

Quarterly Report

Northland Power Income Fund

Quarterly Report for the period ended June 30, 2007

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, 2007

	3 months ended June 30		6 months to June 30	
	2007	2006	2007	2006
FINANCIAL (thousands, except per unit amounts)				
Sales	\$42,865	\$40,600	\$94,503	\$76,392
Net Income (Loss)	(\$76,926)	\$3,489	(\$60,086)	\$15,633
Funds from Operations				
Before Changes in Working Capital	\$18,116	\$17,302	\$45,429	\$33,609
Distributable Cash	\$17,898	\$17,499	\$41,861	\$34,619
Distributions Declared to Unitholders	\$16,834	\$16,286	\$33,664	\$30,391
Units Outstanding	62,352	62,053	62,352	62,053
Average Number of Units Outstanding - basic	62,341	61,935	62,338	56,373
Average Number of Units Outstanding - diluted	62,341	64,676	62,338	59,439
Per Unit				
Funds from Operations				
Before Changes in Working Capital	\$0.2906	\$0.2794	\$0.7288	\$0.5962
Distributable Cash	\$0.2871	\$0.2825	\$0.6715	\$0.6141
Distributions Declared to Unitholders	\$0.2700	\$0.2625	\$0.5400	\$0.5250
OPERATIONS				
Electricity Production (megawatthours)	311,063	319,282	699,522	591,228
Steam Production (thousands of pounds)	306,553	290,590	758,511	692,848
Fuel Consumption (thousands of gigajoules)	2,538	2,654	5,607	5,023



MANAGEMENT'S DISCUSSION & ANALYSIS

Overview

All of Northland Power Income Fund's plants and investments performed well this quarter. Consolidated sales of \$42.9 million and income before taxes of \$5.1 million in the quarter exceeded the second quarter of 2006 by \$2.3 million (6%) and \$2.2 million (78%) respectively.

Sales and operating income at the Iroquois Falls plant increased from last year largely due to availability of additional quantities of contracted natural gas as a result of the settlement reached with one of the facility's gas suppliers during 2006. Financial results from the Kingston facility improved from the same quarter last year due to higher revenue earned from the resale of natural gas. Production at the Mont Miller and German wind farms continued to exceed last year as a result of better wind resources.

The Fund generated distributable cash of \$17.9 million during the quarter ended June 30, 2007, which exceeded distributions declared to Unitholders by \$1.1 million (6%). Distributable cash per unit for the quarter was \$0.29, which was slightly higher than the \$0.28 achieved in 2006. For the six-month period, distributable cash was \$0.67 per unit, up 9% from \$0.61 in the prior year. 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 totalled \$0.27 per unit, 3% higher than 2006.

Included in this quarter's net income is a \$82.3 million one-time non-cash charge arising from the Federal Government's substantively enacted changes to the Income Tax Act in respect of income trusts and other Specified Investment Flow Through ("SIFT") entities under which the Fund will become taxable in 2011. This non-cash charge relates to the estimated temporary differences between the accounting and tax basis of the Fund's assets and liabilities not held through corporate subsidiaries which are expected to reverse after 2010 and for which no tax has previously been recorded in the Fund's financial statements. This one-time future tax provision has no impact on the Fund's cash flows or operations. Readers should refer to the discussion concerning the Fund's *Consolidated Results* for more details.

Financial closing is expected in the third quarter of 2007 for the \$520 million, 265 megawatt Thorold cogeneration project being developed by Northland Power Inc., the parent of the Fund's Manager under a 20-year contract with the Ontario Power Authority. The Fund has committed to provide a \$35 million loan, subordinated to the senior secured project debt and non-recourse to the project sponsor, in association with and on the same terms as two major financial institutions. The Fund will receive a right of first offer with respect to Northland Power Inc.'s equity interest in the Thorold project. The subordinated loan will be primarily financed under the Fund's existing line of credit.

Iroquois Falls Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2007	2006	2007	2006
Sales Volume				
Electricity (MWh)	159,752	151,732	357,025	314,621
Steam (000 lb.)	242,241	225,018	600,557	576,359
Fuel Consumption (000 GJs)	1,502	1,460	3,383	3,133
Sales				
Electricity	14,172	13,356	34,653	31,380
Steam	1,533	1,411	3,734	3,518
Natural gas	1,872	1,339	2,089	2,112
Emission allowances and credits	-	-	-	210
	17,577	16,106	40,476	37,220
Cost of sales				
Gas consumed	6,594	6,306	15,227	13,790
Gas re-sold	1,902	1,397	2,146	2,220
	8,496	7,703	17,373	16,010
Gross profit	9,081	8,403	23,103	21,210
Plant operating costs	1,513	1,535	3,169	3,058
Capital expenditures	19	13	37	20

Sales for the quarter at \$17.6 million were \$1.5 million higher than the same period last year.

Electricity revenue under the Iroquois Falls power purchase agreement was up \$0.8 million compared to the same quarter last year; production in the 2nd quarter of 2006 was curtailed 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. Non-contracted revenue earned in the second quarter of 2007 from sales of electricity and operating reserves into the wholesale market was in line with last year. Steam revenues increased from the same period last year largely due to an 8% increase in demand. Sales of natural gas were up \$0.5 million as natural gas was purchased at spot market prices and resold to mitigate unused capacity under the plant's TransCanada Pipelines contract. There were no sales of emission allowances and credits, which are being retained due to the continuation of unattractive, low market prices.

The cost of natural gas was up \$0.8 million in 2007; the cost and volume of gas consumed increased as a result of higher electricity production and transportation tolls, while the cost of gas resold was higher due to the purchase of natural gas at market prices as cited above. Plant operating costs were in line with 2006.

For the six-month period ended June 30, total sales were \$3.3 million higher than the same period last year largely due to an increase in electricity production and steam sales. Natural gas resales were in line with 2006 while low market prices have constrained the sale of emission allowances and credits. The cost of gas consumed was up \$1.4 million due to a combination of higher production and an increase in the average cost. The cost of gas resales was slightly lower due to a decrease in the sales volume. Plant operating costs were 4% higher largely due to gas turbine maintenance fees paid to General Electric Canada ("GE"). The GE fees vary directly with electricity production, which increased this quarter, with the strengthening Canadian dollar providing some offset as the fees are payable in U.S. Dollars.

Kingston Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2007	2006	2007	2006 ¹
Sales Volume				
Electricity (MWh)	108,323	127,566	230,943	200,593
Steam (000 lb.)	64,312	65,572	157,954	116,489
Fuel consumption (000 GJs)	1,036	1,194	2,224	1,890
Sales				
Electricity	15,026	15,882	32,112	25,260
Steam	353	707	912	1,256
Natural gas	6,725	5,031	12,387	7,582
Emission allowances and credits	-	-	-	-
	22,104	21,620	45,411	34,098
Cost of sales				
Gas consumed	7,128	7,129	14,608	11,283
Gas re-sold	2,728	2,226	5,016	3,315
	9,856	9,355	19,624	14,598
Gross profit	12,248	12,265	25,787	19,500
Plant operating costs	1,931	1,393	3,373	2,421
Capital expenditures	-	-	-	-

- (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.

Electricity revenue at the Kingston facility for the 2nd quarter of 2007 was down 5% from the same period last year due to 15% lower production partly offset by higher contracted electricity rates. A 6-day scheduled maintenance outage (there were no maintenance outages in 2006) combined with nightly shutdowns adversely affected electricity production and freed up additional natural gas for resale.

Steam volumes were relatively consistent with the prior year. A 44% decrease in the average selling price of steam was the main reason for the overall drop in steam revenue - the contract price for steam is tied to Union Gas tariff rates and is reset at the beginning of each year. Revenue from the resale of natural gas was significantly higher than the previous year; approximately two-thirds of this was due to increased volumes resulting from the maintenance outage and nightly shutdowns during the quarter while the other third was the result of an increase in the average selling price. There were no sales of emission allowances in either 2006 or 2007.

The cost of natural gas consumed during the quarter was consistent with 2006 as the reduced volume of gas consumed due to the maintenance outage and nightly shutdowns was off-set by escalation of transportation tolls. The cost of gas resold increased 23% over 2006 as a result of higher costs and increased volumes of gas resold. Higher plant operating costs in 2007 were related to the maintenance outage.

For the six-month period ended June 30, electricity sales were up as escalation in the contracted electricity rates was partially offset by reduced electricity production. Steam volumes were consistent with last year but a decrease in the average selling price of steam caused a drop in steam revenue, as previously cited. Revenue from the resale of natural gas was higher than the previous year, due to an increase in both the volume of gas resold and the average selling price.

The cost of natural gas consumed was down commensurate with decreased electricity production. The cost of gas resold increased over 2006 as a result of contracted price increases and higher volumes of gas resold. Plant operating costs were down because of lower insurance premiums and lower gas turbine maintenance fees to GE which are partly based on fired hours of production and payable in U.S. dollars.

As at June 30, 2007, KCLP had forward sales commitments of excess natural gas for 2007 in the amount of \$6.5 million (735,500 GJs) and \$7.9 million (912,000 GJs) in 2008.

Mont Miller Wind Farm

<i>(in thousands of dollars except as indicated)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2007	2006	2007	2006
Sales Volume				
Electricity (MWh)	36,310	33,625	89,607	69,656
Sales				
Electricity	2,249	2,057	5,543	4,257
	2,249	2,057	5,543	4,257
Gross profit	2,249	2,057	5,543	4,257
Plant operating costs	501	449	1,112	964
Capital expenditures	8	-	8	-

Mont Miller's production during the second quarter was up 8% from the same period last year. Year-to-date production was above 2006 by 19,951 MWh or 29% due to a significantly improved wind resource. Mont Miller achieved a capacity factor of 31% for the quarter and 38% year to date. The turbines continued to perform well and achieved overall equipment reliability of 96% during the quarter and 97% year-to-date. Vestas completed two gearbox replacements and minor blade repairs late in the quarter to benefit from the relatively calmer summer months. The Manager is working with Vestas on a gearbox upgrade that will affect several turbines and is expected to improve reliability; the upgrade began in late July and is expected to be complete by early 2008. The cost of the gearbox upgrade will be covered by Vestas through Miller LP's warranty, maintenance and service ("WMS") agreement. While there will be some associated turbine downtime, Mont Miller is expected to surpass the 95% equipment reliability guaranteed under the WMS agreement.

Sales for the quarter at \$2.3 million were \$0.2 million higher than the prior year due to increased electricity production. Similarly, year-to-date sales at \$5.5 million were \$1.3 million above the prior year. Plant operating expenses for the quarter and year to date were similar to 2006.

German Wind Farms

<i>(in thousands of dollars except as indicated)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2007	2006	2007	2006 ¹
Sales Volume				
Electricity (MWh)	6,678	6,358	21,947	6,358
Sales				
Electricity	935	817	3,073	817
	935	817	3,073	817
Gross profit	935	817	3,073	817
Plant operating costs	186	256	398	256
Capital expenditures	-	-	-	-

(1) The acquisition of the German wind farms was completed April 25, 2006, with ownership effective April 1, 2006.

The German wind farms exceeded expectations during the second quarter of 2007. Production during the quarter was up 5% from the same period last year. Year-to-date production was 15,589 MWh higher than in 2006 as the Fund acquired the wind farms effective April 1, 2006. The turbines have continued to perform very well with no downtime issues at Kavelstorf and minor downtime associated with control upgrades on two turbines at Eckolstadt. The farms achieved an overall reliability of 99% for the quarter and year-to-date; long-term turbine reliability is expected to average in excess of 97%. The Manager is working with enXco and the turbine supplier to upgrade turbine fire protection equipment at Eckolstadt; work is expected to begin in August.

The wind farms achieved a capacity factor of 14% for the quarter and 24% year-to-date as the wind resource continued to exceed 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, legislated rates for wind power in Germany are generally significantly higher than rates available in North America.

Panda Energy Corporation (“PEC”)

<i>(in thousands of dollars)</i>	3 months ended Jun. 30		6 months ended Jun. 30	
	2007	2006	2007	2006
Dividends	192	428	602	698
Interest income	1,991	2,584	4,211	5,127
Total investment income	2,183	3,012	4,813	5,825

The Fund’s investment in PEC generated income of \$2.2 million this quarter through a combination of interest (US\$1,884,000; 2006 - US\$1,943,000) and dividend payments (US\$177,000; 2006 - US\$377,000); \$0.8 million lower than the same period last year. Interest income was negatively affected by the expiration of the original foreign exchange contracts in November 2006; the Fund has hedged approximately 50% of its U.S. dollar exposure on the PEC investment income to November 2009 and offsets the balance against U.S. dollar payment obligations at the Iroquois Falls and Kingston facilities. Interest income will gradually decrease as the balance on the PEC senior loan declines; the loan is scheduled to be repaid in 2021.

Financial and operating results at the Panda-Brandywine plant were comparable to last year when mild temperatures were also experienced throughout the quarter, resulting in lower dispatch levels at the facility. Second quarter production at the Panda-Brandywine plant was 118,915 MWh, an increase of 1,690 MWh from 2006.

Consolidated Results

The following discussion of the consolidated financial condition and results of operations of the Fund should be read in conjunction with the unaudited interim consolidated financial statements for the periods ended June 30, 2007 and the Fund's 2006 annual report. The financial results for 2007 include the financial contribution of 100% of the Kingston project compared to 50% prior to March 23, 2006, and results from the German wind farms which were acquired in the second quarter of 2006. Differences in financial results between 2007 and 2006 for the six-month period ended June 30 are largely accounted for by these events and by good performance during the quarter at all of the Fund's facilities.

Second Quarter

Sales, cost of sales and plant operating costs were up compared to 2006 due to the reasons cited previously under the descriptions of the facilities' results. Management and administration costs were down \$0.6 million largely due to lower legal and accounting costs and the one-time fee paid to the Manager related to the German wind farm acquisition in 2006. Amortization and the accretion expense, related solely to the asset retirement obligations of the Fund's wind farms, were consistent with last year.

Investment income of \$2.2 million was \$0.8 million lower than in 2006 largely due to reduced interest and dividend payments from PEC. During the quarter, the Fund recorded a non-cash foreign exchange loss of \$6.2 million on the translation of the PEC senior loan balance to the quarter-end U.S. dollar/Canadian dollar exchange rate, which was partially offset by a \$0.9 million non-cash foreign exchange gain on the Fund's U.S. and Euro foreign exchange contracts not designated as part of a hedging relationship and a \$3.1 million non-cash gain in the fair value of the Kingston facility's interest rate swaps. As a result of implementing the Canadian Institute of Chartered Accountants (CICA) new accounting requirements for financial instruments, hedges and comprehensive income, the Fund is recording the fair value of its interest rate swap contracts on its balance sheet and the periodic movements in the fair value on its income statement. Readers should refer to "Accounting Changes" discussed below and Note 1 of the attached consolidated financial statements for additional details on the impact of the CICA's new requirements.

Contract amortization was in line with 2006. The net contract value included on the Fund's consolidated balance sheet relates to the fair value of the power purchase agreements, natural gas purchase agreements and steam sales agreements of the operating entities when they were acquired by the Fund.

Interest expense of \$3.4 million was \$0.2 million lower than last year mainly due to debenture conversions and repayment of the acquisition line of credit in April 2007.

The factors described above resulted in income before income taxes for the second quarter of 2007 of \$5.1 million being \$2.2 million higher than last year.

Included in this quarter's net income was a \$82.3 million one-time, non-cash future income tax provision as a result of the Federal Government's Bill C-52 Budget Implementation Act, 2007 which will apply income tax to income trusts and other SIFTs at a rate of 31.5% of taxable income starting January 1, 2011. Bill C-52 was substantially enacted with the bill's third reading in the House of Commons on June 12, 2007. The non-cash charge to earnings relates to the estimated differences between the tax and accounting values of the Fund's assets and liabilities and its flow-through subsidiaries expected to be in place on January 1, 2011 when the tax takes effect. \$60.8 million of the provision relates to property, plant and equipment where the carrying value is in excess of the tax value and \$23.6 million to contracts which are not recognized for tax purposes. As a result of the new provision, future income statements will effectively show the amortization of the Fund's contracts net of taxes. Partially offsetting these amounts are certain liabilities such as asset retirement obligations and derivative liabilities. This one-time future tax provision has no impact on the Fund's cash flows or operations. Prior to the implementation of Bill C-52, only the differences between the tax and accounting values of the Fund's corporate subsidiaries were required to be calculated.

Year to Date

Sales, cost of sales and plant operating costs were up in 2007 compared to 2006 primarily due to the acquisitions and for the reasons previously stated.

Total expenses increased by \$1.3 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 were down \$2.3 million commensurate with the one-time payments made to the Manager in 2006 related to the Kingston and German acquisitions. Investment income at \$4.8 million was down from 2006 by \$1.0 million due to reduced interest payments from the PEC loan and the expiration of the original foreign exchange contracts. The Fund recorded a \$6.9 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 which was partially offset by a \$0.8 million non-cash foreign exchange gain on the Fund's U.S. and Euro foreign exchange contracts not designated a part of a hedging relationship and a \$4.1 million non-cash gain in the fair value of the Kingston facility's interest rate swaps. Contract amortization was \$3.4 million higher than 2006 due to the Kingston and German acquisitions in early 2006 and the resulting amortization of the fair value increments on the contracts acquired.

Interest expense was \$0.4 million higher than last year mainly due to the inclusion of an additional 50% of the Kingston facility debt, after taking account of the repayment of the levelization account to Ontario Electricity Financial Corporation ("OEFC"), and interest on the \$5.0 million of borrowings on the Fund's acquisition line of credit to partially finance the purchase of the German wind farms, which was repaid during the quarter.

The above factors resulted in income before taxes of \$21.6 million and a net loss of \$60.1 million after the non-cash provision for future taxes, which mainly relates to the substantial enactment of Bill C-52 as discussed previously.

Liquidity and Capital Resources

Cash and cash equivalents of \$28.9 million at June 30th increased by \$15.4 million since December 31, 2006 due to a combination of \$58.8 million generated by operations and \$0.7 million provided by investing activities partially offset by \$43.9 million used for financing activities.

Of the \$58.8 million cash provided by operating activities for the six-month period ended June 30, 2007, \$45.4 million related to operations (notably including the add-back to net income of \$82.3 million from recognizing post-2011 deferred income taxes, as described earlier), while the \$13.4 million decrease in non-cash working capital since December 2006 was mainly related to the timing of receipts for electricity sales by the Iroquois Falls and Kingston facilities to OEFC (two months of electricity sales revenue was receivable at year end, compared to only one month at June 30th). Cash generated by operating activities was \$14.5 million higher than in the same six-month period of 2006 largely because of the \$11.8 million contribution from operations.

Cash provided by investing activities of \$0.7 million in 2007 reflected a minimal level of investing activity compared to the first six months of 2006 when \$121.0 was invested, primarily related to the purchase of the remaining 50% of the Kingston facility in March 2006 and the German wind farms in April 2006.

Cash used for financing activities of \$43.9 million in the first half of 2007 largely represented distributions to Unitholders of \$34.8 million and the repayment of the credit facility at \$5.0 million. Distributions were up \$4.1 million 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 trust units in exchange for convertible unsecured subordinated debentures during the remainder of 2006. In 2006, financing activities provided cash of \$85.7 million and reflected proceeds from the subscription receipt offering offset primarily by the retirement of the KCLP levelization account debt and third-party debt associated with the German wind farms.

In accordance with the CICA's transitional provisions for implementing handbook sections S.3855 "Financial Instruments – Recognition and Measurement," S.3865 "Hedges," S.3861 "Financial Instruments – Disclosure and Presentation", S.1530 "Comprehensive Income," and S.3251 "Equity" on January 1, 2007, prior period statements of income and deficit have not been restated. To recognize the cumulative prior period effect, the Fund's 2007 opening balance sheet has been restated where required to incorporate the new accounting standards. Readers should refer to Note 1 of the consolidated financial statements for additional details on the 2006 balance sheet categories that were affected on January 1, 2007. As a result of

implementing these new standards, the Fund has recorded a \$16.4 million derivative liability as at January 1, 2007 which mainly represents the fair value of its interest rate swap contracts related to the KCLP debt. As of June 30, 2007 the derivative liability has decreased to \$10.3 million.

As discussed under the consolidated results section of this quarterly report, substantively enacted changes to the Income Tax Act in the second quarter in respect of income trusts and other SIFTs have required the Fund to record a \$82.3 million future tax liability related to the anticipated difference between the Fund's accounting values and tax values of its assets and liabilities on January 1, 2011 when the new tax takes effect.

During the quarter, cash and cash equivalents decreased by \$7.0 million due mainly to the repayment of the \$5.0 million outstanding balance on the 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 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" ("DSCR"), 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; or if the debt exceeds a defined multiple of EBITDA. For the period ended June 30, 2007, the Fund and its subsidiaries were in compliance with all debt covenants. A summary of the latest debt covenant calculations, ratio ranges for the past 12 months and required ratios for each of the applicable Fund entities are shown below.

	Latest Calculation		Required Ratio	Previous 4 Quarter Range
	Period	Ratio		
Iroquois Falls - DSCR	12 months to June 30/07	225.20	> 2.25	217.0 to 364.0
Iroquois Falls - Debt to EBITDA	As at June 30/07	0.00	< 3.25	0.0 to 0.2
The Fund - DSCR	12 months to June 30/07	4.30	> 2.25	4.3 to 5.4
The Fund - Debt to EBITDA	As at June 30/07	1.30	< 3.25	1.4 to 1.9
Kingston - DSCR	12 months to March 31/07	2.59	> 1.15	2.25 to 2.59
Miller LP - DSCR	12 months to June 30/07	2.30	> 1.20	2.00 to 2.30
Miller LP - DSCR Proforma	12 months to June 30/08	2.78	> 1.20	2.78 to 2.82
Panda Brandywine - DSCR	12 months to Apr. 30/07	1.75	> 1.20	1.49 to 1.75

Readers should refer to the Fund's most recent annual report for additional details concerning its debt covenants.

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 June 30		6 Months ended June 30	
	2007	2006	2007	2006
Cash provided by operating activities	\$ 18,861	\$ 18,074	\$ 58,781	\$ 44,312
Net change in non-cash working capital balances	(745)	(772)	(13,352)	(10,703)
Funds from operations before working capital changes ⁽¹⁾	\$ 18,116	\$ 17,302	\$ 45,429	\$ 33,609
Capital expenditures	(27)	(13)	(45)	(20)
Scheduled receipts of principal on senior loan	708	750	1,368	1,400
Acquisition fees paid to Manager ⁽²⁾	-	345	-	2,385
KCLP cash reserve drawdown (funding)	(639)	(657)	(656)	(659)
Scheduled Mont Miller repayment of debt	(237)	(202)	(475)	(404)
Scheduled KCLP repayment of debt, net ⁽³⁾	(3,715)	-	(3,715)	(1,641)
Funds set aside for KCLP scheduled debt repayment	3,715	-	-	-
Funds set aside for future maintenance	(23)	(26)	(45)	(51)
Distributable cash ⁽¹⁾	\$ 17,898	\$ 17,499	\$ 41,861	\$ 34,619
Distributions declared to Unitholders	\$ 16,834	\$ 16,286	\$ 33,664	\$ 30,391
Average number of trust units - basic (thousands of units)	62,341	61,935	62,338	56,373
Per unit (\$/unit)				
Funds from operations before working capital changes ⁽¹⁾	\$ 0.2906	\$ 0.2794	\$ 0.7288	\$ 0.5962
Distributable cash ⁽¹⁾	\$ 0.2871	\$ 0.2825	\$ 0.6715	\$ 0.6141
Distributions declared to Unitholders	\$ 0.2700	\$ 0.2625	\$ 0.5400	\$ 0.5250

(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 31, 2006.

Distributable cash of \$17.9 million exceeded that of 2006 for the three months ended June 30 by \$0.4 million and was \$1.1 million higher than the distributions declared to Unitholders. Funds from operations before working capital changes for the quarter of \$18.1 million exceeded the same period of 2006 by \$0.8 million for reasons stated earlier.

The \$3.7 million reserve for KCLP's semi-annual long-term debt principal repayment that was established in the first quarter of 2007 was released this quarter to fund the KCLP debt repayment.

For the six months ended June 30, 2007, distributable cash of \$41.9 million was up \$7.2 million largely due to the financial contribution of 100% of the Kingston project for 6 months (compared to 50% for 81 days and 100% for the remaining 100 days in the first six months of 2006) taking account of the repayment of the KCLP levelization account on March 23, 2006 and the reduction in management fees from that date, and financial results from the German wind farms. The calculation of distributable cash for 2006 includes the add-back of one-time fees related to acquisitions that were paid to the Fund's Manager, which were included in operating activities for accounting purposes but are directly related to the Fund's investing activities. Distributable cash exceeded distributions declared by \$8.2 million for the first six months of 2007.

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.

Management continues to maintain a prudent, sustainable level of distributions in relation to distributable cash, with excess cash being retained and held for reinvestment, future acquisitions and as a cushion against potential future tax obligations commencing in 2011.

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"). 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.

Subsequent to the end of the quarter, the CICA published an interpretative release titled “Standardized Distributable Cash in Income Trusts and Other Flow-through Entities”. The Manager of the Fund is currently reviewing this guidance and intends to implement it for its third quarter reporting. The objective of the guidance is to standardize the reporting of distributable cash within the income trust industry. The CICA guidance defines standardized distributable cash as cash provided by operating activities less the purchase of property, plant and equipment and any cash that cannot be distributed as a result of not meeting certain debt covenants. Income trusts will be able to show distributable cash adjustments that are not included in the calculation of standardized distributable cash if they feel those adjustments are pertinent to investors’ understanding of their business. It is anticipated that the Fund’s reporting of distributable cash will remain unchanged.

Historical Consolidated Quarterly Results

<i>\$ millions, except</i>	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>Per unit information</i>	2007	2007	2006	2006	2006	2006	2005	2005
Total sales	42.9	51.6	47.9	40.5	40.6	35.8	36.7	31.7
Net income (loss)	(76.9)	16.9	12.7	5.8	3.5	12.1	12.2	5.2
Distributable cash	17.9	24.0	18.4	17.5	17.5	17.1	18.2	13.9
Distributions	16.8	16.8	17.9	16.6	16.3	14.1	14.2	12.6
<i>Per unit statistics</i>								
Net income (loss) - basic	(1.234)	0.271	0.205	0.093	0.056	0.239	0.247	0.107
Net income (loss) - diluted	(1.234)	0.268	0.204	0.093	0.056	0.237	0.243	0.107
Distributable cash	0.287	0.384	0.296	0.282	0.283	0.337	0.369	0.285
Distributions	0.270	0.270	0.288	0.268	0.263	0.263	0.288	0.255

As discussed previously, the Fund’s net income for this quarter was negatively impacted by the recording of a one-time future tax provision related to the estimated differences between the Fund’s accounting and tax values of its assets and liabilities on January 1, 2011.

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 to Iroquois Falls, as it tends to be windier in the winter months compared to the summer months. Seasonality at the consolidated level is dampened somewhat as the financial results for the Kingston facility are less seasonal than Iroquois Falls.

Net income also includes 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), 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 and, beginning with the first quarter of 2007, fair value movements of the interest rate swap contracts entered into by KCLP.

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.

Trust Unit and Convertible Unsecured Subordinated Debenture Information

As at June 30, 2007, the Fund had 62,352,423 trust units outstanding (December 31, 2006 – 62,333,383). During the quarter, a total of \$228,000 of convertible unsecured subordinated debentures were converted into 18,240 trust units. As at August 7, 2007, a total of 62,352,423 units were outstanding.

Risks and Uncertainties

For information concerning the Fund’s risks and uncertainties, please refer to the Fund’s most recent annual

report and its Annual Information Form, dated March 30, 2007, both of which are filed electronically at www.sedar.com.

Critical Accounting Estimates

All of the Fund's significant accounting estimates remain unchanged from December 31, 2006, except that as a result of the passing of the Federal Government's Bill C-52 Budget Implementation Act, 2007 during the quarter, the Manager of the Fund is now required to estimate the difference between the Fund's accounting and tax values of its assets and liabilities expected to be in place on January 1, 2011 when the tax is scheduled to come into effect.

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 2007 in association with the filing of the 2006 Annual Report and other annual disclosure documents. 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 have 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 periods ended June 30, 2007, and that they are responsible for the design of disclosure controls and procedures and internal controls over financial reporting.

There have been no changes in internal controls over financial reporting during the quarter ended June 30, 2007 that have materially affected or are reasonably likely to materially affect the Fund's internal control over financial reporting.

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.

Accounting Changes

Financial Instruments, Hedges and Comprehensive Income

On January 1, 2007, the Fund adopted the CICA's new accounting requirements resulting in all financial instruments, including derivatives, being included on the Fund's balance sheet and measured at fair value or, in limited circumstances, at cost or amortized cost, and the inclusion of a new section in Unitholders' equity, called Accumulated Other Comprehensive Income, that reports foreign exchange gains or losses on the Fund's net investment in Germany and changes in fair value of designated cash flow hedging derivatives. As part of the transition to the new rules, the Fund has chosen to terminate its hedge accounting for the interest rate swaps entered into by its Kingston subsidiary and change its accounting policy for transaction costs related to financial instruments from deferral and amortization to expensing as incurred. These two changes resulted in opening retained earnings for the Fund being adjusted downward by \$9.5 million. For additional details on the new accounting requirements and the impact on the Fund's reporting, readers should refer to Note 1 in the unaudited interim consolidated financial statements.

Emerging Accounting Pronouncements

Financial Instruments – Disclosures & Capital Disclosures

On December 1, 2006, the CICA issued new accounting standards, Financial Instruments – Disclosures and Presentation and Capital Disclosures. Effective January 1, 2008, the Fund will be required to disclose additional quantitative and qualitative information that is intended to provide readers of the financial statements with further disclosures on the Fund's risks associated with financial instruments and its management of capital. The Fund's Manager is currently reviewing the impact of these new standards on the presentation of the Fund's financial statements.

Thorold Cogeneration Project

Financial closing is expected in the third quarter of 2007 for the \$520 million, 265 megawatt Thorold cogeneration project being developed by Northland Power Inc., the parent of the Fund's Manager. The Fund has committed to provide a \$35 million loan, subordinated to the senior secured project debt and non-recourse to the project sponsor, in association with and on the same terms as two major financial institutions. The Fund's \$35 million subordinated loan commitment includes interest and fees that will accrue as the loan is advanced over the 31 month project construction period, and will have an effective interest rate of 12.5%.

The subordinated loan is to be repaid within five years of completion of plant construction and commencement of commercial operations under the 20-year power purchase agreement with the Ontario Power Authority, scheduled for spring 2010. The Fund will receive a right of first offer with respect to Northland Power Inc.'s equity interest in the Thorold project. The subordinated loan will be primarily financed under the Fund's existing line of credit.

For additional information on the Thorold Cogeneration Project, please refer to the Fund's most recent annual report.

Outlook

The Fund's overall financial performance in 2007 is expected to exceed that of 2006, as results at the Mont Miller wind farm are anticipated to be closer to the Fund's long-term projections, PPA rates at the Iroquois Falls facility will continue to be positively affected by higher electricity wholesale market prices experienced in prior years through the three-year averaging mechanism, finalization of the backstop agreement with one of its natural gas suppliers during 2006 will provide increased gas supply volume at the Iroquois Falls facility for resale and electricity production and lower management and administration costs are expected due to certain one-time costs incurred in 2006.

In light of the federal government's decision to tax publicly-traded flow-through entities, the Fund's Manager has been receiving questions from Unitholders and others in the investment community with regard to the future of Northland Power Income Fund. Management sees no reason to change the Fund's current legal status as a trust, at least for the time being, based partly on the benefit of the tax-free interim period that extends until 2011, which supports the Fund's business model of generating strong, stable cash flows that are secured by long-life assets and contracts, and the Manager's ability to grow cash flows through investments and internal initiatives. Management and the board of trustees will be considering the Fund's strategic alternatives prior to 2011.

On behalf of Northland Power Income Fund Management Inc.

"John W. Brace"

John W. Brace
President
August 7, 2007

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 2006 annual report and in the Fund's Annual Information Form dated March 30, 2007, 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, 2007;
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 and internal control over financial reporting for the issuer, and we have:
 - (a) 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 annual filings are being prepared;
 - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

August 7, 2007

"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, 2007;
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 and internal control over financial reporting for the issuer, and we have:
 - (a) 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 annual filings are being prepared;
 - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

August 7, 2007

"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

	June 30, 2007	Dec. 31, 2006
Current		
Cash and cash equivalents	\$ 28,852	\$ 13,484
Cash reserves	2,320	1,664
Accounts and other receivables	15,081	30,380
Inventories	9,263	9,598
Prepaid expenses	914	1,907
Current portion of senior loan receivable	2,608	2,710
Total current assets	59,038	59,743
Deferred charges	1,985	4,766
Property, plant and equipment, net	420,027	434,928
Contracts	135,242	142,729
Investment in Panda Energy Corporation	7,946	7,946
Senior loan receivable	70,882	79,042
Future income tax asset	1,825	1,404
	\$ 696,945	\$ 730,558

LIABILITIES AND UNITHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 8,848	\$ 13,632
Current portion of KCLP debt	8,586	8,008
Current portion of Mont Miller term loan	1,030	951
Distribution payable to Unitholders	5,612	6,701
Total current liabilities	24,076	29,292
KCLP debt	80,740	85,033
Mont Miller term loan	37,687	38,241
Bank credit facility	-	5,000
Other long term liabilities	1,722	9,715
Asset retirement obligation	3,023	2,935
Convertible debentures	29,044	29,282
Future income tax liability	82,541	-
Derivative financial instruments [Note 1]	10,288	-
	269,121	199,498
Trust Units	670,422	670,184
Accumulated other comprehensive income (loss) [Note 2]	(59)	145
Deficit	(242,539)	(139,269)
Total Unitholders' equity	427,824	531,060
	\$ 696,945	\$ 730,558

NORTHLAND POWER INCOME FUND
Consolidated Statements of Income (Loss) 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>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Sales				
Electricity	\$ 32,382	\$ 32,112	\$ 75,381	\$ 61,714
Steam	1,886	2,119	4,646	4,775
Natural gas	8,597	6,369	14,476	9,693
Emission allowances	-	-	-	210
Total sales	42,865	40,600	94,503	76,392
Cost of sales	18,352	17,058	36,997	30,608
Gross profit	24,513	23,542	57,506	45,784
Expenses				
Plant operating costs	4,131	3,633	8,052	6,699
Amortization	6,863	6,875	13,796	11,566
Management and administration costs	1,475	2,111	2,902	5,162
Accretion expense	47	45	94	86
	12,516	12,664	24,844	23,513
Investment income	2,183	3,012	4,813	5,825
Income from operations	14,180	13,890	37,475	28,096
Foreign exchange	5,286	3,726	6,061	3,273
Amortization of deferred charges	26	163	52	326
Amortization of contracts	3,744	3,743	7,487	4,045
Change in fair value of interest rate swaps [Note 1]	(3,111)	-	(4,078)	-
Interest income	(229)	(222)	(460)	(444)
Interest expense and bank fees	3,375	3,619	6,856	6,497
Income before income taxes	5,089	2,861	21,557	14,399
Provision for (recovery of) income taxes				
Current	-	224	(80)	234
Future	82,015	(852)	81,723	(1,468)
	82,015	(628)	81,643	(1,234)
Net income (loss) for the period	\$ (76,926)	\$ 3,489	\$ (60,086)	\$ 15,633
Deficit, beginning of period - as previously stated	(148,779)	(110,442)	\$ (139,269)	\$ (108,481)
Cumulative effect of adopting new accounting standards [Note 1]	-	-	(9,520)	-
Deficit, beginning of period - as adjusted	(148,779)	(110,442)	(148,789)	(108,481)
Distributions declared to Unitholders	(16,834)	(16,286)	(33,664)	(30,391)
Net income (loss) for period	(76,926)	3,489	(60,086)	15,633
Deficit, end of period	\$ (242,539)	\$ (123,239)	\$ (242,539)	\$ (123,239)
Average number of units outstanding - basic	<i>62,341</i>	<i>61,935</i>	<i>62,338</i>	<i>56,373</i>
Average number of units outstanding - diluted	<i>62,341</i>	<i>64,676</i>	<i>62,338</i>	<i>59,439</i>
Net income (loss) per trust unit- basic	\$ (1.2340)	\$ 0.0563	\$ (0.9639)	\$ 0.2773
Net income (loss) per trust unit - diluted	\$ (1.2340)	\$ 0.0563	\$ (0.9639)	\$ 0.2373

NORHLAND POWER INCOME FUND
Consolidated Statement of Comprehensive Income (Loss)
(unaudited, stated in thousands except per unit amounts)

	<i>3 Months Ended June 30</i>		<i>6 Months Ended June 30</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Net income (loss) for the period	\$ (76,926)	3,489	\$ (60,086)	\$ 15,633
Other comprehensive income (loss):				
Net change in translation of net investment in foreign operations	(1,471)	(126)	(1,391)	(126)
Net change in fair value of hedged foreign currency forward contract	1,251	(471)	1,187	(471)
Total other comprehensive income (loss)	(220)	(597)	(204)	(597)
Total comprehensive income (loss)	\$ (77,146)	2,892	\$ (60,290)	\$ 15,036

NORTHLAND POWER INCOME FUND

Consolidated Statements of Cash Flows

(unaudited, stated in thousands except per unit amounts)

	3 Months Ended June 30		6 Months Ended June 30	
	2007	2006	2007	2006
Operating activities				
Net income (loss) for the period	\$ (76,926)	\$ 3,489	\$ (60,086)	\$ 15,633
Items not involving cash:				
Amortization	6,863	6,875	13,796	11,566
Amortization of contracts	3,744	3,743	7,487	4,045
Amortization of deferred charges	26	163	52	326
Change in fair value of interest rate swaps [Note 1]	(3,111)	-	(4,078)	-
Foreign exchange	5,286	3,726	6,061	3,273
Accretion expense	47	45	94	86
Other long term liabilities	172	113	380	148
Future income taxes	82,015	(852)	81,723	(1,468)
	18,116	17,302	45,429	33,609
Net change in non-cash working capital balances related to operations	745	772	13,352	10,703
Cash provided by operating activities	18,861	18,074	58,781	44,312
Investing activities				
Cash reserves funding	(639)	(657)	(656)	(659)
Investment in KCLP	-	-	-	(117,798)
Receipts of principal on senior loan	708	750	1,368	1,400
Investment in German wind farms	-	(25)	-	(25)
Purchase of German receivables form vendors	-	(3,879)	-	(3,879)
Purchase of property, plant and equipment	(27)	(13)	(45)	(20)
Cash (used in) provided by investing activities	42	(3,824)	667	(120,981)
Financing activities				
Repayment of Mont Miller term loan	(237)	(202)	(475)	(404)
Prospectus receipts, net	-	(252)	-	165,825
KCLP repayments of debt, net	(3,715)	-	(3,715)	(35,099)
Repayment of German debt	-	(18,965)	-	(18,965)
Credit facility increase (decrease)	(5,000)	5,000	(5,000)	5,000
Distributions to Unitholders	(16,832)	(16,242)	(34,753)	(30,646)
Cash (used in) provided by financing activities	(25,784)	(30,661)	(43,943)	85,711
Effect of exchange rate differences on cash and cash equivalents	(149)	(24)	(137)	(24)
Net change in cash and cash equivalents	(7,030)	(16,435)	15,368	9,018
Cash and cash equivalents, beginning of the period	35,882	39,935	13,484	14,482
Cash and cash equivalents, end of period	\$ 28,852	\$ 23,500	\$ 28,852	\$ 23,500
PER UNIT				
Distributions declared to Unitholders	\$ 0.2700	\$ 0.2625	\$ 0.5400	\$ 0.5250

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. 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, 2006 except for changes as outlined below. The interim consolidated financial statements should be read in conjunction with the Fund's annual consolidated financial statements included in the 2006 annual report.

Accounting Changes

Financial Instruments

On January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants (CICA) handbook sections S.3855 "Financial Instruments – Recognition and Measurement," S.3681 "Financial Instruments – Disclosure and Presentation", S.3865 "Hedges," S.1530 "Comprehensive Income," and S.3251 "Equity". These standards require that all financial assets and liabilities be classified as either trading, available for sale, held to maturity, loans and receivables or other liabilities. In addition, the standards require that all financial instruments, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as held to maturity and available-for-sale equities that do not have quoted market values in an active market.

Transaction costs on financial assets and financial liabilities classified as other than held-for-trading are now expensed as incurred. Previously, the Fund's transaction costs related to the issuance of the senior loan receivable and the convertible subordinated debentures were deferred and amortized using the straight-line method over the terms of the loans. Unamortized amounts were separately included in deferred charges on the consolidated balance sheet. As a result of implementing this new policy, \$2,729,000 of deferred charges have been charged to opening retained earnings.

Classification of financial instruments

Trading financial assets and liabilities are measured at fair value at the balance sheet date. Assets and liabilities classified as trading include cash and cash equivalents, cash reserves, accounts receivable and accounts payable, distributions payable and derivative financial instruments. **Loans and receivables and other liabilities** are initially recorded at fair value and are subsequently accounted for at amortized cost. **Derivatives** are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases as derivative financial instruments. As a result, the Fund has recorded the fair value of the interest rate swap contracts entered into by Kingston CoGen Limited Partnership (KCLP) and previously designated as hedging items in hedging relationships under AcG-13 on its consolidated balance sheet. The Fund chose to terminate the designation of these hedging relationships on the transition date of Section 3865 and therefore future changes in the fair value of the interest rate swap contracts will be recorded in the Fund's consolidated statement of income

and deficit.

Derivatives may also be embedded in other financial instruments. Under the new standards, derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract. In accordance with the new standards, the Fund selected the beginning of its fiscal year ending December 31, 2003 as its transition date for embedded derivatives and accordingly the Fund would recognize as separate assets and liabilities only those derivatives embedded in hybrid instruments issued acquired or substantively modified on or after January 1, 2003. The Fund's Manager has determined that any embedded derivatives in its existing contracts/agreements do not require a separate fair value valuation.

Unitholders' Equity

Accumulated other comprehensive income is included on the consolidated balance sheet as a separate component of Unitholders' equity and includes gains and losses arising on translation of the Fund's net investment in the German wind farms and gains and losses arising from changes in the fair values of foreign currency forward contracts hedging the Fund's net investment in Germany.

Hedge Accounting

The Manager of the Fund has chosen to continue hedge accounting, previously qualifying under AcG-13, for its foreign currency forward contracts hedging its net investment in its German operations and this hedging relationship is designated and documented in accordance with CICA Handbook Section 3865 - Hedging. As a result, gains and losses arising on translation of the Fund's net investment in the German wind farms and gains and losses arising from changes in the fair values of foreign currency forward contracts that hedge its net investment in Germany and are determined to be an effective hedge will be recorded in other comprehensive income.

Exchange gains and losses on the hedging derivatives that have been recognized in Other Comprehensive Income will be recognized in net income in the same period during which corresponding gains or losses arising from the translation of the financial statements of the self-sustaining foreign operation are recognized in net income.

Exchange gains and losses arising from the translation of the financial statements of the Fund's net investment in the German wind farms previously recorded in Cumulative Translation Adjustment are now recognized as a separate component of Accumulated Other Comprehensive Income. An appropriate portion of the exchange gains and losses so accumulated will be included in the determination of income when there has been 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.

For all the Fund's other financial derivatives not designated in hedging relationships, including the previously designated KCLP interest rate swap contracts, changes in fair value will be recognized in income each reporting period.

The fair value for the Fund's interest rate swap contracts and foreign exchange forward contracts are provided by the counterparties to these contracts.

Since January 1, 2007, the Fund has recorded a \$0.9 million non-cash gain in the fair value of the Fund's foreign exchange contracts that are not accounted for as part of a hedging relationship, which are included in the Fund's income statement on the "foreign exchange" line.

Transitional adjustment

The implementation of the new standards have been applied as required and result in an adjustment to opening retained earnings and a restatement to accumulated other comprehensive income.

The impact is as follows:

<i>(in thousands of dollars)</i>	As at Dec. 31, 2006	Adjustment upon adoption of new standards	As at Jan. 1, 2007
ASSETS			
Deferred charges	4,766	(2,729)	2,037
Future income tax asset	1,404	(398)	1,006
Impact on total assets	6,170	(3,127)	3,043
LIABILITIES AND UNITHOLDERS' EQUITY			
Accounts payable and accrued liabilities	13,632	(1,678)	11,954
Other long-term liabilities	9,715	(8,373)	1,342
Derivative financial instruments	-	16,445	16,445
Impact on total liabilities	23,347	6,394	29,741
Cumulative translation adjustment	145	(145)	-
Deficit	(139,269)	(9,520)	(148,789)
Accumulated other comprehensive income	-	145	145
Impact on Unitholders' equity	(139,124)	(9,520)	(148,644)
Impact on liabilities and Unitholders' equity	(115,777)	(3,126)	(118,903)

2. Continuity of Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following:

<i>(stated in thousands of dollars)</i>	3 months ended June 30		6 months ended June 30	
	2007	2006	2007	2006
Accumulated Other Comprehensive Income-net change in translation of net investment in self sustaining foreign operations:				
Balance beginning of period	1,470	-	1,390	-
Realization of loss on reduction on net investment	(49)	-	(49)	-
Unrealized gain on translation of net investment	(1,422)	(126)	(1,342)	(126)
Balance end of period	(1)	(126)	(1)	(126)
Accumulated Other Comprehensive Income-net change in fair value of foreign currency forward contracts hedging net investment of foreign operations:				
Balance beginning of period	(1,309)	-	(1,245)	-
Realization of gain on reduction on net investment	43	-	43	-
Impact of remeasuring fair value	1,208	(471)	1,144	(471)
Balance end of period	(58)	(471)	(58)	(471)
Total Accumulated Other Comprehensive Loss	(59)	(597)	(59)	(597)

3. Trust Units and Convertible Unsecured Subordinated Debentures

Since December 31, 2006, a total of \$238,000 of convertible unsecured debentures have been converted into 19,040 trust units. The change in trust units during the three months ended June 30, 2007 is as follows:

<i>(stated in thousands of dollars, except for units)</i>	Number of Units	Amount
Outstanding as of December 31, 2006	62,333,383	670,184
Q1 conversion of unsecured subordinated debentures	800	10
Q2 conversion of unsecured subordinated debentures	18,240	228
Outstanding as of June 30, 2007	62,352,423	670,422

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

	2007	2006
Weighted average number of units outstanding, basic	62,341,427	61,935,329
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	-	2,740,614
Weighted average number of units outstanding, diluted	62,341,427	64,675,943

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

	2007	2006
Weighted average number of units outstanding, basic	62,337,719	56,373,427
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	-	3,065,390
Weighted average number of units outstanding, diluted	62,337,719	59,438,817

As a result of the Fund incurring a net loss for the three and six months ended June 30, 2007, conversion of the convertible unsecured subordinated debentures into trust units would be anti-dilutive and are excluded from the calculation of the weighted average number of units outstanding, diluted.

4. Future Taxes

On October 31, 2006, the Canadian Federal Government announced tax proposals pertaining to the taxation of distributions paid by income trusts and changes to the personal tax treatment of trust distributions starting in 2011. Subsequently, on June 12, 2007, the Federal Government's Bill C-52 Budget Implementation Act, 2007 which included the above mentioned tax proposals was substantially enacted with the bill's third reading in the House of Commons. The new law will result in a two-tiered tax structure similar to that of corporations whereby the taxable portion of distributions will 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 of the Bill becoming substantially enacted, the Fund recorded a one-time \$82.3 million future income tax provision related to the new tax on trust distributions. This non-cash charge to earnings relates to the estimated differences between the tax and accounting values of the Fund and its flow-through subsidiaries expected to be in place on January 1, 2011 when the tax takes effect.

5. Segmented Information

The Fund indirectly owns 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 March 31, 2007.

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,	Iroquois		Mont	Kavelstorf /		
June 30, 2007:	Falls	Kingston	Miller	Eckolstadt ⁽²⁾	Corporate	Total
Revenue	17,577	22,104	2,249	935	-	42,865
Amortization	2,223	2,911	1,058	671	-	6,863
Operating income	4,901	7,190	555	(23)	1,557	14,180
Interest expense, net	(34)	2,070	626	7	477	3,146
June 30, 2006:						
Revenue	16,106	21,620	2,057	817	-	40,600
Amortization	2,221	2,957	1,057	640	-	6,875
Operating income	4,004	7,741	420	(177)	1,902	13,890
Interest expense, net	(13)	2,105	635	67	603	3,397

For the 6 months ended,	Iroquois		Mont	Kavelstorf /		
June 30, 2007:	Falls	Kingston ⁽¹⁾	Miller	Eckolstadt ⁽²⁾	Corporate	Total
Revenue	40,476	45,411	5,543	3,073	-	94,503
Amortization	4,446	5,867	2,115	1,368	-	13,796
Operating income	14,735	16,170	2,049	1,089	3,432	37,475
Interest expense, net	(20)	4,126	1,249	8	1,033	6,396
June 30, 2006:						
Revenue	37,220	34,098	4,257	817	-	76,392
Amortization	4,443	4,369	2,114	640	-	11,566
Operating income	12,741	12,406	917	(177)	2,209	28,096
Interest expense, net	(22)	3,511	1,250	67	1,247	6,053

(stated in thousands of dollars)

As at June 30, 2007:	Iroquois		Mont	Kavelstorf /		
	Falls	Kingston ⁽¹⁾	Miller	Eckolstadt ⁽²⁾	Corporate	Total
Property, plant & equipment, net	180,224	138,855	83,869	17,079	-	420,027
Contracts, net	8,064	120,824	3,904	2,450	-	135,242
Senior loan and investment in PEC	-	-	-	-	81,436	81,436
As at December 31, 2006:						
Property, plant & equipment, net	184,632	144,723	85,975	19,598	-	434,928
Contracts, net	8,338	127,838	4,007	2,546	-	142,729
Senior loan and investment in PEC	-	-	-	-	89,698	89,698

(1) On March 23, 2006, the remaining 50% ownership interest in KCLP was acquired.

(2) The acquisition of the German wind farms was completed April 25, 2006, with ownership effective April 1, 2006.

Corporate operating income for the three months ended June 30, 2007 includes \$2.2 million (2006 – \$3.0 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	
	2007	2006	2007	2006
Revenue				
Canada	41,930	39,783	91,430	75,575
Germany	935	817	3,073	817
	42,865	40,600	94,503	76,392
	As at June 30, 2007		As at December 31, 2006	
Property, Plant & Equipment, Net				
Canada		402,948		415,330
Germany		17,079		19,598
		420,027		434,928

As at June 30, 2007 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.

NORTHLAND POWER INCOME FUND

TRUSTEE

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REGISTRAR AND TRANSFER AGENT

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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.

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