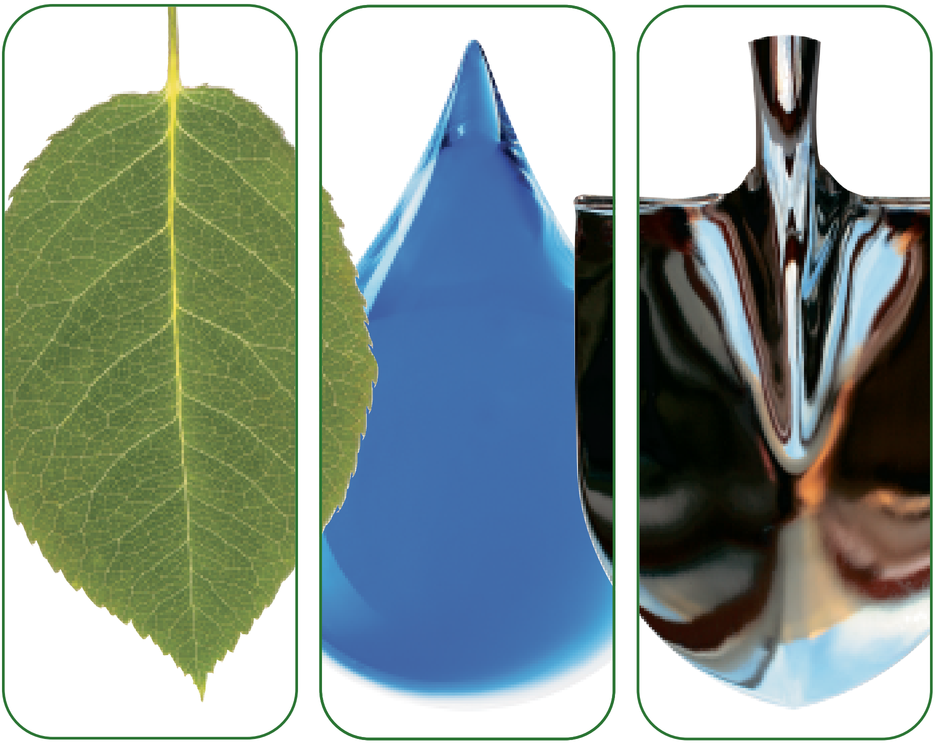
Third Quarter Report

September 30, 2008



ALGONQUIN POWER

Report to Unitholders

Business Review

Recently, on October 20, 2008, Algonquin Power announced that its Board of Trustees approved a plan geared to maximize long-term unitholder value and strengthen its position as a strong, growth-oriented renewable energy and utility infrastructure company. The forces driving the new strategic direction include the change in taxation policies facing income trusts in 2011, the continuing volatility in the foreign exchange environment, and the turbulence evident in the financial markets. Given these market forces, the Board established a distribution level that is sustainable and provides the ability to focus on development projects and strategic growth opportunities that are present in the current market. Internally, Algonquin Power has focused on realigning its operations into two major business units: Power Generation & Development, and Utility Services. 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 support the creation of value through growth, the Development division will continue to focus on renewable and high efficiency thermal energy generation projects in North America with five full time employees based out of the head office. The team is working to actively identify, develop and construct new renewable and high efficiency thermal energy generating facilities as well as to identify, develop and construct other projects that maximize the potential of Algonquin's existing facilities. Currently, the Development division is actively working on several wind projects in Ontario, has obtained a Power Purchase Agreement for a 25 MW wind project in Saskatchewan, and is pursuing the re-development of the Windsor Locks facility in Connecticut. Further detail regarding Algonquin Power's development activities are outlined below.

During the third quarter of 2008, Algonquin Power and Highground Capital Corp. ("Highground") completed a business combination whereby Highground amalgamated with a subsidiary of its manager and an Algonquin subsidiary, and shareholders of Highground received 0.9749 trust units of Algonquin Power for each common share formerly held in Highground. Algonquin Power issued approximately 3.5 million trust units in connection with the transactions and to date has received net cash in an amount of $18.6 million, the return of $4.8 million in notes that were issued by Algonquin affiliates related to its St. Leon and Brampton Cogeneration projects, and a note receivable of $2.8 million. The amalgamation 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 attractive growth opportunities currently being pursued.

Financial Summary for the third quarter of 2008:

- Revenue of $55.1 million in Q3 2008 as compared to $46.4 million in Q3 2007.
- EBITDA of $22.2 million in Q3 as compared to $22.8 million in Q3 2007
- Net loss from continuing operations of $4.4 million or $0.06 per trust unit in Q3 2008 as compared to net earnings of $13.0 million or $0.18 per trust unit in Q3 2007.
- Cash available for distribution of $15.2 million or $0.19 per trust unit in Q3 2008 as compared to $18.5 million or $0.24 per trust unit in Q3 2007. Distributions for the third quarter of both 2008 and 2007 were $0.23 per trust unit.

Financial Summary for the first nine months of 2008:

- Revenue of $157.3 million for the first nine months of 2008 as compared to $141.9 million in the first nine months of 2007.
- EBITDA of $66.8 million for the first nine months of 2008 as compared to $67.7 million in the first nine months of 2007

- Net earnings from continuing operations of $2.1 million or $0.03 per trust unit for the first nine months of 2008 as compared to $17.3 million or $0.24 per trust unit for the first nine months of 2007.
- Cash available for distribution of $47.0 million ($0.61 per trust unit) in the first nine months of 2008 as compared to $52.4 million ($0.69 per trust unit) for the same period in 2007. Distributions for both the first nine months of 2008 and 2007 were $0.69 per trust unit.

Power Generation & Development Highlights

Renewable Energy Division

During the third quarter of 2008, the Renewable Energy division produced sufficient energy to supply the equivalent of 56,400 homes with renewable power. Using new standards of thermal generation, renewable energy production saved the equivalent of 140,000 tons of CO2 gas from entering the atmosphere in the third quarter of 2008.

During the quarter, revenue from energy sales in the Renewable Energy division totalled $16.9 million as compared to $9.2 million during the same period in 2007. The Renewable Energy division generated electricity equal to 115% of long term projected average resources (wind and hydrology) as compared to 84% during the same period in 2007. The division experienced an increase in revenue primarily as a result of higher energy production due to significantly higher than long term average resources in all regions where Algonquin operates renewable energy facilities.

For the third quarter of 2008, operating profit totalled $11.6 million as compared to $12.8 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.

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

Thermal Energy Division

During the third quarter of 2008, operations at the Thermal Energy division's Energy-from-Waste facility resulted in the diversion of 29,300 tonnes of waste from landfill sites.

Revenue for the third quarter of 2008 totalled $29.0 million as compared to $23.3 million during the same period in 2007. The increase in revenue was primarily due to the sale of steam to a nearby manufacturing facility, an increase in production at the Sanger cogeneration facility as a result of the recent successful re-powering project, and an increase in production at Algonquin's landfill gas facilities. In addition, throughput at the Energy-from-Waste facility increased 10.8% over the same period in 2007, resulting in increased waste disposal sales.

For the third quarter of 2008, operating profit totalled $8.9 million, as compared to $9.6 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 in line with expectations and the Energy-from-Waste facility is expected to continue operating at current levels throughout 2008. Overall management anticipates the Thermal division to meet expectations for the remainder of the year.

Development Division

The Development division is working to actively identify, develop and construct new renewable and high efficiency thermal energy generating facilities as well as to identify, develop and construct other projects that maximize the potential of Algonquin Power's existing facilities. The strategy is to focus on 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. In addition to Greenfield development and expansion of Algonquin Power's existing portfolio, the Development division actively seeks out accretive renewable and clean energy acquisition opportunities.

Every acquisition and development project is subject to a significant level of due diligence and financial modeling to ensure it satisfies the financial objectives of Algonquin Power and as such the likelihood of proceeding with acquisitions or projects depends on the outcome of these activities. Currently, the Development Division is working on the following projects:

- The Red Lily Wind Project which is a 25 MW project in south-western Saskatchewan. A Power Purchase Agreement with SaskPower has been executed following the successful bid into a SaskPower Environmentally Preferred Power Strategy Request for Proposal. The team has submitted a Notice of Project Application with Natural Resources Canada under the ecoENERGY for Renewable Power Program, and the Environmental Assessment is expected to be submitted to the appropriate agencies in the fourth quarter.
- Following the successful re-powering of the Sanger cogeneration facility and as the current Windsor Locks Power Purchase Agreement reaches maturity in 2010, a variety of options for alternative sales of thermal energy or re-powering of the facility are being fully reviewed.
- Also as a result of the re-powering of the Sanger facility, 14MW of additional production is available 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.
- Algonquin Power is exploring options to build on the success of the St. Leon Wind Energy project including pursuing a future adjacent project and/or pursuing an increase in the installed capacity of the existing facility. The projects being reviewed have a potential generation capacity of over 150 MW.
- Algonquin is maintaining land option agreements for two wind projects in Quebec in anticipation of a Hydro Quebec Call for Tender expected in the fourth quarter of 2008 or the first quarter of 2009 for wind projects of a maximum 25 MW size. In addition, Algonquin has maintained a relationship with a development co-op comprised of landowners and other small investors for the potential development of a third project in response to the expected Call for Tender.
- Algonquin Power, through Windlectric Inc., a corporation formed to pursue the development of a wind power project in Ontario as well as other opportunities across Canada is currently pursuing an 80 MW wind project in Ontario.
- The Development division is currently reviewing several proposals at the Energy-from-Waste facility to expand its power generation and waste processing throughput capacity. An investment of approximately $250 million is being contemplated which could increase the generating capacity at the facility and increase waste processing throughput by over 100,000 tonnes annually or 275 tonnes per day.
- In addition, several new wind energy projects, including five wind projects in Canada having a potential generation capacity of over 150 MW, hydroelectric projects at different stages of investigation, and opportunities for involvement in a 19 MW combined cycle high efficiency thermal energy generation project.

Utility Services Highlights

Water Distribution and Wastewater Treatment

During the third quarter of 2008, Utility Services operations provided approximately 1.8 billion U.S. gallons of water to its customers, treated approximately 450 million U.S. gallons of waste-water and sold approximately 195 million U.S. gallons of treated effluent.

Revenue for the third quarter of 2008 in Utility Services totalled $9.2 million, consistent with the same period in 2007. The water distribution customer base grew 1.3% over last year and the waste-water treatment customer base grew 2.1% compared to last year at this time. The flat revenue is attributed to an increase in revenue due to organic growth and increased demand at seven utility services facilities, offset by decreased demand at ten utility services facilities.

For the third quarter of 2008, operating profit totalled $4.9 million as compared to $5.8 million during the same period in 2007. Overall, Utility Services did not meet the Company's expectations due to higher operating costs and the stronger Canadian dollar.

Utility Services is expecting continued lower organic customer growth for the remainder of 2008 due to the slowdown in the U.S. housing market. Rate cases at six facilities in Arizona and four facilities in Texas will be initiated over the next few quarters, with new rates to begin in 2010. Utility Services management continues to pursue accretive acquisition opportunities to expand operations in existing geographies and to acquire utilities in areas expecting higher growth over the long term.

Outlook

Algonquin Power's portfolio of clean, renewable energy and utility assets are expected to continue performing well throughout the fourth quarter of 2008, assuming continuing operational improvements, organic growth, and resource conditions at or above long term averages during the quarter. The company is actively working on many exciting initiatives in order to create value through growth and continues to focus on improving performance and efficiently managing operations of the existing portfolio.

The Board of Trustees would like to note that despite the recent market volatility, Algonquin Power remains in a strong position with respect to the Fund's immediate and long-term debt position and as usual will continue to monitor its ongoing capital expenditure program with a view to maximizing the long term value of these investments for unitholders. With the unitholder distribution set at a long-term sustainable level, Algonquin will have the financial resources and flexibility to invest in growth and capitalize on emerging opportunities which is a key element of the Algonquin Power value proposition.

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

(signed) Ken Moore

Ken Moore
Chairman

Management's Discussion and Analysis

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

Algonquin Power Income Fund ("Algonquin" or the "Company") has prepared the following discussion and analysis to provide information to assist its Unitholders' understanding of the financial results for the three and nine months ended September 30, 2008. This discussion and analysis should be read in conjunction with Algonquin's unaudited consolidated financial statements for the three and nine months ended September 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 November 5, 2008.

Caution concerning forward looking statements and non-GAAP Measures

Certain statements included herein contain forward-looking information within the meaning of certain securities laws. These statements reflect the views of Algonquin and Algonquin Power Management Inc. ("APMI"), the entity which provides management services to Algonquin (including advice and consultation concerning business planning, support, guidance and policy making) with respect to future events, based upon assumptions relating to, among others, the performance of the Company's assets and the business, interest and exchange rates, commodity market prices, and the financial and regulatory climate in which it operates. These forward looking statements include, among others, statements with respect to the expected performance of the Company, its future plans and its distributions to Unitholders. Statements containing expressions such as "outlook", "believes", "anticipates", continues", "could", "expect", "may", "will", "project", "estimates", "intend", "plan" and similar expressions generally constitute forward-looking statements.

Since forward-looking statements relate to future events and conditions, by their very nature they require us to make assumptions and involve inherent risks and uncertainties. Algonquin and APMI caution that although we believe our assumptions are reasonable in the circumstances, these risks and uncertainties give rise to the possibility that our actual results may differ materially from the expectations set out in the forward-looking statements. Material risk factors include the continued volatility of world financial markets; the impact of movements in exchange rates and interest rates; the effects of changes in environmental and other laws and regulatory policy applicable to the energy and utilities sectors; decisions taken by regulators on monetary policy and the taxation of income funds; and the state of the Canadian and the United States ("U.S.") economy and accompanying business climate. Algonquin and APMI caution that this list is not exhaustive, and other factors could adversely affect our results. Given these risks, undue reliance should not be placed on these forward-looking statements, which apply only as of their dates. The Company reviews material forward-looking information it has presented, at a minimum, on a quarterly basis. 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', "cash available for distribution after growth and maintenance capital expenditures" and 'earnings before interest, taxes, depreciation and amortization' ("EBITDA") are used throughout this MD&A. The term 'cash available for distribution', "cash available for distribution after growth and maintenance capital expenditures" and EBITDA are not recognized measures under Canadian generally accepted accounting principles ("GAAP"). There is no standardized measure of 'cash available for distribution', "cash available for distribution after growth and maintenance capital expenditures" and EBITDA, consequently Algonquin's method of calculating these measures 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', "cash available for distribution after growth and maintenance capital expenditures" and EBITDA can be found in this MD&A. EBITDA is a metric used by many investors to compare companies on the basis of ability to generate cash from operations. Algonquin uses these calculations to monitor the amount of cash generated by Algonquin as compared to the amount of cash distributed by Algonquin. Algonquin uses EBITDA to assess the operating performance of the Fund without the effects of depreciation and amortization expense which are derived from a number of non-operating factors, accounting methods and assumptions. APMI believes that presentation of this measure will enhance an investor's understanding of Algonquin's operating performance. EBITDA is not intended to be representative of cash provided by operating activities or results of operations determined in accordance with GAAP.

Strategic Realignment

In addition to the Business Unit realignment initiated during the 2008 fiscal year, on October 20, 2008 Algonquin announced that its Board of Trustees had approved its strategic plan to maximize long-term unitholder value and strengthen its position as a strong renewable energy and utility infrastructure company focused on growth. The current realities the Company faces include the change in taxation policies facing income trusts in 2011, the pressure on distributable cash from the continuing volatility in the foreign exchange environment, and the turbulence evident in the financial markets. The Board is granted the discretion to direct, and the managers are to manage, the Company with a view to the best interests of the Company. Given these realities, the Board is of the view that it is in the long term best interests of the Company to establish a distribution level that is sustainable, to focus on the development of projects and on strategic growth opportunities that are present in the current market, and to position the utility business so that it can maximize long-term value gains. The key elements of the strategic plan are:

1. **Harmonize Algonquin's business structure in line with current market conditions and growth prospects.**

   In order to strengthen Algonquin's financial position and support its growth initiatives, Algonquin has established a sustainable distribution level consistent with the Company's growth prospects and resolved to preserve the tax efficiency of the income trust structure through 2010. The income trust structure allows for the distribution to Unitholders of cash generated within the trust without being taxed at the operating company level. The new distribution level was established at $0.24 per unit beginning with the October 2008 distribution.

Under the revised distribution policy, Algonquin intends to pay monthly cash distributions of $0.02 per unit. In addition, the forty-five (45) day payment cycle will be reduced to approximately fifteen (15) days following the record date for each month. Therefore, Unitholders of record on October 31, 2008 will receive payment on November 17, 2008 of $0.02 per unit. Unitholders of record on September 30, 2008 will also receive payment for the month of September on November 17, 2008 of $0.0766 per unit. The lower distribution will allow retention of cash to fund growth opportunities, fund anticipated tax liability when the new policies effecting income trusts are implemented, and mitigate the impact of continued foreign exchange volatility.

2. **Increased focus on project development and growth opportunities.**
   The renewable power and thermal energy generation business of Algonquin will be managed with an increased emphasis on growth through the development of green-field projects and the expansion of opportunities within Algonquin's existing portfolio. This involves building on our expertise in the origination of greenfield renewable energy projects, building upon the company's existing portfolio of assets for further growth and capitalizing on opportunities that may emerge in the current turbulence of the capital markets.

3 **Position the Utility Business Unit to enhance long term value**
   Algonquin will be positioning the Utility Services business unit as a full independent subsidiary which will increase the business focus on best practices for utility management. Algonquin intends to establish a separate capital structure to permit new sources of debt and equity capital into the Utility Services business unit if the capital demands from the growth program outpace the funding capabilities of the Fund. Rate cases currently being initiated will realize the large value gains that are currently latent in the Utility Services business unit from the capital investments made to date. Through strong rate case management, the business unit expects to achieve EBITDA gains of more than $10 million by 2010. In addition there is opportunity for continued organic growth and acquisitions.

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, sustainable 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 waste-water treatment in its service area and pursues accretive water and waste-water utility acquisition opportunities. Building on its experience in the regulated water utility sector, Utility Services also looks to expand its operations into other regulated essential utilities such as natural gas distribution and electricity distribution.

Key Financial Information

	Three Months ended September 30		Nine Months ended September 30	
	2008	**2007**	**2008**	**2007**
Revenue [1]	**$ 55,084**	$ 46,446	**$ 157,291**	$ 141,857
EBITDA [3]	**$ 22,236**	$ 22,776	**$ 66,772**	$ 67,693
Cash provided by Operating Activities	**21,599**	14,010	**53,008**	41,132
Adjusted net earnings from continuing operations [3]	**4,677**	4,704	**14,623**	16,205
Net earnings (Loss) from Continuing Operations	**(4,406)**	13,013	**2,057**	17,288
Net earnings (Loss)	**(4,406)**	12,210	**2,057**	16,112
Total Assets	**963,775**	1,024,072	**963,775**	1,024,072
Long Term Debt	**296,791**	255,428	**296,791**	255,428
Distribution to Unitholders [2]	**18,019**	17,471	**52,981**	52,442
Cash available for distribution [3]	**15,196**	18,474	**47,022**	52,425
Per trust unit				
Adjusted net earnings from continuing operations [3]	**0.06**	0.06	**0.20**	0.22
Net earnings (Loss) from continuing operations	**(0.06)**	0.18	**0.03**	0.24
Net earnings (Loss)	**(0.06)**	0.17	**0.03**	0.21
Diluted net earnings (loss)	**(0.06)**	0.16	**0.01**	0.20
Distribution to Unitholders	**0.23**	0.23	**0.69**	0.69
Cash available for distribution [3]	**0.19**	0.24	**0.61**	0.69
Cash provided by Operating Activities [4]	**0.28**	0.19	**0.71**	0.56

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', EBITDA and Adjusted net earnings from continuing operations in this MD&A.
4 The change in cash provided by (used in) operating activities in the three and nine months ended September 30, 2008 is primarily due to increased cash from operations and increased cash from working capital balances.

For the quarter ended September 30, 2008, Algonquin reported total revenue of $55.1 million as compared to $46.4 million during the same period in 2007 an $8.7 million or 19% increase. The increase in revenue from energy sales as compared to the third quarter of 2007 was primarily the result of an increase of $3.4 million due to a combination of higher energy production and increased weighted average energy rates generated in the Renewable Energy division and $4.6

million due to a combination of changes in production and average energy rates at the Sanger and Windsor Locks facilities in the Thermal Energy division as compared to the same period in the prior year. These amounts were partially offset by lower revenue of $0.2 million from 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 nine months ended September 30, 2008, Algonquin reported total revenue of $157.3 million as compared to $141.9 million during the same period in 2007 a $15.4 million or 11% increase. The increase in revenue from energy sales as compared to the same period of 2007 was primarily the result of an increase of $7.3 million due to a combination of higher energy production and increased weighted average energy rates generated in the Renewable Energy division, $1.5 million in Utility Services due to rate increases combined with organic growth at existing facilities, and a net amount of $8.9 million due to a combination of changes in production and average energy rates at the Sanger and Windsor Locks facilities in the Thermal Energy division as compared to the same period in the prior year. The Company reported lower revenue of $6.0 million on an overall basis 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 months ended September 30, 2008, the Company experienced an average U.S. exchange rate of approximately $1.042 as compared to $1.045 in the same period in 2007. For the nine months ended September 30, 2008, the Company experienced an average U.S. exchange rate of approximately $1.019 as compared to $1.105 in the same period in 2007. As such, any quarterly variance in revenue or expenses, in local currency, at any of Algonquin's U.S. entities may be affected by a change in the average exchange rate, upon conversion to Algonquin's reporting currency. Although a 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).

EBITDA in the quarter ending September 30, 2008 was $22.2 million compared to $22.8 million in the same period in 2007. The decrease in EBITDA is primarily related to a non-recurring reduction in operating expenses related to the achievement of commercial operation at the St. Leon facility and the recognition of interest income earned on unpaid liquidated damages at the St. Leon facility totaling approximately $2.1 million included in the comparative period. Adjusted for these non-recurring items EBITDA grew by $1.5 million due to gains on sale of certain fixed assets of $0.7 million and to better hydrological conditions and higher gas prices than the comparative period.

EBITDA in the nine months ended September 30, 2008 was $66.8 million compared to $67.7 million in the same period in 2007. The decrease in EBITDA is primarily related to a non-recurring reduction in operating expenses related to the achievement of commercial operation at the St. Leon facility, the recognition of interest income earned on unpaid liquidated damages at the St. Leon facility totaling approximately $2.1 million and 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") included in the comparative period. Adjusted for these non-recurring items EBITDA grew by $3.0 million due to better hydrological conditions and higher gas prices than the previous year.

For the quarter ended September 30, 2008, net loss from continuing operations totalled $4.4

million as compared to net earnings of $13.0 million during the same period in 2007. The decrease in net earnings as compared to the third quarter of 2007 was the result of increased future income tax expenses of $5.2 million, $8.1 million due to lower gains on derivative financial instruments resulting from changes in foreign exchange rates, $0.4 million due to lower gains on derivative financial instruments resulting from changes in interest rates, $3.7 million due to reduced foreign exchange gains, $0.6 million due to increased amortization expense, $0.7 million due to lower earnings on portfolio investments primarily due to interest income earned by the St. Leon facility on unpaid liquidated damages up to September 2007, the commercial operation date of the facility which was not earned in the current period. Additional interest expense resulting from increased average borrowings was partially offset by lower interest rates on Algonquin's variable interest rate debt. These decreases were partially offset by $0.8 million resulting from reduced minority interest recovery at the St. Leon facility booked in the quarter. The comparative period also includes a $0.6 million write down of notes receivable.

For the quarter ended September 30, 2008, adjusted net earnings from continuing operations totalled $4.7 million as compared to $4.7 million during the same period in 2007. Adjusted net earnings from continuing operations per trust unit totalled $0.06 for the three months ended September 30, 2008 as compared to $0.06 during the same period in 2007.

For the nine months ended September 30, 2008, net earnings from continuing operations totalled $2.1 million as compared to earnings of $17.3 million during the same period in 2007. The decrease in net earnings as compared to the first nine months of 2007 was primarily the result of $17.1 million due to lower gains on financial instruments resulting from changes in foreign exchange rates, $3.8 million due to lower gains on financial instruments resulting from changes in interest rates, $0.5 million due to increased administrative expenses, $3.3 million due to lower earnings on portfolio investments, $8.7 million due to reduced foreign exchange gains, and a net increase of $0.9 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. These items were partially offset by $3.0 million in increased earnings from operating facilities and a $15.9 million reduction in future income taxes. In the comparative period, Algonquin recorded a $27.9 million future income tax expense 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).

The comparative period also includes a termination fee of $1.75 million earned in connection with Algonquin's offer to purchase the outstanding units of CPIF and interest income earned by the St. Leon facility, both of which were not earned in the current period.

For the nine months ended September 30, 2008, adjusted net earnings from continuing operations totalled $14.6 million as compared to $16.2 million during the same period in 2007. Adjusted net earnings from continuing operations per trust unit totalled $0.20 for the nine months ended September 30, 2008 as compared to $0.22 during the same period in 2007.

Net loss from continuing operations per trust unit totalled $0.06 for the three months ended September 30, 2008 as compared to a net income of $0.18 during the same period in 2007. Net earnings from continuing operations per trust unit totalled $0.03 for the nine months ended September 30, 2008 as compared to net earnings of $0.24 during the same period in 2007.

Algonquin generated $0.19 per trust unit of cash available for distribution for the quarter ended

September 30, 2008, as compared to $0.24 per trust unit during the same period in 2007. Algonquin generated $0.61 per trust unit of cash available for distribution for the nine months ended September 30, 2008, as compared to $0.69 per trust unit during the same period in 2007.

During the quarter ended September 30, 2008 cash provided by operating activities totalled $21.6 million or $0.28 per trust unit as compared to cash provided by operating activities of $14.0 million or $0.19 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 September 30, 2008 is primarily due to increased levels of trade accounts payable partially offset by lower income from derivative financial instruments and increased interest expense as compared to the same period in 2007.

During the nine months ended September 30, 2008 cash provided by operating activities totalled $53.0 million or $0.71 per trust unit as compared to cash provided by operating activities of $41.1 million or $0.56 per trust unit during the same period in 2007. The change in cash provided by operating activities after changes in working capital in the nine months ended September 30, 2008 is primarily due to increased cash generated by operations, increased levels of trade accounts payables partially offset by lower income from derivative financial instruments, lower interest and other income and increased interest expense as compared to the same period in 2007.

During the three and nine months ended September 30, 2008, the Company recorded distributions at $0.23 and $0.69 per trust unit, respectively, consistent with distributions in the same periods in 2007.

Outlook

On October 20, 2008 Algonquin announced that it has established a new annual cash distribution of $0.24 per unit annually or $0.02 per unit per month as compared to its previous rate of $0.92 per unit annually or $0.0766 per unit per month. As a result of the new level of distributions and based on trust units outstanding on September 30, 2008, annual distributions will be $18.6 million as compared to $71.2 million. As previously noted the additional cash retained in Algonquin from the lower distributions will be used to finance the growth initiatives of the company.

The Power Generation & Development Renewable Energy division is expected to enjoy at or above long term average resource conditions in the fourth quarter of 2008. Throughput at the Algonquin Power Energy-from-Waste ("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 limited organic 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. These rate cases are discussed in further detail within this MD&A (see UTILITY SERVICES: Outlook). While 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 potentially result in increased annual earnings at Utility Services of more than $10 million. 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 between mid 2009 and the first half of 2010, depending on the state in which the facility operates. 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.

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's 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 and to maximize value for the Company in the current state of the financial markets. With a mix of complementary regulated and non-regulated businesses, the Company strives to enhance Unitholder value through stable cash flow, cash distributions and a managed risk profile.

POWER GENERATION & DEVELOPMENT

	Three Months ended September 30 2008	2007	Nine Months ended September 30 2008	2007
Performance (MW-hrs sold) *	**400,386**	333,398	**1,266,732**	1,155,022
Performance (tonnes of waste processed)	**41,815**	37,731	**118,880**	99,733
Revenue				
Energy sales *	**$ 40,904**	$ 27,038	**$ 117,527**	$ 87,172
Waste disposal sales	**4,098**	3,726	**11,709**	9,686
Other revenue	**902**	6,498	**2,658**	19,291
Total revenue	**$ 45,904**	$ 37,262	**$ 131,894**	$ 116,149
Expenses				
Operating expenses *	**(26,333)**	(19,240)	**(72,673)**	(62,201)
Interest and other income	**1,046**	2,510	**3,767**	6,038
Realized gain (loss) on derivative financial instruments	**(165)**	1,852	**1,510**	3,719
Business unit operating profit (including interest and dividend income)	**$ 20,452**	$ 22,384	**$ 64,498**	$ 63,705

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

Power Generation & Development participates in the renewable and thermal energy generation sectors, delivering attractive returns through the use of proven technologies and long term power purchase agreements ("PPA"). Power Generation & Development also develops Algonquin's 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 third quarter of 2008, the Power Generation & Development business unit produced 400,386 MW-hrs of electricity compared to 333,398 MW-hrs in the comparable period of the previous year. In the third quarter of 2008 operations at the Thermal Energy division's EFW facility processed 41,815 tonnes of municipal solid waste compared to 37,731 tonnes in the same period of 2007. For the quarter ended September 30, 2008, revenue in Power Generation & Development totalled $45.9 million as compared to $37.3 million during the same period in 2007.

For the nine months ended September 30, 2008, the Power Generation & Development business unit produced 1,266,732 MW-hrs of electricity as compared to 1,155,022 MW-hrs in the comparable period of the previous year. For the first three quarters, EFW processed 118,880 tonnes of waste compared with 99,733 tonnes of waste in the previous year. For the nine months ended September 30, 2008, revenue in Power Generation & Development totalled $131.9 million as compared to $116.1 million during the same period in 2007.

The analysis of the quarterly and year to date results are discussed in more detail in the divisional analysis below (See POWER GENERATION & DEVELOPMENT: Renewable Energy Division and Thermal Energy division, below).

For the quarter ended September 30, 2008, revenue from energy sales in Power Generation & Development totalled $40.9 million as compared to $27.0 million during the same period in 2007. For the nine months ended September 30, 2008, revenue from energy sales in Power Generation & Development totalled $117.5 million as compared to $87.2 million during the same period in 2007.

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 September 30, 2008, operating expenses totalled $26.3 million as compared to $19.2 million for the same period in 2007. For the nine months ended September 30, 2008, operating expenses totalled $72.7 million as compared to $62.2 million during the same period in 2007.

During the three and nine months ended September 30, 2008, Algonquin earned lower interest and other income related to its investments as compared to the same period in 2007. The comparable period included the recognition at the St. Leon facility of interest income earned on unpaid liquidated damages up to September 2007, the commercial operation date of the facility.

The realized portion of gain or loss on derivative financial instruments consists of any actual gains on the foreign exchange forward contracts and interest rate swaps settled in the quarter. Unrealized gains or losses on derivative financial instruments are not considered in management's evaluation of divisional performance and therefore are reported in the Corporate segment.

For the quarter ended September 30, 2008, the business unit operating profit totalled $20.5

million as compared to $22.4 million during the same period of 2007 representing a decrease of 8.5%. For the nine months ended September 30, 2008, the business unit operating profit totalled $64.5 million as compared to $63.7 million during the same period of 2007 representing an increase of 1.5%. For the three and nine months ended September 30, 2008, the business unit operating profit met Algonquin's expectations.

Outlook – Power Generation & Development

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

The Renewable Energy division's PPAs with Hydro-Quebec generally run on an annual basis December 1 to November 30. These PPAs include provisions which limit the average energy rate earned on generated power in excess of 120% of a facility's long term historical averages. As a result of significantly higher than long term average hydrology experienced during the year, Algonquin anticipates that three facilities in the Quebec region will exceed the 120% thresholds in the fourth quarter of 2008. In the event this occurs, the facility will earn a lower rate on any incremental energy production above this threshold which could reduce revenue in the fourth quarter from expected long term averages by approximately $0.2 million.

As a result of certain legislation passed in Quebec (Bill C93), Algonquin's Renewable Energy division 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 costs of approximately $0.7 million to date and anticipates incurring a further $0.3 million during 2008 and 2009 to complete the required assessments. Upon completion of these assessments, Algonquin is required to submit plans for undertaking any remedial measures that are 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 $11.5 million. Algonquin anticipates that these expenditures will be required to be invested through 2012. The majority of these capital costs are associated with the Donnacona, St. Alban and Mount-Laurier facilities. Algonquin does not anticipate any significant impact on power generation or revenue associated while the dam safety work is ongoing. 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.

The Thermal Energy division's EFW facility is expected to operate in line with Algonquin's expectations during the remainder of 2008. Operational stability has improved in the last nine 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 95,000 tonnes of waste from landfill sites.

The Thermal Energy division's 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 fourth quarter of 2008.

The Power Generation & Development business unit will continue to seek accretive acquisitions throughout 2008 and 2009, with emphasis placed on the acquisition of facilities that provide diversification of regional 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:

Renewable Energy Division

	Three Months ended September 30		Nine Months ended September 30	
	2008	**2007**	**2008**	**2007**
Performance (MW-hrs sold)				
Quebec Region	**84,202**	60,406	**241,305**	205,510
Ontario Region	**34,904**	16,761	**114,053**	91,339
Manitoba Region	**79,167**	72,110	**271,807**	261,375
New England Region *	**15,295**	4,024	**63,884**	42,359
New York Region	**13,567**	6,905	**66,539**	55,126
Western Region	**25,708**	24,215	**56,260**	59,492
Total	**252,843**	184,421	**813,848**	715,201
Revenue				
Energy sales *	**$ 16,878**	$ 9,238	**$ 56,374**	$ 34,624
Other revenue	**-**	4,715	**-**	15,457
Total revenue	**$ 16,878**	$ 13,953	**$ 56,374**	$ 50,081
Expenses				
Operating expenses *	**(5,304)**	(2,497)	**(15,855)**	(11,143)
Other income	**193**	1,337	**970**	2,129
Realized Gain (Loss) on derivative financial instruments	**(215)**	30	**(306)**	(15)
Division operating profit (including other income)	**$ 11,552**	$ 12,823	**$ 41,183**	$ 41,052

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

In the quarter ended September 30, 2008, the Renewable Energy division produced 252,843 MW-hrs of electricity as compared to 184,421 MW-hrs in the same period in 2007, an increase of 37.1%. This level of production in the third quarter of 2008 represents sufficient renewable energy to supply the equivalent of 56,400 homes with renewable power. Using new standards of thermal generation, as a result of renewable energy production, the equivalent of 140,000 tons of CO2 gas was prevented from entering the atmosphere in the third quarter of 2008.

In the nine months ended September 30, 2008 the Renewable Energy division produced 813,848 MW-hrs of electricity compared to 715,201 MW-hrs in the same period in 2007, an increase of 13.8%. This level of production represents sufficient renewable energy to supply the equivalent of 60,400 homes with renewable power in the first nine months of 2008. Using new standards of thermal generation, as a result of renewable energy production, the equivalent of 448,000 tons of CO2 gas was prevented from entering the atmosphere in the first three quarters of 2008.

The most recent rates earned by Algonquin's renewable energy facilities are set out in the Annual Information Form for the year ended December 31, 2007. As Algonquin's facilities in the New England region are primarily subject to market rates, the average revenue earned per MW-hr sold can vary significantly from the same period in the prior year. Algonquin's facilities in the other regions are subject to varying rates, by facility, as set out in the facilities individual PPA. As such, while most of Algonquin's PPAs include annual rate increases, a change to the weighted average production levels resulting in higher average production from facilities which earn lower energy rates can result in a lower weighted average energy rate earned by the division as compared to the same period in the prior year.

For the quarter ended September 30, 2008, revenue from energy sales in the Renewable Energy division totalled $16.9 million as compared to $9.2 million during the same period in 2007, an increase of $7.7 million. During the third quarter of 2008, the division generated electricity equal to 115% of long term projected average resources (wind and hydrology) as compared to 84% during the same period in 2007. In the third quarter of 2008, a number of regions experienced resources at significantly higher levels than long term average including the Quebec region which was 26% above long term averages, the Ontario region which was 8% above long term averages, and the New England region which was 123% above long term averages. All other regions experienced above long term average resources in the third quarter of 2008. This compares to the same period in 2007 when all regions experienced below long term average resources.

The increase in revenue from energy sales as compared to the third quarter of 2007 was primarily the result of an increase of $3.8 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. Energy production at St. Leon while the facility earned liquidated damages has been included in the Manitoba regional 'Performance' numbers in the comparative period. Weighted average energy rates earned by Algonquin's U.S. facilities increased by 11% primarily due to increased market rates earned in the New England region as compared to the same period in 2007. Weighted average energy rates earned by Algonquin's Canadian facilities decreased by 1% primarily due to changes in the weighted average production at facilities earning lower energy rates as compared to the same period in 2007. Revenue increased $1.1 million in the U.S. regions resulting from higher energy production and weighted average energy rates and $2.3 million in the Quebec, Ontario and Western regions resulting from higher energy production and weighted average energy rates. In the comparable period, the majority of revenue from the St. Leon facility consisted of liquidated damages and was recorded as Other Revenue.

For the nine months ended September 30, 2008, revenue from energy sales in the Renewable Energy division totalled $56.4 million as compared to $34.6 million during the same period in 2007. During the nine months ended September 30, 2008, the division generated electricity equal to 107% of long term projected average resources (wind and hydrology) as compared to 95% during the same period in 2007. In the first three quarters of 2008, a number of regions experienced resources at significantly higher levels than long term average including the Quebec region which was 16% above long term averages and the New England region which was 36% above long term averages. All other regions experienced above long term average resources in the first three quarters of 2008. 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 first nine months of 2007 was primarily the result of an increase of $14.2 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. Energy production at St. Leon while the facility earned liquidated damages has been included in the Manitoba regional

'Performance' numbers in the comparative period. Weighted average energy rates earned by Algonquin's U.S. facilities increased by 26% primarily due to increased market rates earned in the New England region as compared to the same period in 2007. Weighted average energy rates earned by Algonquin's Canadian facilities decreased by 1% primarily due to changes in the weighted average production at facilities earning lower energy rates as compared to the same period in 2007. There were also increases of $3.6 million resulting from higher energy production and weighted average energy rates in the U.S. regions and $3.7 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 $0.4 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 in the amount of $4.7 million in the third quarter and $15.5 million in the first three quarters of the prior period. 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 September 30, 2008, operating expenses totalled $5.3 million as compared to $2.5 million during the same period in 2007, an increase of $2.8 million. Operating expenses were impacted by increased operating and variable costs tied to production and insurance, totalling $0.4 million. Additional cost increases were due to $0.1 million at the St. Leon facility from achieving commercial operation, costs of $0.6 million associated with various growth and development activities and an increase of $0.4 million in repairs and maintenance projects as compared to the same period in 2007. The expenses in the comparative period include a non-recurring recovery of operating expenses at the St. Leon facility.

For the nine months ended September 30, 2008, operating expenses totalled $15.9 million as compared to $11.1 million during the same period in 2007, an increase of $4.8 million. Operating expenses were impacted by increased operating and variable costs tied to production and insurance, totalling $1.3 million. Additional cost increases were due to an increase of $0.5 million in repairs and maintenance projects initiated in the period, costs of $1.2 million associated with the pursuit of various growth and development activities, and increased operating costs of $0.3 million at the St. Leon facility due to the achievement of commercial operation as compared to the same period in 2007. These increases were 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 expenses in the comparative period include a non-recurring recovery of operating expenses at the St. Leon facility.

During the three and nine months ended September 30, 2008, Algonquin earned lower interest and other income related to its renewable energy investments as compared to the same period in 2007. In addition, the comparable period included the recognition at the St. Leon facility of interest income earned on unpaid liquidated damages up to September 2007, the commercial operation date of the facility.

The realized portion of gain on financial instruments consists of any actual gains on the foreign exchange forward contracts and interest rate swaps settled in the quarter. Unrealized gains or losses on derivative financial instruments are not considered in management's evaluation of divisional performance and therefore are reported in the Corporate segment.

For the quarter ended September 30, 2008, the Renewable Energy division's operating profit totalled $11.6 million as compared to $12.8 million during the same period of 2007, representing a decrease of 9.4%. For the nine months ended September 30, 2008, operating profit totalled $41.2 million as compared to $41.0 million during the same period of 2007. For the three and nine months ended September 30, 2008, operating profit exceeded Algonquin's expectations primarily due to greater than long term average resource availability.

Divisional Outlook – Renewable Energy

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

As a result of certain legislation passed in Quebec (Bill C93), the Company is required to undertake technical assessments of eleven of the twelve hydroelectric facility dams owned or leased within the Province of Quebec. The potential impact of these assessments is discussed in further detail within this MD&A (see POWER GENERATION & DEVELOPMENT: above)

POWER GENERATION & DEVELOPMENT:

Thermal Energy Division

	Three Months ended September 30		Nine Months ended September 30	
	2008	**2007**	**2008**	**2007**
Performance (MW-hrs sold) *	**147,543**	148,977	**452,884**	439,821
Performance (tonnes of waste processed)	**41,815**	37,731	**118,880**	99,733
Revenue				
Energy sales *	**$ 24,026**	$ 17,800	**$ 61,153**	$ 52,548
Waste disposal sales	**4,098**	3,726	**11,709**	9,686
Other revenue	**902**	1,783	**2,658**	3,834
Total revenue	**$ 29,026**	$ 23,309	**$ 75,520**	$ 66,068
Expenses				
Operating expenses *	**(21,029)**	(16,743)	**(56,818)**	(51,058)
Interest and other income	**853**	1,173	**2,797**	3,909
Realized gain on derivative financial instruments	**50**	1,822	**1,816**	3,734
Division operating profit (including interest and dividend income)	**$ 8,900**	$ 9,561	**$ 23,315**	$ 22,653

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

In the third quarter of 2008 the Thermal Energy division's EFW facility processed 41,815 tonnes of municipal solid waste compared to 37,731 tonnes in the same period of 2007, an increase of 10.8%. For the first three quarters, EFW processed 118,880 tonnes of waste compared with 99,733 tonnes of waste in the previous year, an increase of 19.2%. This level of production resulted in the diversion of approximately 29,300 tonnes of waste from landfill sites in the third quarter of 2008 and 82,800 tonnes of waste from landfill sites in the first three quarters of 2008.

For the quarter ended September 30, 2008, revenue in the Thermal Energy division totalled $29.0

million as compared to $23.3 million during the same period in 2007, an increase of $5.7 million. During the quarter ended September 30, 2008, the business unit's Brampton Co-generation ("BCI") steam sales facility was operating for the full quarter having reached commercial operation in June 2008. As a result, a portion of the steam generated by the incineration processes at the EFW facility is now being utilized by BCI for steam sales rather than being used to generate electricity. Although this has resulted in the decrease in electrical generation from EFW's steam turbine of 7,100 MW-hrs it is being more than off set from the new steam sales by BCI. In addition, the decrease in electrical generation was partially offset by increases of 2,300 MW-hrs at the Sanger Facility as a result of the re-powering project and 3,400 MW-hrs due to increased production at the Landfill Gas ("LFG") facilities as compared to the same period in 2007. Throughput at the EFW facility improved from the previous quarter of 2008 and from the same period in 2007, in part due to certain capital projects completed in the second quarter of 2008.

For the quarter ended September 30, 2008, energy sales revenue at the Thermal Energy division totalled $24.0 million as compared to $17.8 million during the same period in 2007 an increase of $6.2 million. The increase in revenue from energy sales as compared to the third quarter of 2007 was primarily due to increases of $1.4 million as a result of increased production and higher energy rates at the Sanger facility, $3.2 million as a result of increased energy rates at the Windsor Locks facility, $0.5 million as a result of increased production and energy rates at the LFG facilities and $1.4 million as a result of the BCI steam sales facility achieving commercial operation, in June 2008. These increases were offset by a decrease of $0.4 million as a result of a portion of the steam generated by the incineration processes at the EFW facility being used by BCI instead of being used to generate electricity. 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 $0.2 million from operations as a result of the stronger Canadian dollar as compared to the same period of 2007.

For the nine months ended September 30, 2008, revenue in the Thermal Energy division totalled $75.5 million as compared to $66.1 million during the same period in 2007, an increase of $9.4 million. During the quarter ended September 30, 2008, the business unit's performance increased 14,700 MW-hrs at the Sanger Facility as a result of the re-powering and 9,100 MW-hrs due to increased production at the LFG facilities, partially offset by lower demand of 4,200 MW-hrs at the Windsor Locks facility and lower energy production of 6,200 MW-hrs at the EFW facility for the reasons discussed above 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. Throughput at EFW in the prior period was negatively impacted by a 14 day planned major outage and unplanned repairs to the evaporative cooling towers.

For the nine months ended September 30, 2008, energy sales revenue at the Thermal Energy division totalled $61.1 million as compared to $52.5 million during the same period in 2007, an increase of $8.6 million. The increase in revenue from energy sales as compared to the comparable period of 2007 was primarily due to increases of $3.7 million as a result of increased production and energy rates at the Sanger facility, $2.1 million as a result of the BCI steam sales facility achieving commercial operation in June 2008, $1.2 million as a result of increased production and higher energy rates at the LFG facilities and $5.6 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 and $0.3 million at the EFW facility for the reasons discussed above. The division reported lower revenue of $3.7 million from operations as a result of the stronger Canadian dollar as compared to the same period of 2007.

Revenue from waste disposal sales for the quarter ended September 30, 2008 totalled $4.1 million as compared to $3.7 million during the same period in 2007, an increase of $0.4 million. 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 nine months ended September 30, 2008 totalled $11.7 million as compared to $9.7 million during the same period in 2007, an increase of $2.0 million. 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 September 30, 2008, operating expenses totalled $21.0 million as compared to $16.7 million during the same period in 2007, an increase of $4.3 million. 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 makes up approximately 75% of operating expenses at the Sanger facility. Natural gas expense increased by $0.5 million, or 27%, primarily as a result of a 53% increase in the price for natural gas as compared to the same period in 2007. The increase was partially offset by improved efficiencies as a result of the re-powering project completed in the fourth quarter of 2007. Natural gas expense makes up approximately 90% of operating expenses at the Windsor Locks facility. Natural gas expense at the Windsor Locks facility increased by $2.9 million, or 36%, as a result of a 38% increase in the price for natural gas as compared to the same period in 2007. The results also include $0.7 million as a result of the operating costs of the BCI steam sales project and $0.2 million associated with the pursuit of various growth opportunities as compared to the same period in 2007. The reported operating costs at the BCI facility exclude the cost of purchasing steam from the EFW facility as this is eliminated upon consolidation. The division reported lower operating expenses of $0.1 million from U.S. operations as a result of a stronger Canadian dollar.

For the nine months ended September 30, 2008, operating expenses totalled $56.8 million as compared to $51.1 million during the same period in 2007, an increase of $5.7 million. 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 $1.3 million or 21%, primarily as a result of a 34% increase in the price for natural gas as compared to the same period in 2007. The increase was partially offset by improved efficiencies as a result of the re-powering project. Natural gas expense at the Windsor Locks facility increased by $3.9 million, or 19%, as a result of a 20% increase in the price for natural gas as compared to the same period in 2007. The results also include $1.2 million as a result of the operating costs of the BCI steam sales facility, $0.4 million at the Sanger facility resulting from increased operating costs, $0.5 million at the EFW facility primarily resulting from increased operating costs, supplies and natural gas expense, $0.6 million at the LFG facility primarily resulting from increased operating and repair and maintenance expenses, $0.2 million associated with the pursuit of various growth opportunities and $0.5 million at the Valley Power facility primarily resulting from increased operating and repair and maintenance expenses in the three quarters as compared to the same period in 2007. The reported operating costs at the BCI facility exclude the cost of purchasing steam from the EFW facility as this is eliminated upon consolidation. The division reported lower operating expenses of $3.0 million from U.S. operations as a result of a stronger Canadian dollar.

During the quarter ended September 30, 2008, Algonquin earned lower interest and other income of $0.2 million related to its landfill gas investments as compared to the same period in 2007. During the nine months ended September 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 $0.2 million from its investments in two co-generation facilities as compared to the same period in 2007. In addition, the comparable period included $0.9 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 actual gains on the foreign exchange forward contracts and interest rate swaps settled in the quarter. Unrealized gains or losses on derivative financial instruments are not considered in management's evaluation of divisional performance and therefore are reported in the Corporate segment.

For the quarter ended September 30, 2008, the Thermal Energy division's operating profit totalled $8.9 million, as compared to $9.6 million during the same period in 2007 representing a decrease of 7.3%. For the nine months ended September 30, 2008, operating profit totalled $23.3 million, as compared to $22.7 million during the same period in 2007, representing an increase of 2.6%. Although the Thermal Energy division has shown improved performance during the third quarter and in the first three quarters of 2008 compared to the same periods in 2007, operating profit in the Thermal Energy division did not meet the Company's expectations for the three and nine months ended September 30, 2008 due to increased operating and other expenses related to the Division's LFG assets.

Divisional Outlook – Thermal Energy

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

POWER GENERATION & DEVELOPMENT:

Development Division

The Development division focuses on the development of renewable and high efficiency thermal energy generation projects in North America with a commitment to working pro-actively with communities and other stakeholders. The Development division is lead by 5 dedicated employees based out of the Company's head office. In addition, the division has access to and support from all of the available resources and experience within the Company to assist it in the development of projects, including finance, engineering and technical services as well as regulatory compliance. Development is working to actively identify, develop and construct new renewable and high efficiency 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 high efficiency 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

The recent commissioning of the BCI facility and the commissioning of the repowered Sanger facility has provided the Development division with an opportunity to focus resources on identifying and refining future development projects.

Algonquin has entered into a joint development agreement with an unrelated third party corporation to develop a 25 MW Red Lily Wind Project in south-eastern Saskatchewan. In July 2008 a PPA for the facility was executed with SaskPower after the project was successfully bid into a SaskPower Environmentally Preferred Power Strategy Request for Proposal. In October 2008 the Project submitted a Notice of Project Application with Natural Resources Canada under the ecoENERGY for Renewable Power Program. In addition the Environmental Assessment is expected to be submitted to the appropriate agencies in the 4th quarter and the project financing is being pursued with a variety of debt and equity options. In the event the project is developed, it is currently estimated to require an investment of approximately $70 million and would be operational by March 31, 2011.

Algonquin is also pursuing the re-development of the Windsor Locks facility in Connecticut. As the current PPA reaches maturity in 2010, a variety of options for alternative sales of energy or re-powering of the facility's prime power plant with equipment to match the current steam demand of the paper mill host are being fully reviewed.

Future Development Projects – Greenfield Projects

There are a number of future greenfield development projects which are being actively pursued by the Development division. These projects encompass several new wind energy projects, including six wind projects in Canada having a potential generation capacity of over 250 MW, hydroelectric projects at different stages of investigation and opportunities for involvement in a 19 MW combined cycle high efficiency thermal energy generation project. The projects being examined are located both in Canada and the United States.

On August 1, 2008, Algonquin advanced $0.5 million to Windlectric Inc. a corporation formed to pursue the development of a wind power projects in Canada for Algonquin. The advance was used to cover development costs incurred and to acquire the right to invest in a Canadian wind project. The Development division and Windlectric are currently pursuing an 80 MW wind project. In the event the project is developed, it is currently estimated to require an investment of up to $250 million and would be constructed after environmental approvals are granted, a process that has been initiated and is currently estimated to require 2 to 3 years to complete. Windlectric is controlled 50% by APMI and 50% by an unrelated third party corporation who is also working with Algonquin on the Saskatchewan wind project. APMI holds its interest in Windlectric on behalf of Algoqnuin. Under the terms of the arrangement, Algonquin has the right to acquire the project at cost upon completion.

In 2008 Algonquin made a strategic decision to maintain land option agreements for two wind projects in Quebec in anticipation of future provincial tenders expected in the fourth quarter of 2008 or the first quarter of 2009 for wind projects of a 25 MW maximum size. In addition, Algonquin has maintained a relationship with a development co-op comprised of landowners and other small investors for the potential development of a third project in response to the expected call for tender.

Algonquin is also continuing to monitor the Ontario Power Authority's position on the Standard Offer Program which was suspended in the summer of 2008 with respect to project opportunities in Ontario.

Each project being contemplated is subject to a significant level of due diligence and financial modeling to ensure it satisfies return and diversification objectives established for the Development division. Accordingly, the likelihood of proceeding with some or all of these projects depends on outcome of due diligence and material contract negotiations.

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.

Renewable Energy

The St. Leon Wind Project achieved commercial operation status under its PPA with the Manitoba Hydro Electric Board in June 2006. Algonquin is exploring multiple options to continue to build on the success of this project including pursuing a future adjacent project and/or pursuing an increase in the installed capacity of the existing facility. The projects being reviewed have a potential generation capacity of over 85 MW. In the event these projects are developed, it is currently estimated to require an investment in excess of $250 million.

Thermal Energy

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 steam that is used in the production of electricity and internal steam load at a nearby recycled paper board manufacturing mill. Algonquin established BCI to operate the required facilities to supply steam to the nearby paper board customer and pursue additional steam load customers.

The Development division is currently reviewing several proposals at the EFW facility to expand its power generation and waste processing throughput capacity. An investment of approximately $250 million is being contemplated which could increase the generating capacity at the facility and increase waste processing throughput by over 100,000 tonnes annually or 275 tonnes per day. Algonquin is currently evaluating the feasibility of an expanded facility including associated capital and operating costs and financing terms. Algonquin is also engaged in discussions with the Region of Peel to establish a new long term contract for a reliable supply of municipal solid waste.

As a result of the re-powering of the Sanger facility, 14MW of additional production is available, after an additional investment of approximately U.S. $2.0 million, in excess of what is currently being sold under the existing PPA under which the facility operates. The Development division is currently reviewing the options to market this increased capacity at the Sanger Facility.

Divisional Outlook - Development

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 clean power generation projects. The North American renewable energy market is experiencing substantial growth, supported by increases in the demand for greater installed capacity of renewable energy projects. Canada has seen average annual growth of over 30% for the last 5 years in the wind energy industry. In the United States $9.0 billion was invested to construct 5.3 gigawatts of new U.S. wind power capacity in 2007. Algonquin will continue to actively pursue development projects which provide the opportunity to exhibit accretive growth. Algonquin anticipates its involvement in many future opportunities as initiatives designed to support independent power producers are being supported by virtually every Canadian province and a significant number of U.S. states.

UTILITY SERVICES

	Three Months ended September 30		Nine Months ended September 30	
	2008	**2007**	**2008**	**2007**
Number of				
Waste-water customers	**32,704**	32,276	**32,704**	32,276
Waste-water treated (millions of gallons)	**450**	500	**1,400**	1,450
Water distribution customers	**36,108**	35,360	**36,108**	35,360
Water sold (millions of gallons)	**1,800**	1,750	**4,300**	4,250
Revenue				
Waste-water treatment	**$ 4,348**	4,374	**$ 11,270**	11,786
Water distribution	**4,603**	4,591	**13,472**	13,105
Other Revenue	**229**	219	**655**	817
	$ 9,180	$ 9,184	**$ 25,397**	$ 25,708
Expenses				
Operating expenses	**(5,664)**	(4,367)	**(15,202)**	(13,191)
Other income	**-**	-	**47**	33
Realized gain on derivative financial instruments	**1,378**	1,003	**3,606**	2,162
Business Unit operating profit (including other income)	**$ 4,894**	$ 5,820	**$ 13,848**	$ 14,712

Utility Services had 32,704 waste-water customers as at September 30, 2008 compared to 32,276 as at September 30, 2007, an increase of 428 year over year or 1.3%. The business unit's water distribution customers were 36,108 as at September 30, 2008 compared to 35,360 as at September 30, 2007 representing a year over year increase of 748 customers or 2.1%. Utility Services' water distribution and waste-water treatment customer base declined marginally during the quarter ended September 30, 2008. The decline in water distribution and waste-water treatment customers primarily relates to an increase in vacant houses in the area serviced by the Litchfield Park ("LPSCo") facility, partially offset by limited organic growth at the other facilities largely due to the slow down in U.S. new residential home sales.

During the quarter ended September 30, 2008, Utility Services provided approximately 1.8 billion U.S. gallons of water to its customers, treated approximately 450 million U.S. gallons of waste-water and sold approximately 195 million U.S. gallons of effluent. During the nine months ended September 30, 2008, Utility Services provided approximately 4.3 billion U.S. gallons of water to its customers, treated approximately 1.4 billion U.S. gallons of waste-water and sold approximately 405 million U.S. gallons of effluent.

For the quarter ended September 30, 2008, revenue in Utility Services totalled $9.2 million, consistent with the same period in 2007. Revenue from waste-water treatment totalled $4.3 million, consistent with the same period in 2007. Revenue from water distribution totalled $4.6 million, consistent with the same period in 2007. The third quarter revenue was impacted by increased revenue of $0.2 million resulting from organic growth and increased customer demand at seven facilities offset by $0.2 million of decreased customer demand at ten facilities during the quarter as compared to the same period in 2007.

For the nine months ended September 30, 2008, revenue in Utility Services totalled $25.4 million as compared to $25.7 million during the same period in 2007. Revenue from waste-water treatment totalled $11.3 million, as compared to $11.8 million during the same period in 2007. Revenue from water distribution totalled $13.5 million, as compared to $13.1 million during the same period in 2007. Utility Services' waste-water treatment and water distribution customer base experienced marginal growth during the nine months ended September 30, 2008. The decrease in revenue as compared to the three quarters 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 waste-water treatment revenue of $1.0 million at the Gold Canyon facility due to the July 2007 rate increase, $0.3 million due to increased customer demand at the LPSCo facility combined with a net increase of $0.2 million resulting from organic growth and increased water usage at the remaining facilities during the three quarters as compared to the same period in 2007.

For the quarter ended September 30, 2008, operating expenses totalled $5.7 million, as compared to $4.4 million during the same period in 2007. Operating expenses were impacted by $0.4 million as a result of additional field personnel, contract and other operational expenses incurred, $0.2 million as a result of increased power and chemical expenses and $0.4 million as a result of increased billing and administrative expenses, as compared to the same period in 2007.

For the nine months ended September 30, 2008, operating expenses totalled $15.2 million, as compared to $13.2 million during the same period in 2007. Operating expenses were impacted by $1.5 million as a result of additional field personnel, contract and other operational expenses incurred, $0.4 million as a result of increased power and chemical expenses, $0.6 million as a result of increased billing and administrative expenses 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 as compared to the same period in 2007, which offset the increases.

The realized portion of gain on derivative 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 September 30, 2008, operating profit totalled $4.9 million as compared to $5.8 million during the same period in 2007, representing a decrease of 15.5%. For the nine months ended September 30, 2008, operating profit totalled $13.8 million as compared to $14.7 million during the same period in 2007 representing a decrease of 6.1%. Operating profit did not meet the Company's expectations for the three and nine months ended September 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

Utility Services is expecting a continued lowered organic growth rate with approximately 1% average annual 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 a number of its facilities. The LPSCo and Black Mountain facilities are anticipated to initiate rate cases during the fourth quarter of 2008 with test years falling during the 2008 fiscal year. The Rio Rico, Northern Sunrise and Southern Sunrise facilities are preparing to initiate rate cases during the first quarter of 2009 using test years ending December 31, 2008. The Bella Vista facility is preparing to initiate a rate case in 2009. All of these facilities are located in Arizona. The four Silverleaf Texas utilities are preparing to initiate a rate case in early 2009 with a test year ending December 31, 2008. It is anticipated that regulatory review of the rates and tariffs for the Arizona facilities would be completed in the second half of 2009 with the new rates and tariffs going into effect in the first half of 2010. Due to differences in the regulatory climate between Arizona and Texas, it is anticipated that changes in the rates and tariffs for the Texas facilities would be in effect in mid 2009. While a firm forecast of rate increases at these facilities is not possible as the rate case processes are in the early stages and are subject to regulatory approval, the resolution of the rate cases noted above is expected to potentially result in increased annual earnings in Utility Services of more than U.S. $10 million in 2010. 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.

Various capital projects in several utilities have achieved substantial completion or are expected to be completed during the remainder of 2008. 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 September 30		Nine Months ended September 30	
	2008	**2007**	**2008**	**2007**
Corporate and other expenses:				
Administrative expenses	**2,437**	2,388	**6,606**	6,074
Management costs	**224**	213	**669**	646
Loss / (Gain) on foreign exchange	**1,277**	(2,362)	**1,679**	(6,946)
Interest expense	**6,774**	6,618	**20,576**	19,664
Interest, dividend and other Income	**(764)**	(28)	**(817)**	(1,877)
Loss / (Gain) on derivative financial instruments	**6,432**	785	**11,738**	8,720
Income tax expense	**2,874**	(2,434)	**4,746**	20,723

OVERVIEW

Corporate and other expenses

During the quarter ended September 30, 2008, administrative expenses totalled $2.4 million, consistent with the same period in 2007. During the nine months ended September 30, 2008, administrative expenses totalled $6.6 million as compared to $6.1 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 the Company's current cash position. For the quarter ended September 30, 2008 Algonquin reported a foreign exchange loss of $1.3 million as compared to a gain of $2.4 million during the same period in 2007. For the nine months ended September 30, 2008 Algonquin reported a foreign exchange loss of $1.7 million as compared to a gain of $6.9 million during the same period in 2007. The 2008 fiscal year has experienced an increase in value of the U.S. dollar of 4% in the quarter and 6% in the year and created unrealized losses on Algonquin's U.S. denominated debt. This compares to the 2007 fiscal year which experienced a decline in the value of the U.S. dollar of 6% in the quarter and 16% in the year which created unrealized gains on Algonquin's U.S. denominated debt. At the end of the third quarter, Algonquin had approximately $34.0 million in U.S. dollar denominated debt.

For the quarter ended September 30, 2008, interest expense totalled $6.8 million as compared to $6.6 million in the same period in 2007. For the nine months ended September 30, 2008, interest expense totalled $20.6 million as compared to $19.7 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.

For the quarter ended September 30, 2008, other income totalled $0.8 million as compared to nil in the same period in 2007. Algonquin recognized a gain during the quarter pursuant to the sale of land rights, wind studies and other assets related to the potential development of a Canadian wind farm. For the nine months ended September 30, 2008, other income totalled $0.8 million as compared to $1.9 million in the same period in 2007. The comparative period includes a termination fee related to Algonquin's offer to purchase the outstanding units of CPIF.

Gain or loss on derivative financial instruments consists of unrealized gains on foreign exchange forward contracts and interest rate swaps during 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 the Company's current cash position and are not considered in management's evaluation of divisional performance. Therefore, the unrealized portion of any gains or losses on derivative instruments is not allocated to specific divisions and is reported in the Corporate segment.

An income tax expense of $2.9 million was booked in the third quarter of 2008, as compared to a recovery of $2.4 million during the same period in 2007. A significant number of capital projects were completed during the quarter in the U.S., primarily at the LPSCo facility. These capital projects in the U.S. are entitled to record 'bonus depreciation' for tax purposes, resulting in an increased future tax expense recorded in the three and nine months ending September 30, 2008. An income tax expense of $4.7 million was booked in the first nine months of 2008, as compared to $20.7 million during the same period in 2007. In the comparative period, a non-recurring charge of $27.9 million was expensed relating to the substantive enactment of new Canadian tax regulations which were not reflected in the comparable period in 2007 (see Risk Management – Changes to income tax laws).

Reconciliation of EBITDA to net earnings

The following tables are derived from and should be read in conjunction with the Consolidated Statement of Earnings. This supplementary disclosure is intended to more fully explain disclosures related to EBITDA and provides additional information related to the earnings of the Company. Investors are cautioned that these measures should not be construed as an alternative to GAAP consolidated statement of earnings.

	Three Months ended September 30		Nine Months ended September 30	
	2008	**2007**	**2008**	**2007**
Net earnings (loss) from continuing operations	**$ (4,406)**	$ 13,013	**$ 2,057**	$ 17,288
Add:				
Income tax provision (recovery)	**2,874**	(2,435)	**4,746**	20,723
Interest expense	**6,774**	6,618	**20,576**	19,664
(Gain) / loss on derivative financial instruments	**5,219**	(3,306)	**6,622**	(14,266)
(Gain) / loss on foreign exchange	**1,277**	(2,362)	**1,679**	(6,946)
Amortization	**11,067**	10,465	**32,310**	31,791
Other	**(569)**	783	**(1,218)**	(561)
EBITDA	**$ 22,236**	$ 22,776	**$ 66,772**	$ 67,693

Adjusted Net earnings/(loss)

Net earnings/(loss) of Algonquin can be impacted positively or negatively by gains and losses on derivative financial instruments, including foreign exchange forward contracts, interest rate swaps as well as to movements in foreign exchange rates on foreign currency denominated debt and working capital balances. Future income tax expense, a non-cash item, also introduces volatility in net earnings/(loss). Algonquin uses adjusted net earnings to assess the net earnings of the Fund without the effects of gains or losses on foreign exchange, foreign exchange forward contracts, interest rate swaps and future income taxes as these are primarily non-cash items that are not reflective of the performance of the underlying business of the Company. Algonquin believes that analysis and presentation of net earnings or loss on this basis will enhance an investor's understanding of the operating performance of Algonquin's businesses. It is not intended to be representative of net earnings or loss determined in accordance with GAAP.

The following table shows net earnings/(loss) exclusive of these items:

	Three Months ended September 30 2008	2007	Nine Months ended September 30 2008	2007
Net earnings (loss) from continuing operations	**$ (4,406)**	$ 13,013	**$ 2,057**	$ 17,288
Add:				
Future income tax provision (recovery)	**2,587**	(2,641)	**4,265**	20,129
(Gain) / loss on derivative financial instruments	**5,219**	(3,306)	**6,622**	(14,266)
(Gain) / loss on foreign exchange	**1,277**	(2,362)	**1,679**	(6,946)
Adjusted net earnings	**$ 4,677**	$ 4,704	**$ 14,623**	$ 16,205
Adjusted net earnings per unit	**$ 0.06**	$ 0.06	**$ 0.20**	$ 0.22

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.

	Three Months ended September 30 2008	2007	Nine Months ended September 30 2008	2007
Cash provided by (used in) Continuing Operations [1]	**$ 21,599**	$ 14,010	**$ 53,008**	$ 41,132
Changes in working capital	**(4,490)**	5,781	**(810)**	14,411
	17,109	19,791	**52,198**	55,543
Receipt of principal on notes receivable	**79**	452	**232**	1,083
Repayment of long term liabilities	**(619)**	(219)	**(1,667)**	(838)
Maintenance capital expenditures [2]	**(1,373)**	(1,383)	**(3,107)**	(3,235)
Other – non-recurring [3]	**-**	(167)	**(634)**	(128)
Cash available for distribution	**$ 15,196**	$ 18,474	**$ 47,022**	$ 52,425
Add Back:				
Maintenance expenditures	**1,372**	1,383	**3,107**	3,235

	Three Months ended September 30 2008	2007	Nine Months ended September 30 2008	2007
Deduct:				
Net growth, maintenance and other expenditures	**(16,465)**	(13,003)	**(36,839)**	(26,985)
Cash available for distribution after growth and maintenance capital expenditures	**$ 103**	$ 6,854	**$ 13,290**	$ 28,675
Distribution to Unitholders	**$ 18,019**	$ 17,471	**$ 52,981**	$ 52,442
Per Trust Unit				
Cash provided by (used in) Continuing Operations	**$ 0.28**	$ 0.19	**$ 0.71**	$ 0.56
Cash available for distribution	**$ 0.19**	$ 0.24	**$ 0.61**	$ 0.69
Cash available for distribution after net growth and maintenance expenditures	**$ 0.00**	$ 0.09	**$ 0.17**	$ 0.38
Distributions to Unitholders	**$ 0.23**	$ 0.23	**$ 0.69**	$ 0.69
Distributions declared during the period	**$ 0.23**	$ 0.23	**$ 0.69**	$ 0.69

[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.

The change in cash provided by operating activities after changes in working capital in the nine months ended September 30, 2008 is primarily due to increased cash generated by operations, increased levels of trade accounts payables partially offset by lower income from derivative financial instruments, lower interest and other income and increased interest expense as compared to the same period in 2007.

Cash available for distribution in the quarter ending September 30, 2008 was $15.2 million compared to $18.5 million in the same period in 2007. The decrease in cash available for distribution is mostly due to lower income from derivative financial instruments, increased interest expense, and non-recurring cash flow items as compared to the same period in 2007. The one time cash flow items realized in the third quarter of 2007 relate to the recognition of interest income earned on unpaid liquidated damages and a non-recurring reduction in operating expenses related to the achievement of commercial operation at the St. Leon facility. 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.

Cash available for distribution in the nine months ended September 30, 2008 was $47.0 million compared to $52.4 million in the same period in 2007. The decrease in cash available for distribution is due to lower income from derivative financial instruments, lower interest and other income, increased interest expense and non-recurring cash flow items that occurred in 2007. The one time cash flow items realized in the first three quarters of 2007 include 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 $0.8 million in 2008 due to the commencement of principal repayment of the St. Leon debt facility. These decreases were partially offset by increased earnings from operations as compared to the same period in 2007.

During the quarter ended September 30, 2008, Algonquin generated $15.2 million or $0.19 per trust unit in cash available for distribution as compared to $18.5 million or $0.24 per trust unit for the same period in 2007. Algonquin distributed $18.0 million or $0.23 per trust unit during the quarter ended September 30, 2008, consistent with the same period in 2007.

During the nine months ended September 30, 2008, Algonquin generated $47.0 million or $0.61 per trust unit in cash available for distribution as compared to $52.4 million or $0.69 per trust unit for the same period in 2007. Algonquin distributed $53.0 million or $0.69 per trust unit during the nine months ended September 30, 2008, as compared to $52.4 million or $0.69 per trust unit for the same period in 2007.

Algonquin's distribution as a percentage of 'Cash available for distribution' ("Payout Ratio") was 118.6% during the quarter ended September 30, 2008 (2007 – 94.6%). Algonquin's Payout Ratio was 112.7% during the nine months ended September 30, 2008 (2007 – 100.0%).

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. On October 20, 2008, in order to strengthen Algonquin's financial position and support its growth initiatives, Algonquin reduced the cash distributions payable to Algonquin's Unitholders to $0.24 per unit per annum and are paid within 15 days following each month end commencing with the October 2008 distribution. See the Strategic Realignment section for a more detailed discussion of the change.

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 nine months ended September 30, 2008 and for the years ended December 31, 2007 and 2006.

	3 Months ended September 30 2008	**9 Months ended September 30 2008**	**Year ended December 31 2007**	**2006**
Cash flow from operating activities	**$ 21,599**	$ 53,008	**$ 40,427**	$ 69,332
Distributions paid during the period	**(18,019)**	(52,981)	**(69,923)**	(66,955)
Excess (shortfall) of cash flows from operating activities over cash distributions paid	**$ 3,580**	$ 27	**$ (29,496)**	$ 2,377
Net income (loss) from continuing operations	**$ (4,406)**	$ 2,057	**$ 24,763**	$ 30,728

	3 Months ended September 30 2008	9 Months ended September 30 2008	Year ended December 31 2007	2006
Distributions paid during the period	**(18,019)**	(52,981)	**(69,923)**	(66,955)
Excess (shortfall) of net income over cash distributions paid	**$ (22,425)**	$ (50,924)	**$ (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, issuing of additional trust units, convertible debenture offerings, cash on hand or additional borrowings under Algonquin's revolving credit facility.

Algonquin considers the amount of cash generated by the business, cash required for the Company's growth initiatives, funds required to satisfy current or future obligations including taxes in determining sustainable, normalized monthly distributions of cash 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. In particular Algonquin has a relatively high level of depreciation and amortization expense and has significant volatility in income due to fluctuations from the quarterly mark to market valuations of it's hedging instruments and interest rate swaps.

Summary of Property, Plant and Equipment Expenditures by Business Unit

	Three Months ended September 30 2008	2007	Nine Months ended September 30 2008	2007
POWER GENERATION & DEVELOPMENT				
Renewable Energy Division				
Maintenance expenditures	**$ 531**	$ 416	**$ 927**	$ 404
Growth and other expenditures	**147**	-	**7,705**	-
Total	**$ 678**	$ 416	**$ 8,632**	$ 404
Thermal Energy Division				
Maintenance expenditures	**$ 600**	$ 667	**$ 2,245**	$ 2,926
Growth and other expenditures	**94**	7,849	**3,132**	12,686
Total	**$ 694**	$ 8,516	**$ 5,377**	$ 15,612
UTILITY SERVICES BUSINESS UNIT				
Maintenance expenditures	**$ -**	$ -	**$ -**	$ -
Growth and other expenditures	**15,817**	4,194	**30,927**	11,703
Total	**$ 15,817**	$ 4,194	**$ 30,927**	$ 11,703
Consolidated (includes Corporate)				
Maintenance expenditures	**$ 1,166**	$ 1,121	**$ 3,283**	$ 3,492
Growth and other expenditures	**16,058**	12,043	**41,764**	24,389
Total	**$ 17,224**	$ 13,164	**$ 45,047**	$ 27,881

During the quarter ended September 30, 2008, Algonquin incurred growth and other property, plant and equipment expenditures of $16.1 million, as compared to $12.0 million during the comparable period in 2007. During the nine months ended September 30, 2008, Algonquin incurred growth and other property, plant and equipment expenditures of $41.8 million, as compared to $24.4 million during the comparable period in 2007.

During the nine months ended September 30, 2008, the Renewable Energy division's expenditures primarily relate to the Campbellford acquisition, a 4,000 kilowatt hydroelectric generating facility located on the Trent-Severn Waterway approximately four kilometres north of Campbellford, Ontario and various projects at the Great Falls, Clement, Chuteford and Dixon Dam facilities.

During nine months ended September 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 investment in the BCI steam sales facility. The Sanger project was completed in the fourth quarter of 2007 while the BCI facility was completed in the second quarter of 2008. In addition, these expenditures include approximately $1.5 million related to projects at the EFW facility, as compared to $1.9 million in the comparable period.

During the three and nine months ended September 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, reservoir capacity, engineering work regarding operational improvements at the waste-water treatment facility and additional arsenic treatment at the LPSCo facility. The business unit has initiated 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 $5.5 million, including $4.0 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 internally generated operating cash flows, working capital, it's revolving credit facility and through advances from developers.

Liquidity and Capital Reserves

At September 30, 2008, Algonquin had $7.4 million of cash. At September 30, 2008, Algonquin had net working capital of $1.9 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, future income taxes and cash distributions payable.

On October 20, 2008, in order to strengthen Algonquin's financial position and support its growth initiatives, Algonquin reduced the cash distributions payable to Algonquin's Unitholders to $0.24 per unit per annum commencing with the October 2008 distribution. See the Strategic Realignment section for a more detailed discussion of the change.

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 million 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 September 30, 2008, Algonquin had exercised $17.75 million of the accordion feature and therefore has committed $192.75 million on the Facilities from its bank syndicate. Algonquin has an unexercised amount of $32.25 million remaining on the accordion feature. Under the terms of the accordion feature, Algonquin's bank syndicate is not obligated to fund any additional draw requests. In this event, Algonquin is able to bring additional lenders into its banking syndicate. The Facilities also contain covenants which may limit amounts available to be drawn. Based on the covenants included in the Facilities, $9.1 of the unexercised accordion feature would, if exercised, be available to be drawn as at September 30, 2008.

As at September 30, 2008, Algonquin had drawn $144.8 million on its Facilities as compared to $126 million as at December 31, 2007 and $150 million as at June 30, 2008. In addition to amounts actually drawn, Algonquin also had $33.2 million in outstanding letters of credit leaving $14.8 million available to be drawn as at the end of the quarter.

On August 1, 2008, Algonquin issued approximately 3.5 million trust units pursuant to an agreement entered into on June 27, 2008 between Algonquin, Highground Capital Corporation ("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 acquired all of the issued and outstanding common shares of Highground and Algonquin issued approximately 3.5 million trust units of which approximately 3.1 million trust units were received by Highground shareholders as part of the agreement with the remaining trust units being retained by CJIG. Algonquin has recorded the units issued at the estimated fair value of the assets to be liquidated by Highground which, net of transaction costs of $0.8 million resulted in proceeds of the units being recorded at a value of $26.2 million. In connection with this transaction, Algonquin received: (a) net cash in an amount of $18.6 million; (b) the return of notes having an aggregate face value of approximately $4.8 million that were issued by Algonquin affiliates related to its St. Leon and BCI projects; and (c) a note receivable of $2.8 million. The note receivable bears interest at 10% and has been recorded as Long Term Investments on the balance sheet as at September 30, 2008. The note receivable will be satisfied from the receipt or liquidation of the remaining investments formerly held by Highground. The final consideration for the trust units is dependent on the proceeds realized from the liquidation of certain Highground investments. Algonquin's final consideration will be equal to the lesser of (a) $27.0 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 exceeds $27.0 million and (b) the value of all of the assets formerly owned by Highground after payment of the transaction costs. The value of any non-cash securities received by Algonquin will be determined through negotiation between the trustees of Algonquin and CJIG.

As at September 30, 2008, Algonquin had $152.0 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. The debt is generally non-recourse to Algonquin. Project debt repayments are deducted in the calculation of cash available for distribution.

Contractual Obligations`

Information concerning contractual obligations as of November 5, 2008 is shown below:

		Total		Due less than1 year		Due 2 to 3 years		Due 4 to 5 years		Due after 5 years
Long term debt obligations	$	300,756	$	3,694	$	151,609	$	70,622	$	74,831
Interest on Long term debt obligations	$	159,076		21,780		42,714		29,066		65,516
Accounts Payable	$	32,237		32,237		-		-		-
Derivative financial instruments: Currency Forward	$	1,898		-		660		1,238		-
Derivative financial instruments: Interest Rate Swap	$	3,917		249		3,280		290		98
Lease Payments	$	246		64		177		5		-
Other obligations	$	11,480		260		515		515		10,190
Total obligations	$	509,610	$	58,284	$	198,955	$	101,736	$	150,635

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 September 30, 2008, Algonquin had 77,371,836 issued and outstanding trust units with a total of 79,577,201 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.

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, 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. (See additional information in the Liquidity section above)

Pursuant to the takeover bid of AirSource Power Fund I LP ("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 79,102 trust units during the three months ended September 30, 2008 and 220,337 trust units during the nine months ended September 30, 2008 pursuant to the conversion of Exchangeable Units. As at September 30, 2008 there were 2,205,365 trust units of Algonquin remaining to be issued pursuant to the conversion of Exchangeable Units. Subsequent to September 30, 2008 approximately 8,400 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. 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. As at September 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 September 30, 2008 no convertible debentures had been presented for conversion.

Management of Capital Structure

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

Algonquin's objectives when managing capital are:

- To maintain appropriate debt and equity levels in conjunction with standard industry practices and to limit financial constraints on the use of capital.
- To have proper credit facilities available for ongoing investment in growth and maintenance capital as well as investment in development opportunities.
- To ensure generation of cash is sufficient to fund sustainable distributions to Unitholders as well as meet current tax and internal capital requirements.
- To maintain sufficient cash reserves on hand to ensure sustainable 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 their respective industries 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 September 30, 2008:

- Algonquin is managed by APMI. An entity owned by the majority of the shareholders of APMI 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 nine months ended September 30, 2008, APMI was paid on a cost recovery basis for all costs incurred and charged a total of $0.7 million (2007 - $0.6 million).
- As part of the project to re-power the Sanger facility, Algonquin entered into an agreement with APMI to undertake certain construction management services on the project. APMI is entitled to a development supervision fee plus a contingency fee for its construction management role on the project. For the nine months ended September 30, 2008, APMI was paid $0.02 million (2007 - $0.1 million).
- Algonquin has leased its head office facilities since 2001 from an entity owned by the shareholders of APMI on a net basis. Base lease costs for the nine months ending September 30, 2008 were $0.2 million (2007 - $0.2 million).
- Algonquin utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of APMI. During the nine months ending September 30, 2008, Algonquin incurred costs in connection with the use of the aircraft of $0.2 million (2007 - $0.3 million) and amortization expense related to the advance against expense reimbursements of $0.1 million (2007 - $0.1 million).
- Up to August 1, 2008, Algonquin had 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 and advanced $1.4 million at a rate of 9.25% during the first quarter of 2007. These amounts have now been eliminated on the Consolidated Balance Sheet of

Algonquin due to the acquisition of certain Highground assets.

- Up to July 31, 2008, Highground was paid $0.2 million (2007 - $0.2 million) in interest related to debt associated with the St. Leon facility. Some of the directors and shareholders of APMI were 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 $0.1 million (2007 - $0.8 million) during the nine months ending September 30, 2008 for construction services. For the nine months ended September 30, 2008, Algonquin also paid $nil (2007 - $1.1 million) 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, before the inclusion of interest, tax and amortization expense, from St. Leon LP for a 5 year period commencing after June 17, 2008, two years after the date the facility achieved commercial operation 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 $0.1 million during the nine months ended September 30, 2008.
- On March 10, 2008, Algonquin advanced $0.2 million to the Trustees for purposes of enabling the Trustees to purchase additional Units of Algonquin. The loans are subject to promissory notes issued in favour of Algonquin which are payable upon demand, currently bear interest at 4% per annum, and are recorded as a reduction in Trust Units on the consolidated balance sheet.
- Pursuant to the agreement entered into on June 27, 2008 between Algonquin, Highground and CJIG, APMI is entitled to a fee of approximately $0.2 million as part of the transaction costs related to the acquisition of certain of the Highground assets. This fee has been accrued and included in accounts payable on the consolidated balance sheet.
- APMI is entitled to 50% of the cash flow above 15% return on investment for the BCI project pursuant to its project management contract. During 2008 no amounts were paid under this agreement. APMI also earned a construction supervision fee of $0.1 million in relation to the development of this project.
- On August 1, 2008, Algonquin advanced $0.5 to Windlectric Inc a corporation formed to develop wind power projects for Algonquin. The advance was used to acquire from the other party, the right to participate in a specific wind project at an early stage as well as future projects. Windlectric is controlled 50% by APMI and 50% by an unrelated third party corporation. APMI holds its interest in Windlectric on behalf of Algoqnuin. Under the terms of the arrangement, Algonquin has the right to acquire the project at cost upon completion.

Discontinued Operations

	Three Months ended September 30		Nine Months ended September 30	
	2008	**2007**	**2008**	**2007**
Performance (MW-hrs sold)	-	17,802	-	78,464
Revenue				
Energy sales	-	1,372	-	5,418
Expenses				
Operating	-	(1,871)	-	(6,527)
Operating Loss	-	(499)	-	(1,109)
Interest expense	-	(21)	-	(53)
Gain on sale of property, plant, equipment and intangible assets	-	113	-	1,178
Amortization of property, plant, equipment and intangible assets	-	(396)	-	(1,192)
Net income (loss) from discontinued operations (including interest and other income)	-	(803)	-	(1,176)

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 September 30, 2008, revenue from Discontinued Operations was nil as compared to $1.4 million during the same period in 2007. For the nine months ended September 30, 2008, revenue from Discontinued Operations was nil as compared to $5.4 million during the same period in 2007.

For the quarter ended September 30, 2008, operating expenses were nil as compared to $1.9 million during the same period in 2007. For the nine months ended September 30, 2008, operating expenses were nil as compared to $6.5 million during the same period in 2007.

For the quarter ended September 30, 2008, the operating loss was nil as compared to a $0.5 million loss in the comparable period in 2007. For the nine months ended September 30, 2008, the operating loss was nil as compared to a $1.1 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 PPA, 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 PPAs 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 Environmental and Compliance departments within the different operating units of the businesses which are 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 7.0 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 were 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 waste-water 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 contaminants 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.

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. Pursuant to the requirements of the drinking water legislation, an additional arsenic treatment system has been placed online at one of LPSCo's reservoir sites during the year with a final system scheduled for installation at a well site in the last quarter of 2008. Once completed, these systems will ensure 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.

Carbon Disclosure Project

The Carbon Disclosure Project ("CDP") is an independent non-profit organization that represents institutional investors managing over $57 trillion of assets. The CDP is specifically working to encourage companies world wide to quantify and disclose their greenhouse gas emissions and to outline what actions the companies are taking to address climate change risk, both from potential physical impacts but also from regulatory changes that may result in an effort to address climate change.

Algonquin developed a baseline GHG emissions inventory which was submitted to the CDP at the end of June 2008. The emissions data includes both direct emissions from our processes as well as indirect emissions from purchased power. The emissions inventory has been developed based on guidance from the Greenhouse Gas Protocol. This submission will allow comparisons with other firms to be made, and will also be useful as a baseline for addressing climate change regulations. At the moment, climate change regulations are in the process of being developed and Algonquin expects that the regulations being developed will eventually apply to Algonquin's Sanger and Windsor Locks facilities but the effect that these regulations may have is not known at this time.

The Carbon Disclosure Project has posted Algonquin's response to the 2008 questionnaire. The CDP report on Canadian responses to the Carbon Disclosure Project 2008 questionnaire was released in Toronto on November 5, 2008. Based on historic CDP reports Algonquin's

Power Generation & Development business unit is well positioned to deal with any future climate change regulations. Algonquin's Power Generation & Development business unit emits an average of 3,200 tonnes of CO2 equivalents per $1.0 million US revenue as compared to a North American Average of 5,000 tonnes of CO2 equivalents per million US dollars revenue.

Specific Environmental Risks

Regional Greenhouse Gas Initiative

Several North Eastern US States have formed a coordination group to develop a multi state green house gas mitigation action plan. This group is the Regional Greenhouse Gas Initiative ("RGGI"). This group has received backing from several states where Algonquin operates facilities including Connecticut and New Jersey.

RGGI drafted a model cap and trade legislation that has been endorsed by all of the states involved in the initiative. The cap and trade program will be implemented to regulate CO2 emissions from large electrical generation facilities, including the Windsor Locks facility. The RGGI regulation to implement a greenhouse gas cap and trade program was passed in Connecticut in late August 2008.

The Windsor Locks facility is the only Algonquin asset that is currently affected by the RGGI regulations. As such Algonquin will be required to purchase approximately 250,000 tons of CO2 allowances per year, equivalent to the total annual CO2 emissions from the Windsor Locks facility for the 2009 to 2012 fiscal years. Algonquin is entitled to apply for allowances and/or purchase allowances at a base price of $2.00 per tonne from the state of Connecticut. Algonquin has submitted an application on October 31, 2008 for allowances under the available programs. For 2009, Algonquin has currently estimated the cost of compliance with the RGGI requirements for the Windsor Locks facility to be between $350,000 and $500,000

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 nine 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 two of the twelve wells that provide water to the LPSCO service area. The United States EPA began monitoring these groundwater pollutants in 1981 and has been tracking the gradual underground movement since. In addition to Evironmental Protection Agency ("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. In the event the two wells which are most immediately at risk exceed permitted contaminant levels, LPSCo would undertake the appropriate action which may include removing 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 September 30, 2008.

Western Climate Initiative:
Seven U.S. States (Arizona, California, Montana, New Mexico, Oregon, Utah and Washington) and four Canadian provinces (British Columbia, Manitoba, Ontario and Quebec) have formed a group called the Western Climate Initiative ("WCI"). This group recently released details of its Regional Cap-and-Trade Program, which is scheduled to start on January 1, 2012. Each member state/province is now responsible for developing the draft design of the Regional Cap-and-Trade Program and taking the necessary steps to implement the Program within its jurisdiction. Algonquin owns and operates the Sanger facility in California and the EFW facility in Ontario and holds investments in two others in Ontario which could be impacted by this program. As this process has just begun, it is too early to determine the potential financial impact on Algonquin and means are available to mitigate this financial impact, if any.

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 cash could be impacted.

Foreign currency risk
Currency fluctuations may affect the cash flows Algonquin would realize from its operations,

as certain of the 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 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 September 30, 2008, the Company had effectively hedged 100% of its remaining expected 2008 U.S. dollar cash flow at $1.18 and 95% of its expected 2009 U.S. dollar cash flow at $1.13. During the quarter ending September 30, 2008 Algonquin realized a $1.2 million gain on forward contracts settled during the period. During the nine months ending September 30, 2008 Algonquin realized a $5.2 million gain on forward contracts settled during the period. As at November 1, 2008, Algonquin has total forward contracts to sell U.S. dollars from fiscal 2008 to fiscal 2013 totalling U.S. $124.3 million carrying an average rate of $1.07.

Based on the fair value of the forward contract using the exchange rates as at September 30, 2008, the exercise of these forward contracts will generate $1.1 million in cash during the remainder of 2008, $2.2 million in fiscal 2009, the use of $0.7 million in fiscal 2010 and result in the use of $1.2 million in cash for the remainder of the hedged period beyond 2010. Assuming an increase in the strength of the US dollar relative to the Canadian dollar of $0.05 at September 30, 2008 with a corresponding increase in the forward yield curve, the fair value of the outstanding forward exchange contracts would decrease by $5.5 million, reducing the expected cash generated during the remainder of 2008 by $0.4 million, $1.5 million in fiscal 2009, $1.5 million in fiscal 2010 and $2.0 million for the remainder of the hedged period beyond 2010.

Market price risk
The majority of Algonquin's facilities are subject to long term PPAs. 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 $3.1 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 $144.8 million as at September 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 $1.4 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 September 30, 2008 to December 31, 2010 and fixed the interest expense on $100 million of borrowings at approximately 2.95% for the final three 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 September 30, 2008, the fair value of the interest rate swap was a net $1.2 million liability.

- Algonquin's project debt at the St. Leon facility has a balance of $72.5 million as at September 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 September 30, 2008, the mark to market value of the interest rate swap was a loss of $2.6 million (September 30, 2007 – gain of $1.2 million).

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

On October 20, 2008, in order to strengthen Algonquin's financial position and support its growth initiatives, Algonquin reduced the cash distributions payable to Algonquin's Unitholders to $0.24 per unit per annum commencing with the October 2008 distribution. As a result of the new level of distributions and based on trust units outstanding on September 30, 2008, annual distributions will be $18.6 million as compared to $71.2 million, a reduction of $52.6 million annually. See the Strategic Realignment section for a more detailed discussion of the change.

As at September 30, 2008, the Company had cash on hand of $7.4 million and $14.8 million available to be drawn on committed credit facilities from its bank syndicate. In addition, there is an unexercised amount of $32.25 million remaining on the accordion feature of the credit agreement with its bank syndicate. Under the terms of the accordion feature, Algonquin's bank syndicate is not obligated to fund any additional draw requests. In this event, Algonquin is able to bring additional lenders into its banking syndicate. The Facilities also contain covenants which may limit the maximum amounts available to be drawn. Based on the covenants included in the Facilities, $9.1 of the unexercised accordion feature would, if exercised, be available to be drawn as at September 30, 2008.

Algonquin's Facilities and project specific debt total approximately $296.8 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 operating 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 operating facility. Algonquin actively manages cash availability at its operating 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.
- Algonquin's BCI facility's energy services agreement 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 $0.3 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 $0.4 million or a net increase in operating profits of approximately $0.1 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. Draft legislation was released from comments on July 14, 2008.

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 general corporate tax rate. 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.

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 September 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 September 30, 2008.

Millions of dollars (except per trust unit amounts)	**4th Quarter 2007**	**1st Quarter 2008**	**2nd Quarter 2008**	**3rd Quarter 2008**	**Total**
Revenue	$ 44.3	$ 48.0	$ 54.2	$ 55.1	$ 201.6
Net earnings / (loss) from continuing operations	8.8	(1.6)	8.0	(4.4)	10.8
Net earnings /(loss)	7.6	(1.6)	8.0	(4.4)	9.6
Net earnings / (loss) from continuing operations per trust unit	0.12	(0.02)	0.11	(0.06)	0.15
Net earnings / (loss)	0.10	(0.02)	0.11	(0.06)	0.13
Total Assets	954.1	950.7	952.2	963.8	963.8
Long term debt*	445.1	460.6	469.6	460.9	460.9
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

	4th Quarter 2006	1st Quarter 2007	2nd Quarter 2007	3rd Quarter 2007	Total
Revenue	$ 52.0	$ 47.6	$ 47.8	$ 46.5	$ 193.9
Net earnings from continuing operations	2.5	6.7	(2.6)	12.5	12.5
Net earnings	1.8	6.2	(2.3)	12.2	12.2
Net earnings from continuing operations per trust unit	0.03	0.08	(0.04)	0.17	0.17
Net earnings per trust unit	0.02	0.08	(0.03)	0.17	0.17
Total Assets	1,048.3	1,035.8	1,049.0	1,024.1	1,024.1
Long term debt*	411.0	401.8	410.0	421.0	421.0
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

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

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 $55.1 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 the PPAs. 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 third quarter of 2008, as well as realized gains on financial instruments were recorded as revenue in the comparable quarters of 2007. Additionally, revenue has generally trended up due to facility acquisitions, including the St. Leon wind facility in September 2006, and organic growth in the Utility Services business unit.

Quarterly net earnings have fluctuated between net earnings of $12.2 million and a net loss of $4.4 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 September 30, 2008. There have been no changes to the critical accounting policies as disclosed in Algonquin's unaudited Consolidated Financial Statements for the three and nine months ended September 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 was 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)

	September 30, 2008	December 31 2007
ASSETS		
Current assets:		
Cash	**$ 7,361**	$ 10,361
Accounts receivable	**31,539**	26,597
Prepaid expenses	**2,889**	3,052
Current portion of notes receivable	**447**	421
Current portion of derivative assets	**3,318**	7,857
	45,554	48,288
Long-term investments and notes receivable (note 3(a))	**30,512**	30,047
Future non-current income tax asset	**3,363**	2,416
Property, plant and equipment (note 3(b))	**784,201**	760,677
Intangible assets (note 3(b))	**95,151**	99,529
Restricted cash (note 3(c))	**3,276**	6,105
Deferred costs	**271**	80
Other assets	**1,447**	2,737
Derivative assets (note 10)	**-**	4,188
	$ 963,775	$ 954,067
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 32,217**	$ 27,007
Cash distribution payable	**12,187**	11,649
Current portion of long-term liabilities	**3,766**	1,915
Current income tax liability	**323**	669
Future income tax liability	**1,540**	756
	50,033	41,996
Long-term liabilities (note 4)	**296,791**	281,725
Convertible debentures	**140,217**	139,587
Other long-term liabilities	**23,874**	23,771
Future non-current income tax liability (note 3(b))	**87,380**	80,785
Derivative liabilities (note 10)	**5,680**	-
Non controlling interest	**16,676**	21,700
Unitholders' equity:		
Trust units (note 3(a) and note 6)	**720,284**	692,213
Deficit	**(333,162)**	(283,820)
Accumulated other comprehensive income	**(43,998)**	(43,890)
	343,124	364,503
Subsequent events (note 12)		
	$ 963,775	$ 954,067

See accompanying notes to consolidated financial statements

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

Consolidated Statement of Deficit

(unaudited)
(thousands of Canadian dollars)

	Three months ended September 30, 2008	2007	Nine months ended September 30, 2008	2007
Balance, beginning of period	**$ (311,250)**	$ (269,769)	**$ (283,820)**	$ (239,967)
Net earnings / (loss)	**(4,406)**	12,210	**2,057**	16,112
Distributions	**(17,506)**	(16,901)	**(51,399)**	(50,605)
Balance, end of period	**$ (333,162)**	$ (274,460)	**$ (333,162)**	$ (274,460)

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 September 30, 2008	2007	Nine months ended September 30, 2008	2007
Net earnings / (loss)	**$ (4,406)**	$ 12,210	**$ 2,057**	$ 16,112
Other comprehensive income (loss):				
Forward exchange contracts settled in the period	**$ (680)**	$ (1,766)	**$ (2,623)**	$ (4,286)
Translation of self sustaining foreign operations	**6,737**	-	**2,515**	-
Other comprehensive income (loss)	**6,057**	(1,766)	**(108)**	(4,286)
Total comprehensive income / (loss)	**$ 1,651**	$ 10,444	**$ 1,949**	$ 11,826
Accumulated other comprehensive income / (loss):				
Balance, beginning of the period	**$ (50,055)**	$ 8,647	**$ (43,890)**	$ 11,167
Other comprehensive income / (loss)	**6,057**	(1,766)	**(108)**	(4,286)
Balance, end of the period	**$ (43,998)**	$ 6,881	**$ (43,998)**	$ 6,881

See accompanying notes to consolidated financial statements

Consolidated Statements of Earnings

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

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenue:				
Energy sales	**$ 40,904**	$ 27,038	**$ 117,527**	$ 87,172
Waste disposal fees	**4,098**	3,726	**11,709**	9,686
Water reclamation and distribution	**9,180**	9,184	**25,397**	25,708
Other revenue	**902**	6,498	**2,658**	19,291
	55,084	46,446	**157,291**	141,857
Expenses				
Operating	**31,997**	23,607	**87,875**	75,392
Amortization of property, plant and equipment	**9,241**	8,629	**26,851**	26,279
Amortization of intangible assets	**1,826**	1,836	**5,459**	5,512
Management costs (note 6)	**224**	213	**669**	646
Administrative expenses	**2,437**	2,388	**6,606**	6,074
(Gain) / loss on foreign exchange	**1,277**	(2,362)	**1,679**	(6,946)
	47,002	34,311	**129,139**	106,957
Earnings before undernoted	**8,082**	12,135	**28,152**	34,900
Interest expense	**6,774**	6,618	**20,576**	19,664
Interest, dividend income and other income	**(1,810)**	(2,538)	**(4,631)**	(7,948)
Write down of note receivable	**-**	598	**-**	598
(Gain) / loss on derivative financial instruments	**5,219**	(3,306)	**6,622**	(14,266)
	10,183	1,372	**22,567**	(1,952)
Earnings from operations before income taxes, minority interest and discontinued operations	**(2,101)**	10,763	**5,585**	36,852
Income tax provision (recovery)				
Current	**287**	206	**481**	594
Future	**2,587**	(2,641)	**4,265**	20,129
	2,874	(2,435)	**4,746**	20,723
Minority interest (recovery)	**(569)**	185	**(1,218)**	(1,159)
Net earnings / (loss) from continuing operations	**(4,406)**	13,013	**2,057**	17,288
Net earnings / (loss) from discontinued operations	**-**	(803)	**-**	(1,176)
Net earnings / (loss)	**$ (4,406)**	$ 12,210	**$ 2,057**	$ 16,112
Basic net earnings / (loss) from continuing operations per trust unit (note 7)	**$ (0.06)**	$ 0.18	**$ 0.03**	$ 0.24
Diluted net earnings / (loss) from continuing operations per trust unit (note 7)	**$ (0.06)**	$ 0.17	**$ 0.01**	$ 0.21
Basic and diluted net loss from discontinued operations per trust unit (note 7)	**$ -**	$ (0.01)	**$ -**	$ (0.02)
Basic net earnings / (loss) per trust unit (note 7)	**$ (0.06)**	$ 0.17	**$ 0.03**	$ 0.22
Diluted net earnings / (loss) per trust unit (note 7)	**$ (0.06)**	$ 0.16	**$ 0.01**	$ 0.20

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

(Unaudited)
(thousands of Canadian dollars)

	Three months ended September 30, 2008	2007	Nine months ended September 30, 2008	2007
Cash provided by (used in):				
Operating Activities:				
Net earnings / (loss) from continuing operations	**$ (4,406)**	$ 13,013	**$ 2,057**	$ 17,288
Items not affecting cash:				
Amortization of property, plant and equipment	**9,241**	8,629	**26,851**	26,279
Amortization of intangible assets	**1,826**	1,836	**5,459**	5,512
Other amortization	**243**	687	**849**	1,755
Distributions received in excess of equity income	**339**	484	**354**	262
Future income taxes	**2,587**	(2,641)	**4,265**	20,129
Loss / (gain) on derivative financial instruments	**6,479**	(449)	**11,785**	(8,384)
Write down of note receivable	**-**	598	**-**	598
Minority interest	**(683)**	185	**(1,350)**	(1,159)
Unrealized (gain) / loss on foreign exchange	**1,483**	(2,551)	**1,928**	(6,737)
	17,109	19,791	**52,198**	55,543
Changes in non-cash operating working capital	**4,490**	(5,781)	**810**	(14,411)
	21,599	14,010	**53,008**	41,132
Financing Activities:				
Cash distributions	**(17,506)**	(16,888)	**(51,396)**	(50,497)
Cash distributions non controlling interest	**(515)**	(593)	**(1,584)**	(1,955)
Trustee loans (note 6)	**-**	-	**(225)**	-
Deferred financing costs	**(69)**	(88)	**(451)**	(246)
Increase in long term liabilities	**18,917**	14,000	**56,917**	34,000
Decrease in long term liabilities	**(24,120)**	53	**(39,168)**	(357)
Increase in other long term liabilities	**(312)**	(547)	**(276)**	744
	(23,605)	(4,063)	**(36,183)**	(18,311)
Investing Activities:				
Decrease / (increase) in restricted cash	**1,260**	(157)	**3,920**	(344)
Decrease/ (increase) in other assets	**857**	(430)	**1,134**	(548)
Receipt of principal on notes receivable	**79**	452	**1,789**	1,083
Increase in long term investments	**(501)**	219	**(632)**	(948)
Net additions to property, plant and equipment	**(16,465)**	(13,003)	**(36,839)**	(26,985)
Acquisition of Highground (note 3(a))	**18,633**	-	**18,633**	-
Acquisitions of operating entities (note 3(b) and 3(d))	**(759)**	(161)	**(8,208)**	(896)
	3,104	(13,080)	**(20,203)**	(28,638)
Effect of exchange rate differences on cash	**193**	(280)	**378**	(902)
Increase /(decrease) in cash from continuing operations	**1,291**	(3,413)	**(3,000)**	(6,719)
Increase / (decrease) in cash from discontinued operations	**-**	(405)	**-**	1,443
Cash, beginning of the period	**6,070**	12,007	**10,361**	13,465
Cash, end of the period	**$ 7,361**	$ 8,189	**$ 7,361**	$ 8,189
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest expense	**$ 5,154**	$ 6,570	**$ 18,891**	$ 19,333
Cash paid during the period for income taxes	**$ 386**	$ 259	**$ 1,186**	$ 399

See accompanying notes to consolidated financial statements

Notes to the Unaudited Interim Consolidated Financial Statements

Nine months ending September 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. 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) Highground Capital Corporation

On August 1, 2008, Algonquin issued 3,507,143 trust units pursuant to an agreement entered into on June 27, 2008 between Algonquin, Highground Capital Corporation ("Highground") and CJIG Management Inc. ("CJIG"), which is the manager of Highground and a related party of Algonquin controlled by the shareholders of Algonquin Power Management Inc. ("APMI"), the managers of Algonquin. Under the agreement CJIG acquired all of the issued and outstanding common shares of Highground and Algonquin issued 3,507,143 trust units of which 3,065,183 trust units were received by Highground shareholders as part of the Agreement with the remaining trust units being retained by CJIG. Algonquin has recorded the units issued at their fair value of $7.69 per unit which, net of transaction costs of $767 resulted in proceeds of the units being recorded at a value of $26,203.

Algonquin's final consideration for the trust units is dependent on the proceeds realized from liquidation of certain Highground investments. Algonquin's final consideration will be 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.

During the third quarter 2008, Algonquin received the following consideration:

Cash	$ 18,633
AirSource Development Note Receivable	1,600
AirSource Participation Agreement	1,400
Brampton Co-generation Inc. capital lease receivable	1,793
Note receivable, bearing interest at 10% (assigned value of remaining non-cash securities held by CJIG)	2,777
	$ 26,203
Trust units issued	$ 26,970
Transaction costs	(767)
	$ 26,203

(b) Campbellford Partnership

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 Electricity Financial Corporation. This asset will be amortized over its expected useful life of 11 years.

(c) Entrada Del Oro Sewer Company
On August 30, 2008, Algonquin entered into an agreement to acquire the shares of Entrada Del Oro Sewer Company located in Phoenix Arizona, for $707 (US$670) in the Utility Services division. Subject to certain limitations and conditions, Algonquin will also pay the vendor for additional customers connected with Entrada Del Oro over the next ten years. The acquisition requires formal approval from the regulator in the state of Arizona. Algonquin has deposited the funds in an escrow account to be released when the purchase is approved. This amount has been included in restricted cash on the consolidated balance sheet at September 30, 2008.

(d) Rio Rico Utilities
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 September 30, 2008 Algonquin has accrued $349 (U.S. $352) (September 30, 2007 - $637, U.S. $572) as a growth premium, and increased intangible assets by a similar amount, gross of future tax liabilities of $nil (September 30, 2007 - $145).

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.

During the third quarter 2008, Algonquin paid down $19.2 million on the revolving credit facility from the cash received from the Highground transaction.

Subsequent to the end of the quarter Algonquin drew an additional $4.2 million on its credit facility to fund capital requirements.

5. Trust Units

Trust Units consists of the following:

	Three months September 30, 2008	Three months September 30, 2007	Nine months September 30, 2008	Nine months September 30, 2007
Balance of Trust units, beginning of period	**$ 693,076**	$ 690,314	**$ 691,734**	$ 684,414
Issued on conversion of Algonquin (AirSource) Power LP exchangeable units	**751**	655	**2,093**	6,555
Converison of convertible debentures	**-**	16	**-**	16
Issued pursuant to Highground transaction (Note 3 (a))	**26,203**	-	**26,203**	-
Balance of Trust Units, end of period	**$ 720,030**	$ 690,985	**$ 720,030**	$ 690,985
Trustee Loans (note 6)	**(225)**	-	**(225)**	-
Equity component of convertible debentures	**479**	479	**479**	479
Trust Units	**$ 720,284**	$ 691,464	**$ 720,284**	$ 691,464

Number of trust units

	Three months September 30, 2008	Three months September 30, 2007	Nine months September 30, 2008	Nine months September 30, 2007
Trust units, beginning of period	**73,785,591**	73,495,241	**73,644,356**	72,874,211
Issued on conversion of Algonquin (AirSource) Power LP exchangeable units	**79,102**	68,901	**220,337**	689,931
Conversion of convertible debentures	**-**	1,502	**-**	1,502
Issued pursuant to Highground transaction (Note 3(a))	**3,507,143**	-	**3,507,143**	-
Trust units, end of period	**77,371,836**	73,565,644	**77,371,836**	73,565,644

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 APMI 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 nine months ended September 30, 2008, APMI was paid on a cost recovery basis for all costs incurred and charged $669 (2007 – $646).

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. For the nine months ended September 30, 2008, APMI was paid $23 (2007 – $83).

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 nine months ending September 30, 2008 were $222 (2007 – $222).

Algonquin utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of APMI. During the nine months ending September 30, 2008, Algonquin incurred costs in connection with the use of the aircraft of $183 (2007 - $307) and amortization expense related to the advance against expense reimbursements of $74 (2007 - $99).

Up to August 1, 2008, Algonquin had project debt from Highground (previously Algonquin Power Venture Fund) in the amount of $3,000 related to the St. Leon facility. Highground advanced $1,600 at a rate of 11.25% as part of the initial financing of the St. Leon facility and advanced $1,400 at a rate of 9.25% during the first quarter of 2007. These amounts have now been eliminated on the Consolidated Balance Sheet of Algonquin due to the acquisition of Highground. (Note 3 (a)).

Up to July 31, 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 were 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 - $782) during the nine months ending September 30, 2008 for construction services. For the nine months ended September 30, 2008, Algonquin also paid $nil (2007 - $1,104) 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 $131 during the nine months ended September 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 4)

Pursuant to the agreement entered into on June 27, 2008 between Algonquin, Highground and CJIG (Note 3(a)) APMI is entitled to a fee of approximately $240. This fee has been accrued and included in accounts payable on the consolidated balance sheet.

APMI is entitled to 50% of the cash flow above 15% return on investment for the BCI project pursuant to its project management contract. During 2008 no amounts were paid under this agreement. APMI also earned a construction supervision fee of $100 in relation to the development of this project.

On August 1, 2008, Algonquin advanced $450 to Windlectric Inc a corporation formed to develop wind power projects for Algonquin. The advance was used to acquire the right to potentially invest in a Canadian wind project. Under the terms of the agreement, Algonquin has the right to acquire the project at cost upon completion. Windlectric is controlled 50% by APMI and 50% by an unrelated third party corporation. APMI holds its interest in Windlectric on behalf of Algoqnuin. Under the terms of the arrangement, Algonquin has the right to acquire the project at cost upon completion.

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 September 30, 2008	Three months September 30, 2007	Nine months September 30, 2008	Nine months September 30, 2007
Weighted average trust units – basic	**76,112,073**	73,538,215	**74,526,647**	73,360,391
Trust units issuable on conversion of exchangeable units	**2,289,167**	2,594,780	**2,369,959**	2,771,066
Weighted average trust units – diluted	**78,401,240**	76,132,995	**76,896,606**	76,131,457

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 nine months ended September 30, 2008 and September 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 $0.69 for the nine months ended September 30, 2008, the same as 2007. Total distributions for the three months and nine months ended September 30, 2008 were $17,506 and $51,396 respectively (2007 - $16,900 and $50,605). Total distributions to the Unitholders of the Algonquin (Airsource) Power LP exchangeable units for the three months and nine months ended September 30, 2008 were $512 and $1,584 respectively (2007 - $581 and $1,937) 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. (see note 12, subsequent event)

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 nine months ended September 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 September 30 2008	Three months ended September 30 2007	Nine months ended September 30 2008	Nine months ended September 30 2007
Revenue				
Canada	**$ 20,910**	$ 18,059	**$ 62,782**	$ 56,272
United States	**34,174**	28,387	**94,509**	85,585
	$ 55,084	$ 46,446	**$ 157,291**	$ 141,857

	September 30, 2008	September 30, 2007
Property, plant and equipment		
Canada	**$ 465,737**	$ 476,457
United States	**318,464**	325,381
	$ 784,201	$ 801,838
Intangible assets		
Canada	**$ 53,656**	$ 57,284
United States	**41,495**	48,891
	$ 95,151	$ 106,175
Other assets		
Canada	**$ 308**	$ 17,486
United States	**1,139**	-
	$ 1,447	$ 17,486

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 is 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 September 30, 2008					
	Power Generation & Development			Utility Services	Corporate	Total
	Renewable Energy	Thermal Energy	Total			
Revenue						
Energy sales	$ 16,878	$ 24,026	$ 40,904	$ -	$ -	$ 40,904
Waste disposal fees	-	4,098	4,098	-	-	4,098
Water reclamation and distribution	-	-	-	9,180	-	9,180
Other revenue	-	902	902	-	-	902
Total revenue	16,878	29,026	45,904	9,180	-	55,084
Operating expenses	5,304	21,029	26,333	5,664	-	31,997
	11,574	7,997	19,571	3,516	-	23,087
Other administration costs	(206)	61	(145)	(70)	(2,446)	(2,661)
Foreign exchange loss	-	-	-	-	(1,277)	(1,277)
Interest expense	(2,020)	(279)	(2,299)	(283)	(4,192)	(6,774)
Interest, dividend and other income	193	853	1,046	-	764	1,810
Gain / (loss) on derivative financial instruments	(1,227)	50	(1,177)	1,378	(5,420)	(5,219)
Amortization of property, plant and equipment	(5,483)	(2,120)	(7,603)	(1,638)	-	(9,241)
Amortization of intangible assets	(659)	(983)	(1,642)	(184)	-	(1,826)
Earnings / (loss) from continuing operations before income taxes, minority interest and comprehensive income	2,172	5,579	7,751	2,719	(12,571)	(2,101)
Loss from discontinued operations	-	-	-	-	-	-
Net earnings / (loss) before income taxes, minority interest and comprehensive income	2,172	5,579	7,751	2,719	(12,571)	(2,101)
Property, plant and equipment	$ 519,751	$ 93,235	$ 612,986	$ 171,215	$ -	$ 784,201
Intangible assets	33,914	35,336	69,250	25,901	-	95,151
Total assets	571,236	174,987	746,223	207,626	9,926	963,775
Capital expenditures	678	694	1,372	15,058	35	16,465
Acquisition of operating entities	-	-	-	759	-	759

	Power Generation & Development			Utility Services	Corporate	Total
Nine month period ending September 30, 2008	**Renewable Energy**	**Thermal Energy**	**Total**			
Revenue						
Energy sales	$ 56,374	$ 61,153	$ 117,527	$ -	$ -	$ 117,527
Waste disposal fees	-	11,709	11,709	-	-	11,709
Water reclamation and distribution	-	-	-	25,397	-	25,397
Other revenue	-	2,658	2,658	-	-	2,658
Total revenue	56,374	75,520	131,894	25,397	-	157,291
Operating expenses	15,855	56,818	72,673	15,202	-	87,875
	40,519	18,702	59,221	10,195	-	69,416
Other administration costs	(350)	(102)	(452)	(203)	(6,620)	(7,275)
Foreign exchange loss	-	-	-	-	(1,679)	(1,679)
Interest expense	(6,450)	(786)	(7,236)	(718)	(12,622)	(20,576)
Interest, dividend and other income	970	2,797	3,767	47	817	4,631
Gain / (loss) on derivative financial instruments	(3,046)	1,816	(1,230)	3,606	(8,998)	(6,622)
Amortization of property, plant and equipment	(13,601)	(8,641)	(22,242)	(4,609)	-	(26,851)
Amortization of intangible assets	(1,958)	(2,951)	(4,909)	(550)	-	(5,459)
Earnings / (loss) from continuing operations before income taxes, minority interest and comprehensive income	16,084	10,835	26,919	7,768	(29,102)	5,585
Loss from discontinued operations	-	-	-	-	-	-
Net earnings / (loss) before income taxes, minority interest and comprehensive income	16,084	10,835	26,919	7,768	(29,102)	5,585
Property, plant and equipment	$ 519,751	$ 93,235	$ 612,986	$ 171,215	$ -	$ 784,201
Intangible assets	33,914	35,336	69,250	25,901	-	95,151
Total assets	571,236	174,987	746,223	207,626	9,926	963,775
Capital expenditures	1,483	5,377	6,860	29,868	111	36,839
Acquisition of operating entities	7,149	-	7,149	1,059	-	8,208

	Three month period ending September 30, 2007					
	Power Generation & Development			Utility Services	Corporate	Total
	Renewable Energy	Thermal Energy	Total			
Revenue						
Energy sales	$ 9,238	$ 17,800	$ 27,038	$ -	$ -	$ 27,038
Waste disposal fees	-	3,726	3,726	-	-	3,726
Water reclamation and distribution	-	-	-	9,184	-	9,184
Other revenue	4,715	1,783	6,498	-	-	6,498
Total revenue	13,953	23,309	37,262	9,184	-	46,446
Operating expenses	2,497	16,743	19,240	4,367	-	23,607
	11,456	6,566	18,022	4,817	-	22,839
Other administration costs	(16)	(158)	(174)	(36)	(2,391)	(2,601)
Foreign exchange gain / (loss)	-	-	-	-	2,362	2,362
Interest expense	(2,366)	(327)	(2,693)	(237)	(3,688)	(6,618)
Interest, dividend and other income	1,337	1,173	2,510	-	28	2,538
Gain / (loss) on derivative financial instruments	(2,088)	1,822	(266)	1,003	2,569	3,306
Write down of note receivable	-	(598)	(598)	-	-	(598)
Amortization of property, plant and equipment	(4,296)	(2,564)	(6,860)	(1,769)	-	(8,629)
Amortization of intangible assets	(641)	(971)	(1,612)	(224)	-	(1,836)
Earnings / (loss) from continuing operations before income taxes, minority interest and comprehensive income	3,386	4,943	8,329	3,554	(1,120)	10,763
Loss from discontinued operations	86	(889)	(803)	-	-	(803)
Net earnings / (loss) before income taxes, minority interest and comprehensive income	3,472	4,054	7,526	3,554	(1,120)	9,960
Property, plant and equipment	$ 438,656	$ 184,240	$ 622,896	$ 178,942	$ -	$ 801,838
Intangible assets	35,545	39,270	74,815	31,360	-	106,175
Total assets	$ 494,081	$ 305,096	$ 799,177	$ 218,698	$ 6,197	$ 1,024,072
Capital expenditures	416	8,516	8,932	4,033	38	13,003
Acquisition of operating entities	-	-	-	161	-	161

	Nine month period ending September 30, 2007					
	Power Generation & Development			Utility Services	Corporate	Total
	Renewable Energy	Thermal Energy	Total			
Revenue						
Energy sales	$ 34,624	$ 52,548	$ 87,172	$ -	$ -	$ 87,172
Waste disposal fees	-	9,686	9,686	-	-	9,686
Water reclamation and distribution	-	-	-	25,708	-	25,708
Other revenue	15,457	3,834	19,291	-	-	19,291
Total revenue	50,081	66,068	116,149	25,708	-	141,857
Operating expenses	11,143	51,058	62,201	13,191	-	75,392
	38,938	15,010	53,948	12,517	-	66,465
Other administration costs	(260)	(228)	(488)	(134)	(6,098)	(6,720)
Foreign exchange gain / (loss)	-	-	-	-	6,946	6,946
Interest expense	(6,959)	(1,023)	(7,982)	(753)	(10,929)	(19,664)
Interest, dividend and other income	2,129	3,909	6,038	33	1,877	7,948
Gain / (loss) on derivative financial instruments	(350)	3,734	3,384	2,162	8,720	14,266
Write down of note receivable	-	(598)	(598)	-	-	(598)
Amortization of property, plant and equipment	(12,553)	(8,228)	(20,781)	(5,498)	-	(26,279)
Amortization of intangible assets	(1,927)	(2,921)	(4,848)	(664)	-	(5,512)
Earnings / (loss) from continuing operations before income taxes, minority interest and comprehensive income	19,018	9,655	28,673	7,663	516	36,852
Loss from discontinued operations	(95)	(1,081)	(1,176)	-	-	(1,176)
Net earnings / (loss) before income taxes, minority interest and comprehensive income	18,923	8,574	27,497	7,663	516	35,676
Property, plant and equipment	$ 438,656	$ 184,240	$ 622,896	$ 178,942	$ -	$ 801,838
Intangible assets	35,545	39,270	74,815	31,360	-	106,175
Total assets	$ 494,081	$ 305,096	$ 799,177	$ 218,698	$ 6,197	$ 1,024,072
Capital expenditures	404	15,612	16,016	10,807	162	26,985
Acquisition of operating entities	-	-	-	896	-	896

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 cash equivalents and accounts receivable. The Company limits its exposure to credit risk with respect to cash equivalents by maintaining minimal cash balances and ensuring available cash is deposited with its senior lenders in Canada. The Company's receivables consist primarily of receivables from energy sales to large utilities which are settled in the month after they are earned.

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$3,145 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 September 30, 2008 the Company's exposure to credit risk for these financial instruments was as follows:

	September 30, 2008	
	Canadian $	**US $**
Cash and cash equivalents	3,125	3,997
Accounts receivable	11,555	18,855
Allowance for Doubtful Accounts	-	(239)
	$ 14,680	$ 22,613

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 September 30, 2008, in addition to cash on hand of $7,361 the Company had $14,757 available to be drawn on its senior debt facility and a total of $47,007 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	$	300,756	$	3,694	$ 151,609	$	70,622	$	74,831
Interest on Long term debt obligations	$	159,076		21,780	42,714		29,066		65,516
Accounts Payable	$	32,237		32,237	-		-		-
Derivative financial instruments: Currency Forward	$	1,898		-	660		1,238		-
Derivative financial instruments: Interest Rate Swap	$	3,917		249	3,280		290		98
Lease Payments	$	246		64	177		5		-
Other obligations	$	11,480		260	515		515		10,190
Total obligations	$	509,610	$	58,284	$ 198,955	$	101,736	$	150,635

Foreign Currency Risk

The Company's Power Generation & Development business unit conducts a significant amount of business in the U.S. generating $67,848 or approximately 52.4% of its revenue in U.S. funds from integrated foreign operations in the nine months ended September 30, 2008. This business unit also incurred $47,600 or approximately 65.5% of operating expenses in U.S. funds from integrated foreign operations in the nine months ended September 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 $21,119 during the in the nine months ended September 30, 2008. On an unhedged basis, each 5% change in the value of the U.S. dollar against the Canadian dollar would have a $1,056 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 September 30, 2008, the exercise of these forward contracts will generate $1,083 in distributable cash during the remainder of 2008, $2,194 in fiscal 2009, the use of $660 in fiscal 2010 and result in the use of $1218 in cash for the remainder of the hedged period beyond 2010. Assuming an increase in the strength of the US dollar relative to the Canadian dollar of $0.05 at September 30, 2008 with a corresponding increase in the forward yield curve, the fair value of the outstanding forward exchange contracts would decrease by $5,458, reducing the expected cash generated during the remainder of 2008 by $437, $1,534 in fiscal 2009, $1,499 in fiscal 2010 and $1,988 for the remainder of the hedged period beyond 2010.

As at September 30, 2008, Algonquin had U.S. $109,157 in outstanding foreign exchange forward contracts carrying an average rate of $1.065 having a fair value of $1,399.

The Company has performed sensitivity analysis on its U.S. dollar denominated financial instruments which consist principally of cash U.S. $3,997 and net US dollar working capital of $612 at September 30, 2008, to determine how a change in the US dollar exchange rate would impact net earnings. As at September 30, 2008, the Company determined that a 5% 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 $230 change in the Company's net earnings for the three and nine months ended September 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 September 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 $144,800 as at September 30, 2008. Assuming the current level of borrowings, a 1% change in the variable rate charged would impact interest expense by $362 during the three months ended September 30, 2008 and $1,086 during the nine months ended September 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 September 30, 2008 and December 2010. At September 30, 2008, the fair value of the interest rate swap was a net $1,155 liability. 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 $72,519 as at September 30, 2008. Assuming the current level of borrowings, a 1% change in the variable rate charged would have impacted interest expense by $181 during the three months ended September 30, 2008 and $544 during the nine months ended September 30, 2008. At September 30, 2008, the fair value of the interest rate swap was a net $2,605 liability. 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 September 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 September 30, 2008 and $144 during the nine months ended September 30, 2008. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

As of September 30, 2008, the derivatives assets / (liabilities) are as follows:

Derivative assets:		
Fair Market Value of Foreign Exchange Hedges	$	3,318
Total derivative assets	$	3,318
Derivative liabilities		
Fair Market Value of Interest Rate SWAP – St Leon	$	(2,605)
Net Fair Market Value of Interest Rate SWAP – revolving credit facility		(1,155)
Net Fair Market Value of long term portion of Foreign Exchange Hedges		(1,920)
Total derivative liabilities	$	(5,680)

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 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 generation of cash is sufficient to fund distributions to Unitholders as well as meet current tax and internal capital requirements.
- To maintain sufficient cash reserves on hand to ensure sustainable 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.

12. Subsequent event

On October 20, 2008, Algonquin announced that the Board of Trustees approved a new level of cash distributions of $0.24 per unit per annum commencing with the October 2008 distribution. Under the revised distribution policy, the Fund plans to pay monthly cash distributions of $0.02 per unit. In addition, instead of the usual forty-five (45) day payment cycle the Fund will begin paying monthly distributions approximately fifteen (15) days following the record date for each month. Therefore, unitholders of record on October 31, 2008 will receive payment on November 17, 2008 of $0.02 per unit for the October 2008 distribution. Unitholders of record on September 30, 2008 will also receive payment on November 17, 2008 of $0.0766 per unit for the September 2008 distribution. As a result of the new level of distributions and based on trust units outstanding on September 30, 2008, annual distributions will be $18.6 million compared to $71.2 million.

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

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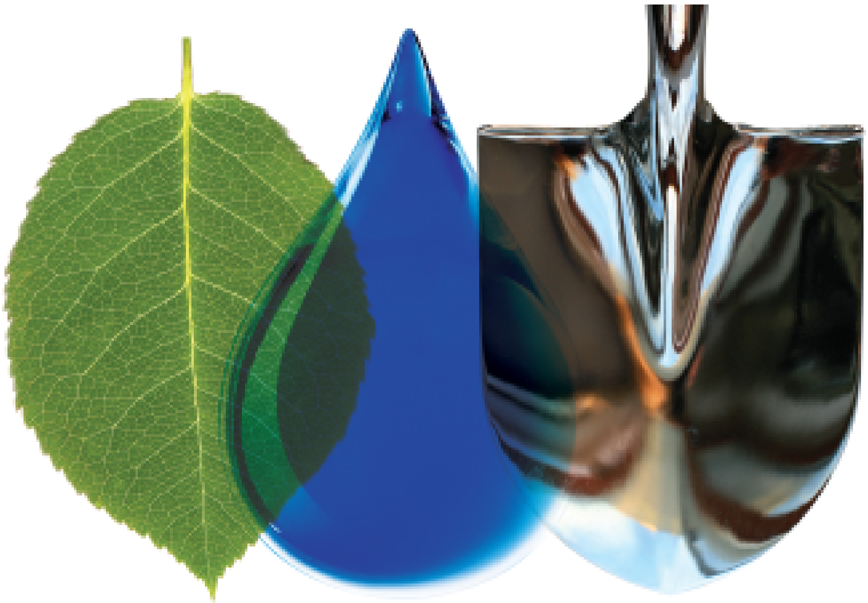

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