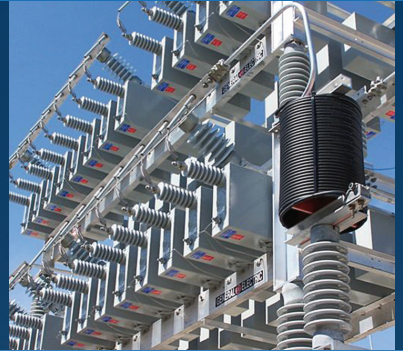


Algonquin Power & Utilities Corp.

First Quarter Report



2011

Interim Management's Discussion and Analysis

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

Management of Algonquin Power & Utilities Corp. ("APUC") has prepared the following discussion and analysis to provide information to assist its shareholders' understanding of the financial results for the three months ended March 31, 2011. This interim Management's Discussion and Analysis ("MD&A") should be read in conjunction with APUC's unaudited consolidated financial statements for the three months ended March 31, 2011 and 2010. This material is available on SEDAR at www.sedar.com and on the APUC website at www.AlgonquinPowerandUtilities.com. Additional information about APUC, including the most recent Annual Information Form ("AIF") can be found on SEDAR at www.sedar.com.

This MD&A is based on information available to management as of May 11, 2011.

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 APUC with respect to future events, based upon assumptions relating to, among others, the performance of APUC'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 APUC, its future plans and its dividends to shareholders. Statements containing expressions such as "anticipates", "believes", "continues", "could", "expect", "estimates", "intends", "may", "outlook", "plans", "project", "strives", "will", and similar expressions generally constitute forward-looking statements.

Since forward-looking statements relate to future events and conditions, by their very nature they require APUC to make assumptions and involve inherent risks and uncertainties. APUC cautions that although it believes its assumptions are reasonable in the circumstances, these risks and uncertainties give rise to the possibility that actual results may differ materially from the expectations set out in the forward-looking statements. Material risk factors include 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 state of the Canadian and the United States ("U.S.") economies and accompanying business climate. APUC cautions that this list is not exhaustive, and other factors could adversely affect results. Given these risks, undue reliance should not be placed on these forward-looking statements, which apply only as of their dates. APUC reviews material forward-looking information it has presented, at a minimum, on a quarterly basis. APUC is not obligated to nor does it 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 terms "adjusted net earnings" and "adjusted earnings before interest, taxes, depreciation and amortization" ("Adjusted EBITDA") are used throughout this MD&A. The terms "adjusted net earnings" and Adjusted EBITDA are not recognized measures under U.S. generally accepted accounting principles ("GAAP"). There is no standardized measure of "adjusted net earnings" and Adjusted EBITDA, consequently APUC'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 "adjusted net earnings" and Adjusted EBITDA can be found throughout this MD&A.

Overview

APUC is incorporated under the Canada Business Corporations Act. APUC currently conducts its business primarily through two separate subsidiaries: Algonquin Power Co. (“APCo” or “Algonquin”), formerly Algonquin Power Income Fund, owns and operates a diversified portfolio of renewable energy assets and Liberty Utilities Co. (“Liberty Utilities”) owns and operates a portfolio of North American regulated utilities.

APCo generates and sells electrical energy through a diverse portfolio of renewable power generation and clean thermal power generation facilities across North America. As at March 31, 2011, APCo owns or has interests in 44 hydroelectric facilities operating in Ontario, Québec, Newfoundland, Alberta, New Brunswick, New York State, New Hampshire, Vermont, Maine and New Jersey with a combined generating capacity of approximately 165 MW. APCo also owns a 104 MW wind powered generating station in Manitoba and holds exchangeable debt securities in a 26 MW wind powered generating station recently completed in Saskatchewan. The renewable energy facilities generally sell their electrical output pursuant to long term power purchase agreements (“PPAs”) with major utilities and have a weighted average remaining contract life of 16 years. Similarly, the 12 thermal energy facilities that APCo has an ownership and interest in operate under PPAs and have a weighted average remaining contract life of 6 years with a combined generating capacity of approximately 210 MW¹.

Liberty Utilities provides regulated utility services related to electricity, natural gas and, water distribution and wastewater collection services. Liberty Water Co. (“Liberty Water”), a subsidiary of Liberty Utilities, provides water and wastewater utility services to approximately 75,000 customers through 19 water distribution and wastewater collection and treatment utility systems located in four U.S. States (Arizona, Illinois, Missouri and Texas). These utilities operate under rate regulation, generally overseen by the public utility commissions of the States in which they operate.

Liberty Energy Utilities Co. (“Liberty Energy”), a subsidiary of Liberty Utilities, provides local electrical and natural gas distribution utility services. On January 1, 2011, in partnership with Emera Inc. (“Emera”), Liberty Energy acquired a California-based electricity distribution utility and related generation assets, and now provides electric distribution service to approximately 47,000 customers in the Lake Tahoe region (the “California Utility”). Liberty Energy has announced an agreement with Emera to acquire the interest in the California utility held by Emera, Liberty Energy has entered into agreements to acquire two additional utilities which currently provide electric and natural gas distribution services to approximately 125,000 customers in New Hampshire.

Business Strategy

APUC’s business strategy is to maximize long term shareholder value as a dividend paying, growth-oriented corporation in the power and utilities business sectors. APUC is committed to delivering a total shareholder return comprised of dividends augmented by capital appreciation arising through growth in dividends supported by increasing cash flows and earnings. Through an emphasis on sustainable, long-view renewable power and utility investments, over a medium-term planning horizon APUC strives to deliver annualized per share earnings growth of at least 5% and continued growth in its dividend supported by increasing cash flows, earnings and additional investment prospects.

¹ During the fourth quarter of 2011, APCo determined that the generating capacity reported for each of its facilities was more appropriately reported based on APCo’s effective percentage ownership interest in the facility, rather than the total installed capacity of the facility; as a result, the generating capacity values set out in respect of some of the facilities included in APCo’s generating portfolio have been reduced from prior periods

APUC understands the importance of the dividend to its shareholders. On March 3, 2011, the Board of Directors of APUC (the “Board”) approved an annual dividend increase of \$0.02 per common share for a total annual dividend of \$0.26, paid quarterly at a rate of \$0.065 per common share.

APUC believes this level of dividends will continue to allow for both an immediate return on investment for shareholders and retention of sufficient cash within APUC to fund growth opportunities, reduce short term debt obligations and mitigate the impact of fluctuations in foreign exchange rates. Any increases in the level of dividends paid by APUC will be at the discretion of the Board and dividend levels shall be reviewed periodically by the Board in the context of cash available for distribution and earnings together with an assessment of the growth prospects available to the APUC. APUC strives to achieve its results in the context of a moderate risk profile consistent with top-quartile North American power and utility operations.

Independent Power: APCo develops, owns and operates a diversified portfolio of electrical energy generation facilities. This business is comprised of three divisions: Renewable Energy, Thermal Energy and Development. The Renewable Energy division operates APCo’s hydroelectric and wind power facilities. The Thermal Energy division operates co-generation, energy-from-waste, and steam production facilities. The Development division seeks to deliver continuing growth to APCo through development of APCo’s greenfield power generation projects, accretive acquisitions of electrical energy generation facilities as well as development of organic growth opportunities within APCo’s existing portfolio of renewable energy and thermal energy facilities.

Utilities: Liberty Utilities owns and operates regulated utilities in the electricity and natural gas distribution and transmission sectors and water distribution and wastewater treatment sectors through its two wholly-owned subsidiaries, Liberty Energy and Liberty Water. These utilities share certain common infrastructure to generate economies of scale to support best-in-class customer care for their utility ratepayers. The underlying business strategy is to be a leading provider of safe, high quality and reliable utility services while providing stable and predictable earnings from these utility operations. In addition to encouraging and supporting organic growth within its service territories, Liberty Utilities is focused on delivering continued growth in earnings by identifying acquisition opportunities which accretively expand its utility business portfolio.

Major Highlights

Corporate Highlights

Strengthened Balance Sheet - Conversion of Series 1A Convertible Debentures to Equity

On April 7th, 2011, APUC provided the holders of its Series 1A 7.5% convertible unsecured subordinated debentures due November 30, 2014 (“Series 1A Debentures”) notice of its intention to redeem, effective May 16, 2011 (“Redemption Date”), all of the issued and outstanding Series 1A Debentures.

The redemption will be effected in accordance with the terms and definitions of the trust indenture governing the Series 1A Debentures. APUC will satisfy its obligation to pay holders of Series 1A Debentures (“Debentureholders”) by issuing and delivering the number of freely tradeable APUC shares obtained by dividing the aggregate principal amount of Series 1A Debentures as at March 31, 2011, currently \$62,397,050, by 95% of the current market price of APUC shares on the Redemption Date. Unpaid accrued interest on the Series 1A Debentures will be paid in cash at the time of redemption.

Strategic Investment Agreement with Emera

On April 29, 2011, APUC announced that it had entered into a strategic investment agreement (the “Strategic Agreement”) with Emera which establishes how APUC and Emera will work together to pursue specific strategic investments of mutual benefit. The Strategic Agreement builds on the strategic partnership effectively established between the two companies in April 2009.

The Strategic Agreement outlines “areas of pursuit” for each of APUC and Emera. For APUC, these include investment opportunities relating to unregulated renewable generation, small electric utilities and gas distribution utilities. For Emera, these include investment opportunities related to regulated renewable projects within its service territories and large electric utilities. These “areas of pursuit” are intended to represent investment areas in which there is potential overlap between Algonquin and Emera and are not exhaustive of either company’s business focus and do not limit in any way the activities which either Algonquin or Emera can undertake. Each of Algonquin or Emera are free to undertake independently investments within their own “area of pursuit” and outside the other party’s “areas of pursuit”. Under the Strategic Agreement, to the extent either Algonquin or Emera encounter opportunities which fall within the other’s “areas of pursuit”, they are committed to work with the other party in the development of such investment opportunities.

As an element of the Strategic Agreement, Emera’s allowed common equity interest in APUC will be increased from 15% to 25%. APUC will seek shareholder approval at its upcoming annual and special general meeting currently scheduled for June 21, 2011.

Liberty Utilities Highlights

California Utility Acquisition

On January 1, 2011, APUC completed the acquisition of the California Utility. Liberty Energy owns 50.001% and Emera owns 49.999% of California Pacific Utility Ventures LLC, which owns 100% of the purchaser of the California Utility assets, California Pacific Electric Company (“Liberty Energy (California)”).

Total consideration for the entire utility was U.S. \$131.8 million, subject to final adjustments. The acquisition of the utility assets by Liberty Energy (California) was funded in part with the proceeds of a U.S. \$70 million senior unsecured private debt placement to Liberty Energy (California) entered into on December 29, 2010. The private placement is a senior unsecured private placement with U.S. institutional investors. The notes are fixed rate and split into two tranches, U.S. \$45 million of ten year 5.19% notes and U.S. \$25 million of 5.59% fifteen year notes.

During the quarter ended March 31, 2011, the California Assets generated revenue of \$22.9 million against operating costs of \$17.0 million.

Acquisition of 100% Ownership Interest of the California Utility

Emera has agreed to sell its 49.999% direct ownership in Liberty Energy (California) to APUC, with closing of such transaction subject to regulatory approval. As consideration Emera will receive 8.211 million APUC shares in two tranches. Approximately half of the shares will be issued following regulatory approval of the Liberty Energy (California) ownership transfer and the balance of the shares will be issued following completion of Liberty Energy (California)’s first rate case, expected to be completed in the latter half of 2012.

Utility Acquisitions by Liberty Water

On April 19th, 2011, APUC announced that Liberty Water had entered into asset purchase agreements to acquire three additional regulated water utility assets in the United States. These acquisitions, Louisiana Land and Water Co. ("LLW"), Noel Water Company ("Noel"), and KMB Utilities Company ("KMB"), will add approximately 7,400 customer connections to the Liberty Water family. Total consideration for the three acquisitions is U.S. \$8.3 million.

LLW, the largest of the three utilities serving approximately 6,000 customers near Monroe, LA, and KMB located in Missouri, both own and operate regulated water distribution and waste-water collection and treatment utility systems; Noel participates solely in the regulated water distribution utility business in Missouri.

Closings of the acquisitions are subject to certain conditions including state regulatory approval, and are expected to occur in the fall of 2011.

Algonquin Power Co. Highlights

Acquisition of First Wind's Northeast Projects

On April 30, 2011, APUC and Emera announced that they have entered into an agreement to jointly construct, own and operate wind energy projects in the Northeast U.S.

First Wind has a 370 MW portfolio of wind energy projects in the Northeast U.S. including five operating projects and two projects near operation. These assets will become part of an operating company of which First Wind will own 51% and, Emera and APUC through their own separate joint venture ("Northeast Wind"), will own 49% of the operating company. Emera will initially own 75% of Northeast Wind and APUC will own the balance. Northeast Wind will invest a total of \$333 million to acquire the 49% ownership of the operating company. This includes a \$150 million loan to the operating company. The loan will be repaid within 5 years, or convert to equity in future projects.

APUC and Emera will work with First Wind to grow the operating company and develop other projects in the region. The transaction provides Northeast Wind access to a pipeline of Northeast US based development projects and provides Algonquin an effective way to extend its development reach into a geographic area which has historically not been included in its area of focus. Algonquin is able to leverage its development activities through access to First Wind's development team within New England. Algonquin's involvement includes oversight control over the process which will result in additional projects being acquired by the joint venture. Once projects in the development pipeline meet certain eligibility criteria they will transfer to the operating company.

APUC will finance its investment in Northeast Wind, in part, through an agreement with Emera for Emera to acquire \$37 million of subscription receipts in Algonquin at a price of \$5.37 per share.

The transaction is expected to be immediately accretive to both Emera and Algonquin. The transaction requires certain state and federal regulatory approvals, among others, and is expected to close by the end of the year.

The First Wind projects being transferred to the operating company are:

Project	Location	Commercial Operation	Size
Mars Hill Wind,	Mars Hill, Maine	2007	42 MW
Stetson Wind I,	Danforth, Maine	2009	57 MW
Stetson Wind II,	Danforth, Maine	2010	26 MW
Rollins Wind	Lincoln, Maine	expected completion - July 2011	60 MW
Sheffield Wind	Sheffield, Vermont	expected completion - Oct. 2011	40 MW
Steel Winds I	Lackawanna, New York	2007	20 MW
Cohocton Wind	Cohocton, New York	2009	125 MW

Acquisition of Saskatchewan Wind Projects

On March 21, APCo announced that it has executed an asset purchase agreement to acquire the Morse Projects (two proposed adjacent 10 MW wind energy development projects in Saskatchewan). These projects were selected by SaskPower for award of power purchase agreements in accordance with the SaskPower Green Options Partners Program in May 2010. Upon SaskPower's approval and execution of the PPAs, Kinetikor will assign the PPAs to APCo. The projects are to be constructed near Morse, Saskatchewan, approximately 180 km west of Regina and are expected to be completed in late 2013.

2011 First quarter results from operations

Over the past two years, APUC has focused its efforts on a number of value creation initiatives that, through their completion, have now created the conditions for growth in APUC revenues, EBITDA and earnings. These value initiatives include Liberty Energy's acquisition of a California electric distribution utility, prosecution of rate cases by Liberty Water, APCo's refurbishment of the Energy from Waste facility, acquisition by APCo of the Tinker Hydro facility and APCo's completion of construction and commissioning of the Red Lily I Wind Farm. As a result, for the three months ended March 31, 2011, APUC reported total revenue of \$71.7 million as compared to \$45.9 million during the same period in 2010, an increase of \$25.8 million or 56.3%. Adjusted EBITDA in the three months ended March 31, 2011 totalled \$26.9 million as compared to \$17.9 million during the same period in 2010, an increase of \$8.9 million or 50%.

Key Selected First Quarter Financial Information

	Three months ended March 31	
	2011	2010
Revenue	\$ 71,708	\$ 45,884
Adjusted EBITDA ¹	\$ 26,915	\$ 17,933
Cash provided by Operating Activities	19,284	8,385
Net earnings	5,016	3,531
Adjusted net earnings ²	4,525	1,439
Dividends to Shareholders	6,762	5,597
Per share		
Net earnings	\$ 0.05	\$ 0.04
Adjusted net earnings ²	\$ 0.04	\$ 0.02
Diluted net earnings	\$ 0.05	\$ 0.04
Cash provided by Operating Activities	\$ 0.19	\$ 0.09
Dividends/distributions to Shareholders/Unitholders	\$ 0.065	\$ 0.06
Total Assets	1,175,822	966,169
Long Term Debt ³	325,237	237,088

- 1 APUC uses Adjusted EBITDA to enhance assessment and understanding of the operating performance of APUC without the effects of depreciation and amortization expense which are derived from a number of non-operating factors, accounting methods and assumptions. Adjusted EBITDA is a non-GAAP measure - see applicable section later in this MD&A and the caution regarding non-GAAP measures on page 1.
- 2 APUC uses Adjusted net earnings to enhance assessment and understanding of the performance of APUC without the effects of gains or losses on derivative financial instruments which are derived from a number of non-operating factors, accounting methods and assumptions. Adjusted net earnings is a non-GAAP measure - see applicable section later in this MD&A and the caution regarding non-GAAP measures on page 1.
- 3 Includes the Airsource Senior Debt Financing which matures on October 31, 2011 and has been recorded as a current liability on the consolidated balance sheet.

The major factors resulting in the increase in APUC revenue in the three months ended March 31, 2011 as compared to the corresponding period in 2010 are set out as follows:

	Three months ended March 31, 2011
Comparative Prior Period Revenue	\$ 45,884
Significant Changes:	
California Utility Acquisition – January 1, 2011	22,900
Energy-from-Waste facility	3,400
Liberty Water revenue increases primarily due to rate case approvals	2,000
Effect of wind resource compared to comparable quarter	900
Red Lily I – development, construction and supervision fees	500
Sanger Facility - Effect of price and volume reductions vs the comparable quarter	(600)
Tinker Hydro/Energy Services Business	(1,100)
Impact of the weaker U.S. dollar	(1,500)
Other	(676)
Current Period Revenue	\$ 71,708

A more detailed discussion of these factors is presented within the business unit analysis.

For the three months ended March 31, 2011, APUC experienced an average U.S. exchange rate of approximately \$0.986 as compared to \$1.041 in the same period in 2010. As such, any quarter over quarter variance in revenue or expenses, in local currency, at any of APUC's U.S. entities are affected by a change in the average exchange rate, upon conversion to APUC's reporting currency.

Adjusted EBITDA in the three months ended March 31, 2011 totalled \$26.9 million as compared to \$17.9 million during the same period in 2010, an increase of \$8.9 million or 50%. The increase in Adjusted EBITDA is primarily due to increased earnings from operations primarily resulting from the acquisition of the California Assets, increased revenues from Liberty Water resulting from the completion of rate cases, and improved results from the EFW facility, partially offset by lower results at Windsor Locks, the Energy Services Business average hydrology in the Renewable Energy division and the impact of the weaker U.S. dollar as compared to the same period in 2010. A more detailed analysis of these factors is presented within the reconciliation of Adjusted EBITDA to net earnings set out below (see Non-GAAP Performance Measures).

For the three months ended March 31, 2011, net earnings totalled \$5.0 million as compared to \$3.5 million during the same period in 2010, an increase of \$1.5 million or 43%. Net earnings per share totalled \$0.05 for the three months ended March 31, 2011, as compared to \$0.04 during the same period in 2010, an increase of 25%.

Net earnings for the three months ended March 31, 2011 increased by \$9.5 million due to increased earnings from operating facilities and \$0.3 million related to increased interest, dividend and other income as compared to the same period in 2010. These items were partially offset by increased expenses of \$0.8 million due to increased management and administration expense, \$2.0 million due to increased interest expense, \$0.8 million due to increased amortization expense, \$1.6 million related to decreased recoveries of income tax expense primarily due to the reasons discussed in *Annual Corporate and Other Expenses – Income Taxes*, \$1.8 million due to increased earnings attributable to non-controlling interest, primarily related to earnings from the California Asset, \$0.8 million due to increased amortization expense, \$0.5 million due to decreased gains on derivative financial instruments and \$0.7 million due to increased acquisition costs as compared to the same period in 2010.

A more detailed analysis of realized and unrealized mark to market gains and losses on foreign exchange contracts and interest swap contracts can be found later in this report under *Treasury Risk Management - Foreign currency risk*.

During the three months ended March 31, 2011, cash provided by operating activities totalled \$19.4 million or \$0.19 per share as compared to cash provided by operating activities of \$8.4 million, or \$0.09 per share during the same period in 2010, an increase of more than 100%. Cash provided by operating activities exceeded dividends declared by 2.9 times during the quarter ended March 31, 2011 as compared to 1.5 times dividends during the same period in 2010. The change in cash provided by operating activities after changes in working capital in the three months ended March 31, 2011, is primarily due to increased cash from operations, partially offset by increased interest expense and increased management and administration expense as compared to the same period in 2010.

Outlook

APCo

The APCo Renewable Energy division is expected to perform based on long-term average resource conditions for hydrology and below average wind resources in the second quarter of 2011.

The capital upgrade completed at the EFW facility is expected to continue to result in higher throughput and lower operating costs at the facility in the second quarter of 2011 as compared to the same period in 2010 when the facility was temporarily shut down. APCo anticipates that the Sanger facility should meet expectations for the second quarter of 2011 and be in line with 2010 results.

APCo Thermal Energy division's Windsor Locks facility will continue to sell a portion of its electricity capacity and all of its steam capacity to the industrial host with the balance of the electrical capacity available to

be sold either into the the Independent System Operator New England (“ISO-NE”) day-ahead market or to retail customers through the Energy Services Business. It is anticipated that performance during the second quarter of 2011 will be in line with expectations.

Liberty Utilities

Liberty Water is forecasting modest customer growth in 2011. Revenue increases from rate cases completed in Arizona and Texas are anticipated to contribute additional revenue in Liberty Water in the second quarter of 2011 as compared to the same period in 2010. Liberty Water attributes approximately U.S. \$1.7 million of the revenue increases in the first quarter of 2011 to the impact of completed rate cases and anticipates that this will continue in the second quarter. In addition, the Rio Rico and Bella Vista rate cases were completed in the quarter and are expected to contribute an additional U.S. \$1.7 million in revenue on an annualized basis.

Liberty Energy expects modest customer growth in 2011. Liberty Energy anticipates that the Liberty Energy (California) facility should exceed expectations for the second quarter of 2011 through increased load and customer count.

Liberty Utilities is pursuing additional investments in water, wastewater, electric and gas distribution utilities and electric transmission assets, sharing certain common infrastructure between utilities to support best in-class-customer care for its subsidiary utility ratepayers.

APCo: Renewable Energy

	Three months ended March 31		
	Long Term Average Resource	2011	2010
Performance (MW-hrs sold)			
Quebec Region	57,725	60,925	64,650
Ontario Region	37,250	33,100	29,925
Manitoba Region	105,000	92,800	79,175
Saskatchewan Region*	17,500	7,300	-
New England Region	18,625	16,450	18,800
New York Region	27,300	22,650	23,925
Western Region	10,200	9,875	9,400
Maritime Region	25,575	32,850	31,400
Total	299,175	275,950	257,275
Revenue			
Energy sales		\$ 21,879	\$ 22,219
Less:			
Cost of Sales – Energy**		(1,772)	(2,089)
Net Energy Sales		\$ 20,107	\$ 20,130
Other Revenue		501	-
Total Net Revenue		\$ 20,608	\$ 20,130
Expenses			
Operating expenses		(5,814)	(6,036)
Interest and Other income		420	138
Division operating profit (including other income)		\$ 15,214	\$ 14,232

* Actual production in the Saskatchewan Region reflects production since Red Lily I achieved commercial operation, approximately one month. The long term average resource reflects three months of production.

** Cost of Sales – Energy consists of energy purchases by the Energy Services Business which is resold to its retail and industrial customers.

APCo's hydroelectric generating facilities in the New York and New England regions primarily sell their output at market rates, therefore the average revenue earned per MW-hr sold can vary significantly from the same period in the prior period or year. APCo's hydroelectric generating facilities in the Maritime region primarily sell their output to APCo's Energy Services Business which, in turn, sells this energy under fixed price contracts to local electric utilities and commercial and industrial customers in Northern Maine. APCo's facilities in the other regions sell their energy under varying rates as established by each facility's specific PPA. While most of APCo's PPAs include annual rate increases, a change to the weighted average production levels resulting in higher average production from facilities that 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.

2011 First Quarter Operating Results

For the quarter ended March 31, 2011, the Renewable Energy division produced 275,950 MW-hrs of electricity, as compared to 257,275 MW-hrs produced in the same period in 2010, an increase of 7.3%. The increased generation is primarily due to improved average hydrology in the quarter as compared to the comparable period in 2010. This level of production in 2011 represents sufficient renewable energy to supply the equivalent of 60,000 homes on an annualized basis with renewable power. Using new standards of thermal generation, as a result of renewable energy production, the equivalent of 148,000 tons of CO₂ gas was prevented from entering the atmosphere in the first quarter of 2011.

During the quarter ended March 31, 2011, the division generated electricity equal to 95% of long-term projected average resources (wind and hydrology) as compared to 90% during the same period in 2010. In the first quarter of 2011, the Maritimes and Quebec regions experienced resources significantly higher than long-term averages, producing approximately 30% and 6% above long-term average resources, respectively. The Western region experienced resources approximately 5% below long-term average, while the Ontario, Manitoba and New England regions experienced resources of approximately 10% below long-term averages. The New York regions experienced results approximately 15% below long-term average resources.

For the quarter ended March 31, 2011, revenue from energy sales in the Renewable Energy division totalled \$21.9 million, as compared to \$22.2 million during the same period in 2010, a decrease of \$0.3 million or 1.5%. As the purchase of energy by the Energy Services Business is a significant revenue driver and component of variable operating expenses, the division compares 'net energy sales' (energy sales revenue less energy purchases) as a more appropriate measure of the division's sales results. For the quarter ended March 31, 2011, net revenue from energy sales in the Renewable Energy division totalled \$20.1 million, consistent with the same period in 2010.

Revenue from APCo's New England and New York region facilities decreased \$0.2 million due to a decrease in weighted average energy rates (approximately 4.5%) and decreased average hydrology, as well as \$1.3 million decrease in revenue at the Energy Services Business primarily due to decreased customer demand as compared to the same period in 2010. Revenue at the Energy Services Business primarily consists of wholesale deliveries to local electric utilities and retails sales to commercial and industrial customers in Northern Maine (\$3.2 million) and merchant sales of production in excess of customer demand and other revenue (\$0.3 million). Revenue from the Manitoba region increased \$0.9 million primarily due to a stronger wind resource and \$0.3 million in the Maritime region primarily due to increased customer demand as compared to the same period in 2010. Revenue generated by the Ontario, Quebec and Western regions increased by \$0.2 million due to an increase in weighted average energy rates of approximately 2.0%, primarily the result of increased rates in the Quebec region as compared to the same period in 2010. The

division reported decreased revenue of \$0.4 million from U.S. operations as a result of the weaker U.S. dollar as compared to the same period in 2010.

Red Lily achieved commercial operations effective February 23, 2011. From commercial operation date to March 31, 2011 Red Lily produced 7,300 MW-hrs of electricity which was sold to SaskPower. APCo's economic return from its investment in Red Lily currently comes in the form of interest payments, fees and other charges. Under the terms of the agreements, APCo has the right to exchange these contractual and debt interests in Red Lily for a direct 75% equity interest in 2016. On the expectation that APCo will exercise such option, APCo proportionally includes the performance of Red Lily in its generation report. For the three months ended March 31, 2011, APCo earned fees and interest payments from Red Lily in the total amount of \$0.8 million.

For the quarter ended March 31, 2011, energy purchase costs by the Energy Services Business totalled U.S. \$1.8 million. During the quarter, the Energy Services Business purchased approximately 21,500 MW-hrs of energy at market and fixed rates averaging \$75 per MW-hr. The Maritime region generated approximately 60% of the load required to service its customers as well as the Energy Services Business' customers in the three months ended March 31, 2011.

For the quarter ended March 31, 2011, operating expenses excluding energy purchases totalled \$5.8 million, as compared to \$6.0 million during the same period in 2010, a decrease of \$0.2 million or 3.7%. Operating expenses were impacted by \$0.3 million related to increased operating costs associated with the Tinker Assets and the Energy Services Business, partially offset by decreased repair and maintenance expenses of \$0.2 million at U.S. facilities as compared to the same period in 2010. Operating expenses include costs incurred in the period of \$0.3 million associated with the pursuit of various growth and development activities, consistent with the same period in 2010. The division reported decreased expenses of \$0.1 million from U.S. operations as a result of the weaker U.S. dollar as compared to the same period in 2010.

For the quarter ended March 31, 2011, interest, dividend and other income totalled \$0.4 million, as compared to \$0.1 million during the same period in 2010. Interest, dividend and other income primarily consists of interest related to the senior and subordinated senior debt interest in the Red Lily I project. This amount is included as part of APCo's earnings from its investment in Red Lily, as discussed above.

For the quarter ended March 31, 2011, Renewable Energy's operating profit totalled \$15.2 million, as compared to \$14.2 million during the same period of 2010, representing an increase of \$1.0 million or 6.9%. For the quarter ended March 31, 2011, Renewable Energy's operating profit did not meet APCo's expectations primarily due to a lower wind resource than expected in the Manitoba region.

Divisional Outlook – Renewable Energy

The APCo Renewable Energy division is expected to perform based on long-term average resource conditions for hydrology and below long-term average wind resources in the second quarter of 2011.

The Energy Services Business anticipates that, based on the expected load forecast for its existing contracts, it will provide approximately 30,000 MW-hrs of energy to its customers in the second quarter of 2011. The Energy Services Business anticipates that the Tinker Assets will provide the majority of the energy required to service its customers in the second quarter of 2011 and that it will need to purchase approximately 2,500 MW-hrs of energy from the ISO-NE or similar market. The Energy Services Business has in place fixed price financial energy contracts to operationally hedge the price of the customer supply obligations which are not expected to be supplied by the Tinker Assets and to minimize the volatility of the energy prices. These contracts in combination with the expected Tinker production are used to balance the monthly customer load.

APCo: Thermal Energy Division

	Three months ended March 31	
	2011	2010
Performance (MW-hrs sold)	131,500	139,200
Performance (tonnes of waste processed)	41,375	6,550
Performance (steam sales – million lbs)	340,000	320,700
Revenue		
Energy sales	\$ 12,483	\$ 14,299
Less:		
Cost of Sales – Fuel *	(6,353)	(6,245)
Net Energy Sales Revenue	\$ 6,130	\$ 8,054
Waste disposal sales	4,020	917
Other revenue	191	203
Total net revenue	\$ 10,341	\$ 9,174
Expenses		
Operating expenses *	(6,076)	(6,261)
Interest and other income	88	139
Division operating profit	\$ 4,353	\$ 3,052

* Cost of Sales – Fuel consists of natural gas and fuel costs at the Sanger and Windsor Locks facilities.

APCo's Sanger and Windsor Locks generation facilities purchase natural gas from different suppliers and at prices based on different regional hubs. As a result, the average landed cost per unit of natural gas will differ between facility and regional changes in the average landed cost for natural gas may result in one facility showing increasing costs per unit while the other showing decreasing costs, as compared to the same period in the prior year. Total natural gas expense will vary based on the volume of natural gas consumed and the average landed cost of natural gas for each mmbtu. As a result, a facility may record a higher aggregate expense for natural gas as a result of a lower average landed per unit cost for natural gas combined with a consumption of a higher volume of such gas.

2011 First Quarter Operating Results

During the quarter ended March 31, 2011, the business unit produced 131,500 MW-hrs of energy as compared to 139,200 MW-hrs of energy in the comparable period of 2010. During the quarter ended March 31, 2011, the business unit's total production decreased by 4,300 MW-hrs from the Windsor Locks facility, 2,500 MW-hrs from the now discontinued landfill gas facilities, and 1,200 MW-hrs from the Sanger facility partially offset by an increase of 1,600 MW-hrs from the EFW facility, each as compared to the same period in 2010.

The EFW facility processed 41,375 tonnes of municipal solid waste as compared to 6,550 tonnes processed in the same period of 2010. The significant increase in throughput is the result of the unplanned outage experienced from January to July 2010. The current level of production resulted in the diversion of approximately 30,000 tonnes of waste from municipal solid waste landfill sites in the first quarter of 2011.

During the quarter ended March 31, 2011, the BCI and Windsor Locks facilities sold 340,000 million lbs of steam as compared to 320,700 million lbs of steam in the comparable period of 2010. During the quarter ended March 31, 2011, BCI purchased 125,000 million lbs of steam from the EFW facility as compared to 18,000 million lbs of steam in the same period in 2010.

For the quarter ended March 31, 2011, revenue in the Thermal Energy division totalled \$16.7 million, as compared to \$15.4 million during the same period in 2010, an increase of \$1.3 million, or 8.3%. As natural gas expense is a significant revenue driver and component of operating expenses, the division compares 'net energy sales revenue' (energy sales revenue less natural gas expense) as a more appropriate measure of the division's results. For the quarter ended March 31, 2011, net energy sales revenue at the Thermal Energy division totalled \$6.1 million, as compared to \$8.1 million during the same period in 2010, a decrease of \$2.0 million, primarily arising from the termination of the previous power purchase agreements in effect until April 2010 at the Windsor Locks facility.

For the quarter ended March 31, 2011, energy sales revenue in the Thermal Energy division totalled \$12.5 million, as compared to \$14.3 million during the same period in 2010, a decrease of \$1.8 million or 12.7%. The decrease in revenue from energy sales was primarily due to a decrease of \$0.4 million at the Windsor Locks facility as a result of decreased production, partially offset by an increase of \$0.1 million as a result of increased energy rates, in part due to a higher average landed price per mmbtu for natural gas and the change in operating model of the facility, a decrease of \$0.6 million at the Sanger facility as a result of decreased energy pricing and decreased production and a decrease of \$0.2 million as a result of the closure of the LFG facilities, as compared to the same period in 2010. The decrease in revenue was partially offset by \$0.2 million at the BCI facility as a result of increased price for steam and an increase of \$0.1 million at the EFW facility as a result of increased production of energy, as compared to the same period in 2009. The natural gas expense at the Sanger and Windsor Locks facilities is discussed in detail below. The division reported decreased energy sales revenue of \$0.9 million from operations as a result of the weaker U.S. dollar, as compared to the same period in 2010.

Revenue from waste disposal sales for the quarter ended March 31, 2011 totalled \$4.0 million, as compared to \$0.9 million during the same period in 2009. The increase was a result of the EFW facility shutdown in the comparable period of 2010.

Other revenue for the quarter ended March 31, 2011 totalled \$0.2 million, consistent with the same period in 2010.

For the quarter ended March 31, 2011, fuel costs at Sanger and Windsor Locks totalled U.S. \$6.4 million, as compared with U.S. \$6.0 million in the same period in 2010, an increase of U.S. \$0.4 million. The overall natural gas expense at the Windsor Locks facility increased \$0.8 million (18%), primarily the result of a 23% increase in the average landed cost of natural gas per mmbtu, partially offset by a 4% reduction in volume of natural gas consumed, as compared to the same period in 2010. The average landed cost of natural gas at the Windsor Locks facility during the quarter was \$5.36 per mmbtu. This was partially offset by a decrease in the natural gas expense at Sanger of \$0.4 million (27%), primarily the result of a 25% decrease in the average landed cost of natural gas per mmbtu, as well as a 2% decrease in the volume of natural gas consumed as compared to the same period in 2010. The average landed cost of natural gas at the Sanger facility during the quarter was U.S. \$4.34 per mmbtu.

For the quarter ended March 31, 2011, operating expenses, excluding fuel costs at Windsor Locks and Sanger, totalled \$6.1 million, as compared to \$6.3 million during the same period in 2010, a decrease of \$0.2 million. The decrease in operating expenses for the quarter was primarily due to \$0.7 million of reduced natural gas costs at BCI as a result of the EFW facility generating more steam, \$0.3 million related to decreased costs at three facilities and \$0.4 million of reduced operating costs at the LFG facilities partially offset by \$1.8 million in increased operating costs at the EFW facility resulting from the outage at the facility in 2010 as compared to the same period in 2010. Operating expenses in the comparable period included costs of \$0.2 million associated with the pursuit of various growth and development activities. The division reported decreased expenses of \$0.4 million from U.S. operations as a result of the weaker U.S. dollar as compared to the same period in 2010.

For the quarter ended March 31, 2011, the Thermal Energy division's operating profit totalled \$4.4 million, as compared to \$3.1 million during the same period in 2010, representing an increase of \$1.3 million or 42.6%. Operating profit in the Thermal Energy division exceeded expectations for the quarter ended March 31, 2011, primarily due to better than expected earnings at the Windsor Locks facility as a result of improved energy pricing.

Divisional Outlook – Thermal Energy

The capital upgrade completed at the EFW facility is expected to continue to result in higher throughput and lower operating costs at the facility in the second quarter of 2011 as compared to the same period in 2010 when the facility was temporarily shut down. APCo estimates that the upgrade resulted in higher earnings from operations of approximately \$1.4 million in the first quarter of 2011 as compared to the same period in 2010 and anticipates that trend should continue in the second quarter of 2011.

APCo anticipates that the Sanger facility should meet expectations for the second quarter of 2011 and be in line with 2010 results.

APCo Thermal Energy division's Windsor Locks facility will continue to sell a portion of its electricity capacity and all of its steam capacity to the industrial host with the balance of the electrical capacity available to be sold either into the ISO-NE day-ahead market or to industrial customers through the Energy Services Business. The facility did not commit any portion of its remaining capacity to the FRM for the summer of 2011 due to low auction prices. It is anticipated that performance during the second quarter of 2011 will be in line with expectations.

Algonquin has completed preliminary engineering for a repowering project at the Windsor Locks facility and is in negotiations with the steam host regarding this project. See *APCo Development Division – Windsor Locks* for further discussion on the potential repowering project.

APCo: Development Division

Current Development Projects

APCo's Development Division has successfully advanced a number of projects and has been awarded or acquired a number of Power Purchase Agreements. The projects are as follows:

Project Name (Location)	Size (MW)	Estimated Capital Cost	Expected Year of Commissioning	Ownership Interest	PPA Term	Production MW-hrs
Amherst Island (Ontario) ¹	75	\$230m	2014	100%	25	247,000
St. Damase (Quebec) ²	24	\$70m	2013	50%	20	86,000
Val Eo (Quebec) ³	24	\$70m	2015	25%	20	66,000
Morse (Saskatchewan) ^{4,5}	20	\$60m	2013	100%	20	75,000
Total	143	\$430m				474,000

Notes:

1. FIT contract awarded
2. Successful submission to Hydro Quebec's 2009 RFP for wind.
3. PPA signed
4. Two 10 MW PPAs
5. Comprised of two projects that are connected geographically and will be built simultaneously. Both projects were awarded PPAs under the province's Green Options Partner Program (GOPP).

Amherst Island

The Amherst Island Wind Project is located on Amherst Island in the village of Stella, approximately 25 kilometres southwest of Kingston, Ontario. The 75 MW project was awarded a FIT contract by the OPA as part of the second round of the OPA's FIT program.

The project is currently contemplated to use more efficient Class III wind turbine generator technology and will be developed by APCo. APCo forecasts that the available wind resource could produce approximately 247 GW hrs of power annually, depending upon the final turbine selection for the project. Funding for the total capital costs currently estimated to be \$230 million will be arranged and announced when all required permitting and all other pre-construction conditions have been satisfied. The submission of the renewable energy application is targeted for the summer of 2012. Construction will commence shortly following the approval of the application and is expected to take 12 to 18 months.

Quebec Community Wind Projects

In 2010, APCo worked with Société en Commandite Val-Eo, a cooperative with a development project located in the Lac Saint-Jean region of Quebec, and the community of Saint-Damase to submit proposals into Hydro Quebec's 250 MW wind Request for Proposal. On December 20, 2010, both projects were awarded power purchase contracts that stipulate the use of ENERCON turbines.

St. Damase

The Saint-Damase Wind Project is located in the local municipality of Saint-Damase which is within the regional municipality of la Matapédia. The project proponents include the Municipality of Saint-Damase and APCo. The first 24 MW phase of the project is expected to be comprised of twelve generators, producing approximately 86,000 MW-hrs annually. Construction of the first 24 MW phase of the project is estimated to begin in early 2013 with a commercial operations date in late 2013.

The interest of APUC in the project is subject to final negotiations with the municipality but, in any event, will not be less than 50%. Final funding of the project will be arranged and announced when all required permitting has been met, and all other pre-construction conditions have been satisfied. Preliminary permitting began in early 2011, with all major authorizations targeted for completion by the end of 2012.

Val Éo

The Val-Éo Wind Project is located in the local municipality of Saint-Gédéon de Grandmont, which is within the regional municipality of Lac-Saint-Jean-Est. The project proponents include the Val-Éo wind cooperative formed by community based landowners and APCo. The first 24 MW phase of the project is expected to be comprised of eight generators, producing approximately 66,000 MW-hrs annually. Construction of the first 24 MW phase of the project is expected to begin in early 2015 with commercial operations occurring in late 2015.

The interest of APUC in the project is subject to final negotiations with the municipality but, in any event, will not be less 25%. Final funding of the project will be arranged and announced when all required permitting has been met, and all other pre-construction conditions have been satisfied. Preliminary permitting began in early 2011, with all major authorizations targeted for completion by the end of 2012.

Morse Wind Projects

APCo has executed an asset purchase agreement with Kinetikor to acquire the Morse Projects, assets related to two proposed adjacent 10 MW wind energy development projects in Saskatchewan.

The Morse Projects were selected by SaskPower for award of PPAs in accordance with the SaskPower Green Options Partners Program in May 2010. Upon SaskPower's approval and execution of the PPAs, Kinetikor will assign the PPAs to APCo. The Morse Projects are expected to be completed in late 2013.

The Morse Projects are to be constructed near Morse, Saskatchewan, approximately 180 km west of Regina. It is contemplated that the Morse Projects will have additional land under lease or option in order to facilitate future expansion of the Morse Projects.

The total annual energy production for the Morse Projects is estimated to be 75,000 MW-hrs. The capital cost to construct the Morse Projects is currently estimated to be \$55-\$60 million, inclusive of acquisition costs. The first year PPA rate is set at \$101.98 per MW-hr for the first full year of operations, which APCo expects to occur in 2014, with an annual escalation provision of 2% over the expected 20 year term.

Red Lily II Wind Project

In addition to the now completed Red Lily I project, APCo has secured additional land options related to property around Red Lily I to facilitate a 106 MW expansion ("**Red Lily II**"). The viability of the expanded project will be conditional upon a review of the actual operating results from Red Lily I. During the first quarter of 2010, APCo responded to the request for quotations issued by SaskPower by submitting requested information pertaining to Red Lily II.

Windsor Locks Repowering

The Windsor Locks Facility is a 54 MW natural gas power generating station located in Windsor Locks, Connecticut. This Facility delivers 100% of its steam capacity and a portion of its electrical generating capacity to Ahlstrom pursuant to the ESA.

APCo has completed preliminary engineering and environmental permitting work for the installation of a 14.2 MW combustion gas turbine which is more appropriately sized to meet the electrical and steam requirements of Ahlstrom. The total expected capital cost for this project is estimated at approximately U.S. \$20 million. APCo believes it is eligible to receive a one-time non-recurring grant from the State of Connecticut equivalent to U.S. \$450/KW to a maximum of U.S. \$6.6 million to offset the cost of such re-powering. An additional benefit of the State of Connecticut grant program is that local distribution charges for natural gas used by the new turbine are waived, with an estimated benefit to the Windsor Locks Facility of approximately \$500,000/year. In addition to installing the new gas turbine, APCo would expect to continue to operate the existing electrical generating equipment in the ISO-NE market. APCo also believes that this project would qualify for a combined heat and power ITC sponsored by the U.S. Federal Government. The benefit of the ITC grant is approximately U.S. \$1 million in addition to the Connecticut DPUC grant. APCo's decision to make any investment in new capital for this site will be based on an assessment of the incremental earnings against such additional investment.

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, hydroelectric projects at different stages of investigation, and thermal energy generation projects. The projects being examined are located both in Canada and the U.S.

APCo is currently collecting wind data on three sites in Saskatchewan and responded to Saskatchewan's Request for Qualifications to procure up to 175 MW of wind power from one or more independent power producers. These sites have met the qualifications and APCo will likely submit project proposals into future RFPs.

Discussions with the OPA indicate that energy procurement initiatives have been positively influenced by the Green Energy Act ("GEA"). The GEA is intended to provide the catalyst for the development of 50,000 new green economy jobs and is viewed by APCo as positive for the development of renewable energy in Ontario. The Development division is maintaining relationships with potential partners for the development of a number of projects that could qualify under anticipated procurement initiatives undertaken by the OPA in accordance with the GEA.

APCo has applications for approximately 42 MW of on-shore wind energy projects in eastern Ontario under the GEA's FIT program which are now being reviewed under the Economic Connection Test. The on-shore wind price set by the FIT program is \$0.135 per KWh.

APCo has applied to become applicant of record for three Crown land sites in Ontario under the Ministry of Natural Resources wind power site release program.

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 the outcome of due diligence, material contract negotiations, the structure of future calls for tender, and request for proposal programs. To maximize APCo's opportunities for development, new renewable and high efficiency thermal energy generating facilities are being pursued utilizing a variety of technologies and in diverse geographic locations.

Future Development Projects – Existing Facilities

St. Leon II

APCo is exploring multiple options related to the St. Leon facility 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 of approximately \$250 million.

Liberty Utilities

LIBERTY WATER

	Three months ended March 31		Three months ended March 31	
	2011	2010	2011	2010
Number of				
Wastewater connections			36,095	35,380
Wastewater treated (millions of gallons)			550	525
Water distribution connections			37,890	37,026
Water sold (millions of gallons)			1,000	900
	U.S. \$	U.S. \$	Can \$	Can \$
Assets for regulatory purposes (U.S. \$)	158,588	152,658		
Revenue				
Wastewater treatment	\$ 5,781	\$ 4,693	\$ 5,699	\$ 4,917
Water distribution	3,975	3,075	3,918	3,221
Other Revenue	165	105	167	108
	\$ 9,921	\$ 7,873	\$ 9,784	\$ 8,246
Expenses				
Operating expenses	(5,502)	(5,204)	(5,421)	(5,428)
Other income	111	11	109	11
Business Unit operating profit	\$ 4,530	\$ 2,680	\$ 4,472	\$ 2,829

Liberty Water is committed to being a leading utility provider of safe, high quality and reliable water and wastewater services while providing stable and predictable earnings from its utility operations. Liberty Water has presented the division's results in both the reporting currency and its functional currency. Liberty Water believes that since the division's operations are entirely in the U.S., it is useful to show the results in Liberty Water's functional currency without the impact of foreign exchange.

Liberty Water reports total connections, inclusive of vacant connections rather than customers. Liberty Water had 36,095 wastewater connections as at March 31, 2011, as compared to 35,380 as at March 31, 2010, an increase of 715 connections in the period or 2.0%. Liberty Water had 37,890 water distribution connections as at March 31, 2011, as compared to 37,026 as at March 31, 2010, representing an increase of 864 in the period or 2.3%. Total connections include approximately 1,800 vacant wastewater connections and 1,500 vacant water distributions connections as at March 31, 2011. Liberty Water's change in water distribution and wastewater treatment customer base during the period is primarily due to modest customer growth at Liberty Water's facilities.

Liberty Water has investments in regulatory assets of U.S. \$158.6 million across four states as at March 31, 2011, as compared to U.S. \$152.7 million as at March 31, 2010.

2011 First Quarter Operating Results

During the quarter ended March 31, 2011, Liberty Water provided approximately 1.0 billion U.S. gallons of water to its customers, treated approximately 550 million U.S. gallons of wastewater and sold approximately 35 million U.S. gallons of treated effluent.

For the quarter ended March 31, 2011, Liberty Water's revenue totalled U.S. \$9.9 million as compared to U.S. \$7.9 million during the same period in 2010, an increase of U.S. \$2.0 million or 26.0%. The increased revenues were primarily due to the implementation of rate increases from rate cases filed with state legislators over the past two years. The rate cases were required to ensure that a particular facility has the opportunity to recover its operating costs and earn a fair and reasonable return on its capital investment as allowed by the regulatory authority under which the facility operates.

Revenue from wastewater treatment totalled U.S. \$5.8 million, as compared to U.S. \$4.7 million during the same period in 2010, an increase of U.S. \$1.1 million or 23.2%. The first quarter wastewater treatment revenue was impacted by increased revenue, primarily from the implementation of rate increases, of U.S. \$0.7 million at the LPSCo facility and U.S. \$0.2 million at the Black Mountain facility, U.S. \$0.1 million related to the acquisition of Galveston as compared to the same period in 2010. In addition, revenue increased U.S. \$0.2 million at eight wastewater treatment facilities primarily due to increased customer demand as compared to the same period in 2010.

Revenue from water distribution totalled U.S. \$4.0 million, as compared to U.S. \$3.1 million during the same period in 2010, an increase of U.S. \$0.9 million or 29.3%. The first quarter water distribution revenue was impacted by U.S. \$0.7 million at the LPSCo facility primarily due to the implementation of rate increases, U.S. \$0.2 million at the Rio Rico facility and U.S. \$0.1 million related to the acquisition of Galveston as compared to the same period in 2010.

For the quarter ended March 31, 2011, operating expenses totalled U.S. \$5.5 million, as compared to U.S. \$5.2 million during the same period in 2010. Overall expenses increased U.S. \$0.3 million or 5.7% as compared to the same period in 2010. Operating expenses increased due to increased utilities, consumable and insurance expenses of U.S. \$0.2 million and U.S. \$0.1 million related to wages, salary and other operating costs as compared to the same period in 2010.

For the quarter ended March 31, 2011, Liberty Water's operating profit totalled U.S. \$4.5 million as compared to U.S. \$2.7 million in the same period in 2010, an increase of U.S. \$1.9 million or 69.0%. Liberty Water's operating profit met expectations for the three months ended March 31, 2011.

Measured in Canadian dollars, for the quarter ended March 31, 2011, Liberty Water's revenue totalled \$9.8 million, as compared to \$8.2 million during the same period in 2010. Revenue from wastewater treatment totalled \$5.7 million, as compared to \$4.9 million during the same period in 2010, an increase of \$0.8 million. Revenue from water distribution totalled \$3.9 million, as compared to \$3.2 million in the same period in 2010, an increase of \$0.7 million. Liberty Water reported decreased revenue from operations of \$0.5 million in the first quarter of 2011 as a result of the weaker U.S. dollar as compared to the same period in 2010.

Measured in Canadian dollars, for the quarter ended March 31, 2011, operating expenses totalled \$5.4 million, consistent with same period in 2010. Liberty Water reported lower expenses from operations of \$0.3 million as a result of the weaker U.S. dollar, as compared to the same period in 2010.

For the quarter ended March 31, 2011, Liberty Water's operating profit totalled \$4.5 million as compared to \$2.8 million in the same period in 2010, an increase of \$1.6 million. Liberty Water's operating profit met expectations for the three months ended March 31, 2011.

Outlook – Liberty Water

Liberty Water provides water distribution and wastewater collection and treatment services, primarily in the southern and southwestern U.S. where communities have traditionally experienced long-term growth and that provide continuing future opportunities for organic growth. Liberty Water expects continuing modest customer growth in 2011.

Revenue increases from rate cases completed in Arizona and Texas are anticipated to contribute additional revenue in Liberty Water in the second quarter of 2011 as compared to the same period in 2010. Liberty Water attributes approximately U.S. \$1.7 million of the revenue increases in the first quarter of 2011 to the impact of completed rate cases and anticipates that this will continue in the second quarter. In addition, the Rio Rico and Bella Vista rate cases were completed the quarter and are expected to contribute an additional U.S. \$1.7 million in revenue on an annualized basis.

Liberty Water continues to work with key stakeholders, including regulators, to help manage issues related to the issuance of decisions in its rate cases in a timely manner.

Completed Rate Cases	Date of Rate Increases	Annual U.S. \$ Revenue Increase Requested	Annual U.S. \$ Revenue Increase Granted
Facility			
Arizona			
Bella Vista, Northern and Southern Sunrise	April 2011	\$ 1.1 million	\$ 0.8 million

On March 29, 2011, Liberty Water received a recommended order ("ROO") for the consolidated Bella Vista, Northern Sunrise, and Southern Sunrise utilities authorizing an annual rate increase of \$0.8 million, effective April 1, 2011, representing approximately 70% of the requested revenue increase.

At an ACC open meeting held on December 10, 2010 to consider the LPCSo ROO, it was determined that the rate increase will be phased in with 50% of the increase being applied in the first 6 months, increasing to 75% for 6 months thereafter, and 100% of the rate increase being realized from month 12 forward. LPSCo is entitled to recover the foregone revenue from the phase in of rates including carrying charges under terms to be determined during the second phase of the LPSCo rate case which focuses on amounts charged for hookup fees. On May 2, 2011, at a procedural conference it was determined that the phase 2 hearing would commence on June 27, 2011.

On April 19th, 2011 Liberty Water announced that it had entered into agreements to acquire three additional regulated water utility assets in the United States. These acquisitions, LLW, Noel, and KMB are expected to add approximately 7,400 customer connections, an increase of approximately 10%. Total consideration for the three acquisitions is U.S. \$8.3 million.

LLW, the largest of the three utilities serving approximately 6,000 customers near Monroe, LA, and KMB located in Missouri, both own and operate regulated water distribution and waste-water collection and treatment utility systems. Noel participates solely in the regulated water distribution utility business in Missouri.

LLW, Noel, and KMB are anticipated to have net regulatory assets for rate making purposes at closing of approximately US\$6.5 million, US\$0.7 million, and US\$0.3 million respectively, representing a consolidated purchase price multiple of net regulatory assets of approximately 1.09x. With the consent of the Louisiana regulator, LLW will file a rate case promptly after closing of the acquisition with recent rate cases in Louisiana providing return on equity of approximately 9.5-11%. At the Missouri facilities, recent rate cases have provided return on equity of 9.5% and 11.3% for Noel and KMB respectively.

The acquisitions are expected to close later in 2011.

LIBERTY ENERGY

	Three months ended March 31		Three months ended March 31	
	2011	2010	2011	2010
Number of Customer Accounts				
Residential			41,260	
Commercial - Small			5,440	
Commercial – Large			60	
Total Customer Accounts			46,760	
Customer Usage (MW-hrs)				
Residential			90,500	
Commercial – Small			46,100	
Commercial – Large			38,800	
Total Customer Usage (MW-hrs)			175,400	
	U.S. \$	U.S. \$	Can \$	Can \$
Assets for regulatory purposes (U.S. \$)	133,594			
Revenue				
Utility energy sales and distribution	\$ 23,179	\$ -	\$ 22,850	\$ -
Less:				
Cost of Sales – Fuel *	(13,432)	-	(13,242)	-
	\$ 9,747	\$ -	\$ 9,608	\$ -
Expenses				
Operating expenses	(3,799)	-	(3,740)	-
Other income	-	-	-	-
Business Unit operating profit**	\$ 5,948	\$ -	\$ 5,868	\$ -

* Cost of Sales – Energy consists of energy purchases from NV Energy.

** Represents 100% of investment in California Assets.

Liberty Energy's business strategy is to build its nationwide portfolio of electric and natural gas distribution utilities and electric transmission assets, sharing certain common infrastructure between utilities to support best-in-class customer care for its utility ratepayers and building constructive positive regulatory relationships.

Liberty Energy's initial asset as at March 31, 2011 is a 50.001% controlling interest in Liberty Energy (California).

On April 29, 2011, it was announced that Emera has agreed to sell its 49.999% ownership interest to Liberty Energy, with closing of such transaction subject to regulatory approval. As a result, upon completion of the transaction, Liberty Energy will own 100% of Liberty Energy (California). Liberty Energy believes that consolidating 100% of the California utility under the Liberty Energy brand will provide the flexibility and control necessary to fully implement its approach to meeting the needs of customers, employees and regulators.

Liberty Energy has presented the division's results in both the reporting currency and its functional currency. Liberty Energy believes that since the division's operations are entirely in the U.S., it is useful to show the results in Liberty Energy's functional currency without the impact of foreign exchange.

Liberty Energy reports active connections, exclusive of vacant connections rather than total connections. Liberty Energy had approximately 41,260 residential customer accounts and 5,500 commercial customer accounts, as at March 31, 2011 as compared to nil during the same period in 2010.

During the quarter ended March 31, 2011, Liberty Energy's customer usage totalled approximately 175,400 MW-hrs of energy as compared to nil in the comparable period of 2010.

2011 First Quarter Operating Results

For the quarter ended March 31, 2011, Liberty Energy's revenue from utility energy sales totalled U.S. \$23.2 million as compared to nil during the same period in 2010. The purchase of energy by Liberty Energy (California) is a significant revenue driver and component of operating expenses but these costs are effectively passed through to its customers. As a result, the division compares 'net energy sales revenue' (energy sales revenue less energy purchases) as a more appropriate measure of the division's results. For the quarter ended March 31, 2011, net utility energy sales revenue for Liberty Energy totalled U.S. \$9.7 million, as compared to nil during the same period in 2010.

For the quarter ended March 31, 2011, energy purchases for Liberty Energy totalled U.S. \$13.4 million, as compared with nil in the same period in 2010. During the quarter, Liberty Energy (California) purchased approximately 175,500 MW-hrs of energy at rates averaging U.S. \$76.5 per MW-hr.

For the quarter ended March 31, 2011, operating expenses, excluding energy purchases, totalled U.S. \$3.8 million, as compared to nil during the same period in 2010.

For the quarter ended March 31, 2011, Liberty Energy's operating profit totalled U.S. \$5.9 million as compared to nil in the same period in 2010. Liberty Energy's operating profit exceeded expectations for the three months ended March 31, 2011.

Measured in Canadian dollars, for the quarter ended March 31, 2011, Liberty Energy's revenue from energy sales totalled \$22.9 million, as compared to nil during the same period in 2010. As the purchase of energy by Liberty Energy (California) is a significant revenue driver and component of operating expenses, the division compares 'net energy sales revenue' (energy sales revenue less energy purchases) as a more appropriate measure of the division's results. For the quarter ended March 31, 2011, net energy sales revenue for Liberty Energy totalled \$9.6 million, as compared to nil during the same period in 2010.

Measured in Canadian dollars, for the quarter ended March 31, 2011, energy purchases for Liberty Energy totalled \$13.2 million, as compared with nil in the same period in 2010.

Measured in Canadian dollars, for the quarter ended March 31, 2011, operating expenses excluding energy purchases totalled \$3.7 million, as compared to nil in the same period in 2010.

For the quarter ended March 31, 2011, Liberty Energy's operating profit totalled \$5.9 million as compared to nil in the same period in 2010. Liberty Energy's operating profit exceeded expectations for the three months ended March 31, 2011 due to higher customer count and customer energy usage.

Outlook – Liberty Energy

Liberty Energy expects modest customer growth in 2011. Liberty Energy anticipates that Liberty Energy (California) should exceed expectations for the second quarter of 2011.

During the regulatory transfer approval process, Liberty Energy (California) committed to maintaining the historic three year rate case cycle implemented by NV Energy. Accordingly, a general rate case ("GRC") will be filed with the regulator, California Public Utility Commission ("CPUC") in August 2011 with new rates not expected to take effect until mid 2012. Liberty Energy continues to work with key stakeholders, including the CPUC, to help manage issues related to the issuance of a decision in its GRC in a timely manner.

On December 9, 2010, Liberty Energy's wholly owned subsidiary Liberty Energy (New Hampshire) Inc entered into agreements to acquire all issued and outstanding shares of Granite State Electric Company ("Granite State"), a regulated New Hampshire electric utility, and EnergyNorth Natural Gas Inc. ("EnergyNorth"), a regulated New Hampshire natural gas utility for a total purchase price of U.S. \$285 million. Granite State and EnergyNorth are anticipated to have regulatory assets at closing of approximately U.S. \$72.0 million and U.S. \$178.8 million, respectively.

Closings of the transactions are subject to certain conditions including state and federal regulatory approval, and are expected to occur in the fall of 2011. Liberty Energy (New Hampshire) is actively pursuing such approvals with the New Hampshire Public Utilities Commission (NHPUC). Following the preliminary hearing held the NHPUC on April 20, 2011, the parties reached agreement on a procedural schedule establishing final hearings (if necessary) for January 2012. Financing of the acquisitions is expected to occur simultaneously with the closing of the transactions. Liberty Energy is targeting a capital structure of not more than 50% debt to total capitalization consistent with investment grade utilities.

APUC: Corporate

	Three months ended March 31	
	2011	2010
Corporate and other expenses:		
Administrative expenses	\$ 3,722	\$ 2,915
Loss / (Gain) on foreign exchange	35	(39)
Interest expense	8,018	6,067
Interest, dividend and other Income	(730)	(735)
Gain on derivative financial instruments	(429)	(913)
Income tax recovery	(554)	(2,151)

2011 First Quarter Corporate and Other Expenses

During the quarter ended March 31, 2011, management and administrative expenses totalled \$3.7 million, as compared to \$2.9 million in the same period in 2010. The expense increase in the three months ended March 31, 2011 primarily results from increased salaries and bonuses related to the management and administering APUC's operations as compared to the same period in 2010.

For the quarter ended March 31, 2011, interest expense totalled \$8.0 million as compared to \$6.1 million in the same period in 2010. Interest expense increased primarily as a result of higher levels of borrowings at Liberty Water and Liberty Energy as compared to the same period in 2010.

For the quarter ended March 31, 2011, interest, dividend and other income totalled \$0.7 million, consistent with the same period in 2010. Interest, dividend and other income primarily consists of dividends from APUC's share investment in the Kirkland and Cochrane facilities.

Gain on derivative financial instruments consists of realized and unrealized mark-to-market losses on foreign exchange forward contracts, interest rate swaps and forward energy contracts during the quarter. The unrealized portion of any mark-to-market gains or losses on derivative instruments does not impact APUC's current cash position.

An income tax recovery of \$0.5 million was recorded in the three months ended March 31, 2011, as compared to a recovery of \$2.2 million during the same period in 2010. The primary reason for the recovery reduction relate to the utilization of carry forward losses by certain U.S and Canadian entities. The income tax recovery for the three months ended March 31, 2011 primarily results from the reversal of deferred tax liability set up in prior years on temporary differences such as fixed assets. It also includes \$1.0 million related to the recognition of deferred credits from the utilization of deferred tax assets which were set up based on the new corporate structure on October 27, 2009.

NON-GAAP PERFORMANCE MEASURES

Reconciliation of Adjusted EBITDA to Net earnings

EBITDA is a non-GAAP metric used by many investors to compare companies on the basis of ability to generate cash from operations. APUC uses these calculations to monitor the amount of cash generated by APUC as compared to the amount of dividends paid by APUC. APUC uses Adjusted EBITDA to assess the operating performance of APUC without the effects of depreciation and amortization expense which are non-cash and derived from a number of non-operating factors, accounting methods and assumptions. APUC believes that presentation of this measure will enhance an investor's understanding of APUC's operating performance. Adjusted EBITDA is not intended to be representative of cash provided by operating activities or results of operations determined in accordance with GAAP.

The following table is derived from and should be read in conjunction with the unaudited Interim Consolidated Statement of Operations. This supplementary disclosure is intended to more fully explain disclosures related to Adjusted EBITDA and provides additional information related to the operating performance of APUC. Investors are cautioned that this measure should not be construed as an alternative to GAAP consolidated Net earnings.

	Three months ended March 31	
	2011	2010
Net earnings	\$ 6,920	\$ 3,596
Add:		
Income tax recovery	(554)	(2,151)
Interest expense	8,018	6,067
Acquisition costs	753	44
Gain on derivative financial instruments	(429)	(913)
Loss (gain) on foreign exchange	35	(39)
Amortization	12,172	11,329
Adjusted EBITDA	\$ 26,915	\$ 17,933

For the quarter ended March 31, 2011, Adjusted EBITDA totalled \$26.9 million as compared to \$17.9 million, a net increase of \$9.0 million or 50.0% as compared to the same period in 2010.

The major factors impacting Adjusted EBITDA are set out below. A more detailed analysis of these factors is presented within the business unit analysis.

	Three months ended March 31 2011	
Comparative Prior Period Adjusted EBITDA	\$	17,933
Significant Changes:		
Acquisition of the California Utility		5,900
EFW facility		2,400
Liberty Water revenue increases primarily due to rate case approvals		1,800
Red Lily – development and other fees		800
St. Leon - primarily due to an increased wind resource		1,000
Hydro Renewable		300
Administration and management costs		(800)
Lower results from the weaker U.S. dollar		(500)
Tinker Hydro / Energy Services Business primarily due to lower energy demand		(1,000)
Windsor Locks – change in operating model		(1,200)
Other		282
Current Period Adjusted EBITDA	\$	26,915

Reconciliation of Adjusted Net earnings to Net earnings

Adjusted net earnings is a non-GAAP metric used by many investors to compare net earnings from operations without the effects of certain volatile primarily non-cash items that generally have no current economic impact and are viewed as not directly related to a company's operating performance. Net earnings of APUC 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. APUC uses adjusted net earnings to assess the performance of APUC without the effects of gains or losses on foreign exchange, foreign exchange forward contracts and interest rate swaps as these are not reflective of the performance of the underlying business of APUC. APUC believes that analysis and presentation of net earnings or loss on this basis will enhance an investor's understanding of the operating performance of APUC's businesses. It is not intended to be representative of net earnings or loss determined in accordance with GAAP.

The following table is derived from and should be read in conjunction with the audited Consolidated Statement of Operations. This supplementary disclosure is intended to more fully explain disclosures related to adjusted net earnings and provides additional information related to the operating performance of APUC. Investors are cautioned that this measure should not be construed as an alternative to consolidated net earnings in accordance with GAAP.

The following table shows the reconciliation of net earnings to adjusted net earnings exclusive of these items:

	Three months ended March 31	
	2011	2010
Net earnings	\$ 5,016	\$ 3,531
Add:		
Gain on derivative financial instruments, net of tax	(985)	(2,080)
Acquisition costs, net of tax	459	27
Loss (gain) on foreign exchange, net of tax	35	(39)
Adjusted net earnings	\$ 4,525	\$ 1,439
Adjusted net earnings per share unit	\$ 0.04	\$ 0.02

For the three months ended March 31, 2011, adjusted net earnings totalled \$4.5 million as compared to adjusted net earnings of \$1.4 million, an increase of \$3.1 million as compared to the same period in 2010. The increase in adjusted net earnings in the three months ended March 31, 2011 is primarily due to increased earnings from operations, partially offset by increased interest expense as compared to the same period in 2010.

SUMMARY OF PROPERTY, PLANT AND EQUIPMENT EXPENDITURES

	Three months ended March 31	
	2011	2010
APCo		
Renewable Energy Division		
Capital expenditures	\$ 959	\$ 264
Acquisition of operating entities	-	40,281
Total	\$ 959	\$ 40,545
Thermal Energy Division		
Capital expenditures, net	\$ (192)	\$ 3,835
Total	\$ (192)	\$ 3,835
LIBERTY WATER		
Capital Investment in regulatory assets	\$ 1,416	\$ 45
Acquisition of operating entities	-	2,038
	\$ 1,416	\$ 2,083
LIBERTY ENERGY		
Capital Investment in regulatory assets	\$ 1,358	\$ -
Acquisition of operating entities	98,094	-
	\$ 99,452	\$ -
Consolidated (includes Corporate)		
Capital expenditures	\$ 807	\$ 4,114
Capital investment in regulatory assets	2,774	45
Acquisition of operating entities	98,094	42,319
Total	\$ 101,675	\$ 46,478

APUC's consolidated capital expenditures in the three months ended March 31, 2011 increased as compared to the same period in 2010 primarily due to the acquisition of the California Assets.

Property, plant and equipment expenditures for the remainder of the 2011 fiscal year are anticipated to be between \$23 million and \$30 million, including approximately \$6.5 million related to ongoing investments by Liberty Water, \$2.25 million related to Liberty Energy's share of ongoing investments at Liberty Energy (California), \$6.5 million related to the APCo Thermal division, and \$6.5 million related to the APCo Renewable Energy division.

APUC anticipates that it can generate sufficient liquidity through internally generated operating cash flows, working capital and bank credit facilities to finance its property, plant and equipment expenditures and other commitments.

2011 First Quarter Property Plant and Equipment Expenditures

During the quarter ended March 31, 2011, APCo incurred capital expenditures of \$0.8 million, as compared to \$4.1 million during the comparable period in 2010. APCo also invested \$40.3 million to acquire operating assets/entities during the comparable period in 2010.

During the quarter ended March 31, 2011, APCo Renewable Energy division's capital expenditures were \$1.0 million, as compared to \$0.3 million in the comparable period in 2010. With the exception of a previously anticipated turbine overhaul project at the Tinker facility, there were no individual projects in excess of \$0.5 million initiated in the current period. The APCo Renewable Energy division's acquisition of operating assets in 2010 relate to the Tinker Assets located in New Brunswick and Maine.

During the quarter ended March 31, 2011, APCo Thermal Energy division's net capital expenditures were (\$0.2) million, as compared to \$3.8 million in the comparable period in 2010. The recovery in the quarter primarily relates to proceeds from the sale of the turbine at the Crossroads facility. In the comparable period, the capital expenditures primarily relate to the EFW facility where major capital maintenance was underway.

During the quarter ended March 31, 2011, Liberty Water invested maintenance capital of \$1.4 million into regulatory assets, as compared to an investment of nil in the comparable period. In the comparable period in 2010, Liberty Water acquired a water and wastewater utility near Galveston Texas for approximately \$2.0 million.

During the quarter ended March 31, 2011, Liberty Energy recorded capital expenditures of \$1.4 million associated with the acquisition by Liberty Energy (California) of the California Utility.

Quebec Dam Safety Act

As a result of the dam safety legislation passed in Quebec (Bill C93), APCo's Renewable Energy division completed safety evaluations and technical assessments on eleven of the twelve hydroelectric facility dams owned or leased within the Province of Quebec. Out of these, nine remedial plans have been submitted to the Quebec government and two are undergoing options analysis by APCo. Seven remedial plans have been accepted by the Quebec government and two are still being reviewed. The approval process for remedial plans can sometimes take several years.

In the past five years, APCo has spent approximately \$1.1 million on dam safety evaluations, engineering, permitting and civil works related to the Bill C93 requirements. APCo currently estimates further capital expenditures of approximately \$17.1 million related to compliance with the legislation. It is anticipated that these expenditures will be invested over a period of several years approximately as follows:

	Total	2011	2012	2013	2014	2015+
Estimated Bill C-93 Capital Expenditures	\$17,100	\$800	\$5,000	\$5,500	\$3,000	\$2,800

The majority of these capital costs are associated with the Donnacona, St. Alban, Belleterre, and Mont-Laurier facilities.

The dam safety evaluation for the Mont Laurier facility was completed in 2008 and APCo's proposed remediation plan has now been accepted by the Quebec government. APCo has been performing engineering and permitting since 2010 and anticipates completing the on-site remediation work in 2011.

The dam safety evaluation for the Donnacona facility was completed in 2007 and APCo has been investigating alternative engineering designs to optimize the cost of the remediation work. APCo is now pursuing a design that may result in a cost savings of 20% of the original estimates. APCo anticipates completing the engineering in 2011 and performing the remedial work in 2012 and 2013.

The dam safety study for the St. Alban facility was completed in 2010. APCo has decided to perform a more detailed condition assessment before finalizing the remediation plan for this dam. APCo anticipates condition assessment, engineering, and regulatory review to be performed between 2011 and 2013, with remedial work in 2014 to 2015.

APCo is presently reviewing options with respect to the Belleterre facility including the removal of several small dams that are not required for power generation. APCo has been corresponding with the Quebec government and other stakeholders about these options since 2007. APCo anticipates completion of any required work on these dams to be completed by 2015.

Dam remediation work related to the other seven Quebec facilities is anticipated to be completed by 2013.

LIQUIDITY AND CAPITAL RESERVES

The following table sets out the amounts drawn, letters of credit issued and outstanding amounts available to APUC and its subsidiaries as at March 31, 2011 under the senior banking facility (the "Facility"):

	2011	2010	2010	2010	2010
	Q1	Q4	Q3	Q2	Q1
Committed and available Facility	\$ 142,000	\$ 142,000*	\$ 163,400	\$ 162,800	\$ 177,950
Funds Drawn on Facility	(65,000)	(64,500)	(108,900)	(102,800)	(91,650)
Letters of Credit issued	(32,900)	(33,100)	(33,800)	(34,600)	(32,400)
Remaining available Facility	\$ 44,100	\$ 44,400*	\$ 20,700	\$ 25,400	\$ 53,900
Cash on Hand	2,500	5,100	3,100	2,400	750
Total liquidity and capital reserves	\$ 46,600	\$ 49,500	\$ 23,800	\$ 27,800	\$ 54,650

As at and for the period ended March 31, 2011, Algonquin was in compliance with the covenants under the Facility. As at March 31, 2011, \$65.0 million had been drawn on the Facility as compared to \$64.5 million as at December 31, 2010. In addition to amounts actually drawn, there were \$32.9 million in letters of credit outstanding as at March 31, 2011.

During the quarter, Algonquin concluded negotiations with its bank syndicate on the renewal of the Facility for a three year term with a maturity date of February 14, 2014. Algonquin reduced the total of the Facility as part of its capital structure initiatives to term out some of the short-term borrowings under the Facility. Under the terms of the banking agreement, Algonquin had \$44.1 million of committed and available bank facilities remaining and \$2.5 million of cash resulting in \$46.6 million of total liquidity and capital reserves.

APUC expects to continue to reduce its level of short term borrowings under the Facility through obtaining appropriate long term debt through refinancing certain project specific financings or additional medium to long-term notes. APUC has received and is currently assessing several financing offers to term out the remainder of its short term bank credit facility and project debt coming due in the next three quarters. APUC anticipates concluding its assessments on these offers by the second quarter of 2011.

CONTRACTUAL OBLIGATIONS

Information concerning contractual obligations as of March 31, 2011 is shown below:

		Total	Due less than 1 year	Due 1 to 3 years	Due 4 to 5 years	Due after 5 years
Long-term debt obligations ¹	\$	325,180	\$ 69,773	\$ 3,221	\$ 68,876	\$ 183,310
Convertible Debentures ²	\$	185,164	62,397	-	59,967	62,800
Interest on long-term debt obligations	\$	184,567	24,662	45,521	39,142	75,242
Purchase obligations	\$	38,732	38,732	-	-	-
Derivative financial instruments:						
Interest rate swap	\$	4,458	1,530	2,260	668	-
Capital lease obligations	\$	542	215	302	25	-
Other obligations	\$	9,928	1,170	2,339	2,339	4,080
Total obligations	\$	748,571	\$ 198,479	\$ 53,643	\$ 171,017	\$ 325,432

1. Long term obligations include regular payments related to long term debt and other obligations.
2. Convertible debentures due in less than one year relates to the Series 1A Debentures which will be redeemed for equity effective May 16, 2011.

SHAREHOLDERS' EQUITY AND CONVERTIBLE DEBENTURES

APUC's shares are publicly traded on the Toronto Stock Exchange ("TSX"). As at March 31, 2011, APUC had 103,988,567 issued and outstanding shares on a fully diluted basis.

As at March 31, 2011, APUC had issued to Emera a treasury subscription of subscription receipts convertible into 12.0 million APUC common shares upon closing of the transactions at a purchase price of \$5.00. Delivery of the shares under the subscription receipts is conditional on and is planned to occur simultaneously with the closing of the acquisition of Granite State and EnergyNorth. The proceeds of the subscription receipts are to be utilized to fund a portion of the cost to acquire of Granite State and EnergyNorth.

Subsequent to March 31, 2011, APUC had agreed to issued to Emera 8.2 million shares with regards to the acquisition by Liberty Energy of Emera's 49.999% direct ownership in Liberty Energy (California). The approval on the ownership transfer is expected in late 2011. The payment of shares is to be made in two tranches with approximately half of the shares being issued following regulatory approval of the ownership transfer and the balance of the shares being issued following completion of Liberty Energy (California)'s first rate case which is expected to be completed in mid 2012.

On April 30, 2011, APUC committed to issuance to Emera of a treasury subscription of subscription receipts convertible into approximately 6.9 million APUC common shares upon closing of the transaction related to the acquisition of an interest in a portfolio of 370MW wind projects (see *Major Highlights - Acquisition of First Wind's Northeast Projects* for more details on the acquisition) at a purchase price of \$5.37 per subscription receipt. Total gross proceeds to APUC of \$37 million will be utilized to fund a portion of the cost to acquire the interest in Northeast Wind.

APUC may issue an unlimited number of common shares. The holders of common shares are entitled: to dividends, if and when declared; to one vote for each share at meetings of the holders of common shares; and upon liquidation, dissolution or winding up of APUC, to receive a pro rata share of any remaining property and assets of APUC. All shares are of the same class and with equal rights and privileges and are not subject to future calls or assessments.

The Series 1A Debentures are due November 30, 2014 and pay 7.5% interest semi-annually in arrears on January 1 and July 1 each year. The Series 1A Debentures are convertible into shares of APUC at the option of the holder at a conversion price of \$4.08 per share. On April 7th, 2011, APUC announced that it had provided the holders of its Series 1A Debentures notice of its intention to redeem, effective May 16, 2011 ("Redemption Date"), all of the issued and outstanding Debentures.

The redemption will be effected in accordance with the terms and definitions of the trust indenture governing the Debentures. APUC will satisfy its obligation to pay holders of Debentures ("Debentureholders") by issuing and delivering the number of freely tradeable APUC shares obtained by dividing the aggregate principal amount of Debentures, by 95% of the current market price of APUC shares on the Redemption Date. Unpaid accrued interest on the Debentures will be paid in cash at the time of redemption.

During the three months ended March 31, 2011, a principal amount of \$73 of Series 1A Debentures were converted into 17,791 shares of APUC. On March 31, 2011, there were 62,397 Series 1A Debentures outstanding with a face value of \$62,397. Subsequent to the end of the quarter, \$22,620 Series 1A Debentures were converted into 5,543,835 shares of APUC.

The convertible unsecured subordinated debentures bearing interest at 6.35%, maturing on November 30, 2016 ("Series 2A Debentures") pay interest semi-annually in arrears on April 1 and October 1 each year and are convertible into shares of APUC at the option of the holder at a conversion price of \$6.00 per share. On March 31, 2011, there were 59,967 Series 2A Debentures outstanding with a face value of \$59,967.

The convertible unsecured debentures maturing on June 30, 2017 ("Series 3 Debentures") bear interest at 7.0% per annum, payable semi-annually in arrears on June 30 and December 30 each year, and are convertible into common shares of APUC at the option of the holder at a conversion price of \$4.20 per common share.

During the three months ended March 31, 2011, a principal amount of \$105 of Series 3 Debentures was converted into 24,999 shares APUC. On March 31, 2011, there were 62,800 Series 3 Debentures outstanding with a face value of \$62,800. Subsequent to the end of the quarter, \$40 Series 3 Debentures were converted to 9,523 shares.

STOCK OPTION PLAN

On June 23, 2010, APUC's shareholders approved a stock option plan (the "Plan") that permits the grant of share options to key officers, directors, employees and selected service providers.

On August 12, 2010, the Board approved the grant of 1,160,204 options to select senior executives of APUC. The options allow for the purchase of common shares at a price of \$4.05, the market price of the underlying common share at the date of grant. One-third of the options vest on each of January 1, 2011, 2012 and 2013. Options may be exercised up to eight years following the date of grant.

On March 22, 2011, the Board approved the grant of 892,107 options to select senior executives of APUC. The options allow for the purchase of common shares at a price of \$5.23, the market price of the underlying common share at the date of grant. One-third of the options vest on each of January 1, 2012, 2013 and 2014. Options may be exercised up to eight years following the date of grant.

The estimated fair value of options, including the effect of estimated forfeitures, is recognized as expense on the straight-line basis over the options' vesting periods while ensuring that the cumulative amount of compensation cost recognized at least equals the value of the vested portion of the award at that date. As at March 31, 2011, APUC had recorded \$121 (2010 - \$nil) in compensation expense. As at March 31, 2011, there was \$1,136 (2010 - \$nil) of total unrecognized compensation costs related to non-vested options granted under the Plan. The cost is expected to be recognized over a period of 2.4 years.

As at March 31, 2011, 367,348 options with an intrinsic value of \$408 are exercisable. No share options were exercised as at March 31, 2011. The intrinsic value of the 1,626,800 non-vested options as at March 31, 2011 was \$816 (2010 - nil).

RELATED PARTY TRANSACTIONS

- Certain executives of APUC and members of the Board are shareholders of Algonquin Power Management Inc. ("APMI"), the former manager of APCo. A member of the Board is an executive at Emera
- APUC has leased its head office facilities since 2001 from an entity owned by the shareholders of APMI on a triple net basis. Base lease costs for the three months ended March 31, 2011 were \$82 (2010 - \$82). Based on a review of the real estate leasing market at the time, APUC believes the lease was entered into on terms equivalent to fair market value for prime office space of similar size and quality.
- APUC utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of APMI, Algonquin Airlink Inc. In 2004, APUC entered into an agreement and remitted \$1,300 to the affiliate as an advance against expense reimbursements (including engine utilization reserves) for APUC's business use of the aircraft. Under the terms of this arrangement, APUC will have priority access to make use of the aircraft for a specified number of hours at a cost equal solely to the third party direct operating costs incurred when flying the aircraft. During the three months ended March 31, 2011, APUC incurred costs in connection with the use of the aircraft of \$71 (2010 - \$148) and amortization expense related to the advance against expense reimbursements of \$41 (2010 - \$57). At March 31, 2011, the remaining amount of the advance was \$513 (2010 - \$609) and is recorded in other assets.
- Affiliates of APMI hold 60% of the outstanding Class B limited partnership units issued by St. Leon Wind Energy LP ("St. Leon LP"), an indirect subsidiary of APUC and the legal owner of the St. Leon facility. 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 five year period commencing June 17, 2008 growing to a maximum of 10% by 2021. 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 related party holders of the Class B units are entitled to cash distributions of \$44 (2010 - \$23) for the three months ended March 31, 2011.

- APMI is one of the two original developers of Red Lily I and both developers are entitled to a royalty fee based on a percentage of operating revenue and a development fee from the equity owner of Red Lily I. The royalty fee is initially equal to 0.75% of gross energy revenue, increasing every five years up to 2% after twenty-five years. During the three months ended March 31, 2011, APUC acquired APMI's interest in this royalty for an amount of \$600. This amount has been recorded as a purchase of intangible assets and the amount is included in accrued liabilities at March 31, 2011. APMI is also entitled to a development fee of up to \$400 following commercial operation of the project and has agreed to permit the Board to determine the portion of such fee which will be paid following commercial operation of the facility.
- APUC has operation and maintenance service agreements with three hydroelectric generating facilities owned by affiliates of APMI. As a result of these agreements, APUC employees operate these hydroelectric generating facilities owned by affiliates of APMI. These facilities are charged on a cost recovery basis for time and material incurred at these sites.
- The above related party transactions have been recorded at the exchange amounts agreed to by the parties to the transactions. As at March 31, 2011 the amount due from the above related party transactions was \$551 (2010 - \$718) and amounts due to related parties was \$1,534 (2010 - \$901).
- Long Sault is a hydroelectric generating facility in which APUC acquired its interest in the facility by way of subscribing to two notes from the original developers. An affiliate of APMI is one of the original partners in the facility and is entitled to receive 5% of the after tax equity cash flows commencing in 2014.
- A contract with a subsidiary of Emera to purchase energy on ISO-NE and provide scheduling services on ISO-NE was included as part of the acquisition of the Energy Services Business associated with the Tinker Acquisition. The contract expired in the three months ended March 31, 2010 and was not renewed. As a result of this contract, during the three months ended March 31, 2010, a subsidiary of Emera provided services to and purchased energy on ISO-NE on behalf of the Energy Services Business. In this capacity, APUC paid a subsidiary of Emera an amount of nil (2010 - \$1,368) which was included as an operating expense on the consolidated statement of operations.
- On December 21, 2010, a subsidiary of Emera acquired Maine & Maritimes Corporation, the parent company of Maine Public Service ("MPS"). Subsequent to the date of this acquisition, the Energy Services Business sold electricity of U.S. \$2,040 (2010 - nil) to MPS.
- During the period ended June 30, 2010, APUC entered into a one year contract with a subsidiary of Emera to provide lead market participant services for fuel capacity and forward reserve markets in ISO-NE for the Windsor Locks facility. During the three months ended March 31, 2011 APUC paid U.S. \$61 (2010 - \$0) in relation to this contract. In the same period, APUC provided a corporate guarantee to a subsidiary of Emera in an amount of U.S. \$500 in conjunction with this contract.
- As of March 31, 2011, included in amounts due from related parties is \$1,554 (2010 - \$0) owed from Emera related to their share of system integration and regulatory approval costs related to Liberty Energy (California).

-
- Long Sault is a hydroelectric generating facility in which APUC acquired its interest in the facility by way of subscribing to two notes from the original developers. An affiliate of APMI is one of the original partners in the facility and is entitled to receive 5% of the after tax equity cash flows commencing in 2014.
 - APUC believes that the transactions with Emera noted above were in accordance with normal commercial terms.

Business associations with APMI and Senior Executives

There are a number of continuing business relationships between APUC and one of Ian Robertson and Chris Jarratt ("Senior Executives"), APMI and related affiliates. These relationships include joint ownership of certain generating facility assets, business relationships between the parties and payment of fees associated with previous transactions. The Board has initiated a process to review all of the remaining business associations with Senior Executives, APMI and related affiliates in order to reduce, streamline and simplify these relationships. Any acquisitions associated with this process will only proceed if they are expected to be accretive to APUC.

The Board has formed a special committee and intends to engage independent consultants to assist with this process and expects to conclude this process over the next three months.

The co-owned assets and remaining business associations consist of the following:

i) Rattlebrook hydroelectric generating facility

Rattlebrook is a 4 MW hydroelectric generating station owned 45% by APUC and 27.5% by Senior Executives and the remaining percentage by third parties.

ii) St. Leon wind power generating facility

St. Leon is a 104 MW wind power generating facility which has issued Class B units to external parties and Senior Executives.

iii) Brampton Cogeneration Inc.

BCI is an energy supply facility which sells steam produced from APCo's EFW facility. APMI maintains a carried interest equal to 50% of the annual returns on the project greater than 15%. No amounts have ever been paid under this carried interest. In 2008, APMI earned a construction supervision fee of \$100 in relation to the development of this project. As of December 31, 2010, this amount is accrued and included in accounts payable on the consolidated balance sheet.

iv) Long Sault Rapids hydroelectric generating facility

Long Sault is a hydroelectric generating facility in which APUC acquired its interest in the facility by way of subscribing to two notes from the original developers. An affiliate of APMI is one of the original partners in the facility and is entitled to receive 5% of the after tax equity cash flows commencing in 2014.

v) Chartered aircraft

APUC utilizes chartered aircraft owned by an affiliate of APMI. APUC entered into an agreement and remitted \$1.3 million to the affiliate as an advance against expense reimbursements. At March 31, 2011, \$513 of the advance remained. The Board has undertaken an independent review of the

relationship and believes that continuing the arrangement is beneficial to the company. The current arrangement is expected to end in approximately 2016 when the capital advance will be repaid.

vi) Office lease

APUC has leased its head office facilities on a triple net basis from an entity partially owned by Senior Executives. The original lease was due to expire in December 31, 2012. In addition, effective April 1, 2011, Liberty Utilities (Canada) Corp. has leased its head office facilities from a third party in a new stand alone building immediately adjacent to APUC's head office for a term of 5 years ending December 31, 2015 with an additional 5 year renewal option. APUC has amended its lease at its existing premises to be co-terminus with the Liberty Water Canada lease. The majority of terms in the amended lease are identical and the based on a review of the real estate leasing market in the fall of 2010, APUC believes the amended lease is on terms equivalent to fair market value for prime office space of similar size and quality.

vii) Operations services

Staff managed by APUC operate an additional three hydroelectric generating facilities where Senior Executives hold an interest. Effective January 1, 2011, management of these facilities is now being undertaken by Algonquin Power Systems Inc. ("APS") which is a non-APUC related entity. APUC and APS have agreed to provide some transition services to each other until December 31, 2011. Costs for providing such transition services are intended to be on a cost recovery basis with no mark-up for profit.

viii) Sanger construction management

As part of the project to re-power the Sanger facility, APUC entered into an agreement with APMI to undertake certain construction management services on the project for a performance based contingency fee. In 2008, APUC accrued U.S. \$0.6 million as an estimate of the final fee owed to APMI.

ix) Clean Power Income Fund

During 2007, Algonquin allowed its offer to acquire Clean Power Income Fund to expire and earned a termination fee of \$1.8 million. As part of its role in the process, APUC has agreed to pay APMI a fee of \$0.1 million. As of December 31, 2010 this amount is accrued and included in accounts payable on the consolidated balance sheet.

x) Red Lily I

APMI was an early developer of the 26 MW Red Lily I wind power generation facility. As such it is entitled to a royalty fee based on a percentage of operating revenue and a development fee from Red Lily I. APUC has agreed to acquire APMI's interest in these royalties for an amount of \$0.6 million. APMI is also entitled to a development fee of up to \$0.4 million following commercial operation of the project and has agreed to permit the Board to determine whether it will retain this fee following commercial operation of the facility.

xi) Trafalgar

APCo owns debt on seven hydroelectric facilities owned by Trafalgar Power Inc. and an affiliate ("Trafalgar"). In 1997, Algonquin moved to foreclose on the assets, and subsequently Trafalgar went into bankruptcy. Trafalgar had previously won a \$10.0 million claim in respect of a lawsuit related to faulty engineering in the design of these facilities, and these funds are held in the bankruptcy estate. As previously disclosed, Trafalgar, APUC and an affiliate of APMI are involved in litigation over, among other things, a civil proceeding on the foreclosure on the assets and in bankruptcy proceedings. APMI funded the initial \$2 million in legal fees. An agreement was then reached between APMI and APUC whereby APUC would reimburse APMI 50% of the legal costs to date in an amount of approximately \$1 million, and going forward APUC would fund the legal fees, third party costs and other liabilities with the proceeds from the lawsuits being shared after reimbursement of legal fees, third party costs and other liabilities. The Board has determined that any proceeds from the lawsuit will be between APMI and APUC proportionally to the quantum of such costs funded by each party. The Second Circuit Court of Appeals recently dismissed all the claims against APCo in the civil proceedings and remanded one issue to the District Court. The bankruptcy proceedings are continuing.

TREASURY RISK MANAGEMENT

APUC attempts to proactively manage the risk exposures of its subsidiaries in a prudent manner. APUC ensures that both APCo and Liberty Utilities maintain insurance on all of their facilities. This includes property and casualty, boiler and machinery, and liability insurance. It has also initiated a number of programs and policies including currency and interest rate hedging policies to manage its risk exposures.

There are a number of monetary and financial risk factors relating to the business of APUC and its subsidiaries. Some of these risks include the U.S. versus Canadian dollar exchange rates, energy market prices, any credit risk associated with a reliance on key customers, interest rate, liquidity and commodity price risk considerations. The risks discussed below are not intended as a complete list of all exposures that APUC may encounter. A further assessment of APUC and its subsidiaries' business risks is also set out in the most recent AIF.

Foreign currency risk

Currency fluctuations may affect the cash flows APUC would realize from its consolidated operations, as certain APUC subsidiary businesses sell electricity or provide utility services in the United States and receive proceeds from such sales in U.S. dollars. Such APUC businesses also incur costs in U.S. dollars. At the current exchange rate, approximately 45% of EBITDA and 60% of cash flow from operations is generated in U.S. dollars. APUC estimates that, on an unhedged basis, a \$0.10 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 \$15.5 million and increased reported expenses from U.S. operations of approximately \$11.5 million or a net impact of \$4.0 million (\$0.04 per share) on an annual basis.

The change in mark-to-market losses/(gains) on derivative financial instruments results from changes in foreign exchange rates, changes in interest rates or forward energy prices and relate to long term contract periods which extend to fiscal 2015. The following chart provides a summary of the quarter over quarter changes between realized and unrealized mark-to-market gains and losses of derivative financial instruments:

	Three months ended March 31		
	2011	2010	Change
Foreign Exchange Contracts:			
Change in unrealized mark-to-market gain on derivative financial instruments	\$ (45)	\$ (1,083)	\$ 1,038
Realized loss (gain) on derivative financial instruments	694	(132)	\$ 826
	\$ 649	\$ (1,215)	\$ 1,864
Energy Forward Purchase Contracts:			
Change in unrealized mark-to-market loss/(gain) on derivative financial instruments	\$ (950)	\$ (1,834)	\$ 884
Realized loss on derivative financial instruments	319	1,828	\$ (1,509)
	\$ (631)	\$ (6)	\$ (625)
Interest Rate Swap Contracts:			
Change in unrealized mark-to-market gain on derivative financial instruments	\$ (980)	\$ (1,288)	\$ 308
Realized loss on derivative financial instruments	533	1,596	\$ (1,063)
	\$ (447)	\$ 308	\$ (755)
Derivative Financial Instruments Total:			
Change in unrealized mark-to-market gain on derivative financial instruments	\$ (1,975)	\$ (4,205)	\$ 2,230
Realized loss on derivative financial instruments	1,546	3,292	(1,746)
Total loss/(gain) on derivative financial instruments	\$ (429)	\$ (913)	\$ 484

Interest rate risk

APCo 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:

The banking credit facility provided to APCo by a consortium of Canadian chartered banks has an outstanding balance drawn of \$65.0 million as at March 31, 2011. Assuming the current level of borrowings over an annual basis, a 100 basis point change in the variable rate charged would impact interest expense by \$0.6 million annually.

APCo's project debt at the St. Leon facility has a balance of \$68.3 million as at March 31, 2011. Assuming the current level of borrowings over an annual basis, a 100 basis point change in the variable rate charged would impact interest expense by \$0.7 million annually. APCo 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 principal repayment schedule. APCo has effectively fixed its interest expense on the St. Leon senior debt facility at 5.47%. At March 31, 2011, the mark-to-market value of the interest rate swap was a net liability of \$4.5 million (2010 – net liability of \$4.5 million).

APCo's project debt at its Sanger cogeneration facility has a balance of U.S. \$19.2 million as at March 31, 2011. Assuming the current level of borrowings over an annual basis, a 100 basis point change in the variable rate charged would impact interest expense by U.S. \$0.2 million annually.

Liberty Water's project debt at the Litchfield and Bella Vista Facilities are subject to a fixed rate of interest and thus are not subject to interest rate risk. Liberty Water's U.S. \$50 million senior unsecured notes with a 10 year term bearing a fixed rate of interest at 5.6% are subject to a fixed rate of interest and are not subject to interest rate risk.

Liberty Energy's U.S. \$70 million senior unsecured private debt placement at the California utility is split into two tranches, U.S. \$45 million of ten year 5.19% notes and U.S. \$25 million of 5.59% fifteen year notes. As such these notes are not subject to interest rate risk.

Liquidity risk

Liquidity risk is the risk that APUC and its subsidiaries will not be able to meet their financial obligations as they become due. APUC'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.

APUC currently pays a dividend of \$0.26 per share per year. The Board determines the amount of dividends to be paid, consistent with APUC's commitment to the stability and sustainability of future dividends, after providing for amounts required to administer and operate APUC and its subsidiaries, for capital expenditures in growth and development opportunities, to meet current tax requirements and to fund working capital that, in its judgment, ensure APUC's long-term success. Based on the level of dividends paid during the three months ended March 31, 2011, cash provided by operating activities exceeded dividends declared by 2.9 times.

As at March 31, 2011, APUC had cash on hand of \$2.5 million and \$44.1 million available to be drawn on the Facility. APUC reduced its level of short-term borrowings through the renewal of the Facility on February 14, 2011 for a three year term and through a U.S. \$50 million private placement debt financing at Liberty Water on December 22, 2010. In addition, APUC continues to seek to reduce short term borrowings by obtaining appropriate long term debt through refinancing certain project specific financings or additional medium to long term notes. See the Liquidity and Capital Reserves section for a more detailed discussion and chart of the funds available to APUC and its subsidiaries under the Facility.

The Facility and project specific debt total approximately \$325.2 million with maturities set out in the Contractual Obligation table. In the event that APUC was required to replace the Facility and project debt with borrowings having less favourable terms or higher interest rates, the level of cash generated for dividends and reinvestment into the company may be negatively impacted. APUC attempts to manage the risk associated with floating rate interest loans through the use of interest rate swaps.

The cash flow generated from several of APUC's operating facilities is subordinated to senior project debt. In the event that there was a breach of covenants or obligations with regard 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 APUC losing its investment in such operating facility. APUC actively manages cash availability at its operating facilities to ensure they are adequately funded and minimize the risk of this possibility.

Commodity price risk

APCo's exposure to commodity prices is primarily limited to exposure to natural gas price risk. See APUC's audited consolidated financial statements for the years ended December 31, 2010 and 2009 for discussion of this risk.

Liberty Water is not subject to any material commodity price risk.

Liberty Energy is exposed to energy price risk which is mitigated through the certain regulatory constructs. Liberty Energy (California) provides electric service to the Lake Tahoe basin and surrounding areas at rates approved by the CPUC. The utility purchases the energy requirements for its customers from NV Energy at

rates reflecting NV Energy's system average costs. In the event that these rates change, each \$10.00 change per MW-hr would result in a change in expense of approximately U.S. \$5.4 million on an annualized basis.

The rate structure in California allows for a pass-through of energy costs to rate payers on a dollar for dollar basis, through the energy cost adjustment clause ("ECAC") mechanism, which is designed to recoup power supply costs that are caused by the fluctuations in the price of fuel and purchased power. Actual power supply costs incurred by the facility are tracked and compared to the base rate power supply costs to ensure the cumulative variance does not exceed 5%. In the event that the cumulative variance exceeds 5%, the ECAC allows for an adjustment to Liberty Energy (California)'s approved rates (including carrying charges associated therewith), substantially eliminating the commodity risk associated with the purchase of power.

OPERATIONAL RISK MANAGEMENT

APUC attempts to proactively manage its risk exposures in a prudent manner and has initiated a number of programs and policies such as employee health and safety programs and environmental safety programs to manage its risk exposures.

There are a number of risk factors relating to the business of APUC and its subsidiaries. Some of these risks include the dependence upon APUC businesses, regulatory climate and permits, tax related matters, 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 APUC and its subsidiaries may encounter. A more detailed assessment of APUC's business risks is also set out in the most recent AIF.

Mechanical and Operational Risks

APUC is entirely dependant upon the operations and assets of APUC'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. The water distribution networks of the Liberty Water operate under pressurized conditions within pressure ranges approved by regulators. Should a water distribution network become compromised or damaged, the resulting release of pressure could result in serious injury or death to individuals or damage to other property. The electricity distribution systems owned by Liberty Energy are subject to storm events, usually winter storm events, whereby power lines can be brought down with the attendant risk to individuals and property. In addition, in forested areas, power lines brought down by wind can ignite forest fires which also bring attendant risk to individuals and property.

These risks are mitigated through the diversification of APUC's operations, both operationally (APCo and Liberty Utilities) and geographically (Canada and U.S.), the use of regular maintenance programs, maintaining adequate insurance and the establishment of reserves for expenses. In addition, APCo's existing long term PPAs minimize the risk of reductions in average energy pricing.

Regulatory Risk

Profitability of APUC businesses is in part dependant on regulatory climates in the jurisdictions in which it operates. In the case of some APCo hydroelectric facilities, water rights are generally owned by governments who reserve the right to control water levels which may affect revenue.

Liberty Energy's facilities are subject to rate setting by State regulatory agencies. The time between the incurrence of costs and the granting of the rates to recover those costs by State regulatory agencies is

known as regulatory lag. As a result of regulatory lag, inflationary effects may impact the ability to recover expenses, and profitability could be impacted. Federal, State and local environmental laws and regulations impose substantial compliance requirements on electricity and natural gas distribution utilities. Operating costs could be significantly affected in order to comply with new or stricter regulatory requirements.

Electricity and natural gas distribution utilities could be subject to condemnation or other methods of taking by government entities under certain conditions. While any taking by government entities would require compensation be paid to Liberty Energy, and while Liberty Energy believes it would receive fair market value for any assets that are taken, there is no assurance that the value received for assets taken will be in excess of book value.

Liberty Energy regularly works with its governing authorities to manage the affairs of the business.

Asset Retirement Obligations

APUC and its subsidiaries complete periodic reviews of potential asset retirement obligations that may require recognition. As part of this process, APUC and its subsidiaries consider the contractual requirements outlined in their 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 in estimating the fair value of such obligations.

Liberty Utilities' facilities are operated with the assumption that their services will be required in perpetuity and there are no contractual decommissioning requirements. In order to remain in compliance with the applicable regulatory bodies, Liberty Utilities 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 distribution facilities and expenses associated with providing new sources of commodity supply can generally be included in the facility's rate base and thus Liberty Utilities expects to be allowed to earn a return on such investment.

Based on its assessments, APUC's businesses do not have any significant retirement obligation liabilities and APUC has not recorded any liability in its financial statements.

Environmental Risks

APUC and its subsidiaries face 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.

Liberty Energy faces environmental risks that are normal aspects of operating within its business segment. The primary environmental risks associated with the operation of an electrical distribution system are related to potential accidental release of mineral oil to the environment from non-operational events and the management of hazardous and universal waste in accordance with the various Federal, State and local environmental laws. Like most other industrial companies, Liberty Energy generates some hazardous wastes as a result of its operations. Under Federal and State Superfund laws, potential liability for historic contamination of property may be imposed on responsible parties jointly and severally, without fault, even if the activities were lawful when they occurred.

In order to monitor and mitigate these risks and to remain within the regulatory requirements appropriate for these assets, Liberty Energy investigates promptly all reported accidental releases to take all required remedial actions and manages hazardous waste and universal waste streams in accordance with the applicable Federal and State Legislation.

APUC'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 March 31, 2011.

Cycles and Seasonality

For Liberty Electric, demand for energy is primarily affected by weather conditions and conservation initiatives. Above normal snowfall in the Lake Tahoe area brings more tourists with an increased demand for electricity by small commercial customers. Liberty Electric provides information and programs to its customers to encourage the conservation of energy. In turn, demand may be reduced which could have short term adverse impacts to revenues.

Disclosure Controls

At the end of the fiscal year ended December 31, 2010, APUC carried out an evaluation, under the supervision of and with the participation of the APUC's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), of the effectiveness of the design and operations of the Company's disclosure controls and procedures (as defined in Rule 13a – 15(e) and Rule 15d – 15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, the CEO and the CFO have concluded that as of December 31, 2010, APUC's disclosure controls and procedures were adequately designed and effective in ensuring that: (i) information required to be disclosed by APUC in reports that it files or submits to the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and (ii) material information required to be disclosed in its reports filed under the Exchange Act is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow for accurate and timely decisions regarding required disclosure.

Internal controls over financial reporting

Management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining internal control over financial reporting as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Management, as at the end of the period covered by this interim filing, designed internal control over financial reporting to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. The control framework management used to design the issuer's internal control over financial reporting is that established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Changes in internal controls over financial reporting

During the quarter ended March 31, 2011, there has been no change in APUC's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, APUC's internal control over financial reporting. APUC's transition to U.S. GAAP in the period did not result in any significant changes to the APUC's internal controls.

Quarterly Financial Information

The following is a summary of unaudited quarterly financial information for the two years ended March 31, 2011.

<i>Millions of dollars(except per share amounts)</i>	2nd Quarter 2010*	3rd Quarter 2010*	4th Quarter 2010*	1st Quarter 2011
Revenue	\$ 42.7	\$ 45.4	\$ 48.9	\$ 71.7
Net earnings /(loss)	(2.2)	1.5	16.9	5.0
Net earnings / (loss) per share	(0.02)	0.02	0.18	0.05
Total Assets	983.2	969.4	980.9	1,175.8
Long term debt**	446.7	452.8	461.0	461.0
Dividend/distribution per share	0.06	0.06	0.06	0.065

	2nd Quarter 2009*	3rd Quarter 2009*	4th Quarter 2009*	1st Quarter 2010*
Revenue	\$ 46.5	\$ 45.1	\$ 43.4	\$ 45.9
Net earnings / (loss)	15.3	13.1	(1.4)	3.5
Net earnings / (loss) per trust unit	0.20	0.17	(0.03)	0.04
Total Assets	952.4	925.7	1,013.4	966.2
Long term debt**	456.2	445.4	439.9	434.0
Distribution per trust unit	0.06	0.06	0.06	0.06

* Based on Canadian Generally Accepted Accounting Principals

** Long term debt includes long term liabilities, the Facility, 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 \$42.7 million and \$71.7 million over the prior two year period. A number of factors impact quarterly results including acquisitions, seasonal fluctuations, hydrology and winter and summer rates built into the PPAs. In addition, a factor impacting revenues year over year is the significant fluctuation in the strength of the Canadian dollar which has resulted in significant changes in reported revenue from U.S. operations.

Quarterly net earnings have fluctuated between net earnings of \$16.9 million and a net loss of \$2.2 million over the prior two year period. Earnings have been significantly impacted by non-cash factors such as future tax expense due to the enactment of Bill C-52 and mark-to-market gains and losses on financial instruments.

Critical Accounting Estimates

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

Additional disclosure of APUC's critical accounting estimates is also available in APUC's MD&A for the year ended December 31, 2010 available on SEDAR at www.sedar.com and on the APUC website at www.AlgonquinPowerandUtilities.com.

Changes in Accounting Policies

APUC's accounting policies are described in Note 1 to the Interim Unaudited Consolidated Financial Statements for the period ended March 31, 2011.

Accounting framework

The unaudited consolidated interim financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) and follow disclosures required per Regulation S-X Rule 10-10, Interim Financial Statements provided by the Securities and Exchange Commission (SEC) Guidance. These are the Company's first U.S. GAAP consolidated interim financial statements for part of the period covered by the first U.S. GAAP annual financial statements.

The Company's consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") until December 31, 2010. Canadian GAAP differs in some areas from US GAAP as was disclosed in the reconciliation to U.S. GAAP included in the audited annual financial statements for the year ended December 31, 2010. Descriptions of the effect of the transition from Canadian GAAP to U.S. GAAP on the Company's financial position, financial performance and cash flows as at and for the two years ended December 31, 2010 are provided in note 24 of the audited consolidated financial statements for the year ended December 31, 2010. The accounting policies set out in the Interim Consolidated Financial Statements for the period ended March 31, 2011 have been consistently applied to all the periods presented. The comparative figures in respect of 2010 were restated to reflect the adoption of U.S. GAAP.

There was no significant impact of the transition to U.S. GAAP on APUC's internal controls, information technology systems and financial reporting expertise requirements. No financial covenants were impacted by APUC's conversion to U.S. GAAP given the few differences that exist with Canadian GAAP.

Interim Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash	\$ 2,503	\$ 5,222
Short term investments (note 1(e))	9,560	3,674
Accounts receivable net of allowance of \$385 and \$380	34,784	26,099
Due from related parties (note 13)	2,105	718
Prepaid expenses	4,487	3,546
Supplies and consumables inventory	1,944	-
Current portion of deferred tax asset	13,027	14,015
Current portion of derivative assets	192	-
Current portion of notes receivable	445	1,172
	69,047	54,446
Long-term investments and notes receivable (note 4)	37,942	35,334
Deferred non-current income tax asset	76,144	74,997
Property, plant and equipment (note 5)"	894,584	766,245
Intangible assets (note 6)	71,865	73,886
Goodwill	9,939	-
Restricted cash (note 1(f))	3,463	3,563
Deferred financing costs	7,820	5,933
Derivative assets	385	-
Regulatory assets (note 7)	3,256	2,484
Other assets	1,377	3,354
	\$ 1,175,822	\$ 1,020,242

Interim Consolidated Balance Sheets (continued)

(Unaudited)

(thousands of Canadian dollars)

	March 31, 2011	December 31, 2010
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,798	\$ 3,776
Accrued liabilities	31,933	28,839
Due to related parties (note 13)	1,534	901
Dividends payable	6,759	5,721
Current portion of long-term liabilities	69,773	70,432
Current portion of other long-term liabilities	1,703	1,011
Current portion of derivative instruments	1,944	2,338
Current income tax liability	456	200
Current portion of deferred credit	10,011	11,020
Deferred income tax liability	854	514
	131,765	124,752
Long-term liabilities (note 8)	255,463	189,481
Convertible debentures (note 9)	181,759	181,760
Other long-term liabilities (note 10)	79,192	68,007
Other regulatory liabilities (note 7)	17,067	-
Deferred non-current income tax liability	81,974	81,941
Derivative instruments	2,514	3,525
Deferred credit	32,208	32,222
Shareholders' equity:		
Shareholders' capital (note 12)	824,940	796,941
Deficit (note 12)	(360,288)	(358,542)
Accumulated other comprehensive loss (note 12)	(105,283)	(99,845)
Total Equity attributable to APUC	359,369	338,554
Non-controlling interest (notes 3(a) and 12)	34,511	-
Total stockholders' equity	393,880	338,554
Commitments and contingencies (note 14)		
Subsequent events (notes 3 and 9)		
	\$ 1,175,822	\$ 1,020,242

See accompanying notes to interim consolidated financial statements

Interim Consolidated Statements of Operations

(Unaudited)

(thousands of Canadian dollars, except per share amounts)

	Three months ended March 31	
	2011	2010
Revenue:		
Energy sales	\$ 34,362	\$ 36,518
Utility energy sales and distribution	22,850	-
Waste disposal fees	4,020	917
Water reclamation and distribution	9,784	8,246
Other revenue	692	203
	71,708	45,884
Expenses		
Operating	42,418	26,059
Amortization of property, plant and equipment	10,308	9,067
Amortization of intangible assets	1,864	2,262
Administrative expenses	3,722	2,915
(Gain) / loss on foreign exchange	35	(39)
	58,347	40,264
Earnings before undernoted	13,361	5,620
Interest expense	8,018	6,067
Interest, dividend and other income	(1,347)	(1,023)
Acquisition costs	753	44
Gain on derivative financial instruments (note 20)	(429)	(913)
	6,995	4,175
Earnings from operations before income taxes	6,366	1,445
Income tax expense (recovery) (note 18)		
Current	260	166
Deferred	(814)	(2,317)
	(554)	(2,151)
Net earnings	6,920	3,596
Net earnings attributable to the non controlling interest	1,904	65
Net earnings attributable to Algonquin Power & Utilities Corp.	\$ 5,016	\$ 3,531
Basic net earnings per share (note 17)	\$ 0.05	\$ 0.04
Diluted net earnings per share (note 17)	\$ 0.05	\$ 0.04
See accompanying notes to interim consolidated financial statements		

Interim Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)

	Three months ended March 31	
	2011	2010
Cash provided by (used in):		
Operating Activities:		
Net earnings	\$ 6,920	\$ 3,596
Items not affecting cash:		
Amortization of property, plant and equipment	10,308	9,067
Amortization of intangible assets	1,864	2,262
Other amortization	624	630
Deferred income taxes / (recovery)	(814)	(2,317)
Stock option expense	121	-
Unrealized gain on derivative financial instruments	(1,976)	(4,205)
Unrealized foreign exchange gain	(285)	(367)
Changes in non-cash operating working capital (note 16)	2,522	(281)
	19,284	8,385
Financing Activities:		
Cash dividends (note 15)	(5,728)	(1,864)
Cash distributions to non-controlling interest (note 13)	(123)	(65)
Issuance of common shares	27,700	-
Deferred financing costs	(1,191)	-
Increase in long-term liabilities	70,122	12,500
Decrease in long-term liabilities	(962)	(15,406)
Increase in other regulatory liabilities	728	-
Increase in other long-term liabilities	222	127
	90,768	(4,708)
Investing Activities:		
Decrease in restricted cash	26	92
Decrease / (increase) in short-term investments	(9,623)	40,010
Increase in other assets	(869)	(298)
Distributions received in excess of equity income	1,987	722
Receipt of principal on notes receivable	842	100
Increase in non-controlling interest	1,350	-
Proceeds from liquidation of Highground assets	-	170
Increase in long-term investments	-	(59)
Acquisition of long-term investments (notes 4(a))	(4,757)	-
Net additions to property, plant and equipment	(3,581)	(4,159)
Acquisitions of operating entities (note 3(a))	(98,094)	(42,319)
	(112,719)	(5,741)
Effect of exchange rate differences on cash	(52)	23
Decrease in cash	(2,719)	(2,041)
Cash, beginning of the period	5,222	2,796
Cash, end of the period	\$ 2,503	\$ 755
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest expense	\$ 5,208	\$ 3,259
Cash paid during the period for income taxes	\$ 47	\$ 86
Non-cash transactions		
Property installed by developers and conveyed	\$ -	\$ 888

See accompanying notes to interim consolidated financial statements

Notes to the Unaudited Interim Consolidated Financial Statements

Three months ended March 31, 2011 and 2010

Algonquin Power & Utilities Corp. (“APUC” or the “Company”) is an incorporated entity under the Canada Business Corporations Act. APUC’s principal activity is the ownership of power generation facilities and water and energy utilities, through investments in securities of subsidiaries including corporations, limited partnerships and trusts which carry on these businesses. The activities of the subsidiaries may be financed through equity contributions, interest bearing notes and third party project debt as described in the notes to the consolidated financial statements.

APUC’s power generation business unit conducts business under the name Algonquin Power Co. (“APCo”), formerly Algonquin Power Income Fund. APCo owns or has interests in 45 renewable energy facilities and 12 thermal energy facilities representing more than 450 MW of installed electrical generation capacity. APUC’s Utility Services business unit conducts business under the name of Liberty Utilities Co (“Liberty Utilities”). Liberty Water, a wholly owned subsidiary of Liberty Utilities, owns 19 utilities in the United States of America providing water or wastewater services in the states of Arizona, Texas, Missouri and Illinois. Liberty Energy, also a wholly owned subsidiary of Liberty Utilities, owns a 50.001% interest in an electric distribution utility California Pacific Electric Company LLC (“Liberty Energy California”) serving the Lake Tahoe region of California. APUC has announced an agreement to acquire, subject to regulatory approval, the remaining 49.999% interest in Liberty Energy (California) (see note 3 (a)). Liberty Utilities has also announced an agreement to acquire, subject to regulatory approval, Granite State Electric Company, a New Hampshire electric distribution company, and EnergyNorth Natural Gas Inc., a regulated natural gas distribution utility (see note 3 (b)).

The regulated utility operating companies owned by Liberty Utilities are subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. These utilities operate under cost-of-service regulation as administered by these state authorities. The utilities use a test year in the establishment of rates for the utility and pursuant to this method the determination of the rate of return on approved rate base and deemed capital structure, together with all reasonable and prudent costs, establishes the revenue requirement upon which each utility’s customer rates are determined.

1. Significant accounting policies:

(a) Basis of preparation:

The unaudited interim consolidated financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) and follow disclosures required per Regulation S-X Rule 10-10, Interim Financial Statements provided by the Securities and Exchange Commission (SEC) Guidance. These are the Company’s first U.S. GAAP interim consolidated financial statements for part of the period covered by the first U.S. GAAP annual financial statements. The consolidated interim financial statements do not include all of the information required for full annual financial statements.

The Company’s consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) until December 31, 2010. Canadian GAAP differs in some areas from U.S. GAAP as was disclosed in the reconciliation to U.S. GAAP included in the audited annual financial statements for the year ended December 31, 2010. Descriptions of the effect of the transition from Canadian GAAP to U.S. GAAP on the Company’s financial position, financial performance and cash flows as at and for the two years ended December 31, 2010 are provided in note 24 of the audited consolidated financial statements for the year ended December 31, 2010. The accounting policies set out below have been consistently applied to all the periods presented. The comparative figures in respect of 2010 were restated to reflect the adoption of U.S. GAAP.

These unaudited interim consolidated financial statements of APUC should be read in conjunction with the audited consolidated financial statements of APUC for the year ended December 31, 2010.

APUC’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. APUC’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. During the winter period Liberty Energy (California) experiences higher demand for electricity than during the summer period since the utility serves a number of ski hills and resorts in the service territory.

1. Significant accounting policies (continued):

(b) Basis of consolidation:

The accompanying interim consolidated financial statements of APUC include the accounts of APUC and its wholly owned subsidiaries and variable interest entities ("VIE") where the Company is the primary beneficiary. Long Sault is a hydroelectric generating facility in which APUC acquired its interest by way of subscribing to two notes from the original developers. The notes receivable effectively provide APUC the right to 100% of after tax cash flows of the facility up to 2013, 65% from 2014 to 2027 and 58% thereafter. The Company also has the right to acquire 58% of the equity in the facility at the end of the term of the notes in 2038. APUC has determined that the facility is a VIE, as the Company is the primary beneficiary and therefore the Long Sault entity is subject to consolidation by the Company.

Intercompany transactions and balances have been eliminated.

(c) Accounting for rate regulated operations:

APUC's regulated utility operating companies qualify for the application of regulatory accounting treatment in accordance with the principles of U.S. Financial Accounting Standards Board ASC Topic 980 Regulated Operations ("ASC 980"). Under ASC 980, regulatory assets and liabilities that would not be recorded under U.S. GAAP for non-regulated entities are recorded to the extent that they represent probable future revenues or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate making process. Management believes the existing regulatory assets are probable of recovery either because the Utilities received prior Regulator approval or due to regulatory precedent set for similar circumstances. Included in Note 7, Regulatory Assets & Liabilities, are details of other regulatory assets and liabilities, and their current regulatory treatment.

Under ASC 980, allowance for funds used during construction projects included in rate base is capitalized. This allowance is designed to enable a utility to capitalize financing costs during periods of construction of property subject to rate regulation. It represents the cost of borrowed funds (allowance for borrowed funds used during construction) and a return on other funds (allowance for equity funds used during construction).

The electric utility's and the water utilities' accounts are maintained in accordance with the Uniform System of Accounts prescribed by the FERC and NARUC, respectively.

(d) Cash:

Cash consists of cash deposited at banks.

(e) Short term investments:

Short term investments, consist of money market instruments with maturities in January 2011 and are recorded at cost, which approximates current market value. Included in short term investments is an investment of \$8,726 (U.S. \$9,000) which is denominated in U.S. dollars (December 31, 2010 - \$3,674 (U.S. \$3,694)).

(f) Restricted cash:

Restricted cash represent reserves and amounts set aside pursuant to requirements of various debt agreements. Cash reserves segregated from APUC's cash balances are maintained in accounts administered by a separate agent and disclosed separately as restricted cash in these consolidated financial statements. APUC cannot access restricted cash without the prior authorization of parties not related to APUC.

(g) Accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

(h) Property, plant and equipment:

Property, plant and equipment, consisting of land, facilities and equipment, are recorded at cost. The costs of acquiring or constructing facilities together with the related interest costs during the period of construction are capitalized. Interest costs capitalized for Liberty Utilities also include the allowance for equity funds used during construction.

1. Significant accounting policies (continued):

Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

The facilities and equipment, which include the cost of major overhauls, are amortized on a straight-line basis over their estimated useful lives. For facilities these periods range from 6 to 65 years. Facility equipment and overhaul costs are amortized over 2 to 10 years.

Contributions in aid of construction represent amounts contributed by customers and governments for the cost of utility capital assets. It also includes amounts initially recorded as advances in aid of construction but where the advance repayment period has expired. These contributions are recorded as a reduction in the cost of utility capital assets, with subsequent depreciation calculated on the net cost.

In accordance with regulator-approved accounting policies, when depreciable property, plant and equipment of Liberty Utilities are replaced or retired, the original cost plus any removal costs incurred (net of salvage) are charged to accumulated depreciation with no gain or loss reflected in results of operations. Gains and losses will be charged to results of operation in the future through adjustments to depreciation expense. In the absence of regulator-approved accounting policies, gains and losses on the disposition of property, plant and equipment would be charged to net earnings as incurred.

(i) Intangible assets:

Power sales contracts and energy sales contracts acquired in business combinations are amortized on a straight-line basis over the remaining term of the contract. These periods range from 6 to 25 years from date of acquisition for power sales contracts and 12 months for energy sales contracts.

Customer relationships acquired in business combinations are amortized on a straight-line basis over 40 years.

(j) Impairment of long-lived assets:

APUC reviews property, plant and equipment and intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to undiscounted expected future cash flows. If the carrying amount exceeds the recoverable amount, the asset is written down to its fair value.

(k) Long-term investments and notes receivable:

Investments in which APUC has significant influence but not control or joint control are accounted using the equity method. APUC records its share in the income or loss of its investees in interest, dividend and other income in the Consolidated Statement of Operations. All other equity investments where APUC does not have significant influence or control are accounted for under the cost method. Under the cost method of accounting, investments are carried at cost and the carrying amounts are adjusted only for other-than-temporary declines in value and additional investments. Income is recorded when dividends are received.

Notes receivable are financial assets with fixed or determined payments that are not quoted in an active market. Notes receivable that exceed one year and bear interest at a market rate based on the customer's credit quality are recorded at face value. Subsequent to acquisition, they are recorded at amortized cost using the effective interest method. The Company acquired these notes receivable as long-term investments and does not intend to sell these instruments prior to maturity.

An allowance for impairment loss on notes receivable is recorded if it is expected that the Company will not collect all principal and interest contractually due. The impairment is measured based on the present value of expected future cash flows discounted at the note's effective interest rate. The Company does not accrue interest when a note is considered impaired. When ultimate collectability of the principal balance of the impaired note is in doubt, all cash receipts on impaired notes are applied to reduce the principal amount of such notes until the principal has been recovered and are recognized as interest income thereafter. Impairment losses are charged against the allowance and increases in the allowance are charged to bad debt expense. Notes are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote.

(l) Other long-term liabilities:

Other long-term liabilities include advances in aid of construction. Certain of APUC's water, wastewater and electric utilities are periodically provided with advances through contributions from customers, real estate developers and builders for water, sewage and transmission line extensions in order to extend water, sewer and power service to their properties. The amounts advanced are generally repayable over a prescribed period based on revenues generated by the housing or development in

1. Significant accounting policies (continued):

the area being developed as new customers are connected to and take service from the utilities. Generally, advances not refunded within the prescribed period are not required to be repaid. These amounts are recorded as Advances in Aid of Construction in other long-term liabilities. After all refunds are made, any remaining unpaid balance is transferred to contributions in aid of construction.

Other long-term liabilities also include deferred water rights. Deferred water rights are related to a hydroelectric generating facility which has a fifty year water lease with the first ten years of the water lease requiring no payment which is a form of lease inducement. An annual average rate for water rights was estimated for the entire life of the lease and that average rate is being expensed over the lease term. The result of this policy is that the deferred water rights inducement amount recorded in the first ten years is being drawn down in the last forty years.

Other long term liabilities also include customer deposits. Customer deposits result from the Liberty Utilities utilities' obligation by its respective regulator to collect a deposit from customers of its facilities under certain circumstances when services are connected. The deposits are refundable as allowed under the facilities' regulatory agreement.

(m) Recognition of revenue:

Revenue derived from energy generation sales, which are mostly under long-term power purchase contracts, is recorded at the time electrical energy is delivered.

Water reclamation and distribution revenues are recorded when water is processed or delivered to customers.

Revenue from waste disposal is recognized on 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.

Revenues related to utility energy sales and distribution are recorded based on metered energy consumptions by customers, which occurs on a systematic basis throughout a month, rather than when the service is rendered or energy is delivered. At the end of each month, the energy delivered to the customers from the date of their last meter read to the end of the month is estimated and the corresponding unbilled revenues are calculated. These estimates of unbilled sales and revenues are based on the ratio of billable days versus unbilled days, amount of energy procured and generated during that month, historical customer class usage patterns, line loss and the Utilities' current tariffs. Accounts receivable as of March 31, 2011, include unbilled receivables of \$4,313 (December 31, 2010 - \$0).

Interest from long-term investments is recorded as earned.

(n) Foreign currency translation:

The Company's reporting currency is the Canadian dollar.

The Company's US operations are determined to have the U.S. dollar functional currency since the preponderance of operating, financing and investing transactions are denominated in U.S. dollars. The financial statements of these operations are translated into Canadian dollars using the current rate method, whereby assets and liabilities are translated at the rate prevailing at the balance sheet date while revenues and expenses are converted using average rates for the period. Unrealized gains or losses arising as a result of the translation of the financial statements of these entities are reported as a component of other comprehensive income and are accumulated in a component of equity on the balance sheet and are not recorded in income unless there is a partial or complete liquidation of the investment.

(o) Asset retirement obligations:

The fair value of estimated asset retirement obligations is recognized in the consolidated balance sheet when identified and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The asset retirement costs are depreciated over the asset's estimated useful life and are included in amortization expense on the Consolidated Statements of Operations. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the Consolidated Statements of Operations. Actual expenditures incurred are charged against the accumulated obligation. Based on APUC's assessments the Company does not have any significant asset retirement obligations and therefore no provision for retirement obligations have been recorded.

1. Significant accounting policies (continued):

(p) Income taxes:

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded against deferred tax assets to the extent that it is considered more likely than not that the deferred tax asset will not be realized. The effect on deferred assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment.

The structure of APUC and its subsidiaries are complex and the related tax interpretations, regulations and legislation in the tax jurisdictions in which they operate are continually changing. As a result, there can be tax matters that have uncertain tax positions. The Company follows the FASB ASC 740-10 Interpretation No., "Accounting for uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109". The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

(q) Financial instruments and derivatives:

APUC has classified its cash, short term investments, accounts receivable, restricted cash, accounts payable and accrued liabilities and dividends payable as held-for-trading, which are measured at fair value. Notes receivable are classified as loans and receivables, which are measured at amortized cost as there is no liquid market for these investments. Long-term liabilities, convertible debentures, and other long-term liabilities are classified as other financial liabilities, which are measured at amortized cost, using the effective interest method.

Transaction costs that are directly attributable to the acquisition of financial assets are accounted for as part of the respective asset's carrying value at inception. Transaction costs for items classified as held-for-trading are expensed immediately. Transaction costs that are directly attributable to the issuance of financial liabilities, costs of arranging the Company's credit facility and costs considered as commitment fees paid to financial institutions are recorded in deferred costs, and amortized on a straight-line basis over the term of the debt facility.

Unrealized holding gains and losses on trading securities are included in earnings. A decline in the market value of any held-to-maturity security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. To determine whether an impairment is other-than-temporary, the Company considers all available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable forecasts when developing estimate of cash flows expected to be collected. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

The Company uses derivative financial instruments as one method to manage exposures to fluctuations in exchange rates, interest rates and commodity prices. APUC recognizes all derivative instruments as either assets or liabilities in the Consolidated Balance Sheet at their respective fair values and the change in fair value is included in the Consolidated Statements of Operations. None of the derivatives were designated in hedging relationships for accounting purposes.

(r) Fair Value Measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

1. Significant accounting policies (continued):

(r) Fair Value Measurements (continued)

- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

(s) Stock Option Plan

The Company recognizes all employee stock-based compensation as a cost in the financial statements. Equity-classified awards are measured at the grant date fair value of the award. The Company estimates grant date fair value using the Black-Scholes option-pricing model. The estimated fair value of the options, including the effect of estimated forfeitures, is recognized as expense on a straight line basis over the options' vesting period while ensuring the cumulative amount of compensation cost recognized at least equals the value of the vested portion of the award at that date.

(t) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the years presented, management has made a number of estimates and valuation assumptions, including the useful lives and recoverability of property, plant and equipment and intangible assets, the recoverability of notes receivable and long-term investments, the recoverability of deferred tax assets, assessments of asset retirement obligations, and the fair value of financial instruments, derivatives and stock options. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

2. Recently issued accounting pronouncements

In December 2010, the FASB issued ASC update No. 2010-28, "Intangibles-Goodwill and Other (Topic 350), When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, a consensus of the FASB Emerging Issues Task Force." This amendment modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The qualitative factors that an entity should consider when evaluating whether it is more likely than not that a goodwill impairment exists are consistent with the existing guidance for determining whether an impairment exists between annual tests. The adoption of this update did not have a material impact on the Company's financial statements.

In December 2010, the FASB issued ASC update No. 2010-29, "Business Combinations (Topic 805), Disclosure of Supplementary Pro Forma Information for Business Combinations, a consensus of the FASB Emerging Issues Task Force." This amendment clarifies the periods for which pro forma financial information is presented. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The adoption of this update did not have a material impact on the Company's financial statements.

3. Acquisitions

(a) Acquisition of electrical generation and regulated distribution utility

On January 1, 2011, APUC and Emera Inc. ("Emera") closed the acquisition of a California-based electricity distribution utility and related generation assets (the "California Utility") for a purchase price of approximately \$134,139 (US \$134,867), subject to a final post-closing purchase price adjustment. APUC owns 50.001% of shares of California Pacific Utility Ventures LLC, which acquired the California Utility through its wholly owned subsidiary Liberty Energy (California). Liberty Energy (California) provides electric distribution service to approximately 47,000 customers in the Lake Tahoe region. The other 49.999% of the shares were acquired by Emera in the same transaction.

The acquisition has been accounted for using the acquisition method, with earnings from operations consolidated since the date of acquisition.

The following table summarizes the preliminary allocation of the assets acquired and liabilities assumed at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in Liberty Energy (California):

3. Acquisitions (continued)

Working capital	\$	9,021
Property, plant and equipment		145,462
Goodwill		10,195
Current portion of other long-term liabilities		(671)
Other long-term liabilities		(13,096)
Regulatory liabilities		(16,772)
<u>Total net assets acquired</u>	<u>\$</u>	<u>134,139</u>

The acquisition was funded as follows:

Contribution of equity by APUC in 2011	\$	28,472
Contribution of equity by APUC in 2010		3,787
Non-controlling interest portion of purchase price paid by Emera		32,258
Debt financing		69,622
<u>Total acquisition cost</u>		<u>134,139</u>

As a result the total cash consideration paid by APUC in 2011 is \$98,094.

In connection with the acquisition, the Company issued 8,523,000 shares at a price of \$3.25 per share to Emera pursuant to a subscription receipt agreement. The \$27,700 cash proceeds of the subscription receipts were used to fund a portion of the cost of acquisition of the California Utility.

The determination of the fair value of assets and liabilities acquired has been based upon management's preliminary estimates and certain assumptions with respect to the fair values of the assets acquired and liabilities assumed. The Company has not completed all of the fair value measurements at March 31, 2011. In particular, the fair values of the acquired property, plant and equipment, and long-term liabilities are provisional pending completion of the final valuations. In addition, the purchase agreements provides for a final purchase price adjustment based on final agreed working capital and rate base balances at the acquisition date. The Company will continue to review information and perform further analysis prior to finalizing the allocation of the purchase price. The actual fair values of the assets and liabilities will be determined as of the date of acquisition and may differ from the amounts noted above in the preliminary purchase price allocation.

Under business combination accounting guidance, the Company has up to one year from the date of the acquisition to finalize the allocation of consideration transferred.

Goodwill is calculated as the excess of the purchase price over the net assets acquired and the contributing factors to the amount recorded include expected future cash flows, potential operational synergies, the utilization of technology and cost savings opportunities in the delivery of certain shared administrative and other services. All of the goodwill was allocated to the Liberty Energy segment.

Property, plant & equipment of Liberty Energy (California) are amortized on a straight line basis, ranging from 6 to 65 years.

The Company recorded \$2,573 in total acquisition costs relating to the Liberty Energy (California) acquisition of which \$363 and \$44 were for the three months ended March 31, 2011 and 2010, respectively. All such costs have been expensed in the financial statements.

Liberty Energy (California) contributed revenue of \$22,850 and earnings of \$3,195 to the Company's results for the period from January 1, 2011 to March 31, 2011. Unaudited pro forma consolidated revenue of the Company as at March 31, 2010 of \$66,812 including pro forma revenue of Liberty Energy (California) of \$20,928 gives effect to the acquisition of the controlling interest of Liberty Energy (California) as if the transaction had occurred at the beginning of 2010. This pro forma information is presented for informational purposes only and does not purport to be indicative of the results of future operations or of the results that would have occurred had the acquisition taken place at the beginning of 2010. The disclosure of pro forma earnings related to 2010 is impracticable since the assets acquired were part of a division and the operating costs were subject to extensive allocation.

During the three months ended March 31, 2011, non-controlling interests increased by \$1,350 due to contributions by the non-controlling interest for Emera's share of additional costs incurred during the period relating to the acquisition.

On April 29, 2011, Emera agreed to sell its 49.999% interest in Liberty Energy (California) to APUC in exchange for 8,211,000 shares of APUC. The transaction is subject to regulatory approval and is expected to close by the end of 2011.

3. Acquisitions (continued)

(b) Agreement to Acquire Electric and Gas Utilities

On December 9, 2010 APUC announced that Liberty Energy Utilities Co. ("Liberty Energy"), APUC's utility subsidiary, had entered into agreements to acquire all issued and outstanding shares of Granite State Electric Company, a regulated electric utility, and EnergyNorth Natural Gas Inc. a regulated natural gas utility from National Grid USA ("National Grid") for total consideration of US \$285,000.

In connection with these acquisitions, Emera has agreed to a treasury subscription of subscription receipts convertible into 12,000,000 APUC common shares upon closing of the transactions at a purchase price of \$5.00 per share. The issuance of these subscription receipts is subject to regulatory approval. The receipt of cash from Emera and issuance of the shares is contingent on closing of these acquisitions and consequently the subscription receipts have not been recorded in the financial statements.

(c) Agreement to Acquire Regulated Water Utility Assets

On April 19, 2011, subsequent to the end of the quarter, APUC's wholly owned subsidiary Liberty Water Co. ("Liberty Water") has entered into agreements to acquire three additional regulated water utility assets in the United States. Total consideration for the three acquisitions is US\$8,300. Closings of the acquisitions are subject to certain conditions including state regulatory approval, and are expected to occur in the fall of 2011.

(d) Investment in Northeast Wind Projects

On April 30, 2011, APUC, together with Emera and First Wind Holdings, LLC, entered into an agreement to jointly construct, own and operate wind energy projects in the Northeast U.S. through a newly formed operating company. APUC will invest approximately \$85,000 in the operating company. Closing of the transaction is subject to certain conditions including regulatory approval and is expected to close in the fall of 2011.

(e) Acquisition of Hydroelectric Generation Assets ("Tinker Acquisition")

On January 12, 2010, APUC acquired certain electrical generating facility assets located in New Brunswick and Maine. The acquisition consisted of three hydroelectric generating stations, most notably the 34.5MW Tinker Hydroelectric station located on the Aroostook River near the Town of Perth-Andover, New Brunswick. The acquisition also included five thermal generating stations and certain regulated New Brunswick Independent System Operator transmission lines located in proximity to the generating facilities. In connection with the Tinker Acquisition, on February 4, 2010, APUC also acquired a related energy services business ("Energy Services Business"). The Energy Services Business retails the electricity generated by the Tinker facilities to commercial and industrial customers in northern Maine.

The total purchase price was \$40,281. The acquisition has been accounted for using the acquisition method, with earnings from operations included since the date of acquisition.

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

Working capital (net of cash received of \$1)	\$	69
Property, plant and equipment		40,427
Intangible asset – energy sales contracts		4,421
Non-current deferred income tax liability		(1,262)
Derivative liability – energy forward purchase contracts		(3,374)
Total cash consideration	\$	40,281

The allocation of the purchase price has been based upon the fair values of the assets and liabilities as of the date of acquisition.

(f) Acquisition of Water Utility System ("the Galveston Utility")

On March 17, 2010 Liberty Water, a wholly owned subsidiary of APUC, acquired a water distribution and wastewater collection system located near Galveston, Texas for a total purchase price of \$2,038. The Galveston Utility provides water distribution and wastewater collection services to approximately 260 equivalent residential connections.

The acquisition has been accounted for using the acquisition method, with earnings from operations included since the date of acquisition.

3. Acquisitions (continued)

(f) Acquisition of Water Utility System ("the Galveston Utility")

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

Property, plant and equipment	\$	2,023
Intangible asset		15
Total cash consideration	\$	2,038

4. Long-term investments and notes receivable

(a) Red Lily I

On April 19, 2010, the Company entered into agreements to provide development, construction, operation and supervision services related to the construction, commissioning and operation of a 26.4 megawatt wind energy facility ("Red Lily I") in south-eastern Saskatchewan.

The equity in Red Lily I ("the Partnership") is owned by an independent investor. The Company's investment in Red Lily I is in the form of participation in a portion of the senior debt facility, and a subordinated debt facility to the Partnership. APUC's commitment under the senior debt facility is to advance up to \$13,000 of the Tranche 2 senior debt. The third party lender has also committed to provide \$31,000 of senior debt to the Partnership. The senior debt will earn an interest rate of 6.31% and will mature five years following commissioning of the project. The subordinated debt will earn an interest rate of 12.5%. The senior debt is secured by substantially all the assets of the Partnership.

A second tranche of subordinated debt for an amount equal to the amounts outstanding on Tranche 2 of the senior debt but no greater than \$17,000 will be advanced five years following commissioning of the project. The proceeds from this additional subordinated debt are required to be used to repay Tranche 2 of the Partnership's senior debt, including APUC's portion. The subordinated debt earns an interest rate of 12.5%, the principal matures 25 years following commissioning of the project but is repayable by Red Lily in whole or in part at any time after five years, without a pre-payment premium. The subordinated debt is secured by substantially all the assets of the Partnership but is subordinated to the senior lenders debt.

In connection with the subordinated debt facility, the Company has been granted an option to subscribe for a 75% equity interest in the Partnership in exchange for the outstanding amount on its subordinated debt of up to \$19,500, exercisable for a period of 90 days commencing five years from the date of commissioning of the project.

During the first quarter of 2011, APUC advanced \$4,757 of the senior debt to the Red Lily Partnership. As of March 31, 2011 APUC has funded a total of \$10,857 of the senior debt and \$6,565 of the subordinated debt (2010 - \$nil).

5. Property, plant and equipment

Property, plant and equipment consist of the following:

March 31, 2011

	Cost	Accumulated amortization	Net book value
Land	\$ 12,037	\$ -	\$ 12,037
Facilities	1,096,337	239,072	857,265
Equipment	46,376	21,094	25,282
	\$ 1,154,750	\$ 260,166	\$ 894,584

December 31, 2010

	Cost	Accumulated amortization	Net book value
Land	\$ 12,108	\$ -	\$ 12,108
Facilities	958,172	231,468	726,704
Equipment	48,747	21,314	27,433
	\$ 1,019,027	\$ 252,782	\$ 766,245

6. Intangible assets

Intangible assets consist of the following:

March 31, 2011

	Cost	Accumulated amortization	Net book value
Power sales contracts	\$ 102,016	\$ 46,133	\$ 55,883
Customer relationships	18,338	2,954	15,384
Energy sales contract	4,122	4,122	-
Licenses and agreements	1,283	685	598
	\$ 125,759	\$ 53,894	\$ 71,865

December 31, 2010

	Cost	Accumulated amortization	Net book value
Power sales contracts	\$ 102,980	\$ 45,345	\$ 57,635
Customer relationships	18,811	2,912	15,899
Energy sales contract	4,228	3,876	352
Licenses and agreements	683	683	-
	\$ 126,702	\$ 52,816	\$ 73,886

7. Regulatory assets and liabilities

Regulatory assets and liabilities consist of the following:

	Receiving Regulatory Treatment	Pending Regulatory Treatment	March 31, 2011	December 31, 2010
Regulatory assets:				
Rate case costs (i)	\$ 2,116	\$ -	\$ 2,116	\$ 2,164
Alternative revenue program (ii)	1,035	-	1,035	320
Water testing costs (iii)	105	-	105	-
Total regulatory assets	3,256	-	3,256	2,484
Regulatory liability:				
Deferred energy cost (iv)	\$ (3,832)	\$ -	\$ (3,832)	\$ -
Cost of removal (v)	(13,235)	-	(13,235)	-
Total regulatory liabilities	\$ (17,067)	\$ -	\$ (17,067)	\$ -

(i) *Deferred rate case costs*

Deferred rate case costs relate to costs incurred by APUC's utilities to file, prosecute and defend rate case applications and which the utility expects to receive prospective recovery through its rates approved by the regulators. Under ASC 980 these costs are capitalized and amortized over the period of rate recovery granted by the regulator of approximately three years.

(ii) *Alternative revenue program*

A rate decision by the regulator of one of Liberty Water's utilities has ordered a phase-in of the rate increases it has granted wherein the full rate increase will be phased in over a 12 month period. The phase-in will also include a surcharge mechanism that ensures the utility is not disadvantaged by the phase in of the new rates. The details around the phase-in mechanism is the subject of a separate regulatory proceeding that is expected to conclude prior to the end of the phase in period in 2011.

(iii) *Water testing costs*

Water testing costs consist of certain expenses associated with some water testing costs ordered by the regulator. These costs are allowed to be recovered in rates in future periods. The regulatory asset associated with these costs is amortized over the period of rate recovery granted by the regulator.

(iv) *Deferred Energy Accounting*

Certain state statutes permit regulated utilities to adopt deferred energy accounting procedures. The intent of these procedures is to ease the effect on customers of fluctuations in the cost of purchased gas, fuel and purchased power.

7. Regulatory assets and liabilities (continued)

Under deferred energy accounting, to the extent actual fuel and purchased power costs exceed fuel and purchased power costs recoverable through current rates that excess is not recorded as a current expense on the statement of operations but rather is deferred and recorded as a regulatory asset on the balance sheet in accordance with the provisions of the Regulated Operations Topic of the FASB. Conversely, a regulatory liability is recorded to the extent fuel and purchased power costs recoverable through current rates exceed actual fuel and purchased power costs. These excess amounts are reflected in adjustments to rates and recorded as revenue or expense in future time periods, subject to regulatory review.

The Utilities also record and are eligible under the statute to recover a carrying charge on such deferred balances.

(v) *Cost of removal*

In addition to the legal asset retirement obligations booked under the accounting guidance for asset retirement obligations, the Utilities have accrued for the cost of removing non-contractual retirement obligations of other electric assets.

8. Long-term liabilities

In February 2011, APCo renewed its senior secured revolving credit facility in the amount of \$142,000 (the "Facility") for a three year term with its Canadian bank syndicate. The Facility now has a maturity date of February 14, 2014. Refinancing costs and fees related to the renewal of \$1,081 have been recorded as deferred financing costs in the quarter.

The Liberty Energy (California) acquisition (note 3(a)) was funded in part with proceeds of a U.S.\$70,000 senior unsecured private debt placement consisting of U.S. \$45,000 bearing an interest rate of 5.19% maturing December 29, 2020 and U.S. \$25,000 bearing an interest rate of 5.59% maturing December 29, 2025. The notes are interest only, payable semi-annually. Financing costs of \$1,069 incurred with respect to this placement have been recorded in deferred financing costs.

The AirSource debt matures in October 2011. As of March 31, 2011, the outstanding balance of \$68,280 has been recorded within the current portion of the long-term liabilities on the Consolidated Balance Sheet.

9. Convertible Debentures

	Series 1A	Series 2A	Series 3	Total
Maturity date	2014 November 30	2016 November 30	2017 June 30	
Interest rate	7.50%	6.35%	7.00%	
Conversion price per share	\$ 4.08	\$ 6.00	\$ 4.20	
Carrying value at December 31, 2010	\$ 59,156	\$ 59,698	\$ 62,905	\$ 181,759
Conversion to shares (Note12), net of costs	(73)	-	(105)	(178)
Accretion of discount and conversion option	168	10	-	178
Carrying value at March 31, 2011	\$ 59,251	\$ 59,708	\$ 62,800	\$ 181,759
Face value at March 31, 2011	\$ 62,397	\$ 59,967	\$ 62,800	\$ 185,164

During the first quarter 2011, \$73 principal amount of Series 1A Debentures were converted at the option of the holders at a price of \$4.08 for each share into 17,790 shares of APUC and \$105 principal amount of Series 3 Debentures were converted at the option of the holders at a price of \$4.20 for each share into 24,999 shares of APUC.

Subsequent to the end of the quarter, \$22,620 Series 1A Debentures were converted into 5,543,835 common shares of APUC.

On April 7, 2011 APUC provided the holders of its Series 1A 7.5% convertible unsecured subordinated debentures notice of its intention to redeem, effective May 16, 2011 ("Redemption Date"), all of the issued and outstanding Series 1A Debentures. Series 1A Debenture holders can elect to convert their debentures into common shares at \$4.08 per share at any time prior to the Redemption Date.

For any Series 1A Debentures remaining outstanding on the Redemption Date the redemption will be effected in accordance with the terms and definitions of the trust indenture governing the Series 1A Debentures. APUC will satisfy its redemption obligation by issuing and delivering the number of freely tradeable APUC shares obtained by dividing the aggregate principal amount of Series 1A Debentures, as of March 31, 2011, \$62,397, by 95% of the current market price of APUC shares on the Redemption Date. Unpaid accrued interest on the Series 1A Debentures will be paid in cash at the time of redemption.

10. Other long-term liabilities

Other long term liabilities consist of the following:

	March 31, 2011	December 31, 2010
Advances in aid of construction (note 1(l))	\$ 66,436	\$ 55,115
Contingent consideration	3,205	3,287
Deferred water rights inducement	2,988	3,008
Customer deposits	2,751	1,985
Capital Leases		
Obligation for equipment leases. Interest rates varying from 1.90% to 5.80%, monthly interest and principal payments with varying dates of maturity from March 2012 to December 2014	542	524
Other	4,973	5,099
	80,895	69,018
Less: current portion	(1,703)	(1,011)
	\$ 79,192	\$ 68,007

11. Comprehensive Income

The following table summarizes the allocation of total comprehensive income between shareholders of APUC and non-controlling interests:

	APUC shareholders	Non-controlling interests	Three months ended March 31, 2011	March 31, 2010
Consolidated net income	\$ 5,016	\$ 1,904	\$ 6,920	\$ 3,596
Attributions to St Leon Class B Unitholders	-	(123)	(123)	(65)
OCI:				
Net foreign currency translation loss	(5,438)	(878)	(6,316)	(46,270)
Total comprehensive income (loss)	\$ (422)	\$ 903	\$ 481	\$ (42,739)

12. Shareholders' capital

Number of common shares:

	March 31, 2011	March 31, 2010
Common shares, beginning of period	95,422,778	93,064,120
Conversion of convertible debentures (note 9)	42,789	681,124
Issuance of shares (note 3(a))	8,523,000	-
Common shares, end of period	103,988,567	93,745,244

The following tables provide a reconciliation of the beginning and the ending carrying amounts of total equity, equity attributable to APUC shareholders, and equity attributable to non-controlling interest.

12. Shareholders' capital (continued)

For the three months ended March 31, 2011:

	Common shares	Equity component of convertible debentures	Additional paid-in capital	Accumulated deficit	Accumulated OCI	Non- controlling interests	Total
Balance, December 31, 2010	\$ 795,329	\$ 1,504	\$ 108	\$ (358,542)	\$ (99,845)	-	\$ 338,554
Dividends declared to APUC shareholders	-	-	-	(6,762)	-	-	(6,762)
Conversion of convertible debentures	178	-	-	-	-	-	178
Issuance of common shares	27,700	-	-	-	-	-	27,700
Stock compensation expense	-	-	121	-	-	-	121
Acquisition of Liberty Energy (California)	-	-	-	-	-	33,608	33,608
Comprehensive income (loss)				5,016	(5,438)	903	481
Balance, March 31, 2011	\$ 823,207	\$ 1,504	\$ 229	\$ (360,288)	\$ (105,283)	\$ 34,511	\$ 393,880

For the three months ended March 31, 2010:

	Common shares	Equity component of convertible debentures	Additional paid-in capital	Accumulated deficit	Accumulated OCI	Non- controlling interests	Total
Balance, December 31, 2009	\$ 785,828	\$ 1,487	-	\$ (352,219)	\$ (48,712)	-	\$ 386,384
Dividends declared to APUC shareholders	-	-	-	(5,597)	-	-	(5,597)
Conversion of convertible debentures	2,577	(46)	-	-	-	-	2,531
Amounts received in connection with Highground transaction	170	-	-	-	-	-	170
Comprehensive income (loss)	-	-	-	3,531	(46,270)	-	(42,739)
Balance, March 31, 2010	\$ 788,575	\$ 1,441	-	\$ (354,285)	\$ (94,982)	-	\$ 340,749

Stock Option Plan

On March 22, 2011, the Board approved the grant of 892,107 options to senior executives of the Company. The options allow for the purchase of common shares at a price of \$5.23, the market price of the underlying common share at the date of grant. One-third of the options vest on each of January 1, 2012, 2013 and 2014. Options may be exercised up to eight years following the date of grant.

12. Shareholders' capital (continued)

The Company determines the fair value of options granted using the Black-Scholes option-pricing model. The following assumptions were used in determining the fair value of share options granted:

	2011	2010
Risk-free Interest	3.3%	2.9%
Expected Volatility	28.2%	29.2%
Expected dividend yield	5.9%	5.9%
Expected Life	8 years	8 years
Grant date fair value per option	\$ 0.78	\$ 0.61

The risk-free interest rate is based on the zero-coupon Canada Government bond with a similar term to the expected life of the options at the grant date. Expected volatility was estimated based on the adjusted historic volatility of the Company's shares. The expected life was estimated to equal the contractual life of the options. The dividend yield rate was based upon recent historical rates in dividends of our shares.

For the three month period ended March 31, 2011, APUC recorded \$121 (2010 - \$0), in compensation expense. As at March 31, 2011, there was \$1,136 (December 31, 2010 - \$562) of total unrecognized compensation costs related to stock options granted under the Plan. The cost is expected to be recognized over a period of 2.4 years.

As at March 31, 2011, 367,348 options with an intrinsic value of \$408 are exercisable. No share options were exercised in 2011 or 2010. The intrinsic value of the 1,626,800 non-vested options as at March 31, 2011 was \$816 (December 31, 2010 - \$1,069).

13. Related party transactions

Certain executives of APUC are shareholders of Algonquin Power Management Inc. (APMI), the former manager of APCo. A member of the Board of Directors of APUC is an executive at Emera.

APUC has leased its head office facilities since 2001 from an entity owned by the shareholders of APMI on a net basis. Base lease costs for the three months ended March 31, 2011 were \$82 (2010 - \$82).

APUC utilizes chartered aircraft, including the use of an aircraft owned by an affiliate of APMI, Algonquin Airlink Inc. In 2004, APUC entered into an agreement and remitted \$1,300 to the affiliate as an advance against expense reimbursements (including engine utilization reserves) for APUC's business use of the aircraft. Under the terms of this arrangement, APUC will have priority access to make use of the aircraft for a specified number of hours at a cost equal solely to the third party direct operating costs incurred when flying the aircraft. During the three months ended March 31, 2011, APUC incurred costs in connection with the use of the aircraft of \$71 (2010 - \$148) and amortization expense related to the advance against expense reimbursements of \$41 (2010 - \$57). At March 31, 2011, the remaining amount of the advance was \$513 (2010 - \$609) and is recorded in other assets.

Affiliates of APMI hold 60% of the outstanding Class B limited partnership units issued by the St. Leon Wind Energy LP ("St. Leon LP"), an indirect subsidiary of APUC and the legal owner of the St. Leon facility. 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 June 17, 2008 growing to a maximum of 10% by year 15. 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 related holders of the Class B units are entitled to cash distributions of \$44 for the three months ended March 31, 2011 (2010 - \$23).

APMI is one of the two original developers of Red Lily I and both developers are entitled to a royalty fee based on a percentage of operating revenue and a development fee from the equity owner of Red Lily I. The royalty fee is initially equal to 0.75% of gross energy revenue, increasing every five years up to 2% after twenty-five years. During the three months ended March 31, 2011, APUC acquired APMI's interest in this royalty for an amount of \$600. This amount has been recorded as a purchase of intangible assets and the amount is included in accrued liabilities at March 31, 2011. APMI is also entitled to a development fee of up to \$400 following commercial operation of the project and has agreed to permit the Board to determine the portion of such fee which will be paid following commercial operation of the facility.

APUC has operation and maintenance service agreements with three hydroelectric generating facilities owned by affiliates of APMI. As a result of these agreements, APUC employees operate these hydroelectric generating facilities owned by affiliates of APMI. These facilities are charged on a cost recovery basis for time and material incurred at these sites.

As at March 31, 2011 amount due from the above related party transactions was \$551 (December 31, 2010 - \$718) and amounts due to related parties was \$1,534 (December 31, 2010 - \$901).

13. Related party transactions (continued)

A contract with a subsidiary of Emera to purchase energy on Independent System Operator New England ("ISO NE") and provide scheduling services on ISO NE was included as part of the acquisition of the Energy Services Business associated with the Tinker Acquisition. The contract expired March 31, 2010 and was not renewed. As a result of this contract, during 2010 a subsidiary of Emera provided services to and purchased energy on ISO NE on behalf of the Energy Services Business. In this capacity, for the three months ended March 31, 2011 APUC paid a subsidiary of Emera an amount of \$0 (2010 - \$1,368) which was included as an operating expense on the consolidated statement of operations.

In 2010, APUC entered into a one year contract with a subsidiary of Emera to provide lead market participant services for fuel capacity and forward reserve markets in ISO NE for the Windsor Locks facility. During the three months ended March 31, 2011 APUC paid U.S. \$61 (2010 - \$0) in relation to this contract. In the same period, APUC provided a corporate guarantee to a subsidiary of Emera in an amount of U.S. \$500 in conjunction with this contract.

On December 21, 2010, a subsidiary of Emera acquired Maine & Maritimes Corporation, the parent company of Maine Public Service Company ("MPS"). For the three months ended March 31, 2011, the Energy Services Business sold electricity amounting to \$2,040 (2010 - \$0).

As of March 31, 2011, included in amounts due from related parties is \$1,554 (2010 - \$0) owed from Emera related to the unpaid contribution of their share of Liberty Energy (California) costs.

Long Sault is a hydroelectric generating facility in which APUC acquired its interest in the facility by way of subscribing to two notes from the original developers. An affiliate of APML is one of the original partners in the facility and is entitled to receive 5% of the after tax equity cash flows commencing in 2014.

The above related party transactions have been recorded at the exchange amounts agreed to by the parties to the transactions.

14. Commitments and Contingencies

Contingencies

APUC and its subsidiaries are involved in various claims and litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider APUC's exposure to such litigation to be material to these financial statements. 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.

Commitments

In addition to the commitments related to the proposed acquisitions disclosed in note 3 the following significant commitments exist at March 31, 2011.

Legislation in the Province of Quebec requires technical assessments be made of all dams within the province and remediation of any technical deficiencies identified in accordance with the assessment. APUC is in the process of conducting the assessments as required. Based on assessments to date, some of which are preliminary, APUC has estimated potential remedial measures involving capital expenditures of approximately \$17,055 which may be required to comply with the legislation and which would be invested over a five year period or longer. APUC continues to explore alternatives to reduce or mitigate these potential capital expenditures, including technical alternatives and cost sharing with other stakeholders.

APUC has outstanding purchase commitments for long-term service agreements, capital project commitments and operating leases. Detailed below are estimates of future commitments under these arrangements:

	Remainder of 2011		2012		2013		2014		2015		Thereafter		Total	
Long term service agreements	\$	1,539	\$	3,798	\$	3,798	\$	4,195	\$	4,195	\$	77,329	\$	94,854
Capital projects		1,767		-		-		-		-		-		1,767
Operating leases		548		693		668		441		426		407		3,183
Total	\$	3,854	\$	4,491	\$	4,466	\$	4,636	\$	4,621	\$	77,736	\$	99,804

15. Cash dividends

All cash dividends of the Company are made on a discretionary basis as determined by the Board of Directors of the Company. For the three months ended March 31, 2011, the Company paid cash dividends to shareholders totaling \$ 6,762 (2010 - \$5,597) or \$0.065 per common share (2010 - \$0.06 per common share).

16. Changes in non cash operating working capital

The change in non cash operating working capital is comprised of the following:

	Three months ended March 31,	
	2011	2010
Accounts receivable	\$ (1,238)	\$ (5,326)
Related party balances	(755)	-
Supplies and consumables inventory	(316)	-
Income tax receivable	-	792
Prepaid expenses	(940)	721
Accounts payable	2,422	3,459
Accrued liabilities	3,093	-
Current income tax liability	256	73
	\$ 2,522	\$ (281)

17. Basic and diluted net earnings per share

Basic and diluted earnings per share have been calculated on the basis of net earnings attributable to the Company and the weighted average number of shares outstanding during the year. The weighted average number of shares outstanding during the year are as follows:

	Three months ended March 31,	
	2011	2010
Weighted average shares – basic	103,988,566	93,173,690
Dilutive effect of stock options	106,537	-
Weighted average shares – diluted	104,095,103	93,173,690

The shares potentially issuable as a result of the convertible debentures are excluded from this calculation as they are anti-dilutive.

18. Income taxes

For the three months ended March 31, 2011, the Company's overall effective tax rate was different than the statutory rate of 31% due primarily to recognition of deferred credits, change in valuation allowances, foreign exchange loss on intercompany items and non deductible expenses.

Included in deferred income tax recoveries for the three months ended March 31, 2011 is \$1,024 (2010-\$967) related to the recognition of deferred credits from the utilization of deferred income tax assets recognized at the time of the Unit Exchange Offer.

19. Segmented Information

APUC has two broad operating segments: APCo which owns or has interests in renewable energy facilities and thermal energy facilities and Liberty Utilities which owns and operates utilities in the United States of America providing water, wastewater and local electric distribution services.

Within APCo 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 the Company's greenfield power generation projects as well as any expansion of the Company's existing portfolio of renewable energy and thermal energy facilities.

Within Liberty Utilities, Liberty Water provides transportation and delivery of water and wastewater in its service areas and Liberty Energy provides local electric distribution services.

Operational segments

APUC's reportable segments are APCo - Renewable Energy, APCo - Thermal Energy and Liberty Water and Liberty Energy. The development activities of APCo are reported under Renewable Energy or Thermal Energy as appropriate. For purposes of evaluating divisional performance, the Company 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. The interest rate swaps relate to specific debt facilities and gains and losses are allocated in the same manner as interest expense. Amounts relating to the convertible debentures are reported in the corporate segment.

19. Segmented Information (continued)

The results of operations and assets for these segments are as follows:

Three months ended March 31, 2011

	Algonquin Power			Liberty Utilities			Corporate	Total
	Renewable Energy	Thermal Energy	Total	Liberty Water	Liberty Energy	Total		
Revenue								
Energy sales	\$ 21,879	\$ 12,483	\$ 34,362	\$ -	\$ -	\$ -	\$ -	\$ 34,362
Utility energy sales and distribution	-	-	-	-	22,850	22,850	-	22,850
Waste disposal fees	-	4,020	4,020	-	-	-	-	4,020
Water reclamation and distribution	-	-	-	9,784	-	9,784	-	9,784
Other revenue	501	191	692	-	-	-	-	692
Total revenue	22,380	16,694	39,074	9,784	22,850	32,634	-	71,708
Operating expenses	7,586	12,429	20,015	5,421	16,982	22,403	-	42,418
	14,794	4,265	19,059	4,363	5,868	10,231	-	29,290
Other administration costs	(1,281)	(455)	(1,736)	(96)	(93)	(189)	(1,797)	(3,722)
Foreign exchange loss	-	-	-	-	-	-	(35)	(35)
Interest expense	(2,055)	(420)	(2,475)	(979)	(967)	(1,946)	(3,597)	(8,018)
Interest, dividend and other income	420	88	508	109	-	109	730	1,347
Gain / (loss) on derivative financial instruments	(852)	-	(852)	-	-	-	1,281	429
Amortization of property, plant and equipment	(4,293)	(2,809)	(7,102)	(1,958)	(1,248)	(3,206)	-	(10,308)
Amortization of intangible assets	(1,012)	(685)	(1,697)	(167)	-	(167)	-	(1,864)
Acquisition costs	-	-	-	-	(753)	(753)	-	(753)
Net earnings / (loss) before income taxes, and non-controlling interest	\$ 5,721	\$ (16)	\$ 5,705	\$ 1,272	\$ 2,807	\$ 4,079	\$ (3,418)	\$ 6,366
Property, plant and equipment	\$ 408,008	\$ 146,702	\$ 554,710	\$ 196,560	\$ 142,768	\$ 339,328	\$ 546	\$ 894,584
Intangible assets	27,870	22,228	50,098	21,767	-	21,767	-	71,865
Total assets	464,767	189,343	654,110	232,314	175,068	407,382	114,330	1,175,822
Capital expenditures	959	(192)	767	1,416	1,358	2,774	40	3,581
Acquisition of operating entities	-	-	-	-	98,094	98,094	-	98,094

19. Segmented Information (continued)

Three months ended March 31, 2010

	Algonquin Power			Liberty Utilities			Corporate	Total
	Renewable Energy	Thermal Energy	Total	Liberty Water	Liberty Energy	Total		
Revenue								
Energy sales	\$ 22,219	\$ 14,299	\$ 36,518	\$ -	\$ -	\$ -	\$ -	\$ 36,518
Utility energy sales and distribution	-	-	-	-	-	-	-	-
Waste disposal fees	-	917	917	-	-	-	-	917
Water reclamation and distribution	-	-	-	8,246	-	8,246	-	8,246
Other revenue	-	203	203	-	-	-	-	203
Total revenue	22,219	15,419	37,638	8,246	-	8,246	-	45,884
Operating expenses	8,125	12,506	20,631	5,428	-	5,428	-	26,059
	14,094	2,913	17,007	2,818	-	2,818	-	19,825
Other administration costs	(1,145)	(544)	(1,689)	(365)	-	(365)	(861)	(2,915)
Foreign exchange loss	-	-	-	-	-	-	39	39
Interest expense	(1,834)	(221)	(2,055)	(424)	-	(424)	(3,588)	(6,067)
Interest, dividend and other income	138	139	277	11	-	11	735	1,023
Gain / (loss) on derivative financial instruments	(230)	-	(230)	-	-	-	1,143	913
Amortization of property, plant and equipment	(4,382)	(2,903)	(7,285)	(1,782)	-	(1,782)	-	(9,067)
Amortization of intangible assets	(1,401)	(696)	(2,097)	(165)	-	(165)	-	(2,262)
Acquisition costs	-	-	-	-	(44)	(44)	-	(44)
Net earnings / (loss) before income taxes, minority interest and comprehensive income	\$ 5,240	\$ (1,312)	\$ 3,928	\$ 93	\$ (44)	\$ 49	\$ (2,532)	\$ 1,445
Property, plant and equipment	\$ 400,197	\$ 178,382	\$ 578,579	\$ 165,931		\$ 165,931	\$ 345	\$ 744,855
Intangible assets	33,541	25,340	58,881	23,508		23,508	-	82,389
Total assets	462,144	220,288	682,432	198,450		198,450	85,287	966,169
Capital expenditures	264	3,835	4,099	45		45	15	4,159
Acquisition of operating entities	40,281	-	40,281	2,038		2,038	-	42,319

All energy sales are earned from contracts with large public utilities. The following utilities contributed more than 10% of these total revenues in either 2011 or 2010: Hydro Québec 16% (2010 - 16%), Manitoba Hydro 18% (2010 - 13%), and Connecticut Light and Power 0% (2010 - 16%). The Company has mitigated its credit risk to the extent possible by selling energy to these large utilities in various North American locations.

19. Segmented Information (continued)

Geographic Segments

APUC 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 March 31,	
		2011	2010
Revenue			
Canada	\$	22,400	\$ 17,543
United States		49,308	28,341
	\$	71,708	\$ 45,884
Property, plant and equipment			
Canada	\$	461,775	\$ 472,687
United States		432,809	272,168
	\$	894,584	\$ 744,855
Intangible assets			
Canada	\$	42,754	\$ 47,257
United States		29,111	35,132
	\$	71,865	\$ 82,389
Other assets			
Canada	\$	1,377	\$ 860
United States		-	3,174
	\$	1,377	\$ 4,034

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

20. Financial instruments

a) Fair Value of financial instruments

	Carrying amount	2011 Fair value	Carrying amount	2010 Fair value
Cash	\$ 2,503	\$ 2,503	\$ 5,222	\$ 5,222
Short-term investments	9,560	9,560	3,674	3,674
Accounts receivable	34,784	34,784	26,099	26,099
Restricted cash	3,463	3,463	3,563	3,563
Energy forward purchase	577	577	-	-
Notes receivables	22,610	22,610	18,744	18,744
Total financial assets	\$ 73,497	\$ 73,497	\$ 57,302	\$ 57,302
Accounts payable	\$ 6,798	\$ 6,798	\$ 3,776	\$ 3,776
Accrued liabilities	31,933	31,933	28,839	28,839
Dividends payable	6,759	6,759	5,721	5,721
Long-term liabilities	325,236	327,552	259,913	262,117
Other long-term liabilities	80,895	80,895	69,018	69,018
Convertible debentures	181,759	224,618	181,760	216,769
Interest swaps	4,458	4,458	5,440	5,440
Energy forward purchase	-	-	378	378
Foreign exchange contracts	-	-	45	45
Total financial liabilities	\$ 637,838	\$ 683,013	\$ 554,990	\$ 592,581

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value at March 31, 2011 and December 31, 2010 due to the short-term maturity of these instruments.

Long term investments and notes receivable include equity instruments and notes receivable. The equity instruments do not have a quoted market price in an active market, and fair value cannot be reliably measured. Notes receivable fair values have been determined using a discounted cash flow method, using estimated current market rates for similar instruments adjusted for

20. Financial instruments (continued)

estimated credit risk as determined by management. Such estimate is significantly influenced by unobservable data and therefore this fair value is subject to estimation risk.

APUC has long-term liabilities and convertible debentures at fixed interest rates and variable rates. The estimated fair value is calculated using the current interest rates.

Advances in aid of construction included in other long-term liabilities (note – 1 (I)) do not bear interest and the amount to be repaid is subject to uncertainty and estimation. The fair value is considered to approximate the book value.

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.

b) Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities accounted for at fair value at March 31, 2011 are as follows:

	Level 1	Level 2	Level 3	Total
Derivative assets:				
Energy forward purchase	\$ -	\$ 577	\$ -	\$ 577
Derivative liabilities:				
Interest swap –St Leon	\$ -	\$ (4,458)	\$ -	\$ (4,458)

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There was no transfer into or out of level 1, level 2 or level 3 during the three months ended March 31, 2011. No assets or liabilities are measured at fair value on a recurring basis using unobservable inputs (Level 3).

c) Effect of derivative instruments on the Consolidated Statement of Operations

Loss/(gain) on derivative financial instruments consist of the following:

	Three months ended March 31,	
	2011	2010
Change in unrealized loss/(gain) on derivative financial instruments:		
Foreign exchange contracts	\$ (45)	\$ (1,083)
Interest rate swaps	(980)	(1,288)
Energy forward purchase contracts	(950)	(1,834)
Total change in unrealized loss/(gain) on derivative financial instruments	\$ (1,975)	\$ (4,205)
Realized loss/(gain) on derivative financial instruments:		
Foreign exchange contracts	\$ 694	\$ (132)
Interest rate swaps	533	1,596
Energy forward purchase contracts	319	1,828
Total realized loss/(gain) on derivative financial instruments	\$ 1,546	\$ 3,292
Loss/(gain) on derivative financial instruments	\$ (429)	\$ (913)

(d) 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 instruments are used to manage certain exposures to fluctuations in exchange rates, interest rates and commodity prices. 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

20. Financial instruments (continued)

maintaining minimal cash balances and ensuring available cash is deposited with its senior lenders in Canada all of which have a credit rating of A or better. The Company does not consider the risk associated with accounts receivable to be significant as over 80% of revenue from Power Generation is earned from large utility customers having a credit rating of BBB or better, and revenue is generally invoiced and collected within 45 days.

The remaining revenue is primarily earned by the Liberty Utilities business unit which consists of electrical distribution and of water and wastewater utilities in the United States. In this regard, the credit risk related to Utility Services accounts receivable balances of US\$14,040 is spread over thousands of customers. 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 March 31, 2011, the Company's exposure to credit risk measured in Canadian dollars for these financial instruments was as follows:

	Canadian	US
Cash and cash equivalents	\$ (737)	\$ 3,240
Short term investments	834	8,726
Accounts receivable	11,283	23,886
Allowance for Doubtful Accounts	(340)	(45)
Notes Receivable	20,651	1,959
	\$ 31,691	\$ 37,766

There are no material past due amounts in accounts receivable.

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 of March 31, 2011, in addition to cash on hand of \$2,503 the Company had \$44,100 available to be drawn on its senior debt facility. The senior credit facility contains covenants which may limit amounts available to be drawn. The Company's liabilities mature as follows:

	Due less than 1 year	Due 2 to 3 years	Due 4 to 5 years	Due after 5 years	Total
Long term debt obligations	\$ 69,773	\$ 3,221	\$ 68,876	\$ 183,366	\$ 325,236
Convertible Debentures	62,397	-	59,967	62,800	185,164
Interest on long term debt	24,662	45,521	39,142	75,242	184,567
Accounts Payable	6,798	-	-	-	6,798
Accrued liabilities	31,933	-	-	-	31,933
Derivative financial instruments:					
Interest Rate Swaps	1,530	2,260	668	-	4,458
Lease Payments	215	302	25	-	542
Other obligations	1,170	2,339	2,339	4,080	9,928
Total obligations	\$ 198,478	\$ 53,643	\$ 170,017	\$ 325,432	\$ 748,570

Convertible debentures due in less than one year relates to APUC's notice to redeem its Series 1A Debentures effective May 16, 2011 see note 9.

Foreign Currency Risk

The Company primarily uses U.S. dollar denominated debt to manage its foreign currency risk from its U.S. operations.

At March 31, 2011, the Company had no forward foreign exchange contracts. As at December 31, 2010, APUC had outstanding foreign exchange forward contracts to sell US\$3,000 at an average rate of \$1.00 and having a fair value liability of \$45.

Interest Rate Risk

The Company is exposed to interest rate fluctuations related to certain of its floating rate debt obligations, including certain project specific debt and its revolving credit facility as well as interest earned on its cash on hand. The Company has performed sensitivity analysis on interest rate risk at March 31, 2011 to determine how a change in interest rates would impact equity and net earnings:

20. Financial instruments (continued)

Senior credit facility

The Company's senior debt facility has a balance of \$65,000 as at March 31, 2011. Assuming the current level of borrowings, a 1% change in the variable rate charged would impact interest expense by \$163 during the three months ended March 31, 2011.

Airsource –St Leon

The Algonquin (AirSource) Power LP ("Airsource") project debt at the St. Leon facility has a balance of \$68,280 at March 31, 2011. Assuming the current level of borrowings, a 1% change in the variable rate charged would have impacted interest expense by \$171 during the three months ended March 31, 2011. Although this underlying debt with the project lenders carries a variable rate of interest tied to Canadian Bank's prime rate, in 2006 the Company 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 effectively minimize volatility in the cash interest on this debt facility through an offset for any change to interest payments as a result of market rate fluctuations. At March 31, 2011, the fair value of the interest rate swap was a net liability of \$4,458 (2010 - \$5,440). APUC has elected not to use hedge accounting for the swap and records the fair value of the swap on the consolidated balance sheets. Any gain or loss in fair value is recognized in the consolidated statements of operations.

Sanger

The Company's project debt at the Sanger facility has a balance of U.S. \$19,200 as at March 31, 2011. Assuming the current level of borrowings, a 1% change in the variable interest rate charged would impact interest expense by U.S. \$48 during the three months ended March 31, 2011. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Market Risk

APUC provides energy requirements to various customers under contract at fixed rates. While the Tinker Assets are expected to provide a portion of the energy required to service these customers, APUC anticipates having to purchase a portion of its energy requirements at the ISO NE spot rates to supplement self-generated energy.

APUC anticipates having to purchase a portion of its energy requirements at the ISO-NE spot rates to supplement self-generated energy.

This risk is mitigated through the use of short term financial forward energy purchase contracts which are derivative instruments. In January 2011, APUC entered into electricity derivative contracts with Nextera ("counterparty") for a term ending February 2014, these are fixed-for-floating swaps whereby APUC agrees with the counterparty to cash settle the difference between the floating or indexed price and the fixed price on a notional quantity 208,495 MW-hrs of energy over the remainder of the contract term at an average rate of approximately \$50.45 per MW-hr. The estimated fair value of these forward energy hedge contracts at March 31, 2011 was a net asset of \$577 (2010 - \$0).

21. Comparative figures

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

Directors

Kenneth Moore, Chairman – Managing Partner, NewPoint Capital Partners Inc.
Christopher J. Ball – Executive Vice President, Corpfinance International Limited
Chris Huskison – President and Chief Executive Officer, Emera Inc.
Chris Jarratt – Vice Chairman, Algonquin Power & Utilities Corp.
Ian Robertson – Chief Executive Officer, Algonquin Power & Utilities Corp.
George Steeves – Principal, True North Energy

Algonquin Power & Utilities Corp.

Ian Robertson, Chief Executive Officer
Chris Jarratt, Vice Chairman
David Bronicheski, Chief Financial Officer

Head Office

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

Registrar and Transfer Agent

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

Stock Exchange

The Toronto Stock Exchange: AQN, AQN.DB, AQN.DB.A, AQN.DB.B

Auditors

KPMG LLP
Toronto, Ontario

Legal Counsel

Blake, Cassels & Graydon LLP
Toronto, Ontario



ALGONQUIN
POWER & UTILITIES CORP.

www.algonquinpowerandutilities.com