2007 second quarter report

june 30, 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 second quarter of 2007. The Fund experienced production equal to long-term averages in the Hydroelectric Division, increased production in the Cogeneration Division, 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 a stronger Canadian dollar and slowing growth in areas served by the division.

During the quarter the Fund distributed $0.23 per trust unit, consistent with the second quarter of 2006, and reported cash available for distribution of $0.25 per trust unit. The Fund continues to focus on growing cash available for distribution through the Fund's portfolio of renewable power generation, co-generation and infrastructure assets.

Of particular note this quarter, the Fund has reported a net loss which is due to a future tax expense of $27.9 million. This future tax expense is a one-time non-cash charge that reflects the impact of tax legislation contained in Bill C-52 that makes certain specified investment flow-through entities, such as Algonquin Power Income Fund, taxable in 2011. This non-cash charge was not recorded previously due to the Fund's structure as a specified investment flow-through being non-taxable, and does not affect income before non-cash charges.

Performance Summary for the second quarter of 2007:

- Revenue of $50.0 million in Q2 2007 as compared to $47.1 million in Q2 2006.
- Net loss of $2.3 million or $0.03 per trust unit in Q2 2007 as compared to net earnings of $13.8 million or $0.20 per trust unit in Q2 2006.
- Cash available for distribution of $18.9 million ($0.25 per trust unit) in Q2 2007 as compared to $16.0 million ($0.23 per trust unit) in Q2 2006. Distributions for the second quarter of both 2007 and 2006 were $0.23 per trust unit.

Performance Summary for the first six months of 2007:

- Revenue of $99.5 million for the first six months of 2007 as compared to $96.6 million in the first six months of 2006.
- Net earnings of $3.9 million or $0.05 per trust unit for the first six months of 2007 as compared to $21.2 million or $0.30 per trust unit for the first six months of 2006.
- Cash available for distribution of $34.0 million ($0.45 per trust unit) in the first six months of 2007 as compared to $32.4 million ($0.47 per trust unit) for the same period in 2006. Distributions for both the first half of 2007 and 2006 were $0.46 per trust unit.

Second Quarter Highlights

Hydroelectric

During the second quarter of 2007, the Fund's hydroelectric facilities generated electricity equal to 100% of long term averages compared to 93% during the same period in 2006, due to the Western and Ontario regions that experienced hydrology above long term averages. The division experienced an overall increase in revenue primarily as a result of increased energy production when compared to the same period in 2006, offset by lower average energy rates and lower reported revenue from U.S. operations as a result of the stronger Canadian dollar.

Operating profit including other income for the hydroelectric division was $8.6 million during the second quarter of 2007, as compared to $8.8 million in the second quarter of 2006. The decrease in operating profit was primarily due to an increase in operating expenses that were directly related to energy production.

Overall, the Hydroelectric Division performed below Management's expectations during the quarter.

Cogeneration

The Fund's Cogeneration Division experienced increased production as compared to the same period in 2006 due to a 20% increase in production at the Windsor Locks facility and normal production at the Sanger facility. In the comparable period in 2006, Sanger had no production in April as the facility was voluntarily shutdown in favour of selling natural gas.

Second quarter 2007 operating profit including interest and dividends was $6.5 million, as compared to $7.3 million for the same period in 2006.

Overall, the Cogeneration Division met Management's expectations for the second quarter of 2007.

Alternative Fuels

The Fund's Alternative Fuels Division reported increased performance during the second quarter of 2007 when compared to the second quarter of 2006. The increase 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 $6.5 million for the second quarter of 2007 as compared to $3.2 million in the second 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 EFW facility but operating profit was still below Management's expectations for the second quarter of 2007.

Infrastructure

During the second quarter of 2007, the Fund's Infrastructure Division reported lower revenue as compared to the same period in 2006. The decreased revenue in the second quarter is primarily due to the stronger Canadian dollar. When compared to the second quarter of 2006, the division's water distribution customer base increased by 1% and the waste-water treatment customer base increased by 1%.

Operating profit including other income for the division in the second quarter of 2007 was $5.4 million compared to $5.7 million in the same period of 2006. The decrease is mainly due to slowing customer growth and a stronger Canadian dollar.

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

Outlook

In the Hydroelectric Division, the Fund anticipates performance equivalent to long term averages for the third quarter and remainder of 2007. Facilities in the Quebec region will continue undergoing assessments as a result of certain legislation passed in Quebec, and certain remedial work on the facilities to ensure compliance with the legislation has been identified. Management is considering alternatives to mitigate costs and identify revenue opportunities through the work that has been identified thus far. 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, fuel costs are passed on to the customer in the energy price. This contract reduces but does not completely eliminate the facility's exposure to natural gas price risk, and as such, Management expects lower natural gas prices to reduce operating profits from the Windsor Locks facility for the remainder of 2007 as compared to levels experienced in the same period in 2006. The Sanger facility is expected to meet Management's expectations throughout the remainder of 2007, and 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 meet management's expectations throughout the third quarter of 2007. At the EFW facility, the Fund will focus on operational improvements and equipment availability. At the Fund's LFG facilities, operating strategy will be the main focus. The steam sales supply line project at the EFW facility is on track to be completed by the end of the fourth quarter of 2007.

The Infrastructure Division is expecting a reduction in the organic growth rate during the remainder of the year due to a general slowdown in the residential housing market in the United States. The Fund enters into rate cases in order to ensure that facilities earn a rate of return on recently undertaken capital improvements. Rate cases are determined by the regulatory authorities that govern the areas where the facilities are located. Substantial capital projects are planned in one of the Fund's service areas during the remainder of 2007 and into 2008. 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 third quarter of 2007, assuming average long term hydrological conditions, average wind projections, operational improvements, continued organic growth, and no unforeseen events. 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. Within the existing portfolio, the Fund is considering opportunities at the EFW facility as a result of an expected growing local demand for Municipal waste disposal. The Fund is considering a plant expansion to significantly increase Facility throughput, and provide an opportunity for accretion to the Fund. Additionally, the Fund has submitted proposals to construct wind generation projects with capacity of over 350 MW in Manitoba and is in the process of assessing wind power development opportunities in Ontario, Quebec and Saskatchewan. Management is also seeking to expand the Fund's renewable energy portfolio with accretive clean energy assets, while continuing to ensure a technological, geographical, market and regulatory balance.

Algonquin Power Income Fund's mission is to be an innovative, respected and socially responsible participant in the energy, power and utility business sectors, enhancing investor value through stable, sustainable cash distributions. The Fund continues to focus on sound operational and management practices with priorities that enable the Fund to achieve this mission along with the pursuit of appropriate, accretive growth opportunities.

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 and six months ended June 30, 2007. This discussion and analysis should be read in conjunction with the Fund's unaudited consolidated financial statements for the three and six months ended June 30, 2007 as well as the audited consolidated financial statements, the notes thereto and the related Management's Discussion and Analysis ("MD&A") 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 MD&A is based on information available to Management as of August 1, 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 June 30		Six months ended June 30	
	2007	**2006**	**2007**	**2006**
Revenue	**49,992**	$ 47,096	**99,457**	$ 96,569
Net earnings (loss)	**(2,296)**	13,840	**3,902**	21,158
Total Assets	**1,048,994**	1,029,971	**1,048,994**	1,029,971
Long Term Debt	**243,957**	265,795	**243,957**	265,795
Distribution to unitholders*	**17,490**	16,016	**34,971**	32,031
Cash available for distribution**	**18,864**	16,025	**33,954**	32,446
Per trust unit				
Net earnings (loss)	**(0.03)**	0.20	**0.05**	0.30
Distribution to unitholders	**0.23**	0.23	**0.46**	0.46
Cash available for distribution**	**0.25**	0.23	**0.45**	0.47

* Includes distributions to non-controlling interest.

** Non-GAAP measurement, see 'Cash Available for Distribution' in this MD&A.

For the quarter ended June 30, 2007, the Fund reported total revenue of $50.0 million as compared to $47.1 million during the same period in 2006. During the second quarter of 2007, increases in revenue due to the acquisition of the St. Leon Wind Energy facility ("St. Leon") and increased production at the Windsor Locks and Sanger facilities were offset by decreases from the closure of the Crossroads facility in December of 2006, and lower energy rates at the Windsor Locks facility. For the quarter ended June 30, 2007, realized gains on financial instruments of $2.3 million were recorded as a 'Gain on financial instruments' in the statement of earnings as compared to the same period in 2006, where gains of $3.7 million were recorded in revenue.

For the six months ended June 30, 2007, the Fund reported revenue of $99.5 million compared to $96.6 million during the same period in 2006. Revenue for the six months ended June 30, 2007 was impacted by the same factors indicated in the second quarter results discussed above. For the six months ended June 30, 2007, realized gains on financial instruments of $3.1 million were recorded as a 'Gain on financial instruments' in the statement of earnings as compared to the same period in 2006, where gains of $2.1 million were recorded in revenue.

For the quarter ended June 30, 2007, the Fund used an average U.S. exchange rate of approximately $1.10 as compared to $1.12 in the same period in 2006. For the six months ended June 30, 2007, the average U.S. exchange rate was approximately $1.14, consistent with the same period in 2006. As such, any quarterly or six month 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 stronger 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 June 30, 2007, net loss was $2.3 million as compared to net earnings of $13.8 million during the same period in 2006. Net earnings for the second quarter of 2007 decreased from the same period in 2006 due to increased future income tax expense resulting from a one time non-cash charge of $27.9 million relating to the substantive enactment of Bill C-52, increased interest expense, lower energy rates at Windsor Locks and lower interest and dividend income from the Fund's portfolio of investments. These factors were partially offset by earnings from the St. Leon facility, the termination fee associated with the expiry of the offer to purchase the outstanding units of Clean Power Income Fund ("CPIF") and gain on financial instruments. In addition, the comparable quarter in 2006 included a positive impact from the temporary shutdown of the Sanger facility and the sale of natural gas. A more detailed analysis of these factors is presented within the divisional analysis.

Net earnings for the six months ended June 30, 2007 were $3.9 million, as compared to $21.2 million during the same period in 2006. Net earnings for the six months ended June 30, 2007 decreased from the same period in 2006 due to the factors indicated in the second quarter results discussed above.

Net loss per trust unit was $0.03 for the quarter ended June 30, 2007 as compared to net earnings of $0.20 during the same period in 2006 due to the explanations discussed above. For the six months ended June 30, 2007, net earnings per trust unit were $0.05 as compared to $0.30 during the same period in 2006.

The Fund generated $0.25 per trust unit of cash available for distribution for the quarter ended

June 30, 2007, as compared to $0.23 per trust unit during the same period in 2006. During the quarter ended June 30, 2007, the Fund maintained distributions at $0.23 per trust unit, consistent with the same period in 2006. In the six months ended June 30, 2007, the Fund generated $0.45 per trust unit of cash available for distribution compared to $0.47 during the same period in 2006. The Fund distributed $0.46 per trust unit, consistent with the same period in 2006.

The term 'cash available for distribution' is used throughout this MD&A. 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 MD&A. 'Cash available for distribution' is discussed in this MD&A as the Fund makes monthly cash distributions and management believes it is therefore a useful financial measure as an indication of the Fund's ability to make such distributions and is used by management and the Trustees for this purpose. 'Cash available for distribution' is also used by management in the calculation of return on investment which it uses to monitor the performance of the Fund's operating divisions. One of the factors that may be considered relevant by existing and prospective investors is the 'cash available for distribution' by the Fund relative to distributable cash generated and the price of the trust units. Management believes that 'cash available for distribution' is a useful supplemental measure that may assist existing and prospective investors in assessing an investment in the Fund.

Outlook

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 should 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.

The Fund is considering opportunities at the EFW facility as a result of an expected growing local demand for Municipal waste disposal. The Fund is considering a plant expansion to significantly increase Facility throughput, and provide an opportunity for accretion to the Fund. The Fund is embarking on a detailed engineering / environmental study in the fall of 2007 to assess expected capital and operating costs of an expanded facility.

The Fund has submitted proposals to construct wind generation projects with capacity of over 350 MW in Manitoba and is in the process of assessing wind power development opportunities in Ontario, Quebec and Saskatchewan. The likelihood of the Fund proceeding with these projects is unknown at this time as the projects are in the early stages of development.

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 purchasing 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$000)	Three months ended June 30		Six months ended June 30	
	2007	**2006**	**2007**	**2006**
Performance (MW-hrs sold)				
Quebec Region	**82,966**	87,313	**145,104**	156,073
Ontario Region	**39,761**	32,015	**74,578**	67,946
New England Region	**23,798**	23,997	**44,661**	48,788
New York Region	**22,640**	21,732	**48,221**	48,507
Western Region	**25,392**	18,956	**35,277**	29,490
Total	**194,557**	184,013	**347,841**	350,804
Revenue				
Energy sales	**$ 12,389**	$ 12,209	**$ 24,371**	$ 24,641
Expenses				
Operating expenses	**$ (4,260)**	$ (3,895)	**$ (8,288)**	$ (8,029)
Other income	**437**	439	**757**	867
Division operating profit				
(including other income)	**$ 8,566**	$ 8,753	**$ 16,840**	$ 17,479

For the quarter ended June 30, 2007, revenue in the Hydroelectric Division was $12.4 million as compared to $12.2 million during the same period in 2006. During the second quarter of 2007, the Hydroelectric Division generated electricity equal to 100% of long term averages as compared to 93% during the same period in 2006. The Western and Ontario regions experienced above long term average hydrology while the New England and Quebec regions experienced at or near long term average hydrology in the second quarter of 2007. This compares to the same period in 2006 when the Ontario region experienced below long term average hydrology, the Western region experienced long term average hydrology while the Quebec region experienced above long term average hydrology. The increase in revenue as compared to the second quarter of 2006 was primarily the result of increased energy production offset by lower average energy rates and lower reported revenue from U.S. operations as a result of the stronger Canadian dollar.

For the six months ended June 30, 2007, revenue from the Hydroelectric Division was $24.4 million compared to $24.6 million during the same period in 2006. During the six months ended June 30, 2007, the Hydroelectric Division generated electricity equal to 101% of long term averages as compared to the same amount in the comparable period in 2006. The decrease in revenue as compared to the first two quarters of 2006 was primarily the result of slightly decreased energy production offset by increased average energy rates.

For the quarter ended June 30, 2007, operating expenses increased to $4.3 million as compared to $3.9 million during the same period in 2006. The increase in operating expenses was primarily due to an increase in costs directly related to energy production as compared to the same period in 2006.

For the six months ended June 30, 2007, operating expenses were $8.3 million as compared to $8.0 million in the prior year. The increase in operating expenses was primarily due to an increase in operating costs offset by lower variable costs directly related to energy production as compared to the same period in 2006.

For the quarter ended June 30, 2007, operating profit was $8.6 million as compared to $8.8 million in the same period in 2006. For the six months ended June 30, 2007, operating profit was $16.8 million as compared to $17.5 million during the same period in 2006. For the quarter ended June 30, 2007, operating profit was below Management's expectations while operating profit for the six months ended June 30, 2007 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 third 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 during 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. As the result of six assessments underway and two completed at eight of twelve facilities, Management has initially identified remedial measures estimated to cost approximately $8.5 million. Management is exploring 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 continues to seek accretive hydroelectric acquisitions throughout 2007, with emphasis placed on the acquisition of facilities that provide diversification of regional hydrologic and market conditions, while leveraging existing expertise within the organization. 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$000)	Three months ended June 30		Six months ended June 30	
	2007	**2006**	**2007**	**2006**
Performance (MW-hrs sold)	**124,351**	111,945	**249,821**	215,858
Revenue				
Energy sales	**$ 16,169**	$ 16,228	**$ 31,672**	$ 31,843
Other revenue	**673**	1,936	**1,349**	7,381
Total Revenue	**$ 16,842**	$ 18,164	**$ 33,021**	$ 39,224
Expenses				
Operating expenses	**$ (11,951)**	$ (12,043)	**$ (24,660)**	$ (27,272)
Interest and dividend income	**666**	1,186	**1,587**	1,918
Gain on financial instruments	**895**	-	**1,605**	-
Division operating profit				
(including interest and dividend income)	**$ 6,452**	$ 7,307	**$ 11,553**	$ 13,870

For the quarter ended June 30, 2007, revenue from the Cogeneration Division totaled $16.8 million as compared to $18.2 million during the same period in 2006. For the quarter ended June 30, 2007, the division's production increased as compared to the same period in 2006, due to a 20% increase in production at the Windsor Locks and normal production at the Sanger facility. In the comparable period in 2006, Sanger had no production in April as the facility was voluntarily shutdown in favour of selling natural gas. In addition, the comparable period includes 12,000 Mw-Hrs of production from the Crossroads facility, which was closed in December 2006.

For the quarter ended June 30, 2007, revenue from energy sales was $16.2 million, consistent with the comparable period in 2006. Increased production at the Sanger and Windsor Locks facilities was offset by lower energy rates realized at the Windsor Locks facility resulting from lower fuel costs, which are passed on to the customer in the energy price, the closure of the Crossroads facility, and a stronger Canadian dollar, as compared to the same period in 2006. In the comparable quarter in 2006, realized gain on financial instruments of $0.8 million was recorded as revenue.

For the quarter ended June 30, 2007, other revenue totaled $0.7 million as compared to $1.9 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 six months ended June 30, 2007, revenue from the Cogeneration Division totaled $33.0 million compared to $39.2 million during the same period in the prior year. For the six months ended June 30, 2007, the division's production increased as compared to the same period in 2006, due to increased production at the Windsor Locks and Sanger facility. In the comparable period in 2006, Sanger had no production in the first four months of the period as the facility was voluntarily shutdown in favour of selling natural gas. In addition, the comparable period includes production of approximately 24,000 Mw-Hrs from the Crossroads facility, which was closed in December 2006.

For the six months ended June 30, 2007, revenue from energy sales was $31.7 million, consistent with the comparable period in 2006. Increased production at the Sanger and Windsor Locks facilities was offset by lower energy rates realized at the Windsor Locks facility resulting from lower fuel costs, which are passed on to the customer in the energy price, and the closure of the Crossroads facility, as compared to the same period in 2006. In the comparable six month period in 2006, realized gain on financial instruments of $1.7 million was recorded as revenue.

For the six months ended June 30, 2007, other revenue totaled $1.3 million as compared to $7.4 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.

The Fund earned lower dividend income from its portfolio investments during the second quarter and six months ended June 30, 2007 as compared to the same periods of 2006.

For the quarter ended June 30, 2007, operating expenses decreased to $11.9 million as compared to $12.0 million during the same period in 2006. Operating expenses decreased primarily due to the closure of the Crossroads facility which incurred costs totaling $1.5 million and a 7% lower price for natural gas at Windsor Locks as compared to the same period in 2006. These decreases were offset by increased natural gas costs of $1.5 million which were the result of increased prices at Sanger and an increased volume of natural gas used by the division to generate energy, as compared to the same period in 2006.

For the six months ended June 30, 2007, operating expenses decreased to $24.7 million from $27.3 million primarily due to the reasons indicated in the discussion of second quarter results, above, as compared to the same period in 2006.

Gain on financial instruments consists of realized gains on the foreign exchange forward contracts settled in the second quarter of 2007 and six months ended June 30, 2007. These amounts were recorded in revenue in the comparable periods in 2006.

For the quarter ended June 30, 2007, operating profit decreased to $6.5 million as compared to $7.3 million during the same period in 2006. Operating profit for the six months ended June 30, 2007 was $11.6 million compared to $13.9 million during the same period in 2006. Operating profit in the Cogeneration Division met Management's expectations for the second quarter of 2007 but did not meet Management's expectations for the six months ended June 30, 2007.

Outlook

At the Windsor Locks facility, fuel costs are passed on to the customer in the energy price. This contract reduces but does not completely eliminate the facility's exposure to natural gas price risk. Management expects lower natural gas prices to reduce operating profits from the Windsor Locks facility for the remainder of 2007 as compared to levels experienced in the same period in 2006.

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$000)	Three months ended June 30		Six months ended June 30	
	2007	**2006**	**2007**	**2006**
Performance (MW-hrs sold)	**134,641**	58,102	**284,622**	117,377
Performance (tonnes of waste processed)	**24,144**	37,944	**62,799**	77,316
Revenue				
Energy sales	**3,195**	3,913	**6,605**	8,266
Waste disposal sales	**2,428**	3,415	**5,960**	7,136
Other revenue	**6,442**	-	**12,976**	-
Total revenue	**$ 12,065**	$ 7,328	**$ 25,541**	$ 15,402
Expenses				
Operating expenses	**$ (7,227)**	$ (6,350)	**$ (14,669)**	$ (13,569)
Interest and other income	**1,491**	2,231	**2,250**	3,938
Gain on financial instruments	**196**	-	**307**	-
Division operating profit (including interest and dividend income)	**$ 6,525**	$ 3,209	**$ 13,429**	$ 5,771

For the quarter ended June 30, 2007, revenue in the Alternative Fuels Division was $12.1 million as compared to $7.3 million during the same period in 2006. During the quarter ended June 30, 2007, the division's performance increased from the comparable period in 2006, primarily as a result of the inclusion of 88,000 Mw-Hrs of production from the St. Leon facility. This increase was offset by lower production from the Land-Fill Gas facilities ("LFG") and the EFW facility. The EFW facility production and throughput was significantly reduced from the comparable period in 2006 as the result of a planned 14 day major maintenance outage in May and unplanned repairs to the evaporative cooling towers, which were completed during the quarter. Revenue for the quarter ended June 30, 2007 increased due to the reasons indicated in the discussion of second quarter production results above, as compared to the same period in 2006. In the comparable quarter in 2006, realized gain on financial instruments of $0.2 million was recorded as revenue.

Other revenue consists of liquidated damages earned by the St. Leon facility. While all of the wind turbines at the facility have been constructed and commissioned, completion of certain aspects of the project under the turnkey construction contract ("TCC") have been delayed and remain to be addressed by the primary 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 TCC. While Vestas unilaterally ceased paying liquidated damages on July 11, 2006, the revenue generated from energy sales to Manitoba Hydro to date has been substantially equivalent to the liquidated damages earned, minimizing any exposure of the Fund to credit risk from Vestas. The Fund has not remitted any proceeds from energy sales from Manitoba Hydro to Vestas during the 2007 current or 2006 prior fiscal year.

For the six months ended June 30, 2007, revenue was $25.5 million compared to $15.4 million during the same period in 2006. During the six months ended June 30, 2007, the division's performance increased from the comparable period in 2006, primarily as a result of the inclusion of 189,000 Mw-Hrs of production from the St. Leon facility. This increase in production was offset by the reasons indicated in the discussion of second quarter results above, as compared to the same period in 2006. In the comparable six month period in 2006, realized gain on financial instruments of $0.3 million was recorded as revenue.

For the quarter ended June 30, 2007, operating expenses were $7.2 million as compared to $6.4 million during the same period in 2006. Operating expenses for the quarter increased as a result of the inclusion of operating expenses of $0.5 million from the St. Leon facility and increased repair and maintenance costs of $0.4 million at the LFG and EFW facilities as compared to the same period in 2006.

For the six months ended June 30, 2007, operating expenses were $14.7 million compared to $13.6 million during the same period in 2006. Operating expenses for the quarter increased as a result of the inclusion of operating expenses of $1.1 million from the St. Leon facility and increased repair and maintenance costs of $0.4 million at the LFG and EFW facilities, partially offset by a reduction in gas costs 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 June 30, 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 and six months ended June 30, 2007 as compared to $1.7 million and $2.9 million in the same periods in 2006.

Gain on financial instruments consists of realized gains on the foreign exchange forward contracts settled in the second quarter of 2007 and six months ended June 30, 2007. These amounts were recorded in revenue in the comparable periods in 2006.

For the quarter ended June 30, 2007, operating profit was $6.5 million as compared to $3.2 million during the same period in 2006. Operating profit for the six months ended June 30, 2007 was $13.4 million as compared to $5.8 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 and six months ended June 30, 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. Operational improvements scheduled in the first half of the year were completed and are expected to provide increased 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 meet Management's expectations throughout the remainder of 2007. Management continues to work toward resolution of the outstanding items under the TCC through discussions with Vestas. The Fund has entered into contractual arbitration with Vestas in order to resolve the remaining issues. Liquidated Damages, as specified under the terms of the TCC, are limited to a maximum of 20% of the TCC price and are expected to reach that maximum by the end of the third quarter.

The three main issues outstanding under the TCC are premature wear of turbine bearings, cracking in blade materials, and an unacceptably high failure rate of underground electrical transmission cables. If unresolved, these issues have the potential to significantly limit the overall production of the facility. It is expected that cracking in the turbine blades will be rectified by the end of the third quarter. The Fund continues to hold financial security posted by Vestas in respect of its obligations under the TCC, contractual milestone payments and holdbacks stipulated under the TCC. It is Management's belief that such financial security would be sufficient to rectify the outstanding issues in the event Vestas fails to complete the necessary work.

Infrastructure Division

(C$000)	Three months ended June 30		Six months ended June 30	
	2007	**2006**	**2007**	**2006**
Period End Number of				
Waste-water customers	**29,546**	28,379	**29,546**	28,379
Water distribution customers	**34,318**	31,733	**34,318**	31,733
Revenue				
Waste-water and distribution	**$ 8,696**	$ 9,395	**$ 16,524**	$ 17,302
Expenses				
Operating expenses	**$ (4,438)**	$ (3,738)	**$ (8,824)**	$ (7,217)
Other income	-	21	**33**	26
Gain on financial instrument	**1,180**	-	**1,159**	-
Division operating profit (including other income)	**$ 5,438**	$ 5,678	**$ 8,892**	$ 10,111

For the quarter ended June 30, 2007, revenue in the Infrastructure Division was $8.7 million as compared to $9.4 million during the same period in 2006. The division's waste-water distribution customer base grew by 1% and the division's water distribution customer base grew by 1% during the quarter ended June 30, 2007 as compared to 4% and 8%, respectively, in the same periods 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 second quarter was primarily due to a stronger Canadian dollar and, in the comparable period in 2006, realized gain on financial instruments of $1.2 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.

Revenue for the six months ended June 30, 2007 was $16.5 million as compared to $17.3 million during the same period in 2006. The decrease in revenue for the six months of 2007 was primarily due to the recording of a realized gain on financial instruments of $1.7 million as revenue in the comparative period.

For the quarter ended June 30, 2007, operating expenses were $4.4 million as compared to $3.7 million during the same period in 2006. The increase in operating expenses was primarily the result of customer growth, as compared to the same period in 2006.

For the six months ended June 30, 2007, operating expenses were $8.8 million compared to $7.2 million during the same period in 2006. The increase in operating expenses was primarily the result of customer growth, as compared to the same period in 2006.

Gain on financial instruments consists of realized gains on the foreign exchange forward contracts settled in the second quarter of 2007 and six months ended June 30, 2007. These amounts were recorded in revenue in the comparable periods in 2006.

For the quarter ended June 30, 2007, operating profit decreased to $5.4 million as compared to $5.7 million during the same period in 2006. Operating profit for the six months ended June 30, 2007 decreased to $8.9 million from $10.1 million during the same period in 2006. Operating profit did not meet Management's expectations for the quarter or six months ended June 30, 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 continues to service one of the fastest growing counties in the United States.

The regulatory review of the rates and tariffs for the Gold Canyon facility was completed in June, with a 73% increase taking effect on July 1, 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 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 require arsenic treatment. Arsenic treatment systems scheduled for installation in the second quarter of 2007 have been completed and further systems will be installed in the second 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 June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Administrative expenses	**2,008**	$ 2,308	**3,686**	$ 3,777
Management costs	**216**	217	**433**	434
Gain on foreign exchange	**(3,654)**	(2,370)	**(4,584)**	(2,262)
Interest expense	**6,686**	5,051	**13,078**	9,651
Interest, dividend and other income	**(1,785)**	(21)	**(1,848)**	(37)
Gain on financial instruments	**7,798**	-	**7,934**	-
Income tax expense (recovery)	**24,770**	(2,448)	**23,158**	(2,201)

During the quarter ended June 30, 2007, administrative expenses decreased to $2.0 million from $2.3 million as compared to the same period in 2006. During the six months ended June 30, 2007, administrative expenses decreased to $3.7 million from $3.8 million. The Fund incurred expenses in an amount of $0.9 million associated with the offer for CPIF. This amount was reimbursed by CPIF during the quarter, resulting in no impact on administrative expenses for the quarter. The decrease for the quarter and six months ended June 30, 2007 was due to business development expenses incurred in the comparable periods in 2006.

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 June 30, 2007 the Fund reported a foreign exchange gain of $3.7 million as compared to a gain of $2.4 million during same period in 2006. For the six months ended June 30, 2007 the Fund posted a foreign exchange gain of $4.6 million versus a gain of $2.3 million during the same period in 2006. At the end of the second quarter of 2007, the Fund had approximately $36 million in U.S. dollar denominated debt.

For the quarter ended June 30, 2007, interest expense increased to $6.7 million as compared to $5.1 million during the same period in 2006. For the six months ended June 30, 2007, interest expense increased to $13.1 million as compared to $9.7 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.

Interest, dividend and other income primarily represents a termination fee of $1.75 million received in connection with the Fund's offer to purchase the outstanding units of CPIF. The Fund allowed its offer to expire during the second quarter.

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 2006.

An income tax expense of $24.9 million was booked in the second quarter of 2007, as compared to a recovery of $2.5 million during the same period in 2006. An income tax expense of $23.2 million was booked in the six months ended June 30, 2007 as compared to a recovery of $2.2 million during the same period in 2006. The expense was the result of increased future income tax expense resulting from a one time non-cash charge of $27.9 million relating to the substantive enactment of Bill C-52.

Cash Available for Distribution

(C$000)	Three months ended June 30 2007	Three months ended June 30 2006	Six months ended June 30 2007	Six months ended June 30 2006
Cash flow from operating activities	**$ 16,790**	$ 20,973	**$ 26,477**	$ 36,026
Changes in working capital	**2,352**	(4,374)	**8,630**	(3,293)
Operating cash flow before Working capital changes	**19,142**	16,599	**35,107**	32,733
Receipt of principal on notes receivable	**252**	669	**631**	2,036
Repayment of long term liabilities	**(398)**	(410)	**(619)**	(610)
Maintenance capital expenditures *	**(918)**	(816)	**(1,852)**	(1,463)
Other	**786**	(17)	**687**	(250)
Cash available for distribution	**$ 18,864**	$ 16,025	**$ 33,954**	$ 32,446
Cash available for distribution per trust unit	$ **0.25**	$ 0.23	**$ 0.45**	$ 0.47
Distribution to unitholders	$ **17,490**	$ 16,016	**$ 34,971**	$ 32,031
Distributions to unitholders per trust unit	$ **0.23**	$ 0.23	**$ 0.46**	$ 0.46

* 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 June 30, 2007 the Fund generated $19.1 million in operating cash flow before working capital changes as compared to $16.6 million for the same period in 2006. The increase was primarily due to additional cash generated from the acquisition of the St. Leon facility at the end of the second quarter in 2006.

During the six months ended June 30, 2007, the Fund generated $35.1 million in operating cash flow before working capital changes as compared to $32.7 million for the same period in 2006. The increase was primarily due to the reasons indicated in the discussion of the second quarter results above.

During the quarter ended June 30, 2007 the Fund generated $18.9 million in cash available for distribution as compared to $16.0 million for the same period in 2006. During the six months ended June 30, 2007, the Fund generated $34.0 million in cash available for distribution as compared to $32.4 million for the same period in 2006.

The Fund's distribution as a percentage of 'cash available for distribution' ("Payout Ratio") was 92.7% during the second quarter of 2007 and 103.0% during the six months ended June 30, 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.

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 $0.25 of cash available for distribution during the quarter ended June 30, 2007 as compared to $0.23 during the same period in 2006. The Fund distributed $17.5 million during the quarter ended June 30, 2007 as compared to $16.0 million during the same period in 2006. For the six months ended June 30, 2007, on a per trust unit basis, the Fund generated $0.45 of cash available as compared to $0.47 during the same period in 2006. The Fund distributed $35.0 million during the six months ended June 30, 2007 as compared to $32.0 million during the same period in 2006.

On a per trust unit basis, the Fund maintained distributions at $0.23 for the quarter ended June 30, 2007, consistent with 2006 and $0.46 per trust unit during the six months ended June 30, 2007 consistent with 2006.

Liquidity and Capital Reserves

For the quarter ended June 30, 2007, the Fund had $12.0 million of cash and cash equivalents. As at June 30, 2007, the Fund had negative net working capital of $23.9 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 contractual milestone payments and holdbacks stipulated under the TCC related to the completion of the St. Leon facility, which are included in accrued liabilities. The Fund has adequate credit capacity to meet these requirements.

During the quarter ended June 30, 2007, the Fund incurred capital expenditures of $9.3 million, as compared to $6.0 million during the comparable period in 2006. During the six months ended June 30, 2007, the Fund incurred capital expenditures of $14.0 million, as compared to $12.6 million during the comparable period in 2006. Capital expenditures during the quarter ended June 30, 2007 were primarily growth and regulatory related expenditures in the Infrastructure Division. In addition, capital expenditures of approximately $2.6 million related to the planned re-powering project at the Sanger facility were incurred during the quarter ended June 30, 2007. Capital expenditure requirements are anticipated to be approximately $40 million during the remainder of fiscal 2007, including $9.0 million related to the completion of the Sanger re-powering project, $9.6 million related to the steam sale project and $20.0 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 decreased to $244.0 million at June 30, 2007 as compared to $265.8 million at June 30, 2006. Long term liabilities primarily consist of project level debt of $157.0 million and an amount of $87.0 million drawn on the Fund's revolving credit facility as compared to project level debt of $160.0 million and an amount of $105.8 million drawn on the Fund's revolving credit facility at the end of the second quarter of 2006. 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 June 30, 2007, the Fund had drawn $87.0 million on its revolving credit facility in addition to letters of credit. During the second quarter, the Fund's lenders extended the total credit facility for a one year term to mature on August 2008.

During the quarter ended June 30, 2007 the Fund drew $13.0 million on its credit facility to fund capital requirements, net of a repayment of $2.8 million related to proceeds from the sale of generating assets in the second quarter. 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 June 30, 2007 the Fund maintained a long term debt-to-equity ratio (including long term liabilities, other long term liabilities, and convertible debentures) of 86.9%. 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 June 30, 2007 would be reduced to 43.1%.

Contractual Obligations

Information concerning contractual obligations as of August 1, 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	$ 245,575	$ 1,502	$ 92,925	$ 8,347	$ 142,801
Other obligations	35,377	17,706	3,888	734	13,049
Total obligations	$ 280,952	$ 19,208	$ 96,813	$ 9,081	$ 155,850

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 excluding payments made on the revolving credit facility. Included in the other obligations 'due in less than one year' is the Fund's commitments, as of August 1, 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 June 30, 2007 the Fund had 73,495,149 issued and outstanding trust units with a total of 76,068,569 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"). During the second quarter of 2007, 191,550 trust units of the Fund were issued pursuant to the conversion of Exchangeable Units. As at June 30, 2007 there were 2,573,420 trust units of the Fund remaining to be issued pursuant to the conversion of Exchangeable Units. Subsequent to June 30, 2007 a further 30,890 trust units of the Fund were issued pursuant to the conversion of Exchangeable Units and a further 1,502 trust units of the Fund were issued pursuant to the exercise of the conversion option on its convertible debentures.

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 June 30, 2007 there were 84,980 convertible debentures outstanding. Subsequent to the end of the second quarter, an investor exercised their option on $16 of convertible debentures, resulting in 84,964 convertible debentures outstanding subsequent to the end of the second quarter.

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 June 30, 2007 no convertible debentures had been presented for conversion.

Dealings with Algonquin Power Group

In accordance with the management agreement, the Fund paid the Manager and its related companies for services provided on a cost recovery basis. For the period ended June 30, 2007, the Fund paid the Manager $433 (2006 - $434) for management services.

The Fund has leased its head office facilities since 2001 from an entity owned by the shareholders of the Manager. Base lease costs for the period ended June 30, 2007 were $148 (2006 - $148) and additional rent representing operating costs was $nil (2006 - $89). Additional building operating costs are currently paid directly by the Fund and are no longer included as a related party transaction.

As part of the project to re-power the Sanger facility, the Fund has entered into an agreement with the Manager to undertake certain construction management services on the project. The Manager is entitled to a development supervision fee plus a contingency fee for its construction management role on the project. During the first six months of 2007, the Manager was paid $67 (2006 – nil).

In accordance with the construction services agreement related to the St Leon facility, GreenWing Algonquin Power Development Inc ("GWAP"), a company controlled by the Manager, was paid $782 during the quarter and the six months ended June 30, 2007 respectively for fees ($0 and $141 for the three and six months ended June 30, 2006). This amount was included in accounts payable and accrued liabilities as part of the total cost of the project. For the first six months ended June 30, 2007, the Fund also paid $736 to GWAP on a cost recovery basis related to on going operating expenses of the project and $320 for the quarter ended June 30, 2007. ($275 and $495 for the quarter and six months ended June 30, 2006).

As at June 30, 2007, the Fund had project debt from Algonquin Power Venture Fund ("APVF") in an amount of $3.0 million related to the St. Leon facility. APVF advanced $1.6 million at a rate of 11.25% as part of the initial financing of the St. Leon facility and advanced $1.4 million at a rate of 9.25% during the first quarter of 2007. Both amounts mature on September 30, 2014 and are secured by the underlying assets of the St. Leon facility. For the six months ended June 30, 2007, APVF was paid $125, (2006 – nil) in interest related to debt associated with the St Leon facility. Some of the directors and shareholders of the Manager are also directors, officers and shareholders of the manager of APVF.

When appropriate for use in its operations the Fund utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of the Manager. The Fund entered into an agreement and remitted 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 the Manager 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 TCC 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 June 30, 2007 the Fund had effectively hedged 95% of its remaining expected 2007 U.S. dollar cash flow at $1.348 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. $65.9 million carrying an average rate of $1.28. 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 $244.0 million. In the event that the Fund was required to replace these facilities with borrowings having less favourable terms or higher interest rates, the level of cash generated for distribution may be negatively impacted. The 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 Rules "). Bill C-52, which implements the SIFT Rules, received Royal

Assent on June 22, 2007. The SIFT Rules will apply to a "specified investment flow-through trust" ("SIFT trust") which includes 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". The Fund is a SIFT trust. As a SIFT trust, 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. Generally, 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.

In general the SIFT Rules will not apply until 2011 to a trust, such as the Fund, which would have been a SIFT trust on October 31, 2006 had the SIFT Rules been in force on that date. Starting with the 2011 taxation year, a SIFT trust 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 trust 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 are circumstances where an existing trust will 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 ("normal growth"). The Fund is of the view that it has not, to date, taken any action that would cause it to lose its transitional relief and it expects to continue to comply with the normal growth "guidelines".

When the SIFT Rules apply to the Fund in 2011, 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 Rules were not enacted. Non-resident Unitholders and Canadian resident Unitholders which are exempt from tax would be negatively affected by the application of the SIFT Rules 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 November 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. During this quarter, an evaluation of the effectiveness of the design and operation of the Fund's disclosure controls and procedures was carried out, under the supervision and with the participation of Management, the CEO and CFO, and was presented to the Disclosure Committee and to the Audit Committee. 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 this quarter ended June 30, 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.

Quarterly Financial Information

The following is a summary of unaudited quarterly financial information for the two years ended June 30, 2007.

Millions of dollars except per trust unit amounts

	3rd Qtr 2006	4th Qtr 2006	1st Qtr 2007	2nd Qtr 2007	Total
Revenue	$ 51.1	$ 53.7	$ 49.5	$ 50.0	$ 204.3
Net earnings (loss)	5.0	1.8	6.2	(2.3)	10.7
Net earnings per trust unit	0.07	0.02	0.08	(0.03)	0.14
Total Assets	1,024.2	1,048.3	1,035.8	1,049.0	1,049.0
Long term debt*	379.6	411.0	401.8	410.0	410.0
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

	3rd Qtr 2005	4th Qtr 2005	1st Qtr 2006	2nd Qtr 2006	Total
Revenue	$ 42.8	$ 50.9	$ 49.5	$ 47.1	$ 190.3
Net earnings	9.5	8.9	7.3	13.8	39.5
Net earnings per trust unit	0.14	0.13	0.11	0.20	0.58
Total Assets	838.2	823.8	839.0	1,030.0	1,030.0
Long term debt*	286.8	271.5	300.1	376.6	376.6
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 MD&A.

Quarterly revenues have fluctuated between $42.8 million and $53.7 million over the prior two year period. A number of factors impact quarterly results including seasonal fluctuations, hydrology and winter and summer rates built into power purchase agreements. Additionally, revenue has generally trended up due to facility acquisitions, including the St. Leon wind facility in June 2006, and organic growth in the Fund's Infrastructure division.

Quarterly net earnings have fluctuated between $13.8 million and a net loss of $2.3 million over the prior two year period. Recent earnings have been significantly impacted by non cash factors such as future tax expense due to the enactment of Bill C-52 and gains and losses on financial instruments due to the Fund's adoption of Section 3855 and the discontinuation of hedge accounting under Section 3865.

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 June 30, 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, except as discussed below.

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.

Recent Accounting Pronouncements

Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, polices and processes for managing capital and disclose whether or not it has complied and the consequences of non-compliance with any capital requirements to which it is subject. The new standard will become effective on January 1, 2008 for the Fund. The Fund is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.

Financial Instruments – Disclosures and Financial Instruments – Presentation

In December 2006, the CICA Handbook Sections 3862, Financial Instruments – Disclosures, and 3863, Financial Instruments – Presentation. Section 3862 modifies the disclosure requirements of Section 3861, Financial Instruments – Disclosure and Presentation, including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Fund is exposed and how the Fund manages those risks, whereas Section 3863 carries forward the presentation related requirements of Section 3861. The new standards will become effective on January 1, 2008 for the Fund. The Fund is currently evaluating the impact of the adoption of Section 3862 while the Fund does not expect the adoption of 3863 to have a significant effect on the consolidated financial statements.

Consolidated Balance Sheets

June 30, 2007 and December 31, 2006
(thousands of Canadian dollars)

	Jun. 30, 2007 Unaudited	Dec. 31, 2006
Assets		
Current assets		
Cash and cash equivalents	**$ 12,007**	$ 13,465
Accounts receivable	**50,296**	41,291
Prepaid expenses	**3,503**	2,777
Due from Algonquin Group	**62**	-
Current portion of notes receivable	**1,722**	2,337
	67,590	59,870
Long-term investments	**31,039**	29,976
Future non-current income tax asset	**8,909**	7,639
Capital assets, net of accumulated amortization (Note 4)	**805,985**	810,474
Intangible assets, net of accumulated amortization (Note 4)	**108,517**	111,978
Restricted cash	**6,159**	6,753
Deferred costs (net of accumulated amortization) (Note 2)	**1,992**	8,246
Other assets	**18,803**	13,388
	$ 1,048,994	$ 1,048,324
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 76,417**	$ 75,011
Cash distribution payable	**11,649**	11,659
Current portion of long-term liabilities	**1,886**	1,876
Current income tax liability	**344**	141
Future income tax liability	**984**	848
	91,280	89,535
Long-term liabilities (Notes 2 and 6)	**243,957**	228,021
Convertible debentures (Note 2)	**139,183**	144,501
Other long-term liabilities (Note 7)	**11,328**	10,711
Deferred credits	**15,557**	27,780
Future non-current income tax liability (Note 8)	**94,715**	71,257
Non controlling interest (Note 11)	**23,303**	31,804
Unitholders' equity		
Trust units	**690,314**	684,414
Equity component of convertible debentures	**479**	479
Deficit	**(269,769)**	(240,178)
Accumulated other comprehensive income (Note 2)	**8,647**	-
	429,671	444,715
	$ 1,048,994	$ 1,048,324

Subsequent events (Note 6 and 11)
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 six months ended June 30, 2007 and June 30, 2006
(thousands of Canadian dollars)
(unaudited)

	Three months ended Jun. 30		Six months ended Jun. 30	
	2007	**2006**	**2007**	**2006**
Trust units				
Balance, beginning of period	**$ 688,494**	$ 654,196	**$ 684,414**	$ 654,176
Issued on acquisition of AirSource Power Fund I LP	**-**	19,944	**-**	19,944
Issued on conversion of Algonquin (AirSource) Power LP exhangeable units	**1,820**	-	**5,900**	-
Conversion of convertible debentures	-	-	-	20
Balance, end of period	**$ 690,314**	$ 674,140	**$ 690,314**	$ 674,140
Equity component of convertible debentures	**$ 479**	$ -	**$ 479**	$ -
Deficit				
Balance, beginning of period	**$ (250,591)**	$ (209,875)	**$ (240,178)**	$ (201,178)
Changes in accounting policies (Note 2)	-	-	**211**	-
Balance, beginning of period as adjusted	**(250,591)**	(209,875)	**(239,967)**	(201,178)
Net earnings / (loss)	**(2,296)**	13,840	**3,902**	21,158
Distributions	**(16,882)**	(16,016)	**(33,704)**	(32,031)
Balance, end of period	**$ (269,769)**	$ (212,051)	**$ (269,769)**	$ (212,051)
Accumulated other comprehensive income (loss)				
Balance, beginning of period	**$ 10,313**	$ -	**$ -**	$ -
Changes in accounting policies (Note 2)	**-**	-	**11,167**	-
Deferred gains on the forward contracts (note 2)	**(1,666)**	-	**(2,520)**	-
Balance, end of period	**$ 8,647**	$ -	**$ 8,647**	$ -

Consolidated Statements of Earnings and Comprehensive Income

For the six months ended June 30, 2007 and June 30, 2006
(thousands of Canadian dollars)
Unaudited

	Three months ended Jun. 30		Six months ended Jun. 30	
	2007	**2006**	**2007**	**2006**
Revenue				
Energy sales	**$ 31,753**	$ 32,350	**$ 62,648**	$ 64,750
Waste disposal fees	**2,428**	3,415	**5,960**	7,136
Water reclamation and distribution	**8,696**	9,395	**16,524**	17,302
Other revenue	**7,115**	1,936	**14,325**	7,381
	49,992	47,096	**99,457**	96,569
Expenses				
Operating	**27,876**	26,026	**56,441**	56,087
Amortization of capital assets	**8,892**	7,078	**18,286**	14,133
Amortization of intangible assets	**1,914**	1,292	**3,836**	2,578
Management costs (Note 7)	**216**	217	**433**	434
Administrative expenses	**2,008**	2,308	**3,686**	3,777
Gain on foreign exchange	**(3,654)**	(2,370)	**(4,584)**	(2,262)
	37,252	34,551	**78,098**	74,747
Earnings before undernoted	**12,740**	12,545	**21,359**	21,822
Interest expense	**6,686**	5,051	**13,078**	9,651
Interest, dividend income and other income (Note 5)	**(4,379)**	(3,898)	**(6,475)**	(6,786)
Gain on financial instruments	**(10,049)**	-	**(10,960)**	-
	(7,742)	1,153	**(4,357)**	2,865
Earnings before income taxes and minority interest	**20,482**	11,392	**25,716**	18,957
Current income taxes	**193**	612	**388**	882
Future income taxes (Note 8)	**24,577**	(3,060)	**22,770**	(3,083)
	24,770	(2,448)	**23,158**	(2,201)
Minority interest	**(1,992)**	-	**(1,344)**	-
Net earnings / (loss) and comprehensive income	**$ (2,296)**	$ 13,840	**$ 3,902**	$ 21,158
Basic and diluted net earnings / (loss) per trust unit	**$ (0.03)**	$ 0.20	**$ 0.05**	$ 0.30

Consolidated Statements of Cash Flows

For the six months ended June 30, 2007 and June 30, 2006
(thousands of Canadian dollars)
Unaudited

	Three months ended Jun. 30		Six months ended Jun. 30	
	2007	**2006**	**2007**	**2006**
Operating Activities				
Net earnings / (loss)	**$ (2,296)**	$ 13,840	**$ 3,902**	$ 21,158
Items not affecting cash				
Amortization of capital assets	**8,892**	7,078	**18,286**	14,133
Amortization of intangible assets	**1,914**	1,292	**3,836**	2,578
Other amortization	**595**	190	**1,068**	657
Distribution received in excess of equity income	**(225)**	(58)	**(222)**	(128)
Future income taxes	**24,577**	(3,060)	**22,770**	(3,083)
Minority interest	**(1,992)**	-	**(1,344)**	-
Unrealized gain on financial instruments	**(7,798)**	-	**(7,935)**	-
Gain on sale of fixed assets	**(1,069)**	-	**(1,069)**	-
Unrealized gain on foreign exchange	**(3,456)**	(2,683)	**(4,185)**	(2,582)
	19,142	16,599	**35,107**	32,733
Changes in non-cash operating working capital	**(2,352)**	4,374	**(8,630)**	3,293
	16,790	20,973	**26,477**	36,026
Financing Activities				
Cash distributions	**(16,846)**	(16,016)	**(33,609)**	(32,031)
Cash distributions non controlling interest	**(639)**	-	**(1,362)**	-
Deferred financing costs	**(25)**	-	**(158)**	(187)
Increase in long term liabilities	**13,000**	-	**20,000**	35,798
Increase in other long term liabilities	**-**	7,546	**1,400**	-
Increase / (decrease) in long term liabilities	**(480)**	22	**(738)**	-
Other	**93**	132	**203**	356
Deferred credits	**16**	-	**16**	49
	(4,881)	(8,316)	**(14,248)**	3,985
Investing Activities				
Decrease in restricted cash	**(43)**	(358)	**(187)**	(432)
Deferred charges	**(19)**	(312)	**(118)**	(312)
Receipt of principal on notes receivable	**252**	669	**631**	2,036
Increase in long term investments	**(802)**	-	**(1,159)**	-
Net additions to capital assets	**(9,340)**	(6,007)	**(13,982)**	(12,569)
Proceeds from sale of fixed asset and intangible asset	**2,488**	-	**2,488**	-
Acquisitions of operating entities (Note 4)	**(205)**	3,103	**(735)**	(21,917)
	(7,669)	(2,905)	**(13,062)**	(33,194)
Effect of exchange rate differences on cash and cash equivalents	**(580)**	(108)	**(625)**	(124)
Increase /(decrease) in cash	**3,660**	9,644	**(1,458)**	6,693
Cash and cash equivalents, beginning of the period	**8,347**	8,412	**13,465**	11,363
Cash and cash equivalents, end of the period	**$ 12,007**	$ 18,056	**$ 12,007**	$ 18,056
Supplemental disclosure of cash flow information				
Cash paid during the period for interest expense	**$ 6,501**	$ 3,642	**$ 12,763**	$ 9,043
Cash paid during the period for income taxes	**$ 96**	$ 799	**$ 140**	$ 1,257

Notes to Consolidated Financial Statements

For the six months ended June 30, 2007 and June 30, 2006
(thousands of Canadian dollars)
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 and Recent Accounting Pronouncement

(a) Change 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 gains or losses are 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. Transaction costs for items classified as held-for-trading are expensed immediately. 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 facility. With respect to the transaction costs attributable to long-term debt, the impact as at January 1, 2007 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 as at January 1, 2007 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 $6,151 for the six months ended June 30, 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.

(b) Recent Accounting Pronouncements

(i) Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, polices and processes for managing capital and disclose whether or not it has complied and the consequences of non-compliance with any capital requirements to which it is subject. The new standard will become effective on January 1, 2008 for the Fund. The Fund is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.

(ii) Financial Instruments – Disclosures and Financial Instruments – Presentation

In December 2006, the CICA Handbook Sections 3862, Financial Instruments – Disclosures, and 3863, Financial Instruments – Presentation. Section 3862 modifies the disclosure requirements of Section 3861, Financial Instruments – Disclosure and Presentation, including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Fund is exposed and how the Fund manages those risks, whereas Section 3863 carries forward the presentation related requirements of Section 3861. The new standards will become effective on January 1, 2008 for the Fund. The Fund is currently evaluating the impact of the adoption of Section 3862 while the Fund does not expect the adoption of 3863 to have a significant effect on the consolidated financial statements.

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 allocated to net assets acquired as follows:

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

(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 June 30, 2007 the Fund has accrued $478 (U.S $420) (June 30, 2006 –$1,547, U.S. $1,355) as a growth premium, and increased intangible assets by a similar amount, gross of future tax liabilities of $107 (June 30, 2006 – $615).

5. Termination Fee

During the second quarter 2007 the Fund allowed 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 expiry of the offer, a termination fee of $1.75 million was paid to the Fund and recorded in interest, dividend and other income on the consolidated statement of earnings. The Fund was reimbursed $0.9 million from CPIF for its expenses.

6. Long Term Debt

The Fund drew an additional $13 million on the revolving credit facility during the second quarter of 2007, primarily to fund capital requirements. Subsequent to the end of the quarter, the Fund drew an additional $3 million on its credit facility to fund capital requirements.

7. 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 period ended June 30, 2007, the Fund paid APMI $433 (2006 - $434) 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 period ended June 30, 2007 were $148 (2006 - $148) and additional rent representing operating costs was $nil (2006 - $89).

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 six months of 2007, APMI was paid $67 (2006 – nil).

In accordance with the construction services agreement related to the St Leon facility, GreenWing Algonquin Power Development Inc ("GWAP"), a company controlled by the APMI, was paid $782 during the quarter and the six months ended June 30, 2007 respectively for fees ($0 and $141 for the three and six months ended June 30, 2006). This amount is included in accounts payable and accrued liabilities as part of the total cost of the project. For the six months ended June 30, 2007, the Fund also paid $736 to GWAP on a cost recovery basis related to on-going operating expenses of the project and $320 for the quarter ended June 30, 2007. ($275 and $495 for the three and six months ended June 30, 2006).

As at June 30, 2007, the Fund had project debt from Algonquin Power Venture Fund ("APVF") in an amount of $3.0 million related to the St. Leon facility. APVF advanced $1.6 million at a rate of 11.25% as part of the initial financing of the St. Leon facility and advanced $1.4 million at a rate of 9.25% during the first quarter of 2007. Both amounts mature on September 30, 2014 and are secured by the underlying assets of the St. Leon facility. For the six months ended June 30, 2007, APVF was paid $125, (2006 – nil) in interest related to debt associated with the St Leon facility. Some of the directors and shareholders of the Manager are also directors, officers and shareholders of the manager of APVF.

8. Future Income Tax

On June 22, 2007, legislation (the SIFT Rules") relating to the federal income taxation of certain publicly listed or traded entities that are specified investment flow-through trusts or partnerships ("SIFTs") received royal assent. For trusts that were a SIFT trust (as defined in the SIFT Rules) on or before October 31, 2006 ("Existing Trust"), the SIFT Rules apply commencing with the trust's 2011 taxation year. There will be circumstances where an Existing Trust may lose its transitional relief where its equity capital grows beyond "normal growth" (certain dollar limits measured by reference to the Existing Trust's market capitalization at the close of trading on October 31, 2006).

Certain distributions attributable to a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a

SIFT as returns of capital, dividend or foreign income directly received by the SIFT will not be subject to this tax.

The Fund is an Existing Trust as defined in the SIFT Rules. Accordingly, the Fund will be subject to tax on distributions of certain income earned from investments in its subsidiaries made after 2010. The Fund is also required to recognize future income tax assets and liabilities with respect to the temporary differences between the carrying amount and tax bases of its assets and liabilities and those of its flow-through subsidiaries that are expected to reverse in or after 2011. For the six months ended June 30, 2007, the Fund recorded $27,874 in future non-current income tax liability and future income tax expense. The Fund expects that its distributions will not be subject to tax prior to 2011 and accordingly has not provided for future income taxes on the temporary differences expected to reverse prior to then.

The Legislation does not affect the current and future tax amounts of the Fund's corporate subsidiaries.

9. 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:

	Three months ended Jun. 30		Six months ended Jun. 30	
	2007	**2006**	**2007**	**2006**
Revenue				
Canada	$ 18,342	$ 13,396	$ 38,213	$ 27,107
United States	31,650	33,700	61,244	69,462
	$ 49,992	$ 47,096	$ 99,457	$ 96,569

	June 30, 2007	June 30, 2006
Capital Assets		
Canada	$ 474,765	$ 487,984
United States	331,220	321,275
	$ 805,985	$ 809,259

	June 30, 2007	June 30, 2006
Intangible Assets		
Canada	$ 58,425	$ 62,866
United States	50,092	52,174
	$ 108,517	$ 115,040

	June 30, 2007	June 30, 2006
Other Assets		
Canada	$ 18,803	$ -
United States	-	-
	$ 18,803	$ -

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 June 30, 2007					
	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Revenue						
Energy sales	12,389	16,169	3,195	-	-	31,753
Waste disposal fees	-	-	2,428	-	-	2,428
Water reclamation and distribution	-	-	-	8,696	-	8,696
Other revenue	-	673	6,442	-	-	7,115
Total Revenue	12,389	16,842	12,065	8,696	-	49,992
Operating expenses	4,260	11,951	7,227	4,438	-	27,876
	8,129	4,891	4,838	4,258	-	22,116
Other administration costs	(83)	-	(87)	(48)	1,648	1,430
Interest expense	(1,240)	(282)	(1,145)	(249)	(3,770)	(6,686)
Interest, dividend income and other income	437	666	1,491	-	1,785	4,379
Gain on financial instruments	-	895	2,304	1,180	5,670	10,049
Amortization of capital assets	(2,371)	(1,560)	(3,341)	(1,620)	-	(8,892)
Amortization of intangible assets	(1)	(476)	(1,217)	(220)	-	(1,914)
Earnings before income taxes and minority interest	4,871	4,134	2,843	3,301	5,333	20,482
Capital assets	266,185	95,451	268,393	175,956	-	805,985
Intangible assets	18	18,082	59,033	31,384	-	108,517
Capital expenditures	152	2,728	2,169	4,221	70	9,340
Acquisition of operating entities	-	-	-	205	-	205
Total assets	282,788	142,661	398,684	214,453	10,408	1,048,994

	Three months ended June 30, 2006					
	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Revenue						
Energy sales	12,209	16,228	3,913	-	-	32,350
Waste disposal fees	-	-	3,415	-	-	3,415
Water reclamation and distribution	-	-	-	9,395	-	9,395
Other revenue	-	1,936	-	-	-	1,936
Total Revenue	12,209	18,164	7,328	9,395	-	47,096
Operating expenses	3,895	12,043	6,350	3,738	-	26,026
	8,314	6,121	978	5,657	-	21,070
Other administration costs	(199)	-	(17)	(39)	100	(155)
Interest expense	(1,254)	(291)	(99)	(249)	(3,158)	(5,051)
Interest, dividend income and other income	439	1,186	2,231	21	21	3,898
Amortization of capital assets	(2,566)	(1,644)	(1,308)	(1,560)	-	(7,078)
Amortization of intangible assets	-	(523)	(565)	(204)	-	(1,292)
Earnings before income taxes	4,734	4,849	1,220	3,626	(3,037)	11,392
Capital assets	272,707	87,850	278,871	169,831	-	809,259
Intangible assets	19	21,248	63,917	29,856		115,040
Capital expenditures	343	2,117	887	2,620	40	6,007
Acquisition of operating entities	-	-	(3,630)	527	-	(3,103)
Total assets (December 31, 2006)	297,257	133,146	379,220	211,664	27,037	1,048,324

	Six months ended June 30, 2007					
	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Revenue						
Energy sales	24,371	31,672	6,605	-	-	62,648
Waste disposal fees	-	-	5,960	-	-	5,960
Water reclamation and distribution	-	-	-	16,524	-	16,524
Other revenue	-	1,349	12,976	-	-	14,325
Total Revenue	24,371	33,021	25,541	16,524	-	99,457
Operating expenses	8,288	24,660	14,669	8,824	-	56,441
	16,083	8,361	10,872	7,700	-	43,016
Other administration costs	(181)	-	(132)	(98)	876	465
Interest expense	(2,484)	(570)	(2,267)	(516)	(7,241)	(13,078)
Interest, dividend income and other income	757	1,587	2,250	33	1,848	6,475
Gain on financial instruments	-	1,605	2,045	1,159	6,151	10,960
Amortization of capital assets	(4,758)	(3,211)	(6,588)	(3,729)	-	(18,286)
Amortization of intangible assets	(1)	(974)	(2,421)	(440)	-	(3,836)
Earnings before income taxes and minority interest	9,416	6,798	3,759	4,109	1,634	25,716
Capital assets	266,185	95,451	268,393	175,956	-	805,985
Intangible assets	18	18,082	59,033	31,384	-	108,517
Net capital expenditures	(12)	3,902	3,194	6,774	124	13,982
Acquisition of operating entities	-	-	-	735	-	735
Total assets	282,788	142,661	398,684	214,453	10,408	1,048,994

	Six months ended June 30, 2006					
	Hydro	Co-generation	Alternative Fuel	Infrastructure	Admin	Total
Revenue						
Energy sales	24,641	31,843	8,266	-	-	64,750
Waste disposal fees	-	-	7,136	-	-	7,136
Water reclamation and distribution	-	-	-	17,302	-	17,302
Other revenue	-	7,381	-	-	-	7,381
Total Revenue	24,641	39,224	15,402	17,302	-	96,569
Operating expenses	8,029	27,272	13,569	7,217	-	56,087
	16,612	11,952	1,833	10,085	-	40,482
Other administration costs	(222)	-	(62)	(73)	(1,592)	(1,949)
Interest expense	(2,524)	(550)	(193)	(537)	(5,847)	(9,651)
Interest, dividend income and other income	867	1,918	3,938	26	37	6,786
Amortization of capital assets	(4,994)	(3,120)	(2,742)	(3,277)	-	(14,133)
Amortization of intangible assets	-	(1,046)	(1,130)	(402)	-	(2,578)
Earnings before income taxes	9,739	9,154	1,644	5,822	(7,402)	18,957
Capital assets	272,707	87,850	278,871	169,831	-	809,259
Intangible assets	19	21,248	63,917	29,856		115,040
Capital expenditures	655	3,564	1,346	6,947	57	12,569
Acquisition of operating entities	-	-	20,370	1,547	-	21,917
Total assets (December 31, 2006)	297,257	133,146	379,220	211,664	27,037	1,048,324

10. Cash Distributions

Distributions paid for the three months and six months ended June 30, 2007 were $16,846 and $33,609 respectively (2006 - $16,016 and $32,031). Distributions paid to the unitholders of the Algonquin (AirSource) Power LP exchangeable units for the three months and six months ended June 30, 2007 were $639 and $1,362 respectively which have been recorded as a reduction in non controlling interest on the consolidated Balance Sheet. All cash distributions of the Fund are made on a discretionary basis.

11. Subsequent Events

Subsequent to the end of the quarter, the Fund obtained consent from all lenders to extend the revolving period of its revolving credit facility for an additional 364 day period, postponing the maturity date to August 26, 2009.

Subsequent to the end of the quarter, a further 30,890 trust units of the Fund were issued pursuant to the conversion of exchangeable units of Algonquin (AirSource) Power LP.

Subsequent to the end of the quarter, $16 of convertible debentures were converted into 1502 trust units of the Fund. The convertible debentures are convertible into trust units of the Fund at a conversion price of $10.65 per trust unit, being a ratio of approximately 93.8967 trust units per $1 principal amount of debentures.

Corporate Information and Contacts

Trustees

The Management Group

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Ian E. Robertson, Director

David C. Kerr, Director

Algonquin Power Income Fund

Luisa Paniconi-Read, Interim Chief Financial Officer

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