

Quarterly Report

Northland Power Income Fund

Quarterly Report for the period ended June 30, 2006

FINANCIAL AND OPERATING RESULTS

*This report covers
Northland Power Income
Fund's (the "Fund's")
operations for the
quarter and
the 6 months ended
June 30, 2006*

	3 months ended June 30		6 months to June 30	
	2006	2005	2006	2005
FINANCIAL (thousands, except per unit amounts)				
Sales	\$40,600	\$27,943	\$76,392	\$59,818
Net Income	\$3,489	\$10,335	\$15,633	\$26,909
Funds from Operations				
Before Changes in Working Capital	\$17,302	\$12,273	\$33,609	\$33,172
Distributable Cash	\$17,701	\$12,452	\$35,023	\$33,860
Distributions Declared to Unitholders	\$16,286	\$12,244	\$30,391	\$24,351
Units Outstanding	62,053	48,075	62,053	48,075
Average Number of Units Outstanding - basic	61,935	47,989	56,373	47,963
Average Number of Units Outstanding - diluted	64,676	53,116	59,439	53,116
Per Unit				
Funds from Operations				
Before Changes in Working Capital	\$0.2794	\$0.2557	\$0.5962	\$0.6916
Distributable Cash	\$0.2858	\$0.2595	\$0.6213	\$0.7060
Distributions Declared to Unitholders	\$0.2625	\$0.2550	\$0.5250	\$0.5075
OPERATIONS				
Electricity Production (megawatthours)	319,282	232,338	591,228	504,842
Steam Production (thousands of pounds)	290,590	228,499	692,848	602,305
Fuel Consumption (thousands of gigajoules)	2,654	2,078	5,023	4,632



MANAGEMENT'S DISCUSSION & ANALYSIS

Overview

Consolidated sales of Northland Power Income Fund (the "Fund") of \$40.6 million in the second quarter were up \$12.7 million from the same period in 2005 due to higher electricity and natural gas sales. Sales at the Kingston facility were higher than last year due to higher prices received for steam and natural gas. Production of electricity at Iroquois Falls was reduced during lower-priced off-peak periods due to the decrease in contracted natural gas deliveries associated with the default in January 2006 by Calpine Canada Natural Gas Partnership ("Calpine") under a long-term gas supply contract. During the quarter, Mont Miller's production fell short of expectations due primarily to unusually low local wind speeds compared to prior years. Net income for the quarter at \$3.5 million was down from 2005 largely due to \$6.4 million of higher amortization charges associated with this year's acquisitions (which don't affect cash) and \$5.4 million of non-cash foreign exchange losses.

The Fund generated distributable cash of \$17.7 million during the quarter ended June 30, 2006, \$5.2 million higher than the prior year. Distributable cash exceeded distributions declared to Unitholders by \$1.4 million. Readers should refer to the schedule of Distributable Cash and Distributions to Unitholders for the calculation of distributable cash (a non-GAAP financial measure).

Distributions to Unitholders declared for the quarter totaled \$0.2625 per unit, 3% higher than 2005. Subsequent to quarter end, the Fund's Trustees approved an increase in the rate of distributions to \$0.09/unit per month effective August 31, 2006, which represents an increase of 3% and is equivalent to an annual rate of \$1.08 per unit.

On April 25, 2006 the "Fund" purchased two operating wind farms in Germany with a total capacity of 21.5 megawatts ("MW"). The investment was financed with cash on hand and the Fund's acquisition line of credit. The Kavelstorf and Eckolstädt wind farms (the "German wind farms") are projected to supply 33,800 megawatthours ("MWh") of electricity annually to regional power utilities and receive a fixed tariff for all energy delivered of Euro 9.1¢/kWh (approximately CAD 13¢/kWh) for a term of 20 years under the provisions of German renewable energy legislation. The German wind farms are expected to represent about 4% of the Fund's future distributable cash from its current portfolio and will further diversify the cash flow and asset base of the Fund.

During the quarter, a settlement was reached, subject to completion of final documentation, with one of the Iroquois Falls facility's natural gas suppliers concerning the delivery of gas under the backstop provision of a long-term supply contract. On May 10th, delivery of additional quantities of natural gas began under the backstop provision. The supplier has agreed to withdraw an unrelated claim for approximately \$7.6 million plus interest that was filed in 2004. As part of the settlement both parties have agreed to certain changes to the contractual backstop provisions. The backstop volume will assist the Fund in mitigating the reduction in contracted gas supply that occurred in January 2006 when Calpine defaulted under a long-term contract.

The financial results for 2006 include the financial contribution of 100% of the Kingston project from March 22, 2006, including the impact of the subsequent repayment of the levelization account and reduction in management fees, (compared to 50% in 2005); operation of the Mont Miller project for the entire period (compared to the 22 days from June 9 to June 30 in 2005); and results from the German wind farms effective from April 1, 2006. The one-time impact of the sale of the Panda-Rosemary project in the first quarter of 2005 is included in the results for the first six months of 2005.

Iroquois Falls Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2006	2005	2006	2005
Sales Volume				
Electricity (MWh)	151,732	157,557	314,621	363,796
Steam (000 lb.)	225,018	196,511	576,359	523,003
Fuel Consumption (000 GJs)	1,460	1,478	3,133	3,392
Sales				
Electricity	13,356	13,010	31,380	31,578
Steam	1,411	1,242	3,518	3,163
Natural gas	1,339	2,481	2,112	2,562
Emission allowances and credits	-	-	210	747
	16,106	16,733	37,220	38,050
Cost of sales				
Gas consumed	6,306	5,981	13,790	13,751
Gas re-sold	1,397	1,621	2,220	1,726
	7,703	7,602	16,010	15,477
Gross profit	8,403	9,131	21,210	22,573
Plant operating costs	1,535	1,500	3,058	3,059
Capital expenditures	13	10	20	31

For the three-month and six-month periods ended June 30, electricity production at Iroquois Falls was reduced during lower-priced off-peak periods (nights, weekends and statutory holidays) due to reduced availability of contracted natural gas associated with the supply default by Calpine in January 2006. A settlement was reached during the quarter, subject to completion of final documentation, concerning the supply of additional gas under the backstop provisions of another contract to partially replace the Calpine volume. Delivery of additional quantities of natural gas began on May 10th under those provisions.

Sales for the quarter at \$16.1 million were slightly lower than in the same period last year as a \$1.1 million reduction in natural gas sales was partially offset by increased electricity and steam sales.

Total electricity production was down by 5,800 MWh (4%) from the second quarter last year due largely to curtailment of lower-priced off-peak production. However, electricity revenue under the Iroquois Falls power purchase agreement (“PPA”) was up 6% compared to last year due to an increase in the selling price. Low wholesale-market electricity prices constrained sales of electricity outside the terms of the PPA.

Steam sales were \$0.2 million higher than last year largely due to an increase in demand, while sales of natural gas were down \$1.1 million due to reduced volumes and lower market prices. There were no sales of emission allowances and credits during the quarter; however, the Manager is pursuing additional sales for the remaining six months of the year.

The cost of sales was up slightly from last year as an increase in the cost of gas consumed was largely offset by a reduction in the cost of natural gas resold. The cost of natural gas consumed was up \$0.3 million as a 15% price increase resulting from the “re-opening” of the price under one gas supply contract that represents approximately 60% of the facility’s gas consumption was partially offset by lower transportation tariffs. The 4% reduction in electricity production resulted in only a 1% savings in the volume of gas consumed due to the higher volume of steam sales and reduced plant efficiency during the curtailment periods. The reduced contracted natural gas supply resulted in additional unused capacity under the plant’s TransCanada Pipeline contract, the cost of which was partially mitigated by purchasing gas at market prices in Alberta and reselling it delivered in eastern Canada. Plant operating costs of \$1.5 million were in line with last year.

Total sales for the first six months were down \$0.8 million from last year largely due to lower market prices for natural gas resales and electricity sales made outside the PPA and a decrease in revenue earned from the sales of emission allowances and credits. The cost of gas consumed was in line with last year because reduced transportation costs and lower gas volumes were offset by an increase in the average cost. The cost of gas resales was up due to purchases at

market prices (rather than lower, contracted prices, as in past periods) to mitigate fixed transportation costs. Year to date plant operating costs were consistent with the same period in 2005.

Kingston Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2006	2005	2006 ¹	2005
	100%	50%	100%/50%	50%
Sales Volume				
Electricity (MWh)	127,566	65,342	200,593	131,607
Steam (000 lb.)	65,572	31,988	116,489	79,302
Fuel consumption (000 GJs)	1,194	600	1,890	1,240
Sales				
Electricity	15,882	8,092	25,260	16,403
Steam	707	251	1,256	618
Natural gas	5,031	2,291	7,582	4,171
Emission allowances and credits	-	-	-	-
	21,620	10,634	34,098	21,192
Cost of sales				
Gas consumed	7,129	3,694	11,283	7,607
Gas re-sold	2,226	1,073	3,315	1,970
	9,355	4,767	14,598	9,577
Gross profit	12,265	5,867	19,500	11,615
Plant operating costs	1,393	724	2,421	1,572
Capital expenditures	-	1,073	-	1,164

- (1) On March 23, 2006, the Fund purchased the remaining 50% interest in Kingston CoGen Limited Partnership ("KCLP"). Accordingly, the Fund's financial results for 2006 consolidate 50% of the Kingston facility's operations up to March 22 and 100% for the remainder of the period, and also include the impact of the repayment of the KCLP levelization account and reduction in management fees. The comments below relate to the operations of the Kingston facility in total, without reference to the Fund's increased ownership interest.

For the second quarter of 2006, sales of electricity were down slightly commensurate with a lower level of production. Steam sales were affected by higher demand and an increase in the average selling price, while sales of natural gas were up from the second quarter of 2005 due to a higher average selling price. A portion of the 2006 gas resale margins was a result of KCLP locking into forward sales contracts in previous years at prices that exceed the current market.

The cost of sales was generally in line with last year as a higher variable cost of gas was offset by lower fixed transportation tariffs. Plant operating costs for the quarter and year to date were down slightly due to a reduction in insurance premiums.

For the six-month period ended June 30, electricity sales were in line with the same period last year while gas sales were up significantly due to a higher average selling price combined with slightly higher volumes. Steam sales were also up due to a higher selling price.

Mont Miller Wind Farm

<i>(in thousands of dollars except as indicated)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2006	2005	2006	2005
Sales Volume				
Electricity (MWh)	33,625	9,439	69,656	9,439
Sales				
Electricity	2,057	576	4,257	576
	2,057	576	4,257	576
Gross profit	2,057	576	4,257	576
Plant operating costs	449	103	964	103
Capital expenditures	-	8,355	-	19,465

The 2006 financial results include the impact of project operations for the full six-month period while 2005 results are for 22 days of operations (June 9 to June 30, 2005). This largely accounts for the year over year variances.

During the second quarter of 2006 the Mont Miller turbines continued to perform well, with overall reliability of 98%. One gearbox was replaced by Vestas during the quarter and a related equipment upgrade is planned for the third quarter. The wind resource was approximately 17% lower than long-term projections during the quarter.

For the first twelve full months of operations ended in June 2006, electricity production was 151,578 MWh compared to 195,900 MWh forecast in the original wind studies for the project, and 173,300 MWh forecast based on a "P90" scenario (i.e., expected to be exceeded on average over a 10-year period with a 90% probability). The wind resource, as measured during this 12-month period, fell well short of the wind measured on the site during the data-collection period prior to construction. The output of the wind farm is expected to meet projections under average long-term wind conditions.

German Wind Farms

<i>(in thousands of dollars except as indicated)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2006	2005	2006	2005
Sales Volume				
Electricity (MWh)	6,358	-	6,358	-
Sales				
Electricity	817	-	817	-
	817	-	817	-
Gross profit	817	-	817	-
Plant operating costs	256	-	256	-
Capital expenditures	-	-	-	-

During the quarter, the Fund acquired two operating wind farms in Germany with a total installed capacity of 21.5 MW. The acquisition was completed on April 25, 2006 with ownership effective April 1, 2006. The transaction involved the purchase of the entities that own the wind farms and related receivables for approximately \$3.9 million and a loan from the Fund to retire \$19.0 million of third-party debt, for an aggregate investment by the Fund of approximately \$23 million. As part of the transaction, the Manager earned a one-time fee of \$0.3 million which is included in the Fund's consolidated statement of income and deficit and will earn an annual management fee of Euro 75,000.

The 7.2 MW Kavelstorf wind farm comprises four Nordex N60 1.3 MW turbines and two Nordex N54 1.0 MW turbines. The Kavelstorf wind farm is located in northern Germany near Rostock and has been operational for five years. The 14.3 MW Eckolstädt wind farm includes eleven Bonus turbines rated at 1.3 MW each. The Eckolstädt

wind farm is located near Weimar in central Germany and has been operational for approximately six years. Management of daily operations of the wind farms are provided by enXco, a German entity with considerable wind power experience; oversight is provided by the Manager of the Fund. All electricity generated by the German wind farms is supplied to regional power utilities under the terms of German renewable energy legislation. Contracts are in place with affiliates of the turbine manufacturers to provide maintenance services.

The German wind farms met expectations during the second quarter of 2006. The farms achieved an overall reliability of 97%. The turbines generally performed well during the quarter: a generator failure at Kavelstorf has been repaired and there were no major downtime issues at Eckolstädt. Long-term turbine reliability is expected to exceed 97%.

During the quarter the farms achieved a capacity factor of 13%, as the wind resource met long-term projections. The capacity factors for the German wind farms are expected to be lower than Mont Miller as Germany, in general, has a lower wind regime (i.e. is less windy) than the Gaspésie region of Quebec. For this reason, contracted or legislated rates for wind power in Germany are generally significantly higher than rates available in North America.

The Fund entered into foreign exchange contracts with respect to the Fund's net investment in the German wind farms. As at June 30, 2006, the Fund had the following foreign exchange forward contracts in place to fix exchange rates for the following amounts:

- Forward contracts to sell €1 million semi-annually from October 2006 to April 2011 at \$1.4334: €1, and
- A forward contract to sell €10 million April 2011 at \$1.4536: €1

Of these contracts, \$15.7 million was designated as a hedge of the net investment for accounting purposes while the remaining \$4.3 million was not designated as part of a hedging relationship for accounting purposes. The fair value of these contracts as at June 30, 2006 was an unrealized loss of \$0.5 million. The change in fair value of these contracts during the three months ended June 30, 2006 was an unrealized loss of \$0.5 million, all of which has been included in cumulative translation adjustment on the consolidated balance sheet. The amount of the change in fair value related to the contracts that are not designated as a hedge was not significant.

Panda Energy Corporation (“PEC”)

<i>(in thousands of dollars)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2006	2005	2006	2005
Dividends	428	206	698	2,258
Interest income	2,584	2,620	5,127	7,105
Total investment income	3,012	2,826	5,825	9,363

The Fund's investment in PEC generated investment income of \$3.0 million this quarter through a combination of interest and dividend payments. Investment income was higher than the same period last year due to an increase in the dividend payment. On a year to date basis income is down because of the one-time equity distribution and premium received on the senior loan prepayment associated with the sale of the Panda-Rosemary plant in the first quarter of 2005.

Financial and operating results at the Panda-Brandywine plant for the quarter continue to be marginally lower than last year due to mild temperatures, which resulted in reduced dispatch levels. For the first six months of the year, the Panda-Brandywine plant has achieved contractual availability under its PPA of 99.8%.

Consolidated Results

The following is a discussion of the consolidated financial condition and results of operations of the Fund which should be read in conjunction with the unaudited interim consolidated financial statements for the period ended June 30, 2006 together with the Fund's 2005 annual report. The financial results for 2006 include the financial contribution of 100% of the Kingston project from March 22, 2006, including the impact of the subsequent repayment of the levelization account and reduction in management fees (compared to 50% in 2005); operation of the Mont Miller wind farm for the whole period (compared to the 22 days from June 9 to June 30 in 2005); and results from the German wind farms effective from April 1, 2006. The one-time impact of the sale of the Panda-Rosemary project in the first quarter of 2005 is included in the results for the first six months of 2005. Differences in financial results between 2006 and 2005 for the three- and six-month periods ended June 30 are largely accounted for by these events.

Second Quarter

Sales, cost of sales and plant operating costs were up in 2006 compared to 2005 primarily for the reasons cited above. Management and administration costs were up \$0.5 million due to a combination of additional expenses from the German wind farm acquisition, a higher level of legal and accounting costs and the \$0.3 million one-time fee to the Manager related to the German wind farm acquisition. Amortization was up \$6.4 million commensurate with additional charges from the acquisitions.

Investment income at \$3.0 million was up from 2005 due to a \$0.2 million increase in the dividend payment from PEC. Investment income to be received in 2006 and the first quarter of 2007 on the US dollar PEC investment and loan will be minimally affected by any changes in the value of the Canadian dollar as the Fund holds foreign exchange contracts and options. The accretion expense relates solely to the asset retirement obligations at the Fund's wind farms.

During the quarter, the Fund recorded a \$3.6 million non-cash foreign exchange loss on the translation of the PEC senior loan balance to the quarter-end U.S. dollar/Canadian dollar exchange rate.

Interest expense of \$3.6 million was \$1.3 million higher than last year. The increase was mainly due to the inclusion of an additional 50% of the Kingston facility debt, after taking account of the repayment of the levelization account, and the Mont Miller term loan, as construction of the Mont Miller wind farm had just been completed at this time last year.

The above factors (higher amortization charges associated with this year's acquisitions and non-cash foreign exchange losses related to the translation of the PEC senior loan balance), partially offset by a recovery for income taxes, resulted in net income for the 2nd quarter of 2006 of \$3.5 million being \$6.8 million lower than last year.

Year to Date

Sales, cost of sales and plant operating costs were up in 2006 compared to 2005 primarily for the reasons already stated.

Total expenses are up \$12.4 million due largely to amortization charges and operating costs related to the acquisitions made by the Fund in the first six months of 2006. Management and administration costs are up commensurate with the one-time payments of \$2.0 million and \$0.3 million to the Manager related to the Kingston and German acquisitions, respectively. Investment income at \$5.8 million is down from 2005 by \$3.5 million due to the sale of the Panda-Rosemary plant in early 2005. The Fund recorded a \$3.4 million non-cash foreign exchange loss on the restatement of the PEC senior loan balance to the quarter-end U.S. dollar/Canadian dollar exchange rate due to a strengthening in the Canadian dollar. Amortization of deferred charges is \$0.6 million lower than 2005 due to the recognition of deferred transaction costs on the PEC senior loan last year, as a result of the principal prepayment on February 8, 2005.

Interest expense is \$2.2 million higher than last year for the same reasons stated for the second quarter.

The \$1.5 million of future tax recoveries recorded is mainly the recognition of tax loss carryforwards at the Fund's Iroquois Falls subsidiary.

Liquidity and Capital Resources

Since December 31, 2005, cash and cash equivalents at \$23.5 million have increased by \$9.0 million due to a combination of \$85.7 million provided by financing activities and \$44.3 million generated by operations, partially offset by \$121.0 million in cash used for investing activities.

Cash provided by operating activities at \$44.3 million was \$8.0 million higher than the same six-month period of 2005 primarily due to a \$7.5 million decrease in non-cash working capital related chiefly to the timing of receipts for electricity sales to OEFC. Funds from operations before working capital changes (a non-GAAP financial measure) was largely in line with last year as the one-time impact of the sale of the Panda-Rosemary project in the first quarter of 2005 was equivalent to the additional cash contribution from the Kingston facility and the Mont Miller and German wind farms in 2006.

Cash used for investing activities was up \$127.8 million compared to the first half of 2005, primarily due to the \$117.8 million net investment to acquire the remaining 50% of the Kingston facility on March 23rd and the \$3.9 million net investment in the German wind farms on April 25th. Investing activities in 2005 were largely affected by the US\$18.9

million prepayment of the senior loan and the associated wind-up and restructuring fees resulting from the Panda-Rosemary sale, as well as the continued construction costs and cash reserve funding related to the Mont Miller wind farm.

Financing activities provided \$85.7 million and included \$165.8 million of net proceeds from the subscription receipt offering on March 23rd and the \$5.0 million borrowing on the Fund's acquisition line of credit offset primarily by the retirement of \$19.0 million of third-party debt associated with the German wind farms and repayment of the \$33.5 million KCLP levelization account debt to OEFC. In 2005, the proceeds from the senior loan prepayment resulting from the Panda-Rosemary sale and the Mont Miller construction and term loan were used to repay a portion of the outstanding balance on the acquisition line of credit and to purchase Mont Miller property, plant and equipment, respectively. Distributions to Unitholders at \$30.6 million were up from last year, due to an increase in the rate of monthly distributions per unit, the issuance of 11,560,000 trust units on March 23, 2006 and the issuance of 1,062,160 trust units in settlement of the conversion of \$13.3 million of convertible unsecured subordinated debentures (for the quarter, \$6.3 million of convertible unsecured subordinated debentures were converted into 501,200 trust units).

The Fund's assets and liabilities have increased since December 31, 2005, as a result of the Fund acquiring the remaining 50% ownership interest in KCLP on March 23, 2006, including the associated KCLP liabilities, and the investment in the German wind farms. Readers should refer to notes 2 and 3 to the unaudited consolidated financial statements for further details on the fair market value of assets and liabilities acquired during 2006.

During the quarter, cash and cash equivalents decreased by \$16.4 million due mainly to the Fund's investment in the German wind farms and the subsequent repayment of all third-party debt acquired, which were funded from cash and a \$5.0 million draw-down from the Fund's acquisition line of credit.

Debt Covenants

The Fund conducts its businesses indirectly through separate legal entities (subsidiaries and affiliates), and is dependent on receipt of cash from those entities to defray its corporate expenses and make distributions to Unitholders. Certain of those entities have outstanding debt which was incurred to help fund the entities' original investments. Under the credit agreements for such debt, it is conventional for distributions of cash to be prohibited if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark "debt service coverage ratio", which is the ratio of earnings before interest, taxes, depreciation and amortization ("EBITDA") for a specified time period to the scheduled loan principal and interest payments for the same time period.

The credit agreement governing the term debt of KCLP, which owns the Kingston facility, requires that a debt service coverage ratio of 1.15 be achieved on a historical rolling 12-month average preceding each semi-annual distribution date. Failure to achieve that benchmark requires the retention of any excess cash by KCLP until the next distribution date when the benchmark is achieved. Historically KCLP has generally achieved a ratio in excess of 2.20. As at the latest calculation date on March 31, 2006 the ratio was 2.29.

The credit agreement for Mount Miller Wind Energy Limited Partnership ("Miller LP"), which owns the Mont Miller wind farm, requires that a debt service coverage ratio of 1.20 be achieved on a rolling 12-month basis before payment of any quarterly distributions, calculated on a historical and projected basis. If the ratio is between 1.20 and 1.50 then cash must be retained by Miller LP equal to a maximum of 9 months of scheduled principal and interest payments in order to fund a debt service reserve account. Miller LP achieved a debt service coverage ratio of 2.31 for the 12 months ended June 30, 2006.

The payments by Panda Interfunding Corporation ("PIC") on the Fund's senior loan, and the payment of dividends by PEC are dependent on distributions by Panda-Brandywine LP, which owns the Panda-Brandywine project. Panda-Brandywine LP is required to achieve a debt service coverage of 1.20 on a historical average quarterly basis at the time it makes its quarterly distributions. The manager of Panda-Brandywine LP has advised the Fund that historically, the ratio has averaged approximately 1.60 and has never been below 1.40. Panda-Brandywine LP achieved a debt service coverage ratio of 1.79 for the period ended April 30, 2006. Panda-Brandywine LP maintains a debt service reserve account balance equivalent to the next 2 scheduled quarterly capital lease payments.

Distributions to Unitholders and Distributable Cash

The following calculation of distributable cash is based on the consolidated financial statements of the Fund:

<i>(unaudited, stated in thousands except per unit amounts)</i>	3 Months ended June 30		6 Months ended June 30	
	2006	2005	2006	2005
Cash provided by operating activities	\$ 18,074	\$ 11,835	44,312	36,338
Net change in non-cash working capital balances	(772)	438	(10,703)	(3,166)
Funds from operations before working capital changes ⁽¹⁾	\$ 17,302	\$ 12,273	33,609	33,172
Capital expenditures	(13)	(9,437)	(20)	(20,659)
Add back: expansionary capital expenditures	-	8,355	-	19,465
Receipts of principal on senior loan, excluding prepayment	750	415	1,400	818
Senior loan prepayment fees	-	-	-	1,890
Acquisition fees paid to Manager ⁽²⁾	345	-	2,385	-
KCLP cash reserve drawdown (funding)	(657)	701	(659)	447
KCLP repayment of debt, net ⁽³⁾	-	168	(1,641)	(1,228)
Funds set aside for future maintenance	(26)	(23)	(51)	(45)
Distributable cash ⁽¹⁾	\$ 17,701	\$ 12,452	35,023	33,860
Distributions declared to Unitholders	\$ 16,286	\$ 12,244	30,391	24,351
Average number of trust units - basic (thousands of units)	61,935	47,989	56,373	47,963
Per unit (\$/unit)				
Funds from operations before working capital changes ⁽¹⁾	\$ 0.2794	\$ 0.2557	0.5962	0.6916
Distributable cash ⁽¹⁾	\$ 0.2858	\$ 0.2595	0.6213	0.7060
Distributions declared to Unitholders	\$ 0.2625	\$ 0.2550	0.5250	0.5075

(1) Please refer to the disclosure statement regarding non-GAAP financial measures.

(2) Fees to the Manager in connection with the acquisition of 50% of KCLP on March 23, 2006 and the German wind farms on April 25, 2006.

(3) Excludes \$33.5 million lump-sum repayment of KCLP's levelization account with OEFC on March 22, 2006.

Funds from operations before working capital changes of \$17.3 million in the 2nd quarter of 2006 exceeded the 2005 level by \$5.0 million, and by \$0.4 million for the six-month period. The primary reasons for this have been stated earlier: the financial contribution of 100% of the Kingston project from March 22, 2006, taking account of the repayment of the levelization account and reduction in management fees on that date (compared to 50% in 2005); operation of the Mont Miller wind farm for the whole period in 2006 (compared to the 22 days from June 9 to June 30 in 2005); and results from the German wind farms effective from April 1, 2006. The one-time impact of the sale of the Panda-Rosemary project was included in the results for the first six months of 2005. The calculation of distributable cash included the add-back of one-time fees paid to the Fund's Manager related to acquisitions that were included in operating activities for accounting purposes but were properly viewed as part of the Fund's investing activities. Distributable cash at \$17.7 million exceeded the 2005 level for the 3 months ended June 30 by \$5.2 million and was \$1.4 million higher than the distributions declared to Unitholders.

For the six months ended June 30, 2006, distributable cash exceeded distributions declared by \$4.6 million.

Non-GAAP Financial Measures

Included in this Management's Discussion & Analysis are references to the Fund's distributable cash and funds from operations before working capital changes, which are not measures under Canadian generally accepted accounting principles ("GAAP") and there is no standardized measure of distributable cash and funds from operations before working capital changes. Distributable cash and funds from operations before working capital changes, as presented, may not be comparable to similar measures presented by other income funds. Management believes that these measures are widely accepted financial indicators used by investors to assess the performance of an income trust and its ability to generate cash through operations.

Historical Consolidated Quarterly Results

<i>\$ millions, except</i>	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>Per unit information</i>	2006	2006	2005	2005	2005	2005	2004	2004
Total sales	40.6	35.8	36.7	31.7	27.9	31.9	25.2	20.9
Net income	3.5	12.1	12.2	5.2	10.3	16.6	5.4	1.0
Distributable cash	17.7	17.3	18.2	13.9	12.5	21.4	16.9	10.2
Distributions	16.3	14.1	14.2	12.6	12.2	12.1	12.3	11.9
<i>Per unit statistics</i>								
Net income - basic	0.056	0.239	0.247	0.107	0.216	0.346	0.112	0.021
Net income - diluted	0.056	0.237	0.243	0.107	0.195	0.313	0.102	0.021
Distributable cash	0.286	0.341	0.369	0.285	0.259	0.447	0.353	0.212
Distributions	0.263	0.263	0.288	0.255	0.255	0.253	0.257	0.248

A significant portion of the Fund's sales and net income is generated by the Iroquois Falls facility. Iroquois Falls' sales are seasonal, as OEFC has contracted for more electricity (and pays a higher price) in winter than in summer. In addition, steam sales to Abitibi tend to be higher in winter than summer. Financial results from the Fund's wind farms are expected to follow a similar seasonal pattern as Iroquois Falls, as it tends to be windier in the winter months compared to the summer months. Seasonality has been dampened somewhat as the financial results for the Kingston facility, in which the Fund invested on December 31, 2002, December 15, 2004 and March 23, 2006, are less seasonal than Iroquois Falls.

Beginning with the first quarter of 2004, net income included interest earned on the senior loan receivable from a PEC subsidiary, dividends received from the Fund's 19% equity interest in PEC (neither of which varies materially by season), and any non-cash foreign exchange adjustments required to translate the US dollar denominated balance of the senior loan to the appropriate quarter-end Canadian dollar equivalent.

As a result of the above factors, the Fund's distributable cash per unit is normally highest in the first and fourth quarters and lowest during the second and third quarters.

Issuance of Securities

During the first quarter of 2006, the Fund successfully raised additional capital through the sale of its securities on March 23, 2006. A summary of the securities issue follows:

<i>(in thousands of dollars)</i>	<i>Expected ⁽¹⁾</i>	<i>Actual</i>
March 2006 offering ⁽²⁾		
Proceeds - net of costs	\$ 166,077	\$ 165,825
Acquisition of KCLP	(126,676)	(127,948)
Retirement of debt owed to OEFC	(33,199)	(33,458)
Costs of transaction	(2,520)	(2,520)
	\$ 3,682	\$ 1,899

(1) Per the prospectus dated March 16, 2006.

(2) On March 23, 2006, the Fund issued 11,560,000 subscription receipts at \$15.15 per subscription receipt to raise proceeds of \$165.8 million, net of costs. On the same date, the subscription receipts were converted to units; the proceeds from the issue were used by the Fund primarily toward the acquisition of the remaining 50% interest in KCLP and the retirement of KCLP's outstanding levelization account loan balance with OEFC. Proceeds from the offering, net of underwriters' fees and costs were approximately \$0.3 million less than expected as a result of higher than predicted legal and accounting costs incurred by the Fund in association with the offering. The KCLP acquisition cost was approximately \$1.3 million higher than expected due to final adjustments related to the net working capital acquired by the Fund.

Trust Unit and Convertible Unsecured Subordinated Debenture Information

As at June 30, 2006, the Fund had 62,053,463 trust units outstanding (December 31, 2005 – 49,431,303). During the quarter, a total of \$6.3 million of convertible unsecured subordinated debentures were converted into 501,200 trust units. As at August 8, 2006, a total of 62,102,503 units were outstanding.

Critical Accounting Estimates

All of the Fund's significant accounting estimates remain unchanged from December 31, 2005, except that estimates were made with respect to the fair market value of the assets and liabilities acquired in KCLP on March 23, 2006 and the two German wind farms on April 25, 2006. An external valuation expert was hired by the Manager to assist with the estimation of the fair market value of the KCLP assets acquired. The allocation of the purchase price for both acquisitions may change upon final determination of the fair value of assets acquired and liabilities assumed and of the tax characteristics of certain of the acquired assets.

Commitments and Contractual Obligations

All of the Fund's obligations remain unchanged from December 31, 2005, except that: (a) 100% of KCLP's obligations are now included, incorporating the reduced management fee structure resulting from the ownership of 100% of KCLP as of March 23, 2006, and KCLP's levelization account liability to OEFC that was cancelled with its repayment on March 31, 2006; and (b) the acquisition of the two German wind farms resulted in the Fund acquiring additional commitments and contractual obligations. The following table summarizes the outstanding contractual obligations of KCLP and the German wind farms for the remaining six months of 2006 and annually thereafter.

<i>(In thousands of dollars)</i>	2006	2007	2008	2009	2010	Thereafter
GE maintenance agreement (Kingston)	133	276	363	3,177	821	10,021
Natural gas transportation, fixed portion	7,735	15,779	16,095	16,417	16,745	109,345
Management fees	569	1,160	1,183	1,207	1,182	6,548
KCLP debt	8,226	16,472	16,359	16,070	16,633	71,257
	16,663	33,687	34,000	36,871	35,381	197,171

Risks and Uncertainties

Management believes that there have been no significant changes in risks and uncertainties that could affect the Fund's activities or results since the end of 2005, other than the Fund now receives cash flows in Euro's as a result of its investment in the German wind farms on April 25, 2006. Exchange rate fluctuations between the Euro and the Canadian dollar may affect the cash flow of the Fund. The Fund has entered into foreign exchange forward contracts in respect of its net investment and a substantial portion of the interest and principal payments to be received from its German subsidiaries to 2011.

For information concerning the Fund's risks and uncertainties, please refer to the Fund's most recent annual report, its Annual Information Form, dated March 7, 2006 and its most recent prospectus, dated March 16, 2006, all of which are filed electronically at www.sedar.com.

Management's Responsibility for Financial Information

A rigorous and comprehensive financial governance framework is in place at the Fund and its subsidiaries, and at the Manager. Each year, the Fund's Annual Report contains a statement signed by the Manager's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. The Fund filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators in March 2006 when the Annual Report and other annual disclosure documents were filed. In those filings, the Manager's CEO and CFO certified, as required in Canada by Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in the Fund's annual filings and the effectiveness of the Fund's disclosure controls and procedures. The Manager's CEO and CFO certified the appropriateness of the financial disclosures in the Fund's interim filings with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the period ended June 30, 2006, and that they have caused disclosure controls and procedures to be designed to provide reasonable assurance that material information related to the Fund is made known to management, particularly during the period in which the interim filings are being prepared.

As in prior quarters, NPIF Commercial Trust's audit committee reviewed this MD&A, and the attached unaudited interim consolidated financial statements, and its Board of Trustees approved these documents prior to their release.

Emerging Accounting Pronouncements

Canadian Accounting Standards Board's Strategic Plan

On January 10, 2006, the Canadian Accounting Standards Board (AcSB) ratified a new strategic plan that will significantly affect the way financial reporting will be carried out in Canada. The plan entails converging Canadian generally accepted accounting principles with International Financial Reporting Standards over an expected five-year transitional period. The AcSB will develop and publish a detailed implementation plan for achieving convergence later in 2006. At the end of that period, Canadian GAAP will cease to exist as a separate, distinct basis for financial reporting for public companies.

Financial Instruments

During 2005, the AcSB completed its project on the recognition and measurement of financial instruments by issuing new recommendations dealing with financial instruments and hedging and by introducing the concept of other comprehensive income. Under the new accounting standards, which come into effect in 2007, all financial instruments, including derivatives, must be included on a company's balance sheet and measured at fair value or, in limited circumstances when fair value may not be the most relevant basis, at cost or amortized cost. The standards also specify when gains and losses resulting from changes in fair value are to be recognized in the statement of income and deficit. Existing requirements for hedge accounting are to be extended and clarified. In addition, certain gains and losses will be reported as other comprehensive income.

Outlook

The Fund's overall financial performance for the remainder of 2006 is expected to exceed that of 2005, as a result of the increased investment in the Kingston facility in March 2006 and repayment of the Kingston facility levelization account, the contribution from the Mont Miller and German wind farms, increased contracted electricity rates at Iroquois Falls due to the three-year averaging mechanism in its power purchase agreement, and higher natural gas resale margins at Kingston as a result of the forward sales contracts KCLP entered into in previous years.

Subsequent to quarter end, the Fund's Trustees approved an increase in the rate of distributions to \$0.09/unit per month effective August 31, 2006, which represents an increase of 3% and is equivalent to an annual rate of \$1.08 per unit.

On behalf of Northland Power Income Fund Management Inc.

"John W. Brace"

John W. Brace
President
Aug. 9, 2006

FORWARD LOOKING STATEMENTS

The above disclosure contains certain forward-looking statements. Although these forward-looking statements are based upon Northland Power Income Fund's Manager's current reasonable expectations and assumptions, they are subject to numerous risks and uncertainties including those set out in the management's discussion and analysis section of the Fund's 2005 annual report and in the Fund's Annual Information Form dated March 7, 2006, certain of which are beyond the Manager's control. For this purpose, any statements that are contained herein that are not statements of historical fact may be forward-looking statements. The Fund's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or what benefits, including the amount of distributions, the Fund and Unitholders will derive therefrom.

CERTIFICATION OF INTERIM FILINGS

I, John W. Brace, President of Northland Power Income Fund Management Inc., the Manager of Northland Power Income Fund, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Companies' Annual and Interim Filings) of Northland Power Income Fund (the "issuer") for the interim period ended June 30, 2006;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures for the issuer, and we have designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared.

Aug. 9, 2006

"John W. Brace"

John W. Brace
President
Northland Power Income Fund
Management Inc.

CERTIFICATION OF INTERIM FILINGS

I, Anthony F. Anderson, Chief Financial Officer of Northland Power Income Fund Management Inc., the Manager of Northland Power Income Fund, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Companies' Annual and Interim Filings) of Northland Power Income Fund (the "issuer") for the interim period ended June 30, 2006;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures for the issuer, and we have designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared.

Aug. 9, 2006

"Anthony F. Anderson"

Anthony F. Anderson
Chief Financial Officer
Northland Power Income Fund
Management Inc.

NORTHLAND POWER INCOME FUND

Consolidated Balance Sheets
(unaudited, stated in thousands)

ASSETS

	Jun. 30, 2006	Dec. 31, 2005
Current		
Cash and cash equivalents	\$ 23,500	\$ 14,482
Cash reserves	1,488	413
Accounts and other receivables	13,996	23,090
Inventories	9,324	5,760
Prepaid expenses	2,269	1,854
Current portion of senior loan receivable	2,759	2,797
Total current assets	53,336	48,396
Deferred charges	5,094	5,420
Property, plant and equipment, net	597,386	404,233
Investment in Panda Energy Corporation	7,946	7,946
Senior loan receivable	76,718	81,454
Future income tax asset	2,575	1,401
	\$ 743,055	\$ 548,850

LIABILITIES AND UNITHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 8,363	\$ 8,239
Current portion of KCLP debt	7,430	4,488
Current portion of Mont Miller term loan	880	808
Distribution payable to Unitholders	5,430	5,685
Total current liabilities	22,103	19,220
KCLP debt	89,327	62,260
Bank credit facility	5,000	-
Other long term liabilities [Note 5]	9,438	331
Asset retirement obligation [Note 4]	2,841	2,687
Mont Miller term loan	38,716	39,192
Convertible debentures [Note 6]	32,781	46,058
	200,206	169,748
Trust Units [Note 6]	666,685	487,583
Cumulative translation adjustments	(597)	-
Deficit	(123,239)	(108,481)
Total Unitholders' equity	542,849	379,102
	\$ 743,055	\$ 548,850

NORTHLAND POWER INCOME FUND
Consolidated Statements of Income and Deficit
(unaudited, stated in thousands except per unit amounts)

	<i>3 Months Ended June 30</i>		<i>6 Months Ended June 30</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Sales				
Electricity	\$ 32,112	\$ 21,678	\$ 61,714	\$ 48,557
Steam	2,119	1,493	4,775	3,781
Natural gas	6,369	4,772	9,693	6,733
Emission allowances	-	-	210	747
Total sales	40,600	27,943	76,392	59,818
Cost of sales	17,058	12,369	30,608	25,054
Gross profit	23,542	15,574	45,784	34,764
Expenses				
Plant operating costs	3,633	2,327	6,699	4,734
Amortization	10,618	4,267	15,611	8,188
Management and administration costs	2,111	1,607	5,162	2,207
Accretion expense [Note 4]	45	-	86	-
	16,407	8,201	27,558	15,129
Investment income	3,012	2,826	5,825	9,363
Income from operations	10,147	10,199	24,051	28,998
Foreign exchange	3,726	(1,624)	3,273	(2,217)
Amortization of deferred charges	163	141	326	963
Interest income	(222)	(136)	(444)	(251)
Interest expense and bank fees	3,619	2,326	6,497	4,258
Income before income taxes	2,861	9,492	14,399	26,245
Provision for (recovery of) income taxes				
Current	224	3	234	7
Future	(852)	(846)	(1,468)	(671)
	(628)	(843)	(1,234)	(664)
Net income for the period	\$ 3,489	\$ 10,335	\$ 15,633	\$ 26,909
Deficit, beginning of period	(110,442)	(97,234)	(108,481)	(101,701)
Distributions declared to Unitholders	(16,286)	(12,244)	(30,391)	(24,351)
Deficit, end of period	\$ (123,239)	\$ (99,143)	\$ (123,239)	\$ (99,143)
Average number of units outstanding - basic	<i>61,935</i>	<i>47,989</i>	<i>56,373</i>	<i>47,963</i>
Average number of units outstanding - diluted	<i>64,676</i>	<i>53,116</i>	<i>59,439</i>	<i>53,116</i>
Net income per trust unit- basic	\$ 0.0563	\$ 0.2154	\$ 0.2773	\$ 0.5610
Net income per trust unit - diluted	\$ 0.0563	\$ 0.1953	\$ 0.2773	\$ 0.5082

NORTHLAND POWER INCOME FUND

Consolidated Statements of Cash Flows

(unaudited, stated in thousands except per unit amounts)

	<i>3 Months Ended June 30</i>		<i>6 Months Ended June 30</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Operating activities				
Net income for the period	\$ 3,489	\$ 10,335	\$ 15,633	\$ 26,909
Items not involving cash:				
Amortization	10,618	4,267	15,611	8,188
Amortization of deferred charges	163	141	326	963
Foreign exchange	3,726	(1,624)	3,273	(2,217)
Accretion expense [Note 4]	45	-	86	-
Other long term liabilities [Note 5]	113	-	148	-
Future income taxes	(852)	(846)	(1,468)	(671)
	17,302	12,273	33,609	33,172
Net change in non-cash working capital balances related to operations	772	(438)	10,703	3,166
Cash provided by operating activities	18,074	11,835	44,312	36,338
Investing activities				
Cash reserves drawdown (funding)	(657)	5,798	(659)	(11,061)
Investment in KCLP [Note 3]	-	-	(117,798)	-
Receipts of principal on senior loan	750	415	1,400	24,346
Net change in non-cash working capital balances related to Mont Miller	-	2,802	-	12,478
Deferred charges	-	(103)	-	1,736
Investment in German wind farms [Note 2]	(25)	-	(25)	-
Purchase German receivables from vendors [Note 2]	(3,879)	-	(3,879)	-
Purchase of property, plant and equipment	(13)	(9,437)	(20)	(20,659)
Cash (used in) provided by investing activities	(3,824)	(525)	(120,981)	6,840
Financing activities				
Proceeds from (repayment of) Mont Miller term loan	(202)	-	(404)	17,000
Prospectus receipts, net [Note 6]	(252)	-	165,825	-
KCLP repayments of debt, net	-	168	(35,099)	(1,228)
Repayment of German debt [Note 2]	(18,965)	-	(18,965)	-
Credit facility increase (decrease)	5,000	(8,800)	5,000	(37,300)
Distributions to Unitholders	(16,242)	(12,234)	(30,646)	(24,697)
Cash (used in) provided by financing activities	(30,661)	(20,866)	85,711	(46,225)
Effect of exchange rate differences on cash and cash equivalents	(24)	-	(24)	-
Net change in cash and cash equivalents	(16,435)	(9,556)	9,018	(3,047)
Cash and cash equivalents, beginning of the period	39,935	25,126	14,482	18,617
Cash and cash equivalents, end of period	\$ 23,500	\$ 15,570	\$ 23,500	\$ 15,570
PER UNIT				
Distributions declared to Unitholders	\$ 0.2625	\$ 0.2550	\$ 0.5250	\$ 0.5080

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(all figures in notes are stated in thousands of dollars, except as indicated)

1. Accounting Policies

These consolidated financial statements include the accounts of the Fund and all its subsidiaries. The Fund's consolidated financial statements include 50% of Kingston CoGen Limited Partnership's ("KCLP") results up to March 22, 2006 and 100% thereafter. All inter-company transactions have been eliminated.

The Fund's investment in Panda Energy Corporation ("PEC") is accounted for under the cost method.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to interim financial reporting. These unaudited interim consolidated financial statements follow the same accounting principles and methods of application as the annual consolidated financial statements as at December 31, 2005. The interim consolidated financial statements should be read in conjunction with the Fund's annual consolidated financial statements included in the 2005 annual report.

During the quarter, the Fund acquired an interest in two German wind farms (see note 2) which are accounted for as self-sustaining operations for the purposes of foreign currency translation. As a result, the following are significant accounting policies related to foreign currency translation that are in addition to the accounting policies outlined in the Fund's annual consolidated financial statements as at and for the year ended December 31, 2005:

Foreign Currency Translation

Self-sustaining foreign operations

The Fund's foreign operations are classified as self-sustaining operations and are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at exchange rates in effect at the balance sheet date and revenue and expenses are translated at the average exchange rates for the period. Exchange gains or losses arising from the translation are included in the cumulative translation adjustment account which is a separate component of unitholders' equity. An appropriate portion of the exchange gains and losses accumulated in the cumulative translation adjustment account will be included in the determination of income when there is a reduction in the net investment by way of a reduction in equity or through the settlement of a long-term inter-entity balance that has been considered part of the Fund's net investment.

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the dates of the respective transactions and reflect the impact of derivative financial instruments entered into by the Fund as hedges of the underlying transactions. Translation gains or losses related to long-term inter-entity account balances that form part of the net investment in foreign operations and foreign currency forward contracts that have been designated as a hedge of the net investment in self-sustaining foreign operations are included in the cumulative translation adjustment account, a separate component of unitholders' equity.

2. German Wind Farms

On April 25, 2006, the Fund completed the acquisition of two operating wind farms in Germany with a total capacity of 21.5 megawatts ("MW") for \$0.2 million, including transaction costs. The 7.2 MW Kavelstorf wind farm is located in northern Germany near Rostock and has 6 Nordex wind turbines. The 14.3 MW Eckolstädt farm has 11 wind turbines supplied by Bonus (a member of the Siemens group) and is located near

Weimar in central Germany. The consideration paid by the Fund has been allocated on a preliminary basis to net assets acquired as follows:

Working capital	190
Property, plant and equipment	20,248
Contracts	2,690
Future taxes	(294)
Debt	(18,978)
Other long-term liabilities	(3,688)
<hr/>	
Total purchase price	168
Less: cash acquired	(143)
<hr/>	
Total cash purchase price	25

On the same date, a subsidiary of the Fund purchased receivables owing to the vendors for \$3.9 million. These receivables are included in working capital and other long-term liabilities listed above. Subsequent to the acquisition, the Fund advanced a Euro 14 million loan to an European subsidiary, which was used to repay all third-party debt owed by the German wind facilities in the amount of \$19.0 million.

The acquisition of the two German wind farms and the receivables owing to the vendors, along with repayment of the third-party debt was funded by internal cash and \$5 million of the Fund's acquisition line. As part of the transaction, the Manager earned a one-time fee of \$0.3 million which is included in the Fund's consolidated statement of income and deficit and will earn an annual management fee of Euro 75,000.

The purchase price allocation may change upon the final determination of the fair value of assets acquired and liabilities assumed.

The Fund entered into foreign exchange contracts with respect to the Fund's net investment in the German wind farms. As at June 30, 2006, the Fund had the following foreign exchange forward contracts in place to establish rates of exchange for the following amounts:

- Forward contracts to sell €1 million semi-annually from October 2006 to April 2011 at \$1.4334 : €1, and
- A forward contract to sell € 10 million April 2011 at \$1.4536 : €1.

Of these contracts, \$15.7 million was designated as a hedge of the net investment for accounting purposes while the remaining \$4.3 million was not designated as part of a hedging relationship for accounting purposes. The fair value of these contracts as at June 30, 2006 was an unrealized loss of \$0.5 million. The change in fair value of these contracts during the three months ended June 30, 2006 was an unrealized loss of \$0.5 million, all of which has been included in cumulative translation adjustment on the consolidated balance sheet. The amount of the change in fair value related to the contracts that are not designated as a hedge was not significant.

3. **Kingston CoGen Limited Partnership**

On March 23, 2006, the Fund acquired the remaining 50% interest in KCLP for \$127.9 million plus \$0.5 million in transaction costs. The acquisition of KCLP has been accounted for using the step-by-step purchase method. On March 23, 2006, the Fund issued 11,560,000 subscription receipts at \$15.15 each for net proceeds of \$165.8 million primarily to fund the acquisition. The consideration paid by the Fund has been

allocated on a preliminary basis to net assets acquired as follows:

Working capital	16,580
Property, plant and equipment	52,422
Contracts	133,493
Debt	(65,108)
Other long-term liabilities	(8,959)
Total purchase price	128,428
Less: cash acquired in KCLP	(10,630)
Total cash purchase price	117,798

Other long-term liabilities consist of \$0.4 million of unearned discounts and deferred credits related to the long-term contractual services agreement KCLP has with General Electric for its gas turbine and \$8.6 million related to 50% of the fair market value of the interest rate swaps KCLP entered into with two commercial banks that effectively fix the interest rate of the KCLP credit facility over the life of the power purchase agreement. The fair market value of the interest rate swaps are being amortized into income over the term of KCLP's credit facility.

As part of the transaction, the Manager earned a one-time fee of \$2.0 million which is included in the Fund's consolidated statement of income and deficit and will earn an incremental management fee of \$0.3 million per annum. As a result of changes to the management fee structure, KCLP would have had a net savings in fees of approximately \$1.7 million in 2005 had the transaction occurred at the beginning of 2005. The Manager of the Fund expects these savings to increase over time.

Subsequent to the acquisition of the remaining 50% of KCLP, the \$33.5 million that KCLP owed to Ontario Electricity Financial Corporation ("OEF") through its levelization account was repaid.

The purchase price allocation may change upon final determination of the fair value of assets acquired and liabilities assumed and of the tax characteristics of certain of the acquired assets.

4. Asset Retirement Obligations

The Fund's Mont Miller facility was constructed on land leased from the Government of Quebec for a 25-year period with an option to extend the leases for an additional 15 years. Upon the expiration of the leases, the leased land must be returned to its original condition and all turbines dismantled. The majority of the costs are expected to be incurred in approximately 40 years once the original leases and 15-year extensions have expired.

The Fund's German wind farms are constructed on lands under leases which expire in 2030. The Manager of the wind farms estimates that the net asset retirement obligation for the two German wind farms will be approximately \$0.2 million at the expiration of the power purchase agreements with the German government.

The Fund has estimated the fair value of its total asset retirement obligations for all of its wind farms to be \$2.8 million, based on a total future liability of \$28.6 million. The Fund's credit adjusted discount rate of 6.15% and an inflation rate of 2.50% were used to calculate the fair value of the asset retirement obligations. These asset retirement obligations relate solely to the Fund's wind facilities, as the Fund expects to use its other installed assets for an indefinite period. Revisions to the Fund's asset retirement obligations will be made if new information is received.

The following table reconciles the Fund's total asset retirement obligations activity for the six-month period ended June 30, 2006:

<i>(stated in thousands of dollars)</i>	Amount
Balance at December 31, 2005	2,687
Increase related to German wind facilities	68
Accretion expense	86
Balance at June 30, 2006	2,841

5. Other Long-term Liabilities

Other long-term liabilities consist of the following:

<i>(stated in thousands of dollars)</i>	As at June 30, 2006	As at Dec. 31, 2005
KCLP obligations related to GE agreement	955	331
Fair market value of KCLP interest rate swaps	8,483	-
	<u>9,438</u>	<u>331</u>

6. Trust Units and Convertible Unsecured Subordinated Debentures

On March 23, 2006, the Fund issued 11,560,000 subscription receipts, at \$15.15 per subscription receipt to raise gross proceeds of \$175.1 million, net of the underwriters' fee and costs of \$9.3 million. In accordance with the Subscription Receipt Agreement pursuant to which the subscription receipts were issued, the gross proceeds from the offering were deposited with a subscription receipt agent to be held in escrow. On the same date the conditions to the release of the escrowed funds were satisfied and, accordingly, trust units of the Fund were issued to the holders of the subscription receipt on a one-for-one basis. The proceeds from the issue were used by the Fund primarily towards the investment in KCLP (see note 3).

Since December 31, 2005, a total of \$13.3 million of convertible unsecured debentures have been converted into 1,062,160 trust units. The change in trust units during the six months ended June 30, 2006 is as follows:

<i>(stated in thousands of dollars, except for units)</i>	Number of Units	Amount
Outstanding as of December 31, 2005	49,431,303	487,583
Q1 conversion of unsecured subordinated debentures	560,960	7,012
March 23, 2006 issue, net of underwriter's fee	11,560,000	166,377
Cost of issue		(552)
Q2 conversion of unsecured subordinated debentures	501,200	6,265
	<u>62,053,463</u>	<u>666,685</u>

The dilutive effect of the convertible unsecured debentures for the three months ended June 30, 2006 is as follows:

	2006	2005
Weighted average number of units outstanding, basic	61,935,329	47,988,800
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	2,740,614	5,127,143
Weighted average number of units outstanding, diluted	<u>64,675,943</u>	<u>53,115,943</u>

The dilutive effect of the convertible unsecured debentures for the six months ended June 30, 2006 is as follows:

	2006	2005
Weighted average number of units outstanding, basic	56,373,427	47,936,246
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	3,065,390	5,179,697
Weighted average number of units outstanding, diluted	<u>59,438,817</u>	<u>53,115,943</u>

7. Segmented Information

The Fund indirectly owns interests in two cogeneration facilities located in Ontario, a wind farm in Quebec and two wind farms in Germany. It also has a 19% equity interest in PEC and a senior loan to Panda Interfunding Corporation ("PIC"), which are included with the Fund's corporate operating income for reporting purposes. These assets represent the Fund's reportable segments at June 30, 2006.

The Fund analyzes the performance of its operating segments based on operating income. Income for each

segment is measured on the same basis as that of the Fund. Significant information for each segment is as follows:

(stated in thousands of dollars)

For the 3 months ended, June 30, 2006:	Iroquois Falls	Kingston⁽¹⁾	Mont Miller	Kavelstorf / Eckolstadt	Corporate	Total
Revenue	16,106	21,620	2,057	817	-	40,600
Amortization	2,358	6,463	1,109	688	-	10,618
Operating income	3,867	4,235	368	(225)	1,902	10,147
Interest expense, net	(13)	2,105	635	67	603	3,397
June 30, 2005:						
Revenue	16,733	10,634	576	-	-	27,943
Amortization	2,357	1,565	345	-	-	4,267
Operating income	4,909	3,462	84	-	1,744	10,199
Interest expense, net	7	1,492	158	-	533	2,190
For the 6 months ended, June 30, 2006:						
Revenue	37,220	34,098	4,257	817	-	76,392
Amortization	4,716	7,989	2,218	688	-	15,611
Operating income	12,468	8,786	813	(225)	2,209	24,051
Interest expense, net	(22)	3,511	1,250	67	1,247	6,053
June 30, 2005:						
Revenue	38,050	21,192	576	-	-	59,818
Amortization	4,713	3,130	345	-	-	8,188
Operating income	14,209	6,668	84	-	8,037	28,998
Interest expense, net	24	3,000	158	-	825	4,007

(stated in thousands of dollars)

As at June 30, 2006:	Iroquois Falls	Kingston⁽¹⁾	Mont Miller	Kavelstorf / Eckolstadt	Corporate	Total
Property, plant & equipment, net	197,618	285,426	92,201	22,141	-	597,386
Senior loan and investment in PEC	-	-	-	-	87,423	87,423
As at December 31, 2005:						
Property, plant & equipment, net	202,314	107,500	94,419	-	-	404,233
Senior loan and investment in PEC	-	-	-	-	92,197	92,197

(1) See Note 3 regarding additional 50% investment in KCLP on March 23, 2006.

Corporate operating income for the six months ended June 30, 2006 includes \$5.8 million (2005 – \$9.4 million) of interest and dividends from the senior loan receivable and investment in PEC.

Information on operations by geographic area is as follows:

(stated in thousands of dollars)

	Three months ended June 30		Six months ended June 30		
	2006	2005	2006	2005	
Revenue					
Canada		39,783	27,943	75,575	59,818
Germany		817	-	817	-
		40,600	27,943	76,392	59,818
As at June 30, 2006					
Property, Plant & Equipment, Net					
Canada		575,245		404,233	
Germany		22,141		-	
		597,386		404,233	

As at June 30, 2006 all of the Fund's assets and sales were located in Canada and Germany with the exception of the investments in, and income from, PEC and PIC, which relate to entities in the United States.

8. Comparative Figures

Certain amounts in the comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 consolidated interim financial statements.

NORTHLAND POWER INCOME FUND

TRUSTEE

Computershare Trust Company of Canada
100 University Avenue
Toronto, Ontario M5J 2Y1
Attention: Corporate Services

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
100 University Avenue
Toronto, Ontario M5J 2Y1
Attention: Equity Services

TRUST UNITS AND DEBENTURES

The trust units and convertible debentures are listed on the Toronto Stock Exchange and trade under the symbols NPI.UN and NPI.DB respectively.

BANK

Canadian Imperial Bank of Commerce
Commerce Court West
Toronto, Ontario M5L 1A2

For Further Information Contact:

Barbara Bokla
Telephone (416) 962-6262 ext. 156
Facsimile (416) 962-6266
E-Mail info@NPIFund.com
Web-site www.NPIFund.com

Northland Power Income Fund Management Inc.
17th Floor, 30 St. Clair Avenue West
Toronto, Ontario M4V 3A1

