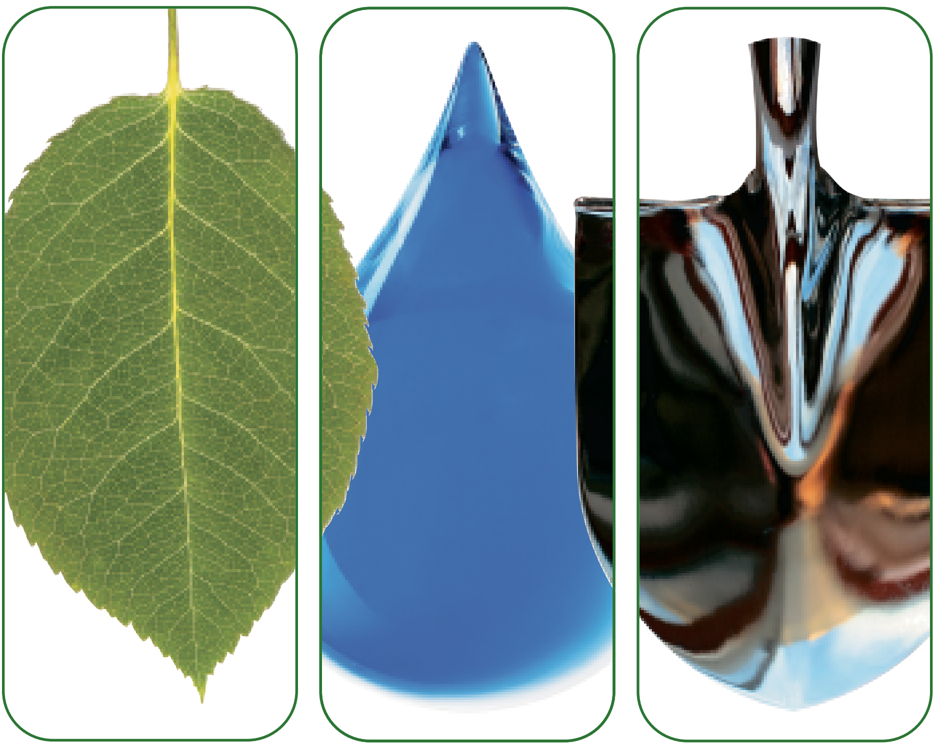
Second Quarter Report

June 30, 2008



ALGONQUIN POWER

Report to Unitholders

Business Review

As reported in the last letter to unitholders, in January 2008 Algonquin Power 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 consists of a Water and Wastewater division. The re-alignment was completed in order to more effectively position Algonquin Power to compete in the clean, renewable energy and utility services business sectors. To date, the Company has successfully moved into the new internal structure and is focused on effectively managing operations and building on past success in order to maximize unitholder value.

Subsequent to the end of the quarter, on August 1, 2008, Algonquin issued 3.5 million trust units as part of its acquisition of certain assets of Highground Capital Corp ("Highground"). Consideration for the units is cash in an amount between $22.2 and $23.7 million, dependent on the final proceeds of realization of certain Highground investments, together with the return of notes with an aggregate face value of approximately $4.8 million issued by Algonquin affiliates related to its St. Leon and Brampton Cogeneration projects. Cash received on the issuance of units will be used to reduce amounts outstanding on Algonquin's revolving operating and acquisition credit facilities.

The transaction represented a cost effective opportunity for Algonquin Power to access the capital markets on an attractive basis, without payment of the typical offering costs or discounts. Although a modest sized transaction, this equity issuance will enhance Algonquin Power's flexibility to further the growth opportunities currently being pursued.

During the first quarter of 2008, Algonquin Power announced that its Trustees had adopted a Unitholder Rights Plan (the "Rights Plan"). 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. During the second quarter, on April 24, 2008, at Algonquin Power's Annual and Special Meeting, the Rights Plan was approved by unitholders and subsequently received regulatory approval. The Rights Plan was not adopted in response to any specific proposal to acquire control of the Company.

Financial Summary for the second quarter of 2008:

- Revenue of $54.2 million in Q2 2008 as compared to $47.8 million in Q2 2007.
- Net earnings from continuing operations of $8.0 million or $0.11 per trust unit in Q2 2008 as compared to net loss of $2.6 million or $0.04 per trust unit in Q2 2007.
- Cash available for distribution of $15.9 million or $0.21 per trust unit in Q2 2008 as compared to $18.9 million or $0.25 per trust unit in Q2 2007. Distributions for the second quarter of both 2008 and 2007 were $0.23 per trust unit.

Financial Summary for the first six months of 2008:

- Revenue of $102.2 million for the first six months of 2008 as compared to $95.4 million in the first six months of 2007.

- Net earnings from continuing operations of $6.5 million or $0.09 per trust unit for the first six months of 2008 as compared to $4.3 million or $0.06 per trust unit for the first six months of 2007.
- Cash available for distribution of $31.8 million ($0.42 per trust unit) in the first six months of 2008 as compared to $34.0 million ($0.45 per trust unit) for the same period in 2007. Distributions for both the first half of 2008 and 2007 were $0.46 per trust unit.

Power Generation & Development Highlights

Renewable Energy Division

During the second quarter of 2008, the Renewable Energy division produced sufficient energy to supply the equivalent of 62,700 homes with renewable power. Using new standards of thermal generation, renewable energy production saved the equivalent of 155,000 tons of CO2 gas from entering the atmosphere in the second quarter of 2008.

During the second quarter of 2008, revenue from energy sales in the Renewable Energy division totalled $19.7 million as compared to $12.6 million during the same period in 2007. During the quarter, the division generated electricity equal to 97% of long term projected average resources (wind and hydrology) as compared to 93% during the same period in 2007. The division experienced an increase in revenue primarily as a result of higher energy production due to above long term average resources in all regions except New York, Ontario and Manitoba where resources were below long term averages.

For the second quarter of 2008, operating profit totalled $14.5 million as compared to $14.4 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 averages in the third 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 Energy Division

During the second quarter of 2008, operations at the Thermal Energy division's Energy-from-Waste facility resulted in the diversion of 26,500 tonnes of waste from landfill sites.

Revenue for the second quarter of 2008 totalled $25.9 million as compared to $21.1 million during the same period in 2007. The increase in revenue was primarily due to a 5,500 MW-hr increase in production at the Sanger cogeneration facility as a result of the recent successful re-powering project. In addition, throughput at the Energy-from-Waste facility increased by 14,600 tonnes over the same period in 2007, resulting in increased waste disposal sales.

For the second quarter of 2008, operating profit totalled $7.6 million, as compared to $6.4 million during the same period in 2007. Overall, the Thermal Energy division did not meet the Company's expectations due to increased operating expenses related to the division's landfill gas facilities.

With no upcoming planned major outages, the Windsor Locks and Sanger facilities are expected to continue to operate through 2008 in line with Algonquin's long term expectations. The Energy-from-Waste facility is expected to continue operating at current levels throughout the remainder of the year. Overall management anticipates the Thermal division to meet expectations for the remainder of the year.

Development Division

The Development division is actively identifying and developing new opportunities in the renewable and thermal divisions in addition to pursuing growth projects within Algonquin's existing portfolio. Currently the group is pursuing a number of wind, hydroelectric and thermal energy projects at varying stages of development.

During the quarter, the Development division completed and commissioned the steam supply project at the Energy-from-Waste facility and transferred the project to the Thermal Energy division. The project now successfully provides approximately 90,000 pounds of steam per hour to a nearby recycled paper board mill for use in its manufacturing process, and is expected to generate $1.5 million in cash from operations annually.

At Algonquin's existing facilities, the Development division is reviewing proposals at the Energy-from-Waste 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. A feasibility study is currently being completed to assess expected capital and operating costs of an expanded facility. The Development division is also reviewing its options to market the increased capacity at the Sanger Facility that resulted from the re-powering project. This would increase the capacity at the facility by 14 MW.

The likelihood of Algonquin proceeding with these projects is unknown at this time as the projects are in the early stages of development.

Utility Services Highlights

Water Distribution and Wastewater Treatment

During the second quarter of 2008, operations at the Utility Services provided approximately 1.5 billion U.S. gallons of water to its customers, treated approximately 450 million U.S. gallons of waste-water and sold approximately 150 million U.S. gallons of treated effluent.

Revenue for the second quarter of 2008 in Utility Services totalled $8.7 million, consistent with the same period in 2007. Overall the water and waste-water treatment customer base grew marginally compared to last year at this time. The flat revenue is attributed to an increase in revenue due to a rate increase at the Gold Canyon facility and organic growth, offset by a reduction in revenue as a result of the stronger Canadian dollar.

For the second quarter of 2008, operating profit totalled $4.9 million as compared to $5.4 million during the same period in 2007. Overall, Utility Services did not meet the Company's expectations due to higher operating costs and slower growth which reduced demand for utility services.

Utility Services is expecting a continued lowered organic growth rate with approximately 4% average organic growth forecasted for 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. In addition, Utility Services is preparing to initiate rate cases at five of its Arizona facilities during the remainder of 2008. It is anticipated that regulatory review of the rates and tariffs for these five facilities would be completed in the second half of 2009. The resolution of rate cases is expected to positively impact results in Utility Services.

Outlook

Algonquin Power is expected to meet Management's expectations during the third quarter of 2008, assuming continuing operational improvements, organic growth, and resource conditions at or above long term averages during the quarter. Algonquin Power will continue to focus on improving performance and efficiently managing operations throughout the remainder of 2008, while focusing on growing its portfolio of renewable, thermal, and utility assets, both organically and through acquisition of new facilities.

Algonquin Power continues to be a reliable yet exciting opportunity for investors seeking stable returns from a socially accountable and environmentally responsible company operating in the clean, renewable energy and sustainable infrastructure businesses.

Thank you for your continued interest in Algonquin Power. You are encouraged to obtain further detail about the performance of the Company in the second quarter 2008 Management's Discussion & Analysis that follows.

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 and six months ended June 30, 2008. This discussion and analysis should be read in conjunction with Algonquin's unaudited consolidated financial statements for the three and six months ended June 30, 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 July 31, 2008.

Caution concerning forward looking statements and non-GAAP Measures

Certain statements contained in the information herein are forward-looking. These statements reflect the views, with respect to future events, of Algonquin and Algonquin Power Management Inc., the entity which provides management services to Algonquin including advice and consultation concerning business planning, support, guidance and policy making and general management services ("APMI"). 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, except as required by law.

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 Algonquin 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 develops and operates a diversified portfolio of electrical energy generation facilities. Within this business unit there are three distinct divisions: Renewable Energy, Thermal Energy and Development. The Renewable Energy division operates the Company's hydro-electric and wind power facilities. The Thermal Energy division operates co-generation, energy from waste, steam production and other thermal facilities. The Development division develops Algonquin's greenfield power generation projects, pursues accretive acquisitions of electrical energy generation facilities as well as development of organic growth opportunities within Algonquin's existing portfolio of renewable energy and thermal energy facilities.

The Utility Services business unit provides safe, reliable transportation and delivery of water and treatment of 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.

Key Financial Information

	Three Months ended June 30		Six Months ended June 30	
	2008	**2007**	**2008**	**2007**
Revenue [1]	**$ 54,232**	$ 47,815	**$ 102,208**	$ 95,411
Net earnings (Loss) from Continuing Operations	**8,017**	(2,628)	**6,463**	4,275
Net earnings (Loss)	**8,017**	(2,295)	**6,463**	3,902
Total Assets	**952,226**	1,048,994	**952,226**	1,048,994
Long Term Debt	**304,312**	243,957	**304,312**	243,957
Distribution to Unitholders [2]	**17,481**	17,485	**34,962**	34,971
Cash available for distribution [3]	**15,900**	18,863	**31,825**	33,954
Cash provided by Operating Activities	**16,695**	17,129	**31,407**	27,123
Per trust unit				
Net earnings (Loss) from continuing operations	**0.11**	(0.04)	**0.09**	0.06
Net earnings (Loss)	**0.11**	(0.03)	**0.09**	0.05
Diluted net earnings (loss)	**0.11**	(0.06)	**0.08**	0.03
Distribution to Unitholders	**0.23**	0.23	**0.46**	0.46
Cash available for distribution [3]	**0.21**	0.25	**0.42**	0.45
Cash provided by Operating Activities [4]	**0.23**	0.23	**0.43**	0.37

[1] Prior period comparative amounts have been adjusted due to the classification of certain landfill-gas and New England hydroelectric facilities sold during the 2007 fiscal 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 three and six months ended June 30, 2008 is primarily due to increased cash from operations and increased cash from working capital balances.

For the quarter ended June 30, 2008, Algonquin reported total revenue of $54.2 million as compared to $47.8 million during the same period in 2007. The increase in revenue from energy sales as compared to the second quarter of 2007 was primarily the result of an increase of $1.9 million due to a combination of higher energy production and increased weighted average energy rates generated in the Renewable Energy division, $0.7 million in Utility Services due to rate increases combined with organic growth at existing facilities, and $4.6 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. Algonquin reported lower revenue of $2.2 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 six months ended June 30, 2008, Algonquin reported total revenue of $102.2 million as compared to $95.4 million during the same period in 2007. The increase in revenue from energy sales was primarily the result of an increase of $4.2 million due to a combination of higher energy production and increased weighted average energy rates generated in the Renewable Energy division, $1.6 million in Utility Services due to rate increases combined with organic growth at existing facilities, and a net amount of $5.5 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. Algonquin reported lower revenue of $6.0 million from its operations in the 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 three and six months ended June 30, 2008, the Company experienced an average U.S. exchange rate of approximately $1.01 as compared to $1.10 and $1.13 respectively, in the same periods 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 June 30, 2008, earnings from continuing operations totalled $8.0 million as compared to a net loss of $2.6 million during the same period in 2007. The increase in net earnings as compared to the second quarter of 2007 was primarily the result of $1.4 million in increased earnings from operating facilities and due to a reduced future income tax expense. In 2007 a future income tax expense of $27.9 million was booked in order to recognize the effect of future taxes being imposed by the federal government beginning in 2011 on certain publicly traded income trusts including Algonquin enacted through Bill C-52 on June 22, 2007 (see Risk Management – Changes to income tax laws). These items were partially offset by $5.3 million due to lower gains on derivative financial instruments resulting from changes in foreign exchange rates, $1.0 million due to lower gains on derivative financial instruments resulting from changes in interest rates, $3.7 million due to reduced foreign exchange gains, $0.4 million due to increased amortization expense due to the translation of the Utility Services assets at current exchange rates and $2.4 million resulting from reduced minority interest recovery at the St. Leon facility booked in the quarter. The comparative period includes a termination fee of $1.75 million earned in connection with Algonquin's offer to purchase the outstanding units of Clean Power Income Fund ("CPIF"), which was not earned in the current period. Additional interest expense resulting from increased average borrowings was offset by lower interest rates on Algonquin's variable interest rate debt.

For the six months ended June 30, 2008, earnings from continuing operations totalled $6.5 million as compared to earnings of $4.3 million during the same period in 2007. The increase in net earnings as compared to the first half of 2007 was primarily the result of a reduced future income tax expense, discussed in the second quarter results, above. This expense reduction was partially offset by $9.0 million due to lower gains on financial instruments resulting from changes in foreign exchange rates, $3.4 million due to lower gains on financial instruments resulting from changes in interest rates, $0.5 million due to increased administrative expenses, $0.9 million due to lower earnings on portfolio investments, $5.0 million due to reduced foreign exchange gains, $0.7 million resulting from reduced minority interest recovery at the St. Leon facility and a net increase of $0.8 million as a result of additional interest expense due to increased average borrowings, partially offset by lower rates on Algonquin's variable interest rate debt booked in the period. The comparative period also includes a termination fee discussed in the second quarter results, above, which was not earned in the current period. These items were partially offset by $2.7 million in increased earnings from operating facilities.

Net earnings from continuing operations per trust unit totalled $0.11 for the three months ended June 30, 2008 as compared to a net loss of $0.04 during the same period in 2007. Net earnings from continuing operations per trust unit totalled $0.09 for the six months ended June 30, 2008 as compared to net earnings of $0.06 during the same period in 2007.

Algonquin generated $0.21 per trust unit of cash available for distribution for the quarter ended June 30, 2008, as compared to $0.25 per trust unit during the same period in 2007. Algonquin generated $0.42 per trust unit of cash available for distribution for the six months ended June 30, 2008, as compared to $0.45 per trust unit during the same period in 2007.

During the quarter ended June 30, 2008 cash provided by operating activities totalled $16.7 million or $0.23 per trust unit as compared to cash provided by operating activities of $17.1 million or $0.23 per trust unit during the same period in 2007. The change in cash provided by operating activities after changes in working capital in the quarter ended June 30, 2008 is primarily due to greater cash generated from working capital partially offset by decreased cash generated by operations as compared to the same period in 2007.

During the six months ended June 30, 2008 cash provided by operating activities totalled $31.4 million or $0.43 per trust unit as compared to cash provided by operating activities of $27.1 million or $0.37 per trust unit during the same period in 2007. The change in cash provided by operating activities after changes in working capital in the six months ended June 30, 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 three and six months ended June 30, 2008, the Company maintained distributions at $0.23 and $0.46 per trust unit, respectively, consistent with distributions in the same periods in 2007.

Outlook

Power Generation & Development is expected to enjoy at or above long term average resource conditions in the third 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. Algonquin's power development team will continue to actively pursue new opportunities for power generation projects in both Canada and the United States. Utility Services is expecting continued organic growth but at a lower rate of growth due to the slowdown in the U.S. housing market. Utility Services is preparing to initiate rate cases at a number of its utilities including its largest utilities specifically Litchfield Park ("LPSCo"), Rio Rico, Black Mountain, Northern Sunrise and Southern Sunrise during the remainder of 2008 with test years falling during the 2008 fiscal year. The regulatory review of the rates and tariffs for these facilities are expected to conclude 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. The business unit will also continue to pursue accretive water and waste-water utility acquisition opportunities as well as acquisitions in other regulated utilities such as natural gas distribution and electricity distribution.

On August 1, 2008, Algonquin issued 3.5 million trust units as part of its acquisition of certain assets of Highground Capital Corp ("Highground"). Consideration for the units is cash (in an amount between $22.2 and $23.7 million, dependent on the final proceeds of realization of certain Highground investments) together with the return of notes with an aggregate face value of approximately $4.8 million issued by APIF affiliates related to its St. Leon and Brampton Cogeneration projects. Cash received on the issuance of units will be used to reduce amounts outstanding on Algonquin's revolving operating and acquisition credit facilities.

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

	Three Months ended June 30		Six Months ended June 30	
	2008	**2007**	**2008**	**2007**
Performance (MW-hrs sold) *	**433,740**	421,908	**866,346**	821,624
Performance (tonnes of waste processed)	**38,738**	24,144	**77,065**	62,002
Revenue				
Energy sales *	**$ 40,713**	$ 30,276	**$ 76,623**	$ 60,134
Waste disposal sales	**3,897**	2,428	**7,612**	5,960
Other revenue	**909**	6,415	**1,756**	12,793
Total revenue	**$ 45,519**	$ 39,119	**$ 85,991**	$ 78,887

	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Expenses				
Operating expenses *	**$ (25,226)**	$ (20,949)	**$ (46,341)**	$ (42,961)
Interest and other income	**1,369**	1,530	**2,721**	3,528
Realized gain on derivative financial instruments	**434**	1,070	**1,674**	1,867
Business unit operating profit (including interest and dividend income)	**$ 22,096**	$ 20,770	**$ 44,045**	$ 41,321

*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 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 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.

In the second quarter of 2008, the Power Generation and Development business unit produced 433,740 MW of electricity compared to 421,908 MW in the comparable period of the previous year, an increase of 2.8%. In the second quarter of 2008 operations at the Thermal Energy division's EFW facility processed 38,738 tonnes of municipal solid waste compared to 24,144 tonnes in the same period of 2007 an increase of 60%. For the quarter ended June 30, 2008, revenue in Power Generation & Development totalled $45.5 million as compared to $39.1 million during the same period in 2007.

For the quarter ended June 30, 2008, revenue from energy sales in Power Generation & Development totalled $40.7 million as compared to $30.3 million during the same period in 2007. The increase in revenue from energy sales as compared to the second quarter of 2007 was primarily the result of an increase of $5.0 million due to the St. Leon facility achieving Commercial Operation effective September 18, 2007, higher renewable energy production and weighted average renewable energy rates in the U.S. and Canadian regions, and increased production at the Sanger facility. In the comparable period, revenue from the St. Leon facility consisted of liquidated damages and was recorded as Other Revenue. Power Generation & Development reported lower revenue of $1.5 million from U.S. operations as a result of the stronger Canadian dollar.

For the six months ended June 30, 2008, the Power Generation and Development business unit produced 866,346 MW of electricity compared to 821,624 MW in the comparable period of the previous year, an increase of 5.4%. For the first two quarters, EFW processed 77,065 tonnes of waste compared with 62,002 tonnes of waste in the previous year, an increase of 24%. For the six months ended June 30, 2008, revenue in Power Generation & Development totalled $86.0 million as compared to $78.9 million during the same period in 2007.

For the six months ended June 30, 2008, revenue from energy sales in Power Generation & Development totalled $76.6 million as compared to $60.1 million during the same period in 2007. The increase in revenue from energy sales as compared to the first half of 2007 was primarily the result of an increase of $10.4 million due to the St. Leon facility achieving Commercial Operation effective September 18, 2007, higher renewable energy production and weighted average renewable energy rates in the U.S. and Canadian regions, and increased production at the Sanger facility. In the comparable period, revenue from the St. Leon facility consisted of liquidated damages and was recorded as Other Revenue. Power Generation & Development reported lower revenue of $4.1 million from U.S. operations as a result of the stronger Canadian dollar.

Other revenue in 2007 primarily consisted of liquidated damages earned by the St. Leon facility. As a result of the St. Leon facility achieving Commercial Operation in September 2007, no liquidated damages were earned in the 2008.

For the quarter ended June 30, 2008, operating expenses totalled $25.2 million as compared to $20.9 million for the same period in 2007. Operating expenses were impacted by increased natural gas prices at the Sanger and Windsor Locks facilities and increased operating costs at the EFW and Valley Power facilities. Power Generation & Development reported lower expenses of $1.1 million from U.S. operations as a result of a stronger Canadian dollar.

For the six months ended June 30, 2008, operating expenses totalled $46.3 million as compared to $43.0 million the same period in 2007. Operating expenses were impacted by increased natural gas prices at the Sanger and Windsor Locks facilities and increased operating costs at the EFW and Valley Power facilities. Power Generation & Development reported lower expenses of $3.4 million from U.S. operations as a result of a stronger Canadian dollar.

The realized portion of gain on financial instruments consists of any realized gains on the foreign exchange forward contracts and interest rate swaps settled in the quarter.

For the quarter ended June 30, 2008, operating profit totalled $22.1 million as compared to $20.8 million during the same period of 2007 representing an increase of 6%. For the six months ended June 30, 2008, operating profit totalled $44.0 million as compared to $41.3 million during the same period of 2007 representing an increase of 7%. For the three and six months ended June 30, 2008, operating profit met Algonquin's expectations.

Outlook

Power Generation & Development is expected to enjoy at or above long term average resource conditions in the third 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, Sanger and EFW facilities have no planned major outages in the third quarter of 2008.

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. The potential impact of these assessments is discussed in further detail within this MD&A (see POWER GENERATION & DEVELOPMENT: Renewable Energy Division)

POWER GENERATION & DEVELOPMENT:

Renewable Energy Division

	Three Months ended June 30 2008	Three Months ended June 30 2007	Six Months ended June 30 2008	Six Months ended June 30 2007
Performance (MW-hrs sold)				
Quebec Region	**89,707**	82,966	**157,103**	145,104
Ontario Region	**40,877**	39,761	**79,149**	74,578
Manitoba Region	**87,133**	87,120	**192,640**	189,265
New England Region *	**20,101**	20,075	**48,589**	38,335
New York Region	**23,669**	22,640	**52,972**	48,221
Western Region	**20,502**	25,392	**30,552**	35,277
Total	**281,989**	277,954	**561,005**	530,780
Revenue				
Energy sales *	**$ 19,667**	$ 12,645	**$ 39,496**	$ 25,386
Other revenue	-	5,400	-	10,742
Total revenue	**$ 19,667**	$ 18,045	**$ 39,496**	$ 36,128
Expenses				
Operating expenses *	**$ (5,621)**	$ (4,286)	**$ (10,551)**	$ (8,646)
Other income	**434**	456	**777**	792
Realized Gain (Loss) on derivative financial instruments	**(28)**	174	**344**	262
Division operating profit (including other income)	**$ 14,452**	$ 14,389	**$ 30,066**	$ 28,536

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

In the quarter ended June 30, 2008 the Renewable Energy division produced 281,989 MW of electricity compared to 277,954 MW in the same period in 2007, an increase of 1.5%. This level of production in the second quarter of 2008 represents sufficient renewable energy to supply the equivalent of 62,700 homes with renewable power compared to the equivalent of 62,300 homes with renewable power in the first six months of 2008. Using new standards of thermal generation, as a result of renewable energy production, the equivalent of 155,000 tons of CO_2 gas was prevented from entering the atmosphere in the second quarter of 2008 and the equivalent of 308,000 tons of CO_2 gas in the first two quarters of 2008.

For the quarter ended June 30, 2008, revenue from energy sales in the Renewable Energy division totalled $19.7 million as compared to $12.6 million during the same period in 2007. During the second quarter of 2008, the division generated electricity equal to 97% of long term projected average resources (wind and hydrology) as compared to 93% during the same period in 2007. All regions experienced above long term average resources in the second quarter of 2008 with the exception of the New York, Manitoba and Ontario regions which experienced results below long term projected resources. This compares to the same period in 2007 when only the New England and Western regions experienced above long term average resources.

The increase in revenue from energy sales as compared to the second quarter of 2007 was primarily the result of an increase of $5.0 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 were also increases of $0.8 million resulting from higher energy production and weighted average energy rates in the U.S. regions and $1.1 million resulting from higher energy production and weighted average energy rates in the Quebec, Ontario and Western regions. In the comparable period, revenue from the St. Leon facility consisted of liquidated damages and was recorded as Other Revenue. The division reported lower revenue of $0.2 million from U.S. operations as a result of the stronger Canadian dollar.

For the six months ended June 30, 2008, revenue from energy sales in the Renewable Energy division totalled $39.5 million as compared to $25.4 million during the same period in 2007. During the six months ended June 30, 2008, the division generated electricity equal to 104% of long term projected average resources (wind and hydrology) as compared to 97% during the same period in 2007. The Quebec, New England and Western regions experienced above long term average resources in the first two quarters of 2008 with the Manitoba and Ontario regions experiencing results slightly below long term projected resources. This compares to the same period in 2007 when only the Quebec and Western regions experienced above long term average resources.

The increase in revenue from energy sales as compared to the first six months of 2007 was primarily the result of an increase of $10.4 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 were also increases of $2.6 million resulting from higher energy production and weighted average energy rates in the U.S. regions and $1.7 million resulting from higher energy production and higher weighted average energy rates in the Quebec, Ontario and Western regions. In the comparable period, revenue from the St. Leon facility consisted of liquidated damages and was recorded as Other Revenue. The division reported lower revenue of $0.6 million from U.S. operations as a result of the stronger Canadian dollar.

Other Revenue in 2007 consisted of liquidated damages earned by the St. Leon facility. As a result of the St. Leon facility achieving Commercial Operation in September 2007, no liquidated damages were earned in 2008.

For the quarter ended June 30, 2008, operating expenses totalled $5.6 million as compared to $4.3 million during the same period in 2007. Operating expenses were impacted by increased insurance, operating and variable costs tied to production totalling $0.5 million, costs of $0.6 million associated with the pursuit of various growth opportunities and an increase of $0.2 million in repairs and maintenance projects initiated in the period as compared to the same period in 2007. These increases were partially offset by a decrease in reported expenses of $0.1 million from U.S. operations as a result of a stronger Canadian dollar.

For the six months ended June 30, 2008, operating expenses totalled $10.6 million as compared to $8.6 million during the same period in 2007. Operating expenses were impacted by increased insurance, operating and variable costs tied to production totalling $1.1 million, costs of $0.8 million associated with the pursuit of various growth opportunities, and increased operating costs of $0.2 million at the St. Leon facility due to the achievement of commercial operation as compared to the same period in 2007, partially offset by a decrease in reported expenses of $0.3 million from U.S. operations as a result of a stronger Canadian dollar.

The realized portion of gain on financial instruments consists of any realized gains on the foreign exchange forward contracts and interest rate swaps settled in the quarter.

For the quarter ended June 30, 2008, operating profit totalled $14.5 million as compared to $14.4 million during the same period of 2007, representing an increase of 1%. For the six months ended June 30, 2008, operating profit totalled $30.1 million as compared to $28.5 million during the same period of 2007, representing an increase of 6%. For the three months ended June 30, 2008, operating profit met Algonquin's expectations and for the six months ended June 30, 2008, operating profit exceeded the Company'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 third 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), Algonquin is required to undertake technical assessments of eleven of the twelve hydroelectric facility dams owned or leased within the Province of Quebec. Algonquin has incurred approximately $0.6 million to date and anticipates incurring a further $0.4 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 five completed and six partially completed assessments underway, Algonquin has initially identified capital expenditures estimated at approximately $8.2 million. The majority of these capital costs are associated with the Donnacona, St. Alban and Mount-Laurier facilities. Algonquin is exploring several alternatives to mitigate the capital 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 completed or will be under construction in the third quarter and include such items as automated trash rack cleaning machines and an inflatable dam.

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

	Three Months ended June 30		Six Months ended June 30	
	2008	**2007**	**2008**	**2007**
Performance (MW-hrs sold) *	**151,751**	143,908	**305,341**	290,844
Performance (tonnes of waste processed)	**38,738**	24,144	**77,065**	62,002
Revenue				
Energy sales *	**$ 21,046**	$ 17,631	**$ 37,127**	$ 34,748
Waste disposal sales	**3,897**	2,428	**7,612**	5,960
Other revenue	**909**	1,015	**1,756**	2,051
Total revenue	**$ 25,852**	$ 21,074	**$ 46,495**	$ 42,759

	Three Months ended June 30 2008	2007	Six Months ended June 30 2008	2007
Expenses				
Operating expenses *	**$ (19,605)**	$ (16,663)	**$ (35,790)**	$ (34,315)
Interest and other income	**935**	1,074	**1,944**	2,736
Realized gain on derivative financial instruments	**462**	896	**1,330**	1,605
Division operating profit (including interest and dividend income)	**$ 7,644**	$ 6,381	**$ 13,979**	$ 12,785

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

In the second quarter of 2008 the Thermal Energy division's EFW facility processed 38,738 tonnes of municipal solid waste compared to 24,144 tonnes in the same period of 2007 an increase of 60%. For the first two quarters, EFW processed 77,065 tonnes of waste compared with 62,002 tonnes of waste in the previous year, an increase of 24%. This level of production resulted in the diversion of approximately 26,500 tonnes of waste from landfill sites in the second quarter of 2008 and 53,500 tonnes of waste from landfill sites in the first two quarters of 2008.

For the quarter ended June 30, 2008, revenue in the Thermal Energy division totalled $25.9 million as compared to $21.1 million during the same period in 2007. During the quarter ended June 30, 2008, the business unit's performance increased 5,500 MW-hrs at the Sanger Facility as a result of the re-powering project as compared to the same period in 2007. The EFW facility increased throughput by over 14,600 tonnes as compared to the same period in 2007. Throughput at the EFW facility in the prior period was negatively impacted by a 14 day planned major outage and unplanned repairs to the evaporative cooling towers.

For the quarter ended June 30, 2008, energy sales revenue at the Thermal Energy division totalled $21.0 million as compared to $17.6 million during the same period in 2007. The increase in revenue from energy sales as compared to the second quarter of 2007 was primarily due to increases of $1.4 million as a result of increased production and energy rates at the Sanger facility, $2.2 million as a result of increased production and energy rates at the Windsor Locks facility, $0.7 million as a result of the Brampton Co-generation LP ("BCI") project becoming operational in the period and $0.3 million as a result of greater production at the LFG facilities. The Sanger and Windsor Locks facilities experienced higher energy rates as changes in the rate charged for natural gas used at the facilities are passed on to the customer in the energy price. The division reported lower revenue of $1.3 million from operations as a result of the stronger Canadian dollar.

For the six months ended June 30, 2008, revenue in the Thermal Energy division totalled $46.5 million as compared to $42.8 million during the same period in 2007. During the quarter ended June 30, 2008, the business unit's performance increased 12,500 MW-hrs at the Sanger Facility as a result of the re-powering and 5,500 MW-hrs due to increased production at the LFG facilities, partially offset by lower demand of 3,500 MW-hrs at the Windsor Locks facility as compared to the same period in 2007. The EFW facility increased throughput by over 15,000 tonnes as compared to the same period in 2007 for the reasons discussed above.

For the six months ended June 30, 2008, energy sales revenue at the Thermal Energy division totalled $37.1 million as compared to $34.7 million during the same period in 2007. The increase in revenue from energy sales as compared to the comparable period of 2007 was primarily due to increases of $2.3 million as a result of increased production and energy rates at the Sanger facility, $0.7 million as a result of the BCI project, $0.6 million as a result of greater production at the LFG facilities and $2.3 million resulting from increased energy rates at the Windsor Locks facility. The Sanger and Windsor Locks facilities experienced higher energy rates as changes in the rate charged for natural gas used at the facilities are passed on to the customer in the energy price. This was partially offset by $0.4 million as a result of decreased production at the Windsor Locks facility. The division reported lower revenue of $3.5 million from operations as a result of the stronger Canadian dollar.

Revenue from waste disposal sales for the quarter ended June 30, 2008 totalled $3.9 million as compared to $2.4 million during the same period in 2007. The increase was due to increased throughput and improved pricing for ferrous material recovered at the EFW facility as compared to the same period in 2007.

Revenue from waste disposal sales for the six months ended June 30, 2008 totalled $7.6 million as compared to $6.0 million during the same period in 2007. The increase was due to increased throughput and improved pricing for ferrous material recovered at the EFW facility as compared to the same period in 2007.

For the quarter ended June 30, 2008, operating expenses totalled $19.6 million as compared to $16.7 million during the same period in 2007. The increase in operating expenses for the quarter was primarily due to increases in natural gas expense at the Windsor Locks and Sanger facilities. Natural gas expense at the Sanger facility increased by $0.6 million, or 26%, primarily as a result of a 41% increase in the price for natural gas partially offset by improved efficiencies as a result of the re-powering project completed in the fourth quarter of 2007. Natural gas expense at the Windsor Locks facility increased by $1.7 million, or 26%, as a result of a 23% increase in the price for natural gas as compared to the same period in 2007. The results also include $0.6 million in increased operating costs at the LFG facilities related to final adjustments with regard to the investment in the landfill gas tax credit program, $0.6 million as a result of the operating costs of the BCI project and $0.3 million at the EFW facility primarily resulting from increased operating costs, supplies and natural gas expense as compared to the same period in 2007. These expenses were partially offset by a $0.2 million reduction in repair and maintenance expenses at the EFW facility. The division reported lower operating expenses of $1.0 million from U.S. operations as a result of a stronger Canadian dollar.

For the six months ended June 30, 2008, operating expenses totalled $35.8 million as compared to $34.3 million during the same period in 2007. The increase in operating expenses for the quarter was primarily due to increases in natural gas expense at the Windsor Locks and Sanger facilities. Natural gas expense at the Sanger facility increased by $0.8 million, or 18%, primarily as a result of a 26% increase in the price for natural gas partially offset by improved efficiencies as a result of the new LM6000 turbine commissioned in the fourth quarter of 2007. Natural gas expense at the Windsor Locks facility increased by $1.3 million, or 9%, as a result of an 11% increase in the price for natural gas as compared to the same period in 2007. The results also include $0.6 million as a result of the operating costs of the BCI project, $0.6 million at the EFW facility primarily resulting from increased operating costs, supplies and natural gas expense, and $0.5 million at the Valley Power facility primarily resulting from increased operating and repair and maintenance expenses in the quarter as compared to the same period in 2007. The division reported lower operating expenses of $3.1 million from U.S. operations as a result of a stronger Canadian dollar.

During the quarter ended June 30, 2008, Algonquin earned lower interest and other income related to its landfill gas investments as compared to the same period in 2007. During the six months ended June 30, 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 $0.1 million from its investments in two co-generation facilities as compared to the same period in 2007. In addition, the comparable period included $0.7 million related to the landfill gas investments and the production tax credit program which did not extend past December 31, 2007.

The realized portion of gain on financial instruments consists of any realized gains on the foreign exchange forward contracts and interest rate swaps settled in the quarter.

For the quarter ended June 30, 2008, operating profit totalled $7.6 million, as compared to $6.4 million during the same period in 2007 representing an increase of 19%. For the six months ended June 30, 2008, operating profit totalled $14.0 million, as compared to $12.8 million during the same period in 2007 representing an increase of 9%. Although the Thermal Energy division has shown improved performance during the first half of 2008 compared to the same period in 2007, operating profit in the Thermal Energy division did not meet the Company's expectations for the three and six months ended June 30, 2008 due to increased operating expenses related to the division's LFG assets.

Divisional Outlook

Throughput at the EFW facility exceeded Algonquin's expectations in the first six months of 2008. Operational stability has improved in the last six months and is expected to continue through the remainder of 2008. 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.

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 third quarter of 2008.

POWER GENERATION & DEVELOPMENT:

Development Division

The Development division focuses on the development of renewable 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 stages 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 the Thermal Energy division or sold to third party operators.

Current Development Projects

Brampton Co-generation LP

The EFW facility in the Thermal Energy division of the Power Generation & Development business unit is designed to incinerate over 500 tonnes per day of municipal solid waste from the Region of Peel to produce approximately 100,000 pounds per hour of steam that is then used in the production of electricity. A nearby recycled paper board manufacturing mill requires approximately 90,000 pounds per hour of steam in its manufacturing activities. Algonquin established BCI to operate the required facilities to supply steam to this customer that is produced through normal operations at the EFW facility.

As at the quarter ended June 30, 2008, the project's total net investment was approximately $16.2 million. The commissioning of the project was completed in the quarter ended June 30, 2008 and transferred to the Thermal Energy division of the Power Generation & Development business unit. 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. APMI also earned a construction supervision fee of $0.1 million in relation to the development of this project.

Future Development Projects – Greenfield Projects

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

As a result of the re-powering of the Sanger facility, 14MW of additional production can now be produced in excess of what is currently being sold under the existing power purchase agreement under which the facility operates. The Development division is currently reviewing the options to market this increased capacity at the Sanger Facility.

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

	Three Months ended June 30 2008		Three Months ended June 30 2007		Six Months ended June 30 2008		Six Months ended June 30 2007
Number of							
Waste-water customers		**32,912**		30,854		**32,912**	30,854
Waste-water treated (millions of gallons)		**450**		475		**950**	950
Water distribution customers		**36,283**		35,103		**36,283**	35,103
Water sold (millions of gallons)		**1,500**		1,500		**2,500**	2,500
Revenue							
Waste-water and distribution	**$**	**8,713**	$	8,696	**$**	**16,217**	$ 16,524
Expenses							
Operating expenses	**$**	**(5,160)**	$	(4,438)	**$**	**(9,538)**	$ (8,824)
Other income		-		-		47	33
Realized gain on derivative financial instruments		**1,302**		1,180		**2,228**	1,159
Business Unit operating profit (including other income)	**$**	**4,855**	$	5,438	**$**	**8,954**	$ 8,892

Utility Services had 32,912 waste-water customers as at June 30, 2008 compared to 30,854 as at June 30, 2007, an increase of 2,058 year over year or 6.7%. The Business Unit's water distribution customers were 36,283 as at June 30, 2008 compared to 35,103 as at June 30, 2007 representing a year over year increase of 1,080 customers or 3.4 %. Utility Services' waste-water treatment customer base declined marginally while the water distribution customer base experienced marginal growth during the quarter ended June 30, 2008. The decline in waste-water treatment customers primarily relates to a customer count adjustment in a multiple customer connection account and the marginal growth in the water distribution customers was largely due to the slow down in U.S. new residential home sales.

During the quarter ended June 30, 2008, Utility Services provided approximately 1.5 billion U.S. gallons of water to its customers, treated approximately 450 million U.S. gallons of waste-water and sold approximately 150 million U.S. gallons of treated effluent. During the six months ended June 30, 2008, Utility Services provided approximately 2.5 billion U.S. gallons of water to its customers, treated approximately 950 million U.S. gallons of waste-water and sold approximately 210 million U.S. gallons of treated effluent.

For the quarter ended June 30, 2008, revenue in Utility Services totalled $8.7 million, consistent with the same period in 2007. The second quarter revenue was impacted by increased revenue of $0.5 million at the Gold Canyon facility due to the July 2007 rate increase combined with $0.2 million resulting from organic growth and increased water usage from several facilities during the quarter as compared to the same period in 2007. The Business Unit experienced a $0.7 million reduction in reported revenue from operations as a result of the stronger Canadian dollar.

For the six months ended June 30, 2008, revenue in Utility Services totalled $16.2 million as compared to $16.5 million during the same period in 2007. Utility Services' waste-water treatment and water distribution customer base experienced marginal growth during the six months ended June 30, 2008. The decrease in revenue as compared to the first half of 2007 was primarily the result of a $1.9 million reduction in reported revenue from operations as a result of the stronger Canadian dollar. This was partially offset by increased revenue of $1.0 million at the Gold Canyon facility due to the July 2007 rate increase combined with $0.6 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 June 30, 2008, operating expenses totalled $5.2 million, as compared to $4.4 million during the same period in 2007. Operating expenses were impacted by an increase of $1.1 million as a result of additional personnel, property taxes, and other operational expenses incurred and costs of $0.1 million associated with the pursuit of various growth opportunities, as compared to the same period in 2007. The business unit reported lower expenses from operations of $0.4 million as a result of a stronger Canadian dollar, which offset the increases.

For the six months ended June 30, 2008, operating expenses totalled $9.5 million, as compared to $8.8 million during the same period in 2007. Operating expenses were impacted by an increase of $1.7 million as a 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 $1.0 million as a result of a stronger Canadian dollar, which offset the increases.

The realized portion of gain on financial instruments consists of any realized gains on the foreign exchange forward contracts and interest rate swaps settled in the quarter.

For the quarter ended June 30, 2008, operating profit totalled $4.9 million as compared to $5.4 million during the same period in 2007 representing a decrease of 9%. For the six months ended June 30, 2008, operating profit totalled $9.0 million as compared to $8.9 million during the same period in 2007 representing an increase of 1%. Operating profit did not meet the Company's expectations for the three and six months ended June 30, 2008 due to slower organic growth when compared to prior periods, higher operating costs experienced by the business unit and the stronger Canadian dollar.

Outlook

Utility Services is expecting a continued lowered organic growth rate with approximately 4% average organic growth forecasted for 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 LPSCo, Rio Rico, Black Mountain, Northern Sunrise and Southern Sunrise facilities during the remainder of 2008 with test years falling during the 2008 fiscal year. All of these facilities are located in Arizona. Utility Services is also preparing to initiate a rate case at its Bella Vista facility in early 2009. 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. The resolution of rate cases is expected to positively impact results in Utility Services. 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. Algonquin monitors 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 last quarter of 2008 at certain of LPSCo's well sites. 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. All of these investments will be included in the rate case applications previously noted.

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

	Three Months ended June 30		Six Months ended June 30	
	2008	**2007**	**2008**	**2007**
Corporate and other expenses:				
Administrative expenses	**2,125**	2,008	**4,171**	3,686
Management costs	**223**	216	**445**	433
Loss / (Gain) on foreign exchange	**47**	(3,654)	**398**	(4,584)
Interest expense	**6,673**	6,663	**13,803**	13,046
Interest, dividend and other Income	**(22)**	(1,784)	**(52)**	(1,849)
Loss / (Gain) on derivative financial instruments	**(1,978)**	(7,798)	**5,306**	(7,935)
Income tax expense	**680**	24,770	**1,871**	23,158

OVERVIEW

Corporate and other expenses

During the quarter ended June 30, 2008, administrative expenses totalled $2.1 million as compared to $2.0 million in the same period in 2007. During the six months ended June 30, 2008, administrative expenses totalled $4.2 million as compared to $3.7 million in the same period in 2007. The increase for the period was due to added requirements to administer Algonquin, including additional staff, higher legal and regulatory costs and inflationary increases.

Foreign exchange gains and losses primarily represent unrealized gains or losses on U.S. dollar denominated debt and do not impact current cash available for distribution. For purposes of evaluating divisional performance, the Company does not allocate the unrealized foreign exchange gains or losses to specific divisions as the change does not impact current cash available for distribution. For the quarter ended June 30, 2008 Algonquin reported a nominal foreign exchange loss as compared to a gain of $3.7 million during the same period in 2007. For the six months ended June 30, 2008 Algonquin reported a foreign exchange loss of $0.4 million as compared to a gain of $4.6 million during the same period in 2007. The rapid decline of nearly 8% in the U.S. dollar experienced in the second quarter of 2007 and nearly 9% in the first half of 2007 resulted in unrealized gains on Algonquin's U.S. denominated debt whereas in 2008 the decline in the value of the U.S. dollar relative to the Canadian dollar was less than 1% in the second quarter of 2008 and approximately 3% in the first half of 2008 resulting in small unrealized losses. At the end of the second quarter, Algonquin had approximately $32.6 million in U.S. dollar denominated debt.

For the quarter ended June 30, 2008, interest expense of $6.7 million remained consistent with the same period in 2007. For the six months ended June 30, 2008, interest expense totalled $13.8 million as compared to $13.0 million in the same period in 2007. Increased interest expense related to Algonquin's credit facility as a result of increased average levels of debt held by Algonquin during the period were partially offset by lower interest rates and fees charged on the credit facility.

Gain or loss on derivative financial instruments consists of unrealized gains on the foreign exchange forward contracts and interest rate swaps during in the quarter. For purposes of evaluating divisional performance, the Company allocates the realized portion of the gain on financial instruments to specific divisions. The unrealized portion of any gains or losses on derivative instruments does not impact current cash available for distribution and are not considered in management's evaluation of divisional performance and is therefore allocated and reported in the Corporate segment.

An income tax expense of $0.7 million was booked in the second quarter of 2008, as compared to $24.8 million during the same period in 2007. An income tax expense of $1.9 million was booked in the first six months of 2008, as compared to $23.2 million during the same period in 2007. The larger tax expense in the comparative period was primarily due to the enactment of new Canadian tax regulations which were not reflected in the comparable period in 2007 (see Risk Management – Changes to income tax laws).

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 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 believes that presentation of this measure will enhance an investor's understanding of the Company's operating performance.

	Three Months ended June 30 2008	2007	Six Months ended June 30 2008	2007
Cash provided by (used in)				
Continuing Operations [1]	**$ 16,695**	$ 17,129	**$ 31,407**	$ 27,123
Changes in working capital	**1,231**	2,352	**3,680**	8,630
	17,926	19,481	**35,087**	35,753
Receipt of principal on notes receivable	**79**	252	**154**	631
Repayment of long term liabilities	**(872)**	(398)	**(1,048)**	(619)
Maintenance capital expenditures [2]	**(865)**	(918)	**(1,735)**	(1,852)
Other – non-recurring [3]	**(368)**	446	**(633)**	41
Cash available for distribution	**$ 15,900**	$ 18,863	**$ 31,825**	$ 33,954
Add Back:				
Maintenance expenditures	**865**	918	**1,735**	1,852
Deduct:				
Net growth, maintenance and other expenditures	**(14,594)**	(9,398)	**(27,823)**	(14,717)
Cash available for distribution after growth and maintenance capital expenditures	**$ 2,171**	$ 10,383	**$ 5,737**	$ 21,089
Distribution to Unitholders	**$ 17,481**	$ 17,485	**$ 34,962**	$ 34,971
Per Trust Unit				
Cash provided by (used in) Continuing Operations	**$ 0.23**	$ 0.23	**$ 0.43**	$ 0.37
Cash available for distribution	**$ 0.21**	$ 0.25	**$ 0.42**	$ 0.45
Cash available for distribution after net growth and maintenance expenditures	**$ 0.03**	$ 0.14	**$ 0.08**	$ 0.28
Distributions to Unitholders	**$ 0.23**	$ 0.23	**$ 0.46**	$ 0.46
Distributions declared during the period	**$ 0.23**	$ 0.23	**$ 0.46**	$ 0.46

[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 expenditures includes plant and equipment 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.

Cash available for distribution in the quarter ending June 30, 2008 was $15.9 million compared to $18.9 million in the same period in 2007. The decrease in cash available for distribution is mostly due to non-recurring cash flow items that occurred in 2007. The one time cash flow items realized in the second quarter of 2007 included a termination fee of $1.75 million earned in the comparative period in connection with Algonquin's offer to purchase the outstanding units of CPIF and gains on sale of certain fixed assets in the previous year of $1.0 million. In addition, cash available for distribution was reduced by $0.4 million in 2008 due to the commencement of principal repayments on the St. Leon debt facility. These amounts were partially offset by an increase in cash available for distribution as the LFG facilities were sold in the fourth quarter of 2007. These facilities generated negative cash flows of $0.3 million in the second quarter of 2007.

Cash available for distribution in the six months ended June 30, 2008 was $31.8 million compared to $34.0 million in the same period in 2007. The decrease in cash available for distribution is due to non-recurring cash flow items that occurred in 2007 discussed in the second quarter results, above. In addition, cash available for distribution was reduced by $0.4 million in 2008 due to the commencement of principal repayment of the St. Leon debt facility. These amounts were partially offset by an increase in cash available for distribution as the LFG facilities were sold in the fourth quarter of 2007. These facilities generated negative cash flows of $0.6 million in the second quarter of 2007.

During the quarter ended June 30, 2008, Algonquin generated $15.9 million or $0.21 per trust unit in cash available for distribution as compared to $18.9 million or $0.25 per trust unit for the same period in 2007. Algonquin distributed $17.5 million or $0.23 per trust unit during the quarter ended June 30, 2008, consistent with the same period in 2007.

During the six months ended June 30, 2008, Algonquin generated $31.8 million or $0.42 per trust unit in cash available for distribution as compared to $34.0 million or $0.45 per trust unit for the same period in 2007. Algonquin distributed $35.0 million or $0.46 per trust unit during the six months ended June 30, 2008, consistent with the same period in 2007.

Algonquin's distribution as a percentage of 'Cash available for distribution' ("Payout Ratio") was 109.9% during the quarter ended June 30, 2008 (2007 – 103.0%). Algonquin's Payout Ratio was 109.9% during the six months ended June 30, 2008 (2007 – 92.7%). Algonquin has achieved 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.

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 three and six months ended June 30, 2008 and for the years ended December 31, 2007 and 2006.

	Three months ended June 30 2008	Six months ended June 30 2008	Year ended December 31 2007	Year ended December 31 2006
Cash flow from operating activities	**$ 16,695**	**$ 31,407**	$ 40,427	$ 69,332
Distributions paid during the period	**17,481**	**34,962**	69,923	66,955
Excess (shortfall) of cash flows from operating activities over cash distributions paid	**$ (786)**	**$ (3,555)**	$ (29,496)	$ 2,377
Net income from continuing operations	**$ 8,017**	**$ 6,463**	$ 24,763	$ 30,728
Distributions paid during the period	**17,481**	**34,962**	69,923	66,955
Excess (shortfall) of net income over cash distributions paid	**$ (9,464)**	**$ (28,499)**	$ (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's 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 Algonquin's hedging instruments and interest rate swaps.

Summary of Property, Plant and Equipment Expenditures by Business Unit

	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
POWER GENERATION & DEVELOPMENT				
Renewable Energy Division				
Maintenance expenditures	**$ 305**	$ (18)	**$ 396**	$ (12)
Growth and other expenditures	**7,149**	-	**7,558**	-
Total	**$ 7,454**	$ (18)	**$ 7,954**	$ (12)
Thermal Energy Division				
Maintenance expenditures	**$ 730**	$ 897	**$ 1,645**	$ 1,783
Growth and other expenditures	**311**	4,023	**3,038**	5,313
Total	**$ 1,041**	$ 4,920	**$ 4,683**	$ 7,096
UTILITY SERVICES BUSINESS UNIT				
Maintenance expenditures	**$ -**	$ -	**$ -**	$ -
Growth and other expenditures	**6,074**	4,426	**15,110**	7,509
Total	**$ 6,074**	$ 4,426	**$ 15,110**	$ 7,509
Consolidated (includes Corporate)				
Maintenance expenditures	**$ 1,060**	$ 949	**$ 2,117**	$ 1,895
Growth and other expenditures	**13,534**	8,449	**25,706**	12,822
Total	**$ 14,594**	$ 9,398	**$ 27,823**	$ 14,717

During the quarter ended June 30, 2008, Algonquin incurred growth and other property, plant and equipment expenditures of $13.5 million, as compared to $8.4 million during the comparable period in 2007. During the six months ended June 30, 2008, Algonquin incurred growth and other property, plant and equipment expenditures of $25.7 million, as compared to $12.8 million during the comparable period in 2007.

During the three and six months ended June 30, 2008, the Renewable Energy division's expenditures primarily relate to the Cambellford acquisition, a 4,000 kilowatt hydroelectric generating facility located on the Trent-Severn Waterway approximately four kilometres north of Campbellford, Ontario.

During the three and six months ended June 30, 2008, as well as the comparative period, the Thermal Energy division's expenditures primarily relate to the completion of the Sanger re-powering project and to investment in the BCI project. The Sanger project was completed in the fourth quarter of 2007 while the BCI project was completed in the second quarter of 2008.

During the three and six months ended June 30, 2008, as well as the comparative period, Utility Services' growth and other property, plant and equipment expenditures primarily relate to investment in additional wells, engineering work regarding the waste-water treatment capacity and arsenic treatment at the LPSCo facility. The Business Unit is currently planning to initiate rate cases at a number of its facilities and the capital projects completed by Utility Services since the last rate cases will be included in the application. Rate cases are designed to allow a particular facility to appropriately recover its operating costs and earn the rate of return on its capital investment as allowed by the regulatory authority under which the facility operates.

Property, plant and equipment expenditure for the remainder of the 2008 fiscal year are anticipated to be approximately $21.5 million, including $1.0 million related to the EFW facility, $2.0 million related to renewable hydroelectric projects, and $17.0 million related to ongoing growth and regulatory requirements in Utility Services.

Algonquin intends to finance its property, plant and equipment expenditures and other commitments through working capital, its revolving credit facility and through additional trust unit and/or debenture offerings.

Liquidity and Capital Reserves

At June 30, 2008, Algonquin had $6.1 million of cash. At June 30, 2008, Algonquin had net working capital of $5.9 million. For purposes of this calculation, working capital excludes cash, current portion of notes receivable, current portion of derivative assets, current portion of long term liabilities and cash distributions payable.

Long term liabilities consist primarily of Algonquin's combined senior secured revolving operating and acquisition credit facilities (the "Facilities") and specific project level debt.

On January 16, 2008 Algonquin renewed its combined $175,000 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. There were no other significant changes to key terms in the agreement including covenants and interest rates. The renewed Facilities also contain an accordion feature allowing the Facilities to increase to $225 million to accommodate future growth and acquisitions.

As at June 30, 2008, Algonquin had exercised $17.75 million of the accordion feature and has available a combined $192.75 million senior secured operating and acquisition credit facilities of which $150 million was drawn compared to $126 million as at December 31, 2007 and $140 million as at March 31, 2008. The additional borrowings were used to fund capital expenditures in the utilities segment and for the acquisition of the 50% interest in the Campbellford Partnership. In addition to amounts actually drawn, Algonquin also had $31.2 million in outstanding letters of credit leaving $11.6 million available to be drawn as at the end of the quarter.

Subsequent to the end of the second quarter on August 1, 2008, Algonquin issued 3.5 million trust units as part of its acquisition of certain assets of Highground. In connection with this transaction, Algonquin will receive cash (in an amount between $22.2 and $23.7 million, dependent on the final proceeds of realization of certain Highground investments) together with the return of notes with an aggregate face value of approximately $4.8 million issued by Algonquin affiliates related to its St. Leon and Brampton Cogeneration projects. (See additional information in the Unitholders' Equity and Convertible Debentures section below) With this transaction, Algonquin has sufficient liquidity to finance the property plant and equipment expenditures expected in the remainder of 2008.

As at June 30, 2008 Algonquin had $154.5 million of project level debt compared to $155.7 million as at December 31, 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.

For the quarter ended June 30, 2008 Algonquin maintained a long term debt-to-equity ratio (including long term liabilities, other long term liabilities, and convertible debentures) of 134%. 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 June 30, 2008 this ratio would be reduced to 67%.

Contractual Obligations`

Information concerning contractual obligations 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	$ 307,546	$ 3,030	$ 156,689	$ 72,546	$ 75,281
Interest on Long term debt obligations	$ 165,651	22,241	43,649	31,756	68,005
Accounts Payable	$ 29,157	29,157	-	-	-
Accounts Receivable	$ (31,500)	(31,500)	-	-	-
Derivative financial instruments:					
Currency Forward	$ (6,205)	(3,002)	(3,349)	146	-
Derivative financial instruments:					
Interest Rate Swap	$ 1,412	407	1,021	(16)	
Lease Payments	$ 2,448	129	509	413	1,397
Other obligations	$ 11,159	260	515	515	9,869
Total obligations	$ 479,668	$ 20,722	$ 199,034	$ 105,360	$ 154,552

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.

Unitholders' Equity and Convertible Debentures

As at June 30, 2008, Algonquin had 73,785,591 issued and outstanding trust units with a total of 76,070,164 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"). Algonquin issued 53,159 trust units during the three months ended June 30, 2008 and 141,235 trust units during the six months ended June 30, 2008 pursuant to the conversion of Exchangeable Units. As at June 30, 2008 there were 2,284,466 trust units of Algonquin remaining to be issued pursuant to the conversion of Exchangeable Units. Subsequent to June 30, 2008 approximately 9,400 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 June 30, 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 June 30, 2008 no convertible debentures had been presented for conversion.

On August 1, 2008, Algonquin issued 3,507,143 trust units in exchange for cash and securities of approximately $26.97 million pursuant to an agreement entered into on June 27, 2008 between Algonquin, Highground and CJIG Management Inc. ("CJIG"), which is the manager of Highground and a related party of Algonquin controlled by the shareholders of APMI. Under the agreement CJIG would acquire all of the issued and outstanding common shares of Highground and Algonquin would issue 3,507,143 trust units of which 3,065,183 trust units would be received by Highground shareholders as part of the Agreement with the remaining trust units being retained by CJIG.

As consideration for the issuance of the Algonquin trust units, Algonquin will receive cash and securities equal to the lesser of (a) $26.97 million plus 50% of the amount, if any, of the value of the assets formerly owned by Highground after payment of the transaction costs which is in excess of $26.97 million and (b) the value of all of the assets formerly owned by Highground after payment of the transaction costs, with the value of any non-cash securities received by Algonquin being determined through negotiation between the trustees of Algonquin and CJIG.

Algonquin's consideration for the trust units will consist of cash and securities with a value dependent on the final proceeds realized from liquidation of certain Highground investments. Immediately following the transaction, CJIG began liquidation of the investments. Algonquin ultimately expects to receive cash in an amount between $22.17 million and $23.67 million, plus the return of existing notes payable to Highground issued by APIF affiliates related to its St. Leon and Brampton Cogeneration projects with an aggregate face value of approximately $4.8 million which are currently included in the Highground portfolio of investments.

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 potential 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 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 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 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 Plan to prevent take-over bids but to ensure their proper evaluation by the market. Under the 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 June 30, 2008:

Algonquin is managed by Algonquin Power Management Inc. 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 ("Airlink") 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.

For the six months ended June 30, 2008 and 2007, APMI was paid on a cost recovery basis for all costs incurred and charged $445 (2007 - $433).

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 first six months of 2008, the development supervision fee paid to APMI was $15 (2007 - $67).

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 six months ending June 30, 2008 were $148 (2007 - $148).

Algonquin utilizes chartered aircraft, including the use of an aircraft owned by Airlink, an affiliate of APMI. During the six months ending June 30, 2008, Algonquin incurred costs in connection with the use of the aircraft of $123 (2007 - $195) and amortization expense related to the advance against expense reimbursements of $64 (2007 - $78).

Algonquin has project debt from Highground (previously Algonquin Power Venture Fund) in the amount of $3.0 million related to the St. Leon facility. Highground 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, Highground was paid $150 (2007 - $150) 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 Highground.

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 six months ending June 30, 2008 for construction services. For the six months ended June 30, 2008, Algonquin also paid $nil (2007 - $736) to GWAP on a cost recovery basis related to ongoing operating expenses of the project.

Pursuant to the St. Leon Limited Partnership Agreement, in 2006, St. Leon Wind Energy LP ("St. Leon LP"), a subsidiary of Airsource and the legal owner of the St. Leon facility, was required to issue 100 Class B units to GWAP. The holders of the Class B Units are entitled to 2.5% of the income allocations and cash distributions from St. Leon LP for a 5 year period commencing after June 17, 2008, two years after the date the facility achieved commercial operations pursuant to its power purchase agreement. Such interest shall be increased by 2.5% for each successive 5 year period, to a maximum of 10.0%. In any particular period, cash distributions to the holders of the Class B Units are only to be made after distributions have been made to the other partners, in an aggregate amount, equal to the debt service on the outstanding debt in respect of such period. The holders of the Class B units are entitled to cash distributions of $17 during the six months ended June 30, 2008.

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 as a reduction in Trust Units on the consolidated balance sheet.

Discontinued Operations

	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Performance (MW-hrs sold)	-	31,687	-	60,662
Revenue				
Energy sales	-	2,176	-	4,046
Expenses				
Operating	-	2,488	-	4,656
Operating Loss	-	(312)	-	(610)
Interest expense	-	(21)	-	(32)
Gain on sale of property, plant, equipment and intangible assets	-	1,065	-	1,065
Amortization of property, plant, equipment and intangible assets	-	(399)	-	(796)
Net income (loss) from discontinued operations (including interest and other income)	-	333	-	(373)

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 June 30, 2008, revenue from Discontinued Operations was nil as compared to $2.2 million during the same period in 2007. For the six months ended June 30, 2008, revenue from Discontinued Operations was nil as compared to $4.0 million during the same period in 2007.

For the quarter ended June 30, 2008, operating expenses were nil as compared to $2.5 million during the same period in 2007. For the six months ended June 30, 2008, operating expenses were nil as compared to $4.7 million during the same period in 2007.

For the quarter ended June 30, 2008, the operating loss was nil as compared to a $0.3 million loss in the comparable period in 2007. For the six months ended June 30, 2008, the operating loss was nil as compared to a $0.6 million loss 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, and 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's 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.

Asset Retirement Obligations

Algonquin completes periodic reviews of potential asset retirement obligations that may require recognition. As part of this process, Algonquin considers the contractual requirements outlined in its operating permits, leases and other agreements, the probability of the agreements being extended, the likelihood of being required to incur such costs in the event there is an option to require decommissioning in the agreements, the ability to quantify such expense, the timing of incurring the potential expenses as well as business and other factors which may be considered in evaluating if such obligations exist and estimating the fair value of such obligations. Based on its assessments, Algonquin does not have any significant retirement obligation liabilities and has not recorded any liability on its financial statements.

Generally, Algonquin's hydroelectric facilities are subject to some form of a water use agreement. The terms of these agreements vary by facility as they are agreements made with the local government body that regulates electrical energy generators and can extend over many years. Certain of the agreements contain clauses which allow the regulating body the option to require Algonquin to decommission the facility upon the expiry or termination of the agreements. Other facilities have no specific obligations other than to maintain the facility in good working order. Algonquin has options in many of its existing water use agreements to renew or extend the agreements and anticipates being in a position to extend the majority of its agreements and continue to operate its facilities. Based on historical general practice within the regions in which Algonquin has facilities, Algonquin has assessed the probability of being required to decommission a facility upon the expiry of a water use agreement to be remote. As such, the potential fair value of any obligations to decommission hydroelectric facilities has been assessed as insignificant as any actual costs to decommission would be incurred well into the future and Algonquin has assessed there to be a remote likelihood of being required to perform.

The Renewable Energy Division's St. Leon facility does not own the property on which its turbines are located. In 2004, St. Leon entered into long term right of way agreements with land owners which allowed it to construct and maintain the wind turbines used by the facility on their property. These agreements are for minimum terms of 40 years and, upon expiry or termination, provide the land owners with title to the equipment if it is not decommissioned by the Company at its option. While Algonquin anticipates being in a position to renew or extend the existing PPA in 2025, in the event that Algonquin is unable to renew or extend the agreement, or identify another purchaser of the energy, the Company may choose to decommission the facility. Algonquin has assessed there to be a remote likelihood of incurring any cost to decommission the wind farm.

The Thermal Energy Division's EFW facility owns the property on which its facility operates. EFW's current waste incineration agreement expires in 2012 with two five year options to extend. While Algonquin anticipates being in a position to renew or extend the existing contract in 2012, in the event that Algonquin is unable to renew or extend the agreement, the Company may choose to close the facility but has no legal obligations to remove the assets. Under the terms of the contract, the responsibility for removal of the bulk of any hazardous material generated in the operation of the facility remains with EFW's primary customer. As such, the potential expense to bring the facility in line with current environmental standards in the event it is eventually closed has been assessed as insignificant based on the quantification of costs to remediate the facility, expectation that the existing contract can be extended or renewed and that the potential timing of such an event, although unlikely would be well in the future.

The Utility Services business unit's facilities operate under agreements with a state or municipal regulator to provide the sole water distribution and/or waste-water treatment services in its area of operations, as set out in the agreements. In general, these facilities are operated with the assumption that its services will be required in perpetuity and there are no contractual decommissioning requirements. In order to remain in compliance with the applicable regulatory bodies, Utility Services has regular maintenance programs at each facility to ensure its equipment is properly maintained and replaced on a cyclical basis. These maintenance expenses, expenses associated with replacing aging waste-water treatment facilities and expenses associated with providing new sources of water can generally be included in the facility's rate base and thus the facility is allowed to earn a return on its investment.

Environmental Risks

Algonquin faces a number of environmental risks that are normal aspects of operating within the renewable power generation, thermal power generation and utilities business segments which have the potential to become environmental liabilities. Many of these risks are mitigated through the maintenance of adequate insurance which include property, boiler and machinery, environmental and excess liability policies. Algonquin has assessed the likelihood of these risks becoming a contingent environmental liability as remote, therefore Algonquin has not recorded any contingent liabilities on its financial statements.

To manage these risks responsibly, Algonquin has an Environmental and Compliance department at its head office which is responsible for monitoring all of Algonquin's operations, ensuring all operating facilities are in compliance with environmental regulations and preparing regulatory submissions as required. The department comprises 6.0 full time equivalent positions based out of head office and has an annual budget of approximately $1.0 million, which includes wages, travel and other costs. Facility specific permitting and compliance expenses are direct operating expenses of each facility and are excluded from these expenses.

Algonquin's procedures in place to prevent and minimize any impact of possible oil spills and soil contamination meet generally accepted industry practices. Algonquin's field personnel perform inspections of oil and chemical storage areas on a minimum of a quarterly basis. The Company has 24 hour, 365 day emergency response and spill procedures in place in the event there is an oil or chemical spill.

The Renewable Energy Division faces a number of environmental risks that are normal aspects of operating within its business segment. The primary environmental risks associated with the operation of a hydroelectric facility include possible dam failure which results in upstream or downstream flooding; equipment failure which result in oil or other lubricants being spilled into the waterway. In addition, the operation of a hydroelectric facility may cause the water in the associated waterway to flow faster, or slower, which could result in water flow issues which impact fish population, water quality and potential increases in soil erosion around a dam facility. In order to monitor and mitigate these risks, Algonquin completes facility inspections at minimum on an annual basis and ensures its facilities are in compliance with the appropriate regulatory requirements for the specific facility. Federal regulators in the U.S. inspect certain hydroelectric facilities on an annual basis and complete an environmental inspection every 3-5 years.

The primary environmental risks associated with the operation of a wind farm include potential harm to the local and migratory bird population, harm to the local bat population as well as concerns over noise levels and visual 'harm' to the scenic environment around the wind farm. As part of the Federal and Provincial approval of the St. Leon wind project, certain pre-construction and post construction monitoring studies are required. No significant issues were identified as a result of these studies. In order to monitor and mitigate these risks, Algonquin completes facility inspections at minimum on an annual basis and ensures its facilities are in compliance with the appropriate regulatory requirements for the specific facility.

The Thermal Energy Division faces a number of environmental risks that are normal aspects of operating within its business segment. The primary environmental risks associated with the operation of a cogeneration facility include potential air quality and emissions issues, soil contamination resulting from oil spills and issues around the storage and handling of chemicals used in normal operations. In order to monitor and mitigate these risks, and to remain within the regulatory requirements appropriate for the specific facility, Algonquin maintains continuous emissions monitoring systems, performs regular stack testing and tests the calibration of monitoring. The primary environmental risks associated with the operation of an incineration facility include potential air quality, odour and emissions issues, soil contamination resulting from oil or other chemical spills and issues around the storage and handling of municipal solid waste. In order to monitor and mitigate these risks, and to remain within the regulatory requirements appropriate for the specific facility, Algonquin maintains continuous emissions monitoring systems, performs annual stack testing and completes an annual technical evaluation of ash composition.

The Utility Services business unit faces a number of environmental risks that are normal aspects of operating within its business segment. The primary environmental risks associated with the operation of a waste-water treatment facility include potential air quality and odour management issues, waste-water spills and surface and ground water contamination. In order to monitor and mitigate these risks, and to remain within the regulatory requirements appropriate for the specific facility, Algonquin maintains an ongoing sampling and testing program as required in its operational jurisdiction. It also has a preventative maintenance program to reduce the risk of leaks and other mechanical failures within the waste-water collection system and at the wastewater treatment plants that it operates.

The primary environmental risks associated with the operation of a water distribution facility include risk of contamination of groundwater by an outside contaminant including arsenic, pesticides, bacterial and inorganic pollutants, consumption and availability of groundwater and ensuring water quality continues to meet and exceed Environmental Protection Agency and state standards. In order to monitor and mitigate these risks, and to remain within the regulatory requirements appropriate for the specific facility, Algonquin maintains a regular sampling and testing program as required in its operational jurisdiction. It also has a preventative maintenance program to reduce the risk of leaks and other mechanical failures within the water distribution systems that it operates.

Specific Environmental Risks

Renewable Energy Division:

As a result of certain legislation passed in Quebec (Bill C93), Algonquin is undertaking technical assessments of its hydroelectric facility dams owned or leased within the Province of Quebec. This is discussed in greater detail within the three and six month analysis of results in the Renewable Energy Division.

The province of Ontario is in the process of enacting new legislation similar to Bill C93 in Quebec. Algonquin operates four hydroelectric facilities in Ontario. While it is too early to assess the costs of compliance, it is possible that modifications to certain dam structures may be required in order to be compliant with the new regulations when they come into effect. Any capital costs associated with the anticipated modifications are expected to be significantly lower than the expected capital costs related to the Quebec facilities, as there are fewer facilities in Ontario and they are of newer construction.

Utility Services:

Algonquin owns and operates the LPSCo facility, a water distribution and waste-water treatment utility servicing Litchfield Park, and parts of Goodyear and Avondale, Arizona, where groundwater pollutants originally caused by a former aerospace manufacturing plant in the nearby city of Goodyear are progressing toward a portion of the area serviced by the utility and toward two wells that it owns. The United States EPA began monitoring these groundwater pollutants in 1981 and has been tracking the gradual underground movement since. In addition to EPA monitoring, LPSCo itself closely monitors its wells for these groundwater pollutants through the sampling and testing of water from wells that are potentially at risk of contamination. To date there have not been any detectable levels of the pollutants in the water from wells used by the utility. Should the two most immediately at risk wells utilized by LPSCo become contaminated, LPSCo would not be liable to restore the well but would remove these wells from the water distribution system of the utility. In this event, there would remain sufficient water flows and reservoir capacity within the balance of the water distribution system to adequately service the needs of all of the customers of the utility. In addition LPSCo has identified alternate sites where replacement wells can be established to replace this lost capacity. The cost of establishing a new well is approximately $1.5 million and forms part of the rate base for the utility. Algonquin does not believe it is exposed to a material liability and has not recorded a contingent environmental liability on its financial statements.

Algonquin's policy is to record estimates of environmental liabilities when they are known or considered probable and the related liability is estimable. There are no known material environmental liabilities as at June 30, 2008

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 increase in the strength of the U.S. dollar relative to the Canadian dollar would result in increased reported revenue from U.S. operations of approximately $1.1 million and increased reported expenses from U.S. operations of approximately $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. Algonquin's policy is not to utilize derivative financial instruments for trading or speculative purposes.

At June 30, 2008, the Company had effectively hedged 94% of its remaining expected 2008 U.S. dollar cash flow at $1.19 and 79% of its expected 2009 U.S. dollar cash flow at $1.14. During the quarter ending June 30, 2008 Algonquin realized a $1.9 million gain on forward contracts settled during the period. During the six months ending June 30, 2008 Algonquin realized a $4.0 million gain on forward contracts settled during the period. Algonquin has total forward contracts to sell U.S. dollars from fiscal 2008 to fiscal 2012 totalling U.S. $109.1 million carrying an average rate of $1.07.

Based on the fair value of the forward contract using the exchange rates as at June 30, 2008, the exercise of these forward contracts will generate $3.0 million in distributable cash during the remainder of 2008, $3.2 million in fiscal 2009 and result in the use of $0.1 million in distributable cash for the remainder of the hedged period beyond 2009. Assuming an increase in the strength of the US dollar relative to the Canadian dollar of $0.01 at June 30, 2008 with a corresponding increase in the forward yield curve, the fair value of the outstanding forward exchange contracts would decrease by $1.1 million, reducing the expected distributable cash generated during the remainder of 2008 by $0.2 million, $0.3 million in fiscal 2009 and $0.6 million for the remainder of the hedged period beyond 2009.

Market Price risk

The majority of Algonquin's facilities are subject to long term power purchase agreements ("PPA"). 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, the credit risk related to Utility Services accounts receivable balances of US $3.2 million is spread over approximately 69,000 customers, resulting in an average outstanding balance of less than $100 per customer. 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 $150.0 million as at June 30, 2008. Assuming the current level of borrowings over an annual basis, a 1% change in the variable rate charged would impact interest expense by $1.5 million annually. During the second quarter, Algonquin entered into a fixed for floating interest rate swap in an amount of $100.0 million for the period from June 30, 2008 to December 31, 2010 and fixed the interest expense on $100 million of borrowings at approximately 2.95% for the final six months of 2008, 3.46% for 2009 and 4.125% for 2010. This reduces volatility in the interest expense on this debt. The financial impact of any changes in interest rates are partially offset between the change in interest expense and the change in value of the interest rate swap. At June 30, 2008, the fair value of the interest rate swap was a $0.2 million asset.

- Algonquin's project debt at the St. Leon facility has a balance of $72.9 million as at June 30, 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. The financial impact of any changes in interest rates are effectively offset between the change in interest expense and the change in value of the interest rate swap. Algonquin has effectively fixed its interest expense on its senior debt facility at 5.47%. At June 30, 2008, the mark to market value of the interest rate swap was a loss of $1.6 million (June 30, 2007 – gain of $2.6 million).

- Algonquin's project debt at its Sanger cogeneration facility has a balance of U.S. $19.2 million as at June 30, 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

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 June 30, 2008, in addition to cash on hand of $6.1 million the Company had $11.6 million available to be drawn and a total of $43.8 million of unused credit available on its Facilities inclusive of the unexercised portion of the accordion feature. The Facilities contain covenants which may limit amounts available to be drawn.

Algonquin's Facilities and project specific debt total approximately $304.3 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.

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 cash availability at its facilities to ensure they are adequately funded and 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.

Litigation risks and other contingencies

Algonquin and certain of its subsidiaries are involved in various litigations, claims and other legal proceedings that arise from time to time in the ordinary course of business. Accruals for any contingencies related to these items are recorded in the financial statements at the time it is concluded that its occurrence is probable and the related liability is estimable. Anticipated recoveries under existing insurance policies are recorded when assured of recovery.

As reported in previous public filings of Algonquin, Trafalgar Power Inc. and Christine Falls Power Corporation (collectively, "Trafalgar") commenced an action in 1999 against it, APMI and various other entities related to both of them in connection with the sale of the Trafalgar Class B Note by Aetna Life Insurance Company to Algonquin and the Company's foreclosure on the security for the Trafalgar Class B Note. Algonquin is of the view that the action is without merit and has been defending itself against the action. Most recently, Trafalgar has brought a motion to add a claim under the U.S. Racketeer Influenced and Corrupt Organization Act to the action. Algonquin will be defending this motion and is also of the view that it has strong arguments to have the motion denied, including that the basis of the claim was the subject of a prior successful motion by Algonquin with respect to ownership of the Class A and Class B Notes.

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.

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. 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.

Critical Accounting Estimates

Algonquin prepared its Consolidated Financial Statements in accordance with GAAP. An 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.

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 June 30, 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 June 30, 2008.

Millions of dollars (except per trust unit amounts)	3rd Quarter 2007	4th Quarter 2007	1st Quarter 2008	2nd Quarter 2008	Total
Revenue	$ 46.5	$ 44.3	$ 48.0	$ 54.2	$ 193.0
Net earnings / (loss) from continuing operations	12.5	8.8	(1.6)	8.0	27.7
Net earnings /(loss)	12.2	7.6	(1.6)	8.0	26.2
Net earnings / (loss) from continuing operations per trust unit	0.17	0.12	(0.02)	0.11	0.38
Net earnings / (loss)	0.17	0.10	(0.02)	0.11	0.36
Total Assets	1,024.1	954.1	950.7	952.2	952.2
Long term debt*	421.0	445.1	460.6	469.6	469.6
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92
	3rd Quarter 2006	**4th Quarter 2006**	**1st Quarter 2007**	**2nd Quarter 2007**	**Total**
Revenue	$ 49.3	$ 52.0	$ 47.6	$ 47.8	$ 196.7
Net earnings from continuing operations	5.8	2.5	6.7	(2.6)	12.4
Net earnings	5.0	1.8	6.2	(2.3)	10.7
Net earnings from continuing operations per trust unit	0.08	0.03	0.08	(0.04)	0.15
Net earnings per trust unit	0.07	0.02	0.08	(0.03)	0.14
Total Assets	1,024.2	1,048.3	1,035.8	1,049.0	1,049.0
Long term debt*	379.6	411.0	401.8	410.0	410.0
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

* 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 $54.2 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 second quarter of 2008, as well as realized gains on financial instruments were recorded as revenue in the comparable quarters of 2006. 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 $12.2 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 June 30, 2008. There have been no changes to the critical accounting policies as disclosed in Algonquin's unaudited Consolidated Financial Statements for the quarter ended June 30, 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.

Future Accounting Changes not yet Adopted

Changeover to International Financial Reporting Standards

In 2011, Algonquin is required to change the accounting framework under which financial statements are prepared in Canada to International Financial Reporting Standards ("IFRS"). For the quarter ended March 31, 2011, Algonquin will report quarterly comparative financial information using IFRS. The exact impact on Algonquin's financial statements of moving to IFRS is not completely known at this time; however, one area of potential change may involve the valuation of property, plant and equipment on the balance sheet. Experience in other jurisdictions has shown that earnings may tend to become more volatile and there will be an increase in the volume and complexity of financial disclosures.

In this regard, the Company is currently developing a conversion plan in order to ensure that it is prepared for the conversion and to minimize any disruption the conversion may cause.

Algonquin is currently ensuring its key personnel receive initial training during the next several quarters on IFRS rules and the impact it will have on Algonquin's reporting requirements. Once the training has been completed, a more detailed conversion plan will be developed. The Company's Audit Committee is involved with this process and will be provided formal updates on a quarterly basis and as required.

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)

	June 30, 2008	December 31 2007
ASSETS		
Current assets:		
Cash	**$ 6,067**	$ 10,361
Accounts receivable	**31,500**	26,597
Prepaid expenses	**3,899**	3,052
Current portion of notes receivable	**438**	421
Current portion of derivative assets	**5,437**	7,857
	47,341	48,288
Long-term investments and notes receivable	**27,629**	30,047
Future non-current income tax asset	**3,237**	2,416
Property, plant and equipment (note 3)	**770,777**	760,677
Intangible assets (note 3)	**95,914**	99,529
Restricted cash	**3,724**	6,105
Deferred costs	**310**	80
Other assets	**2,340**	2,737
Derivative assets	**954**	4,188
	$ 952,226	$ 954,067
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 29,157**	$ 27,007
Cash distribution payable	**11,650**	11,649
Current portion of long-term liabilities	**3,160**	1,915
Current income tax liability	**313**	669
Future income tax liability	**1,394**	756
	45,674	41,996
Long-term liabilities (note 4)	**304,312**	281,725
Convertible debentures	**140,007**	139,587
Other long-term liabilities	**25,301**	23,771
Future non-current income tax liability (note 3)	**84,691**	80,785
Derivative liabilities	**1,593**	-
Non controlling interest	**18,623**	21,700
Unitholders' equity:		
Trust units (note 5)	**693,330**	692,213
Deficit	**(311,250)**	(283,820)
Accumulated other comprehensive income	**(50,055)**	(43,890)
	332,025	364,503
Subsequent events (note 12)	**$ 952,226**	$ 954,067

See accompanying notes to consolidated financial statements

Approved by the Trustees

George Steeves   K Moore

Consolidated Statement of Deficit

(unaudited)
(thousands of Canadian dollars)

	Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Balance, beginning of period	**$ (302,312)**	$ (250,591)	**$ (283,820)**	$ (239,967)
Net earnings / (loss)	**8,017**	(2,295)	**6,463**	3,902
Distributions	**(16,955)**	(16,883)	**(33,893)**	(33,704)
Balance, end of period	**$ (311,250)**	$ (269,769)	**$ (311,250)**	$ (269,769)

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income/(Loss) and Accumulated Other Comprehensive Income/(Loss)

(unaudited)
(thousands of Canadian dollars)

	Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Net earnings / (loss)	**$ 8,017**	$ (2,295)	**$ 6,463**	$ 3,902
Other comprehensive income (loss):				
Forward exchange contracts settled in the period	**$ (865)**	$ (854)	**$ (1,942)**	$ (854)
Translation of self sustaining foreign operations	**(1,068)**	-	**(4,223)**	-
Other comprehensive income (loss)	**(1,933)**	(854)	**(6,165)**	(854)
Total comprehensive income / (loss)	**$ 6,084**	$ (3,149)	**$ 298**	$ 3,048
Accumulated other comprehensive income / (loss):				
Balance, beginning of the period	**$ (48,122)**	$ 10,313	**$ (43,890)**	$ 11,167
Other comprehensive income / (loss)	**(1,933)**	(1,666)	**(6,165)**	(2,520)
Balance, end of the period	**$ (50,055)**	$ 8,647	**$ (50,055)**	$ 8,647

See accompanying notes to consolidated financial statements

Consolidated Statements of Earnings

(unaudited)
(thousands of Canadian dollars, except per unit amounts)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Revenue:				
Energy sales	**$ 40,713**	$ 30,276	**$ 76,623**	$ 60,134
Waste disposal fees	**3,897**	2,428	**7,612**	5,960
Water reclamation and distribution	**8,713**	8,696	**16,217**	16,524
Other revenue	**909**	6,415	**1,756**	12,793
	54,232	47,815	**102,208**	95,411
Expenses				
Operating	**30,386**	25,387	**55,879**	51,785
Amortization of property, plant and equipment	**8,987**	8,574	**17,610**	17,650
Amortization of intangible assets	**1,829**	1,834	**3,633**	3,676
Management costs (note 6)	**223**	216	**445**	433
Administrative expenses	**2,125**	2,008	**4,171**	3,686
(Gain) / loss on foreign exchange	**47**	(3,654)	**398**	(4,584)
	43,597	34,365	**82,136**	72,646
Earnings before undernoted	**10,635**	13,450	**20,072**	22,765
Interest expense	**6,673**	6,663	**13,803**	13,046
Interest, dividend income and other income	**(1,391)**	(3,314)	**(2,820)**	(5,410)
(Gain) / loss on derivative financial instruments	**(3,715)**	(10,049)	**1,404**	(10,960)
	1,567	(6,700)	**12,387**	(3,324)
Earnings from operations before income taxes, minority interest and discontinued operations	**9,068**	20,150	**7,685**	26,089
Income tax provision (recovery)				
Current	**(113)**	193	**194**	388
Future	**793**	24,577	**1,677**	22,770
	680	24,770	**1,871**	23,158
Minority interest (recovery)	**371**	(1,992)	**(649)**	(1,344)
Net earnings / (loss) from continuing operations	**8,017**	(2,628)	**6,463**	4,275
Net earnings / (loss) from discontinued operations	-	333	**-**	(373)
Net earnings / (loss)	**$ 8,017**	$ (2,295)	**$ 6,463**	$ 3,902
Basic net earnings / (loss) from continuing operations per trust unit (note 7)	**$ 0.11**	$ (0.04)	**$ 0.09**	$ 0.06
Diluted net earnings / (loss) from continuing operations per trust unit (note 7)	**$ 0.11**	$ (0.06)	**$ 0.08**	$ 0.04
Basic and diluted net loss from discontinued operations per trust unit (note 7)	**$ -**	$ 0.00	**$ -**	$ (0.01)
Basic net earnings / (loss) per trust unit (note 7)	**$ 0.11**	$ (0.03)	**$ 0.09**	$ 0.05
Diluted net earnings / (loss) per trust unit (note 7)	**$ 0.11**	$ (0.06)	**$ 0.08**	$ 0.03

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

(Unaudited)
(thousands of Canadian dollars)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Cash provided by (used in):				
Operating Activities:				
Net earnings / (loss) from continuing operations	**$ 8,017**	$ (2,628)	**$ 6,463**	$ 4,275
Items not affecting cash:				
Amortization of property, plant and equipment	**8,987**	8,574	**17,610**	17,650
Amortization of intangible assets	**1,829**	1,834	**3,633**	3,676
Other amortization	**306**	595	**606**	1,068
Distributions received in excess of equity income	**(239)**	(225)	**14**	(222)
Future income taxes	**793**	24,577	**1,677**	22,770
Loss / (gain) on derivative financial instruments	**(1,978)**	(7,798)	**5,306**	(7,935)
Minority interest	**353**	(1,992)	**(667)**	(1,344)
Unrealized (gain) / loss on foreign exchange	**(142)**	(3,456)	**445**	(4,185)
	17,926	19,481	**35,087**	35,753
Changes in non-cash operating working capital	**(1,231)**	(2,352)	**(3,680)**	(8,630)
	16,695	17,129	**31,407**	27,123
Financing Activities:				
Cash distributions	**(16,952)**	(16,846)	**(33,890)**	(33,609)
Cash distributions non controlling interest	**(526)**	(639)	**(1,069)**	(1,362)
Trustee loans (note 5)	**-**	-	**(225)**	-
Deferred financing costs	**(122)**	(25)	**(382)**	(158)
Increase in long term liabilities	**23,000**	13,000	**38,000**	20,000
Decrease in long term liabilities	**(13,821)**	(480)	**(15,048)**	(738)
Increase in other long term liabilities	**31**	109	**30**	1,619
	(8,390)	(4,881)	**(12,584)**	(14,248)
Investing Activities:				
Decrease / (increase) in restricted cash	**1,638**	(43)	**2,660**	(187)
Decrease/ (increase) in other assets	**144**	(19)	**277**	(118)
Receipt of principal on notes receivable	**1,440**	252	**1,709**	631
Increase in long term investments	**(55)**	(802)	**(131)**	(1,159)
Proceeds from sale of property, plant and equipment and intangible assets	**-**	2,488	**-**	2,488
Net additions to property, plant and equipment	**(7,424)**	(9,340)	**(20,374)**	(13,982)
Acquisitions of operating entities (note 3)	**(7,170)**	(205)	**(7,449)**	(735)
	(11,427)	(7,669)	**(23,308)**	(13,062)
Effect of exchange rate differences on cash	**(23)**	(580)	**191**	(625)
Increase /(decrease) in cash from continuing operations	**(3,145)**	3,999	**(4,294)**	(812)
Increase in cash from discontinued operations	**-**	(339)	**-**	(646)
Cash, beginning of the period	**9,212**	8,347	**10,361**	13,465
Cash, end of the period	**$ 6,067**	$ 12,007	**$ 6,067**	$ 12,007
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest expense	**$ 6,228**	$ 6,501	**$ 13,737**	$ 12,763
Cash paid during the period for income taxes	**$ 566**	$ 96	**$ 800**	$ 140

See accompanying notes to consolidated financial statements

Notes to the Unaudited Interim Consolidated Financial Statements

Six months ending June 30, 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 wastewater 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 9 and the adoption of new accounting standards described in note 2.

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 10 and 11.

(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.

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

(a) On April 2, 2008, Algonquin acquired the remaining 50% interest in the Campbellford Partnership not already owned by Algonquin for net cash consideration of $7,149. The Campbellford Partnership owns a 4 megawatt hydroelectric generating station on the Trent River near Campbellford Ontario. The acquisition has been accounted for as a step acquisition using the purchase method of accounting. Under the purchase method total assets, liabilities and earnings from operations of the Campbellford partnership are included in Algonquin's consolidated financial statements since the date of acquisition.

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

Working Capital (net of cash received of $233)	$	128
Reserve Funds		112
Property, plant and equipment		8,114
Intangible Asset		969
Future income tax liability		(2,174)
Total Cash consideration	$	7,149

The purchase price allocation has been based on the best information available at the reporting date; however, revisions to the purchase price and purchase price allocation may be made in subsequent quarters as more information is obtained with respect to future income taxes and asset values.

Intangible asset represents the value of the power purchase agreement with Ontario Hydro. This asset will be amortized over its expected useful life of 11 years.

(b) 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 June 30, 2008 Algonquin has accrued $300 (U.S. $300) (June 30, 2007 - $478, U.S. $420) as a growth premium, and increased intangible assets by a similar amount, gross of future tax liabilities of $nil (June 30, 2007 - $107).

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 with no other significant changes to the terms of the agreement. The renewed Facilities also contain an accordion feature allowing the Facilities to increase to $225,000 to accommodate future growth and acquisitions.

During the second quarter 2008, Algonquin exercised $17.75 million of the accordion feature and drew an additional $10 million on the revolving credit facility to fund capital expenditures in the utilities segment and for the acquisition of the 50% interest in the Campbellford Partnership.

Subsequent to the end of the quarter Algonquin drew an additional $6.5 million on its credit facility to fund capital requirements.

5. Trust Units

Trust Units consists of the following:

	Three months June 30, 2008	Three months June 30, 2007	Six months June 30, 2008	Six months June 30, 2007
Balance of Trust units, beginning of period	**$ 692,552**	$ 688,494	**$ 691,734**	$ 684,414
Issued on conversion of Algonquin (AirSource) Power LP exchangeable units	**524**	1,820	**1,342**	5,900
Balance of Trust Units, end of period	**$ 693,076**	$ 690,314	**$ 693,076**	$ 690,314
Trustee Loans (note 6)	**(225)**	-	**(225)**	-
Equity component of convertible debentures	**479**	479	**479**	479
Trust Units	**$ 693,330**	$ 690,793	**$ 693,330**	$ 690,793

Number of trust units

	Three months June 30, 2008	Three months June 30, 2007	Six months June 30, 2008	Six months June 30, 2007
Trust units, beginning of period	**73,732,432**	73,303,691	**73,644,356**	72,874,211
Issued on conversion of Algonquin (AirSource) Power LP exchangeable units	**53,159**	191,550	141,235	621,030
Trust units, end of period	**73,785,591**	73,495,241	**73,785,591**	73,495,241

6. 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 six months ended June 30, 2008 and 2007, APMI was paid on a cost recovery basis for all costs incurred and charged $445 (2007 - $433).

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 first six months of 2008, APMI was paid $15 (2007 - $67).

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 six months ending June 30, 2008 were $148 (2007 - $148).

Algonquin utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of APMI. During the six months ending June 30, 2008, Algonquin incurred costs in connection with the use of the aircraft of $123 (2007 - $195) and amortization expense related to the advance against expense reimbursements of $64 (2007 - $78).

Algonquin has project debt from Highground Capital Corporation ("HCC") (previously Algonquin Power Venture Fund) in the amount of $3,000 related to the St. Leon facility. HCC advanced $1,600 at a rate of 11.25% as part of the initial financing of the St. Leon facility which matures December 31, 2011 and advanced $1,400 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. These amounts will be eliminated on the Consolidated Balance Sheet of Algonquin subsequent to the end of the quarter once the acquisition of HCC is completed (Note 12). During 2008, HCC was paid $150 (2007 - $150) 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 six months ending June 30, 2008 for construction services. For the six months ended June 30, 2008, Algonquin also paid $nil (2007 - $736) to GWAP on a cost recovery basis related to ongoing operating expenses of the project during the development period.

Pursuant to the St. Leon Limited Partnership Agreement, in 2006, St. Leon Wind Energy LP ("St. Leon LP"), a subsidiary of Airsource and the legal owner of the St. Leon facility, was required to issue 100 Class B units to GWAP. The holders of the Class B Units are entitled to 2.5% of the income allocations and cash distributions from St. Leon LP for a 5 year period commencing after June 17, 2008, two years after the date the facility achieved commercial operations pursuant to the PPA. Such income allocations and cash distributions shall be increased by 2.5% for each successive 5 year period, to a maximum of 10.0%. In any particular period, cash distributions to the holders of the Class B Units are only to be made after distributions have been made to the other partners, in an aggregate amount, equal to the debt service on the outstanding debt in respect of such period. The holders of the Class

B units are entitled to cash distributions of $17 during the six months ended June 30, 2008.

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, currently bear interest at 4% per annum, and are recorded as a reduction in Trust Units on the consolidated balance sheet. (Note 5)

7. 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:

	Three months June 30, 2008	Three months June 30, 2007	Six months June 30, 2008	Six months June 30, 2007
Weighted average trust units – basic	**73,761,019**	73,412,172	**73,725,319**	73,270,514
Trust units issuable on conversion of exchangeable units	**2,354,327**	2,719,003	**2,390,733**	2,860,670
Weighted average trust units – diluted	**76,115,346**	76,131,175	**76,116,052**	76,131,184

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.

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 three months and six months ended June 30, 2008 and June 30, 2007.

8. Cash distributions

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 $0.46 for 2008, the same as 2007. Total distributions for the three months and six months ended June 30, 2008 were $16,952 and $33,890 respectively (2007 - $16,846 and $33,609). Total distributions to the Unitholders of the Algonquin (Airsource) Power LP exchangeable units for the three months and six months ended June 30, 2008 were $526 and $1,069 respectively (2007 - $639 and $1,362) 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 as determined by the Trustees of Algonquin.

9. Segmented Information

In January 2008, Algonquin realigned its operations into two business units – Power Generation & Development, and Utilities Services. As a result, the results for the three months and six months ended June 30, 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 develops and operates a portfolio of electrical energy generation facilities. Within this business unit there are three divisions: Renewable Energy, Thermal Energy and Development. The Renewable Energy division operates the Company's hydro-electric and wind power facilities. Thermal Energy division operates co-generation, energy from waste, steam production and other thermal facilities. The Development division develops Algonquin's greenfield power generation projects as well as any expansion of Algonquin's existing portfolio of renewable energy and thermal energy facilities.

The Utility Services business unit provides transportation and delivery of water and wastewater in its service areas.

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 months ended June 30 2008	Three months ended June 30 2007	Six months ended June 30 2008	Six months ended June 30 2007
Revenue				
Canada	**$ 21,370**	$ 18,342	**$ 41,872**	$ 38,213
United States	**32,862**	29,473	**60,336**	57,198
	$ 54,232	$ 47,815	**$ 102,208**	$ 95,411

	June 30, 2008	June 30, 2007
Property, plant and equipment		
Canada	**$ 469,832**	$ 474,765
United States	**300,945**	331,220
	$ 770,777	$ 805,985
Intangible assets		
Canada	**$ 54,813**	$ 58,425
United States	**41,101**	50,092
	$ 95,914	$ 108,517
Other assets		
Canada	**$ 1,172**	$ 18,803
United States	**1,168**	-
	$ 2,340	$ 18,803

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 Renewable Energy or Thermal Energy as appropriate. For purposes of evaluating divisional performance, Algonquin allocates the realized portion of the gain on financial instruments to specific divisions. This allocation is determined when the initial foreign exchange forward contract is entered into. The unrealized portion of any gains or losses on derivatives instruments is not considered in management's evaluation of divisional performance and it therefore allocated and reported in the corporate segment. Interest expense is allocated to the divisions based on the project level debt related to the facilities in each division. Interest expense on the revolving credit facility and convertible debentures is reported in the corporate segment. The interest rate swaps relate to specific debt facilities and gains and losses are allocated in the same manner as interest expense. The operations and assets for these segments are as follows:

Three month period ending June 30, 2008

	Power Generation & Development			Utility Services	Corporate	Total
	Renewable Energy	**Thermal Energy**	**Total**			
Revenue						
Energy sales	$ 19,667	$ 21,046	$ 40,713	$ -	$ -	$ 40,713
Waste disposal fees	-	3,897	3,897	-	-	3,897
Water reclamation and distribution	-	-	-	8,713	-	8,713
Other revenue	-	909	909	-	-	909
Total revenue	19,667	25,852	45,519	8,713	-	54,232
Operating expenses	5,621	19,605	25,226	5,160	-	30,386
	14,046	6,247	20,293	3,553	-	23,846
Other administration costs	(62)	(87)	(149)	(67)	(2,132)	(2,348)
Foreign exchange loss	-	-	-	-	(47)	(47)
Interest expense	(2,072)	(244)	(2,316)	(243)	(4,114)	(6,673)
Interest, dividend and other income	434	935	1,369	-	22	1,391
Gain on derivative financial instruments	923	589	1,512	1,302	901	3,715
Amortization of property, plant and equipment	(4,122)	(3,359)	(7,481)	(1,506)	-	(8,987)
Amortization of intangible assets	(658)	(984)	(1,642)	(187)	-	(1,829)
Earnings / (loss) from continuing operations before income taxes, minority interest and comprehensive income	8,489	3,097	11,586	2,852	(5,370)	9,068
Loss from discontinued operations	-	-	-	-	-	-
Net earnings / (loss) before income taxes, minority interest and comprehensive income	8,489	3,097	11,586	2,852	(5,370)	9,068
Property, plant and equipment	$ 425,564	$ 193,592	$ 619,156	$ 151,621	$ -	$ 770,777
Intangible assets	34,572	36,320	70,892	25,022	-	95,914
Total assets	479,974	277,846	757,820	184,723	9,683	952,226
Capital expenditures	305	1,041	1,346	6,053	25	7,424
Acquisition of operating entities	7,149	-	7,149	21	-	7,170

Six month period ending June 30, 2008

	Power Generation & Development	Utility Services	Corporate	Total

	Renewable Energy	Thermal Energy	Total			
Revenue						
Energy sales	$ 39,496	$ 37,127	$ 76,623	$ -	$ -	$ 76,623
Waste disposal fees	-	7,612	7,612	-	-	7,612
Water reclamation and distribution	-	-	-	16,217	-	16,217
Other revenue	-	1,756	1,756	-	-	1,756
Total revenue	39,496	46,495	85,991	16,217	-	102,208
Operating expenses	10,551	35,790	46,341	9,538	-	55,879
	28,945	10,705	39,650	6,679	-	46,329
Other administration costs	(144)	(163)	(307)	(133)	(4,176)	(4,616)
Foreign exchange loss	-	-	-	-	(398)	(398)
Interest expense	(4,430)	(507)	(4,937)	(435)	(8,431)	(13,803)
Interest, dividend and other income	777	1,944	2,721	47	52	2,820
Gain / (loss) on derivative financial instruments	(1,820)	1,766	(54)	2,228	(3,578)	(1,404)
Amortization of property, plant and equipment	(8,118)	(6,521)	(14,639)	(2,971)	-	(17,610)
Amortization of intangible assets	(1,299)	(1,968)	(3,267)	(366)	-	(3,633)
Earnings / (loss) from continuing operations before income taxes, minority interest and comprehensive income	13,911	5,256	19,167	5,049	(16,531)	7,685
Loss from discontinued operations	-	-	-	-	-	-
Net earnings / (loss) before income taxes, minority interest and comprehensive income	13,911	5,256	19,167	5,049	(16,531)	7,685
Property, plant and equipment	$ 425,564	$ 193,592	$ 619,156	$ 151,621	$ -	$ 770,777
Intangible assets	34,572	36,320	70,892	25,022	-	95,914
Total assets	479,974	277,846	757,820	184,723	9,683	952,226
Capital expenditures	805	4,683	5,488	14,810	76	20,374
Acquisition of operating entities	7,149	-	7,149	300	-	7,449

Three month period ending June 30, 2007

	Power Generation & Development			Utility Services	Corporate	Total
	Renewable Energy	Thermal Energy	Total			
Revenue						
Energy sales	$ 12,645	$ 17,631	$ 30,276	$ -	$ -	$ 30,276
Waste disposal fees	-	2,428	2,428	-	-	2,428
Water reclamation and distribution	-	-	-	8,696	-	8,696
Other revenue	5,400	1,015	6,415	-	-	6,415
Total revenue	18,045	21,074	39,119	8,696	-	47,815
Operating expenses	4,286	16,663	20,949	4,438	-	25,387
	13,759	4,411	18,170	4,258	-	22,428
Other administration costs	(146)	(24)	(170)	(48)	(2,006)	(2,224)
Foreign exchange gain / (loss)	-	-	-	-	3,654	3,654
Interest expense	(2,235)	(387)	(2,622)	(249)	(3,792)	(6,663)
Interest, dividend and other income	456	1,074	1,530	-	1,784	3,314
Gain / (loss) on derivative financial instruments	1,997	1,202	3,199	1,180	5,670	10,049
Amortization of property, plant and equipment	(4,121)	(2,833)	(6,954)	(1,620)	-	(8,574)
Amortization of intangible assets	(638)	(976)	(1,614)	(220)	-	(1,834)
Earnings / (loss) from continuing operations before income taxes, minority interest and comprehensive income	9,072	2,467	11,539	3,301	5,310	20,150
Loss from discontinued operations	(151)	484	333	-	-	333
Net earnings / (loss) before income taxes, minority interest and comprehensive income	8,921	2,951	11,872	3,301	5,310	20,483
Property, plant and equipment	$ 442,221	$ 187,808	$ 630,029	$ 175,956	$ -	$ 805,985
Intangible assets	36,187	40,946	77,133	31,384	-	108,517
Total assets	524,563	299,570	824,133	214,453	10,408	1,048,994
Capital expenditures	152	4,897	5,049	4,221	70	9,340
Acquisition of operating entities	-	-	-	205	-	205

Six month period ending June 30, 2007

	Power Generation & Development			Utility Services	Corporate	Total
	Renewable Energy	Thermal Energy	Total			
Revenue						
Energy sales	$ 25,386	$ 34,748	$ 60,134	$ -	$ -	$ 60,134
Waste disposal fees	-	5,960	5,960	-	-	5,960
Water reclamation and distribution	-	-	-	16,524	-	16,524
Other revenue	10,742	2,051	12,793	-	-	12,793
Total revenue	36,128	42,759	78,887	16,524	-	95,411
Operating expenses	8,646	34,315	42,961	8,824	-	51,785
	27,482	8,444	35,926	7,700	-	43,626
Other administration costs	(244)	(70)	(314)	(98)	(3,707)	(4,119)
Foreign exchange gain / (loss)	-	-	-	-	4,584	4,584
Interest expense	(4,593)	(696)	(5,289)	(516)	(7,241)	(13,046)
Interest, dividend and other income	792	2,736	3,528	33	1,849	5,410
Gain / (loss) on derivative financial instruments	1,738	1,912	3,650	1,159	6,151	10,960
Amortization of property, plant and equipment	(8,257)	(5,664)	(13,921)	(3,729)	-	(17,650)
Amortization of intangible assets	(1,286)	(1,950)	(3,236)	(440)	-	(3,676)
Earnings / (loss) from continuing operations before income taxes, minority interest and comprehensive income	15,632	4,712	20,344	4,109	1,636	26,089
Loss from discontinued operations	(181)	(192)	(373)	-	-	(373)
Net earnings / (loss) before income taxes, minority interest and comprehensive income	15,451	4,520	19,971	4,109	1,636	25,716
Property, plant and equipment	$ 442,221	$ 187,808	$ 630,029	$ 175,956	$ -	$ 805,985
Intangible assets	36,187	40,946	77,133	31,384	-	108,517
Total assets	524,563	299,570	824,133	214,453	10,408	1,048,994
Capital expenditures	(12)	7,096	7,084	6,774	124	13,982
Acquisition of operating entities	-	-	-	735	-	735

10. 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 accounts receivable. The Company limits its exposure to credit risk with respect to cash 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.

The remaining revenue is primarily earned by the Utility Services business unit. In this regard, the credit risk related to Utility Services accounts receivable balances of US$3,200 is spread over approximately 69,000 customers, resulting in an average outstanding balance of less than $100 per customer. 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.

As at June 30, 2008 the Company's exposure to credit risk for these financial instruments was as follows:

	June 30, 2008	
	Canadian $	**US $**
Cash	1,260	4,719
Accounts receivable	11,108	20,244
Allowance for Doubtful Accounts	-	(225)
	$ 12,368	$ 24,738

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 June 30, 2008, in addition to cash on hand of $6,067 the Company had $11,598 available to be drawn on its senior debt facility and a total of $43,848 of unused credit inclusive of the unexercised portion of the accordion feature. The senior credit facility contains covenants which may limit amounts available to be drawn.

	Total	Due less than1 year	Due 2 to 3 years	Due 4 to 5 years	Due after 5 years
Long term debt obligations	$ 307,546	$ 3,030	$ 156,689	$ 72,546	$ 75,281
Interest on Long term debt obligations	$ 165,651	22,241	43,649	31,756	68,005
Accounts Payable	$ 29,157	29,157	-	-	-
Accounts Receivable	$ (31,500)	(31,500)	-	-	-
Derivative financial instruments:					
Currency Forward	$ (6,205)	(3,002)	(3,349)	146	-
Derivative financial instruments:					
Interest Rate Swap	$ 1,412	407	1,021	(16)	-
Lease Payments	$ 2,448	129	509	413	1,397
Other obligations	$ 11,159	260	515	515	9,869
Total obligations	$ 479,668	$ 20,722	$ 199,034	$ 105,360	$ 154,552

Foreign Currency Risk

The Company's Power Generation & Development business unit conducts a significant amount of business in the U.S. generating $43,810 or approximately 51% of its revenue in U.S. funds from integrated foreign operations in the six months ended June 30, 2008. This business unit also incurred $29,520 or approximately 64% of operating expenses in U.S. funds from integrated foreign operations in the six months ended June 30, 2008. 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 $14,290 during the in the six months ended June 30, 2008. On an unhedged basis, each 1% change in the value of the U.S. dollar against the Canadian dollar would have a $143 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. Based on the fair value of the forward contracts using the exchange rates as at June 30, 2008, the exercise of these forward contracts will generate $3.0 million in distributable cash during the remainder of 2008, $3.2 million in fiscal 2009 and result in the use of $0.1 million in distributable cash for the remainder of the hedged period beyond 2009. Assuming an increase in the strength of the US dollar relative to the Canadian dollar of $0.01 at June 30, 2008 with a corresponding increase in the forward yield curve, the fair value of the outstanding forward exchange contracts would decrease by $1.1 million, reducing the expected distributable cash generated during the remainder of 2008 by $0.2 million, $0.3 million in fiscal 2009 and $0.6 million for the remainder of the hedged period beyond 2009.

As at June 30, 2008, Algonquin had U.S. $109,100 in outstanding foreign exchange forward contracts.

The Company has performed sensitivity analysis on its U.S. dollar denominated financial instruments which consist principally of cash and cash equivalents of U.S. $4,719 and net US dollar working capital of $3,745 at June 30, 2008, to determine how a change in the US dollar exchange rate would impact net earnings. As at June 30, 2008, the Company determined that a 1% change in the Canadian dollar against the U.S. dollar, assuming that all other variables, including interest rates, had remained the same, would have resulted in an $85 change in the Company's net earnings for the three and six months ended June 30, 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 June 30, 2008 to determine how a change in interest rates would impact equity and net earnings:

- Algonquin's senior debt facility has a balance of $150,000 as at June 30, 2008. Assuming the current level of borrowings, a 1% change in the variable rate charged would impact interest expense by $375 during the three months ended June 30, 2008 and $750 during the six months ended June 30, 2008. 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 $100,000 of this debt between June 30, 2008 and December 2010. 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. These payments form part of the gain or loss on financial instruments on the Statement of Earnings which reduces volatility in the interest expense on this debt facility through a partial offset for changes to interest expense as a result of market rate fluctuations.

- Algonquin's project debt at the St. Leon facility has a balance of $72,900 as at June 30, 2008. Assuming the current level of borrowings, a 1% change in the variable rate charged would have impacted interest expense by $182 during the three months ended June 30, 2008 and $365 during the six months ended June 30, 2008. 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 June 30, 2008. Assuming the current level of borrowings, a 1% change in the variable rate charged would impact interest expense by $48 during the three months ended June 30, 2008 and $96 during the six months ended June 30, 2008. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

11. 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.

12. Subsequent event

On August 1, 2008, Algonquin issued 3,507,143 trust units in exchange for cash and securities of approximately $26,970 pursuant to an agreement entered into on June 27, 2008 between Algonquin, Highground and CJIG Management Inc. ("CJIG"), which is the manager of Highground and a related party of Algonquin controlled by the shareholders of APMI. Under the agreement CJIG would acquire all of the issued and outstanding common shares of Highground and Algonquin would issue 3,507,143 trust units of which 3,065,183 trust units would be received by Highground shareholders as part of the Agreement with the remaining trust units being retained by CJIG.

As consideration for the issuance of the Algonquin trust units, Algonquin will receive cash and securities equal to the lesser of (a) $26,970 plus 50% of the amount, if any, of the value of the assets formerly owned by Highground after payment of the transaction costs which is in excess of $26,970 and (b) the value of all of the assets formerly owned by Highground after payment of the transaction costs, with the value of any non-cash securities received by Algonquin being determined through negotiation between the trustees of Algonquin and CJIG.

Algonquin's consideration for the trust units will consist of cash and securities with a value dependent on the final proceeds realized from liquidation of certain Highground investments. Immediately following the transaction, CJIG began liquidation of the investments. Algonquin ultimately expects to receive cash in an amount between $22,170 and $23,670, plus the return of existing notes payable to Highground issued by APIF affiliates related to its St. Leon and Brampton Cogeneration projects with an aggregate face value of approximately $4,800 which are currently included in the Highground portfolio of investments.

13. 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

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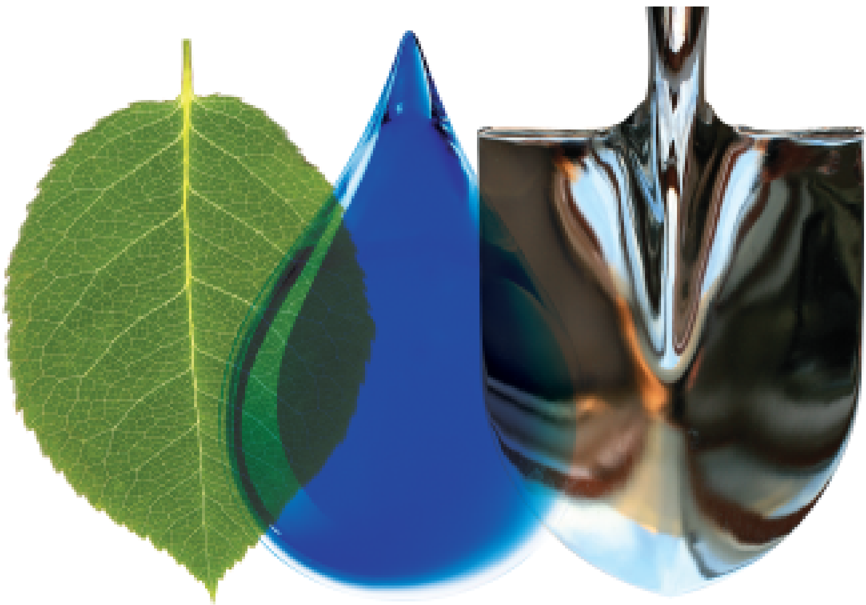

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