

Quarterly Report

Northland Power Income Fund

Quarterly Report for the period ended June 30, 2008

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, 2008*

	<i>3 months ended June 30</i>		<i>6 months ended June 30</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
FINANCIAL (thousands, except per unit amounts)				
Sales	\$44,970	\$42,865	\$97,321	\$94,503
Net Income (Loss)	\$11,240	(\$76,926)	\$26,962	(\$60,086)
Standardized Distributable Cash	\$34,976	\$18,834	\$56,614	\$58,736
Distributable Cash	\$19,522	\$17,898	\$42,793	\$41,861
Distributions Declared to Unitholders	\$16,835	\$16,834	\$33,670	\$33,664
<i>Units Outstanding</i>	<i>62,353</i>	<i>62,352</i>	<i>62,353</i>	<i>62,352</i>
<i>Average Number of Units Outstanding - basic</i>	<i>62,353</i>	<i>62,341</i>	<i>62,353</i>	<i>62,338</i>
<i>Average Number of Units Outstanding - diluted</i>	<i>62,353</i>	<i>62,341</i>	<i>64,916</i>	<i>62,338</i>
Per Unit				
Standardized Distributable Cash	\$0.5609	\$0.3021	\$0.9080	\$0.9422
Distributable Cash	\$0.3131	\$0.2871	\$0.6863	\$0.6715
Distributions Declared to Unitholders	\$0.2700	\$0.2700	\$0.5400	\$0.5400
OPERATIONS				
<i>Electricity Production (megawatthours)</i>	<i>300,211</i>	<i>311,063</i>	<i>685,783</i>	<i>699,522</i>
<i>Steam Production (thousands of pounds)</i>	<i>271,928</i>	<i>306,553</i>	<i>652,921</i>	<i>758,511</i>
<i>Fuel Consumption (thousands of gigajoules)</i>	<i>2,556</i>	<i>2,538</i>	<i>5,613</i>	<i>5,607</i>



MANAGEMENT'S DISCUSSION & ANALYSIS

Overview

Consolidated sales for the quarter of \$45.0 million exceeded the second quarter of 2007 by \$2.1 million while income before taxes at \$10.2 million was up \$5.1 million largely due to \$1.1 million higher income from operations and lower non-cash foreign exchange losses.

Second quarter operating income at the Iroquois Falls plant was in line with last year while operating income from the Kingston facility was up due to higher electricity sales and lower plant operating costs. However, gross profit at both the Iroquois Falls and Kingston facilities continue to be negatively impacted by significant increases since year end in TransCanada PipeLine transportation tariffs. Production and revenue at both the Mont Miller and German wind farms were down due to lighter winds than last year.

Distributable cash as determined by the Fund was \$19.5 million during the quarter and exceeded distributions paid to Unitholders by \$2.7 million. Distributable cash per unit for the quarter was \$0.31, compared to \$0.29 in 2007. 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.

The Fund announced during the quarter that it has committed to provide a \$34.8 million loan to Saint-Ulric Saint-Léandre Wind L.P. ("SUSL"), the developer and owner of the Jardin d'Éole wind project. SUSL is a wholly-owned subsidiary of Northland Power Inc., the parent of the Manager of the Fund. The Jardin d'Éole wind farm is being constructed on leased land, primarily agricultural, in the Gaspésie region of Quebec on the south shore of the St. Lawrence River close to the municipalities of Saint-Ulric and Saint-Léandre. SUSL signed a contract with Hydro-Québec in February 2005 for the supply of up to 150 megawatts (MW) of electricity from the Jardin d'Éole wind farm that expires 20 years after commencement of commercial operations, which is expected in late 2009 or early 2010. SUSL also expects to receive payments under the federal government's EcoEnergy program. General Electric Canada is supplying 85 GE 1.5sl wind turbines, for a total initial capacity of 127.5 MW.

Iroquois Falls Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended June 30		6 months ended June 30	
	2008	2007	2008	2007
Sales Volume				
Electricity (MWh)	159,099	159,752	356,065	357,025
Steam (000 lb.)	213,512	242,241	507,513	600,557
Fuel Consumption (000 GJs)	1,491	1,502	3,325	3,383
Sales				
Electricity	14,728	14,172	35,482	34,653
Steam	1,570	1,533	3,559	3,734
Natural gas	2,328	1,872	3,103	2,089
Emission allowances and credits	-	-	116	-
	18,626	17,577	42,260	40,476
Cost of sales				
Gas consumed	7,231	6,594	16,156	15,227
Gas re-sold	2,321	1,902	3,134	2,146
	9,552	8,496	19,290	17,373
Gross profit				
	9,074	9,081	22,970	23,103
Plant operating costs				
	1,599	1,513	3,241	3,169
Capital expenditures				
	26	19	46	37

Electricity revenue was up slightly in the second quarter of 2008 compared to last year largely due to a greater concentration of higher-priced on-peak hours. Revenue earned from non-contracted sales of electricity and operating reserves into the wholesale market was \$0.2 million higher than last year due to higher market prices for electricity and increased sales volumes. Steam revenues increased from the same period last year as a 12% decrease in demand was offset by a higher average selling price which is tied to the delivered cost of gas. Sales of natural gas were up \$0.5 million as market gas was bought and resold to mitigate excess capacity under the plant's gas transportation contract. There were no sales of emission allowances and credits during the quarter, which are being retained due to the continuation of unattractive, low market prices.

The cost of gas consumed during the quarter was up as a result of increased TransCanada PipeLines Limited ("TCPL") transportation tolls and a price increase resulting from the scheduled "re-opening" of the price under one gas contract that represents approximately 30% of the facility's gas supply. The cost of gas resold was up due to purchases of natural gas at generally higher market prices to mitigate fixed transportation tariffs. Plant operating costs at \$1.6 million were consistent with the second quarter of 2007.

For the six-month period ended June 30th, electricity sales were \$0.8 million higher due to more on-peak production and a \$0.2 million retroactive payment related to 2007 received from Ontario Electricity Financial Corporation ("OEFCE") in the first quarter of 2008. Higher natural gas resales and cost of gas resold were the result of higher market prices. The cost of gas consumed was up \$0.9 million due to a 38% increase in TCPL tolls and a higher average cost of gas. Plant operating costs were in line with costs incurred during the first six months of 2007.

Kingston Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended June 30		6 months ended June 30	
	2008	2007	2008	2007
Sales Volume				
Electricity (MWh)	108,949	108,323	235,109	230,943
Steam (000 lb.)	58,416	64,312	145,408	157,954
Fuel consumption (000 GJs)	1,065	1,036	2,288	2,224
Sales				
Electricity	16,773	15,026	34,403	32,112
Steam	378	353	936	912
Natural gas	6,755	6,725	12,236	12,387
	23,906	22,104	47,575	45,411
Cost of sales				
Gas consumed	7,774	7,128	15,810	14,608
Gas re-sold	2,812	2,728	5,034	5,016
	10,586	9,856	20,844	19,624
Gross profit	13,320	12,248	26,731	25,787
Plant operating costs	1,294	1,931	2,636	3,373
Capital expenditures	-	-	-	-

Electricity production in the second quarter of 2008 was in line with the prior year as additional off-peak plant curtailment (to benefit from favourable gas resale opportunities) offset a 6-day scheduled maintenance outage in 2007. Electricity revenue increased slightly due to proportionately more on-peak production hours and higher PPA rates, which are partially linked to underlying fixed and variable fuel tariffs.

Steam revenue during the quarter was 7% higher than the prior year as higher prices offset reduced production. Revenue from the resale of natural gas was up marginally from the previous year due to a slightly higher average selling price. There were no sales of emission allowances in either 2007 or 2008.

The cost of natural gas consumed was higher in the second quarter of 2008 compared to the same period last year, primarily due to a significant increase in firm transportation tolls from TCPL. The cost of gas resold increased from 2007 due to the escalation of the contracted gas price. Plant operating costs were significantly lower in 2008 as 2007 included maintenance costs associated with the six-day scheduled outage.

For the six-month period ended June 30th, electricity sales were up commensurate with generally higher production, additional on-peak hours and an escalation in PPA rates. Steam revenue was up for the reasons mentioned previously. Revenue from the resale of natural gas was down from the previous year due to a slightly lower volume of gas resold.

The cost of natural gas consumed was higher compared to the first half of 2007 primarily due to higher production and the escalation of fixed and variable TCPL transportation tolls of 36% since year end. The cost of gas resold was in line with the same period last year. Plant operating costs were down, as previously discussed.

As at June 30, 2008, KCLP had forward sales commitments of natural gas for the remainder of 2008 in the amount of \$12.9 million (1,533,500 GJs), \$12.5 million (1,453,500 GJs) in 2009 and \$1.2 million (135,000 GJs) in 2010.

Mont Miller Wind Farm

<i>(in thousands of dollars except as indicated)</i>	3 months ended June 30		6 months ended June 30	
	2008	2007	2008	2007
Sales Volume				
Electricity (MWh)	27,520	36,310	74,783	89,607
Sales				
Electricity	1,730	2,249	4,693	5,543
	1,730	2,249	4,693	5,543
Gross profit	1,730	2,249	4,693	5,543
Plant operating costs	433	501	955	1,112
Capital expenditures	-	8	-	8

Mont Miller's electricity production during the second quarter of 2008 was below the previous year's results and long term expectations due to unusually light winds. Mont Miller's capacity factor was 23% for the second quarter and 32% year-to-date.

The turbines continued to perform very well and achieved overall equipment reliability of 98% during the quarter and year-to-date. In the second quarter Vestas replaced a gearbox as part of the Metso Gearbox upgrade program. The remaining five gearbox upgrades are expected to be complete by year end. All costs associated with equipment replacements and upgrades are covered under Mont Miller's Warranty, Maintenance and Service ("WMS") agreement.

Plant operating costs for the quarter and year to date are both lower than the corresponding periods of 2007 due to reduced electricity consumption costs and decreased engineering and environmental consulting costs.

German Wind Farms

<i>(in thousands of dollars except as indicated)</i>	3 months ended June 30		6 months ended June 30	
	2008	2007	2008	2007
Sales Volume				
Electricity (MWh)	4,643	6,678	19,826	21,947
Sales				
Electricity	708	935	2,793	3,073
	708	935	2,793	3,073
Gross profit	708	935	2,793	3,073
Plant operating costs	256	186	507	398
Capital expenditures	-	-	-	-

Electricity production during the second quarter of 2008 fell slightly below long-term expectations and well below the prior year's results due mainly to lighter winds at Eckolstädt during May and June. Electricity production has met the long term forecast year-to-date. The wind farms achieved a combined capacity factor of 10% during the second quarter and 21% year-to-date.

The wind farms achieved combined turbine reliability of 98% during the quarter and year-to-date. Scheduled repairs and upgrades during the quarter resulted in higher plant operating costs.

Investment Income

<i>(in thousands of dollars)</i>	3 months ended June 30		6 months ended June 30	
	2008	2007	2008	2007
Panda Energy Corporation ("PEC"):				
Dividends	291	192	340	602
Interest income	1,812	1,991	3,705	4,211
	2,103	2,183	4,045	4,813
Thorold CoGen LP interest and fees	279	-	457	-
Jardin d'Éole fees	75	-	75	-
Total investment income	2,457	2,183	4,577	4,813

Investment income at \$2.5 million was up \$0.3 million due to interest and fees from the Thorold and Jardin d'Éole projects.

The Fund's investment in PEC generated income of \$2.1 million this quarter, in line with the same period last year, through a combination of interest (US\$1,818,000; 2007 - US\$1,884,000) and dividend payments (US\$294,000; 2007 - US\$177,000). Interest income will continue to decrease as the balance on the Panda senior loan declines; the loan is scheduled to be repaid in 2021.

Financial and operating results at the Panda-Brandywine plant for the quarter were slightly lower than last year as temperate weather kept dispatch opportunities to a minimum. During the quarter, the Panda-Brandywine facility produced 121,000 MWh of electricity, approximately 2,000 MWh less than last year.

As at June 30th, the Fund had loaned Thorold CoGen LP \$9.8 million, excluding accrued interest. During the quarter, the Fund recognized \$0.3 million of income comprising \$38,000 of commitment and financing fees and \$241,000 of accrued interest.

During the quarter, the Fund committed to provide a \$34.8 million loan to Saint-Ulric Saint-Léandre Wind L.P., the developer and owner of the Jardin d'Éole wind project. The Fund will earn fees of 2% per annum on its loan commitment during most of the 18-month construction period and 6% per annum on funds actually advanced; the first cash advance is expected to be made by the Fund late in 2009. All accrued fees and interest are expected to be paid to the Fund when commercial operations of the Jardin d'Éole wind farm commence. The Fund has an option to acquire a 50% equity ownership interest in SUSL once the project is in full commercial operations for \$34.8 million. The Fund will finance the subordinated loan with cash on hand and by drawing on its line of credit, if required. The Fund recognized \$75,000 in stand-by fees this quarter.

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, 2008 and the Fund's 2007 Annual Report.

Second Quarter

Sales and cost of sales were up \$2.1 million and \$1.8 million respectively compared to 2007 for the reasons cited under the descriptions of each facility's results. Total plant operating costs were down \$0.5 million due to lower costs at the Kingston and Mont Miller facilities, while management and administration costs were consistent with the prior year. Amortization of property, plant and equipment was slightly higher this quarter due to the reclassification of major spare parts from inventory to property, plant and equipment on January 1, 2008 as a result of adopting new accounting standards (see "Accounting Changes" for further details).

As discussed previously, investment income of \$2.5 million was \$0.3 million higher than in 2007. During the quarter, the Fund recorded the following non-cash adjustments: (i) a \$1.7 million gain on the change in fair value of the Kingston facility's interest rate swaps and (ii) a foreign exchange loss of \$0.4 million on the translation of the Panda senior loan balance to the quarter-end Canadian dollar/U.S. dollar exchange rate.

There was also a very small foreign exchange loss this quarter on the Fund's U.S. and Euro foreign exchange contracts not designated as part of a hedging relationship.

Contract amortization and interest and bank charges were both slightly lower than the same period in 2007.

The factors described above resulted in income before income taxes for the second quarter of 2008 of \$10.2 million being \$5.1 million higher than last year. After the recovery of \$0.4 million of current income taxes and the \$0.6 million recovery of future income taxes, net income at \$11.2 million was \$88.2 million higher than last year; a one-time, non-cash future income tax provision of \$82.3 million was booked in the second quarter of 2007 as a result of the Federal Government's Bill C-52 Budget Implementation Act, 2007 which will apply income taxes to income trusts starting January 1, 2011.

Year to Date

Sales and cost of sales were up in 2008 compared to 2007 primarily due to the reasons previously described. Total plant operating costs were down \$0.7 million largely due to lower costs at the Kingston facility as cited previously.

Management and administration costs were down \$0.5 million commensurate with lower legal fees and one-time costs incurred last year related to the special Unitholder meeting held in the first quarter of 2007. Investment income at \$4.6 million was down from 2007 by \$0.2 million due to reduced interest and dividend payments from PEC, partially offset by interest and fees earned from the Thorold and Jardin d'Éole projects. The Fund recorded a \$2.1 million non-cash foreign exchange gain on the restatement of the PEC senior loan balance to the quarter-end Canadian dollar/U.S. dollar exchange rate due to a weakening in the Canadian dollar from year end, which was partially offset by a \$0.8 million non-cash foreign exchange loss on the Fund's U.S. and Euro foreign exchange contracts not designated a part of a hedging relationship and a \$0.3 million non-cash loss in the fair value of the Kingston facility's interest rate swaps. Interest and bank charges were \$0.3 million lower than 2007 due largely to reduced outstanding loan balances.

The above factors resulted in income before taxes of \$26.1 million being \$4.5 million higher than 2007. As discussed previously, the impact of the \$82.3 million one-time, non-cash future income tax provision in 2007 related to Bill C-52 resulted in net income for the six months ending June 30, 2008 being \$87.0 million higher than last year.

Liquidity and Capital Resources

Cash and cash equivalents of \$41.9 million at June 30th increased by \$13.6 million since December 31, 2007 as a result of \$56.7 million of cash generated by operations being offset by \$4.8 million of investing activities and by \$38.5 million of financing activities.

Of the \$56.7 million cash provided by operating activities for the six-month period ended June 30, 2008, \$46.9 million related to operations, with the balance representing a \$9.8 million decrease in working capital since December 2007. Cash generated by operating activities was \$2.1 million lower than in the same six-month period of 2007 as a \$1.4 million increase related to operations was more than offset by a change in working capital primarily associated with the payment of year end income taxes connected to the Calpine gas settlement in December 2007.

Cash used for investing activities of \$4.8 million in 2008 reflected advances of \$5.7 million on the loan to Thorold CoGen LP, partially offset by receipts of principal on the Panda senior loan. Cash used for financing activities of \$38.5 million represented distributions to Unitholders of \$33.7 million and long-term debt repayments of \$4.8 million.

Inventory decreased from \$9.6 million at December 31, 2007 to \$4.4 million at quarter end, largely due to a reclassification of major turbine spares from inventory to property, plant and equipment as a result of the implementation of the Canadian Institute of Chartered Accountants (CICA) new accounting requirements for major spare parts. Readers should refer to Note 2, "Adoption of New Accounting Standards" in the

attached consolidated financial statements for additional details on the impact of the CICA's new requirements.

Derivative financial instruments increased by \$2.3 million from year end due to the recognition of unrealized losses on the Fund's interest rate swaps and foreign exchange contracts, as discussed previously.

During the quarter, cash and cash equivalents increased by \$15.0 million mainly due to a decrease in working capital 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 and at March 31, 2008, compared to only one month at June 30, 2008).

Sustainability of Distributions

The Fund's investment objective is to produce stable and sustainable levels of cash for distribution to Unitholders from assets, businesses and investments related to the production, conversion, transmission, distribution, purchase and sale of electricity and other forms of energy, energy-related projects and fuels.

An essential element of the Fund's business strategy to assure the predictability of distributions is to have the majority of the Fund's revenue and costs determined under long-term contracts with creditworthy counterparties. The major terms of the long-term power purchase agreements and fuel-supply contracts are aligned for each project such that revenue and cost escalation are linked, providing assurance of long-term profitability for the project.

Distributions to Unitholders and Distributable Cash

The following calculation of standardized distributable cash and 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	
	2008	2007	2008	2007
Cash provided by operating activities	\$ 35,002	\$ 18,861	\$ 56,660	\$ 58,781
Capital expenditures	(26)	(27)	(46)	(45)
Standardized distributable cash	\$ 34,976	\$ 18,834	\$ 56,614	\$ 58,736
Northland Power Income Fund adjustments:				
Net change in non-cash working capital balances related to operations	(15,340)	(745)	(9,779)	(13,352)
Scheduled receipts of principal on Panda senior loan	755	708	1,448	1,368
Scheduled repayment of Mont Miller term loan	(277)	(237)	(554)	(475)
Scheduled repayment of KCLP term loans	-	(3,715)	(4,293)	(3,715)
Funds set aside for repayment of KCLP term loans	-	3,715	-	-
KCLP cash reserve funding	(564)	(639)	(589)	(656)
Funds set aside for future maintenance	(28)	(23)	(54)	(45)
Distributable cash	\$ 19,522	\$ 17,898	\$ 42,793	\$ 41,861
Distributions paid to Unitholders	\$ 16,835	\$ 16,832	\$ 33,670	\$ 34,753
Standardized distributable cash payout ratio	48%	89%	59%	59%
Distributable cash payout ratio	86%	94%	79%	83%
Cumulative - since inception				
Standardized distributable cash			\$ 415,925	\$ 319,507
Distributable cash			\$ 521,367	\$ 429,553
Distributions paid to Unitholders			\$ 467,651	\$ 400,311
Standardized distributable cash payout ratio			112%	125%
Distributable cash payout ratio			90%	93%
Average number of trust units - basic (thousands of units)	62,353	62,341	62,353	62,338
Average number of trust units - fully diluted (thousands of units)	62,353	62,341	64,916	62,338
Per unit (\$/unit)				
Standardized distributable cash - basic	\$ 0.5609	\$ 0.3021	\$ 0.9080	\$ 0.9422
Standardized distributable cash - fully diluted	\$ 0.5609	\$ 0.3021	\$ 0.8721	\$ 0.9422
Distributable cash - basic	\$ 0.3131	\$ 0.2871	\$ 0.6863	\$ 0.6715
Distributable cash - fully diluted	\$ 0.3131	\$ 0.2871	\$ 0.6592	\$ 0.6715

Cash from operations at \$35.0 million for the quarter was higher than the same period of 2007 by \$16.1 million primarily due to a decrease in working capital related to the timing of receipts for electricity sales by the Iroquois Falls and Kingston facilities to OEFC.

Standardized distributable cash for the quarter at \$35.0 million was \$16.1 million higher than the 2007 level for the same period due to the large change in working capital, as explained previously. Standardized distributable cash was \$18.1 million higher than distributions paid to Unitholders as the Fund retained excess cash for reinvestment, funding of the loan commitments for the Thorold and Jardin d'Éole projects and as a cushion against potential future tax obligations commencing in 2011. For the six months ended June 30, 2008, standardized distributable cash at \$56.6 million was \$2.1 million lower than the same period last year as a \$1.4 million increase related to operations was more than offset by a change in working capital primarily associated with the payment of year end income taxes connected to the Calpine gas settlement in December 2007.

The table above shows entity-specific "Northland Power Income Fund adjustments" to standardized distributable cash to arrive at "Distributable Cash", the cash generated from the business that the Fund's Manager believes is representative of the amount that is available to be distributed to Unitholders while preserving the long-term value of the business and the Fund. "Distributable Cash" as calculated above is consistent with the Fund's calculation of distributable cash in past quarters and years. Readers should refer to the Fund's 2007 Annual Report for additional information on the entity-specific adjustments to standardized distributable cash.

Distributable cash as determined by the Fund for the three months ended June 30th at \$19.5 million was \$1.6 million higher than the same period in 2007 and was \$2.7 million higher than the distributions paid to

Unitholders. For the six months ended June 30, 2008 distributable cash of \$42.8 million was up \$0.9 million.

The cumulative standardized distributable cash payout ratio since inception of the Fund is greater than 100% largely because standardized distributable cash does not provide adjustments for expansionary capital expenditures. As discussed in the 2007 Annual Report, the Fund had significant expansionary capital expenditures between 2002 and 2005 related to the gas turbine upgrade at Iroquois Falls and the building of the Mont Miller wind farm, both of which were funded through the issuance of trust units; the distributable cash calculation takes account of these expenditures. The payout ratio based on the Fund's calculation of distributable cash from inception to June 30, 2008 is 90%.

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 loans receivable.

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 to 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, 2008, 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 30/08	508.70	> 2.25	297.4 to 508.7
Iroquois Falls - Debt to EBITDA	As at June 30/08	0.00	< 3.25	0.0 to 0.05
The Fund - DSCR	12 months to June 30/08	4.90	> 2.25	4.1 to 4.9
The Fund - Debt to EBITDA	As at June 30/08	1.00	< 3.25	1.0 to 1.3
Kingston - DSCR	12 months to Mar. 31/08	1.86	> 1.15	1.86 to 2.59
Miller LP - DSCR	12 months to June 30/08	2.10	> 1.20	2.10 to 2.37
Miller LP - DSCR Proforma	12 months to June 30/09	2.36	> 1.20	2.36 to 2.72
Panda Brandywine - DSCR	12 months to Apr. 30/08	1.70	> 1.20	1.51 to 1.70

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

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"). Distributable cash and funds from operations before working capital changes, as presented, may not be comparable to similar measures presented by other income funds. Management believes that these measures are widely accepted financial indicators used by investors to assess the performance of an income trust and its ability to generate cash through operations.

Historical Consolidated Quarterly Results

<i>\$ millions, except</i>	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>Per unit information</i>	2008	2008	2007	2007	2007	2007	2006	2006
Total sales	45.0	52.4	48.6	41.2	42.9	51.6	47.9	40.5
Net income (loss)	11.2	15.7	31.2	1.6	(76.9)	16.9	12.7	5.8
Standardized distributable cash	35.0	21.6	33.8	6.0	18.8	39.9	18.1	8.0
Distributable cash	19.5	23.3	29.9	19.1	17.9	24.0	18.4	17.5
Distributions declared	16.8	16.8	16.8	16.8	16.8	16.8	17.9	16.6
<i>Per unit statistics</i>								
Net income (loss) - basic	0.180	0.252	0.502	0.026	(1.234)	0.271	0.205	0.093
Net income (loss) - diluted	0.180	0.250	0.476	0.026	(1.234)	0.268	0.204	0.093
Standardized distributable cash	0.561	0.347	0.542	0.096	0.302	0.640	0.290	0.129
Distributable cash	0.313	0.373	0.480	0.307	0.287	0.384	0.296	0.282
Distributions declared	0.270	0.270	0.270	0.270	0.270	0.270	0.288	0.268

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 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 and fees earned on the subordinated loan receivable from Thorold CoGen LP and the senior loan receivable from a PEC subsidiary, dividends received from the Fund's 19% equity interest in PEC (none of which varies materially by season), any non-cash foreign exchange adjustments required to translate the US dollar and Euro denominated balances 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 quarter and lowest during the second and third quarters.

Trust Unit and Convertible Unsecured Subordinated Debenture Information

As at June 30, 2008, the Fund had 62,353,143 trust units outstanding (December 31, 2007 – 62,352,423). During the quarter, a total of \$9,000 of convertible unsecured subordinated debentures were converted into 720 trust units. As at August 7, 2008, a total of 62,353,143 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 28, 2008, both 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 2008 in association with the filing of the 2007 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, 2008, 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, 2008 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

Effective January 1, 2008, the Fund adopted the CICA new accounting standards contained in Section 3031 "Inventories" and the amendments to Section 3061 "Property, Plant and Equipment" that required the Fund to reclassify major spare parts and standby equipment from inventory to property, plant and equipment. The new requirements regarding inventory costing had no impact to the Fund's accounting for its inventory. These standards were adopted on a retroactive basis without restatement of comparative periods. The Fund adjusted opening retained earnings for prior period amortization related to major spare parts and standby equipment reclassified from inventory to property, plant and equipment. For additional details of the impact of adopting this new accounting requirement on the Fund's reporting, readers should refer to Note 2 in the unaudited interim consolidated financial statements.

Effective January 1, 2008, the Fund adopted the new CICA accounting standards contained in Sections 3862 "Financial Instruments – Disclosure", 3863 "Financial Instruments – Presentation" and 1535 "Capital Disclosures". The adoption of these new standards resulted in additional disclosures with regard to financial instruments and the Fund's objectives, policies and processes for managing capital. The new standards have no impact on either the classification and valuation of the Fund's financial instruments or on net income, Unitholders' equity or any other line item in the Fund's consolidated financial statements.

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 (IFRS) by January 1, 2011.

Changing from current Canadian generally accepted accounting principles to IFRS will be a significant undertaking that may materially affect reported financial positions and results of operations of the Fund. During the quarter, the Manager engaged consultants from one of the larger accounting firms to assist the Fund with the transition. The Manager of the Fund is currently working with the consultants on finalizing an IFRS implementation plan that will include identifying differences between current accounting policies and those required under IFRS, possible changes to information technology and data systems, additional disclosure requirements and appropriate staff training.

The change-over from Canadian generally accepted accounting principles to IFRS is not expected to have an impact on the Fund's distributable cash.

Outlook

The Fund's distributable cash in 2007 amounted to \$1.46 per unit, or \$1.28 per unit after backing out the one-time impact of the Calpine settlement related to its 2006 gas supply contract default. Distributable cash for 2008 is expected to be in the range of \$1.28 per unit. Gross profit at Iroquois Falls will continue to be adversely affected by the previously mentioned gas supply contract price re-opener that is 50% mitigated through higher payments from OEFC, while margins at both Iroquois Falls and Kingston are being compressed by jumps of almost 40% in TCPL transportation tariffs this year. On the upside, margins on natural gas sales at Kingston should improve due to higher gas prices – about 80% of projected sales for the balance of the year are now subject to forward contracts. Also on the upside, selling prices under the Iroquois Falls power purchase agreement, which are indirectly related to the wholesale cost of electricity in

Ontario, will be subject to upwards pressure in the long-term due to the impact of the entry into commercial operation of new power plants and wind farms contracted by the Ontario Power Authority as well as Ontario Power Generation's success in having its administered rates increase

On behalf of Northland Power Income Fund Management Inc.

(signed) "John W. Brace"

John W. Brace
President
August 7, 2008

FORWARD LOOKING STATEMENTS

Certain statements in this quarterly report, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Fund's and its subsidiaries' current expectations. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, priorities, ongoing objectives, strategies and outlook of the Fund's and its subsidiaries' for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Although these forward-looking statements are based upon the 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 2007 annual report and in the Fund's Annual Information Form dated March 28, 2008, certain of which are beyond the Manager's control. 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.

The forward-looking statements contained in this quarterly report are made as of the date hereof for the purpose of providing readers with the Fund's expectations for the coming year. The forward-looking statements may not be appropriate for other purposes. Other than as specifically required by law, the Fund undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

NORTHLAND POWER INCOME FUND
Consolidated Balance Sheets
(stated in thousands)

ASSETS

	<i>June 30, 2008</i>	<i>Dec. 31, 2007</i>
Current		
Cash and cash equivalents	\$ 41,871	\$ 28,311
Cash reserves	3,219	2,630
Accounts and other receivables	14,666	32,073
Inventories	4,417	9,619
Prepaid expenses	1,533	2,789
Current portion of Panda senior loan	2,788	2,557
Total current assets	68,494	77,979
Deferred charges	1,880	1,932
Property, plant and equipment	397,054	405,744
Contracts	121,876	128,827
Investment in Panda Energy Corporation	7,946	7,946
Panda senior loan	65,054	64,659
Loan receivable from Thorold CoGen LP	9,223	3,113
Future income tax asset	576	590
	\$ 672,103	\$ 690,790

LIABILITIES AND UNITHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 7,165	\$ 16,233
Current portion of KCLP term loans	8,492	8,539
Current portion of Mont Miller term loan	1,192	1,108
Distribution payable to Unitholders	5,612	5,612
Total current liabilities	22,461	31,492
KCLP term loans	72,248	76,494
Mont Miller term loan	36,495	37,133
Other long term liabilities	2,735	2,475
Asset retirement obligation	2,358	2,275
Convertible debentures	29,035	29,044
Future income tax liability	74,111	73,850
Derivative financial instruments	13,062	10,767
	252,505	263,530
Trust Units	670,431	670,422
Accumulated other comprehensive income [Note 5]	1,162	151
Deficit	(251,995)	(243,313)
Total Unitholders' equity	419,598	427,260
	\$ 672,103	\$ 690,790

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

	<i>3 Months Ended June 30</i>		<i>6 Months Ended June 30</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Sales				
Electricity	\$ 33,939	\$ 32,382	\$ 77,371	\$ 75,381
Steam	1,948	1,886	4,495	4,646
Natural gas	9,083	8,597	15,339	14,476
Emission allowances	-	-	116	-
Total sales	44,970	42,865	97,321	94,503
Cost of sales	20,138	18,352	40,134	36,997
Gross profit	24,832	24,513	57,187	57,506
Expenses				
Plant operating costs	3,582	4,131	7,339	8,052
Amortization	7,009	6,863	13,984	13,796
Management and administration costs	1,383	1,475	2,385	2,902
Accretion expense	36	47	73	94
	12,010	12,516	23,781	24,844
Investment income	2,457	2,183	4,577	4,813
Income from operations	15,279	14,180	37,983	37,475
Foreign exchange	409	5,286	(1,283)	6,061
Amortization of deferred charges	26	26	52	52
Amortization of contracts	3,476	3,744	6,951	7,487
Change in fair value of interest rate swaps	(1,739)	(3,111)	292	(4,078)
Interest income	(295)	(229)	(637)	(460)
Interest expense and bank fees	3,188	3,375	6,540	6,856
Income before income taxes	10,214	5,089	26,068	21,557
Provision for (recovery of) income taxes				
Current	(391)	-	(874)	(80)
Future	(635)	82,015	(20)	81,723
	(1,026)	82,015	(894)	81,643
Net income (loss) for the period	\$ 11,240	\$ (76,926)	\$ 26,962	\$ (60,086)
Deficit, beginning of period - as previously stated	(246,400)	(148,779)	\$ (243,313)	\$ (139,269)
Cumulative effect of adopting new accounting standards [Note 2]	-	-	(1,974)	(9,520)
Deficit, beginning of period - as adjusted	(246,400)	(148,779)	(245,287)	(148,789)
Distributions declared to Unitholders	(16,835)	(16,834)	(33,670)	(33,664)
Net income (loss) for period	11,240	(76,926)	26,962	(60,086)
Deficit, end of period	\$ (251,995)	\$ (242,539)	\$ (251,995)	\$ (242,539)
Average number of units outstanding - basic	<i>62,353</i>	<i>62,341</i>	<i>62,353</i>	<i>62,338</i>
Average number of units outstanding - diluted	<i>62,353</i>	<i>62,341</i>	<i>64,916</i>	<i>62,338</i>
Net income (loss) per trust unit- basic	\$ 0.1803	\$ (1.2340)	\$ 0.4324	\$ (0.9639)
Net income (loss) per trust unit - diluted	\$ 0.1803	\$ (1.2340)	\$ 0.4306	\$ (0.9639)

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

	3 Months Ended June 30		6 Months Ended June 30	
	2008	2007	2008	2007
Net income (loss) for the period	\$ 11,240	(76,926)	\$ 26,962	\$ (60,086)
Other comprehensive income (loss):				
Change in translation of net investment in foreign operations	(310)	(1,471)	1,903	(1,391)
Change in fair value of hedged foreign currency forward contracts	700	1,251	(1,179)	1,187
Future income tax affect of above	(145)	-	287	-
Total other comprehensive income (loss)	245	(220)	1,011	(204)
Total comprehensive income (loss)	\$ 11,485	(77,146)	\$ 27,973	\$ (60,290)

NORTHLAND POWER INCOME FUND

Consolidated Statements of Cash Flows

(stated in thousands except per unit amounts)

	3 Months Ended June 30		6 Months Ended June 30	
	2008	2007	2008	2007
Operating activities				
Net income (loss) for the period	\$ 11,240	\$ (76,926)	\$ 26,962	\$ (60,086)
Items not involving cash:				
Amortization	7,009	6,863	13,984	13,796
Amortization of contracts	3,476	3,744	6,951	7,487
Amortization of deferred charges	26	26	52	52
Amortization of financing and commitment fees	(38)	-	(76)	-
Interest receivable from Thorold CoGen LP	(241)	-	(381)	-
Fees receivable from Jardin d'Eole	(75)	-	(75)	-
Change in fair value of interest rate swaps	(1,739)	(3,111)	292	(4,078)
Foreign exchange	409	5,286	(1,283)	6,061
Accretion expense	36	47	73	94
Other long term liabilities	194	172	402	380
Future income taxes	(635)	82,015	(20)	81,723
	19,662	18,116	46,881	45,429
Net change in non-cash working capital balances related to operations	15,340	745	9,779	13,352
Cash provided by operating activities	35,002	18,861	56,660	58,781
Investing activities				
Cash reserves funding	(564)	(639)	(589)	(656)
Loan to Thorold CoGen LP	(3,021)	-	(5,653)	-
Receipts of principal on Panda senior loan	755	708	1,448	1,368
Purchase of property, plant and equipment	(26)	(27)	(46)	(45)
Cash (used in) provided by investing activities	(2,856)	42	(4,840)	667
Financing activities				
Repayment of Mont Miller term loan	(277)	(237)	(554)	(475)
Repayment of KCLP term loans	-	(3,715)	(4,293)	(3,715)
Credit facility decrease	-	(5,000)	-	(5,000)
Distributions to Unitholders	(16,835)	(16,832)	(33,670)	(34,753)
Cash used in financing activities	(17,112)	(25,784)	(38,517)	(43,943)
Effect of exchange rate differences on cash and cash equivalents	(59)	(149)	257	(137)
Net change in cash and cash equivalents	14,975	(7,030)	13,560	15,368
Cash and cash equivalents, beginning of the period	26,896	35,882	28,311	13,484
Cash and cash equivalents, end of period	\$ 41,871	\$ 28,852	\$ 41,871	\$ 28,852
PER UNIT				
Distributions declared to Unitholders	\$ 0.2700	\$ 0.2700	\$ 0.5400	\$ 0.5400

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 ("GAAP") applicable to interim financial reporting and thus do not contain all of the disclosures required by Canadian GAAP applicable to annual financial statements. As a result, these interim consolidated financial statements should be read in conjunction with the Fund's annual consolidated financial statements included in the 2007 Annual Report. 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, 2007 except for changes as outlined in Note 2.

2. Adoption of New Accounting Standards

Effective January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") new accounting standards contained in Section 3031 "Inventories" and the amendments to Section 3061 "Property, Plant and Equipment" that required the Fund to reclassify major spare parts and standby equipment from inventory to property, plant and equipment. These standards were adopted on a retroactive basis without restatement of comparative periods. The Fund adjusted opening retained earnings for prior period amortization related to major spare parts and standby equipment reclassified from inventory to property, plant and equipment. The impact on the Fund's consolidated financial statements is as follows:

<i>(in thousands of dollars)</i>	As at Dec. 31, 2007	Adjustment upon adoption of new standards	As at Jan. 1, 2008
ASSETS			
Inventory	9,619	(4,952)	4,667
Property, plant and equipment	405,744	3,560	409,304
Impact on total assets	415,363	(1,392)	413,971
Liabilities and Unitholders' equity			
Future taxes	73,850	582	74,432
Impact on total liabilities	73,850	582	74,432
UNITHOLDERS' EQUITY			
Deficit	(243,313)	(1,974)	(245,287)
Impact on Unitholders' equity	(243,313)	(1,974)	(245,287)
Impact on liabilities and Unitholders' equity	(169,463)	(1,392)	(170,855)

Effective January 1, 2008, the Fund adopted the new CICA accounting standards contained in Sections 3862 "Financial Instruments – Disclosure", 3863 "Financial Instruments – Presentation" and 1535 "Capital Disclosures". The adoption of these new standards resulted in additional disclosures (see Note 4) with regard to financial instruments and the Fund's objectives, policies and

processes for managing capital. The new standards have no impact on either the classification and valuation of the Fund's financial instruments or on net income, Unitholders' equity or any other line item in the Fund's consolidated financial statements.

3. Loan to Saint-Ulric Saint-Léandre Wind L.P

The Fund has committed to provide a \$34.8 million loan to Saint-Ulric Saint-Léandre Wind L.P. ("SUSL"), the developer and owner of the Jardin d'Éole wind project in the Gaspésie region of Quebec. SUSL is a wholly-owned subsidiary of Northland Power Inc., the parent of the Manager of the Fund. The Fund's \$34.8 million loan will be subordinated to the senior secured project debt, with recourse limited to the assets of SUSL. The senior secured debt financing of \$153 million is being provided by a consortium of insurance companies led by The Manufacturers Life Insurance Company and including Sun Life Assurance Company of Canada and The Great-West Life Assurance Company.

The Fund will earn fees of 2% per annum on its loan commitment during most of the 18-month construction period and 6% per annum on funds actually advanced; the first cash advance is expected late in 2009. All accrued fees and interest are expected to be paid to the Fund when commercial operations of the Jardin d'Éole wind farm commence. Quarterly payments of interest will also commence after the construction period. The Fund has an option to acquire a 50% equity ownership interest in SUSL once the project is in full commercial operations for \$34.8 million.

As at June 30, 2008, a letter of credit in the amount of \$34.8 million was outstanding under the Fund's credit facility as security for its funding commitments to SUSL.

4. Financial Instruments and Risk Management

The Fund's activities expose it to a variety of financial risks; market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance. The Fund uses derivative financial instruments to mitigate certain risk exposures. The Fund does not purchase any derivative financial instruments for speculative purposes.

Risk management is the responsibility of the corporate finance function. The Manager's corporate finance function identifies, evaluates and where appropriate, mitigates financial risks. Material risks are monitored and are regularly discussed with the audit committee of the board of trustees.

The fair value of derivative financial instruments reflects the estimated amount that the Fund would have been required to pay if forced to settle all unfavourable outstanding contracts or the amount that would be received if forced to settle all favourable contracts at period end. The fair value represents a point-in-time estimate that may not be relevant in predicting the Fund's future earnings or cash flows.

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

Categories of Financial Assets and Liabilities

Under generally accepted accounting principles, financial instruments are classified into one of the following five categories: held-for-trading, held to maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. The Fund has also designated certain of its derivatives as effective hedges for accounting purposes. The carrying values of the Fund's financial instruments are classified into the following categories:

(in thousands of dollars)

As at:	June 30, 2008	Dec. 31, 2007
Financial assets held for trading ¹	59,756	63,014
Loans and receivables ²	77,065	70,329
Financial liabilities held for trading ³	25,839	32,612
Other financial liabilities ⁴	147,462	152,318
	Three months ended	Six months ended
For the six months ended:	June 30, 2008	June 30, 2008
Gain (loss) on financial assets held for trading	-	-
Gain (loss) on loans and receivables	(379)	2,074
Gain (loss) on financial liabilities held for trading	2,522	(2,295)
Gain (loss) on other financial liabilities	-	-
Fee and interest income on financial assets not held for trading	2,166	4,237
Interest expense on financial liabilities not held for trading	(3,081)	(6,278)

- (1) Cash and cash equivalents, cash reserves and accounts receivable
- (2) Panda senior loan and loan receivable from Thorold CoGen LP
- (3) Accounts payable, distributions payable and derivative financial instruments
- (4) Amortizing term loans and convertible subordinated debentures

Financial Risk Factors

The Fund's overall risk management program seeks to mitigate the financial risks to which it is exposed to maintain stable and sustainable levels of cash for distribution to Unitholders.

The risks associated with the Fund's financial instruments and the Manager's policies for minimizing these risks are detailed as follows:

Market Risk

Market risk is the risk that the fair value or future cash flows of the Fund's financial instruments will fluctuate because of changes in market prices. Components of market risk to which the Fund are exposed are discussed below:

(i) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

The objective of the Fund's interest rate management activities is to minimize the volatility on the Fund's cash flows. In order to manage this risk, the Fund enters into fixed rate, amortizing debt or alternatively, enters into interest rate swap agreements to convert the interest expense and net payments from a floating rate to a fixed rate.

Kingston CoGen Limited Partnership's (KCLP's) amortizing term loans of \$80.7 million as at June 30, 2008, bear variable interest rates that give rise to interest rate risk. To mitigate this risk, KCLP has entered into interest rate swap contracts to effectively fix its interest rates. Changes in the fair value of the interest rate swap contracts are recorded in the Fund's consolidated statement of income and deficit.

As at June 30, 2008, if interest rates had been 100 basis points higher/lower with all other variables held constant, the change in income before taxes, which includes interest on the debt and the change in fair value of the interest rate swaps, would have been \$2.8 million higher/lower.

All of the Fund's other long-term borrowings have a fixed interest rate for the term of the debt.

(ii) Foreign Currency Risk

As at June 30, 2008, all of the Fund's assets and sales were located in Canada and Germany with the exception of the investments in, and income from, Panda Energy Corporation (PEC) and Panda Interfunding LLC (PIC), which relate to entities in the United States. Foreign exchange risk

arises because the Canadian equivalent of transactions denominated in foreign currencies (for example, the interest and principal on the senior loan receivable from PIC that is denominated in U.S. dollars) may vary due to changes in exchange rates and because Euro denominated financial statements of the Fund's German wind farms may vary on consolidation into Canadian dollars.

It is the Fund's objective to hedge net foreign currency cash flows to the extent practical in order to protect the Fund from foreign exchange risk and therefore cash flow fluctuations. The Fund's foreign currency exposure includes U.S. dollar investment income and principal repayments from PEC and PIC, partially offset by U.S. dollar expenditures at Iroquois Falls Power Corp. (IFPC) and KCLP, as well as Euro income from the German wind farms.

At the time of providing the U.S.\$93 million senior loan to PIC in 2003, the Fund entered into foreign exchange forward contracts (that came to an end in the first quarter of 2007) and were at a rate of U.S.\$0.7614 per CAD\$1.00. The contracts were entered into to effectively fix the amount the Fund would receive quarterly from PEC and PIC with respect to interest and dividends and the scheduled principal repayments that were not offset by U.S. dollar payment obligations at IFPC and KCLP. New hedges were put into place for US\$750,000 per quarter in late 2006 at a rate of U.S. \$0.8802 per CAD\$1.00 until the first quarter of 2009. The Manager of the Fund intends to roll forward this program as appropriate to manage the foreign exchange risk.

At June 30, 2008, if the Canadian dollar had been 5% higher/lower against the U.S. dollar with all other variables held constant, income before taxes for the three month period ended June 30, 2008 would have been \$3.2 million higher/lower, as a result of the non-cash foreign exchange gains/losses on the senior loan receivable from PIC, partially offset by the fair value change in the U.S. dollar foreign exchange contracts.

With respect to the German wind farms, the Fund expects to receive approximately € million a year (€ million semi-annually) until at least 2020. Because the Euro foreign exchange market is extremely thin beyond 5 years, the hedging program that was put in place at the time of the German wind farm investment was to sell forward € million per year for 5 years at a rate of CAD\$1.4334 per € and a lump sum amount of €0 million, which represented the Fund's remaining net investment in the German wind farms at the end of year 5 at a rate of CAD\$1.4536 per €. The hedging program was rolled forward by 18 months in November 2007 with the result that the Fund currently has foreign exchange forward contracts of € million per year to May 2012 (4 years) with a lump sum amount of € million in October 2012 at approximately the same rates as when the program was initiated.

As discussed previously, Euro currency risk arises on translation of the net assets of the German wind farms. As a result, gains and losses arising on the 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 that are determined to be an effective hedge are recorded in other comprehensive income.

Exchange gains and losses on the hedging derivatives that have been recognized in other comprehensive income are 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. Also included in net income are the changes in fair value on any Euro forward contracts not designated as part of a hedging relationship.

Exchange gains and losses arising from the translation of the financial statements of the Fund's net investment in the German wind farms are 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.

By entering into Euro forward contracts as a hedge of the Fund's investment in the German wind farms, the Fund's risk management objectives are met.

At June 30 2008, if the Canadian dollar had been 5% higher/lower against the Euro with all other variables held constant, income before taxes for the three month period ended June 30, 2008 would have been \$0.3 million higher/lower, and other comprehensive income would have been \$0.4 million lower/higher.

Credit Risk

Credit risk arises from cash and cash equivalents held with banks and financial institutions, entering into derivative financial instruments, granting loans and receivables to customers, PIC and Thorold CoGen LP and making loan commitments to Thorold CoGen LP and Saint-Ulric Saint-Léandre Wind L.P. The maximum exposure to credit risk, other than for the loan commitments, is equal to the carrying value of the financial assets. As security for its remaining funding commitments to Thorold CoGen LP and Saint-Ulric Saint-Léandre Wind L.P., letters of credit in the amount of \$15.6 million and \$34.8 million, respectively were outstanding under the Fund's credit facility at June 30, 2008.

The objective of managing counterparty risk is to prevent losses in financial assets. To meet this objective and assure the predictability of distributions, a majority of the Fund's revenues are under long-term contracts with creditworthy counterparties, such as government related entities, and the Fund's foreign exchange and interest rate swap contracts are with creditworthy financial institutions. KCLP and IFPC's electricity sales are to Ontario Electricity Financial Corp. (OEFEC) and Mont Miller's sales are to Hydro-Québec, both government related entities.

As at June 30, 2008, approximately 76% of the Fund's consolidated accounts receivables were associated with electricity sales to government-related entities. This excludes the German wind farm receivables, as the counter-parties are local power distribution companies; however, the electricity power rates are legislated. As a result of this high percentage, the Fund and its subsidiaries do not require allowance accounts (the Fund has never written off a receivable) and does not hold collateral from its counterparties. All reported accounts receivable amounts at June 30, 2008 are current.

The loans receivable from both PIC and Thorold CoGen LP are unsecured, but due to the contractual nature of the operations of Panda Brandywine and Thorold CoGen LP, where revenues and the majority of costs are contracted long-term with creditworthy counterparties, the risk of default is deemed minimal.

Overall, the nature of the Fund's business and contractual arrangements serve to minimize the Fund's credit risk.

During the quarter, there were no changes in the credit risk of the Fund's counterparties and the Manager does not expect any losses from non-performance by its counterparties.

Liquidity Risk

Liquidity risk arises through excess of financial obligations over available financial assets due at any point in time. Liquidity risk includes the risk that, as a result of the Fund's operational liquidity requirements:

- the Fund may not have sufficient funds to settle a transaction on the due date;
- the Fund may be forced to sell financial assets at a value which is less than what they are worth; or
- the Fund may be unable to settle or recover a financial asset at all.

The Fund's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Fund achieves this by not paying out 100% of its distributable cash in distributions to Unitholders and through the availability of funding from committed credit facilities. As at June 30, 2008, the Fund and its subsidiaries were holding cash and cash equivalents of \$41.9 million and had undrawn lines of credit available of \$36.3 million.

The contractual maturities of the Fund's liabilities were presented in the Fund's 2007 Annual Report. In addition to the commitments disclosed in the 2007 Annual Report, the Fund has the following commitments related to its financial liabilities:

(in thousands)

		6 mos.					
	Currency	2008	2009	2010	2011	2012	>2012
Thorold LP loan commitment	CAD\$	6,361	6,301	2,789			
Jardin d'Eole loan commitment	CAD\$	-	34,800	-			
USD foreign exchange contracts	US\$	1,500	3,000				
Euro foreign exchange contracts	Euro	1,000	2,000	2,000	2,000	10,000	
KCLP interest rate swaps	CAD\$	1,854	3,382	2,941	2,430	1,887	2,313

The Fund is also subject to internal liquidity risk as it conducts its business activities through separate legal entities (subsidiaries and affiliates), and is dependent on receipts of cash from those entities to defray its corporate expenses and to 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, 2008, the Fund and its subsidiaries were in compliance with all debt covenants.

Management of Capital

The Fund defines capital that it manages as the aggregate of its Unitholders' equity and interest-bearing debt, including convertible unsecured subordinated debentures. The Fund's objectives when managing capital are to (i) help ensure the stability and sustainability of distributions to Unitholders for the long term, (ii) finance assets in a way that takes account of changes to their economic value over time, particularly as off-take (i.e. power purchase agreements) and supply contracts change or expire, and (iii) support a high stability rating from Standard & Poor's and an investment grade debt rating to ensure continued access to capital at competitive rates.

As at June 30, 2008, total managed capital was \$567.0 million comprised of Unitholders' equity of \$419.6 million, interest bearing debt of \$118.4 million and convertible unsecured subordinated debentures of \$29.0 million.

In order to maintain or adjust the capital structure, the Fund may exercise discretion in the amount of distributions declared to Unitholders, return of capital to Unitholders, issuance of new units or issuance or redemption of convertible unsecured subordinated debentures.

As an income trust, management targets a maximum debt to total enterprise value of 30%, but the Manager is currently re-evaluating that in light of changes to market expectations resulting from the announced taxation of income trusts commencing in 2011. As at June 30, 2008, the Fund's ratio of total debt to enterprise value was 16%. For purposes of this calculation, the Manager defines debt as the total of all borrowings (amortizing term loans and bank credit facilities) and convertible subordinated debentures and enterprise value as the summation of debt, as defined previously and the Fund's market capitalization at June 30, 2008 (number of outstanding units multiplied by the closing unit price).

To date, the Manager's strategy with respect to debt has been to leverage primarily within individual project entities (subsidiaries of the Fund). Most debt is non-recourse, has a fixed interest rate for its term and is fully repaid (amortized) over the life of the associated project's off-take or supply contracts to ensure that the project is debt-free at that point in its physical life when its

economics are least predictable (i.e., at the maturation of its contracts). The maximum amount of debt that any project can support is determined with reference to the risk associated with the project and particularly the potential variability of the cash flows. Fully contracted gas-fired projects can generally support proportionately more debt than wind farms which are subject to cash flow volatility due to the natural variability of the wind resource.

5. 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	
	2008	2007	2008	2007
Accumulated Other Comprehensive Income-net change in translation of net investment in self sustaining foreign operations:				
Balance beginning of period	2,303	1,470	90	1,390
Realization of loss on reduction in net investment	(86)	(49)	(86)	(49)
Unrealized gain on translation of net investment	(224)	(1,422)	1,989	(1,342)
Balance end of period	1,993	(1)	1,993	(1)
Accumulated Other Comprehensive Income-net change in fair value of foreign currency forward contracts hedging net investment of foreign operations:				
Balance beginning of period	(1,386)	(1,309)	61	(1,245)
Realization of gain on reduction in net investment	52	43	52	43
Change in fair value	648	1,208	(1,231)	1,144
Future income taxes	(145)	-	287	-
Balance end of period	(831)	(58)	(831)	(58)
Total accumulated other comprehensive income (loss)	1,162	(59)	1,162	(59)

6. Trust Units and Convertible Unsecured Subordinated Debentures

Since December 31, 2007, a total of \$9,000 of convertible unsecured debentures have been converted into 720 trust units. The change in trust units during the three months ended June 30, 2008 is as follows:

<i>(stated in thousands of dollars, except for units)</i>	Number of Units	Amount
Outstanding as of December 31, 2007	62,352,423	679,731
Q1 conversion of unsecured subordinated debentures	-	-
Q2 conversion of unsecured subordinated debentures	720	9
Outstanding as of June 30, 2008	62,353,143	679,740

Due to the conversion of the convertible unsecured debentures being anti-dilutive for both 2008 and 2007, they have been excluded from the calculation of the weighted average number of units outstanding, diluted as follows for the three months ended June 30th:

	2008	2007
Weighted average number of units outstanding, basic	62,352,423	62,341,427
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	-	-
Weighted average number of units outstanding, diluted	62,352,423	62,341,427

The dilutive effect of the convertible unsecured debentures for the six months ended June 30, 2008 is as follows:

	2008	2007
Weighted average number of units outstanding, basic	62,352,423	62,337,719
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	2,563,146	-
Weighted average number of units outstanding, diluted	64,915,569	62,337,719

The conversion of the convertible unsecured debentures is anti-dilutive for the six months ended June 30, 2007 and have therefore been excluded from the calculation of the weighted average number of units outstanding, diluted.

7. Income and Other Taxes

The Fund is subject to various uncertainties concerning the interpretation and application of Canadian and U.S. tax laws that could affect the Fund's profitability and cash flows. The determination of the Fund's future tax liability related to the federal government's bill to tax income trust distributions beginning January 1, 2011 is based on the Manager's current best estimate of its accounting and tax values that will exist on December 31, 2010. On at least a quarterly basis the Manager reviews its estimates of current and future tax liabilities and regularly reviews its tax filing positions with external tax experts. Revisions to the Fund's tax liabilities, which could be material, may be required if new information is received that affects the Manager's estimates and/or tax filing positions.

8. 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 along with loan and loan commitments to Thorold CoGen LP and SUSL, respectively are included with the Fund's corporate operating income for reporting purposes. These assets represent the Fund's reportable segments at June 30, 2008.

The Fund analyzes the performance of its operating segments based on operating income. Income for each segment is measured on the same basis as that of the Fund. Significant information for each segment is as follows:

(stated in thousands of dollars)

For the 3 months ended, June 30, 2008:	Iroquois		Mont		Corporate	Total
	Falls	Kingston	Miller	Germany		
Sales	18,626	23,906	1,730	708	-	44,970
Amortization	2,230	3,012	1,052	715	-	7,009
Operating income	4,946	8,850	121	(422)	1,784	15,279
Interest expense, net	(84)	1,894	606	(10)	487	2,893
June 30, 2007:						
Sales	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

(stated in thousands of dollars)

For the 6 months ended, June 30, 2008:	Iroquois		Mont		Corporate	Total
	Falls	Kingston	Miller	Germany		
Sales	42,260	47,575	4,693	2,793	-	97,321
Amortization	4,460	6,023	2,103	1,398	-	13,984
Operating income	14,748	17,750	1,387	616	3,482	37,983
Interest expense, net	(209)	3,878	1,224	(21)	1,031	5,903
June 30, 2007:						
Sales	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

Corporate operating income for the three months ended June 30, 2008 includes \$2.1 million (2007 – \$2.2 million) of interest and dividends from the senior loan receivable and investment in PEC and \$0.4 million of interest and fees from the Thorold CoGen LP loan and the SUSL loan commitment (2007 – nil).

(stated in thousands of dollars)

	Iroquois		Mont			
As at June 30, 2008:	Falls	Kingston	Miller	Germany	Corporate	Total
Property, plant & equipment	171,451	130,693	78,809	16,101	-	397,054
Contracts	7,517	108,404	3,698	2,257	-	121,876
Senior loan and investment in PEC	-	-	-	-	75,788	75,788
Loan to Thorold CoGen LP	-	-	-	-	9,223	9,223
As at December 31, 2007:						
Property, plant & equipment	175,865	133,155	80,912	15,812	-	405,744
Contracts	7,791	114,882	3,801	2,353	-	128,827
Senior loan and investment in PEC	-	-	-	-	75,162	75,162
Loan to Thorold CoGen LP	-	-	-	-	3,113	3,113

Information on operations by geographic area is as follows:

(stated in thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Sales				
Canada	44,262	41,930	94,528	91,430
Germany	708	935	2,793	3,073
	44,970	42,865	97,321	94,503
	As at June 30, 2008		As at December 31, 2007	
Property, Plant & Equipment				
Canada		380,953		389,932
Germany		16,101		15,812
		397,054		405,744

As at June 30, 2008 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

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REGISTRAR AND TRANSFER AGENT

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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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