028	12,710	7,442	4,386	-	28,566
Operating profit	7,954	3,470	6,034	3,442	-	20,900
Other administration costs	(98)	-	(46)	(50)	(769)	(963)
Interest expense	(1,244)	(288)	(1,122)	(267)	(3,472)	(6,393)
Interest, dividend income and other income	320	921	757	33	65	2,096
Gain /(loss) on financial instruments	-	710	(259)	(21)	481	911
Amortization of capital assets	(2,387)	(1,651)	(3,247)	(2,109)	-	(9,394)
Amortization of intangible assets	-	(498)	(1,204)	(220)	-	(1,922)
Earnings before income taxes and minority interest	4,545	2,664	913	808	(3,695)	5,235
Capital assets	268,658	94,415	270,508	173,380	-	806,961
Intangible assets	18	18,580	60,440	31,352	-	110,390
Capital expenditures	6	1,174	1,002	2,553	54	4,789
Acquisition of operating entities	-	-	-	530	-	530
Total assets	284,942	141,397	379,095	211,744	18,630	1,035,808

	Three months ended March 31, 2006					
	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Revenue						
Energy sales	12,432	15,614	4,353	-	-	32,399
Waste disposal fees	-	-	3,721	-	-	3,721
Water reclamation and distribution	-	-	-	7,906	-	7,906
Other revenue	-	5,445	-	-	-	5,445
Total Revenue	12,432	21,059	8,074	7,906	-	49,471
Operating expenses	4,134	15,228	7,219	3,479	-	30,060
Operating profit	8,298	5,831	855	4,427	-	19,411
Other administration costs	(23)	-	(45)	(34)	(1,690)	(1,792)
Interest expense	(1,270)	(259)	(94)	(288)	(2,689)	(4,600)
Interest, dividend income and other income	428	732	1,706	5	16	2,887
Amortization of capital assets	(2,428)	(1,476)	(1,434)	(1,717)	-	(7,055)
Amortization of intangible assets	-	(523)	(565)	(198)	-	(1,286)
Earnings before income taxes	5,005	4,305	423	2,195	(4,363)	7,565
Capital assets	276,202	85,947	96,328	168,693	-	627,170
Intangible assets	19	21,771	25,874	29,282	-	76,946
Capital expenditures	312	1,447	459	4,327	17	6,562
Acquisition of operating entities	-	-	-	1,020	-	1,020
Total assets (December 31, 2006)	297,257	133,146	379,220	211,664	27,037	1,048,324

8. Cash Distributions

Distributions paid for the three months ended March 31, 2007 were $17,481 (2006 - $16,015). All cash distributions of the Fund are made on a discretionary basis.

9. Subsequent Events

Subsequent to the end of the quarter, the Fund announced that it was allowing its offer to acquire all of the outstanding trust units and convertible debentures of the Clean Power Income Fund ("CPIF") to expire. In connection with the termination of withdrawal of the offer, a termination fee of $1,750 is payable to the Fund and will be recorded as income. In addition, the Fund is entitled to reimbursement of its expenses which have been recorded as prepaid expenses to a maximum of $850 from CPIF. The Fund received the termination fee and a reimbursement of its expenses associated with the offer in May 2007.

Subsequent to the end of the quarter, a further 73,162 trust units of the Fund were issued pursuant to the conversion of exchangeable units of Algonquin (Air Source) Power LP.

Corporate Information

Trustees

The Management Group

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

Algonquin Power Income Fund

Vito Ciciretto, Chief Operating Officer
Luisa Paniconi-Read, Interim Chief Financial Officer

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Stock Exchange

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

Auditors

KPMG LLP
Toronto, Ontario

Legal Counsel

Blake, Cassels & Graydon LLP
Toronto, Ontario

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Algonquin Power

Income Fund