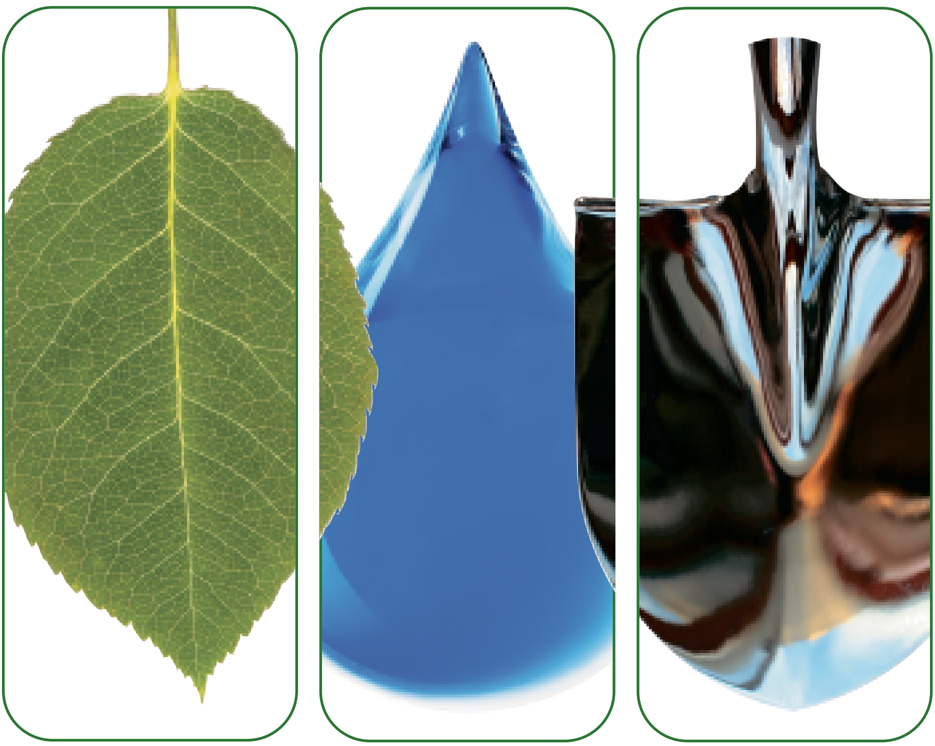
First Quarter Report

March 31, 2008



Algonquin Power

Report to Unitholders

Algonquin Power is pleased to report that beginning in January 2008, in order to more effectively position itself to compete in its chosen business sectors, the Company realigned its operations into two major business units: Power Generation & Development, and Utility Services. The Power Generation & Development business unit has three distinct divisions: Renewable Energy, Thermal Energy and Development. The Utility Services business unit currently has a Water and Waste-water division and will seek to expand its operations into other regulated essential utilities such as natural gas distribution and electricity distribution. To maximize efficiency, both of Algonquin's Business Units share administrative and support functions provided by Algonquin. The two new business units better reflect the Company's business strategy, maximizing unitholder value through a combination of stable earnings and attractive distributions. The new reporting structure reflects how Algonquin manages its business and how operations are classified for planning and measuring performance.

During the quarter Algonquin Power distributed $0.23 per trust unit, consistent with the first quarter of 2007, and reported cash available for distribution of $0.21 per trust unit. The Company continues to focus on growing cash available for distribution through Algonquin Power's portfolio of renewable power, thermal power and utility assets.

In January 2008, Algonquin Power announced that it renewed its combined $175 million senior secured revolving operating and acquisition credit facilities for a new three year term. The renewal calls for a three year extension of the facilities and an accordion feature allowing an increase to $225 million. This renewal lowers the cost of financing and provides a secure source of financing to achieve future growth targets both organically and through acquisition.

On March 25, 2008, Algonquin Power announced that its Trustees had adopted a Unitholder Rights Plan (the "Rights Plan") on March 20, 2008. The Rights Plan was adopted to ensure the fair treatment of unitholders in connection with any take-over offer for the Company, and to provide the Trustees and unitholders with additional time to fully consider any unsolicited take-over bid. The Rights Plan also provides the Trustees more time to pursue, if appropriate, other alternatives to maximize unitholder value. On April 24, 2008, at Algonquin Power's Annual and Special Meeting, the Rights Plan was approved by unitholders. The Rights Plan also received regulatory approval and now carries an initial term of three years. The Rights Plan was not adopted in response to any specific proposal to acquire control of the Company. The Rights Plan is similar to plans adopted by other Canadian companies and income trusts and approved by their respective shareholders and unitholders.

Financial Summary for the first quarter of 2008:

- Revenue of $48.0 million in Q1 2008 as compared to $47.6 million in Q1 2007.
- Net earnings from continuing operations of $(1.6) million or $(0.02) per trust unit in Q1 2008 as compared to net earnings from continuing operations of $6.9 million or $0.09 per trust unit in Q1 2007.
- Cash available for distribution of $15.9 million or $0.21 per trust unit in Q1 2008 as compared to $15.1 million or $0.20 per trust unit in Q1 2007. Distributions for the first quarter of both 2008 and 2007 were $0.23 per trust unit.

Power Generation & Development Highlights

Renewable Power

During the first quarter of 2008, the Renewable Energy division produced sufficient energy to supply the equivalent of 62,000 homes with renewable power. Using new standards of thermal generation, renewable energy production saved the equivalent of 153,000 tons of CO_2 gas from entering the atmosphere in the first quarter of 2008.

During the first quarter of 2008, revenue from energy sales in the Renewable Energy division totalled $19.8 million as compared to $12.7 million during the same period in 2007. During the quarter, the division generated electricity equal to 112% of long term projected average resources (wind and hydrology) as compared to 103% during the same period in 2007. The division experienced an increase in revenue primarily as a result of the inclusion of production revenue from the St. Leon facility following Commercial Operation on September 18, 2007, higher energy production and average energy rates in the U.S. regions, and higher energy production in Quebec, Ontario and Western regions.

For the first quarter of 2008, operating profit totalled $15.2 million as compared to $14.1 million during the same period of 2007. Overall, the Renewable Power division exceeded Algonquin's expectations due to greater than long term average resource availability for both wind and hydrology.

The Renewable Energy division is expected to perform at or above long term average resource conditions in the second quarter of 2008. In addition, the facilities in the New England region are expected to continue to benefit from improved market rates as compared to the rates experienced in 2007.

Thermal Power

During the first quarter of 2008, operations at the Thermal Energy division's Energy-from-Waste facility resulted in the diversion of 27,000 tonnes of waste from landfill sites.

Revenue for the first quarter of 2008 in the Thermal Energy division totalled $20.6 million as compared to $21.7 million during the same period in 2007. The decrease in revenue was primarily due to lower demand at the Windsor Locks facility. Revenue from waste disposal sales for the quarter increased due to increased throughput and improved recovery of ferrous material at the EFW facility as compared to the same period in 2007. During the quarter, production increased 7,000 MW-hrs at the Sanger Facility as a result of the re-powering and 5,000 MW-hrs due to increased production at the LFG facilities, partially offset by lower demand of 4,000 MW-hrs at the Windsor Locks facility as compared to the same period in 2007. The EFW facility increased throughput by over 400 tonnes as compared to the same period in 2007.

For the first quarter of 2008, operating profit totalled $6.6 million, as compared to $6.5 million during the same period in 2007. Overall, the Thermal Energy division did not meet the Company's expectations due to increased operating expenses in the quarter and reduced demand at the Windsor Locks facility.

The Windsor Locks and Sanger facilities are expected to continue to operate through 2008 in line with Algonquin's long term expectations. The facilities have no planned major outages in the second quarter of 2008. At the EFW facility, a routine major shutdown is scheduled in the second quarter of 2008, however this is not expected to impact overall production for the year.

Development

There are a number of potential development projects which are being examined by the Development division. The projects encompass new wind energy projects, hydroelectric projects at different stages of development and opportunities for various thermal energy projects. The projects being examined are located both in Canada and in the United States.

At Algonquin's existing facilities, the Development division is reviewing several proposals at the EFW facility to expand its power generation and waste processing throughput capacity. These projects could increase the generating capacity at the facility and increase waste processing throughput by over 100,000 tonnes annually. Algonquin is currently completing a feasibility study to assess expected capital and operating costs of an expanded facility. Accordingly, the likelihood of Algonquin proceeding with some or all of these projects will depend on the results of the feasibility study. The division is also reviewing its options to market the increased capacity at the Sanger Facility, including a review of the Pacific Gas and Electric (PG&E) Request for Offers for 800-1200 MW of new generation resource which was released on April 1, 2008. This project would increase the contracted capacity at the facility by 14 MW annually.

Utility Services Highlights

Water Distribution and Waste-water Treatment

During the first quarter of 2008, operations at the Utility Services provided approximately 1.0 billion U.S. gallons of water to its customers, treated approximately 522 million U.S. gallons of sewage and sold approximately 12.5 million U.S. gallons of treated effluent.

Revenue for the first quarter of 2008 in Utility Services totalled $7.5 million as compared to $7.8 million during the same period in 2007. The decrease in revenue as compared to the first quarter of 2007 was primarily the result of a reduction in revenue from operations as a result of the stronger Canadian dollar. This was partially offset by increased revenue at the Gold Canyon facility due to a rate increase combined with organic growth. The waste-water treatment and water distribution customer base grew marginally during the first quarter.

For the first quarter of 2008, operating profit totalled $4.1 million as compared to $3.5 million during the same period in 2007. Overall, Utility Services did not meet the Company's expectations due to cool, wet weather, primarily in the regions of Arizona where Algonquin operates facilities, which reduced demand for utility services.

Outlook

Overall, the Company is expected to meet Algonquin's expectations during the second quarter of 2008, assuming continuing operational improvements, organic growth, and resource conditions remain at or above long term averages during the quarter.

The Company continues to seek renewable and thermal energy acquisitions to augment the Renewable Energy business unit's portfolio. In addition, the Utility Services business unit continues to pursue accretive water and waste-water utility acquisition opportunities, and building on its experience in the sector, will look to expand its operations into other regulated essential utilities such as natural gas distribution and electricity distribution.

Throughout the remainder of 2008 Algonquin Power will continue to focus on the performance of its portfolio of renewable, thermal, and utility assets, and focus respective management disciplines while maximizing opportunities through prudent business strategies and practices.

Your investment, commitment, and enthusiasm for Algonquin Power is valued by employees and management. Algonquin Power represents a clear choice in clean, renewable investment opportunities. You are encouraged to obtain further detail about the performance of the Company in the Management's Discussion & Analysis. Thank you for your continued interest in Algonquin Power.

(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 ("Algonquin" or the "Company") has prepared the following discussion and analysis to provide information to assist its Unitholders' understanding of the financial results for the three months ended March 31, 2008. This discussion and analysis should be read in conjunction with Algonquin's consolidated financial statements for the quarters ended March 31, 2008 and 2007 and the notes thereto. This material is available on SEDAR at www.sedar.com and on the Algonquin website at www.AlgonquinPower.com. Additional information about the Company, including the Annual Information Form for the year ended December 31, 2007 can be found on SEDAR at www.sedar.com.

This Management's Discussion and Analysis ("MD&A") is based on information available to management as of May 7, 2008.

Caution concerning forward looking statements and non-GAAP Measures

Certain statements contained in the information herein are forward-looking and reflect the views of Algonquin and Algonquin Power Management Inc. ("APMI") 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 Algonquin'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 Company's assets, commodity market prices, interest rates, and environmental and other regulatory requirements. Although Algonquin and APMI 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. Algonquin and APMI 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.

The term 'cash available for distribution' is used throughout this MD&A. The term 'cash available for distribution' is not a recognized measure under Canadian generally accepted accounting principles ("GAAP"). There is no standardized measure of 'cash available for distribution' consequently Algonquin's method of calculating 'cash available for distribution' may differ from methods used by other companies and therefore 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. Algonquin uses this calculation to monitor the amount of cash generated by the Company as compared to the amount of cash distributed by Algonquin. APMI believes that presentation of this measure will enhance an investor's understanding of Algonquin's operating performance.

Business Unit Alignment

To more effectively position itself to compete in its chosen business sectors, effective January 1, 2008, Algonquin realigned its operations into two major business units: Power Generation & Development, and Utility Services. The two new business units better reflect the Company's business strategy to be a leading provider of essential services maximizing Unitholder value through a combination of stable earnings, attractive distributions and a risk profile consistent with top-quartile North American power generation and utility operations. The new reporting structure reflects how Algonquin manages its business and how operations are classified for planning and measuring performance.

The Power Generation & Development business unit will develop and operate a diversified portfolio of electrical energy generation facilities. Within this business unit there will be three distinct divisions: Renewable Energy, Thermal Energy and Development. The Renewable Energy division will operate the Company's hydro-electric and wind power facilities. Thermal Energy division will operate co-generation, energy from waste, steam production and other thermal facilities. The Development division will continue exploitation of Algonquin's growing pipeline of greenfield power generation projects as well as expansion of Algonquin's existing portfolio of renewable energy and thermal energy facilities.

The Utility Services business unit is a growing utility currently providing safe, reliable transportation and delivery of water and waste-water in its service areas. The business unit will continue to pursue accretive water and waste-water utility acquisition opportunities. Building on its experience in the regulated water utility sector, Utility Services will also look to expand its operations into other regulated essential utilities such as natural gas distribution and electricity distribution.

These new business units allow Algonquin's management to be aligned according to similarities in the respective management disciplines required by each unit. To maximize efficiency, both of Algonquin's business units share administrative and support functions provided by Algonquin. Through this mix of complementary regulated and non-regulated businesses, the Company strives to maximize Unitholder value through a combination of stable earnings, attractive distributions and a risk profile consistent with the top-quartile North American power generation and utility operations.

Key Financial Information

(C$000)	Three Months ended March 31	
	2008	**2007**
Revenue [1]	**$ 47,976**	$ 47,596
Net earnings (Loss) from Continuing Operations	**(1,554)**	6,905
Net earnings (Loss)	**(1,554)**	6,199
Total Assets	**950,729**	1,035,808
Long Term Debt	**295,575**	234,233
Distribution to Unitholders [2]	**17,481**	17,486
Cash available for distribution [3]	**15,920**	15,091
Cash provided by Operating Activities	**14,712**	9,995
Per trust unit		
Net earnings (Loss) from continuing operations	**(0.02)**	0.09
Net earnings (Loss)	**(0.02)**	0.08
Distribution to Unitholders	**0.23**	0.23
Cash available for distribution [3]	**0.21**	0.20
Cash provided by Operating Activities [4]	**0.20**	0.14

1 Prior period comparative amounts have been adjusted due to the classification of certain landfill-gas and New England hydroelectric facilities sold during the year as Discontinued Operations.

2 Includes distributions to non-controlling interest.

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

4 The change in cash provided by (used in) operating activities in the quarter ended March 31, 2008 is primarily due to increased cash from operations and increased cash from working capital balances.

For the quarter ended March 31, 2008, Algonquin reported total revenue of $48.0 million as compared to $47.6 million during the same period in 2007. The increase in revenue from energy sales as compared to the first quarter of 2007 was primarily the result of an increase of $7.6 million due to a combination of higher energy production and increased weighted average energy rates generated in the Renewable Energy division, $0.8 million in Utility Services due to rate increases combined with organic growth at existing facilities, and a net amount of $0.6 million due to a combination of changes in production and average energy rates in the Thermal Energy division as compared to the same period in the prior year. These amounts were partially offset by $5.3 million from lower Other Revenue at the St. Leon Wind Energy facility ("St. Leon") as compared to the same period in the prior year. Algonquin reported lower revenue of $3.7 million from its operations in the United States ("U.S.") as a result of the stronger Canadian dollar. A more detailed analysis of these factors is presented within the business unit analysis.

For the quarter ended March 31, 2008, the Company experienced an average U.S. exchange rate of approximately $1.00 as compared to $1.17 in the same period in 2007. As such, any quarterly variance in revenue or expenses, in local currency, at any of Algonquin's U.S. entities may be affected by a change in the average exchange rate, upon conversion to Algonquin's reporting currency. Although the stronger Canadian dollar relative to the U.S. dollar has an impact on both revenue and expenses generated by its U.S. subsidiaries, Algonquin has foreign exchange forward contracts in place, which partially mitigate the impact on cash available for distribution (see Risk Management – Currency Fluctuations).

For the quarter ended March 31, 2008, net loss from continuing operations totalled $1.6 million as compared to net earnings of $6.9 million during the same period in 2007. The decrease in net earnings as compared to the first quarter of 2007 was primarily the result of an increase of $0.7 million as a result of additional interest expense due to increased average borrowings, $6.0 million due to losses on financial instruments resulting from changes in interest and foreign exchange rates, $0.7 million due to lower earnings on portfolio investments, $1.3 million due to foreign exchange losses and $2.8 million due to an increased income tax expense booked in the quarter. These items were partially offset by $1.5 million in increased earnings from operating facilities, $0.5 million due to lower amortization expense due to the translation of the Utility Services assets at current exchange rates and $1.7 million reduction in minority interest expense due to non-cash losses on financial instruments at the St. Leon facility.

Net loss from continuing operations per trust unit totalled $0.02 for the quarter ended March 31, 2008 as compared to net earnings of $0.09 during the same period in 2007.

Algonquin generated $0.21 per trust unit of cash available for distribution for the quarter ended March 31, 2008, as compared to $0.20 per trust unit during the same period in 2007.

During the quarter ended March 31, 2008 cash provided by operating activities totalled $14.7 million or $0.20 per trust unit as compared to cash provided by operating activities of $10.0 million or $0.14 per trust unit during the same period in 2007. The change in cash provided by operating activities in the quarter ended March 31, 2008 is primarily due to increased cash generated by operations and greater cash generated from working capital as compared to the same period in 2007.

During the quarter ended March 31, 2008, the Company maintained distributions at $0.23 per trust unit, consistent with distributions in the same quarter in 2007.

Outlook

In all of its Business Units, Algonquin is committed to the growth and development of Algonquin's team through various training programs, challenging assignments and learning opportunities. In addition, Algonquin ensures continuous environmental, health and safety training for its operations and maintenance staff. The Company will continue to invest in information technology to reduce operating and administrative costs.

Overall, Algonquin anticipates that the Company's Business Units will continue to generate cash available for distribution for 2008 in line with historic performance. These Business Units will focus on priorities that enable Algonquin to be an innovative, respected and socially responsible participant in the renewable energy, power and utility businesses. With a mix of complementary regulated and non-regulated businesses, the Company strives to enhance Unitholder value through stable earnings, cash distributions and a managed risk profile.

POWER GENERATION & DEVELOPMENT

(C$000)	Three months ended March 31	
	2008	2007
Performance (MW-hrs sold) *	**432,606**	399,762
Performance (tonnes of waste processed)	**38,297**	37,858
Revenue		
Energy sales *	**$ 35,910**	$ 29,858
Waste disposal sales	**3,715**	3,532
Other revenue	**847**	6,378
Total revenue	**$ 40,472**	$ 39,768
Expenses		
Operating expenses *	**$ (21,115)**	$ (22,012)
Interest and other income	**1,352**	1,998
Gain on financial instruments	**1,239**	796
Business unit operating profit (including interest and dividend income)	**$ 21,948**	$ 20,550

- Prior period comparative amounts have been adjusted due to the classification of certain New England hydroelectric facilities and LFG facilities as Discontinued Operations.

Power Generation & Development participates in the renewable and thermal energy generation sectors, delivering attractive returns through the use of proven technologies and long term power purchase agreements. Power Generation & Development also develops Algonquin's growing pipeline of greenfield power generation projects as well as expansion of Algonquin's existing portfolio of renewable energy and thermal energy facilities. Power Generation & Development is responsible for all of the Algonquin's electrical generation business activities. It expects to deliver stable returns based on average long term hydrologic conditions, the achievement of average wind projections at the St. Leon facility, operational improvements at the Algonquin Power Energy-from-Waste facility ("EFW") and the continued stable performance of its natural gas powered generating facilities.

Power Generation & Development produced sufficient renewable energy to supply the equivalent of 62,000 homes with renewable power in the first quarter of 2008. Using new standards of thermal generation, renewable energy production represents the equivalent of 153,000 tons of CO_2 gas from entering the atmosphere in the first quarter of 2008. Operations at the EFW facility resulted in the diversion of 27,000 tonnes of waste from landfill sites in the first quarter of 2008.

For the quarter ended March 31, 2008, revenue in Power Generation & Development totalled $40.5 million as compared to $39.8 million during the same period in 2007. During the first quarter of 2008, Power Generation & Development generated electricity equal to 112% of long term projected average resources (wind and hydrology) as compared to 103% during the same period in 2007. During the quarter ended March 31, 2008, the business unit's performance increased 12,000 MW-hrs at the Sanger and LFG facilities, partially offset by lower demand of 4,000 MW-hrs at the Windsor Locks facility as compared to the same period in 2007. The EFW facility increased throughput by over 400 tonnes as compared to the same period in 2007.

For the quarter ended March 31, 2008, revenue from energy sales in Power Generation & Development totalled $35.9 million as compared to $29.9 million during the same period in 2007. The increase in revenue from energy sales as compared to the first quarter of 2007 was primarily the result of an increase of $5.4 million due to the St. Leon facility achieving Commercial Operation effective September 18, 2007, higher energy production and weighted average renewable energy rates in the U.S. regions, higher renewable energy production and weighted average renewable energy rates in the Canadian regions, and increased production at the Sanger facility. Power Generation & Development reported lower revenue of $2.6 million from U.S. operations as a result of the stronger Canadian dollar.

Other revenue primarily consists of liquidated damages earned by the St. Leon facility. As a result of the St. Leon facility achieving Commercial Operation in 2007, no liquidated damages were earned in the quarter.

For the quarter ended March 31, 2008, operating expenses totalled $21.1 million as compared to $22.0 million the same period in 2007. Operating expenses were impacted by lower natural gas expense at the Windsor Locks facility due to lower production, offset by increased operating costs at the EFW and Valley Power facilities. Power Generation & Development reported lower expenses of $2.2 million from U.S. operations as a result of a stronger Canadian dollar.

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

For the quarter ended March 31, 2008, operating profit totalled $21.9 million as compared to $20.6 million during the same period of 2007. For the quarter ended March 31, 2008, operating profit was above Algonquin's expectations.

Outlook

Power Generation & Development is expected to enjoy at or above long term average resource conditions in the second quarter of 2008. Throughput at the EFW facility is expected to continue at current levels through the remainder of 2008. The Windsor Locks and Sanger facilities are expected to continue to operate through 2008 in line with the Company's long term expectations.

The Windsor Locks and Sanger facilities have no planned major outages in the second quarter of 2008. A routine major shutdown is scheduled at the EFW facility in the second quarter of 2008 but is not expected to significantly impact throughput.

On May 2, 2008 the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW") Local 252 ratified a new three year collective agreement expiring April 2, 2011.

The Company will continue its technical assessments of eleven of the twelve hydroelectric facility dams owned or leased within the Province of Quebec during the remainder of 2008. Algonquin anticipates incurring approximately $0.6 million during 2008 to complete the required assessments. Upon completion of these assessments, Algonquin will be required to submit plans for undertaking any remedial measures that may be identified to comply with the legislation. As a result of three completed and eight partially completed assessments underway, Algonquin has initially identified remedial measures estimated to cost approximately $8.2 million. The Company 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.

POWER GENERATION & DEVELOPMENT:
Renewable Energy Division

(C$000)	Three months ended March 31	
	2008	**2007**
Performance (MW-hrs sold)		
Quebec Region	**67,396**	62,138
Ontario Region	**38,272**	34,817
Manitoba Region	**105,507**	102,145
New England Region *	**28,488**	18,260
New York Region	**29,303**	25,581
Western Region	**10,050**	9,885
Total	**279,016**	252,826
Revenue		
Energy sales *	**$ 19,829**	$ 12,741
Other revenue	-	5,342
Total revenue	**$ 19,829**	$ 18,083
Expenses		
Operating expenses *	**$ (4,930)**	$ (4,360)
Other income	**343**	336
Gain on financial instruments	**62**	(23)
Division operating profit (including other income)	**$ 15,242**	$ 14,059

* Prior period comparative amounts have been adjusted due to the classification of certain New England hydroelectric facilities as Discontinued Operations.

The Renewable Energy division produced sufficient renewable energy to supply the equivalent of 62,000 homes with renewable power in the first quarter of 2008. Using new standards of thermal generation, renewable energy production represents the equivalent of 153,000 tons of CO2 gas from entering the atmosphere in the first quarter of 2008.

For the quarter ended March 31, 2008, revenue from energy sales in the Renewable Energy division totalled $19.8 million as compared to $12.7 million during the same period in 2007. During the first quarter of 2008, the division generated electricity equal to 112% of long term projected average resources (wind and hydrology) as compared to 103% during the same period in 2007. All regions experienced above long term average resources in the first quarter of 2008 with the exception of the Ontario and Western regions which experienced results in line with long term projected resources. This compares to the same period in 2007 when only the Quebec, Manitoba and New York regions experienced above long term average resources.

The increase in revenue from energy sales as compared to the first quarter of 2007 was primarily the result of an increase of $5.4 million due to the St. Leon facility achieving commercial operation on September 18, 2007, when liquidated damages (recorded as 'Other Revenue') ceased and energy sales commenced to be earned by the facility. There was also an increase of $0.8 million resulting from higher energy production in the U.S. regions, an increase of $0.9 million resulting from higher weighted average energy rates in the U.S. regions, an increase of $0.1 million resulting from higher weighted average energy rates in the Quebec, Ontario and Western regions and an increase of $0.4 million from higher energy production in the Quebec, Ontario and Western regions. The division reported lower revenue of $0.4 million from U.S. operations as a result of the stronger Canadian dollar.

Other Revenue consisted of liquidated damages earned by the St. Leon facility. As a result of the St. Leon facility achieving Commercial Operation in 2007, no liquidated damages were earned in the quarter.

For the quarter ended March 31, 2008, operating expenses totalled $4.9 million as compared to $4.4 million during the same period in 2007. Operating expenses were impacted by increased insurance, operating and variable costs tied to production totalling $0.4 million and increased operating costs of $0.1 million at the St. Leon facility due to achievement of commercial operation as compared to the same period in 2007, offset by a decrease of $0.1 million in repairs and maintenance projects initiated in the year and a decrease in reported expenses of $0.2 million from U.S. operations as a result of a stronger Canadian dollar.

For the quarter ended March 31, 2008, operating profit totalled $15.2 million as compared to $14.1 million during the same period of 2007. For the quarter ended March 31, 2008, operating profit exceeded Algonquin's expectations due to greater than long term average resource availability.

Divisional Outlook

The Renewable Energy division is expected to perform at or above long term average resource conditions in the second quarter of 2008. In addition, the facilities in the New England region are expected to continue to benefit from improved market rates as compared to the rates experienced in 2007.

As a result of certain legislation passed in Quebec (Bill C93), the Company is required to undertake technical assessments of eleven of the twelve hydroelectric facility dams owned or leased within the Province of Quebec. Algonquin anticipates incurring approximately $0.6 million during 2008 to complete the required assessments. Upon completion of these assessments, Algonquin will be required to submit plans for undertaking any remedial measures that may be identified to comply with the legislation. As a result of three completed and eight partially completed assessments underway, the Company has initially identified remedial measures estimated to cost approximately $8.2 million. Algonquin 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.

Several capital projects aimed at increasing production have been earmarked in 2008 and include such items as automated trash rack cleaning machines and an inflatable dam at certain U.S. facilities which will allow increased production.

Algonquin will continue to seek accretive hydroelectric acquisitions throughout 2008, with emphasis placed on the acquisition of facilities that provide diversification of regional hydrologic and market conditions. In addition, the Company has an ongoing program to assess all facilities for their continued fit with Algonquin's preferred asset profile.

POWER GENERATION & DEVELOPMENT:
Thermal Energy Division

(C$000)	**Three months ended March 31**	
	2008	**2007**
Performance (MW-hrs sold) *	**153,590**	146,936
Performance (tonnes of waste processed)	**38,297**	37,858
Revenue		
Energy sales *	**$ 16,081**	$ 17,117
Waste disposal sales	**3,715**	3,532
Other revenue	**847**	1,036
Total revenue	**$ 20,643**	$ 21,685
Expenses		
Operating expenses *	**$ (16,185)**	$ (17,652)
Interest and other income	**1,009**	1,662
Gain on financial instruments	**1,177**	820
Division operating profit (including interest and dividend income)	**$ 6,644**	$ 6,515

* Prior period comparative amounts have been adjusted due to the classification of certain LFG facilities as Discontinued Operations.

Operations at the Thermal Energy division's EFW facility resulted in the diversion of 27,000 tonnes of waste from landfill sites in the first quarter of 2008.

For the quarter ended March 31, 2008, revenue in the Thermal Energy division totalled $20.6 million as compared to $21.7 million during the same period in 2007. During the quarter ended March 31, 2008, the business unit's performance increased 7,000 MW-hrs at the Sanger Facility as a result of the re-powering and 5,000 MW-hrs due to increased production at the LFG facilities, partially offset by lower demand of 4,000 MW-hrs at the Windsor Locks facility as compared to the same period in 2007. The EFW facility increased throughput by over 400 tonnes as compared to the same period in 2007.

For the quarter ended March 31, 2008, energy sales revenue at the Thermal Energy division totalled $16.1 million as compared to $17.1 million during the same period in 2007. The decrease in revenue from energy sales as compared to the first quarter of 2007 was primarily the result of a $1.0 million reduction as a result of lower demand at the Windsor Locks facility. This was offset by an $0.8 million increase in revenue as a result of increased energy rates at the Windsor Locks facility due to higher rates incurred for fuel used at the facility, which are passed on to the customer in the energy price production and $0.8 million as a result of increased production at the Sanger facility. The division reported lower revenue of $2.2 million from operations as a result of the stronger Canadian dollar.

Revenue from waste disposal sales for the quarter ended March 31, 2008 increased $0.2 million due to increased throughput and improved recovery of ferrous material on at the EFW facility as compared to the same period in 2007.

For the quarter ended March 31, 2008, operating expenses totalled $16.2 million as compared to $17.7 million during the same period in 2007. The decrease in operating expenses for the quarter was primarily due to a net $0.5 million reduction in natural gas expense at the Windsor Locks facility resulting from a combination of lower usage due to reduced production offset by a higher rate charged for fuel. The results also include $0.2 million in lower operating costs at the LFG facilities which was offset by a $0.3 million increase in operating costs at the Sanger facility primarily due to higher gas costs resulting from increased production, $0.4 million in increased operating costs at the EFW facility primarily resulting from increased natural gas and repair and maintenance costs, and increased operating costs of $0.4 million at the Valley Power facility in the quarter as compared to the same period in 2007. The division reported lower operating expenses of $2.2 million from U.S. operations as a result of a stronger Canadian dollar.

During the quarter ended March 31, 2008, Algonquin earned lower interest and other income on its portfolio investments as compared to the same period in 2007 due to lower earnings of $0.2 million from its investments in two co-generation facilities as compared to the same period in 2007. In addition, the comparable period included $0.3 million related to the landfill gas production tax credit program which did not extend past December 31, 2007.

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

For the quarter ended March 31, 2008, operating profit totalled $6.6 million, as compared to $6.5 million during the same period in 2007. Operating profit in the Thermal Energy division did not meet the Company's expectations for the quarter ended March 31, 2008 due to increased operating expenses in the quarter and reduced demand at the Windsor Locks facility.

Divisional Outlook

Throughput at the EFW facility exceeded Algonquin's expectations in the first quarter of 2008. Operational stability has improved in the last six months and is expected to continue through the remainder of 2008 A routine major shutdown is scheduled in the second quarter of 2008, in which inspection of the Air Pollution system will be completed, but this is not expected to affect overall production for the year. The operations of the EFW facility in 2008 are expected to result in the diversion of approximately 100,000 tonnes of waste from landfill sites.

On May 2, 2008 the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW") Local 252 ratified a new three year collective agreement expiring April 2, 2011.

Algonquin qualified certain facilities for the 2008/2009 PJM Capacity Market in New Jersey. As a result, the Thermal Energy division anticipates annual capacity revenue of $0.4 million annually over the next 4 years, commencing June 1, 2008.

The Windsor Locks and Sanger facility are expected to continue to operate through 2008 in line with Algonquin's long term expectations. The facilities have no planned major outages in the second quarter of 2008.

POWER GENERATION & DEVELOPMENT:

Development Division

The Development division focuses on the development of renewable power and thermal energy generation projects in North America with a commitment to working pro-actively with communities and other stakeholders. Development is working to actively identify, develop and construct new renewable and thermal energy generating facilities as well as to identify, develop and construct other accretive projects that maximize the potential of Algonquin's existing facilities.

The Development division may also create opportunities through the acquisition of prospective projects that are at various states of development. The business strategy is to focus on high quality renewable and thermal energy generation projects that benefit from low operating costs using proven technology that can generate sustainable and increasing cash flows in order to achieve a high return on invested capital.

Once a project has reached commercial operation status, the facility will either be transferred to and operated directly by the Renewable Energy or Thermal Energy divisions or sold to third party operators.

Current Development Projects

Sanger Co-generation

In December 2007, the Development division successfully installed and began commissioning a General Electric LM6000 turbine generator at the 42 MW natural gas powered generating station located in Sanger, California (the "Sanger facility"). The commissioning of the turbine was completed in the quarter ended March 31, 2008 and transferred to the Thermal Energy division of Power Generation & Development business unit. The project commenced in October 2006.

During the quarter ended March 31, 2008, the Development division capitalized costs associated with the construction of the facility of $1.8 million. The project was on budget with the total investment in the re-powering project being approximately $25.0 million (U.S. $23 million).

As part of the project to re-power the Sanger facility, Algonquin 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 three month period ending March 31, 2008, APMI was paid $0.02 million (2007 - $0.03 million).

Brampton Co-generation LP

An existing facility in the Thermal Energy division of Power Generation & Development business unit, the Algonquin Power Energy-from-Waste ("EFW") facility, is designed to incinerate over 500 tonnes per day of municipal solid waste from the Regional of Peel to produce approximately

100,000 pounds per hour of steam that is then used in the production of electricity. The Development division identified a nearby recycled paper board manufacturing mill that requires approximately 90,000 pounds per hour of steam in its manufacturing activities. Algonquin established Brampton Co-generation LP ("BCI") to operate the required facilities to supply to this customer steam produced through normal operations at the EFW.

During the quarter ended March 31, 2008, the Development division capitalized costs associated with the construction of the facility of $0.9 million. The project's total net investment is expected to be approximately $14.2 million.

The project is in its commissioning phase and is expected to be operational and the capital costs transferred to the Thermal Energy division of Power Generation & Development in the second quarter of 2008. Once operational, the BCI project is expected to generate cash from operations of approximately $1.5 million in its first full year of operation.

APMI is entitled to 50% of the cash flow above 15% return on investment pursuant to its project management contract and a construction supervision fee of $0.1 million.

Manitoba Wind Power

In 2007 the Development division responded to a request for proposal ("RFP") from Manitoba Hydro for additional wind power projects within the province of Manitoba. The Development division submitted several proposals and was short listed by Manitoba Hydro for further consideration in December 2007. The projects being considered for further evaluation were the 99 MW Glenwood Wind Energy Project and the 66 MW St. Leon Wind Energy II Project.

On March 31, 2008 the Development division was informed by Manitoba Hydro that it was currently pursuing an alternate proposal and would not be considering the Development division proposal at this time.

Future Development Projects – Greenfield Projects

There are a number of potential development projects which are being examined by the Development division. The projects encompass new wind energy projects, hydroelectric projects at different stages of development and opportunities for various thermal energy projects. The projects being examined are located both in Canada and in the United States.

Future Development Projects – Existing Facilities

The following sets out a summary of potential development projects at existing facilities which are being examined by the Development division.

Thermal Energy

The Development division is currently reviewing several proposals at the EFW facility to expand its power generation and waste processing throughput capacity. These projects could increase the generating capacity at the facility and increase waste processing throughput by over 100,000 tonnes annually. Algonquin is currently completing a feasibility study to assess expected capital and operating costs of an expanded facility. Accordingly, the likelihood of Algonquin proceeding with some or all of these projects will depend on the results of the feasibility study and on the outcome of negotiations with municipalities for a reliable supply of municipal solid waste.

The Development division is also reviewing its options to market the increased capacity at the Sanger Facility, including a review of the Pacific Gas and Electric (PG&E) Request for Offers for

800-1200 MW of new generation resource which was released on April 1, 2008. This project would increase the contracted capacity at the facility by 14 MW annually.

Divisional outlook

Algonquin believes that future opportunities for power generation projects will continue to arise given that many jurisdictions, both in Canada and the United States, continue to increase targets for renewable and other power generation projects.

UTILITY SERVICES

(C$000)	Three months ended March 31 2008	2007
Number of		
Waste-water customers	**33,098**	30,560
Water distribution customers	**36,145**	34,771
Revenue		
Waste-water and distribution	**$ 7,504**	$ 7,828
Expenses		
Operating expenses	**$ (4,378)**	$ (4,386)
Other income	**47**	33
Gain on financial instrument	**926**	(21)
Business Unit operating profit (including other income)	**$ 4,099**	$ 3,454

Utility Services provides predictable and stable returns through its position as the leading provider of safe, reliable utility services in its service areas including leveraging its utility management expertise gained in the water distribution and waste-water treatment sector through possible expansion into natural gas and electricity distribution. Through the pursuit of appropriate growth opportunities, Utility Services strives to expand its asset and earnings growth in excess of the average of other North American public water, gas and electric distribution corporations of similar size.

During the quarter ended March 31, 2008, Utility Services provided approximately 1.0 billion U.S. gallons of water to its customers, treated approximately 522 million U.S. gallons of waste-water and sold approximately 12.5 million U.S. gallons of treated effluent.

For the quarter ended March 31, 2008, revenue in Utility Services totalled $7.5 million as compared to $7.8 million during the same period in 2007. Due to the continuing slowdown in U.S. residential new home sales, Utility Services' waste-water treatment and water distribution customer base grew marginally during the quarter ended March 31, 2008. The decrease in revenue as compared to the first quarter of 2007 was primarily the result of a $1.1 million reduction in revenue from operations as a result of the stronger Canadian dollar. This was partially offset by increased revenue of $0.5 million at the Gold Canyon facility due to the July 2007 rate increase combined with $0.3 million resulting from organic growth and increased water usage at existing facilities during the quarter as compared to the same period in 2007.

For the quarter ended March 31, 2008, operating expenses totalled $4.4 million, consistent with the same period in 2007. Operating expenses were impacted by an increase of $0.6 million as the result of additional personnel, property taxes, and other operational expenses incurred, as compared to the same period in 2007. The business unit reported lower expenses from operations of $0.6 million as a result of a stronger Canadian dollar, which offset the increases.

Gain on financial instruments consists of realized gains on the foreign exchange forward contracts settled in the quarter ended March 31, 2008.

For the quarter ended March 31, 2008, operating profit totalled $4.1 million as compared to $3.5 million during the same period in 2007. Operating profit did not meet the Company's expectations for the quarter ended March 31, 2008 due to cool, wet weather, primarily in the regions of Arizona where Algonquin operates facilities, which reduced demand for utility services.

Outlook

Utility Services is expecting a lowered organic growth rate with approximately 4% average organic growth forecast during 2008 due to the slowdown in the U.S. housing market. However, the business unit continues to provide service in one of the faster growing Counties, Maricopa County, in the United States.

Utility Services is preparing to initiate rate cases at its Litchfield Park ("LPSCo"), Black Mountain and Bella Vista facilities during 2008 and rate cases at Northern Sunrise and Southern Sunrise in late 2008 or early 2009. All of these facilities are located in Arizona. It is anticipated that regulatory review of the rates and tariffs for the above noted facilities would be completed in the second half of 2009 with the new rates and tariffs going into effect in the fourth quarter of 2009 or first quarter of 2010. A firm forecast of rate increases at these facilities is not possible as the rate case processes are in the early stages. Rate cases ensure that a particular facility appropriately recovers its operating costs and 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 Utility Services. Algonquin will continue to evaluate the rates of return on each of its utility investments to determine the appropriate time to file rate cases in order to ensure it earns the full regulatory approved rate of return on its investments.

Federal drinking water legislation in the United States requires all drinking water systems to meet new standards respecting levels of naturally occurring arsenic in drinking water. Additional arsenic treatment systems to meet this new standard are scheduled for installation in the second quarter of 2008 and early 2009 at certain of LPSCo's facilities. The phased installation of the systems ensures continued full compliance with the regulatory requirements. The costs of complying with the new standards form part of a facility's rate base for rate case purposes.

Several capital projects are expected to be completed in the LPSCo service area during the remainder of 2008. In particular, these projects are expected to increase the water distribution storage and pumping/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.

Algonquin continues to pursue accretive opportunities to expand Utility Services in areas where Algonquin already operates and to acquire other utilities in high growth areas in the United States.

CORPORATE

(C$000)	Three months ended March 31	
	2008	**2007**
Corporate and other expenses:		
Administrative expenses	**2,046**	1,678
Management costs	**222**	217
Loss / (Gain) on foreign exchange	**351**	(932)
Interest expense	**7,130**	6,393
Interest, dividend and other Income	**(30)**	(65)
Loss / (Gain) on financial instruments	**4,479**	(481)
Income tax expense (recovery)	**1,191**	(1,612)

OVERVIEW

Corporate and other expenses

During the quarter ended March 31, 2008, administrative expenses totalled $2.0 million as compared to $1.7 million in the same period in 2007. The increase for the quarter was due to added requirements to administer Algonquin, including additional staff.

Foreign exchange gains and losses primarily represent unrealized gains or losses on U.S. dollar denominated debt and do not impact cash available for distribution. For the quarter ended March 31, 2008 Algonquin reported a foreign exchange loss of $0.4 million as compared to a gain of $0.9 million during same period in 2007. At the end of the first quarter, Algonquin had approximately $32.8 million in U.S. dollar denominated debt.

For the quarter ended March 31, 2008, interest expense increased to $7.1 million as compared to $6.4 million during the same period in 2007. Interest expense related to Algonquin's credit facility increased by $0.8 million as a result of increased average levels of debt held by the Algonquin during the period partially offset by lower interest rates and fees charged on the credit facility.

Gains or losses on financial instruments represent changes in the unrealized value of Algonquin's interest rate swap and foreign currency forward contracts and do not impact cash available for distribution. Realized gains or losses on financial instruments are included in the divisional results.

An income tax expense of $1.2 million was booked in the first quarter of 2008, as compared to a recovery of $1.6 million during the same period in 2007. The expense increased in the quarter as the result of an expected increase in current and future income tax expense due to earnings generated by certain facilities of Algonquin and the result of increased tax expense due to the enactment new Canadian tax regulations which were not reflected in the comparable period in 2007.

Cash Available for Distribution

The following tables are derived from and should be read in conjunction with the Consolidated Statement of Cash Flows. This supplementary disclosure is intended to more fully explain disclosures related to cash available for distribution and provides additional information related to the cash flows of the Company including the amount of cash available for distribution to Unitholders. Investors are cautioned that these measures should not be construed as an alternative to the Canadian generally accepted accounting principles ("GAAP") consolidated statement of cash flows. The terms "cash available for distribution" and "cash available for distribution after growth and maintenance capital expenditures" are not terms defined under GAAP and there is no standardized measure of these terms. Consequently, these terms, as presented, may not be comparable to similar measures presented by other income funds. Algonquin's believes that presentation of this measure will enhance an investor's understanding of the Company's operating performance.

(C$000)	**Three months ended March 31**	
	2008	**2007**
Cash provided by (used in) Continuing Operations [1]	**$ 14,712**	$ 9,995
Changes in working capital	**2,444**	6,278
	17,156	16,273
Receipt of principal on notes receivable	**75**	379
Repayment of long term liabilities	**(176)**	(221)
Maintenance capital expenditures [2]	**(870)**	(934)
Other – non-recurring [3]	**(265)**	(406)
Cash available for distribution	**$ 15,920**	$ 15,091
Add Back:		
Maintenance capital expenditures	**870**	934
Deduct:		
Net growth, maintenance and other capital expenditures	**(13,227)**	(5,321)
Cash available for distribution after growth and maintenance capital expenditures	**$ 3,563**	$ 10,704
Distribution to Unitholders	**$ 17,481**	$ 17,486
Per Trust Unit		
Cash provided by (used in)Continuing Operations	**$ 0.20**	$ 0.14
Cash available for distribution	**$ 0.21**	$ 0.20
Cash available for distribution after net growth and maintenance capital expenditures	**$ 0.05**	$ 0.14
Distributions to Unitholders	**$ 0.23**	$ 0.23
Distributions declared during the period	**$ 0.23**	$ 0.23

1 Prior period comparative amounts have been adjusted due to the classification of certain LFG and New England Hydroelectric facilities as Discontinued Operations.

2 Maintenance capital expenditures includes capital expenditures capitalized in accordance with GAAP, which are of a replacement or regulatory nature or represent a major maintenance cost intended to maintain Algonquin's current operations and current level of distributable cash and refunds of developer contributions in Utility Services. The expenditures are 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.

3 Other includes various non-recurring adjustments including cash available from or used in discontinued operations,, gain on sale of capital assets, and any cash generated from operations that may not be available for immediate distribution to Unitholders.

During the quarter ended March 31, 2008 Algonquin generated $14.7 million in cash provided by Continuing Operations as compared to $10.0 million for the same period in 2007. The change in cash generated in the quarter ended March 31, 2008 is primarily due to an increase of approximately $0.8 million in cash from operating activities and an increase of approximately $3.9 million in cash from working capital as compared to the same period in 2007.

During the quarter ended March 31, 2008 Algonquin generated $15.9 million or $0.21 per trust unit in cash available for distribution as compared to $15.1 million or $0.20 per trust unit for the same period in 2007. Algonquin distributed $17.5 million or $0.23 per trust unit during the quarter ended March 31, 2008, consistent with the same period in 2007.

Algonquin's distribution as a percentage of 'Cash available for distribution' ("Payout Ratio") was 109.8% during the quarter ended March 31, 2008 (2007 – 115.8%). Algonquin has achieved improving annual Payout Ratios of 123.4% in 2002, 106.9% in 2003, 105.8% in 2004, 98.7% in 2005, 99.2% in 2006 and 96.6% in 2007. Algonquin has generated more cash available for distribution than it distributed for the previous three consecutive years.

Distributions paid can be different from distributions declared during a period. Monthly distributions are declared by Algonquin for Unitholders of record on the last business day of each month and are paid within 45 days following each month end.

Excess (deficiency) Cash Flows and Net Income Over Distributions Paid

The following chart presents excess or deficiency in cash flows from operating activities and net income over distributions paid for the quarter ended March 31, 2008 and for the years ended December 31, 2007 and 2006.

(C$000)	**Three months ended March 31 2008**	**Year ended December 31 2007**	**Year ended December 31 2006**
Cash flow from operating activities	**$ 14,712**	$ 40,427	$ 69,332
Distributions paid during the period	**17,481**	69,923	66,955
Excess (shortfall) of cash flows from operating activities over cash distributions paid	**$ (2,769)**	$ (29,496)	$ 2,377
Net income (loss) from continuing operations	**$ (1,554)**	$ 24,763	$ 30,728
Distributions paid during the period	**17,481**	69,923	66,955
Excess (shortfall) of net income over cash distributions paid	**$ (19,035)**	$ (45,160)	$ (36,227)

The shortfall of net income over cash distributions and of cash flows from operating activities over cash distributions have been funded through working capital management, cash on hand or additional borrowings under Algonquin's revolving credit facility.

Algonquin considers the amount of cash generated by the business in determining the amount of distributions to its Unitholders. In general, Algonquin does not take into account quarterly working capital fluctuations as these tend to be temporary in nature. Algonquin does not generally consider net income in setting the level of distributions as this is a non-cash calculation and does not reflect the level of cash flow generated by Algonquin. This is particularly apparent when considering Algonquin relatively high level of depreciation and amortization expense as well as significant volatility in Algonquin's income due to fluctuations in the market value of the Algonquin's hedging instruments and interest rate swaps.

Summary of Capital Expenditures by Business Unit

(C$000)	Three months ended March 31, 2008	Three months ended March 31, 2007
POWER GENERATION & DEVELOPMENT		
Renewable Energy Division		
Maintenance capital expenditures	**$ 91**	$ 6
Growth and other capital expenditures	**409**	-
Total	**$ 500**	$ 6
Thermal Energy Division		
Maintenance capital expenditures	**$ 916**	$ 887
Growth and other capital expenditures	**2,726**	1,290
Total	**$ 3,642**	$ 2,177
UTILITY SERVICES BUSINESS UNIT		
Maintenance capital expenditures	**$ -**	$ -
Growth and other capital expenditures	**9,036**	3,083
Total	**$ 9,036**	$ 3,083
Consolidated (includes Corporate)		
Maintenance capital expenditures	**$ 1,058**	$ 948
Growth and other capital expenditures	**12,171**	4,373
Total	**$ 13,229**	$ 5,321

During the quarter ended March 31, 2008, Algonquin incurred growth and other capital expenditures of $12.2 million, as compared to $4.4 million during the comparable period in 2007.

During the quarter ended March 31, 2008, the change in the Thermal Energy division's growth and other capital expenditures primarily relates to the completion of the Sanger Re-powering project and investment in the BCI project. The comparable period includes investment in the BCI project as well as the Sanger re-powering project.

During the quarter ended March 31, 2008 as well as the comparative period, Utility Services' growth and other capital expenditures primarily relates to investment in additional wells, engineering work regarding the waste-water treatment capacity and arsenic treatment at the LPSCo facility.

Capital expenditure for the remainder of the 2008 fiscal year are anticipated to be approximately $18.0 million, including $1.0 million related to the EFW facility, $3.0 million related to renewable hydroelectric projects, $1.0 million related to the BCI project and $11.0 million related to ongoing growth and regulatory requirements in Utility Services.

Algonquin 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.

Liquidity and Capital Reserves

For the quarter ended March 31, 2008, Algonquin had $9.2 million of cash and cash equivalents. As at March 31, 2008, Algonquin had net working capital of $3.2 million. For purposes of this calculation, working capital excludes cash and cash equivalent, current portion of notes receivable, current portion of derivative assets, current portion of long term liabilities and cash distributions payable.

Long term debt increased to $295.6 million at March 31, 2008 compared to $234.2 million at March 31, 2007. The increase in long term debt is primarily due to Algonquin's major growth capital projects including $20.0 million related to the completion of the St. Leon facility, $14.0 million related to the Sanger re-powering project, $11.0 million related to the BCI project and $25.0 million related to water reservoir and waste-water capacity expansion projects in Utility Services. Long term liabilities primarily consist of project level debt of approximately $155 million and an amount of $140 million drawn on Algonquin's revolving credit facility compared to project level debt of $160 million and an amount of $74 million drawn on Algonquin's revolving credit facility at the end of the first quarter of 2007. 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 Algonquin. Project debt repayments are deducted in the calculation of cash available for distribution.

On January 16, 2008, Algonquin completed a renewal of its combined $175 million senior secured revolving operating and acquisition credit facilities (the "Facilities") with its Canadian bank syndicate for a new three year term. Under terms of the renewal, the Facilities are extended for a three year term with a maturity date of January 14, 2011. The renewed Facilities also contain an accordion feature allowing Algonquin to increase the Facilities to $225 million to accommodate future growth and acquisitions. On April 10, 2008, Algonquin exercised a portion of the accordion feature, increasing its existing revolving credit facility by $17.75 million.

For the quarter ended March 31, 2008 Algonquin maintained a long term debt-to-equity ratio (including long term liabilities, other long term liabilities, and convertible debentures) of 127%. The exchangeable trust units issued in conjunction with the purchase of AirSource have been included in equity for purposes of this calculation. Algonquin may settle the outstanding convertible debentures, at its option, in cash, or, subject to certain conditions, in Algonquin units. Accordingly, if the convertible debentures are excluded from debt and included in equity in this calculation as at March 31, 2008 this ratio would be reduced to 64%.

Contractual Obligations`

Information concerning contractual obligations as of May 1, 2008 is shown below:

	Total	Due less than1 year	Due 2 to 3 years	Due 4 to 5 years	Due after 5 years
Long term debt obligations	$ 298,720	$ 2,356	$ 6,554	$ 148,715	$ 141,095
Other obligations	$ 15,141	1,731	880	553	11,977
Total obligations	$ 313,861	$ 4,087	$ 7,434	$ 149,268	$ 153,072

Long term obligations normally include regular payments related to long term debt and other obligations. These payments are included as a reduction to cash available for distribution. Included in the other obligations 'due in less than one year' is Algonquin's commitment, as of May 1, 2008 of $1.0 million regarding the BCI project.

Unitholders' Equity and Convertible Debentures

As at March 31, 2008, Algonquin had 73,730,454 issued and outstanding trust units with a total of 76,070,041 trust units issued and outstanding on a fully diluted basis.

The Fund may issue an unlimited number of trust units. Each trust unit is transferable and represents an equal, undivided beneficial interest in any distribution from the Fund and the net assets of the Fund. All units are of the same class and with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of Unitholders.

Pursuant to the takeover bid of AirSource, on September 29, 2006, Algonquin issued trust units and a subsidiary issued trust units which are exchangeable into trust units of Algonquin at the holder's option (the "Exchangeable Units"). During the first quarter of 2008, 86,114 trust units of Algonquin were issued pursuant to the conversion of Exchangeable Units. As at March 31, 2008 there were 2,339,587 trust units of Algonquin remaining to be issued pursuant to the conversion of Exchangeable Units. Subsequent to March 31, 2008 a further 3,000 trust units of Algonquin were issued pursuant to the conversion of Exchangeable Units.

In 2004, Algonquin 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 Algonquin 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 could not be redeemed by Algonquin prior to July 31, 2007. During the period of July 31, 2007 until July 30, 2009, the debentures may be redeemed by Algonquin if the underlying trust unit price is equal to or exceeds a price of $13.31 (125% of the conversion price of $10.65). During the period of July 31, 2009 until the debenture's maturity, Algonquin can redeem the debentures for 100% of the face value of debenture with cash or for 105% of the face value of debenture with additional trust units. During the third quarter of 2007, an investor exercised their option on $0.02 million of convertible debentures. As at March 31, 2008, no additional convertible debentures had been presented for conversion and there were 84,964 convertible debentures outstanding.

In November 2006, Algonquin 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 Algonquin 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 Algonquin prior to November 30, 2010. During the period of November 30, 2010 until November 29, 2012, the debentures may be redeemed by Algonquin if the underlying trust unit price is equal to or exceeds a price of $13.75 (125% of the conversion price of $11.00). During the period of November 30, 2012 until the debenture's maturity, Algonquin can redeem the debentures for 100% of the face value of debenture with cash or for 105% of the face value of debenture with additional trust units.

As at March 31, 2008 no convertible debentures had been presented for conversion.

Management of Capital Structure

Algonquin views its capital structure in terms of its debt levels, both at a project and an overall company level, in conjunction with its equity balances.

Algonquin's objectives when managing capital are:

- To maintain appropriate debt and equity levels in conjunction with standard industry practices and to limit financial constraints on the use of capital.
- To have proper credit facilities available for ongoing investment in growth and maintenance capital as well as investment in development opportunities.

- To ensure stable generation of cash available for distribution to Unitholders.
- To maintain cash reserves on hand to ensure distributions made to Unitholders.

Algonquin monitors its cash position on a regular basis to ensure funds are available to meet current normal as well as capital and other expenditures. In addition, the Company is currently in the process of reviewing its capital structure to ensure its individual business units are using a capital structure which is appropriate for its industry as well as in the context of the change in taxation impacting the Fund commencing in 2011.

Unitholders' Rights Plan

Algonquin has adopted a Unitholders' Rights Plan (the "Plan"). The Plan is designed to ensure the fair treatment of Unitholders in any transaction involving a change of control of Algonquin and will provide the Board of Trustees and Unitholders with adequate time to evaluate any unsolicited take-over bid and, if appropriate, to seek out alternatives to maximize Unitholder value. The Toronto Stock Exchange (the "Exchange") has accepted notice for filing of the Rights Plan and the Plan was approved by Unitholders at Algonquin's annual and special meeting held on April 24, 2008 for a three year period thereafter. The Rights Plan is similar to rights plans adopted by many other Canadian income trusts and corporations. Until the occurrence of certain specific events, the rights will trade with the Units of Algonquin and be represented by certificates representing the Units. The rights become exercisable only when a person, including any party related to it or acting jointly with it, acquires or announces its intention to acquire twenty percent (20%) or more of the outstanding Units of Algonquin without complying with the Permitted Bid provisions of the Rights Plan. Should a non-Permitted Bid be launched, each right would entitle each holder of Units (other than the acquiring person and persons related to it or acting jointly with it) to purchase additional Units of Algonquin at a fifty percent (50%) discount to the market price at the time.

It is not the intention of the Rights Plan to prevent take-over bids but to ensure their proper evaluation by the market. Under the Rights Plan, a Permitted Bid is a bid made to all Unitholders for all of their Units on identical terms and conditions that is open for no less than 60 days. If at the end of 60 days at least fifty percent (50%) of the outstanding Units, other than those owned by the offeror and certain related parties, have been tendered and not withdrawn, the offeror may take up and pay for the Units but must extend the bid for a further ten days to allow all other Unitholders to tender.

Related Party Transactions

The following related party transactions occurred during the quarter ended March 31, 2008 and are discussed in Notes 5 of Algonquin's unaudited financial statements for the quarter ended March 31, 2008:

- Algonquin is managed by APMI which provides management services including advice and consultation concerning business planning, support, guidance and policy making and general management services. An entity owned by the majority of the shareholders of AMPI is the general partner of Algonquin Airlink Limited Partnership and is the general partner of Algonquin Property LP which leases the corporate office to Algonquin. Green Wing Algonquin Power Development Inc ("GWAP") is an entity majority owned by APMI which provides construction services. Collectively these entities are called the Algonquin Power Group.

- For the three month periods ended March 31, 2008 and 2007, APMI was paid on a cost recovery basis for all costs incurred and charged $0.2 million (2007 - $0.2 million).
- On March 10, 2008, Algonquin advanced $0.2 million to the Trustees for purposes of enabling the Trustees to purchase additional Units of Algonquin. The loans are subject to promissory notes issued in favour of Algonquin which are payable upon demand and currently bear interest at 4% per annum and are recorded in long term investments on the consolidated balance sheet.
- As part of the project to re-power the Sanger facility, Algonquin 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 three month period ending March 31, 2008, APMI was paid $0.02 million (2007 - $0.03 million).
- Algonquin 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 three month period ending March 31, 2008 were $0.07 million (2007 - $0.07 million).
- Algonquin utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of APMI. During the three month period ending March 31, 2008, Algonquin incurred costs in connection with the use of the aircraft of $0.06 million (2007 - $0.1 million) and amortization expense related to the advance against expense reimbursements of $0.03 million (2007 - $0.03 million).
- Algonquin has project debt from Highground Capital Corporation ("HCC") (previously Algonquin Power Venture Fund) in the amount of $3.0 million related to the St. Leon facility. HCC advanced $1.6 million at a rate of 11.25% as part of the initial financing of the St. Leon facility which matures December 31, 2011 and advanced $1.4 million at a rate of 9.25% during the first quarter of 2007 which matures September 30, 2014. Both amounts are secured by the underlying assets of the St. Leon facility. During 2008, HCC was paid $0.08 million (2007 - $0.08 million) in interest related to debt associated with the St. Leon facility. Some of the directors and shareholders of APMI are also directors, officers and shareholders of the manager of HCC.
- In accordance with the construction services agreement related to the St. Leon facility, GWAP, a company controlled by APMI, was paid $0.1 million (2007 - $nil) during the three month period ending March 31, 2008 for construction services. In quarter ended March 31, 2008, Algonquin also paid $nil (2007 - $0.4 million) to GWAP on a cost recovery basis related to ongoing operating expenses of the project.
- AirSource Power Fund I LP ("AirSource") has agreed to reimburse AirSource Power Fund GP Inc (the "General Partner") of AirSource for reasonable costs incurred by it in acting as registrar and transfer agent and in attending to the administration of AirSource, as required in the Partnership Agreement. The General Partner was paid $nil during the three month period ending March 31, 2008 (2007 - $nil).

Discontinued Operations

(C$000)	Three months ended March 31 2008	2007
Performance (MW-hrs sold)	-	28,974
Revenue		
Energy sales	-	1,870
Expenses		
Operating	-	2,168
Operating Loss	-	(298)
Interest expense	-	(10)
Amortization of capital and intangible assets	-	(397)
Net income (loss) from discontinued operations (including interest and other income)	-	(706)

In December 2007, Algonquin completed the sale of six LFG and six hydroelectric generating facilities. As at December 31, 2007, all assets classified as Discontinued Operations had been sold. These facilities were no longer considered strategic to the ongoing operations of Algonquin.

For the quarter ended March 31, 2008, revenue from Discontinued Operations was nil as compared to $1.9 million during the same period in 2007.

For the quarter ended March 31, 2008, operating expenses were nil as compared to $2.2 million during the same period in 2007.

For the quarter ended March 31, 2008, the operating loss was nil as compared to $0.3 million in the comparable period in 2007.

Risk Management

Algonquin proactively manages its risk exposures in a prudent manner. Algonquin maintains adequate insurance on all of its facilities. This includes property and casualty, boiler and machinery, and liability insurance. It has also initiated a number of programs and policies such as employee health and safety programs, environmental safety programs, currency hedging policies to manage its risk exposures.

There are a number of risk factors relating to the business of Algonquin. Some of these risks include the dependence upon Algonquin 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. The risks discussed below are not intended as a complete list of all exposures that Algonquin may encounter. A further assessment of Algonquin's business risks is also set out in the 2007 Annual Information Form.

Mechanical risk

Algonquin is entirely dependant upon the operations and assets of Algonquin businesses. Accordingly, distributions to Unitholders are dependent upon the profitability of each of Algonquin 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 Algonquin's operations, both operationally (Renewable Energy, Thermal Energy and Utility Services) and geographically (Canada and U.S.), the use of regular maintenance programs, maintaining adequate insurance and the establishment of reserves for expenses. In addition, Algonquin's existing long term power purchase agreements minimize the risk of reductions in average energy pricing.

Regulatory risk

Profitability of Algonquin businesses is in part dependant 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 utility facilities are highly regulated and are subject to rate settings by state regulators. The Company regularly works with these authorities to manage the affairs of the business.

Seasonal fluctuations and hydrology

The hydroelectric operations of Algonquin 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.

Wind resource

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.

Foreign currency risk

Currency fluctuations may affect the cash flows Algonquin would realize from its operations, as certain of Algonquin businesses sell electricity or provide utility services in the United States and receive proceeds from such sales in U.S. dollars. Such Algonquin businesses also incur costs in U.S. dollars. At Algonquin's current exchange rate, approximately 42% of EBITDA and 53% of distributable cash is generated in U.S. dollars. Algonquin estimates that, on an unhedged basis, a $0.01 change in the Canadian/US exchange rate would result in increased reported revenue from U.S. operations of $1.1 million and increased reported expenses from U.S. operations of $0.7 million or a net impact of $0.4 million ($0.005 per trust unit) on an annual basis.

Algonquin attempts to manage this risk through the use of forward contracts. At March 31, 2008, the Company had effectively hedged 92% of its expected 2008 U.S. dollar cash flow at $1.21 and 61% of its expected 2009 U.S. dollar cash flow at $1.14. During the quarter ending March 31, 2008 Algonquin realized a $2.1 million gain on forward contracts settled during the period. Using the foreign exchange rate as at March 31, 2008, the exercise of these forward contracts will generate $5.1 million in distributable cash during the remainder of 2008, $2.9 million in fiscal 2009 and result in the use of $0.2 million in distributable cash for the remainder of the hedged period beyond 2009.

Algonquin has total forward contracts to sell U.S. dollars from fiscal 2008 to fiscal 2012 totalling U.S. $95.6 million carrying an average rate of $1.10. Algonquin's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Market Price risk

The majority of Algonquin's facilities are subject to long term PPA's. However, certain of the Company's hydroelectric facilities in the New England and New York regions sell energy at current spot market rates. In this regard, each $1.00 change in the market prices per MW-hr would result in a change in revenue of $0.1 million on an annualized basis.

Credit risk

The Company is subject to credit risk through its trade receivables. The Company does not believe this risk to be significant as over 70% of its revenue is earned from multiple large utility customers with revenue invoiced and collected within 30 days. The remaining revenue is primarily earned by the Utility Services business unit. In this regard, this credit risk is spread over multiple customers and the Company has processes in place to monitor and evaluate this risk on an ongoing basis including background credit checks and security deposits from new customers.

Interest rate risk

Algonquin has a number of project specific and other debt facilities that are subject to a variable interest rate. These facilities and the sensitivity to changes in the variable interest rates charged are discussed below:

- Algonquin's senior debt facility has a balance of $140.0 million as at March 31, 2008. Assuming the current level of borrowings over an annual basis, a 1% change in the variable rate charged would impact interest expense by $1.4 million annually.
- Algonquin's project debt at the St. Leon facility has a balance of $73.3 million as at March 31, 2008. Assuming the current level of borrowings over an annual basis, a 1% change in the variable rate charged would impact interest expense by $0.7 million annually. Although the underlying debt with the project lenders carries variable rate of interest tied to the Canadian bank's prime rate, the Company has entered into a fixed for floating interest rate swap on this project specific debt until September 2015 which mirrors the underlying debt's interest and principle repayment schedule. This minimizes volatility in the interest expense on this debt and effectively offsets any change to interest expense as a result of market rate fluctuations.
- Algonquin's project debt at its Sanger cogeneration facility has a balance of U.S. $19.2 million as at March 31, 2008. Assuming the current level of borrowings over an annual basis, a 1% change in the variable rate charged would impact interest expense by $0.2 million annually.

Liquidity risk

Algonquin has a credit facility and project specific debt totalling approximately $295.6 million. In the event that Algonquin 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. Algonquin attempts to manage the risk associated with floating rate interest loans through the use of interest rate swaps. Algonquin 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. Algonquin has effectively fixed its interest expense on its senior debt facility at 5.47%. At March 31, 2008, the mark to market value of the interest rate swap was a loss of $2.7 million (loss of $0.2 million on March 31, 2007).

The cash available for distribution generated from several of Algonquin's facilities are subordinated to senior project 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 Algonquin losing its investment in such facility. Algonquin actively manages its operations to minimize the risk of this possibility.

Commodity price risk

Algonquin's exposure to commodity prices is primarily limited to exposure to natural gas price risk. In this regard, a discussion of this risk is set out as follows:

- Algonquin's Sanger facility's PPA includes provisions which reduce its exposure to natural gas price risk. In this regard, a $1.00 increase in the price of natural gas per mmbtu, based on expected production levels, would result in an increase in expenses of approximately $1.2 million on an annual basis. However, as the facility's energy price is linked to the price of natural gas, this increase would result in a corresponding increase in revenue of $1.5 million or a net increase in operating profits of approximately $0.3 million.
- Algonquin's Windsor Locks facility's PPA includes provisions which reduce its exposure to natural gas price risk. In this regard, a $1.00 increase in the price of natural gas per mmbtu, based on expected production levels, would result in an increase in expenses of approximately $2.8 million on an annual basis. However, as the facility's energy price is linked to the price of natural gas, this increase would result in a corresponding increase in revenue of $3.4 million or a net increase in operating profits of approximately $0.6 million.
- Algonquin's EFW facility's PPA does not include provisions to reduce its exposure to natural gas price risk. In this regard, a $1.00 increase in the price of natural gas per mmbtu, based on expected production levels, would result in an increase in expenses of approximately $0.1 million on an annual basis.

Changes to income tax laws

Changes to income tax laws and the current tax treatment of mutual fund trusts could negatively impact Algonquin. Although Algonquin 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 Algonquin ceases to qualify as a mutual fund trust, the return to Unitholders may be adversely affected.

On June 22, 2007, Bill C-52 was enacted, which included legislation to impose a tax on distributions of certain income by certain publicly traded income trusts and partnerships (the

"SIFT Rules"). The SIFT Rules apply to "specified investment flow-throughs" ("SIFT") which includes trusts resident in Canada whose units are listed or traded on a stock exchange or other public market if the trust holds one or more "non-portfolio properties".

Algonquin is a SIFT trust as defined by the SIFT Rules. Algonquin would have been a SIFT trust on October 31, 2006 had the SIFT Rules been in force on that date. The SIFT rules will not apply to Algonquin until its first taxation year that ends in the earlier of 2011 and the first day after December 15, 2006 on which Algonquin exceeds normal growth guidelines (the "Guidelines") issued by the Department of Finance on December 15, 2006 as amended from time to time. Provided Algonquin does not exceed normal growth as determined by the Guidelines, the SIFT Rules will apply to Algonquin starting with the 2011 taxation year.

Based on the current legislation, a possible interpretation of the SIFT Rules exists under which Algonquin's subsidiary trusts and partnerships may also be viewed as SIFTs. The precise impact of these technical issues cannot be determined until the Canada Revenue Agency provides administrative policies regarding the interpretation of the SIFT Rules and their application to trusts and partnerships in which a publicly traded trust holds a direct or indirect interest. On December 20, 2007, the Minister of Finance announced his intention to introduce technical amendments to the SIFT definition to exclude certain flow through subsidiaries of a SIFT that are able to meet certain ownership conditions. Specifically, the SIFT definition will be amended to exclude trusts and partnerships whose equity is not publicly traded, and is wholly owned by a SIFT, a REIT, a taxable Canadian corporation, another entity meeting this test, or any combination of these types of entities. Algonquin had a subsidiary partnership that may not meet this ownership requirement and therefore this entity may be subject to SIFT tax commencing in 2011. The impact of the announced technical amendments cannot be assessed until detailed legislation is released.

Once the SIFT Rules apply, Algonquin 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 Algonquin 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 Algonquin is attributable to the subject entity and affiliated entities.

Once the SIFT Rules apply, Algonquin 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 and any non-portfolio earnings distributed by Algonquin 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. The 2008 Federal Budget tabled on February 26, 2008 contains a proposal to replace the 13% provincial component of such tax for 2009 and subsequent taxation years with a rate generally based on the general provincial corporate income tax rate in each province in which the SIFT has a permanent establishment.

If the SIFT Rules apply to Algonquin in 2011 it is anticipated that generally the tax paid by Algonquin 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 a Unitholder 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 Algonquin's current investments.

Although Algonquin is of the view that all expenses being claimed by Algonquin are reasonable and that the cost amount of Algonquin'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.

Obligations to serve

Algonquin's utility facilities may be located within areas of the United States experiencing 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, Algonquin may be required to access capital markets or obtain additional borrowings to finance these future construction obligations.

Critical Accounting Estimates

Algonquin prepared its Consolidated Financial Statements in accordance with GAAP. As understanding of Algonquin's accounting policies is necessary for a complete analysis of results, financial position, liquidity and trends. Refer to note 1 to the Consolidated Financial Statements for additional information on accounting principles. The Consolidated Financial Statements are presented in Canadian dollars rounded to the nearest thousand, except per unit amounts and except where otherwise noted.

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions relating to reported amounts of revenue and expenses, reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Algonquin regularly evaluates the assumptions and estimates that are used in the preparation of the Company's Consolidated Financial Statements. Estimates and assumptions used by management are based on past experience and other factors deemed reasonable in the circumstances. Since these estimates and assumptions involve varying degrees of judgment and uncertainty, the amounts reported in the financial statements could in the future prove to be inaccurate.

Algonquin recognizes revenue derived from energy sales at the time energy is delivered. Utility Services revenue is recognized when processed and delivered to customers. Revenue from waste disposal is recognized on an actual tonnage of waste delivered to the plant at prices specified in the contract. Certain contracts include price reductions if specified thresholds are exceeded. Revenue for these contracts are recognized based on actual tonnage at the expected price for the contract year and any amount billed in excess of the expected is deferred.

Algonquin records as other liabilities amounts received by Utility Services which relate to advances from developers for water distribution and water reclamation main extensions received. These advances usually carry repayment terms based on the revenue generated by the development in question ranging over a specified period of time. At the end of the payment term, the unpaid portion of the advance converts to contribution in aid of construction and is not required to be repaid to the developer. The amount recorded as other liabilities is based on Algonquin's expected repayments as determined by historical experience and industry practice.

Estimates are also made related to the useful life of long-lived assets. These estimates are used to determine amortization expense. Estimates of an asset's useful life are based on past experience with similar assets taking into account technological or other changes. If these estimates prove to be inaccurate, management may have to shorten the anticipated useful life of the assets recorded in the financial statements resulting in higher amortization expense in future periods or possibly an impairment charge to reflect the write-down in the value of the asset.

Algonquin also regularly assesses whether there has been an impairment to long term investments, notes receivable, capital and intangible assets, and recoverability of future tax assets based on circumstances that may indicate Algonquin will not be able to recover the assets entire carrying value. Should impairment be deemed to have occurred, Algonquin would reduce the carrying value of that asset in the financial statements and deduct this amount from earnings. Algonquin cannot predict future events that could create impairment, or how future events might affect the carrying value of the assets' values reported in the financial statements.

Other than the normal estimates required in the application of GAAP, there are no other critical estimates included in the Consolidated Financial Statements.

Controls and Procedures

Algonquin's management is responsible for preparation and presentation of the Consolidated Financial Statements and MD&A. Algonquin's Consolidated Financial Statements have been prepared in accordance with GAAP. This MD&A has been prepared in accordance with the requirements of the Ontario Securities Commission including National Instrument 51-102 of the Canadian Securities Administrators.

Disclosure Control and Procedures

In accordance with the requirements of the Securities Act (Ontario) and other provincial securities legislation, the CEO and CFO of Algonquin certify interim quarterly and annual filings that they have designed Algonquin'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 Algonquin is appropriately accumulated and communicated to APMI to allow timely decisions regarding required disclosure. During this quarter, an evaluation of the effectiveness of the design and operation of Algonquin's disclosure controls and procedures was carried out, under the supervision and with the participation of APMI, 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 Algonquin 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.

Changes in Internal Control over Financial Reporting

There were no changes made in the quarter ended March 31, 2008 to the internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

Quarterly Financial Information

The following is a summary of unaudited quarterly financial information for the two years ended March 31, 2008.

Millions of dollars

(except per trust unit amounts)	**2nd Quarter 2007**	**3rd Quarter 2007**	**4th Quarter 2007**	**1st Quarter 2008**	**Total**
Revenue	$ 47.8	$ 46.5	$ 44.3	$ 48.0	$ 186.6
Net earnings / (loss) from continuing operations	(3.2)	12.5	8.8	(1.6)	16.5
Net earnings /(loss)	(2.3)	12.2	7.6	(1.6)	15.9
Net earnings / (loss) from continuing operations per trust unit	(0.03)	0.17	0.12	(0.02)	0.24
Net earnings / (loss)	(0.03)	0.17	0.10	(0.02)	0.22
Total Assets	1,049.0	1,024.1	954.1	950.7	950.7
Long term debt*	410.0	421.0	445.1	460.6	460.6
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

	2nd Quarter 2006	3rd Quarter 2006	4th Quarter 2006	1st Quarter 2007	Total
Revenue	$ 44.9	$ 49.3	$ 52.0	$ 47.6	$ 193.8
Net earnings from continuing operations	14.4	5.8	2.5	6.7	29.4
Net earnings	13.8	5.0	1.8	6.2	26.8
Net earnings from continuing operations per trust unit	0.20	0.08	0.03	0.08	0.39
Net earnings per trust unit	0.20	0.07	0.02	0.08	0.37
Total Assets	1,030.0	1,024.2	1,048.3	1,035.8	1,035.8
Long term debt*	376.6	379.6	411.0	401.8	401.8
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

* 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 $52.0 million and $44.3 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. There are two additional significant factors impacting revenues year over year. The continued strength of the Canadian dollar has resulted in lower reported revenue from U.S. operations during 2007 and the first quarter of 2008, as well as realized gains on financial instruments were recorded as revenue in the comparable quarters of 2007. Additionally, revenue has generally trended up due to facility acquisitions, including the St. Leon wind facility in September 2006, and organic growth in the Utility Services business unit.

Quarterly net earnings have fluctuated between $14.4 million and a net loss of $3.2 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 Algonquin's adoption of Section 3855 and the discontinuation of hedge accounting under Section 3865.

Changes in Accounting Policies

Algonquin's accounting policies are described in Note 1 to the consolidated financial statements for the quarter ended March 31, 2008. There have been no changes to the critical accounting policies as disclosed in Algonquin's unaudited Consolidated Financial Statements for the quarter ended March 31, 2008. Algonquin has adopted the new standards for Capital Disclosures CICA Handbook Section 1535 as well as CICA Handbook Sections 3862 Financial Disclosures and 3863 Financial Instruments – Disclosure and Presentation. These new standards, more fully described below, require disclosure on financial instruments and related risks but have no impact on the classification or measurement of the Algonquin's consolidated financial statements.

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, policies 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 is effective on January 1, 2008. Algonquin has set out this disclosure in this MD&A and the accompanying 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 Algonquin is exposed and how Algonquin manages those risks, whereas Section 3863 carries forward the presentation related requirements of Section 3861. The new standard is effective on January 1, 2008. Algonquin has set out this disclosure in this MD&A and the accompanying financial statements.

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and intangible assets. Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. This section also provides further information on the recognition of internally generated intangible assets. As for subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062, Goodwill and Other Intangible Assets. The new section will become effective on January 1, 2009 for the Company. The Company is currently evaluating the effect of the adoption of this new section on the consolidated financial statements.

Consolidated Balance Sheets

(Unaudited)
(thousands of Canadian dollars)

	March 31, 2008	December 31 2007
ASSETS		
Current assets:		
Cash	**$ 9,212**	$ 10,361
Accounts receivable	**28,980**	26,597
Prepaid expenses	**4,081**	3,052
Current portion of notes receivable	**429**	421
Current portion of derivative assets	**5,600**	7,857
	48,302	48,288
Long-term investments and notes receivable (note 5)	**29,830**	30,047
Future non-current income tax asset	**2,771**	2,416
Capital assets	**764,756**	760,677
Intangible assets	**97,017**	99,529
Restricted cash	**5,192**	6,105
Deferred costs	**287**	80
Other assets	**2,574**	2,737
Derivative assets	**-**	4,188
	$ 950,729	$ 954,067
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 28,082**	$ 27,007
Cash distribution payable	**11,649**	11,649
Current portion of long-term liabilities	**3,167**	1,915
Current income tax liability	**743**	669
Future income tax liability	**1,026**	756
	44,667	41,996
Long-term liabilities (note 4)	**295,575**	281,725
Convertible debentures	**139,797**	139,587
Other long-term liabilities	**25,227**	23,771
Future non-current income tax liability	**81,631**	80,785
Derivative liabilities	**1,916**	-
Non controlling interest	**19,319**	21,700
Unitholders' equity:		
Trust units	**692,552**	691,734
Equity component of convertible debentures	**479**	479
Deficit	**(302,312)**	(283,820)
Accumulated other comprehensive income	**(48,122)**	(43,890)
	342,597	364,503
Subsequent events (note 11)	**$ 950,729**	$ 954,067

See accompanying notes to consolidated financial statements

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

Consolidated Statements of Changes in Unitholders' Equity and Accumulated Comprehensive Income / (loss)

(Unaudited)
(thousands of Canadian dollars)

	Three months ended March 31, 2008	2007
Trust units:		
Balance, beginning of period	**$ 691,734**	$ 684,414
Issued on conversion of Algonquin (AirSource) Power LP exchangeable units	**818**	4,080
Balance, end of period	**$ 692,552**	$ 688,494
Equity component of convertible debentures	**$ 479**	$ 479
Deficit:		
Balance, beginning of period	**$ (283,820)**	$ (240,178)
Changes in accounting policies (note 1)	-	211
Balance, beginning of period as adjusted	**(283,820)**	(239,967)
Net earnings / (loss)	**(1,554)**	6,199
Distributions	**(16,938)**	(17,481)
Balance, end of period	**$ (302,312)**	$ (251,249)
Accumulated other comprehensive income / (loss):		
Balance, beginning of the period	**$ (43,890)**	$ -
Change in accounting policy (note 1)	-	11,167
Balance, beginning of period as adjusted	**$ (43,890)**	$ 11,167
Other comprehensive income / (loss)	**(4,232)**	(854)
Balance, end of the period	**$ (48,122)**	$ 10,313

Consolidated Statements of Comprehensive Income / (Loss)

(unaudited)
(thousands of Canadian dollars)

	Three months ended March 31, 2008	2007
Net earnings / (loss)	**$ (1,554)**	$ 6,199
Other comprehensive income (loss):		
Forward exchange contracts settled in the period	**$ (1,077)**	$ (854)
Translation of self sustaining foreign operations	**(3,155)**	-
Other comprehensive income (loss)	**(4,232)**	(854)
Total comprehensive income / (loss)	**$ (5,786)**	$ 5,345

See accompanying notes to consolidated financial statements

Consolidated Statements of Earnings

(unaudited)

(thousands of Canadian dollars, except per unit amounts)

	Three months ended March 31, 2008	2007
Revenue:		
Energy sales	**$ 35,910**	$ 29,858
Waste disposal fees	**3,715**	3,532
Water reclamation and distribution	**7,504**	7,828
Other revenue	**847**	6,378
	47,976	47,596
Expenses		
Operating	**25,493**	26,398
Amortization of capital assets	**8,623**	9,076
Amortization of intangible assets	**1,804**	1,842
Management costs (note 5)	**222**	217
Administrative expenses	**2,046**	1,678
(Gain) / loss on foreign exchange	**351**	(932)
	38,539	38,279
Earnings before undernoted	**9,437**	9,317
Interest expense	**7,130**	6,383
Interest, dividend income and other income	**(1,429)**	(2,096)
(Gain) / loss on financial instruments	**5,119**	(911)
	10,820	3,376
Earnings / (loss) from operations before income taxes, minority interest and discontinued operations	**(1,383)**	5,941
Income tax provision (recovery)		
Current	**307**	195
Future	**884**	(1,807)
	1,191	(1,612)
Minority interest (recovery)	**(1,020)**	648
Net earnings / (loss) from continuing operations	**(1,554)**	6,905
Net earnings / (loss) from discontinued operations	-	(706)
Net earnings / (loss)	**$ (1,554)**	$ 6,199
Basic net earnings / (loss) from continuing operations per trust unit (note 6)	**$ (0.02)**	$ 0.09
Diluted net earnings / (loss) from continuing operations per trust unit (note 6)	**$ (0.03)**	$ 0.09
Basic and diluted net loss from discontinued operations per trust unit (note 6)	**$ -**	$ (0.01)
Basic net earnings / (loss) per trust unit (note 6)	**$ (0.02)**	$ 0.08
Diluted net earnings / (loss) per trust unit (note 6)	**$ (0.03)**	$ 0.08

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

(unaudited)
(thousands of Canadian dollars)

	Three months ended March 31, 2008	2007
Cash provided by (used in):		
Operating Activities:		
Net earnings / (loss) from continuing operations	**$ (1,554)**	$ 6,905
Items not affecting cash:		
Amortization of capital assets	**8,623**	9,076
Amortization of intangible assets	**1,804**	1,842
Other amortization	**300**	473
Distributions received in excess of equity income	**253**	3
Future income taxes	**884**	(1,807)
Loss / (gain) on financial instruments	**7,284**	(136)
Minority interest	**(1,020)**	648
Unrealized (gain) / loss on foreign exchange	**582**	(731)
	17,156	16,273
Changes in non-cash operating working capital	**(2,444)**	(6,278)
	14,712	9,995
Financing Activities:		
Cash distributions	**(16,938)**	(16,763)
Cash distributions non controlling interest	**(543)**	(723)
Deferred financing costs	**(260)**	(133)
Increase in long term liabilities	**15,000**	8,400
Decrease in long term liabilities	**(1,227)**	(258)
Increase in other long term liabilities	**-**	110
	(3,968)	(9,367)
Investing Activities:		
Decrease / (increase) in restricted cash	**1,023**	(144)
Decrease/ (increase) in other assets	**134**	(99)
Receipt of principal on notes receivable	**269**	379
Increase in long term investments	**(301)**	(358)
Proceeds from sale of capital assets and intangible assets	**-**	147
Net additions to capital assets	**(12,950)**	(4,789)
Acquisitions of operating entities (note 3)	**(279)**	(530)
	(12,104)	(5,394)
Effect of exchange rate differences on cash and cash equivalents	**211**	(44)
Increase /(decrease) in cash from continuing operations	**(1,149)**	(4,810)
Decrease in cash from discontinued operations	-	(308)
Cash, beginning of the period	**10,361**	13,465
Cash, end of the period	**$ 9,212**	$ 8,347
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest expense	**$ 7,509**	$ 6,262
Cash paid during the period for income taxes	**$ 234**	$ 44

See accompanying notes to consolidated financial statements

Notes to the Unaudited Interim Consolidated Financial Statements

Three months ending March 31, 2008 and 2007

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

1. Basis of presentation:

These unaudited interim consolidated financial statements of Algonquin Power Income Fund ("Algonquin") should be read in conjunction with the audited consolidated financial statements of Algonquin for the year ended December 31, 2007, as set out in Algonquin's 2007 annual report. The notes presented in these unaudited interim consolidated financial statements include only significant changes and transactions occurring since Algonquin's last year end, and are not fully inclusive of all disclosures required by Canadian generally accepted accounting principles for annual financial statements.

Algonquin's operating results are subject to seasonal fluctuations that materially impact quarter-to-quarter operating results and, thus, one quarter's operating results are not necessarily indicative of a subsequent quarter's operating results. Algonquin'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. The Algonquin's water and waste-water utility assets revenues fluctuate depending on demand for water. During drier, hotter periods of the year which occurs generally in the summer demand for water is generally higher than during cooler, wetter periods of the year.

These unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the 2007 financial statements except for the changes in segment reporting as described in note 8 and the adoption of new accounting standards described in note 2.

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; CICA Handbook Section 3865, Hedges; and CICA Handbook Section 1530, Comprehensive Income. These sections apply to fiscal years beginning on or after October 1, 2006.

At December 31, 2006, the Fund ceased designating its foreign exchange contracts as hedges and recorded the fair value of those contracts of $11,167 as derivative assets and deferred credits. Upon the adoption of the new standards on financial instruments on January 1, 2007, the deferred credits balance of $11,167 was transferred into Accumulated Other Comprehensive Income. The balances from Accumulated Other Comprehensive Income are released as the contracts are settled.

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 and are amortized using the effective interest rate method over the term of the debt facility. Transaction costs for items classified as held-for-trading are expensed immediately. With respect to the transaction costs attributable to long-term debt, the impact as at January 1, 2007 was an increase in deficit of $153; with respect to transaction costs attributable to convertible debentures, the impact as at January 1, 2007 a decrease in deficit of $365.

2. Adoption of new accounting standards

Effective January 1, 2008, Algonquin has adopted the CICA Handbook Section 1535, Capital Disclosures, CICA Handbook Section 3862, Financial Instruments - Disclosure, and CICA Handbook Section 3863, Financial Instruments - Presentation, as more fully described below. These sections relate to disclosure and presentation only and did not have an impact on financial results. See Notes 9 and 10.

(a) CICA Section 1535 - Capital Disclosures

Section 1535, Capital Disclosures, establishes guidelines for disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

(b) CICA Section 3862 - Financial Instruments - Disclosure, and CICA Section 3863 - Financial Instruments - Presentation

Section 3862, Financial Instruments - Disclosure, describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863, Financial Instruments - Presentation, establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, Financial Instruments - Disclosure and Presentation.

(c) CICA Section 3064 – Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and intangible assets. Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. This section also provides further information on the recognition of internally generated intangible assets. As for subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062, Goodwill and Other Intangible Assets. The new section will become effective on January 1, 2009 for the Company. The Company is currently evaluating the effect of the adoption of this new section on the consolidated financial statements.

3. Acquisition of facilities

In accordance with the purchase and sale agreement for Rio Rico Utilities Algonquin is required to make additional payments to the previous owners for each additional customer connected to the utility, these payments continue until the end of 2008. As of March 31, 2008 Algonquin has accrued $ 279 (U.S. $279) (March 31, 2007 - $272, U.S. $232) as a growth premium, and increased intangible assets by a similar amount, gross of future tax liabilities of $nil (March 31, 2007 - $61).

4. Long-term liabilities

On January 16, 2008 Algonquin renewed its combined $175,000 senior secured revolving operating and acquisition credit facilities (the "Facilities") for a new three year term with its Canadian bank syndicate. Under the terms of the renewal, the Facilities are extended for a three year term with a maturity date of January 14, 2011. The renewed Facilities also contain an accordion feature allowing the Facilities to increase to $225,000 to accommodate future growth and acquisitions.

Algonquin drew an additional $14 million on the revolving credit facility during the first quarter of 2008 primarily to fund capital expenditures in the utilities segment.

Subsequent to the end of the quarter Algonquin exercised $17.75 million of the accordion feature and drew an additional $9.8 million on its credit facility to fund capital requirements and to acquire the remaining 50% interest in the Campbellford Partnership.

5. Related party transactions

Algonquin is managed by Algonquin Power Management Inc. ("APMI") which provides management services including advice and consultation concerning business planning, support, guidance and policy making and general management services. An entity owned by the majority of the shareholders of AMPI is the general partner of Algonquin Airlink Limited Partnership and is the general partner of Algonquin Property LP which leases the corporate office to Algonquin. Green Wing Algonquin Power Development Inc ("GWAP") is an entity majority owned by APMI which provides construction services. Collectively these entities are called the Algonquin Power Group.

For the three month periods ended March 31, 2008 and 2007, APMI was paid on a cost recovery basis for all costs incurred and charged $222 (2007 - $217).

On March 10, 2008, Algonquin advanced $225 to the Trustees for purposes of enabling the Trustees to purchase additional Units of Algonquin. The loans are subject to promissory notes issued in favour of Algonquin which are payable upon demand and currently bear interest at 4% per annum and are recorded in long term investments and notes receivable on the consolidated balance sheet.

As part of the project to re-power the Sanger facility, Algonquin 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 three month period ending March 31, 2008, APMI was paid $15 (2007 - $29).

Algonquin 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 three month period ending March 31, 2008 were $74 (2007 - $74).

Algonquin utilizes a chartered aircraft, including the use of an aircraft owned by an affiliate of APMI. During the three month period ending March 31, 2008, Algonquin incurred costs in connection with the use of the aircraft of $60 (2007 - $98) and amortization expense related to the advance against expense reimbursements of $33 (2007 - $33).

Algonquin has project debt from Highground Capital Corporation ("HCC") (previously Algonquin Power Venture Fund) in the amount of $3.0 million related to the St. Leon facility. HCC advanced $1.6 million at a rate of 11.25% as part of the initial financing of the St. Leon facility which matures December 31, 2011 and advanced $1.4 million at a rate of 9.25% during the first quarter of 2007 which matures September 30, 2014. Both amounts are secured by the underlying assets of the St. Leon facility. During 2008, HCC was paid $75 (2007 - $75) in interest related to debt associated with the St. Leon facility. Some of the directors and shareholders of APMI are also directors, officers and shareholders of the manager of HCC.

In accordance with the construction services agreement related to the St. Leon facility, GWAP, a company controlled by APMI, was paid $134 (2007 - $nil) during the three month period ending March 31, 2008 for construction services. In quarter ended March 31, 2008, Algonquin also paid $nil (2007 - $416) to GWAP on a cost recovery basis related to ongoing operating expenses of the project.

AirSource Power Fund I LP ("AirSource") has agreed to reimburse AirSource Power Fund GP Inc (the "General Partner") of AirSource for reasonable costs incurred by it in acting as registrar and transfer agent and in attending to the administration of AirSource, as required in the Partnership Agreement. The General Partner was paid $nil during the three month period ending March 31, 2008 (2007 - $nil).

6. Basic and diluted net earnings per trust unit

Basic and diluted earnings per trust unit have been calculated on the basis of the weighted average number of units outstanding during the period. The weighted average number of units outstanding during the period are as follows:

	March 31, 2008	**March 31, 2007**
Weighted average trust units – basic	73,689,639	73,127,282
Trust units issuable on conversion of exchangeable units	2,427,119	3,003,910
Weighted average trust units – diluted	76,116,758	76,131,192

Trust units issuable on conversion of exchangeable units are calculated based on the weighted average exchangeable units outstanding during the period at the period end exchange rate.

An adjustment for the year ended December 31, 2007 is required in the diluted earnings per unit calculation to provide for earnings attributable to non-controlling interest. The effect of conversion was anti-dilutive for the period ended March 31, 2007. Units potentially issuable on the conversion of the convertible debentures are anti-dilutive and are not included in the calculation of diluted weighted average units for the periods ended March 31, 2008 and March 31, 2007.

7. Cash distributions

Distributions to Unitholders are made monthly from cash available for distribution. Distributions are declared to Unitholders of record on the last day of the month and are distributed 45 days after declaration. The monthly distribution in 2008 was $0.0766 per trust unit for each month for a total of $0.23 for 2008, the same as 2007. Total distributions for the three months ended March 31, 2008 were $16,938 (2007 - $16,763). Total distributions to the Unitholders of the Algonquin (Airsource) Power LP exchangeable units for the three month period ended March 31, 2008 were $543 (2007 - $723) which have been recorded as a reduction in non controlling interest on the unaudited consolidated Balance Sheet. All cash distributions of Algonquin are made on a discretionary basis.

8. Segmented Information

In January 2008, Algonquin realigned its operations into two business units – Power Generation & Development, and Utilities Services. As a result, beginning with the results for the three months ended March 31, 2008 have been classified to reflect this new segmented reporting and comparative figures have been reclassified to also reflect new segmented reporting. Geographic segments remain unchanged.

Algonquin identifies two business categories it operates in: Power Generation & Development, and Utility Services. The Power Generation & Development business unit will develop and operate a portfolio of electrical energy generation facilities. Within this business unit there will be three divisions: Renewable Energy, Thermal Energy and Development. The Renewable Energy division will operate the Company's hydro-electric and wind power facilities. Thermal Energy division will operate co-generation, energy from waste, steam production and other thermal facilities. The Development division will develop Algonquin's greenfield power generation projects as well as expansion of Algonquin's existing portfolio of renewable energy and thermal energy facilities.

The Utility Services business unit is a utility providing transportation and delivery of water and wastewater in its service areas. The business unit will continue to pursue water and waste-water utility acquisition opportunities. Utility Services will also look to expand its operations into other regulated utilities such as natural gas distribution and electricity distribution. The operations and assets for these segments are as follows:

Geographic Segments

Algonquin and its subsidiaries operate in the independent power and utility industries in both Canada and the United States. Information on operations by geographic area is as follows:

	Three month period ending March 31, 2008	**Three month period ending March 31, 2007**
Revenue		
Canada	$ 20,502	$ 19,871
United States	27,474	27,725
	$ 47,976	$ 47,596
Capital assets		
Canada	$ 465,258	$ 477,214
United States	299,498	329,747
	$ 764,756	$ 806,961
Intangible assets		
Canada	$ 55,002	$ 59,568
United States	42,015	50,822
	$ 97,017	$ 110,390
Other assets		
Canada	$ 1,342	$ 12,671
United States	1,232	-
	$ 2,574	$ 12,671

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

Reporting segments

The new reporting segments are Renewable Energy, Thermal Energy and Utility Services. The development activities are reported under Renewal Energy or Thermal Energy as appropriate. The operations and assets for these segments are as follows:

Three month period ending March 31, 2008

	Power Generation & Development		Utility Services	Corporate	Total
	Renewable Energy	Thermal Energy			
Revenue					
Energy sales	$ 19,829	$ 16,081	$ -	$ -	$ 35,910
Waste disposal fees	-	3,715	-	-	3,715
Water reclamation and distribution	-	-	7,504	-	7,504
Other revenue	-	847	-	-	847
Total revenue	19,829	20,643	7,504	-	47,976
Operating expenses	4,930	16,185	4,378	-	25,493
	14,899	4,458	3,126	-	22,483
Other administration costs	(82)	(76)	(66)	(2,395)	(2,619)
Interest expense	(2,358)	(263)	(192)	(4,317)	(7,130)
Interest, dividend and other income	343	1,009	47	30	1,429
Gain / (loss) on financial instruments	(2,743)	1,177	926	(4,479)	(5,119)
Amortization of capital assets	(3,996)	(3,162)	(1,465)	-	(8,623)
Amortization of intangible assets	(641)	(984)	(179)	-	(1,804)
Earnings / (loss) from continuing operations before income taxes, minority interest and comprehensive income	5,422	2,159	2,197	(11,161)	(1,383)
Loss from discontinued operations	-	-	-	-	-
Net earnings / (loss) before income taxes, minority interest and comprehensive income	5,422	2,159	2,197	(11,161)	(1,383)
Capital assets	$ 420,718	$ 195,882	$ 148,156	$ -	$ 764,756
Intangible assets	34,262	37,304	25,451	-	97,017
Capital expenditures	500	3,642	8,757	51	12,950
Acquisition of operating entities	-	-	279	-	279
Total assets	$ 479,330	$ 277,208	$ 181,748	$ 12,443	$ 950,729

Three month period ending March 31, 2007	Power Generation & Development: Renewable Energy	Power Generation & Development: Thermal Energy	Utility Services	Corporate	Total
Revenue					
Energy sales	$ 12,741	$ 17,117	$ -	$ -	$ 29,858
Waste disposal fees	-	3,532	-	-	3,532
Water reclamation and distribution	-	-	7,828	-	7,828
Other revenue	5,342	1,036	-	-	6,378
Total revenue	18,083	21,685	7,828	-	47,596
Operating expenses	4,360	17,652	4,386	-	26,398
	13,723	4,033	3,442	-	21,198
Other administration costs	(98)	(46)	(50)	(769)	(963)
Interest expense	(2,358)	(309)	(267)	(3,449)	(6,383)
Interest, dividend and other income	336	1,662	33	65	2,096
Gain / (loss) on financial instruments	(259)	710	(21)	481	911
Amortization of capital assets	(4,136)	(2,831)	(2,109)	-	(9,076)
Amortization of intangible assets	(648)	(974)	(220)	-	(1,842)
Earnings / (loss) from continuing operations before income taxes, minority interest and comprehensive income	6,560	2,245	808	(3,672)	5,941
Loss from discontinued operations	(30)	(676)	-	-	(706)
Net earnings / (loss) before income taxes, minority interest and comprehensive income	6,530	1,569	808	(3,672)	5,235
Capital assets	$ 446,445	$ 187,136	$ 173,380	$ -	$ 806,961
Intangible assets	36,829	42,209	31,352	-	110,390
Capital expenditures	6	2,176	2,553	54	4,789
Acquisition of operating entities	-	-	530	-	530
Total assets	$ 525,151	$ 265,579	$ 211,744	$ 33,334	$ 1,035,808

9. Financial instruments

a) Fair Value Disclosure

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision. The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value at the quarter end dates due to the short-term maturity of these instruments.

The fair value of long-term debt is not significantly different from its carrying value. The fair value of the Company's long-term debt bearing interest at fixed rates was calculated using the present value of future payments of principal and interest discounted at the current market rates of interest available to the Company for the same or similar debt instruments with the same remaining maturities.

b) Risk Management

In the normal course of business, the Company is exposed to financial risks that potentially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks to the extent possible on a cost effective basis. Derivative financial agreements are used to manage exposure to fluctuations in exchange rates and interest rates. The Company does not enter into derivative financial agreements for speculative purposes.

This note provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk, and how the Company manages those risks.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents and accounts receivable. The Company limits its exposure to credit risk with respect to cash equivalents by maintaining minimal cash balances and ensuring available cash is deposited with its senior lenders in Canada. The Company's receivables consist primarily of receivables from energy sales to large utilities which are settled in the month after they are earned. As at March 31, 2008 the Company's exposure to credit risk for these financial instruments was as follows:

	March 31, 2008	
	Canadian $	**U.S. $**
Cash and cash equivalents	10,191	4,098
Accounts receivable	11,084	17,410
	$ 21,275	$ 21,508

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient liquidity to meet liabilities when due. As at March 31, 2008, in addition to cash on hand of $9,212 the Company had $58,000 of unused credit available on its senior debt facility pursuant to an accordion feature included in its senior debt facility.

	Total	**Due less than 1 year**	**Due 2 to 3 years**	**Due 4 to 5 years**	**Due after 5 years**
Long term debt obligations	$ 298,720	$ 2,356	$ 6,554	$ 148,715	$ 141,095
Lease Payments	$ 2,480	215	107	38	2,120
Other obligations	$ 12,661	1,516	773	515	9,857
Total obligations	$ 313,861	$ 4,087	$ 7,434	$ 149,268	$ 153,072

Foreign Currency Risk

The Company Power Generation & Development business unit conducts a significant amount of business in the U.S. generating $19,888 or approximately 42% of its revenue in U.S. funds from integrated foreign operations. This business unit also incurred $13,441 or approximately 53% of operating expenses in U.S. funds from integrated foreign operations. Algonquin's Utility Services business unit is considered self sustaining and has been excluded from this analysis. Accordingly, the Company was exposed to foreign exchange risk of approximately $6,447 during the quarter ended March 31, 2008. On an unhedged basis, each 1% change in the value of the U.S. dollar against the Canadian dollar would have a $64 impact on earnings from operations.

The Company uses a combination of foreign exchange forward contracts and spot purchases to manage its foreign exchange exposure on cash flows generated from these operations. Algonquin only enters into foreign exchange forward contracts with major Canadian financial institutions, thus reducing credit risk on these forward contracts. As at March 31, 2008, Algonquin had approximately $95.6 million in outstanding foreign exchange forward contracts.

The Company has performed sensitivity analysis on its US dollar denominated financial instruments which consist principally of cash and cash equivalents of U.S. $4,098 and net working capital of $594 at March 31, 2008, to determine how a change in the US dollar exchange rate would impact net earnings. As at March 31, 2008, the Company determined that a 1% change in the Canadian dollar against the US dollar, assuming that all other variables, including interest rates, had remained the same, would have resulted in a $47 change in the Company's net earnings for the quarter ended March 31, 2008.

Interest Rate Risk

The Company is exposed to interest rate fluctuations related to certain of its debt obligations, including certain project specific debt and its revolving credit facility as well with interest earned on its cash on hand. The Company has performed sensitivity analysis on interest rate risk at March 31, 2008 to determine how a change in interest rates would impact equity and net earnings:

- Algonquin's senior debt facility has a balance of $140,000 as at March 31, 2008. Assuming the current level of borrowings, a 1% change in the variable rate charged would impact interest expense by $350 during the quarter.
- Algonquin's project debt at the St. Leon facility has a balance of $73,300 as at March 31, 2008. Assuming the current level of borrowings, a 1% change in the variable rate charged would have impacted interest expense by $183 during the quarter. Although this underlying debt with the project lenders carries a variable rate of interest tied to Canadian Bank's prime rate, the Company has entered into a fixed for floating interest rate swap related to this debt until September 2015. This swap arrangement requires the payment of a fixed rate of interest by the Company in exchange for receipt of a variable rate of interest that mirrors the underlying debt's interest payment schedule. These payments form part of the gain or loss on financial instruments on the Statement of Earnings which effectively minimizes volatility in the interest expense on this debt facility through an offset for any change to interest expense as a result of market rate fluctuations.
- Algonquin's project debt at the Sanger facility has a balance of U.S. $19,200 as at March 31, 2008. Assuming the current level of borrowings, a 1% change in the variable rate charged

would impact interest expense by $48 during the quarter. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

10. Capital disclosures

Algonquin views its capital structure in terms of its debt levels, both at a project and an overall company level, in conjunction with its equity balances.

Algonquin's objectives when managing capital are:

- To maintain appropriate debt and equity levels consistent with standard industry practices and to limit financial constraints on the use of capital
- To have proper credit facilities available for ongoing investment in growth and maintenance capital as well as investment in development opportunities
- To ensure stable generation of cash available for distribution to Unitholders
- To maintain cash reserves on hand to ensure distributions made to Unitholders

Algonquin monitors its cash position on a regular basis to ensure funds are available to meet current normal as well as capital and other expenditures.

11. Subsequent events

On April 2, 2008, Algonquin acquired the remaining 50% interest in the Campbellford hydro electric facility for $7.1 million.

On April 24, 2008 Algonquin's Unitholders adopted a unitholders' rights plan (the "Rights Plan"). The Rights Plan has an initial term of three years. Under the Rights Plan, one right is issued with each issued unit of Algonquin. The rights remain attached to the units and are not exercisable or separable unless one or more certain specified events occur. If a person or group acting in concert acquires 20 percent or more of the outstanding units (subject to certain exceptions) of Algonquin, the rights will entitle the holders thereof (other than the acquiring person or group) to purchase units at a 50 percent discount from the then current market price. The rights provided under the Rights Plan are not triggered by any person making a "Permitted Bid", as defined in the Rights Plan.

12. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Corporate Information and Contacts

Trustees

The Management Group

Algonquin Power Management Inc.

Chris K. Jarratt, Chief Executive Officer and Director

Ian E. Robertson, Director

David C. Kerr, Director

Algonquin Power Income Fund

David Bronicheski, Chief Financial Officer

Head Office

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

Registrar and Transfer Agent

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

Stock Exchange

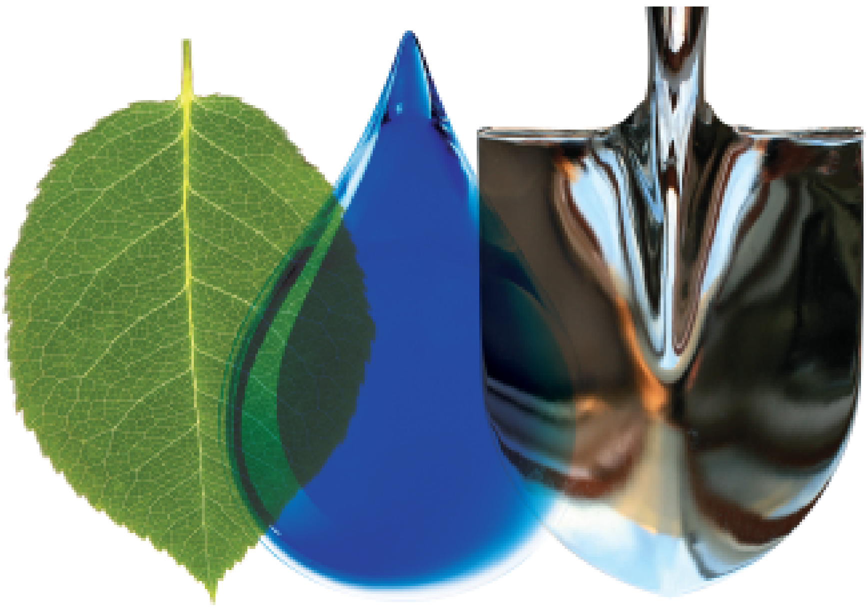
The Toronto Stock Exchange: APF.UN, APF.DB, APF.DB.A

Auditors

KPMG LLP
Toronto, Ontario

Legal Counsel

Blake, Cassels & Graydon LLP
Toronto, Ontario



www.algonquinpower.com

ALGONQUIN POWER

Printed on recycled paper.