

Quarterly Report

Northland Power Income Fund

Quarterly Report for the periods ended September 30, 2006

FINANCIAL AND OPERATING RESULTS

*This report covers
Northland Power Income
Fund's (the "Fund's")
operations for the
quarter and
the 9 months ended
September 30, 2006*

	3 months ended Sept. 30		9 months to Sept. 30	
	2006	2005	2006	2005
FINANCIAL (thousands, except per unit amounts)				
Sales	\$40,463	\$31,707	\$116,855	\$91,525
Net Income	\$5,770	\$5,217	\$21,403	\$32,126
Funds from Operations				
Before Changes in Working Capital	\$16,484	\$14,978	\$50,093	\$48,150
Distributable Cash	\$17,692	\$13,947	\$52,715	\$47,807
Distributions Declared to Unitholders	\$16,625	\$12,560	\$47,016	\$36,911
Units Outstanding	62,194	49,308	62,194	49,308
Average Number of Units Outstanding - basic	62,107	48,932	58,306	48,289
Average Number of Units Outstanding - diluted	64,676	53,116	61,204	53,116
Per Unit				
Funds from Operations				
Before Changes in Working Capital	\$0.2654	\$0.3061	\$0.8591	\$0.9971
Distributable Cash	\$0.2849	\$0.2850	\$0.9041	\$0.9900
Distributions Declared to Unitholders	\$0.2675	\$0.2550	\$0.7925	\$0.7625
OPERATIONS				
Electricity Production (megawatthours)	302,642	256,798	893,870	761,640
Steam Production (thousands of pounds)	263,517	223,289	956,365	825,594
Fuel Consumption (thousands of gigajoules)	2,543	2,076	7,565	6,708



MANAGEMENT'S DISCUSSION & ANALYSIS

Overview

Sales of \$40.5 million and net income of \$5.8 million in the quarter increased by \$8.8 million and \$0.6 million respectively compared to the third quarter of 2005. Distributable cash of \$17.7 million was higher by \$3.7 million while distributable cash of \$0.2849 per unit was equivalent to last year. These results include the contribution from the remaining 50% ownership interest in the Kingston facility which the Fund acquired on March 23, 2006, and the investment in the German wind farms in the second quarter.

Electricity production at Iroquois Falls was adversely affected during the quarter by: i) curtailment of lower-priced off-peak production due to reduced availability of contract natural gas, ii) downtime required for a scheduled steam turbine inspection and overhaul, and iii) lower sales made outside the power purchase agreement due to poor wholesale prices compared to last year. In addition, the third quarter of 2005 included a favourable, retroactive electricity price adjustment at Iroquois Falls. Production at the Mont Miller wind farm fell short of last year due to the continuation of low winds in the Gaspésie region. On the positive side, the Kingston facility performed well and the contribution from the German wind farms was consistent with expectations.

Distributable cash generated in the third quarter exceeded distributions declared to Unitholders by \$1.1 million. Readers should refer to the schedule of Distributions to Unitholders and Distributable Cash for the calculation of distributable cash (a non-GAAP financial measure).

Distributions to Unitholders declared for the quarter were \$0.2675 per unit, 5% higher than in 2005.

On October 16, 2006 the Fund announced that it will provide a \$35 million loan, subordinated to the senior project debt, for the Thorold Cogeneration Project being developed by an entity owned by Northland Power Inc. (the parent of the Fund's Manager). The loan is repayable over five years from completion of the project and has an effective annual interest rate of 12.5%; the Fund expects to finance the loan under its existing line of credit. The transaction is expected to close in the first quarter of 2007 and is subject to a number of conditions including closing of the non-recourse senior secured debt financing for the project and completion of documentation.

The results for 2006 include the financial contribution of 100% of the Kingston project from March 23, 2006 (compared to 50% in 2005), including the impact of the subsequent repayment of the levelization account and reduction in management fees; operation of the Mont Miller project for the entire period (compared to the 114 days from June 9 to September 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 nine months of 2005.

Iroquois Falls Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2006	2005	2006	2005
Sales Volume				
Electricity (MWh)	143,082	160,780	457,703	524,576
Steam (000 lb.)	210,893	196,543	787,252	719,546
Fuel Consumption (000 GJs)	1,392	1,518	4,525	4,910
Sales				
Electricity	12,590	15,123	43,970	46,701
Steam	1,365	1,256	4,884	4,420
Natural gas	2,561	2,278	4,672	4,840
Emission allowances and credits	-	130	210	877
	16,516	18,787	53,736	56,838
Cost of sales				
Gas consumed	5,794	6,330	19,585	20,081
Gas re-sold	2,416	1,424	4,636	3,151
	8,210	7,754	24,221	23,232
Gross profit	8,306	11,033	29,515	33,606
Plant operating costs	2,076	1,560	5,135	4,619
Capital expenditures	23	34	43	64

During the quarter, electricity production at the Iroquois Falls facility was down 17,698 MWh (11%) from the third quarter of 2005 for several reasons. First, production was backed down during lower-priced off-peak periods (nights, weekends and statutory holidays) due to reduced availability of contracted natural gas as a result of the supply default in January 2006 by Calpine Canada Natural Gas Partnership that was only partially offset by additional gas received under the amended backstop arrangement of another contract (see below for additional details). Second, there were minimal sales outside the terms of the power purchase agreement (“PPA”) in the third quarter of 2006 as a result of low wholesale market prices compared to the prior year and third, electricity production was adversely affected by a longer than normal summer shutdown during the quarter for the scheduled overhaul of the steam turbine.

Sales for the quarter of \$16.5 million were \$2.3 lower than in the same period last year, primarily due to a \$2.5 million reduction in electricity sales.

Electricity revenue under the Iroquois Falls PPA was down compared to last year due to lower production for the reasons cited above and because the third quarter of 2005 included a \$1.2 million retroactive revenue adjustment. There was no retroactive adjustment in the third quarter of 2006. Changes in rates under the Iroquois Falls PPA are based primarily on a three-year rolling average of changes in the Wholesale Customer Rate, calculated semi-annually, subject to a floor and ceiling mechanism. The 2005 retroactive increase was a result of high wholesale electricity market prices in Ontario in the first half of 2005 (which entered the calculation effective January 1, 2005) compared to the first half of 2002 (which was removed from the calculation at the same effective date). There was no material retroactive change in prices effective in this quarter of 2006 as prices for the first half of 2006 were little changed from the same period of 2003.

Steam sales increased slightly compared to last year largely because of higher demand from Abitibi. Sales of natural gas to mitigate fixed transportation costs were up \$0.3 million due to an increase in the volume of natural gas sold to mitigate increased unused capacity under the plant’s TransCanada Pipeline contract as a result of the reduction in contracted gas supply. There were no sales of emission allowances and credits, which are being inventoried due to unattractive, low market prices.

The cost of sales was \$0.5 million higher than last year as a decrease in the cost of natural gas consumed was more than offset by an increase in the cost of gas resold. Lower electricity production resulted in an 8% reduction in the volume of gas consumed. The cost of natural gas consumed was down \$0.5 million due to

lower consumption and reduced transportation tariffs, partly offset by a 15% price increase resulting from the “re-opening” of the price under a contract that represents approximately 60% of the facility’s gas supply. The cost of gas resold was higher by \$1.0 million due to higher resale volumes; a portion of which was supplied by curtailing off-peak electricity production with the balance represented by gas purchases at market prices in Alberta for resale in eastern Canada. Plant operating costs of \$2.1 million were higher by \$0.5 million as a result of the scheduled inspection and overhaul of the Iroquois Falls steam turbine; such inspections are required at periodic intervals; this was the first since the facility’s startup in 1996. The expense for the inspection and overhaul was financed from funds that had been previously set aside for major maintenance.

Total sales for the nine months were down \$3.1 million from last year largely due to lower electricity sales and a decrease in revenue earned from the sales of emission allowances and credits. The cost of gas consumed was down \$0.5 million for the nine-month period for the same reasons cited for the third quarter. The cost of gas resales was higher due to purchases primarily at market prices (rather than lower, contracted prices, as in past periods) to mitigate fixed transportation costs. Year-to-date plant operating costs were \$0.5 million higher than the same period in 2005 due to the inspection and overhaul of the facility’s steam turbine.

On November 1, 2006 an agreement was finalized with one of the Iroquois Falls facility’s natural gas suppliers concerning the delivery of natural gas under the backstop provision of a long-term gas supply contract. As part of the settlement, both parties agreed to certain changes to the contractual backstop provisions. The supplier also agreed to withdraw an unrelated claim for approximately \$7.6 million plus interest.

Kingston Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2006	2005	2006 ¹	2005
	100%	50%	100%/50%	50%
Sales Volume				
Electricity (MWh)	123,448	60,284	324,041	191,891
Steam (000 lb.)	52,624	26,746	169,113	106,048
Fuel consumption (000 GJs)	1,151	558	3,040	1,798
Sales				
Electricity	15,282	7,501	40,542	23,904
Steam	557	212	1,813	829
Natural gas	5,509	2,846	13,091	7,017
Emission allowances and credits	-	182	-	182
	21,348	10,741	55,446	31,932
Cost of sales				
Gas consumed	7,059	3,554	18,341	11,161
Gas re-sold	2,500	1,233	5,815	3,202
	9,559	4,787	24,156	14,363
Gross profit	11,789	5,954	31,290	17,569
Plant operating costs	1,441	1,024	3,862	2,596
Capital expenditures	34	83	34	1,247

- (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 22nd 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 third quarter of 2006, sales of electricity were up slightly from last year commensurate with a higher level of production. Steam sales were positively affected by an increase in the average selling price, while increased electricity production left lower volumes of natural gas available for resale. Prices for the majority of natural gas sales were locked in by way of forward sales contracts entered into in previous years. No emission allowances have been sold so far in 2006.

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 due to a reduction in insurance premiums and maintenance costs compared to last year.

For the nine-month period ended September 30, electricity sales were in line with the same period last year while gas sales and steam sales were up due mostly to higher average selling prices.

Mont Miller Wind Farm

<i>(in thousands of dollars except as indicated)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2006	2005	2006	2005
Sales Volume				
Electricity (MWh)	30,869	35,734	100,525	45,173
Sales				
Electricity	1,909	2,179	6,166	2,755
	1,909	2,179	6,166	2,755
Gross profit	1,909	2,179	6,166	2,755
Plant operating costs	468	495	1,431	598
Capital expenditures	-	4,931	-	24,396

For the third quarter of 2006, electricity production at Mont Miller was down from the same period in 2005 by 14% as the wind resource fell short of forecasted expectations, particularly in September. The wind resource in 2006 continues to be disappointing, being approximately 17% lower than long-term projections for the quarter. The wind turbines continued to perform well with overall reliability of 98%. Two gearboxes were replaced by Vestas during the quarter and a related equipment upgrade, expected to improve turbine availability, is underway.

The 2006 financial results include the impact of project operations for the full nine-month period while the 2005 results reflect approximately 4 months of operations (June 9 to September 30, 2005). This largely accounts for the year over year variances.

German Wind Farms

<i>(in thousands of dollars except as indicated)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2006	2005	2006	2005
Sales Volume				
Electricity (MWh)	5,243	-	11,601	-
Sales				
Electricity	690	-	1,507	-
	690	-	1,507	-
Gross profit	690	-	1,507	-
Plant operating costs	223	-	479	-
Capital expenditures	-	-	-	-

In April 2006, 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.

The German wind farms met expectations for production during the third quarter of 2006 with an average

capacity factor of 11%. The capacity factors for the German wind farms are expected to be lower than at Mont Miller as Germany, in general, 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 wind farms achieved overall reliability of 95% in the quarter, with the turbines generally performing well. A turbine blade repair at Kavelstorf was completed in September; a blade pitching issue at Eckolstädt was resolved in July; and the interconnection sockets on Eckolstädt's main electrical line which failed in late September have since been replaced.

For the six months since the German wind farms were acquired, the turbines operated at an overall reliability of 95% with no major maintenance issues. Long-term turbine reliability is expected to exceed 97%. The turbines achieved a year-to-date capacity factor of 12% as the wind resource met long-term projections.

To partially mitigate its exposure to exchange rate fluctuations between the Euro and the Canadian dollar, the Fund has entered into foreign exchange forward contracts in respect of its net investment in the German wind farms that fix the exchange rate for a substantial portion of the interest and principal payments to be received from its German subsidiaries to 2011.

Panda Energy Corporation (“PEC”)

<i>(in thousands of dollars)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2006	2005	2006	2005
Dividends	193	243	891	2,501
Interest income	2,577	2,667	7,704	9,772
Total investment income	2,770	2,910	8,595	12,273

The Fund's investment in PEC generated investment income of \$2.8 million this quarter through a combination of interest and dividend payments, slightly lower than the same period last year due to the sale of the Panda-Rosemary facility in the first quarter of 2005, which also caused income for the nine-month period to fall below the previous year when the Panda-Rosemary sale resulted in the receipt of a one-time equity distribution and prepayment premium on the senior loan.

Financial and operating results at the Panda-Brandywine plant for the quarter and year-to-date continue to be marginally lower than last year when unseasonably hot weather resulted in higher dispatch levels at the facility to meet the increased electricity demands.

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 September 30, 2006 and the Fund's 2005 annual report. The financial results for 2006 include the financial contribution of 100% of the Kingston project from March 23, 2006 (compared to 50% in 2005), including the impact of the subsequent repayment of the levelization account and reduction in management fees; operation of the Mont Miller wind farm for the whole period (compared to the 114 days from June 9 to September 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 nine months of 2005. Differences in financial results between 2006 and 2005 for the three and nine-month periods ended September 30 are largely accounted for by these events.

Third Quarter

Sales, cost of sales and plant operating costs were up compared to 2005 primarily for the reasons already cited. Management and administration costs were \$0.7 million higher due to a combination of additional expenses from the German wind farm acquisition and increased legal and accounting costs. Amortization was up \$5.7 million commensurate with additional charges resulting from the acquisitions.

Investment income of \$2.8 million was \$0.1 million lower than in 2005 largely due to reduced interest payments from PEC. Investment income to be received during the remainder of 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. During the quarter, the Fund recorded a small, non-cash foreign exchange gain on the translation of the PEC senior loan balance to the quarter-end U.S. dollar/Canadian dollar exchange rate. The accretion expense relates solely to the asset retirement obligations at the Fund's wind farms.

Interest expense of \$3.6 million was \$0.5 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 interest on the \$5.0 million of borrowings on the Fund's acquisition line of credit to purchase the German wind farms.

The factors described above, partially offset by a recovery of income taxes, resulted in net income for the third quarter of 2006 of \$5.8 million being \$0.6 million higher than last year.

Year to Date

Sales, cost of sales and plant operating costs were up significantly compared to 2005 primarily for the reasons already cited. Total expenses were up \$19.9 million due largely to amortization charges and operating costs related to the acquisitions made by the Fund earlier in the year. Management and administration costs were higher commensurate with higher legal and accounting fees and 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 of \$8.6 million was down from 2005 by \$3.7 million which was affected by the one-time impact of the sale of the Panda-Rosemary plant in early 2005. The Fund recorded a \$3.0 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 since year end. Amortization of deferred charges was \$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 was \$2.7 million higher than last year for the same reasons stated for the third quarter.

The \$1.4 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 of \$21.1 million have increased by \$6.6 million due to a combination of \$74.6 million provided by financing activities and \$52.4 million generated by operations, partially offset by \$120.4 million used for investing activities.

Cash provided by operating activities of \$52.4 million was \$3.0 million higher than in the same nine-month period of 2005. Funds from operations before working capital changes (a non-GAAP financial measure) was up \$1.9 million from last year as the one-time impact of the sale of the Panda-Rosemary project in the first quarter of 2005 was offset this year by the contributions from the additional investment in the Kingston facility, operations at Mont Miller for the full period, and the German wind farms acquisition in 2006. The \$1.1 million increase in non-cash working capital is related to the timing of receipts for electricity sales to Ontario Electricity Financial Corporation ("OEFC").

Cash used for investing activities was up \$130.3 million compared to the first nine months 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 included the US\$18.9 million prepayment of the PEC senior loan and the associated wind-up and restructuring fees resulting from the Panda-Rosemary sale, as well as the construction costs related to the completion of the Mont Miller wind farm.

Financing activities provided \$74.6 million and included \$165.8 million of net proceeds from a subscription receipt offering on March 23rd, \$5.0 million borrowed on the Fund's acquisition line of credit to finance the

German wind farm investment and a draw of \$5.6 million on its operating line this quarter due to the timing of electricity payments from OEFC. These activities were offset primarily by the retirement of \$19.0 million of third-party debt associated with the German wind farms, repayment of the \$33.5 million KCLP levelization account debt to OEFC and distributions to Unitholders of \$47.1 million. In 2005, the proceeds from the senior loan prepayment resulting from the Panda-Rosemary sale and draws on 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 of \$47.1 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 1,203,040 trust units in exchange for \$15.0 million of convertible unsecured subordinated debentures (for the quarter, \$1.8 million of convertible unsecured subordinated debentures were converted into 140,880 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 the Kingston facility in March, 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 \$2.4 million due mainly to an \$8.4 million increase in non-cash working capital chiefly related to the timing of receipt of electricity sales to OEFC at both the Iroquois Falls and Kingston facilities.

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 the Fund 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", a non-GAAP performance indicator) 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 for the 12-month period 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 September 30, 2006 the ratio was 2.49.

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 for the 12-month period prior to each distribution date, and a coverage ratio of 1.20 or greater be projected for the upcoming 12-month period. If the ratio is between 1.20 and 1.50 then cash must be retained and accumulated 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 2.09 for the 12 months ended September 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 facility. Under its long-term lease agreement, Panda-Brandywine LP is required to achieve a debt service coverage ratio of 1.20 for the previous 12-month period at the time it makes each quarterly distribution. 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 1.82 for the period ended July 31, 2006, the latest distribution date. 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 unaudited consolidated financial statements of the Fund:

<i>(unaudited, stated in thousands except per unit amounts)</i>	3 Months ended Sept. 30		9 Months ended Sept. 30	
	2006	2005	2006	2005
Cash provided by operating activities	\$ 8,090	\$ 13,042	\$ 52,402	\$ 49,380
Net change in non-cash working capital balances	8,394	1,936	(2,309)	(1,230)
Funds from operations before working capital changes ⁽¹⁾	\$ 16,484	\$ 14,978	\$ 50,093	\$ 48,150
Capital expenditures	(57)	(5,048)	(77)	(25,707)
Add back: expansionary capital expenditures	-	4,931	-	24,396
Receipts of principal on senior loan, excluding prepayment	687	343	2,087	1,161
Senior loan prepayment fees	-	-	-	1,890
Acquisition fees paid to Manager ⁽²⁾	-	-	2,385	-
KCLP cash reserve drawdown (funding)	(15)	342	(674)	789
KCLP repayment of debt, net ⁽³⁾	-	(1,574)	(1,641)	(2,802)
Funds set aside for future maintenance	(7)	(25)	(58)	(70)
Future maintenance funds utilized	600	-	600	-
Distributable cash ⁽¹⁾	\$ 17,692	\$ 13,947	\$ 52,715	\$ 47,807
Distributions declared to Unitholders	\$ 16,625	\$ 12,560	\$ 47,016	\$ 36,911
Average number of trust units - basic (thousands of units)	62,107	48,932	58,306	48,289
Per unit (\$/unit)				
Funds from operations before working capital changes ⁽¹⁾	\$ 0.2654	\$ 0.3061	\$ 0.8591	\$ 0.9971
Distributable cash ⁽¹⁾	\$ 0.2849	\$ 0.2850	\$ 0.9041	\$ 0.9900
Distributions declared to Unitholders	\$ 0.2675	\$ 0.2550	\$ 0.7925	\$ 0.7625

(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 \$16.5 million for the quarter and \$50.1 million year to date exceeded the same periods of 2005 by \$1.5 million and \$1.9 million, respectively. The primary reasons for this were stated earlier: the financial contribution of 100% of the Kingston project from March 23, 2006 (compared to 50% in 2005), taking account of the repayment of the levelization account and reduction in management fees on that date; operation of the Mont Miller wind farm for the whole period in 2006 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 nine months of 2005. The calculation of distributable cash includes the add-back of one-time fees related to acquisitions that were paid to the Fund's Manager that were included in operating activities for accounting purposes but are properly viewed as part of the Fund's investing activities. During the quarter, the Fund's Iroquois Falls facility utilized \$0.6 million from its reserve for future maintenance costs against the cost of the inspection and overhaul of its steam turbine.

Distributable cash of \$17.7 million exceeded that of 2005 for the three months ended September 30 by \$3.7 million and was \$1.1 million higher than the distributions declared to Unitholders. For the nine months ended September 30, 2006, distributable cash exceeded distributions declared by \$5.7 million. During the quarter, the Fund's trustees approved an increase in the monthly rate of distributions to \$0.09 per unit effective August 31, 2006, which is equivalent to \$1.08 per unit on an annualized basis, a \$0.03 per unit increase over 2005.

The Fund's distributions have been and are expected to be funded from the operations of the Fund's facilities and principal and interest payments on the Fund's senior loan receivable.

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>	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<i>Per unit information</i>	2006	2006	2006	2005	2005	2005	2005	2004
Total sales	40.5	40.6	35.8	36.7	31.7	27.9	31.9	25.2
Net income	5.8	3.5	12.1	12.2	5.2	10.3	16.6	5.4
Distributable cash	17.7	17.7	17.3	18.2	13.9	12.5	21.4	16.9
Distributions	16.6	16.3	14.1	14.2	12.6	12.2	12.1	12.3
<i>Per unit statistics</i>								
Net income - basic	0.093	0.056	0.239	0.247	0.107	0.216	0.346	0.112
Net income - diluted	0.093	0.056	0.237	0.243	0.107	0.195	0.313	0.102
Distributable cash	0.285	0.286	0.341	0.369	0.285	0.259	0.447	0.353
Distributions	0.268	0.263	0.263	0.288	0.255	0.255	0.253	0.257

A considerable 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 factors stated above, 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)
Funds retained for general purposes	\$ 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 of \$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 September 30, 2006, the Fund had 62,194,343 trust units outstanding (December 31, 2005 – 49,431,303). During the quarter, a total of \$1.8 million of convertible unsecured subordinated debentures were converted into 140,880 trust units. As at November 8, 2006, a total of 62,333,383 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 three months of 2006 and annually thereafter.

<i>(In thousands of dollars)</i>	2006	2007	2008	2009	2010	Thereafter
GE maintenance agreement (Kingston)	69	264	347	3,040	785	9,590
Natural gas transportation, fixed portion	3,867	15,779	16,095	16,417	16,745	109,345
Management fees	284	1,156	1,180	1,203	1,179	6,538
Kingston debt	5,928	16,472	16,359	16,070	16,633	71,257
	10,148	33,671	33,981	36,730	35,342	196,730

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 and the impact of the federal government's October 31st tax announcement as noted below.

Exchange rate fluctuations between the Euro and the Canadian dollar may affect the cash flow of the Fund. To partially mitigate this exposure, 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.

On October 31, 2006, the federal government announced tax proposals pertaining to taxation of distributions paid by income trusts and changes to the personal tax treatment of trust distributions that are proposed to become effective January 1, 2011 for the Fund and its Unitholders – see Outlook section for additional details.

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 September 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 the first quarter of 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. Management, along with third party consultants, are currently researching and documenting the impact the new accounting standards will have on the Fund's consolidated financial results.

Participation in Thorold Cogeneration Project

Subject to a number of conditions and the completion of acceptable documentation, the Fund has agreed to provide \$35 million of subordinated debt financing to Thorold CoGen LP, a wholly-owned subsidiary of Northland Power Inc. (the parent of the Manager). Thorold CoGen LP is the owner of a 236 MW cogeneration facility to be constructed on the site of the Abitibi-Consolidated Company of Canada's newsprint mill in Thorold, Ontario, 120 kilometers south-west of Toronto near the US border. Thorold CoGen LP was a successful bidder under the Ontario Power Authority's ("OPA") combined heat and power request for proposals, and entered into a power purchase agreement (the "CHP Contract") with the OPA on October 16, 2006.

The plant is a natural-gas-fired cogeneration facility that will produce both electricity and steam from a 170 megawatt industrial gas turbine and associated 95 megawatt steam turbine. Electricity will be supplied to the OPA under the 20-year CHP Contract, which will provide revenue assurance and stability to the project, and steam and electricity will be sold to Abitibi under a 20-year Energy Supply Agreement. The project will significantly reduce energy costs and improve the competitiveness of Abitibi's Thorold mill, which Abitibi considers one of its strategic assets. Construction of the approximately \$450 million facility is scheduled to begin in the first quarter of 2007, following the completion of all permitting and financing, and full commercial operations and supply of electricity is expected to commence in June 2009.

Financing for the Thorold cogeneration project, including the Fund's loan, is expected to close in the first quarter of 2007. Long-term non-recourse senior secured debt, equal to approximately 80% of total project costs, has been committed by Bank of Montreal, The Manufacturer's Life Insurance Company and Sun Life Assurance Company of Canada. The Fund's \$35 million non-recourse subordinated loan will be repayable over 5 years commencing after the plant achieves commercial operation, and will carry an interest rate of 12.5%; The Manufacturer's Life Insurance Company is providing \$35 million to Thorold CoGen LP on identical terms. The Fund expects to finance the subordinated loan under its existing line of credit.

The contractual structure of the Thorold cogeneration project is designed to insulate Thorold CoGen LP from exposure to electricity price and dispatch risk, natural gas price volatility and delivery uncertainty, changes in steam demand, and performance related issues. Northland Power Inc., the project's sponsor and equity provider, will bear the primary risk of any construction cost overruns. The Fund's Manager believes that the transaction is accretive and satisfies all the Fund's other acquisition criteria. The Fund has a right of first offer to acquire all or part of Northland Power Inc.'s interests in the project, should it decide to sell, at a price to be determined in the future. This arrangement allows the Fund to receive an attractive return by participating in the project from the beginning while remaining shielded from the construction and start-up risks; and preserves the opportunity for a larger investment after the project is completed.

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 and repayment of its levelization account, the additional contribution from the German wind farm acquisition, and higher natural gas resale margins at Kingston as a result of the forward sales contracts KCLP entered into in previous years.

On October 31, 2006, the federal government announced tax proposals pertaining to taxation of distributions paid by income trusts and changes to the personal tax treatment of trust distributions that will be applicable starting in 2011. The following comments are the Manager's understanding of the proposals based on the limited information provided by the government to date.

Currently, the Fund does not pay income tax as long as distributions to Unitholders exceed the amount of the Fund's income that would otherwise be taxable; Canadian Unitholders who receive the distributions personally (i.e., outside an RRSP or other tax deferred plan) are liable for income tax on the taxable portion of distributions at full personal tax rates. The proposals would result in a two-tiered tax structure similar to that of corporations whereby the taxable portion of distributions would be subject to income tax payable by the Fund at a rate of 31.5% while taxable Canadian Unitholders would receive the favourable tax treatment on distributions currently applicable to qualifying dividends. As a result, there will be essentially no impact on taxable Canadian Unitholders arising from these changes as the new tax payable by the Fund will be offset by the reduced rate of tax applicable to dividends.

At present, Canadian registered pension plans, RRSPs and RRIFs ("Canadian Tax Exempt Entities") are not subject to current income tax on distributions received from the Fund (their tax obligation is deferred). Under the proposals, Canadian Tax Exempt Entities would receive distributions after provision by the Fund for the new tax, as will investors located outside Canada.

Based on current information available to the Manager, the potential impact of the proposed new measures on Canadian Tax Exempt Entities and taxable entities could be as follows:

<i>CDN \$ per unit, except otherwise noted</i>	Tax Exempt Entities		Taxable Entities	
	Current Tax Treatment	Proposed Tax Treatment	Current Tax Treatment	Proposed Tax Treatment
2006 forecasted distribution	\$1.08	\$1.08	\$1.08	\$1.08
Taxability of distributions ⁽¹⁾	66%	66%	66%	66%
Forecasted taxable distributions	\$0.71	\$0.71	\$0.71	\$0.71
Proposed taxes to be paid by the Fund ⁽²⁾	-	\$0.22	-	\$0.22
Forecasted distributions after the Fund's tax	\$1.08	\$0.86	\$1.08	\$0.86
Estimated tax paid by Unitholder ⁽³⁾	-	-	\$0.33	\$0.11
Net amount	\$1.08	\$0.86	\$0.75	\$0.75

(1) The Manager's current forecast for the taxable portion of 2006 distributions.

(2) Based on the taxation rate of 31.5% under the proposed legislation.

(3) Based on the highest marginal tax rate of 46% for Ontario residents under the current tax treatment. Under the proposed tax treatment, taxable distributions would be considered eligible dividends and taxed at the lower rate of 22%.

Investors should contact their financial advisor or broker on the tax implications of this proposed legislation with respect to their investment in the Fund.

If enacted, the tax proposals would apply to the Fund and its Unitholders effective January 1, 2011. The Manager and the Trustees of the Fund are currently assessing the proposals and the potential implications to the Fund.

On behalf of Northland Power Income Fund Management Inc.

[Signed]

John W. Brace
 President
 November 8, 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 September 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.

November 8, 2006

[Signed]

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 September 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.

November 8, 2006

[Signed]

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

NORTHLAND POWER INCOME FUND

Consolidated Balance Sheets

(unaudited, stated in thousands)

ASSETS

	Sept. 30, 2006	Dec. 31, 2005
Current		
Cash and cash equivalents	\$ 21,118	\$ 14,482
Cash reserves	1,503	413
Accounts and other receivables	23,514	23,090
Inventories	9,568	5,760
Prepaid expenses	2,632	1,854
Current portion of senior loan receivable	2,719	2,797
Total current assets	61,054	48,396
Deferred charges	4,930	5,420
Property, plant and equipment, net	586,650	404,233
Investment in Panda Energy Corporation	7,946	7,946
Senior loan receivable	76,284	81,454
Future income tax asset	2,514	1,401
	\$ 739,378	\$ 548,850

LIABILITIES AND UNITHOLDERS' EQUITY

Current		
Bank indebtedness	\$ 5,590	\$ -
Accounts payable and accrued liabilities	9,423	8,239
Current portion of KCLP debt	7,430	4,488
Current portion of Mont Miller term loan	916	808
Distribution payable to Unitholders	5,597	5,685
Total current liabilities	28,956	19,220
Bank credit facility	5,000	-
Other long term liabilities [Note 5]	9,547	331
Asset retirement obligation [Note 4]	2,884	2,687
Mont Miller term loan	38,478	39,192
KCLP debt	89,327	62,260
Convertible debentures [Note 6]	31,020	46,058
	205,212	169,748
Trust units [Note 6]	668,446	487,583
Cumulative translation adjustments	(186)	-
Deficit	(134,094)	(108,481)
Total Unitholders' equity	534,166	379,102
	\$ 739,378	\$ 548,850

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

	<i>3 Months Ended Sept. 30</i>		<i>9 Months Ended Sept. 30</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Sales				
Electricity	\$ 30,471	\$ 24,803	\$ 92,185	\$ 73,360
Steam	1,922	1,468	6,697	5,249
Natural gas	8,070	5,124	17,763	11,857
Emission allowances	-	312	210	1,059
Total sales	40,463	31,707	116,855	91,525
Cost of sales	17,769	12,541	48,377	37,595
Gross profit	22,694	19,166	68,478	53,930
Expenses				
Plant operating costs	4,208	3,079	10,907	7,813
Amortization	10,624	4,971	26,235	13,159
Management and administration costs	1,631	978	6,793	3,185
Accretion expense [Note 4]	43	28	129	28
	16,506	9,056	44,064	24,185
Investment income	2,770	2,910	8,595	12,273
Income from operations	8,958	13,020	33,009	42,018
Foreign exchange	(287)	4,443	2,986	2,226
Amortization of deferred charges	164	161	490	1,124
Interest income	(216)	(91)	(660)	(342)
Interest expense and bank fees	3,617	3,132	10,114	7,390
Income before income taxes	5,680	5,375	20,079	31,620
Provision for (recovery of) income taxes				
Current	(151)	-	83	7
Future	61	158	(1,407)	(513)
	(90)	158	(1,324)	(506)
Net income for the period	\$ 5,770	\$ 5,217	\$ 21,403	\$ 32,126
Deficit, beginning of period	(123,239)	(99,143)	(108,481)	(101,701)
Distributions declared to Unitholders	(16,625)	(12,560)	(47,016)	(36,911)
Deficit, end of period	\$ (134,094)	\$ (106,486)	\$ (134,094)	\$ (106,486)
Average number of units outstanding - basic	<i>62,107</i>	<i>48,932</i>	<i>58,306</i>	<i>48,289</i>
Average number of units outstanding - diluted	<i>64,676</i>	<i>53,116</i>	<i>61,204</i>	<i>53,116</i>
Net income per trust unit- basic	\$ 0.0929	\$ 0.1066	\$ 0.3671	\$ 0.6653
Net income per trust unit - diluted	\$ 0.0929	\$ 0.1066	\$ 0.3671	\$ 0.6276

NORTHLAND POWER INCOME FUND

Consolidated Statements of Cash Flows

(unaudited, stated in thousands except per unit amounts)

	3 Months Ended Sept. 30		9 Months Ended Sept. 30	
	2006	2005	2006	2005
Operating activities				
Net income for the period	\$ 5,770	\$ 5,217	\$ 21,403	\$ 32,126
Items not involving cash:				
Amortization	10,624	4,971	26,235	13,159
Amortization of deferred charges	164	161	490	1,124
Foreign exchange	(287)	4,443	2,986	2,226
Accretion expense [Note 4]	43	28	129	28
Other long term liabilities [Note 5]	109	-	257	-
Future income taxes	61	158	(1,407)	(513)
	16,484	14,978	50,093	48,150
Net change in non-cash working capital balances related to operations	(8,394)	(1,936)	2,309	1,230
Cash provided by operating activities	8,090	13,042	52,402	49,380
Investing activities				
Cash reserves drawdown (funding)	(15)	12,697	(674)	1,636
Investment in KCLP [Note 3]	-	-	(117,798)	-
Receipts of principal on senior loan	687	343	2,087	24,689
Net change in non-cash working capital balances related to Mont Miller	-	(4,816)	-	7,662
Deferred charges	-	(71)	-	1,665
Investment in German wind farms [Note 2]	-	-	(25)	-
Purchase German receivables from vendors [Note 2]	-	-	(3,879)	-
Purchase of property, plant and equipment	(57)	(5,048)	(77)	(25,707)
Cash (used in) provided by investing activities	615	3,105	(120,366)	9,945
Financing activities				
Proceeds from (repayment of) Mont Miller term loan	(202)	-	(606)	17,000
Bank indebtedness	5,590	-	5,590	-
Prospectus receipts, net [Note 6]	-	-	165,825	-
KCLP repayments of debt, net	-	(1,574)	(35,099)	(2,802)
Repayment of German debt [Note 2]	-	-	(18,965)	-
Credit facility increase (decrease)	-	-	5,000	(37,300)
Distributions to Unitholders	(16,458)	(12,455)	(47,104)	(37,152)
Cash (used in) provided by financing activities	(11,070)	(14,029)	74,641	(60,254)
Net change in cash and cash equivalents	(2,365)	2,118	6,677	(929)
Effect of exchange rate differences on cash and cash equivalents	(17)	-	(41)	-
Cash and cash equivalents, beginning of the period	23,500	15,570	14,482	18,617
Cash and cash equivalents, end of period	\$ 21,118	\$ 17,688	\$ 21,118	\$ 17,688
PER UNIT				
Distributions declared to Unitholders	\$ 0.2675	\$ 0.2550	\$ 0.7925	\$ 0.7625

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 2nd 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	<hr/> 168
Less: cash acquired	(143)
<hr/> Total cash purchase price	<hr/> 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 a 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 September 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 September 30, 2006 was an unrealized gain of \$0.2 million. The change in fair value of these hedging contracts during the three months ended September 30, 2006 was an unrealized gain of \$0.7 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 is 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.

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.

The Fund has estimated the fair value of its total asset retirement obligations for all of its wind farms to be \$2.9 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 nine-month period ended September 30, 2006:

<i>(stated in thousands of dollars)</i>	Amount
Balance at December 31, 2005	2,687
Increase related to acquisition of German wind facilities	68
Accretion expense	129
Balance at September 30, 2006	2,884

5. Other Long-term Liabilities

Other long-term liabilities consist of the following:

<i>(stated in thousands of dollars)</i>	As at Sept. 30, 2006	As at Dec. 31, 2005
KCLP obligations related to GE agreement	1,174	331
Fair market value of KCLP interest rate swaps	8,373	-
	<u>9,547</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. 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 \$15.0 million of convertible unsecured debentures have been converted into 1,203,040 trust units. The change in trust units during the nine months ended September 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
Q3 conversion of unsecured subordinated debentures	140,880	1,761
	<u>62,194,343</u>	<u>668,446</u>

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

	2006	2005
Weighted average number of units outstanding, basic	62,106,945	48,932,461
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	2,568,998	4,183,482
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 nine months ended September 30, 2006 is as follows:

	2006	2005
Weighted average number of units outstanding, basic	58,305,601	48,289,485
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	2,898,108	4,826,458
Weighted average number of units outstanding, diluted	<u>61,203,709</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

September 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,						
Sept. 30, 2006:	Iroquois Falls	Kingston⁽¹⁾	Mont Miller	Kavelstorf / Eckolstadt	Corporate	Total
Sales	16,516	21,348	1,909	690	-	40,463
Amortization	2,361	6,462	1,110	691	-	10,624
Operating income	3,332	3,729	194	(378)	2,081	8,958
Interest expense, net	48	2,088	646	-	619	3,401
Sept. 30, 2005:						
Sales	18,787	10,741	2,179	-	-	31,707
Amortization	2,360	1,566	1,045	-	-	4,971
Operating income	6,913	3,255	539	-	2,313	13,020
Interest expense, net	10	1,506	651	-	874	3,041
For the 9 months ended,						
Sept. 30, 2006:	Iroquois Falls	Kingston⁽¹⁾	Mont Miller	Kavelstorf / Eckolstadt	Corporate	Total
Sales	53,736	55,446	6,166	1,507	-	116,855
Amortization	7,077	14,451	3,328	1,379	-	26,235
Operating income	15,800	12,515	1,007	(603)	4,290	33,009
Interest expense, net	26	5,599	1,896	67	1,866	9,454
Sept. 30, 2005:						
Sales	56,838	31,932	2,755	-	-	91,525
Amortization	7,073	4,696	1,390	-	-	13,159
Operating income	21,122	9,923	623	-	10,350	42,018
Interest expense, net	34	4,506	809	-	1,699	7,048

(stated in thousands of dollars)

As at Sept. 30, 2006:						
	Iroquois Falls	Kingston⁽¹⁾	Mont Miller	Kavelstorf / Eckolstadt	Corporate	Total
Property, plant & equipment, net	195,281	278,998	91,092	21,279	-	586,650
Senior loan and investment in PEC	-	-	-	-	86,949	86,949
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 nine months ended September 30, 2006 includes \$8.6 million (2005 – \$12.3 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 Sept. 30		Nine months ended Sept. 30	
	2006	2005	2006	2005
Sales				
Canada	39,773	31,707	115,348	91,525
Germany	690	-	1,507	-
	40,463	31,707	116,855	91,525
As at Sept. 30, 2006				
Property, Plant & Equipment, Net				
Canada		565,371		404,233
Germany		21,279		-
		586,650		404,233

As at September 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.

9. Subsequent Events

On December 20, 2005, Calpine Corporation, the indirect parent company of Calpine Canada Natural Gas Partnership (“Calpine”), filed for bankruptcy protection in the United States and subsequently it was announced that Calpine was a party to insolvency proceedings in Canada. Calpine ceased supplying natural gas to IFPC’s Iroquois Falls facility in January 2006. The Calpine supply was subject to a backstop arrangement under another of IFPC’s gas supply contracts that provided for replacement of a significant portion of the Calpine volume in the event of default. On November 1, 2006 a settlement was finalized concerning the delivery of natural gas under the backstop provision. As part of the settlement, IFPC and the supplier have agreed to certain changes to the contractual backstop provisions. The supplier has also agreed to withdraw an unrelated claim for approximately \$7.6 million plus interest. The claim had concerned the price paid for deliveries of natural gas in excess of the supplier’s contractual obligations to IFPC during the period November 1998 to April 2002.

On October 16, 2006 the Fund announced that it will provide a \$35 million loan, subordinated to the senior project debt, for the Thorold Cogeneration Project being developed by an entity owned by Northland Power Inc. (the parent of the Fund’s Manager). The loan is repayable over five years from completion of the project and has an effective annual interest rate of 12.5%; the Fund expects to finance the loan under its existing line of credit. The transaction is expected to close in early 2007, subject to a number of conditions including closing of the non-recourse senior secured debt financing for the project and completion of documentation.

NORTHLAND POWER INCOME FUND

TRUSTEE

Computershare Trust Company of Canada
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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

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