NORTHLAND POWER INCOME FUND

ANNUAL INFORMATION FORM

For the year ended December 31, 2009

March 31, 2010

NORTHLAND POWER INCOME FUND

ANNUAL INFORMATION FORM

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All capitalized terms used in this document have the meanings assigned to them in the "Glossary of Terms" included on pages 56 through 63 of this Annual Information Form, unless otherwise defined.

FORWARD LOOKING STATEMENTS

Certain statements in this Annual Information Form 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 for the Fund and its subsidiaries. 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 management's current reasonable expectations and assumptions, they are subject to numerous risks and uncertainties. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the "Management's Discussion and Analysis" of Northland Power Income Fund's 2009 Annual Report and on pages 40 to 51 of this Annual Information Form. 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 Annual Information Form are based on assumptions that were considered reasonable at the time it was completed on March 31, 2010. 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.

THE FUND – CORPORATE STRUCTURE

THE FUND

The Fund is an unincorporated open-ended trust, established under the laws of the Province of Ontario pursuant to the Original Fund Trust Indenture. The head and principal office of the Fund is located at 30 St. Clair Avenue West, 17th Floor, Toronto, Ontario, M4V 3A1. The Fund Trust Indenture amended, restated and replaced the Original Fund Trust Indenture, effective as of July 16, 2009 and now governs the Fund.

At a special meeting of the Unitholders held on July 16, 2009, the Unitholders approved the merger of the Fund with NPI through the indirect acquisition by the Fund from NPHI of all of the issued and outstanding shares of NPI. NPI is a leading Canadian developer of renewable and clean energy projects which was established in 1987. Prior to the acquisition by the Fund, NPI was the parent of the external manager of the Fund and was indirectly owned by James C. Temerty, the chairman of the Fund, through his ownership of NPHI. The acquisition internalizes management and secures the long-term relationship between management and the Fund and creates a significant alignment of interests. It increases and diversifies the Fund's assets by

bringing into the Fund an additional 459 MW of projects in operation or under construction, and a development pipeline of over 3,600 MW. The acquisition of NPI and all related transactions are described in detail in the Notice of Annual and Special Meeting and Management Information Circular dated May 1, 2009 and the Supplement to the Management Information Circular dated July 10, 2009, both of which have been posted on SEDAR, at www.sedar.com, and on the Fund's website, www.npifund.com.

At the special meeting held on July 16, 2009, the Unitholders also approved amendments to the Fund Trust Indenture and the CT Supplemental Trust Indenture that internalized management of the Fund, established the CT Trustees as the Fund Trustees, and provided NPHI with certain governance and pre-emptive rights with respect to the Fund, subject to certain conditions being met. In addition, a long term incentive plan (the "**Fund LTIP**") was established for officers, employees of, and consultants to, the Fund and its subsidiaries.

As announced on February 25, 2010, the Fund's senior management and the Fund Trustees intend to recommend to Unitholders that the Fund be converted into a corporation with the conversion to be completed in late 2010 or early 2011. The proposed corporatization of the Fund will be presented to Unitholders for approval at this year's Annual Meeting of Unitholders and will be described in greater detail in the Management Information Circular that will be filed prior to the Annual Meeting. Following the Fund's conversion, management intends to maintain the current $1.08 per Unit annual rate of cash distributions as a $1.08 per share cash dividend.

CT

CT is an unincorporated open ended trust established under the laws of the Province of Ontario. CT is governed by the CT Supplemental Trust Indenture, which was amended and restated on July 16, 2009. The Fund owns all of the issued and outstanding units of CT.

Prior to the merger with NPI, CT indirectly owned the German Wind Farms, the Iroquois Falls Facility, the Kingston Facility, the Mont Miller Facility, and the Panda Investment (the **"Fund Property"**). On July 16, 2009 the Fund and CT completed an internal reorganization that transferred the Fund Property to Holdings LP in exchange for Units of Holdings LP.

Holdings LP

Holdings LP is a limited partnership established under the laws of the Province of Ontario pursuant to the *Limited Partnerships Act* (Ontario) and is governed by the LP Agreement. The Fund, CT, and NPHI hold limited partnership interests in Holdings LP. NPIF Holdings GP Inc., a wholly-owned subsidiary of CT, holds a 0.01% general partnership interest in Holdings LP.

Through Holdings LP the Fund indirectly owns the Fund Property and, as a result of the acquisition in 2009, NPI and its subsidiaries.

The relationships among Holdings LP and its material subsidiaries are described below. Members of the Fund's management serve as directors and officers of the Fund's subsidiaries.

IROQUOIS FALLS FACILITY

Iroquois Falls Corp.

Iroquois Falls Corp. is a wholly-owned subsidiary of Holdings LP and owns the Iroquois Falls Facility. Iroquois Falls Corp. is a corporation continued under the laws of the Province of Ontario pursuant to the *Business Corporations Act* (Ontario).

KINGSTON FACILITY

Kingston LP

Kingston LP is a limited partnership established under the laws of the Province of Ontario pursuant to the *Limited Partnerships Act* (Ontario) which owns the Kingston Facility. NPIF Kingston L.P. holds a 99.99% limited partnership interest in Kingston LP. NPIF Kingston CoGen Corp. holds a 0.01% general partnership interest in Kingston LP.

NPIF Kingston CoGen Corp.

NPIF Kingston CoGen Corp. is a wholly-owned subsidiary of Holdings LP and is the general partner of Kingston LP.

NPIF Kingston L.P.

NPIF Kingston L.P. is a limited partnership established under the laws of the Province of Ontario pursuant to the *Limited Partnerships Act* (Ontario). Holdings LP owns all of the issued and outstanding limited partnership units of NPIF Kingston L.P. NPIF Kingston, in its capacity as general partner, manages the business and affairs of NPIF Kingston L.P.

NPIF Kingston

NPIF Kingston is a wholly-owned subsidiary of Holdings LP and the general partner of NPIF Kingston L.P. NPIF Kingston is a corporation incorporated under the laws of the Province of Ontario pursuant to the *Business Corporations Act* (Ontario). Holdings LP owns 100% of the shares of NPIF Kingston.

PANDA INVESTMENT

PEC

PEC is a corporation existing under the laws of Texas in which Iroquois Falls Corp. has a 19% equity interest; 9.5% of this interest is voting. PEC has an indirect interest in the Panda-Brandywine Facility through its ownership of all of the shares of PIC.

PIC

PIC is a limited liability company existing under the laws of Delaware and is a wholly-owned subsidiary of PEC. PIC has a senior loan outstanding to Iroquois Falls Corp. and indirectly owns the Panda-Brandywine Facility.

MONT MILLER FACILITY

Miller LP

Miller LP is a limited partnership established under the laws of the Province of Quebec. Miller LP owns the Mont Miller Facility.

Miller LP has outstanding 1 General Unit held by Miller GPCo, 21,120 Class A Priority Units held by Holdings LP and 1,000 Class B Subordinated Units held by the Miller Developer. The limited partners of Miller LP have limited voting and approval rights and the number of Class A Priority Units held by Holdings LP are sufficient to ensure that, on any matter requiring voting by the limited partners, Holdings LP will be able to exercise a greater number of votes than the Miller Developer, a corporation jointly owned by NPI and 3Ci, as the holder of the Class B Subordinated Units.

The Miller Limited Partnership Agreement also provides that, except in the case of a reorganization, if there is a proposal to sell substantially all of the assets of the Mont Miller Facility, the sale will not proceed unless an independent valuator first confirms that the sale is at fair market value.

Miller GPCo
Miller GPCo is a wholly-owned subsidiary of Holdings LP and is the general partner of Miller LP. Miller GPCo is a corporation incorporated under the laws of Canada pursuant to the *Canada Business Corporations Act*. Holdings LP owns 100% of the shares of Miller GPCo.

Miller Developer
Miller Developer is owned 50% by NPI and is the owner of the Class B Subordinated Units of Miller LP, and is entitled to receive 49.95% of the amount by which available cash flow from Miller LP exceeds $5,786,880 on a subordinated basis.

GERMAN WIND FARMS

CIC Luxembourg S.a.r.l.
CIC Luxembourg S.a.r.l. is a Luxembourg Société à Responsabilité Limitée company which holds all of the issued and outstanding limited liability company equity interests in CIC Verwaltungs GmbH and is the sole limited partner of DK Burgerwindpark Eckolstädt GmbH & Co. KG and DK Windpark Kavelstorf GmbH & Co. KG (together, the "**German Wind Farms**").

CIC Verwaltungs GmbH
CIC Verwaltungs GmbH is a limited liability company under the federal laws of Germany and is the sole general partner of each of the German Wind Farms.

DK Burgerwindpark Eckolstädt GmbH & Co. KG
DK Burgerwindpark Eckolstädt GmbH & Co. KG is a limited partnership under the laws of Germany that owns and operates the 14.3 MW wind farm located at Eckolstädt in Thuringen, State of Weimar, Germany.

DK Windpark Kavelstorf GmbH & Co. KG
DK Windpark Kavelstorf GmbH & Co. KG is a limited partnership under the laws of Germany that owns and operates the 7.2 MW wind farm located at Kavelstorf in Mecklenburg Vorpommern, Germany.

NORTHLAND POWER INC. ("NPI")

NPI is a corporation amalgamated under the laws of the Province of Ontario pursuant to the *Business Corporations Act* (Ontario). All of the issued and outstanding shares of NPI were acquired by Holdings LP from NPHI on July 16, 2009. Through its ownership of NPI, the Fund now indirectly owns all NPI assets including Jardin LP, Chips LP, Thorold LP and NPI's pipeline of development projects.

JARDIN d'ÉOLE FACILITY

Jardin LP

The Jardin d'Éole Facility is owned by Jardin LP. As part of the merger with NPI on July 16, 2009, the Fund became the indirect owner of NPI's 33.5% interest in Jardin LP. On January 29, 2010 the Fund acquired the remaining 66.5% ownership interest in Jardin LP from two companies that are indirectly owned by the Chair of the Board of Trustees of the Fund for aggregate cash consideration of $21.5 million. As a result, the Jardin d'Éole Facility is now indirectly wholly owned by the Fund.

NPIF Quebec Wind Investments Inc.

NPIF Quebec Wind Investments Inc. is a corporation incorporated pursuant to the Canada Business Corporations Act that is a wholly owned subsidiary of Holdings LP and is the subordinated debt lender to Jardin LP in respect of the Jardin LP Loan.

BEAVER COVE FACILITY

Chips LP

Chips LP is a limited partnership established by NPI under the laws of the Province of British Columbia. Chips LP owns the Beaver Cove Facility, a wood-waste processing plant built in 2003 at Beaver Cove, near Port Hardy on the north end of Vancouver Island, British Columbia.

THOROLD FACILITY

Thorold LP

Thorold LP is a limited partnership established under the laws of the Province of Ontario. Thorold LP owns the Thorold Facility.

Thorold LP owns all the assets and all material project contracts for the Thorold Facility.

COGENERATION ASSOCIATES

Cogeneration Associates is an indirect wholly-owned subsidiary of the Fund that provides in-house engineering expertise to NPI to support project development and operations. It operates as a stand alone direct subsidiary of NPI.

SPY HILL FACILITY

Spy Hill LP

Spy Hill LP is a limited partnership established under the laws of the Province of Ontario. Spy Hill LP expects to begin construction of the Spy Hill Facility in Spy Hill, Saskatchewan in June 2010.

NORTH BATTLEFORD FACILITY

North Battleford LP

North Battleford LP is a limited partnership established under the laws of the Province of Ontario. North Battleford LP expects to begin construction of the North Battleford Facility in North Battleford, Saskatchewan in July 2010.

Mont Louis LP

Mont Louis LP is a limited partnership established under the laws of the Province of Quebec.

The Mont Louis wind project is a proposed 100.5 MW wind farm located near the town of Mont Louis in the Gaspésie region of Quebec. NPI was awarded a PPA for this project through an RFP for wind power that Hydro-Québec conducted in 2003. The project is located on public land which has been secured under option.

Construction of this project has not yet commenced as Mont Louis LP is currently negotiating a turbine supply agreement and financing for this project.

DEVELOPMENT PROSPECTS

Subsidiaries of the Fund are working on a number of other initiatives – including several wind, hydro and photovoltaic solar projects – that meet the requirements of the FIT Program. The Fund submitted a number of projects into the "initialization phase" of the FIT Program in November 2009 that represent over $1.5 billion in potential capital investment. These include the 77 MW McLean's Mountain wind farm on Manitoulin Island, a 100 MW wind farm near Grand Bend, the Kabinakagami 40 MW small hydro project which is being developed in association with the Constance Lake First Nation, and over 200 MW of solar ground-mount and rooftop PV solar power projects.

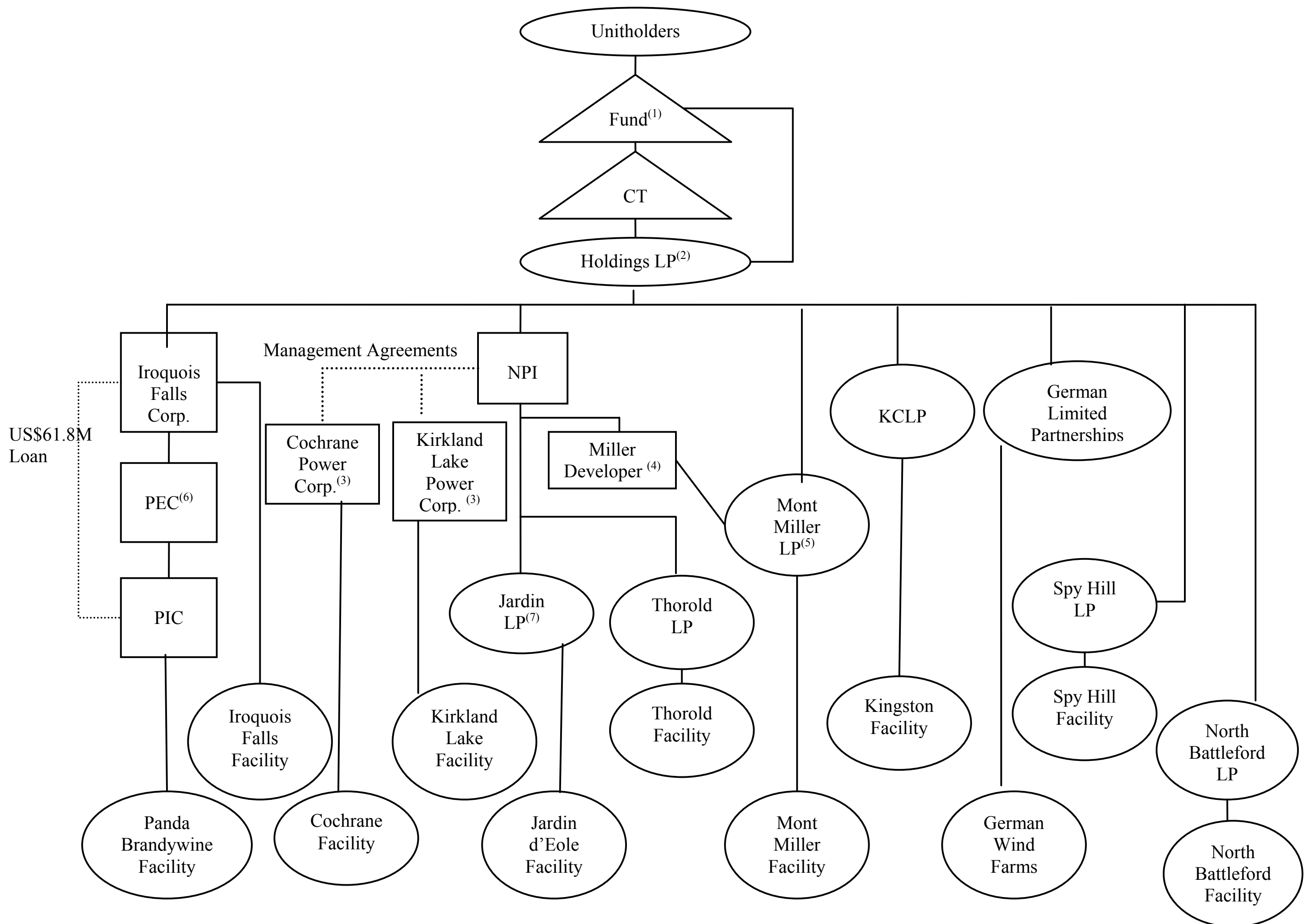
The Fund is working with several potential industrial hosts in Ontario to develop cogeneration facilities in locations that would provide the host with an economic steam supply while injecting electricity into the grid in advantageous locations. The OPA has indicated that it is reviewing its procurement processes with respect to combined heat and power projects in order to achieve the remainder of the 1,000 MW procurement directed by the Ontario government in 2005.

Hydro-Québec has announced RFPs to purchase two blocks of 250 MW each of wind power generated in Quebec with a maximum project size of 25 MW. NPI has been acquiring control of sites, measuring wind, and initiating environmental assessments and preliminary engineering work on a number of sites across the province in preparation for submitting bids in response to these RFPs in May 2010.

NPI continues to develop two potential pumped storage projects in Ontario. These are longer term projects that would meet a need in Ontario to provide backup power for intermittent renewable energy resources, such as wind and solar.

ORGANIZATION

The following chart illustrates the primary structural and contractual relationships among the Fund, CT, Iroquois Falls Corp., Kingston LP, PEC, PIC, Miller LP, Luxco, the German Wind Farms and NPI as of March 31, 2010. The organizational chart excludes a number of development projects owned by NPI and the following general partners and holding companies: Miller Co, Miller GPCo, NPIF Kingston CoGen Corp., NPIF Kingston, CIC Verwaltungs GmbH, Northland Power Income Fund Europe Inc. and NPIF Quebec Wind Investments Inc. which are all wholly owned directly or indirectly by the Fund.



Notes:

1. NPHI, a corporation indirectly owned by James C. Temerty, owns 34,141,676 Special Voting Units, representing a voting interest of 32% in the Fund.
2. CT owns the General Partnership interest and, with the Fund, owns 69,057,643 Ordinary Units of Holdings LP representing a 62% ownership interest in Holdings LP, although the Ordinary Units entitle CT to 100%

of the distributions from Holdings LP until January 16, 2012. NPHI owns 25,645,598 Class A Units of Holdings LP, representing a 38% ownership interest and, after January 16, 2012, entitlement to distributions. NPHI also owns 8,067,723 Class B Units and 8,496,078 Class C Units which are convertible into Class A Units on a one-for-one basis upon the satisfaction of certain conditions related to the development activities of the Fund.

3. Cochrane Power Corp. and Kirkland Lake Power Corp. are owned by arm's length institutional investors. NPI, as manager of the Cochrane Facility and the Kirkland Lake Facility, receives lease and base management payments and expects in the future to receive a performance incentive fee equal to 75% of cash flow of the applicable corporation. See "Summary Description of the Business".
4. NPI owns 50% of Miller Developer. The other 50% is owned by 3Ci, an arm's length third party.
5. Through Holdings LP the Fund indirectly owns the General Partner of, and 95.48% of the limited partnership interests in, Mont Miller LP. Miller Developer, which is 50% owned by NPI, owns the remaining 4.52% of the limited partnership interests.
6. Iroquois Falls Corp. owns a 19% equity interest (9.5% voting interest), together with an option to increase its equity participation to 49% in 2021, in PEC. The balance is owned by an arm's length third party.
7. NPI owns 100% of Jardin LP as a result of buying the remaining 66.5% limited partnership interests from the Jardin Vendors, two corporations indirectly owned by James C. Temerty, on January 29, 2010 for an aggregate purchase price of $21.5 million.

GENERAL DEVELOPMENT OF THE BUSINESS

OVERVIEW

Investment Objective of the Fund

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. The Fund indirectly owns a diverse development portfolio of high-quality "clean and green" energy projects, including wind, solar, natural gas and hydro assets that are expected to support the Fund's strategy of sustainable growth primarily through internally developed opportunities.

To achieve its investment objective, the Fund minimizes costs, utilizes assets efficiently, maintains a strong balance sheet and intends to continue to build on the Fund's existing base of high-quality contracted power facilities in order to increase and diversify its cash flow stream and the long-term value of its portfolio.

Acquisition and Investment Guidelines

Pursuant to the Fund Trust Indenture, the Fund may make acquisitions and investments, subject to the following acquisition and investment guidelines:

(a) An acquisition or investment must conform to the Fund's investment objective, be recommended by management and be reviewed and approved by the Fund Board.

(b) An acquisition or investment must reasonably be expected to result in an increase in cash available for distribution per Unit or to otherwise provide value to the Unitholders. If the acquisition or investment involves construction, rehabilitation or development, the

increase in cash available for distribution per Unit or in value to Unitholders may be deferred until completion of the construction, rehabilitation or development.

(c) An acquisition or investment will not result in the Fund losing its status as either a “unit trust” or a “mutual fund trust” or holding excess “foreign property” under the Tax Act.

RECENT DEVELOPMENTS

Acquisition of NPI

On July 16, 2009 the Fund merged with NPI by acquiring all of the issued and outstanding shares of NPI from NPHI. The merger was paid for largely with securities of Holdings LP that are exchangeable into Units of the Fund on or after January 16, 2012, and do not receive cash distributions until that date. The conversion of some of those securities is contingent on the Fund recognizing value for the development portfolio NPI brought to the merger. The merger with NPI was approved by the requisite majorities of the Fund’s Unitholders on July 16, 2009.

The merger has internalized management and created significant positive alignment through management’s voting ownership of approximately 38% of the Fund, potentially increasing to as much as 45% if all exchangeable and convertible securities are converted to Units.

Internal Reorganization of Northland Power Income Fund

The Fund, through CT, established Holdings LP, the general partner of which is a wholly-owned subsidiary of CT. Coincident with the merger with NPI, and the issuance of Class A Units, Class B Units and Class C Units of Holdings LP to NPHI, the Fund and CT transferred the Fund Property to Holdings LP in exchange for that number of Ordinary Units of Holdings LP in aggregate equal to the number of outstanding Units as at the Closing Date. The purpose of the CT Reorganization was to centralize the operating entities of the Fund including those acquired through the merger with NPI, under a single entity and thereby to consolidate operations and cash flows from the Fund’s assets.

The Fund Property includes all of the interests of CT and the Fund in the Iroquois Falls Facility, the Kingston Facility, the Mont Miller Facility, the Panda Investment, the German Wind Farms, the Thorold Facility and the Jardin d’Éole Facility as well as NPI’s development pipeline and management agreements with Cochrane Power Corp. and Kirkland Lake Power Corp.

The transfer of the Fund Property to Holdings LP was made on a tax-deferred or “rollover” basis. Each of the Fund, CT and Holdings LP intend to file the prescribed election under subsection 97(2) of the Tax Act such that no taxable gain will arise as a result of the CT Reorganization.

Trust Indenture Amendments

Coincident with the merger, amendments were made to the Fund Trust Indenture to provide for, among other things:

(a) the creation, issuance, redemption and cancellation of Special Voting Units;

(b) the replacement of Computershare as Fund Trustee so that individual trustees will serve at both the Fund and CT levels;

(c) the change to the number of trustees of the Fund so that there are a minimum of five and a maximum of seven, as determined by the Fund Trustees (with an initial number of six trustees) and allowing for the Fund Trustees to also serve as CT Trustees;

(d) the provision of special governance rights to NPHI so that it may appoint (i) so long as NPHI is controlled by James C. Temerty, (A) up to 3 out of 7, or 2 out of 5 or 6, as applicable, of the Fund Trustees if it and James C. Temerty collectively hold not less than 15% of the aggregate number of Units and Class A Units, taken together, and (B) up to 2 out of 5, 6 or 7 of the Fund Trustees if it and James C. Temerty collectively hold not less than 10% of the aggregate number of Units and Class A Units, taken together, and (ii) so long as NPHI is controlled by Temerty Parties (A) up to 3 out of 7 or 2 out of 5 or 6, as applicable, of the Fund Trustees so long as NPHI and the Temerty Parties collectively hold not less than 20% of the aggregate number of Units and Class A Units, taken together and (B) up to 2 out of 5, 6 or 7 of the Fund Trustees if it and the Temerty Parties collectively hold not less than 15% of the aggregate number of Units and Class A Units, taken together;

(e) the provision of pre-emptive rights to NPHI with respect to the Fund as long as James C. Temerty and/or Temerty Parties control NPHI and NPHI, James C. Temerty and/or Temerty Parties collectively hold, directly or indirectly, not less than 20% of the aggregate number of Units and Class A Units, taken together;

(f) the internalization of the management of the Fund and the consequent transfer of certain powers from the Manager to the Fund Trustees and officers of the Fund under the Fund Trust Indenture; and

(g) authorization to establish a new long-term incentive plan for officers, consultants and employees of the Fund.

Amendments to the CT Supplemental Trust Indenture were also made to provide for, among other things:

(a) the change of the number of CT Trustees to a minimum of five and a maximum of seven, as determined by the CT Trustees (with an initial number of six) and allowing for the CT Trustees to serve as Fund Trustees;

(b) that the CT Trustees will be appointed by the Fund; and

(c) the internalization of the management of CT and the consequent transfer of certain powers from the Manager to the CT Trustees and officers of CT under the CT Supplemental Trust Indenture.

Public Offering

On October 15, 2009, the Fund raised an aggregate of $161.4 million through the issuance of 6.7 million Units and $92 million principal amount of 6.25% unsecured subordinated debentures convertible into Units at $12.42 per unit until December 31, 2014 and redeemable by the Fund under certain circumstances.

$130 million Bank Credit Facility
The Fund and Iroquois Falls Corp. entered into a credit facility with Canadian Imperial Bank of Commerce as agent for a syndicate of banks on May 24, 2002. The facility was subsequently amended and restated several times and most recently on November 26, 2009. The credit facility provides a $130 million line of credit facility (increased from $95.0 million on November 26, 2009) with sub-limits, to assist in the funding of capital expenditures, acquisitions and investments by the Fund; letters of credit; and for Iroquois Falls Corp.'s general corporate purposes. The credit agreement expires on May 20, 2011, but is subject to an annual renewal at the discretion of the Fund. As at December 31, 2009, outstanding letters of credit totalled $25.7 million (2008 - $52.3 million) and drawings of $nil (2008 - $nil million) were outstanding.

Insolvency of Calpine Gas and Settlement
On December 20, 2005, Calpine Gas, one of the natural gas suppliers to the Iroquois Falls Facility, sought relief under the *Companies' Creditors Arrangement Act* (Canada) ("**CCAA**") in conjunction with the filing under Chapter 11 of the U.S. Bankruptcy Code of its U.S. parent, Calpine Corporation. Subsequent to the CCAA filing, Calpine Gas ceased to supply natural gas to the Iroquois Falls Facility in January 2006. Iroquois Falls Corp. filed a proof of claim in the CCAA proceedings. A portion of the Calpine Gas supply obligations was backstopped by one of Iroquois Falls Corp.'s suppliers (the **"Backstop Supplier"**) under one of Iroquois Falls Corp.'s other long-term gas supply contracts. A settlement was finalized in 2006 with the Backstop Supplier whereby Iroquois Falls Corp. and the Backstop Supplier agreed to certain changes to the contractual backstop provisions. The Backstop Supplier also agreed to withdraw an unrelated claim for approximately $7.6 million plus interest against Iroquois Falls Corp.

On December 19, 2007, the Fund announced that it had reached a settlement with Calpine Gas of the claim filed by Iroquois Falls Corp. in the CCAA proceedings. Calpine Gas agreed to pay Iroquois Falls Corp. $32.0 million to settle Iroquois Falls Corp.'s claim and Iroquois Falls Corp. agreed to pay $10.5 million to the Backstop Supplier to settle Iroquois Falls Corp.'s mitigation obligation under the backstop provisions of that supplier's contract. As part of the settlement, the Fund's Manager received a $6.5 million gas management incentive fee under the terms of the Iroquois Falls Management Agreement.

Kingston LP Fuel Management Agreement
In 2007, the natural gas purchase agreement between Kingston LP and Cenovus (formerly EnCana) was amended to provide that any reduction in the quantities of natural gas purchased by Kingston LP under the gas purchase agreement could be sold by Cenovus to third parties in return for a sharing of the profits between Kingston LP and Cenovus. As part of that amendment, Kingston LP and Cenovus terminated the Amended and Restated Gas Management Services Agreement and replaced it with a new Gas Management Services and Profit Sharing Agreement. Under the new Gas Management Services and Profit Sharing Agreement Cenovus continues to be responsible for the management of all aspects of the gas supply under the agreement between Cenovus and Kingston LP until January 31, 2017, including sale of gas to third parties.

Subordinated Loan to Thorold Cogeneration Project
The Fund committed in 2007 to provide a $30 million loan (the "**Thorold Loan**"), including accrued interest during construction, to Thorold LP to assist in the financing of the Thorold

Facility. NPI is the project sponsor and equity provider. Subsequent to the merger with NPI, Thorold LP is no longer a third party and therefore the Fund's subordinated loan to Thorold LP, including interest and fees received, eliminates for accounting purposes in the consolidated financial statements of the Fund.

Subordinated Loan to Jardin LP

In 2008, the Fund committed, through its indirect wholly-owned subsidiary, NPIF Quebec Wind Investments Inc., to provide a $34.8 million loan to Jardin LP, the developer and owner of the Jardin d'Éole Facility in the Gaspésie region of Quebec, and during 2009, the Fund advanced the loan. Subsequent to the merger with NPI, Jardin LP is no longer a third party and therefore the Fund's subordinated loan to Jardin LP, including interest and fees received, eliminates for accounting purposes in the consolidated financial statements of the Fund.

Investment in PEC

In September 2008, the Fund received, after withholding tax, a one-time dividend of US$6.9 million (Cdn$7.3 million) from PEC largely associated with transactions that were entered into among Panda-Brandywine, L.P., PEPCO and Sempra whereby the PEPCO PPA was replaced by a new PPA with Sempra. In addition, Sempra acquired the existing Panda-Brandywine Facility capital lease as part of the transaction.

The Fund also received a restructuring fee of US$1.3 million (Cdn$1.4 million) related to the senior loan to PIC. The restructuring fee was netted against the senior loan balance and will be recognized in income over the life of the loan. A debt service reserve account of US$2.5 million was established by PIC exclusively for the Fund's senior loan. The other terms of the existing senior loan to PIC, including the interest rate of 10.9% and repayment by 2021, were unchanged. The Fund continues to retain its 19% equity interest in PEC.

NARRATIVE DESCRIPTION OF THE BUSINESS

Ontario Industry Overview

The Ontario electricity industry has seen considerable change and refinement since the opening of the electricity market in 2002. These changes have included the imposition of price caps, rebates, regulated price plans, the establishment of prices for OPG generating assets and the creation of the OPA. The OPA was established in 2005 to undertake long-term planning and procure new generation if the market could not provide the required capacity across various sources of generation.

The OPA has conducted a number of procurement processes for natural gas-fired generation to which NPI has responded. Thorold LP was awarded the long-term PPA for the Thorold Facility in the OPA's RFP for 1,000 MW of combined heat and power projects. The OPA will continue procurements for natural gas projects and other technologies either through an RFP process or direct negotiation as directed by the Minister of Energy and Infrastructure ("**Minister**")

In 2009, the *Green Energy and Green Economy Act, 2009* ("**GEA**") was passed into law and the OPA was directed by the Minister of Energy and Infrastructure to launch the FIT Program. The FIT Program is North America's first comprehensive guaranteed pricing structure for renewable electricity production. It offers stable prices under long-term contracts for energy generated from

renewable sources, including biomass, wind, solar photovoltaic ("**PV**") and waterpower. The program targets 10,000 MW of new renewable energy capacity by 2015 compared to 2003 levels and 25,000 MW of new capacity by 2025. Domestic content requirements for the program have also been established. FIT payments range from 10.3 cents/kWh for landfill gas projects larger than 10 MW to 80.2 cents/kWh for residential rooftop projects 10 kW or smaller. The OPA began accepting FIT applications in October, 2009 with a launch period running until the end of November 2009.

The GEA also introduced a number of measures designed to facilitate the development of renewable generation projects including a single approval process for such projects with a 6 month service delivery guarantee, a priority right to connect to the grid and the establishment of uniform setbacks for wind projects.

The OPA estimates that 2,500 MW of transmission capacity is available to connect new renewable energy facilities. In response to the province's transmission constraints, the Ontario Government has committed $2.3 billion over the next 3 years for Hydro One to undertake 20 transmission development projects. A number of the projects are targeted in areas in the province identified as having significant potential for renewable power generation.

The Government of Ontario also introduced amendments in 2009 to environmental legislation that, if passed, will enable a governmental authority to implement a provincial cap and trade system for GHG emissions. The Ontario Government is currently exploring possible options for the structure and design of the proposed system.

In 2009 the Ontario Government deferred the decision to approve the construction of new nuclear capacity in Ontario.

Quebec Industry Overview

The electricity industry in Quebec is structured around Hydro-Québec, a corporation incorporated through provincial statute and the Régie de l'énergie ("**Régie**") as the regulator.

The Régie is responsible for reconciling the public interest, consumer protection and the fair treatment of electricity carriers and distributors. The Régie is also responsible for approving the supply plan of the distribution arm of Hydro-Québec. The supply plan includes a forecast of the needs of the Quebec market over the next ten (10) year period recognizing the heritage electricity pool of generation (165 TWh) provided by Hydro-Québec Production the generating arm of Hydro-Québec. To meet demand in excess of the heritage electricity pool, the distribution arm of Hydro-Québec must enter into supply contracts by conducting public calls for tenders.

Under its governing statute Hydro-Québec, one of the largest electric utilities in North America, has broad powers to generate, supply and deliver electricity in Quebec. In 2005, Hydro-Québec signed contracts with independent power producers for almost 1,000 MW of wind power. In 2008, Hydro-Québec signed 15 contracts for a total of 2004.5 MW of wind power for deliveries commencing between 2011 and 2015, although one of those contracts was subsequently cancelled. The Fund's Jardin d'Éole Facility and Mont-Louis project received long term contracts with Hydro-Québec Distribution in 2005.

Hydro-Québec Distribution has issued a call for tenders for 2 blocks of 250 MW of wind power, one block for power generated from aboriginal projects and the other from community projects (with projects limited to a maximum size of 25 MW each) and bids must be submitted by May 19th, 2010.

Management will continue to monitor the tenders issued by Hydro-Québec Distribution for any opportunities that they may create for the Fund.

Saskatchewan Industry Overview
Most of the Saskatchewan electricity market is served by SaskPower, a Crown corporation, which is a vertically-integrated utility which operates under the authority of the *Power Corporation Act* (Saskatchewan).

Coal-fired generation is the primary component in Saskatchewan's supply mix. With an ageing infrastructure and evolving regulation regarding climate change and environmental issues, SaskPower has assessed alternative forms of generation and its approach in partnering with independent power producers, which would enable it to move towards meeting its new load requirements and environmental goals.

SaskPower's electrical load forecast is growing above long-term averages due to increased economic activity in the province. With a significant percentage of SaskPower's generation assets needing refurbishment or replacement from 2013, the corporation is assessing and implementing many future supply options including the private ownership of generation facilities. To that end, in 2009 SaskPower conducted an RFP for between 200 MW and 400 MW of new intermediate to baseload generation and another RFP for up 100 MW of peaking generation. The Spy Hill Facility and the North Battleford Facility were awarded PPAs in those processes.

SaskPower currently has approximately 172 MW of installed wind generation and has initiated a Request for Qualifications to select qualified proponents to participate in a planned RFP for up to 175 MW of wind generation. SaskPower currently expects to conclude the RFP in the fall of 2010.

THE FUND'S FACILITIES

Prior to the merger with NPI on July 16, 2009, the Fund indirectly owned two natural gas-fired plants located in Ontario: the 120 MW Iroquois Falls Facility, which has been wholly owned by the Fund since its inception in 1997, and the 110 MW Kingston Facility, which has been wholly owned by the Fund since 2006. Through its 19% equity interest in PEC and loan to a PEC subsidiary, PIC, the Fund has an interest in the 230 MW Panda-Brandywine Facility located outside Washington, D.C. that has been accounted for on a cost basis. Sales of electricity produced from the natural-gas-fired plants are made under long-term PPAs with creditworthy customers to ensure revenue stability; where appropriate, long-term contracts assure the supply and price of natural gas, which is the Fund's largest cost. The 54 MW Mont Miller Facility located in the Gaspésie region of Quebec supplies electricity to Hydro-Québec. The Fund also owns two wind farms in Germany with a total capacity of 21.5 MW, where the electricity is sold

to local power utilities under the "feed in tariff" provisions of German renewable energy legislation.

As a result of the merger, the Fund's indirectly owned assets now also include ownership of the Thorold Facility, a 265 MW cogeneration facility in Thorold, Ontario which completed all tests required to achieve commercial operations under the CHP Contract on March 28, 2010, and the 127.5 MW Jardin d'Éole Facility located near Matane, Quebec. The Fund, through NPI, also manages on behalf of third party owners, two natural gas and biomass fired generation facilities in Kirkland Lake and Cochrane, Ontario and receives management, gas purchase and performance incentive fees as a result of providing these services. The Fund through its Chips LP subsidiary also owns the Beaver Cove Facility, a small wood chipping facility located on Vancouver Island and Cogeneration Associates, an engineering services business. The Fund's assets also include a sizeable portfolio of development prospects including the 86 MW natural gas-fired peaking project to be built near Spy Hill, Saskatchewan and the 261 MW natural gas-fired baseload plant to be built near North Battleford, Saskatchewan. Both of these projects have signed long term PPAs with SaskPower.

The following table summarizes the principal characteristics of each of the operating facilities in which the Fund had a direct or indirect interest as at December 31, 2009:

Operating Facilities

Facility	Productive Capacity	Ownership	Power off-taker & rating	PPA term	% of EBITDA(6)
Iroquois Falls	120 MW	100%	OEFC (AA low)*	2021	41%
Kingston	110 MW	100%	OEFC (AA low)*	2017	49%
Thorold (1)	265 MW	100%	OPA (A high)*	2030	N/A
Panda-Brandywine (2)	230 MW	Loan + 19% (49% option in 2021)	Sempra(3) (BBB+)**	2021	9%
Mont Miller	54 MW	97.5%	Hydro-Québec (A+)*	2026	7%
Jardin d'Éole	127.5 MW	100%(4)	Hydro-Québec (A+)*	2029	2%
German Wind Farms	21.5 MW	100%	N/A (5)	N/A (5)	3%
Corporate(7)					(11%)

* Ratings by Dominion Bond Rating Services
** Ratings by S&P

(1) The Thorold Facility completed all tests required to achieve commercial operations under the CHP Contract on March 28, 2010.

(2) A subsidiary of the Fund is the lender under a senior unsecured loan to PIC, which indirectly owns the Panda Brandywine Facility.

(3) Sempra provides all required gas to operate the Panda Brandywine Facility under a tolling arrangement.

(4) The Fund completed the purchase of the 66.5% non controlling interests of Jardin LP on January 29, 2010.

(5) German electricity production is purchased by local power utilities as required by German legislation at predetermined prices.

(6) Represents the approximate earnings before interest, taxes, deprecation and amortization (EBITDA); a non GAAP measure, that was generated by each facility in 2009.

(7) Included in corporate are revenues and operating income from Chips LP, management fees from operating the Cochrane Facility and the Kirkland Lake Facility and management, administration and development expenditures.

Advanced Development Projects

Project	Productive Capacity	Ownership	Power off-taker & rating*	PPA term	Fuel-supply term
Spy Hill	86 MW	100%	SaskPower (AA)	25 years from CODΦ	N/A
North Battleford	261 MW	100%	SaskPower (AA)	20 years from CODΦ	N/A

* Ratings by Dominion Bond Rating Services
Φ Commercial operation date

Thermal Facilities – Natural-gas-fired and Cogeneration

By using natural gas to fuel the gas turbines at each of the Iroquois Falls Facility, the Kingston Facility, the Thorold Facility and the Panda-Brandywine Facility, the Fund is using the cleanest burning fossil fuel. Natural-gas combustion results in virtually no atmospheric emissions of sulfur dioxide ("**SO_2**") or small particulate matter, and far lower emissions of carbon monoxide ("**CO**"), nitrogen oxides ("**NO_x**"), and greenhouse gases such as reactive hydrocarbons and carbon dioxide ("**CO_2**"), than the combustion of other fossil fuels.

Cogeneration is the simultaneous production of electric and thermal energy, such as steam or heat, from one fuel source, such as natural gas. The steam produced is normally supplied to a nearby industrial or commercial facility, which would otherwise consume fuel to produce steam. Cogeneration provides greater efficiency than conventional generation methods to off takers that require continuous thermal and electric power.

Wind Facilities

Wind is used to generate electricity utilizing wind turbines to transform the kinetic energy of wind into electrical energy. Wind power projects are relatively simple to erect and can be constructed within a much shorter time frame than traditional electricity generation projects. Because wind power projects do not have fuel costs, operating expenses are lower than for power projects using fossil fuels.

IROQUOIS FALLS FACILITY

General Background

The Iroquois Falls Facility is a natural gas-fired, combined-cycle cogeneration plant situated in Iroquois Falls, Ontario, approximately 650 kilometres north of Toronto. The Iroquois Falls Facility is located on the Abitibi River approximately 500 metres from the AbitibiBowater Iroquois Falls Mill. Construction of the Iroquois Falls Facility was completed, and the plant commenced operations, in 1996.

The Iroquois Falls Facility's Sales, Supply, and Maintenance Contracts

The Iroquois Falls Facility has a net rated capacity of 120 MW and generates and sells electricity to OEFC under the 25-year Iroquois Falls Power Purchase Agreement expiring in 2021. OEFC's obligation to purchase electricity under the Iroquois Falls Power Purchase Agreement is limited to stipulated monthly averages of between 75 MW and 96 MW, with the weighted monthly average being 85 MW.

The Iroquois Falls Facility sells up to 300,000 pounds of steam per hour to the neighbouring AbitibiBowater Iroquois Falls Mill under a 20-year steam sales agreement that expires at the end of 2016. Steam is sold at a price set annually that varies directly with the cost of gas purchased by Iroquois Falls Corp. Steam sales are generally higher in Winter than in Summer. Iroquois Falls Corp. is protected from the economic impact of adverse changes at the AbitibiBowater Iroquois Falls Mill until 2016 through provisions of the Iroquois Falls Power Purchase Agreement that increase OEFC's electricity purchase obligation to mitigate any material loss in steam sales revenue. On average, revenue generated from the sale of steam is expected to represent approximately 5 to 10% of the Fund's total revenues. For the year ended December 31, 2009, sales to AbitibiBowater represented approximately 9% (2008 – 9%) of Iroquois Falls Corp.'s total revenue from the Iroquois Falls Facility.

Other revenue is earned by selling natural gas to mitigate the cost of unused capacity under the transportation contract with TransCanada PipeLines Limited during lower production summer months and plant shutdowns. Such revenue represented approximately 5% of the total revenue in fiscal 2009 (2008 – 9%) for the Iroquois Falls Facility.

The Iroquois Falls Facility is fuelled by natural gas provided by Cenovus and Shell Canada Limited. The natural gas from these suppliers is contracted pursuant to 20-year gas supply agreements expiring in 2015 and 2016 which relate the fuel price escalation, in part, to the electricity selling price. The Iroquois Falls Facility uses TransCanada PipeLines Limited and Union Gas Limited to transport its gas pursuant to 20-year firm-service agreements that expire in 2016 but are readily renewable and remain subject to the same tariff rates.

The gas turbines at the Iroquois Falls Facility were replaced in 2003 with the latest version of GE's LM6000 PD machine. The maintenance of the Iroquois Falls Facility's gas turbines is contracted to GE under a maintenance agreement that, based upon the expected usage of the turbines, will continue until 2015.

Operations

The Iroquois Falls Facility has the capacity to produce an annual average of 15% more electricity than the amount contracted to OEFC under the Iroquois Falls Power Purchase Agreement. The Iroquois Falls Facility has been successful in bidding into the wholesale market and sold incremental electricity beyond the volumes in the Iroquois Falls Power Purchase Agreement. In 2009, a total of 2,829 MWh of electricity was sold to the wholesale market (2008 – 3,236 MWh) in addition to ancillary services including operating reserves.

The Iroquois Falls Facility is intended to operate 24 hours a day, 365 days a year except for planned and unplanned downtime. Under the Iroquois Falls Power Purchase Agreement, OEFC has the right to curtail the Iroquois Falls Facility's electricity output by up to 20% of the

contracted capacity during Summer off-peak hours without payment. The Iroquois Falls Facility was curtailed 38,560 MWh by OEFC under the Iroquois Falls Power Purchase Agreement in 2009 (2008 – 38,000 MWh).

The Iroquois Falls Facility is generally shut down once a year for scheduled maintenance. As purchase rates under the Iroquois Falls Power Purchase Agreement are higher for on-peak hours, planned down time is scheduled for off-peak hours to the extent possible to minimize the impact on revenue. The Iroquois Falls Facility has averaged an availability of approximately 97% since start-up in 1996.

Production from the Iroquois Falls Facility is higher in Winter than in Summer, and rates received from OEFC are also higher during the Winter. As a result, approximately 65% of the Iroquois Falls Facility's cash flow is earned in the Winter, and approximately 35% is earned during the Summer. On average, approximately 80 to 90% of the Iroquois Falls Facility's revenues are expected to be derived from electricity sales to OEFC. For the year ended December 31, 2009, sales of electricity represented approximately 87% (2008 – 82%) of Iroquois Falls Corp.'s total revenue from the Iroquois Falls Facility.

Employees

For the fiscal year ended December 31, 2009, the Iroquois Falls Facility was operated by a staff of 21 employees that was augmented as required with outside contractors, and engineering services from Cogeneration Associates. Twelve employees at the facility are members of the International Union of Operating Engineers. The new collective agreement with employees at the Iroquois Falls Facility expires on June 30, 2010. Preliminary negotiations are underway to enter into a new 3 year collective agreement to take effect July 1, 2010.

Environmental Matters and Permits

The Iroquois Falls Facility holds all necessary permits and approvals required for operations and has an environmental monitoring and reporting system in place. In particular, current generating equipment at the Iroquois Falls Facility is designed to produce NO_x emissions below the levels set out in its permits and, because its NO_x emissions are low, Iroquois Falls Corp. has surplus NO_x allowances for sale. In 2009, the Iroquois Falls Facility sold approximately 400 tonnes (2008 – 200 tonnes) of emission allowances and credits for $0.1 million (2008 – $0.1 million).

KINGSTON FACILITY

General Background

Kingston LP owns a 110 MW natural gas-fired, combined-cycle cogeneration plant located west of Kingston, Ontario in Loyalist Township. The Kingston Facility is situated on approximately 11 acres of land near Lake Ontario. The plant started commercial operations on February 1, 1997.

Power Purchase Agreement

Kingston LP is a party to the long-term Kingston Power Purchase Agreement with OEFC for the sale and delivery of monthly quantities of 93 MW to 109 MW of electricity (approximately 100 MW on average) through to January 31, 2017. The Kingston Power Purchase Agreement

can be extended for a further 5 years with the consent of both parties at rates agreed upon at that time.

Revenue under the Kingston Power Purchase Agreement is earned according to a number of tariff rates that escalate according to different criteria. Escalation of certain of these tariffs is tied specifically to increases in tariff rates under the contracts with TransCanada PipeLines Limited and Union Gas Limited for natural gas transportation capacity and commodity rates with the result that natural gas transportation cost increases are directly reflected in higher revenues under the Kingston Power Purchase Agreement. Similarly, certain tariffs escalate using the same formula that applies to natural gas purchased under the contract with Cenovus (formerly EnCana), so that gas supply cost increases are directly reflected in higher revenue under the Kingston Power Purchase Agreement. Certain tariffs are related to the Consumer Price Index (as defined in the Kingston Power Purchase Agreement) to provide an offset to higher operations and maintenance costs resulting from general inflation. One of the tariff categories has its rate pre-determined for each year of the term of the Kingston Power Purchase Agreement to provide revenue to match debt service costs and equity returns. The revenue is heavily weighted towards on peak hours, which provides a significant incentive to maximizing production of electricity during on peak hours. Revenue escalators under the Kingston Power Purchase Agreement were not affected by Ontario electricity sector restructuring.

In March 2006, the outstanding $33.5 million balance in the levelization account established pursuant to the Kingston Power Purchase Agreement was paid in full by Kingston LP using funds provided by the Fund.

The Kingston Power Purchase Agreement provides certain rights to OEFC to curtail output during the Summer. OEFC has generally not availed itself of those rights.

Kingston LP entered into a general term sheet with OEFC in 2006 that addresses the sharing of profits from incremental production from the Kingston Facility along with the sale of operating reserves and ancillary services to the IESO under the IESO Market Rules.

Energy Services Agreement and Water-Related Contracts

Kingston LP had been providing steam to an adjacent facility owned by INVISTA under an energy services agreement that was to expire in 2017. In October 2009, INVISTA permanently shut down its Millhaven facility. The INVISTA agreement provides Kingston LP with “step-in-rights” to operate and maintain certain INVISTA infrastructure, with Kingston LP manpower and at Kingston LP’s cost. At present, Kingston LP is operating INVISTA’s pumphouse for the supply of its process water and has obtained government approval for the discharge of its process waste water through INVISTA’s existing outfall. Over the long term, lost steam revenue from INVISTA is expected to be largely offset by additional gas resales; however, the extent of this offset is contingent on the market price of natural gas.

Natural Gas Supply

Kingston LP is party to a natural gas purchase agreement with Cenovus for the supply of natural gas to the Kingston Facility to January 31, 2017. The natural gas cost escalates with transportation costs on the NOVA system (NOVA Gas Transmission Ltd. is a wholly owned subsidiary of TransCanada PipeLines Limited) and a predetermined amount over the Consumer

Price Index (as defined in the natural gas purchase agreement). TransCanada PipeLines Limited and Union Gas Limited transport gas under separate long term firm transportation agreements.

In 2007, the natural gas purchase agreement between Kingston LP and Cenovus was amended to provide that any reduction in the quantities of natural gas purchased by Kingston LP under the gas purchase agreement could be sold by Cenovus to third parties in return for a sharing of the profits between Kingston LP and Cenovus. As part of that amendment, Kingston LP and Cenovus terminated their Amended and Restated Gas Management Services Agreement and replaced it with a new Gas Management Services and Profit Sharing Agreement. Under the new Gas Management Services and Profit Sharing Agreement, Cenovus continues to be responsible for the management of all aspects of the gas supply under the agreement between Cenovus and Kingston LP until January 31, 2017, including sale of gas to third parties.

Operations and Maintenance

Operations and maintenance of the Kingston Facility are undertaken by the Fund's 18 employees located at the Kingston Facility. Kingston LP has a multi-year agreement with GE for the long-term supply of parts and specified repair services for the GE 6FA gas turbine and GE has assumed additional responsibilities and risks associated with scheduled and unscheduled maintenance on the gas turbine in return for a monthly fee and periodic payments. This agreement expires after 68,000 hours of operations (estimated to be in 2017).

Environmental Matters and Permits

The Kingston Facility holds all necessary permits and approvals required for operations and has an environmental monitoring and reporting system in place. All current generating equipment at the Kingston Facility is designed to produce NOx emissions below the levels set out in its permits and because its NO_x emissions are low, Kingston LP has surplus NO_x allowances for sale. There were no sales of emission allowances in either 2009 or 2008 due to the continuation of low, unattractive market prices.

Capital Structure of Kingston LP

Kingston LP has in place long-term non-recourse project financing with a syndicate of banks. The interest rate has been fixed through interest rate hedges on the outstanding loan balance. The bank financing is fully amortized over the term of the Kingston Power Purchase Agreement. Security under the credit agreement is limited to the assets of Kingston LP and an assignment of the Fund's ownership interests in Kingston LP.

THE PANDA-BRANDYWINE FACILITY

The Panda-Brandywine Facility is a natural gas-fired combined-cycle facility located in Brandywine, Maryland, near Washington, D.C., with a total electrical generating capacity of 230 MW. The Panda-Brandywine Facility sells electrical capacity and energy to Sempra. The facility commenced commercial operations on October 31, 1996. The Panda-Brandywine Facility has two General Electric industrial gas turbines with heat recovery steam generators and a steam turbine.

The Panda-Brandywine Facility is currently leased by Panda-Brandywine, L.P. The lease, which expires on October 31, 2021, was entered into in connection with a sale leaseback transaction

with GE Capital and other financing parties. Sempra acquired the lease as part of the Sempra Transaction. At the end of the current lease term, it may be renewed for an additional 5-year term. Alternatively, the facility may be purchased at fair market value at the end of the lease term or the renewal term.

The Panda-Brandywine Facility's Sales, Supply, Management and Maintenance Contracts
The Panda-Brandywine Facility sells electrical capacity and energy to Sempra pursuant to a PPA that expires on October 31, 2021, and may be extended by mutual agreement of the parties. The PPA for the Panda-Brandywine Facility which was originally with PEPCO was replaced by a new PPA with Sempra in September 2008 (the "**Sempra Transaction**"). The Sempra PPA retains the characteristics of the PEPCO PPA, including predefined fixed capacity payments, variable operating payments designed to match variable operating costs, including fuel, with the exception that Sempra will provide all natural gas needed for operations. The Sempra fixed capacity payments are similar to those under the PEPCO PPA until 2016, but somewhat lower thereafter. Under the Sempra PPA, the Panda-Brandywine Facility will generally be dispatched at full output (230 MW) or not at all. Under the previous PEPCO PPA, the facility was often part-loaded (i.e., not at full output), which is less efficient and harder on the machinery.

As part of the Sempra Transaction, Sempra now provides all natural gas needed for operations as part of the Sempra PPA. The Panda-Brandywine Facility also maintains a supply of No. 2 fuel oil as backup fuel. The backup fuel allows the facility to produce electricity when dispatched during gas delivery interruptions. The facility is capable of switching from natural gas to fuel oil without disrupting production.

The distilled water plant owned indirectly by PEC was shut down after the Sempra Transaction was completed.

Panda-Brandywine, L.P. entered into a treated effluent water purchase agreement dated September 13, 1994, with the County Commissioners of Charles County, Maryland to purchase up to 2.7 million gallons per day of treated effluent from a local sewage treatment plant. The initial term expires on October 31, 2021 and may be extended for up to three successive 5-year terms. Treated effluent is a by-product of the sewage treatment process and is used as the primary cooling water source for the cooling towers.

Panda-Brandywine, L.P. obtains operation and maintenance services for the facility from Panda Global Services Inc. pursuant to an operation and maintenance agreement dated June 17, 1999. The term of the agreement runs through October 31, 2011. It provides for payment of a fixed monthly fee, subject to certain adjustments. In addition, Panda Global Services Inc. is entitled to reasonable and actual direct costs incurred by it in its performance of the operation and maintenance services. The agreement also includes certain bonus and penalty provisions.

Environmental Matters and Permits
The Panda-Brandywine Facility has been designed to meet U.S. federal and Maryland environmental standards and the Fund's management understands it is in material compliance with current environmental requirements.

The Panda-Brandywine Facility is being operated under a Part 70-Title V Operations Permit that began in October 2009 and will be in place for five years. It incorporates Acid Rain, Clean Air Interstate Rules ("**CAIR**"), and the Maryland CO_2 Budget Trading Permits.

There are four air emission programs the Panda-Brandywine Facility is accountable for under its Part 70-Title V Operations Permit:

1. CAIR annual NOx
2. CAIR ozone season NOx
3. CAIR SO_2 (annual or what use to be the Acid Rain Program)
4. Regional Greenhouse Gas Initiative ("**RGGI**"); CO_2

The new greenhouse gas regulations require the establishment of a greenhouse gas monitoring plan for purposes of reporting various greenhouse gases. This task is being performed in-house and is ongoing.

Five tons of SO_2 credits were purchased from Sempra recently at a cost of $1/ton to cover the 2009 emissions obligation.

The Panda-Brandywine Facility's RGGI for CO_2 emissions liability for 2009 is approximately 318,000 tons. Options for purchasing allowances are currently being evaluated; however acquisition of these credits is not required until the end of 2011.

THE MONT MILLER FACILITY

General Background

The Mont Miller Facility is a 54 MW wind power facility located near the town of Murdochville, Quebec. Murdochville is a former mining town in the interior of the Gaspé Peninsula, approximately 80 kilometres west of Gaspé and 35 kilometres south of the St. Lawrence River. Construction of the facility began in August 2004 and was completed on June 9, 2005, when commercial operations commenced.

The Mont Miller Facility was developed by NPI in a joint venture with 3Ci, a Quebec-based wind power developer. Together, NPI and 3Ci were responsible for locating the site, securing the Miller LP Power Purchase Agreement with Hydro-Québec, negotiating leases, environmental and other permits, and negotiating the EPC Agreement with Vestas. Vestas, in addition to supplying the wind turbines, designed, engineered, and constructed the entire Mont Miller Facility. The Vestas V80 turbines carry a 5-year warranty as summarized below. The performance of Vestas' obligations are guaranteed by Vestas Wind Systems A/S, the ultimate parent company of Vestas.

Facility Design and Equipment

The Mont Miller Facility consists of 30 Vestas V80 wind turbines. The turbines are arrayed over a territory of approximately 25 square kilometres on a series of ridges and mountain tops ranging from 700 to almost 900 metres in altitude. The territory is Crown land which is leased for 25 years, renewable for an additional 15 years.

The Mont Miller Facility's energy forecast and revenue projections are based on detailed wind studies. Wind speed data were collected on site for over 3 years then analyzed using sophisticated computer modeling and simulations by third party experts. The average wind speed at the individual turbines has been estimated at over 8.8 metres per second. After adjusting for normal energy losses due to transmission inefficiencies, downtime resulting from extreme weather conditions and scheduled maintenance, and other factors, the net energy output was forecast at 41.7% of the plant's 54 MW capacity, or approximately 195 GWh per year. Energy production during 2009 fell short of long term expectations due to generally calmer winds during the second quarter and severe equipment icing in December. In addition, Hydro-Québec TransÉnergie limited the wind farm to 60% load for 15 days and imposed two full outages for 16 days to complete local substation and transmission maintenance.

Mont Miller's Sales and Maintenance Contracts
All the power produced by the Mont Miller Facility is sold to Hydro-Québec under the 21-year Miller LP Power Purchase Agreement. The price for the power was set at $56 per MWh at the beginning of commercial operations of the facility. This price escalates at 1.5% per annum for the term of the Miller LP Power Purchase Agreement. Hydro-Québec purchases all the electricity produced by the Mont Miller Facility, and there is no minimum or maximum production or delivery requirement. In 2009, the Mont Miller Facility produced 143,858 MWh (2008 – 153,136 MWh) of electricity and revenue of $9.2 million (2008 - $9.7 million).

Miller LP also receives a subsidy for power produced under the Federal Government's Wind Power Production Incentive program. The incentive is $10 per MWh, which is shared equally with Hydro-Québec, and will be paid for 10 years from the commencement of commercial operations.

Miller LP has also entered into a 5-year warranty, maintenance and services agreement with Vestas that expires in late August 2010. Under the terms of this agreement, Vestas provides all scheduled and unscheduled maintenance required for the wind turbines, including all labour, repairs, replacement parts, and supplies. The agreement also provides specific guarantees for availability (95%) and power output (95% of the turbines' rated capacity) during the 5-year warranty period. Management is pursuing the replacement of the maintenance and services agreement with Vestas and other potential suppliers.

Operations
Operations of the Mont Miller Facility are managed by a subsidiary of the Fund. Two local operators handle all day-to-day work at the facility. In addition to overseeing Vestas' obligations under the warranty, maintenance and services agreement, the operators are responsible for the working relationship with Hydro-Québec and the maintenance and service of the substation and collection system.

THE GERMAN WIND FARMS

General Background
The German Wind Farms consist of the 7.2 MW Kavelstorf wind farm, located on level agricultural land south of Rostock in northern Germany and the 14.3 MW Eckolstädt wind farm, located on flat land in the Thuringen region in central Germany. The Kavelstorf wind farm has

been operating since April 2001, and the Eckolstädt wind farm has been operating since January 2000.

Facility Design and Equipment

The Kavelstorf wind farm consists of 4 Nordex N60 turbines (1.3 MW) and 2 Nordex N54 (1.0 MW) turbines for a total of 7.2 MW. The Eckolstädt wind farm consists of 11 Bonus 1.3 MW turbines for a total of 14.3 MW. Nordex and Bonus (owned by Siemens AG) are established turbine manufacturers; the Nordex N60 and N54 and Bonus 1.3 wind turbines are proven and reliable with expected useful lives of 20 to 25 years.

Sales and Maintenance Contracts and Operations

The German Wind Farms are projected to supply 33,800 MWh of electricity to local power utilities and receive a fixed tariff for all energy delivered of Euro 9.1¢/kWh for a term of 20 years under the provisions of German renewable energy legislation. Terms of all land lease agreements are for 30 years.

Management and day-to-day operations are provided by enXco GmbH, a German entity with considerable wind power experience, which is affiliated with Électricité de France, one of the largest power utilities in the world. Oversight of the German Wind Farms is provided by the Manager. In 2009, the German Wind Farms produced 29,879 MWh (2008 – 35,331 MWh) of electricity and revenue of $4.4 million (2008 - $5.1 million).

THE JARDIN D'ÉOLE FACILITY

General Background

The Jardin d'Éole Facility is a 127.5 MW wind power facility located primarily on leased agricultural land on the south shore of the St. Lawrence River, near Matane. Construction of the facility began in May 2008, and was completed on November 20, 2009, when commercial operations commenced.

The facility is owned by Jardin LP which, as a result of the merger with NPI, and the acquisition of the 66.5% non-controlling interests on January 29, 2010 is now 100% indirectly owned by the Fund.

Facility Design and Equipment

The Jardin d'Éole Facility generates power from 85 GE 1.5sle wind turbines with a capacity of 1.5 MW each. The Jardin d'Éole Facility is constructed on lands leased from private and municipal landowners under terms that expire 23 years from the start of commercial operations. A long term wind resource assessment was conducted by an internationally recognized consulting firm, specializing in wind resource assessments, that predicted P50 average annual production of 371,600 MWh over a 10-year period and P90 average annual production of 324,700 MWh over 10 years. The predicted P50 capacity factor was 33.3%.

The wind farm was built by Borea Construction ULC, a Quebec-based joint venture between Montreal's Pomerleau Construction and DH Blattner and Sons of Minnesota. The wind turbine towers and nacelles were supplied by GE from the Marmen facility in Matane.

Sales and Maintenance Contracts and Operations

All the power produced by the Jardin d'Éole Facility is sold to Hydro-Québec under a 20-year PPA. The price for the power was set at $64.47 per MWh at the beginning of commercial operations of the facility. This price escalates each year based on a formula that is tied to the Consumer Price Index for the term of the PPA. Hydro-Québec purchases all the electricity produced by the Jardin d'Éole Facility, and there is no minimum or maximum production or delivery requirement. In 2009, the Jardin d'Éole Facility produced 40,672 MWh of electricity and revenue of $2.7 million.

Jardin LP also receives a subsidy for power produced under the Federal Government's ecoEnergy Initiative program. The incentive is $10 per MWh, of which Hydro-Québec receives 75% and the Fund retains 25%, and will be paid for 10 years from the commencement of commercial operations.

Jardin LP has also entered into a 2-year warranty, maintenance and services agreement with GE. Under the terms of this agreement, GE provides all scheduled and unscheduled maintenance required for the wind turbines, including all ongoing maintenance and service on the wind turbines and related equipment for a quarterly fee, escalated annually based on certain labour and material indices.

Operations

Operations of the Jardin d'Éole Facility are managed by the Fund. Local operators handle all day-to-day work at the facility. In addition to overseeing GE's obligations under the warranty, maintenance and services agreement, the operators are responsible for the working relationship with Hydro-Québec and the maintenance and service of the substation and collection system.

BEAVER COVE FACILITY

General Background

Chips LP owns the Beaver Cove Facility at Beaver Cove, near Port Hardy on the north end of Vancouver Island, British Columbia. The Beaver Cove Facility takes waste wood from major logging companies' dry land sorts and salvage logs and other debris from their inactive and active logging sites and turns these waste materials into saleable wood chips and hog fuel for use in the production of pulp and paper. The Beaver Cove Facility is located on land leased from Canfor.

Sales Contract and Operations

The Beaver Cove Facility is underpinned by a 10-year contract with Canfor for a significant portion of the fibre supply that provides Canfor with exclusive rights to purchase all of the wood chips and hog produced at the facility, and the obligation to do so as long as the products meet specifications. The contract terminates in 2013 and is being assigned by Canfor to Western Forest Products, the largest coastal British Columbia woodland operator and lumber producer.

PROJECTS UNDER CONSTRUCTION OR COMMISSIONING

THE THOROLD FACILITY

General Background

Thorold LP was a successful bidder under the OPA's request for proposals for combined heat and power projects, and entered into a 20-year agreement concerning electricity sales (the "**CHP Contract**") with the OPA on October 16, 2006. The CHP Contract obliges the OPA to pay Thorold LP for capacity based on a specified contract capacity for the Thorold Facility of 236.4 MW and a specified heat rate (a measure of plant efficiency). The term of the CHP Contract is 20 years from the commercial operation date ("**COD**") and can be extended by mutual agreement.

Under the CHP Contract, the Thorold Facility will sell up to 350,000 lbs per hour of steam to the AbitibiBowater Thorold Mill under the terms of a 20-year energy supply agreement with AbitibiBowater. The energy supply agreement also provides for the facility to supply the AbitibiBowater Thorold Mill's 43 MW electricity demand at market prices to take advantage of inside-the-fence transmission and market-uplift cost savings that are shared between the AbitibiBowater Thorold Mill and the Thorold Facility.

Facility Design and Equipment

The Thorold Facility is a natural gas-fired, combined-cycle cogeneration facility that will produce both electricity and steam from a 170 MW industrial gas turbine and associated 95 MW steam turbine. Electricity is supplied under the CHP Contract, which will provide revenue assurance and stability to the project, and steam and electricity are sold to the AbitibiBowater Thorold Mill under a 20-year energy supply agreement. Management understands from AbitibiBowater that the Thorold Facility will significantly reduce energy costs and improve the competitiveness of the AbitibiBowater Thorold Mill, which AbitibiBowater considers one of its strategic assets. During 2009, AbitibiBowater and its subsidiaries filed for court protection in the United States and Canada, to implement restructuring for the long term and to allow AbitibiBowater to continue normal business operations. Although AbitibiBowater is under court protection, its Thorold mill is one of a small number of 100% recycled newsprint mills in North America and is expected to operate over the long-term (whether owned by AbitibiBowater or another party) as it is understood to be cost competitive in comparison to other newsprint mills in North America.

Construction of the approximately $520 million Thorold Facility began in the third quarter of 2007, following the completion of all permitting and financing. The Thorold Facility completed all tests required to achieve commercial operations under the CHP Contract on March 28, 2010.

Operations

The Thorold Facility is configured around a GE industrial gas turbine that, when combined with the large steam demand from the AbitibiBowater Thorold Mill, makes the plant one of the most efficient power generators in Canada. The Thorold Facility was constructed by V.K. Mason Construction Co., a subsidiary of Kiewit Construction Co. of Omaha, Nebraska, under a construction contract that fixed the price and completion date, and guarantees the plant's output

and efficiency. The project is operated and maintained on behalf of Thorold LP by a subsidiary of NPI.

The contractual structure of the Thorold Facility is designed to insulate Thorold LP from exposure to electricity price and dispatch risk, natural gas price volatility and delivery uncertainty, changes in steam demand, and performance-related issues.

ADVANCED DEVELOPMENT PROJECTS

SPY HILL FACILITY

In September 2009 Spy Hill LP executed a PPA with SaskPower for an 86 MW natural gas-fired peaking plant to be built near Spy Hill, Saskatchewan. Under the PPA, the project will receive monthly payments that are designed to cover all fixed costs and investment returns. The PPA also provides protection against changes in the market price of natural gas, as fuel costs are passed through to SaskPower. The Fund will be responsible for operating the plant to achieve specified efficiency and reliability levels. The contractual structure of the project is designed to ensure predictable, stable and sustainable cash flows over the entire 25 year term of the PPA.

The Spy Hill Facility will be situated on land leased from SaskPower under a long term lease. The facility will be comprised of two GE LM 6000 gas turbines with associated electrical equipment and interconnections. A consortium of Aecon Group Inc. and Black & Veatch Corporation has been selected to engineer and construct the plant under a fixed-price and fixed-schedule turnkey contract and to guarantee performance. The COD under the PPA is December 1, 2011. The total cost of the project is approximately $145 million.

The purchase price for the gas turbines is payable in US dollars. To address potential fluctuations in the Canada-US dollar exchange rates, the Fund has entered into a series of forward foreign exchange contracts totalling US$45.4 million (US$41.2 million remains outstanding as at December 31, 2009) through to April 2011 at an exchange rate of CA$1.096 to US$1.00. At signing of the Spy Hill PPA, the Fund posted as security a $5 million letter of credit and provided a $10 million limited guarantee against potential liquidated damages that could be imposed for delays in achieving commercial operations. The Fund's guarantee and letter of credit will be replaced by a letter of credit to be provided as part of the debt financing arrangements for the Spy Hill Facility.

The Fund expects to complete a non recourse project debt financing for Spy Hill LP by the end of April 2010 for up to 80% of the project cost.

NORTH BATTLEFORD FACILITY

On February 8, 2010 the Fund announced that North Battleford LP a wholly-owned subsidiary had entered into a 20 year PPA with SaskPower to provide baseload power to the Saskatchewan energy system. The 261 MW natural gas-fired combined cycle plant will be built near North Battleford, Saskatchewan, about 150 km north west of Saskatoon. All power produced by the plant will be sold under the PPA to SaskPower. The plant will use a GE gas turbine with associated heat recovery and a steam turbine to produce the electricity. The plant is scheduled to

begin commercial operations in 2013. The total cost of the project is budgeted at approximately $700 million.

Under the PPA, the project will receive monthly payments that are designed to cover all fixed costs and investment returns. The PPA also provides protection against changes in the market price of natural gas, as the price of gas is passed through to SaskPower. The Fund will be responsible for operating the plant to achieve specified efficiency and reliability levels. The contractual structure of the project is designed to ensure predictable, stable and sustainable cash flows over the entire 20 year term of the PPA. At signing of the North Battleford PPA, the Fund provided a $36.5 million limited guarantee against potential liquidated damages that could be imposed for delays in achieving commercial operations. The Fund's guarantee will be replaced by a letter of credit to be provided as part of the financing arrangements for the North Battleford Facility.

The Fund expects to complete a non recourse project debt financing for North Battleford LP in the third quarter of 2010 for up to 80% of the project cost.

DISTRIBUTIONS

Sustainability of Distributions

The Fund's investment objective is to produce stable and sustainable levels of cash available 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.

The merger with NPI has provided the Fund with an additional $600 million of tax deduction pools which, combined with cash flow from the Thorold Facility and the Jardin d'Éole Facility, will increase the cash available for distribution to help maintain the Fund's distribution of $1.08 per Unit even after the Fund becomes taxable in 2011. Longer-term, the expected cash flows and tax pools from the Fund's Spy Hill Facility and North Battleford Facility, as well as future projects from its development pipeline, will further contribute to cash available for distribution.

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 PPAs and fuel-supply contracts are aligned for each project so that revenue and cost escalation are linked, providing assurance of long term profitability for each project. To help reduce the impact of less favourable economics at the expiry of existing contracts that could reduce the cash available for distribution, the Fund has partially financed a portion of some projects with long term debt that is amortized (i.e., fully repaid) over the term of the original PPAs.

The Fund distributed a total of $1.08 in cash per unit to Unitholders for the year ended December 31, 2009 (2008 – $1.12 per unit; 2007 – $1.08 per unit). The $1.12 per unit in 2008 represents regular distributions of $1.08 per unit and a one-time special distribution of $0.04 per unit. The purpose of the special distribution was to ensure that cash distributions for the year at least equalled the taxable income allocated to Unitholders in 2008. For Canadian tax purposes, the fiscal 2009 distributions of $1.08 per Unit are treated as 100% taxable as ordinary income.

To allow Unitholders of the Fund who are residents of Canada to conveniently acquire additional Units by reinvesting their cash distributions, the Fund has established a distribution reinvestment plan.

History of Distributions
The following table shows per Unit cash distributions declared monthly for the past 3 years.

	Distributions Declared per Unit ($)		
Month	**2009**	**2008**	**2007**
January	0.0900	0.0900	0.0900
February	0.0900	0.0900	0.0900
March	0.0900	0.0900	0.0900
April	0.0900	0.0900	0.0900
May	0.0900	0.0900	0.0900
June	0.0900	0.0900	0.0900
July	0.0900	0.0900	0.0900
August	0.0900	0.0900	0.0900
September	0.0900	0.0900	0.0900
October	0.0900	0.0900	0.0900
November	0.0900	0.0900	0.0900
December	0.0900	0.1300	0.0900
	1.0800	1.1200	1.0800

MANAGEMENT AND ADMINISTRATION OF THE FUND

Administration of the Fund and Role of Board Trustees
Prior to the merger with NPI, administration of the Fund was the responsibility of the Fund Trustee, Computershare Trust Company of Canada ("**Computershare**"). In association with the merger on July 16, 2009, Unitholders approved changes to the Fund's governance structure whereby the individuals who were the Trustees of CT became Trustees of the Fund itself, replacing Computershare. The Trustees are now the central governing body of the Fund with overall responsibility for the supervision of management of the Fund. In addition, provision was made to increase the size of the Board of Trustees from five to up to seven individuals, with six trustees serving at this time. The roles of the Chair and Chief Executive Officer of the Fund are separated.

Role of the Manager
Up until the merger with NPI on July 16, 2009, there were no directors or trustees of the Fund itself and management and administration of the Fund was performed by the Manager as the delegate of the Fund Trustee under the Fund Trust Indenture and the Administration Agreement. The Manager also provided management and general administrative services to CT pursuant to the CT Management Agreement. As a result of the merger with NPI, the Fund now indirectly owns the Manager and thus management of the Fund, CT and Holdings LP has been internalized.

MANAGEMENT AND ADMINISTRATION FEES

Prior to the merger with NPI, the Manager of the Fund was entitled to receive management and incentive fees for managing the Fund and certain of its facilities. In total, the Manager received $1.0 million in 2009 (2008 - $4.2 million). After the merger, these fees continue to be paid but are offset upon consolidation and no longer impact the consolidated financial results for the Fund.

The following fees are earned from entities not consolidated with the Fund's results and as a result, NPI and its subsidiaries continue to earn these fees after the merger. These fees are included in the Fund's consolidated statements of income and deficit as "other".

The Manager receives from PIC a loan administration fee of US$125,000 and a manager's fee of US$75,000 per annum, adjusted annually to reflect changes in the U.S. consumer price index. During the year, the Manager received $265,000 (2008 – $246,000) related to the PIC loan administration and manager's fees.

NPI is entitled to receive a fee for services provided relating to the operation and management of the Kirkland Lake Facility pursuant to a management agreement expiring in 2041. Under the terms of the agreement, fees are adjusted annually on March 1 for changes in the Ontario consumer price index. NPI leases the existing land and buildings in which the Kirkland Lake Facility is situated to Kirkland Lake Corp. under a lease agreement that expires in 2041. NPI also acts as Kirkland Lake Corp.'s agent to facilitate natural gas purchases and sales and receives a fee for such services calculated as 10% of savings on natural gas purchased for consumption. For the period July 16, 2009 to December 31, 2009, NPI earned $459,000 in management fees, $103,000 in natural gas management fees and lease revenue of $30,000.

NPI is entitled to receive a fee for services provided relating to the operation and management of the Cochrane Facility pursuant to a management agreement expiring in 2016. Under the terms of the agreement, fees are adjusted annually on March 1 for changes in the Ontario consumer price index. NPI leases the existing land and buildings in which the Cochrane Facility is situated to Cochrane Power Corp. under a lease agreement that expires in 2011. Under the terms of the lease agreement, lease payments are adjusted annually on March 1 for changes in the Ontario consumer price index. The management agreement and the lease agreement may be extended beyond their initial terms at the option of Cochrane Power Corp. NPI also acts as Cochrane Power Corp.'s agent to facilitate natural gas purchases and sales and receives a fee for such services calculated as 10% of savings on natural gas purchased for consumption. For the period July 16, 2009 to December 31, 2009, NPI earned $217,000 in management fees, $106,000 in natural gas management fees and lease revenue of $217,000.

THIRD-PARTY MANAGERS

Management of the Panda-Brandywine Facility

Panda Global Services Inc., an affiliate of Panda Energy International, Inc., provides operation and maintenance services for the Panda-Brandywine Facility pursuant to operation and maintenance agreements. Panda Global Services Inc. manages Panda-Brandywine, L.P. and is

responsible for the management of PEC and PIC including financial statement preparation, reporting and cash management.

Management of the German Wind Farms
Management and day-to-day operations of the German Wind Farms are provided by enXco GmbH, a German entity with considerable wind power experience, which is affiliated with Électricité de France, one of the largest power utilities in the world. Oversight of the German Wind Farms is provided by the Manager.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to the information under the heading "Management's Discussion and Analysis" on pages 6 through 65 of the Fund's Annual Report, which is incorporated herein by reference. The Annual Report is posted on SEDAR, at www.sedar.com, and on the Fund's website, www.npifund.com.

CAPITAL STRUCTURE

The Fund's capital consists of Units, Special Voting Units and Convertible Debentures. An unlimited number of Units are authorized and may be issued pursuant to the Fund Trust Indenture.

TRUST UNITS

The Units each represent an equal undivided beneficial interest in the Fund. Units are transferable and share equally in all distributions from the Fund whether of net income, return of capital, return of principal, interest, dividends or net realized capital gains or other amounts in the net assets of the Fund in the event of termination or winding up of the Fund. All Units carry one vote at meetings of Unitholders. The Units have no conversion or pre-emptive rights. Unitholders will not have statutory rights normally associated with the ownership of shares of a corporation, including, for example, the right to bring oppression or derivative actions.

Unitholders of record on the last business day of each month are entitled to receive distributions from the Fund's Cash Available for Distribution (as defined in the Fund Trust Indenture) and allocations of net income in respect of that month. Such distributions are made by the 15th day of the following month.

Units are redeemable at any time on demand by the holders thereof upon delivery to the Fund of a duly completed and properly executed notice requesting redemption. See note 23 to the audited consolidated financial statements, entitled "Equity" on pages 104 and 105 of the Annual Report which is incorporated by reference herein and available on SEDAR at www.sedar.com and on the Fund's website, www.npifund.com, for further information regarding the redemption of Units.

Replacement Rights
Coincident with the merger, the Fund issued 6,032,191 Replacement Rights in settlement of NPI's obligations under the NPI LTIP. The Fund also entered into a rights exchange agreement with each NPI LTIP Participant (the "**Rights Exchange Agreements**") . Pursuant to the Rights

Exchange Agreements each NPI LTIP Participant relinquished his LTIP Rights in exchange for Replacement Rights which are rights to acquire Units for no additional consideration on or after the Conversion Date (or earlier in order to tender to any take-over bid made for the Fund). Replacement Rights are exchangeable for Units on a one-for-one basis on the Conversion Date for no additional consideration. Replacement Rights carry no voting or rights to receive distributions until they are exercised and are not transferable. Of the 6,032,191 Replacement Rights originally issued, the conversion of 1,892,859 Replacement Rights to Class A Units is contingent upon the conversion of the Class C Units and future distributions up to the Conversion Date.

As of December 31, 2009, there were 6,032,191 Replacement Rights outstanding.

Special Voting Units
Coincident with the merger, Special Voting Units of the Fund were issued pursuant to the Fund Trust Indenture. 25,645,598 Special Voting Units were issued to holders of Class A Units and 8,496,078 Special Voting Units were issued to holders of Class C Units. Each Special Voting Unit entitles the holder of record thereof to one vote at all meetings of Unitholders or in respect of any written resolution of Unitholders. Special Voting Units will be automatically redeemed and cancelled by the Fund at the time of issuance of Trust Units in exchange for their related Class A Units or Class C Units. If the Class C Units are cancelled, the related Special Voting Units are also cancelled.

Issuance of Securities
Securities of the Fund may be issued without Unitholder approval. Such securities may consist of additional Units, instalment receipts, subscription receipts, bonds, debentures, notes or other evidences of indebtedness (which bonds, debentures, notes or other evidences of indebtedness may be convertible into Units or other securities of the Fund) or warrants, options or rights to subscribe for, purchase or acquire Units or any other securities of the Fund.

Meetings of Unitholders
The Fund Trust Indenture provides that meetings of Unitholders must be called and held for, among other things, the selection of the Independent Trustees of the Fund, appointment or removal of the auditors of the Fund, the approval of amendments to the Fund Trust Indenture (other than certain minor amendments), the sale, lease or exchange of all or substantially all of the property of the Fund (other than in connection with an internal reorganization or sale lease back transaction), or to authorize the termination, liquidation or winding up of the Fund.

CONVERTIBLE DEBENTURES

In 2004, the Fund issued 65,000 6.5% convertible unsecured subordinated debentures due June 30, 2011 (the "**2011 Debentures**") at a price of $1,000 per convertible debenture, for gross proceeds of $65 million and net proceeds of approximately $61.8 million. Interest is paid semi-annually in arrears on June 30 and December 31 in each year. As at December 31, 2009, 29,021 of the 2011 Debentures remain outstanding, with a value of $29.0 million.

On October 15, 2009, the Fund issued 92,000 of 6.25% convertible unsecured subordinated debentures due December 31, 2014 (the "**2014 Debentures**") at a price of $1,000 per convertible

debenture, for gross proceeds of $92.0 million ($88.3 million net of underwriters' fees). The Fund determined that the fair value of the embedded holder option at the time of issue was nominal and as a result the entire amount of the convertible debentures will be classified as a long-term liability. As at December 31, 2009, 92,000 of the 2014 Debentures remain outstanding, with a value of $92.0 million.

The payment of convertible debenture principal and interest is subordinated in right of payment to the prior payment of all senior indebtedness of the Fund.

The principal on the Convertible Debentures is payable in lawful money of Canada or, at the option of the Fund and subject to applicable regulatory approval, by payment through the issuance of Units to satisfy, in whole or in part, the Fund's obligation to repay the principal amount of the Convertible Debentures.

The Convertible Debentures are direct obligations of the Fund and are not secured by any mortgage, pledge, hypothec or other charge and are subordinated to all senior indebtedness of the Fund.

During 2009, a total of $14,000 (2008 – $9,000) of the 2011 Debentures were converted into 1,120 Units (2008 – 720 Units). There were no conversions of the 2014 Debentures into Units during the year.

Conversion Privilege

The 2011 Debentures are convertible at the holder's option into fully-paid, non-assessable and freely-tradeable Units at any time prior to 5:00 p.m. (Toronto time) on the earlier of June 30, 2011 and the business day immediately preceding the date specified by the Fund for redemption of the Convertible Debentures, at a conversion price of $12.50 per Unit being a ratio of 80 Units per $1,000 principal amount of Convertible Debentures.

The 2014 Debentures are convertible at the holder's option into fully-paid, non-assessable and freely-tradeable Trust Units at any time prior to 5:00 p.m. (Toronto time) on the earlier of December 31, 2014 and the business day immediately preceding the date specified by the Fund for redemption of the 2014 Debentures, at a conversion price of $12.42 per Unit being a ratio of 80.5 Units per $1,000 principal amount of 2009 Debentures.

Redemption and Purchase

The 2011 Debentures may be redeemed by the Fund, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice. No 2011 Debentures have been redeemed by the Fund.

The 2014 Debentures may not be redeemed by the Fund on or before December 31, 2012. Thereafter, but prior to December 31, 2013, the 2014 Debentures may be redeemed by the Fund, in whole at any time or in part from time to time, on not more than 60 days' and not less than 30 days' prior written notice at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the Current Market Price on the date on which the notice of redemption is given is at least 125% of $12.42. On or after December 31, 2013 and prior to December 31, 2014, the 2014 Debentures may be redeemed by the Fund, in whole at any time or

in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice. No 2014 Debentures have been redeemed by the Fund.

Payment upon Redemption or Maturity
On redemption or on June 30, 2011 or December 31, 2011, as applicable, the Fund will repay the indebtedness represented by the Convertible Debentures by paying to the Debenture Trustee an amount equal to the principal amount of the outstanding Convertible Debentures, together with accrued and unpaid interest thereon. The Fund may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to any required regulatory approvals, unless an Event of Default (as defined in the CD Indenture) has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the Convertible Debentures which are to be redeemed or which have matured by issuing Units, in whole or in part, to the holders of the Convertible Debentures.

The term "Current Market Price" is defined in the CD Indenture to mean the weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event.

Unit Interest Payment Election
Unless an Event of Default (as defined in the CD Indenture) has occurred and is continuing, the Fund may elect, from time to time, subject to applicable regulatory approval, to issue and deliver freely-tradeable Units to the Debenture Trustee in order to raise funds to satisfy all or any part of the Fund's obligations to pay interest on the Convertible Debentures in accordance with the CD Indenture.

Priority over Unit Distributions
The Fund Trust Indenture provides that certain expenses and liabilities of the Fund must be deducted in calculating the amount to be distributed to Unitholders. Accordingly, the funds required to satisfy the interest payable on the Convertible Debentures, as well as the amount payable upon redemption or maturity of the Convertible Debentures or upon an Event of Default (as defined in the CD Indenture), will be deducted and taken into account in the determination of the amounts to be payable as distributions to Unitholders.

Limitation of Non-resident Ownership of Convertible Debentures
In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Fund Trust Indenture provides that at no time may non-residents of Canada be the beneficial owners of more than 49 percent of Units then outstanding. Accordingly, the CD Indenture contains provisions dealing with circumstances where non-residents may be required to sell rather than convert such Convertible Debentures.

MERGER WITH NPI

As mentioned previously, on July 16, 2009, the Fund acquired all of the issued and outstanding shares of NPI for total consideration valued for accounting purposes at $233 million.

As consideration for the acquisition the following securities were issued:

- 25,645,598 Class A Units of Holdings LP;
- 8,496,078 Class C Units of Holdings LP, which can be converted to Class A Units based on the Fund's development profits up to $100 million from qualified NPI development projects; and
- 8,067,723 Class B Units of Holdings LP which can be converted to Class A Units based on a portion of the Fund's development profits in excess of $100 million from qualified NPI development projects.

Coincident with the merger with NPI, the Fund:

- Issued 2,312,367 Units to settle a $24.5 million loan payable by NPI to related parties based on the closing date Unit price;
- Repaid a loan payable by NPI to a related party, NPHI, in the net amount of $34.7 million;
- Granted 6,032,191 Replacement Rights as settlement of NPI's obligation under the NPI LTIP; and
- Granted a pre-emptive right to NPHI to acquire additional Units of the Fund subject to certain conditions.

HOLDINGS LP SECURITIES

The capital of Holdings LP consists of Ordinary Units, all of which are held by CT and the Fund, and Class A Units, Class B Units and Class C Units all of which are held by NPHI.

Ordinary Units of Holdings LP

CT and the Fund hold all Ordinary Units of Holdings LP. Ordinary Units are intended to be the economic and voting equivalent of Units, represent a limited partner's proportionate ownership interest in Holdings LP, confer the right to one vote per Ordinary Unit at any meeting of limited partners and participate pro rata in any distributions to such limited partners by Holdings LP. Ordinary Units are fully paid and non assessable and are transferable but have no conversion, redemption or pre emptive rights and may be subdivided or consolidated. CT and the Fund, as the holders of all of the Ordinary Units, are entitled to receive all distributions of cash available for distribution under the LP Agreement until the Conversion Date. After the Conversion Date, the holders of Ordinary Units will be entitled to receive an amount sufficient to cover the administration and debt service requirements of the Fund and CT and thereafter to participate pro rata with the holders of the Class A Units in all cash distributions by Holdings LP. In the event of a liquidation of Holdings LP, the holders of the Ordinary Units are entitled to receive a priority distribution in an amount equal to the then outstanding indebtedness and amounts owing by the Fund and CT. Thereafter the holders of the Ordinary Units will receive that portion of the remaining assets equal to the proportion of the outstanding Ordinary Units to the outstanding Class A Units.

As of December 31, 2009, there were 69,057,643 Ordinary Units outstanding.

Class A Units of Holdings LP

As part of the purchase consideration for the merger with NPI the Fund issued 25,645,598 Class A Units.

Class A Units will become exchangeable on a one-for-one basis into Units on the Conversion Date. Class A Units are not transferable and do not participate in cash distributions prior to the Conversion Date. Of the 25,645,598 Class A Units issued, 6,763,062 are subject to reduction if cash distributions declared by the Fund fall short of $1.08 per Unit per annum prior to the Conversion Date. If cash distributions declared by the Fund exceed $1.08 per Unit per annum the Class A Units will receive a cash payment on the Conversion Date equal to the amount of such excess.

As of December 31, 2009, there were 25,645,598 Class A Units outstanding.

Class C Units

As part of the purchase consideration for the merger with NPI, the Fund issued 8,496,078 Class C Units. The Class C Units are eligible to be converted to Class A Units based upon the Fund's "development profits" from qualifying development projects owned by NPI at the date of the merger. The Class C Units carry no voting rights, no rights to distributions and are not transferable.

The "development profit" is the difference between the fair market value of a particular NPI qualifying development project and the cost of that project measured at the commercial operations date (the "**Valuation Date**") as determined by an independent third party appointed by the Fund's trustees. To "qualify", the NPI qualifying development project must meet specified conditions, notably having reached agreement to execute a PPA prior to July 16, 2014 in the case of Class C Units and July 16, 2015 in the case of Class B Units.

The first $100 million of development profit from qualifying NPI development projects will be allocated to Class C Units and contingent Replacement Rights that will be converted into Class A Units in proportion to the development profit recognized from qualifying NPI development projects. Once every qualifying NPI development project has either achieved commercial operations or has had its PPA terminated in accordance with its terms for failure to have reached its commercial operations then any remaining Class C Units and contingent Replacement Rights will be cancelled.

As of December 31, 2009, there were 8,496,078 Class C Units outstanding.

Class B Units

As part of the purchase consideration for the merger with NPI, the Fund issued 8,067,723 Class B Units that are eligible to be converted to Class A Units based upon the Fund's development profits from qualifying development projects owned by NPI at the date of the merger. The Class B Units carry no voting rights, no rights to distributions and are not transferable.

After $100 million of development profits have been allocated to the Class C Units and Replacement Rights (as described above,) a portion of further development profits on qualifying NPI development projects will be allocated to the Class B Units. The allocation of development profits from qualifying NPI development projects for purposes of the conversion of Class B Units will be based upon the order and time periods in which the PPA for each project is attained. Based on the order in which PPAs were attained, the last qualifying NPI development

project that results in the realization of an aggregate $100 million of development profit is the "**Threshold Project**". For all qualifying NPI development projects (including that portion of the Threshold Project, if any, beyond $100 million) whose PPAs were attained within twelve months after the PPA for the Threshold Project was attained, then 40% of their development profits shall be used to determine the number of Class B Units which are converted. For projects whose PPAs were attained after this twelve month period, then 20% of their development profit shall be used to determine the number of Class B Units which are converted. To the extent that the projects do not achieve COD in the order in which their respective PPAs were attained, adjustments shall be made to ensure the proper allocation of development profits. Class B Units will be converted into Class A Units based on (i) the relevant portion of development profit (40% or 20% as applicable) and (ii) the greater of the Announcement Date Market Price and the volume weighted average trading price of the Fund Units for the 20 trading days immediately prior to the date of the announcement of the PPA for the relevant qualifying NPI development project. No Class B Units may be converted (i) until all Class C Units have been converted into Class A Units, or (ii) if any Class C Units have been cancelled. The Fund Trustees have the right to suspend conversion of Class B Units if the Fund is not able to maintain distributions to Unitholders of $1.08 per annum.

As of December 31, 2009, there were 8,067,723 Class B Units outstanding.

MATERIAL CONTRACTS

The Fund or its affiliates entered into a number of material contracts in 2009 or prior to 2009 which are still in effect. These contracts are as follows:

(a) the CD Indenture;

(b) the management agreement between NPIFMI and CT dated July 1, 2003 pursuant to which NPIFMI assumed responsibility of all aspects of the Fund's business, subject to the overall supervision of the CT Trustees;

(c) the amended and restated administration agreement made as of July 1, 2003, as amended, between the Fund, Iroquois Falls Corp., CT and the Manager;

(d) the amended and restated management agreement made as of July 1, 2003 between Iroquois Falls Corp., CT, and the Manager;

(e) the senior loan agreement between Iroquois Falls Corp. and PIC dated as of November 12, 2003, as amended by the letter agreement dated November 23, 2004, as amended by the second amendment to the senior loan agreement dated February 8, 2005, as amended by the third amendment to the senior loan agreement dated June 20, 2008.

(f) the CT Supplemental Trust Indenture as restated and amended as of July 16, 2009;

(g) the Fund Trust Indenture as restated and amended as of July 16, 2009;

(h) the share purchase agreement dated April 23, 2009 between NPHI, JCT Management Inc., the Fund, CT and Holdings LP, as amended;

(i) the Rights Exchange Agreements each dated April 23, 2009, as amended, between the Fund, NPI and each of the NPI LTIP Participants; and

(j) the Exchange Agreement dated July 16, 2009 between the Fund, CT, Holdings LP, NPIF Holdings GP Inc. and NPHI.

MARKET FOR SECURITIES

The outstanding Units of the Fund are listed for trading on the TSX under the symbol NPI.UN. The table on the following page sets forth the reported high and low trading prices and trading volumes of the Units as reported by the TSX during 2009:

Month	High	Low	Volume
2009			
January	$11.89	$11.09	1,786,500
February	11.25	9.58	1,500,300
March	10.73	9.89	1,813,000
April	10.12	9.50	2,183,200
May	9.89	9.51	2,666,400
June	10.05	9.46	3,275,200
July	10.85	9.47	3,512,600
August	10.57	10.30	3,244,200
September	10.88	10.11	6,476,700
October	11.19	10.55	6,317,500
November	11.35	10.66	3,672,700
December	11.98	10.90	6,186,500

The outstanding 2011 Debentures of the Fund are listed for trading on the TSX under the symbol NPI.DB. The table below sets forth the reported high and low trading prices and trading volumes of the 2011 Debentures as reported by the TSX in 2009:

Month	High	Low	Volume
2009			
January	$100.52	$99.53	394,000
February	100.00	98.00	533,000
March	102.00	99.00	281,000
April	102.00	100.00	339,000
May	102.00	101.00	444,000
June	102.00	100.50	290,000
July	104.50	100.80	238,000
August	104.99	101.00	138,000
September	104.00	101.00	139,000
October	105.00	101.00	536,000
November	104.00	102.25	548,000
December	103.50	102.50	403,000

The outstanding 2014 Debentures of the Fund are listed for trading on the TSX under the symbol NPI.DB.A. The table below sets forth the reported high and low trading prices and trading volumes of the 2014 Debentures as reported by the TSX in 2009:

Month	High	Low	Volume
2009			
January	-	-	-
February	-	-	-
March	-	-	-
April	-	-	-
May	-	-	-
June	-	-	-
July	-	-	-
August	-	-	-
September	-	-	-
October	101.40	100.50	15,400,000
November	103.65	101.50	2,646,000
December	105.50	102.50	1,850,000

Stability Ratings

To help investors understand and evaluate investment in an income fund, income fund stability rating scales have been developed.

S&P has developed a rating scale to assist investors in understanding the risk profile of an investment in an income trust. The ratings in this scale are referred to as stability ratings. Through its rating scale, S&P characterizes the stability of the cash distribution stream among various income trusts. The stability ratings assess both the variability and sustainability of the cash distribution stream payable on the securities of an income trust in relation to other Canadian rated income trusts over the medium to long term. S&P assigns a single stability rating ranging from SR-1 through SR-7, with SR-1 (least variable and most sustainable) being the highest rating

and SR-7 (most variable and least sustainable) being the lowest. S&P does not publish a stability rating for all income trusts.

On December 18, 2009, S&P confirmed the stability rating at SR-3 of the Units with a stable outlook and that the Fund's distribution profile assessment remains "moderate."

A stability rating is not a recommendation to buy, sell or hold securities and is subject to revision, suspension or withdrawal at any time by the rating organization. At the request of the Fund's management, participation in the stability rating program has been discontinued as these ratings do not currently have a broad market following.

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 Fund does not seek to mitigate fair-value risk.

The following are certain risk factors affecting the business of the Fund. The following information is a summary only of such risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form and the documents referred to herein.

Contracts and Counterparties

The amount distributed by the Fund to Unitholders is dependent upon the parties to the Fund's long-term contracts continuing to fulfill their contractual obligations. All of the power generated by the Iroquois Falls Facility, the Kingston Facility, the Mont Miller Facility, the Jardin d'Éole Facility, the Cochrane Facility and the Kirkland Lake Facility or to be generated by the Thorold Facility, the Spy Hill Facility and the North Battleford Facility is sold or is to be sold to the OEFC, OPA, Hydro-Québec and SaskPower under long-term PPAs. If, for any reason, one of these purchasers were unable or unwilling to fulfill its contractual obligations under the relevant PPAs the Fund's distributable cash could be adversely affected. As a result, failure of OEFC, the OPA, Hydro-Québec or SaskPower to meet its contractual obligations would have an adverse affect on distributions. Both the Iroquois Falls and Kingston Power Purchase Agreements provide for certain rights of OEFC to curtail electricity output during the summer. OEFC has generally availed itself of those rights at the Iroquois Falls Facility but not at the Kingston Facility. Should OEFC exercise its curtailment rights, Kingston LP's revenues would be reduced, but the Fund's cash available for distribution would not be materially affected as these electricity revenues will be offset by gas resale revenue. A portion of the Fund's cash available for distribution originates from interest and principal payments on the senior loan to PIC and dividends from PEC that are dependent, in part, upon the parties to PEC's subsidiaries' long term contracts continuing to fulfill their contractual obligations. In particular, failure of Sempra to meet its obligations to Panda Brandywine, L.P. could have an adverse effect on distributions.

Participation by Iroquois Falls Corp. and Kingston LP in the wholesale electricity market in Ontario may expose the Fund to additional risks. Management has established procedures to minimize such exposure as wholesale market transactions are undertaken.

Steam sales by the Iroquois Falls Facility and, after completion of commissioning, the Thorold Facility constitute a secondary source of revenue for the Fund. AbitibiBowater's demand for steam is determined by operations at its AbitibiBowater Iroquois Falls Mill, including the level of its own steam production. The Iroquois Falls Facility is obliged to respond to fluctuations in AbitibiBowater's steam needs. Demand for steam has an impact on natural gas consumption, and unexpectedly large short-term fluctuations in steam demand increase gas consumption without a proportionate increase in steam revenue. Since May 2003, AbitibiBowater has not been obligated to pay for a minimum quantity of steam. However, since January 1, 2002, the Fund has been protected through provisions of the Iroquois Falls Power Purchase Agreement that increase OEFC's electricity purchase obligations to make up for material shortfalls in steam revenue. On April 16th and 17th, 2009, respectively AbitibiBowater and its subsidiaries, filed for court protection in the United States and Canada, to implement restructuring for the long term and to allow AbitibiBowater to continue normal business operations. AbitibiBowater's subsidiary continues to take steam from the Fund's Iroquois Falls facility. In the event that AbitibiBowater's Iroquois Falls mill ceases operations, the Iroquois Falls facility can mitigate lost steam sales revenue because the off-taker under the PPA, OEFC, is required to purchase additional electricity in that event.

Under the CHP Contract there are certain provisions which can take effect, starting at 5 years after the commercial operation date, at the option of Thorold LP, to restate the pricing terms for a higher price in the event that the AbitibiBowater Thorold Mill were to permanently discontinue taking steam or to undertake an indefinite shutdown.

Conditions in financial markets could impact the Fund's contract counterparties and/or the Fund's ability to extend its credit facility beyond its May 2011 expiry. Failure of the Fund to extend its credit facility or the Fund's counterparties to honour their contractual obligations may have a material adverse affect on distributable cash and/or require the Fund to increase its subordinated loan commitments to protect its investments.

Operational Risk

The Fund's facilities, comprising the Iroquois Falls Facility, the Kingston Facility, the Panda Brandywine Facility, the Thorold Facility, the Mont Miller Facility and the Jardin d'Éole Facility, and the German Wind Farms, are subject to operational risks that could have an adverse affect on cash distributions, including premature wear or failure due to defects in design, material or workmanship. The risks associated with the Fund's gas-fired facilities are partially mitigated by the proven nature of the technology and design of the facilities, the availability of critical spares on site, the gas turbine maintenance agreements with GE in respect of the Iroquois Falls Facility, the Kingston Facility and the Thorold Facility and participation by Iroquois Falls Corp. in the GE gas turbine lease pool which guarantees the availability of replacement gas turbines on short notice. The risks associated with the operations of the Mont Miller Facility, the Jardin d'Éole Facility and the German Wind Farms are partially mitigated by the maintenance and service agreements with the original equipment suppliers.

Under the Iroquois Falls Power Purchase Agreement, if Iroquois Falls Corp. delivers less than 80% of the on peak target quantities in a month, the monthly capacity payment (which is a component of the monthly payment) will be reduced by 6.66% for each 1% less than 80%. No

capacity payment will be paid for a month in which the Iroquois Falls Facility delivers less than 65% of the on peak target quantities.

The Kingston Power Purchase Agreement states that if Kingston LP delivers less than 80% of the on peak target quantities, no capacity payment will be paid. However, if there is an event of force majeure at the Kingston Facility (which is defined to include equipment failure that lasts longer than 4 days), the number of on peak hours used to calculate the target generation will be reduced by the number of on peak hours in the period of force majeure during that month.

Unlike the Iroquois Falls Facility and the Kingston Facility which are both base-load generators, the Thorold Facility is a non-baseload dispatchable plant and will generally only be dispatched to operate during peak demand periods. As such, the Thorold PPA provides a monthly capacity payment that is intended to cover all fixed fuel and operating costs, debt service, and equity returns. However, the monthly capacity payment is reduced by the expected dispatch profit the facility should earn during peak demand periods. This profit is determined to occur when spot market energy and gas prices applied at contractual power and efficiency levels exceed breakeven and the Thorold Facility is called to operate. While there is no explicit penalty as such, the Thorold Facility has an economic incentive to operate in a manner that maximizes dispatch profit.

The Panda Brandywine Facility is dependent on capacity payments due from Sempra under its PPA. Capacity payments payable by Sempra would be reduced if the Panda Brandywine Facility cannot sustain 88% equivalent availability.

The PPA with respect to the Mont Miller Facility has no minimum or maximum production or delivery requirements. The PPA with respect to the Jardin d'Éole Facility provides for penalties or the opportunity to buydown the specified contract volume if minimum production or delivery requirements are not met. German legislation governing payments to qualifying wind farms, such as the German Wind Farms, contains no such obligations.

The Fund's facilities are dependent for the export of their power on the electrical grids to which they are interconnected. While the grids operate at a high level of reliability, on occasion they may be taken down by unusual weather conditions or for maintenance; the Fund has no ability to mitigate the economic impact or to recover the economic loss from the grid operators.

Natural Gas Supply, Transportation and Price

Contracted natural gas prices for the Iroquois Falls Facility generally escalate with the new replacement electricity selling price index under the agreement in principle respecting certain amendments to the Iroquois Falls Power Purchase Agreement subject to a 4% minimum annual increase. The natural gas contracts, with expiration dates in 2015 and 2016, provide for annual price increases and additional price adjustments (subject to predefined ceilings) approximately every 5 years for which 50% of any resulting incremental costs are borne by OEFC. Alternatively, the periodic gas price adjusters could decrease contracted gas prices relative to electricity prices; OEFC shares in approximately 40% of any such savings. Kingston LP has a natural gas purchase agreement with Cenovus (previously EnCana Corporation) for the supply of natural gas until 2017. The gas costs escalate with transportation costs on the NOVA system and a predetermined amount over the Canadian Consumer Price Index. Failure by Iroquois Falls

Corp.'s or Kingston LP's natural gas suppliers to provide gas under the long-term contracts could result in higher gas prices if either were forced to make market purchases. Upon expiry of the above contracts, Iroquois Falls Corp. and Kingston LP will be required to renegotiate their respective contracts or enter into new gas supply arrangements. There is no assurance as to the price of natural gas under any new arrangements.

Any failure by TransCanada PipeLines or Union Gas Limited or any of the contracted natural gas suppliers to supply or deliver natural gas to the Iroquois Falls Facility or the Kingston Facility will have an adverse impact on cash available for distribution.

A portion of Kingston LP's revenue is earned through the resale of contracted natural gas, which is contingent on market prices. A prolonged deterioration of gas market prices may impact the Fund's distributable cash. However, increases in electricity production and sales would reduce the impact of reduced gas resale revenues.

Environment, Health and Safety

The Fund's facilities are subject to numerous and significant laws, including statutes, regulations, bylaws, guidelines, policies, directives and other requirements governing or relating to, among other things: air emissions; discharges into water; the storage, handling, use, transportation and distribution of dangerous goods and hazardous and residual materials, such as chemicals; the prevention of releases of hazardous materials into the environment; the prevention, presence and remediation of hazardous materials in soil and groundwater, both on and off site; land use and zoning matters; and workers' health and safety matters. As such, the operation of the gas-fired facilities carries an inherent risk of environmental, health and safety liabilities (including potential civil actions, compliance or remediation orders, fines and other penalties), and may result in the gas-fired facilities being involved from time to time in administrative and judicial proceedings relating to such matters, which could have a material adverse effect on the Fund's business, financial condition and results of operations.

All current generating equipment at Iroquois Falls Corp., Kingston LP and Thorold LP is designed to produce NO_x emissions below the current applicable standards. Ontario legislation that came into effect in 2004 introduced a cap and trade system with respect to NO_x emissions. Installation of the new gas turbines at the Iroquois Falls Facility in 2003 reduced NO_x emissions well below the levels resulting from the new legislation. NO_x emissions from Kingston LP's and Thorold LP's existing generating equipment fall well below those levels.

In response to concerns about climate change, in 2006 the Federal government introduced its Clean Air Plan which includes long range objectives for the reduction of carbon dioxide and other greenhouse gas ("**GHG**") emissions. The government has indicated that total emissions of GHGs are likely to be restricted through intensity limits (usually specified in terms of allowable tonnes released / MWh). The government has not yet introduced any legislation or regulations detailing the exact mechanisms it plans to use to limit emissions nor has it established any firm timelines. Most Canadian provinces are also indicating an intention to regulate the production of carbon dioxide and other GHGs, possibly in association with several regional initiatives led by various U.S. states. At this point in time it remains to be seen how these federal, provincial or regional initiatives will proceed and the impacts they might have on the Fund. The Kyoto Accord's first compliance period commenced January 2008 and the federal government did not

have any programs or legislation in place to impose any specific restrictions on the Fund's facilities.

With the change in the U.S. federal administration there appears to be a move towards a more coordinated approach to the development of a regulatory regime related to GHG emissions in the U.S. This may become relevant to the Fund as the Canadian federal and provincial governments may move to harmonize elements of any domestic GHG regulatory requirements with those developed in the U.S.

Management continues to monitor the actions of the federal governments in Canada and the U.S. along with relevant state, provincial and regional initiatives related to GHG regulation.

Although management believes the operations of each of the facilities are currently in material compliance with applicable environmental laws, licenses, permits and other authorizations required for the operation of the facilities and although there are environmental monitoring and reporting systems in place with respect to all facilities, there is no guarantee that more stringent laws will not be imposed, that there will not be more stringent enforcement of applicable laws or that such systems will not fail, which may result in material expenditures. Failure by the facilities to comply with any environmental, health or safety requirements, or increases in the cost of such compliance, including as a result of unanticipated liabilities or expenditures for investigation, assessment, remediation or prevention, could possibly result in additional expense, capital expenditures, restrictions and delays in the gas-fired facilities' activities, the extent of which cannot be predicted.

Labour Relations

Employees at the Iroquois Falls Facility and the Kirkland Lake Facility are unionized. In the event of a strike or lock-out, the ability of Iroquois Falls Corp. and Kirkland Lake Corp., respectively, to operate may be limited and its ability to generate cash available for distribution may be impaired. Employees at the Kingston Facility, Mont Miller Facility, Jardin d'Éole Facility, the Thorold Facility and the Panda-Brandywine Facility are not unionized.

Reliance on Third Parties

The Fund is reliant on Panda Global Services Inc. with respect to the management of the Panda-Brandywine Facility and enXco GmbH with respect to the management of the German Wind Farms.

Insurance

There can be no assurance that insurance obtained in respect of the Fund's facilities including business interruption insurance, among others, will be sufficient or will continue to be offered on commercially reasonable terms, or that events that could give rise to a loss or liability are insured or reasonably insurable.

Variability of Wind-Based Revenue

The wind speeds at the Mont Miller Facility, the Jardin d'Éole Facility and the German Wind Farms will vary. Although the Fund believes that the wind survey and historical production data that has been collected demonstrates that the sites are economically viable, weather patterns could change or the historical data and technical predictions could prove not to accurately reflect

the strength and consistency of the wind in the future. If there is insufficient wind, the underlying financial projections regarding the amount of electricity to be generated by the Mont Miller Facility, the Jardin d'Éole Facility and the German Wind Farms may not be met and cash available for distribution could be materially adversely affected. In addition, production may be adversely affected by unusual weather conditions such as those that cause blade icing.

The German Wind Farms receive revenue in accordance with German renewable energy legislation, which has rates above market. There is no guarantee that this legislation will not be changed such that the amount of revenue generated would be less than currently received.

Construction Risk
There is a risk that delays and/or material cost over-runs will be incurred in the course of the construction of the Fund's current and future development projects. There is further risk that the projects, once constructed, will not immediately perform as intended. Any significant delays in construction may have an adverse impact on the Fund's operations and financial performance.

Interest Rate Risk
Interest rate fluctuations are of particular concern to a capital-intensive industry such as the electric power business. The Fund faces interest rate and debt refinancing risk in respect of floating-rate bank credit facilities used for construction financing. The Fund's ability to refinance debt when due is dependent on debt capital market conditions that can change from time to time. To minimize this risk, the Fund will, if possible, enter into interest rate swap agreements to effectively fix the interest rate on floating rate debt.

Foreign Currency Risk
The Fund receives cash flows in U.S. dollars from the investment in PEC and the loan to PIC that exceed the amount of payment obligations in U.S. dollars, primarily related to the service agreements for the gas turbines at Iroquois Falls and Kingston. Exchange rate fluctuations between the U.S. and the Canadian dollar may affect the cash flow of the Fund, NPIF Commercial Trust, NPIF Holdings LP, Iroquois Falls Corp. and Kingston LP. The Fund has entered into foreign exchange forward contracts in respect of a substantial portion of the US dollar interest and principal payments to be received from 2010 to 2012.

The Fund receives cash flows in euros from its investment in the German Wind Farms. Exchange rate fluctuations between the euro and the Canadian dollar may affect the cash flow of the Fund or CT. To partially mitigate its exposure to exchange rate fluctuations between the euro and the Canadian dollar, the Fund entered into foreign exchange forward contracts in respect of its net investment in the German wind farms that fix the exchange rate for a substantial portion of the interest and principal payments to be received from its German subsidiaries to 2014.

The Fund is obligated to make delivery of U.S. dollars and euros at the stated amounts on a quarterly and semi-annual basis respectively, on each of the forward contracts even if the PIC loan payments or the euro loan repayments are not made. This would require the Fund to purchase U.S. dollars or euros on the open market at the relevant time. To the extent that the Fund, CT and Iroquois Falls Corp. have engaged in risk-management activities related to the U.S. and Canadian dollar and euro and Canadian dollar exchange rates, the Fund may not benefit

from favourable exchange rate movements and could become subject to credit risks associated with the counterparties with which it contracts.

Credit Risk

Credit risk arises from cash and cash equivalents held with banks and financial institutions, counterparty exposure arising from derivative financial instruments, loan advances, receivables due from customers and loan commitments from financial institutions for the construction of the Thorold Facility. The maximum exposure to credit risk, other than for the loan commitments, is equal to the carrying value of the financial assets.

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. Kingston LP and Iroquois Falls Corp.'s electricity sales are to OEFC, and Miller LP and Jardin LP's sales are to Hydro-Québec, both government-related entities.

As at December 31, 2009, approximately 30% of the Fund's consolidated accounts receivable were associated with electricity sales to government-related entities. While this excludes the German Wind Farm receivables, as the counterparties are local power distribution companies, the electricity power rates are legislated. In addition, due to the current construction of the Thorold Facility and recent completion of the Jardin d'Éole Facility, approximately 63% of the Fund's consolidated accounts receivable were associated with input tax credits and cost reimbursements owing from provincial and federal governments and Hydro-Québec. The Fund and its subsidiaries have not provided allowance accounts and do not hold collateral from their counterparties. All reported accounts receivable amounts at December 31, 2009, are current, except for approximately $1.1 million receivable from the Iroquois Falls Facility's steam off-taker.

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

In addition, a debt service reserve account in the amount of US$2.5 million has been established by PIC exclusively for the Fund's senior loan receivable.

Events of Default Under Kingston LP, Miller LP and Panda-Brandywine Facility, Thorold LP, Jardin LP Senior Debt and Thorold LP Subordinated Debt

Kingston LP has in place long-term, non-recourse, project debt with a syndicate of banks. Interest on the project debt is based on short-term interest rates. Kingston LP has put in place certain swap transactions that serve to effectively fix the interest rate for the full term of the debt. The debt is amortized over the remaining term of the Kingston Power Purchase Agreement. The project debt is subject to certain covenants that are conventional for non-recourse bank project financings that, if not met, may restrict Kingston LP's ability to distribute cash to the Fund. There can be no assurance that Kingston LP will satisfy these covenants.

At December 31, 2009, the fair value of the interest rate swaps was approximately $10.8 million unfavourable (2008 – $17.5 million unfavourable) which represents the amount Kingston LP would be required to pay to terminate the swap agreements at year end.

Miller LP entered into a credit agreement with an institutional lender on October 8, 2004. The credit agreement contains certain covenants that are conventional for a term loan that, if not met, may restrict Miller LP's ability to distribute cash to the Fund.

The senior loan amount owed to the Fund by PIC is subordinate to claims of creditors of PIC's subsidiaries. An event of default under the secured project loan agreement with Panda-Brandywine, L.P. could adversely affect partnership distributions and cause PIC to default in making payments on the Fund's senior loan.

The Thorold Loan is fully subordinated to the senior lenders to Thorold LP. An event of default by Thorold LP to its senior lenders could cause Thorold LP to default in repayment of the Thorold Loan. In addition, the senior credit agreement contains covenants that are conventional for a term loan that, if not met, may restrict Thorold Cogen's ability to make cash distributions, which is the source of funds for repayment of the Thorold Loan.

The Jardin Loan is subordinate to the senior lenders to Jardin LP. An event of default by Jardin LP to its senior lenders could result in Jardin LP defaulting on the repayment of the Jardin Loan. The senior financing is subject to certain covenants that are conventional for a term loan that, if not met, may restrict Jardin LP's ability to repay the Jardin Loan.

Development Prospects

The Fund expends funds on prospective development projects before it can determine that such prospective projects are technically and financially feasible. The nature of some of these expenditures is somewhat speculative. The Fund is, in some cases, required to advance funds and post letters of credit in the course of development of these projects. Some of the factors that could cause a prospective development project to fail are the following:

1. **Ability to Secure Favourable Sites**. The ability to demonstrate site control in respect of favourable sites for potential projects is a key factor in the evaluation of a proposal submitted pursuant to a competitive RFP or other power sales process, in applications for project financing, and ultimately in the successful development and operation of a generation project. There is significant competition and costs associated with locating and securing favourable sites.

2. **Ability to Secure PPAs**. The ability to secure new PPAs is a key factor that will impact on the Fund's ability to successfully develop and operate new generation projects. Many potential PPAs are awarded through competitive RFP processes that require significant expenditure of resources and have an uncertain outcome.

3. **Permitting.** There is a risk that the Fund will be unable to obtain all necessary permits, consents, licences and approvals. Failure to obtain all such permits or the experiencing of material delays in the permit process can impact project viability and ultimately cause the Fund to have to abandon the project.

4. **Equipment and Turbine Supply**. The Fund's ability to successfully develop projects will be affected by the availability and the cost of equipment and turbines charged by manufacturers and suppliers. There is a risk that increases in the cost of equipment and turbines could adversely affect a prospective project's profitability. Furthermore, there is a risk that a supplier will be unable to meet its obligations under the supply agreement which could in turn cause the Fund to be in breach of its obligations under a PPA or to incur significant additional costs

5. **Increasing Competition**. The power generation industry is characterized by intense competition, and the Fund faces competition from utilities, industrial companies and other independent power producers, in particular with respect to un contracted output. In recent years, there has been increasing competition among generators in an effort to obtain PPAs and this competition has contributed to a reduction in electricity prices for PPAs in certain markets.

If certain of the development prospects are not completed, this could negatively affect the Fund's financial results. This exposure is reduced by performing a detailed analysis of project economics throughout the various stages of development and by maintaining a prudent level of development-related expenditures in relation to the financial resources of the Fund.

Liquidity Risk
Liquidity risk arises through an 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 that 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 endeavouring to pay out less than 100% of its distributable cash in distributions to Unitholders and through the availability of funding from committed credit facilities.

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 that 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. For the period ended December 31, 2009, the Fund and its subsidiaries were in compliance with all debt covenants.

Regulatory and Political Changes
The regulatory environment in the markets in which the Fund operate is complex and always evolving. Generation facilities are subject to extensive regulation by multiple agencies that cover all levels of government. There is ongoing risk of particular policies or regulatory changes which may be adopted that negatively impact the Fund's ability to develop and manage projects as it has in the past. Given the long development cycle of generation, there is also a risk that an unforeseen political or regulatory change could adversely impact the viability of a potential project which could ultimately lead the Fund to abandon the project.

Legal Contingencies
The Fund and its subsidiaries may be named as defendants in various claims and legal actions. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management. Management does not expect the outcome of claims or potential claims to have a material adverse effect on the Fund. Details on the Fund's litigation, claims and contingencies are outlined in note 29 of the Fund's audited consolidated financial statements on page 115 of the Annual Report.

Variability of Distributions
The actual amount of cash distributions to Unitholders will depend on numerous factors, including the financial performance of the Fund's operations, ability to meet debt covenants and obligations, working capital requirements, future capital requirements and tax related matters. The market value of the Units may deteriorate if the Fund is unable to maintain its cash distribution levels in the future, and that deterioration may be material.

Tax Related Risks
On October 31, 2006, the Minister of Finance (Canada) announced a "Tax Fairness Plan" which, in part, proposed changes to the manner in which certain flow-through entities and the distributions from such entities are taxed. Bill C-52, the Budget Implementation Act, 2007, which received Royal Assent on June 22, 2007, contained rules relating to the tax treatment of SIFTS (the "**SIFT Rules**") which implement these proposals. Under the SIFT Rules, the Fund, as a publicly-traded income trust, is considered a SIFT and will be subject to trust level taxation as of January 1, 2011 at a rate substantially equivalent to the combined federal and provincial corporate tax rate on certain types of income. In addition, the taxable distributions received by Unitholders will be treated as dividends from a taxable Canadian corporation.

The SIFT Rules may become effective on a date earlier than January 1, 2011 if the Fund is considered to have undergone "undue expansion" during the period from November 1, 2006 to December 31, 2010, as described in the normal growth guidelines issued by the Department of Finance (Canada) on December 15, 2006, as amended (the "**Normal Growth Guidelines**").

The Normal Growth Guidelines indicate that the Fund will not lose the benefit of the deferred application of the new tax regime to 2011 if the equity capital of the Fund does not grow as a result of issuances of new equity (which includes Units, debt that is convertible into Units, and potentially other substitutes for such equity) before 2011 by an amount that exceeds the greater of $50 million "de minimus" amount and an objective "safe harbour" amount based on the Fund's market capitalization as of the end of trading on October 31, 2006 (measured in terms of the

value of the Fund's issued and outstanding publicly-traded Units, not including debt, options or interests that were convertible into Units, the ("October 31, 2006 Market Capitalization").

On December 4, 2008 and February 25, 2009, the Minister of Finance (Canada) announced an acceleration of both the $50 million "de minimus" amounts and the safe harbour amounts for 2009 and 2010 such that after December 4, 2008, they became immediately available. The safe harbour rules remained cumulative such that after December 4, 2008, the maximum amount that could be issued by a SIFT under the safe harbour rules is 100% of its October 31, 2006 Market Capitalization less the value of any units issued after October 31, 2006 (other than any issuances of units that would not be subject to the Normal Growth Guidelines).

The total amount of all previous equity issuances of the Fund, determined in accordance with the Normal Growth Guidelines, should not cause the Fund to exceed the “safe harbour” amounts for the period from November 1, 2006 to December 30, 2009. The Fund does not have any planned equity issuances that would cause the Fund to exceed the “safe harbour” amounts for the 2010 calendar year.

There can be no assurance that Canadian federal income tax law or the interpretation thereof, respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the holders of Units. If the Fund ceases to qualify as a “mutual fund trust” under the Tax Act, income tax considerations would be materially and adversely different in certain respects.

At present, Canadian registered pension plans, RRSPs and RRIFs (“**Canadian tax-exempt entities**”) are not subject to current income tax on distributions received from the Fund (their tax obligation is deferred). Under the SIFT Rules, Canadian tax-exempt entities will receive distributions after provision by the Fund for the new tax, as will investors located outside Canada. The new law, if left unchanged, may affect the ability of the Fund to continue to make distributions to Unitholders at the current rate. In addition, it may increase the Fund’s cost of equity capital, which may negatively affect its ability to grow and make future acquisitions.

The Fund is also 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 SIFT Rules is based on management’s current best estimate of its accounting and tax values that will exist on December 31, 2010. On at least a quarterly basis management 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 management’s estimates and/or tax filing positions.

Although the Fund is of the view that all expenses claimed by it are and will be reasonable and deductible and that the cost amount and capital cost allowance claims will have been correctly determined, there can be no assurance that Canada Revenue Agency (“**CRA**”) will agree. If the CRA successfully challenges the deductibility of such expenses, the taxable income of the Fund and the Unitholders, will increase or change.

The Fund had been in discussions with the federal Department of Finance and the CRA concerning the application of the specified energy property rules in the Income Tax Act in 2005,

2006 and 2007 that might have required the Fund to file amended trust income tax returns and T-3 forms for those years. During the second quarter of 2009, CRA informed the Fund that the Fund will not be required to refile its trust income tax returns and T-3s. As a result, the Fund reversed the $9.1 million future tax recovery recorded in the fourth quarter of 2008 which had been based on the likelihood that a re-filing would be required.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

To the knowledge of the Fund, there are no legal proceedings or regulatory actions, potential or outstanding, involving the Fund that will have a material adverse effect on the Fund. See note 29 to the audited consolidated financial statements, entitled "Litigation, Claims and Contingencies" on page 115 of the Annual Report for additional information.

INTERESTS OF EXPERTS

To the best knowledge of the Fund, the "designated professionals" (as defined in Form 51-102F2 to National Instrument 51-102 - Continuous Disclosure Obligations) of Crosbie & Company Inc., which firm provided a valuation and fairness opinion included in the Management Information Circular dated May 1, 2009 in connection with the NPI merger, beneficially own, directly or indirectly, less than 1% of the issued and outstanding Units and Convertible Debentures.

BOARD OF TRUSTEES AND OFFICERS OF THE FUND

The table below shows the names and province and country of residence of the members of the Fund's Board, their principal occupations during the five preceding years and the year they first became Trustees. Each Trustee is appointed to serve until the next annual meeting of Unitholders or until his or her successor is elected or appointed.

Name and Province of Residence	Positions held with the Fund	Year Became Trustee (1) (2)	Principal Occupation(s) during five-year period ending December 31, 2009
James C. Temerty(3) Ontario, Canada	Chair, and Trustee(6)	2003	Previously Chair of NPI; previously President of NPI
Dr. Marie Bountrogianni(9) Ontario, Canada	Trustee	2009	President and Executive Director, ROM Governors since 2007; previously the Minister of Intergovernmental Affairs for Ontario and Minister, Democratic; previously the Minister of Children and Youth Services and Minister of Citizenship and Immigration for Ontario
Pierre R. Gloutney(3)(4) Quebec, Canada	Trustee	2003	Previously Chair, MF Global Canada Co. and Chair and Chief Executive Officer, MAN Financial Canada Co. (formerly, Refco Canada Co.), previously President, Refco Futures (Canada) Ltd. (investment dealer)
A. Warren Moysey(5)(8) Ontario, Canada	Trustee	2003	Previously, Chair and Director of Aviva Canada Inc. (insurance company); previously Chair and Director, CGU Canada Ltd. and Pilot Insurance Co. (insurance companies)

Name and Province of Residence	Positions held with the Fund	Year Became Trustee (1) (2)	Principal Occupation(s) during five-year period ending December 31, 2009
F. David Rounthwaite(4)(8) Ontario, Canada	Trustee	2003	Partner, Miller Thompson LLP (law firm), previously, managing Director & General Counsel, Georgeson. Previously President and Director of Nereus Financial Inc. (investment management company).
The Right Honourable John N. Turner, Q.C.(4)(7) Ontario, Canada	Lead Trustee	2003	Partner, Miller Thomson LLP (law firm)

Notes:

(1) Prior to the reorganization that took place as of July 1, 2003, each of the Trustees, except Dr. Bountrogianni, had been a director of Iroquois Falls Corp. since 1997.

(2) Prior to the reorganization that took place as of July 16, 2009, each of the Trustees, except Dr. Bountrogianni, had been a Trustee of CT since 2003.

(3) Nominee of NPHI.

(4) Member of the Audit Committee of CT and an Independent Trustee.

(5) Chair of the Audit Committee of CT, member of the Governance and Nominating Committee and an Independent Trustee.

(6) Mr. Temerty was the Chair and Chief Executive Officer of CT from its establishment. Effective February 15, 2007, the roles of Chair and Chief Executive Officer were split with Mr. Temerty retaining the Chair and John W. Brace, formerly the President and Chief Operating Officer of CT, becoming President, Chief Executive and Chief Operating Officer.

(7) Effective February 15, 2007, Chair of the Governance and Nominating Committee and Lead Trustee.

(8) Effective February 15, 2007, Member of the Governance and Nominating Committee and an Independent Trustee.

(9) Independent Trustee.

The table below shows the names and province and country of residence of the executive officers of the Fund, their positions held with the Fund and their principal occupations during the five preceding years.

Name and Province of Residence	Positions held with the Fund	Principal Occupation(s) during five-year period ending December 31, 2009
John W. Brace Ontario, Canada	President and CEO	Mr. Brace has held his present principal occupation since 2009; also President and COO of CT since 2004 and CEO of CT since 2007; also President and CEO of NPI since 2003; previously also chief operating officer of the Fund
Sam Mantenuto Ontario, Canada	Chief Operating Officer	Mr. Mantenuto has held his present principal occupation since 2009; previously chief operating officer of NPI; previously vice-president of NPI
Anthony F. Anderson Ontario, Canada	Chief Financial Officer	Mr. Anderson has held his present principal occupation since 2009; also chief financial officer of CT and NPI since 2003 and 2001, respectively.

UNIT OWNERSHIP

As of December 31, 2009, 5,473,183 Units, representing 8% (2008 – 5%) of the total outstanding Units, are beneficially owned, directly or indirectly, or controlled by the Trustees and executive officers of the Fund.

Including 34,141,676 Special Voting Units, 38% (2008 – 5%) of all voting units are owned, directly or indirectly, or controlled by Trustees and executive officers of the Fund.

AUDIT COMMITTEE

The Fund's Board has established an Audit Committee composed of Messrs. Gloutney, Moysey, Rounthwaite and Turner, all of whom are independent, as defined in National Instrument 52-110 *Audit Committees* (the "**Audit Committee Rule**"). The Audit Committee of the Fund meets with representatives of management to discuss internal controls, financial reporting issues and auditing matters related to the Fund. The Fund's Board has adopted an Audit Committee Charter which sets out terms of reference for the Audit Committee consistent with the Audit Committee Rule. The Audit Committee Charter, as revised following the merger with NPI, is attached as Schedule "A" to this AIF.

All of the members of the Audit Committee are financially literate and the Fund's Board has determined that all members of the Audit Committee are independent – in each case as required by the Audit Committee Rule.

The relevant experience of each of the Audit Committee members is as follows:

Warren Moysey (Chair) – Mr. Moysey is the former Chair and Director of Aviva Canada Inc. Mr. Moysey has previously been CEO of several financial services companies and prior to that spent 28 years with the Canadian Imperial Bank of Commerce, becoming a senior officer and director of the bank.

Pierre Gloutney – Mr. Gloutney was previously the Chair and CEO of MF Global Canada Co. and has over 35 years of experience in the securities business. Mr. Gloutney is the former chair of the Derivatives Committee of the Investment Dealers Association. Mr. Gloutney was previously vice-chair, governor and member of the executive committee of the Montreal Stock Exchange and previously a member of the executive committee and governor of the Canadian Derivatives Clearing Corp.

F. David Rounthwaite – Mr. Rounthwaite is a partner at the law firm of Miller Thomson LLP currently. Mr. Rounthwaite was formerly the Managing Director & General Counsel of Georgeson and the President and a director of Nereus Financial Inc., an investment and asset management company specializing in structured products.

The Right Honourable John N. Turner – Mr. Turner is a partner at the law firm of Miller Thomson LLP**.** Prior to joining Miller Thomson LLP, Mr. Turner served in the House of Commons for almost 25 years. Mr. Turner is a former prime minister of Canada and former federal Minister of Finance, among a number of other government positions he has held.

The Audit Committee is required to approve all audit and pre approve all non-audit services provided to the Fund by the Fund's external auditor.

Please see below for disclosure regarding fees paid by the Fund to its external auditors, Ernst & Young LLP.

A copy of the Audit Committee Charter is included as Schedule "A" to this AIF and is filed on SEDAR and can be reviewed and obtained from the website, www.sedar.com.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

See the "Management and Administration of the Fund" section of this AIF, which describes the management, administration and incentive fees received by the Manager.

AUDITORS

Ernst & Young LLP, Chartered Accountants, Ernst & Young Tower, 222 Bay Street, Toronto-Dominion Centre, Toronto, Ontario are the auditors of the Fund.

Audit and Other Fees

For the years ended December 31, 2009 and 2008, Ernst & Young LLP were paid approximately $871,392 and $429,567 respectively, as detailed below, for services to the Fund and its wholly-owned subsidiaries.

	Year-ended December 31	
	2009	**2008**
Ernst & Young LLP		
Audit fees	$833,392	$390,492
Other Audit-related service fees	$ -	$ -
Non-audit services – tax	$ -	$ 5,075
All other fees	$38,000	$ 34,000
Total	$871,392	$429,567

Included in the 2009 audit fees are amounts paid to Ernst & Young LLP related to the merger with NPI and the Fund's October 2009 prospectus.

In 2009 and 2008, "All other fees" include translation services.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Units and Convertible Debentures of the Fund is Computershare Trust Company of Canada, 100 University Avenue, Toronto, Ontario.

ADDITIONAL INFORMATION

Additional information relating to the Fund may be found on SEDAR at www.sedar.com. Additional information, including Trustees' and officers' remuneration and indebtedness, and

principal holders of Units, will be contained in the Fund's Management Information Circular to be filed in connection with the Annual Meeting of Unitholders to be held on June 21, 2010.

Additional financial information, including the consolidated financial statements of the Fund and Management's Discussion and Analysis, is provided in the Annual Report.

Contact: Northland Power Income Fund
c/o Northland Power Income Fund Management Inc.
30 St. Clair Ave. West, 17th Floor
Toronto, Ontario M4V 3A1

Telephone: 416-962-6262 Fax: 416-962-6266
E mail: info@NPIFund.com
Web Site: NPIFund.com

Boris Balan — Director, Communications & Business Development
Telephone: 416-962-6262 Ext: 116
E-mail: borisbalan@northlandpower.ca

Barbara Bokla — Manager Investor Relations
Telephone: 416-962-6262 Ext: 156
E mail: barb@northlandpower.ca

Anthony (Tony) F. Anderson — Chief Financial Officer
Telephone: 416-962-6262 Ext: 120
E mail: tony@northlandpower.ca

GLOSSARY OF TERMS

"**2011 Debentures**" means the $65 million 6.50% convertible unsecured subordinated debentures of the Fund issued August 26, 2004 and due June 30, 2011.

"**2014 Debentures**" means the $92 million 6.25% convertible unsecured subordinated debentures of the Fund issued October 15, 2009 and due December 31, 2014.

"**3Ci**" means 3Ci Inc., a corporation formed under the laws of Canada.

"**AbitibiBowater**" means AbitibiBowater Inc.

"**AbitibiBowater Iroquois Falls Mill**" means the pulp and paper manufacturing facility owned by AbitibiBowater situated approximately 500 metres from the Iroquois Falls Facility in Iroquois Falls, Ontario.

"**AbitibiBowater Thorold Mill**" means the recycled newsprint mill owned by AbitibiBowater located in Thorold, Ontario 120 kilometres southwest of Toronto near the U.S. border.

"**Administration Agreement**" means the amended and restated administration agreement made as of July 1, 2003 amongst the Fund, Iroquois Falls Corp., CT and NPIFMI.

"**Annual Report**" means the Fund's annual report for the year ended December 31, 2009.

"**Audit Committee Rule**" means Multilateral Instrument 52-110 Audit Committees.

"**Backstop Supplier**" means one of the suppliers of natural gas to Iroquois Falls Corp.

"**Beaver Cove Facility**" means the wood waste processing plant built in 2003 at Beaver Cove, near Port Hardy on the north end of Vancouver Island, British Columbia.

"**Budget Implementation Act**" means the *Budget Implementation Act, 2007 (Canada).*

"**CAIR**" means the Clean Air Interstate Rules.

"**Calpine Gas**" means Calpine Canada Natural Gas Partnership, a former supplier of natural gas to the Iroquois Falls Facility.

"**Canadian tax-exempt entities"** has the meaning attributed thereto on page 50.

"**Canfor**" means Canadian Forest Products Ltd.

"**CCAA**" means the *Companies' Creditors Arrangement Act (Canada).*

"**CD Indenture**" means the indenture dated August 26, 2004 between the Fund and Computershare as amended and restated on October 14, 2009 and as supplemented by the First Supplemental Indenture dated October 15, 2009 providing for the issuance of the Convertible Debentures.

"**Cenovus**" means Cenovus Energy Inc., formerly EnCana.

"**Chips LP**" means Northland Power Chips LP, a wholly-owned subsidiary of NPI.

"**CHP**" means combined heat and power.

"CHP Contract" means the CHP agreement dated October 16, 2000 between Thorold LP and the OPA in connection with the sale of electricity from the Thorold Facility.

"**Class A Priority Units**" means the Class A Priority Units of Miller LP as described on page 4.

"**Class A Units**" means the Class A Exchangeable Units of Holdings LP as described on page 35.

"**Class B Subordinated Units**" means the Class B Subordinated Units of Miller LP as described on page 4.

"**Class B Units**" means the Class B Convertible Units of Holdings LP as described on page 36.

"**Class C Units**" means the Class C Convertible Units of Holdings LP as described on page 36.

"**Closing Date**" means July 16, 2009.

"**CO**" means carbon monoxide.

"**CO_2**" means carbon dioxide.

"**Cochrane Facility**" means the 42 MW biomass and natural gas-fired combined cycle facility owned by Cochrane Power Corp. located in Cochrane, Ontario and all ancillary assets.

"**Cochrane Power Corp.**" means Cochrane Power Corporation.

"**COD**" means the commercial operations date.

"**Cogeneration**" means the simultaneous production of electricity and thermal energy in the form of heat or steam from a single fuel source.

"**Cogeneration Associates**" means Cogeneration Associates Limited, a wholly-owned subsidiary of NPI.

"**Computershare**" means Computershare Trust Company of Canada.

"**Convertible Debentures**" means the 2011 Debentures and 2014 Debentures.

"**Conversion Date**" means January 16, 2012.

"**CRA"** means Canada Revenue Agency.

"**CT**" or "**Trust**" means NPIF Commercial Trust, a trust established pursuant to the laws of Ontario, all of the units of which are owned by the Fund.

"**CT Board**" or "**CT Trustees**" means the board of trustees of CT.

"**CT Management Agreement**" means the management agreement made as of July 1, 2003 between CT and the Manager.

"**CT Reorganization**" means the transfer of Fund Property to Holdings LP in consideration for the issuance of Ordinary Units of Holdings LP.

"**CT Supplemental Trust Indenture**" means the supplemental and restated trust indenture dated as of July 16, 2009 which governs CT.

"**Debenture Trustee**" means Computershare Trust Company of Canada, as trustee pursuant to the CD Indenture.

"**Eckolstädt Co**" means DK Burgerwindpark Eckolstädt GmbH & Co. KG, a limited partnership established pursuant to the laws of Germany.

"**EnCana**" means EnCana Corporation.

"**EPC Agreement**" means the engineering, procurement and construction agreement and intellectual property license between Miller LP and Vestas dated as of August 5, 2004, as amended in November 2004**.**

"**FIT**" means the Feed-in Tariff established pursuant to the GEA.

"**FIT Program**" means the program established by the OPA with respect to renewable energy generation projects pursuant to the GEA.

"**Fund**" means Northland Power Income Fund, an unincorporated open-ended trust established pursuant to the laws of Ontario.

"**Fund Board**" or "**Fund Trustees**" means the board of trustees for the Fund.

"**Fund LTIP**" has the meaning attributed thereto on page 2.

"**Fund Property**" has the meaning attributed thereto on page 2.

"**Fund Trust Indenture**" means the supplemental and restated trust indenture dated as of July 16, 2009, which governs the Fund.

"**Fund Trustee**" means Computershare Trust Company of Canada until July 16, 2009.

"**GEA**" means the *Ontario Green Energy and Green Economy Act, 2009*.

"**GE Capital**" means the General Electric Capital Corporation.

"**General Electric**" or "**GE**" means one or more of the General Electric Company and its affiliates.

"**General Unit**" means the General Unit of Miller LP as described on page 4.

"**German Wind Farms**" mean the two wind farms located in Eckolstädt and Kavelstorf, Germany with a total installed capacity of 21.5 MW that the Fund acquired on April 25, 2006.

"**GHG**" means greenhouse gas.

"**Holdings LP**" means NPIF Holdings L.P., an Ontario limited partnership.

"**Hydro-Québec**" means Hydro-Québec, a Quebec Crown Corporation.

"**Hydro-Québec Distribution**" means Hydro-Québec Distribution, a division of Hydro Québec.

"**Hydro-Québec Production**" means Hydro-Québec Production, a division of Hydro Québec.

"**IESO**" means the Independent Electricity System Operator for Ontario.

"**Independent Trustee**" means a Trustee who is independent for the purposes of National Instrument 58-101, Disclosure of Corporate Governance Practices.

"**INVISTA**" means INVISTA (Canada) Company.

"**Iroquois Falls Corp.**" means Iroquois Falls Power Corp., a wholly-owned subsidiary of CT continued under the laws of Ontario.

"**Iroquois Falls Facility**" means the 120 MW electricity and steam generating facility located in Iroquois Falls, Ontario, and all ancillary assets.

"**Iroquois Falls Management Agreement**" means the amended and restated agreement dated July 1, 2003 among Iroquois Falls Corp., CT and the Manager providing for the management of the Iroquois Falls Facility and Iroquois Falls Corp.

"**Iroquois Falls Power Purchase Agreement**" means the agreement dated February 11, 1994, as amended, which provides for the sale of electricity by Iroquois Falls Corp. to OEFC.

"**Jardin d'Éole Facility**" means the 127.5 MW wind farm located near the municipalities of Saint-Ulric, Saint-Léandre and Matane, Québec.

"**Jardin LP**" means Saint-Ulric Saint-Leandre Wind L.P., a Quebec limited partnership which owns the Jardin d'Éole Facility.

"**Jardin LP Loan**" means the $34.8 million subordinated loan by NPIF Quebec Wind Investments Inc. to Jardin LP.

"**Kavelstorf Co**" means DK Windpark Kavelstorf GmbH & Co. KG, a limited partnership established pursuant to the laws of Germany.

“**Kingston Facility**” means the 110 MW electricity and steam generating facility and all ancillary assets located near Kingston, Ontario and owned by Kingston LP.

“**Kingston LP**” means Kingston CoGen Limited Partnership, a limited partnership established pursuant to the laws of Ontario.

“**Kingston Power Purchase Agreement**” means the agreement dated May 6, 1994, as amended, which provides for the sale of electricity by Kingston LP to OEFC.

“**Kirkland Lake Corp.**” means Kirkland Lake Power Corp.

“**Kirkland Lake Facility**” means the 102 MW baseload power plant that came on line in 1991 and a 30 MW peaking facility built in 2004 near Kirkland Lake, Ontario owned by Kirkland Lake Corp.

“**LP Agreement**” means the limited partnership agreement made as of March 13, 2009, as amended and restated on July 16, 2009 which governs Holdings LP.

“**LTIP Rights**” means the 190 stakeholder participation units issued to the NPI LTIP Participants under the NPI LTIP, which in the aggregate entitled the NPI LTIP Participants to approximately an 18% equity interest in NPI as a result of the merger with the Fund.

“**Luxco**” means CIC Luxembourg S.a.r.l., a Luxembourg Société à Responsabilité Limitée company.

“**Manager**” means NPIFMI.

“**Manulife**” means The Manufacturers Life Insurance Company.

“**Megawatt**” or “**MW**” means 1,000 kilowatts of electrical energy.

“**Millerco**” means Mount Miller Wind Power Energy Inc., a corporation existing under the laws of Canada.

“**Miller Developer**” means Mount Miller Construction and Services Inc., a corporation existing under the laws of Canada.

“**Miller GPCo**” means Mount Miller GP Inc., a corporation existing under the laws of Canada.

“**Miller Limited Partnership Agreement**” means the agreement, amended and restated as of August 5, 2004, among Miller GPCo, CT and the Miller Developer.

“**Miller LP**” means Mount Miller Wind Energy Limited Partnership/Énergie Éolienne du Mont Miller Société en commandite, a limited partnership formed and existing pursuant to the *Legal Publicity Act* (Quebec).

“**Miller LP Power Purchase Agreement**” means the power purchase agreement between 3Ci and Hydro-Québec, dated December 13, 2002 (as assigned to Miller LP).

"Minister" means the Minister of Energy and Infrastructure of Ontario.

"**Mont Miller Facility**" means the 54 MW wind farm facility, located on Mont Miller near Murdochville, Quebec.

"**MWh**" means 1,000 kilowatt hours of electrical energy.

"**North Battleford Facility**" means the 261 MW electricity generating facility and all ancillary assets to be constructed and located near North Battleford, Saskatchewan and owned by North Battleford LP.

"**North Battleford LP**" means North Battleford Power L.P., a limited partnership established pursuant to the laws of Ontario.

"**Normal Growth Guidelines"** has the meaning attributed thereto on page 49.

"**NO_x**" means nitrogen oxides, a by-product of fossil fuel electricity generation.

"**NPHI**" means Northland Power Holdings Inc., an Ontario corporation and parent of NPI until July 15, 2009.

"**NPI**" means Northland Power Inc., a corporation amalgamated under the laws of Ontario, which was the former parent company of the Manager.

"**NPI LTIP**" means the long-term incentive plan for senior management of NPI under which participants had the right to acquire shares of NPI in certain circumstances.

"**NPI LTIP Participants**" means John W. Brace, Anthony F. Anderson, Salvatore Mantenuto, Dino Gliosca, Frederick G. Brown, David Dougall and Jim Cipolla.

"**NPIF Kingston**" means NPIF Kingston GP Inc., an Ontario corporation and a wholly-owned subsidiary of CT.

"**NPIFMI**" means Northland Power Income Fund Management Inc., a corporation incorporated under the laws of Ontario pursuant to the *Business Corporations Act* (Ontario).

"**OEFC**" means Ontario Electricity Financial Corporation, the successor to Ontario Hydro as continued by the *Electricity Act, 1998* (Ontario) that holds all rights, obligations and liabilities related to the Iroquois Falls Power Purchase Agreement and the Kingston Power Purchase Agreement.

"**off-peak**" means times that are not on-peak, and includes the hours between 11:00 p.m. and 7:00 a.m. local time at the Iroquois Falls Facility and the Kingston Facility on non-holiday weekdays and all hours on weekends and public holidays as designated by OEFC.

"**on-peak**" means 7:00 a.m. to 11:00 p.m. local time at the Iroquois Falls Facility and the Kingston Facility on weekdays, excluding public holidays designated by OEFC.

"**OPA**" means the Ontario Power Authority.

“**OPG**” means Ontario Power Generation Inc., a corporation formed under the laws of Ontario.

“**Ordinary Units**” means Ordinary Units of Holdings LP as described on page 35.

“**Original Fund Trust Indenture**” means the trust indenture dated February 17, 1997, which established the Fund, as replaced by the amended and restated trust indenture dated as of April 15, 1997 and further amended as at July 1, 2003. The Original Trust Indenture has been replaced by the Fund Trust Indenture.

“**Panda-Brandywine Facility**” means the 230 MW natural gas-fired combined-cycle facility, located near Brandywine, Maryland, U.S.A.

“**Panda-Brandywine, L.P.**” means the limited partnership which owns the Panda-Brandywine Facility.

“**PEC**” means Panda Energy Corporation, a corporation existing under the laws of Texas, U.S.A.

“**PEPCO**” means Potomac Electric Power Company, a District of Columbia and Virginia, U.S.A., corporation.

“**PIC**” means Panda Interfunding Company LLC, a limited liability company existing under the laws of Delaware, U.S.A.

“**PPA**” means a power purchase agreement.

“**Redemption Price**” is defined under the heading “Redemption Right”.

“**Régie**” means the Régie de l’énergie.

“**Replacement Rights**” means the rights issued by the Fund on the next Business Day after the Closing Date to each NPI LTIP Participant pursuant to a Rights Exchange Agreement to acquire Units on or after the Conversion Date in exchange for their LTIP Rights.

“**RFP**” means a Request for Proposals.

“**RGGI**” means the Regional Greenhouse Gas Initiative implemented by the states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont to limit greenhouse gas emissions.

“**Rights Exchange Agreements**” means the agreements described on page 31.

“**S&P**” means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies (Canada) Corporation.

“**SaskPower**” means Saskatchewan Power Corporation.

“**Sempra**” means Sempra Energy Trading LLC.

“**Sempra Transaction**” has the meaning attributed thereto on page 21.

“**SIFT Rules**” has the meaning attributed thereto on page 49.

“**SO_2**” means sulfur dioxide.

“**Special Voting Units**” are as defined under the heading “Special Voting Units” on page 32.

“**Spy Hill Facility**” means the 86 MW electricity generating facility and all ancillary assets to be constructed and located near Spy Hill, Saskatchewan and owned by Spy Hill LP.

“**Spy Hill LP**” means Spy Hill Power L.P., a limited partnership established pursuant to the laws of Ontario.

“**Summer**” means April through September inclusive.

“**Sun Life**” means the Sun Life Assurance Company of Canada.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder.

“**Thorold LP**” means Thorold CoGen LP, an Ontario limited partnership which owns the Thorold Facility.

“**Thorold Loan**” means the $30 million subordinated loan by CT to Thorold LP.

“**Thorold Facility**” means the 265 MW cogeneration facility that is being constructed and is owned by Thorold LP in Thorold, Ontario, 120 kilometres southwest of Toronto near the US border.

“**TSX**” means the Toronto Stock Exchange.

“**Unitholder**” means a unitholder of the Fund.

“**Units**” means the trust units of the Fund, each unit representing an equal undivided beneficial interest in the Fund.

“**Valuation Date”** has the meaning attributed thereto on page 36.

“**Vestas**” means Vestas Canadian Wind Technology, Inc.

“**Winter**” means October through March inclusive.

SCHEDULE "A" -
NORTHLAND POWER INCOME FUND
(the "Fund")

AUDIT COMMITTEE CHARTER

Purpose of the Audit Committee

The Audit Committee (the "Committee") is appointed by the Board of Trustees (the "Board") to assist the Board in fulfilling its oversight responsibilities for Northland Power Income Fund (the "Fund") with respect to the accounting and financial reporting requirements, the system of internal controls and management information system, risks and risk management policies, the external audit process, and monitoring compliance with laws and regulations applicable to the Fund, any other corporations, trusts, partnerships or Fund Entities which may be owned or controlled by the Fund (the "Fund Entities").

The Audit Committee shall report the results of its activities and associated recommendations to the Board with respect to the financial statements of the Fund.

Meetings and Procedures

The Audit Committee shall meet at least four times a year or more frequently if necessary.

Meetings of the Audit Committee may be held at the call of the Chair or upon request by two members on two days' prior notice to all members or, by agreement of all members of the Committee, without notice and may be held at the offices of the Fund or at such other location as the Chair may determine. Meetings may also be held by conference telephone call where all members of the Committee can hear each other. A quorum for all meetings of the Audit Committee shall be two members, one of whom must be the Chair. The Chair shall be responsible for agendas for the Committee and agendas and briefing materials shall be prepared and circulated in advance of the meeting.

The Audit Committee may determine its own procedures and shall keep minutes of its proceedings and report on its activities at each meeting of the Board.

Audit Committee Responsibilities

(i) Annual Review of Audit Committee Charter

The Audit Committee shall maintain this Audit Committee Charter which sets out the Committee's mandate and responsibilities, and review at least annually this Charter to ensure that it conforms to the requirements of National Instrument 52-110 (the "Audit Committee Rule") and the requirements of any other relevant securities regulations.

(ii) The External Auditor

Management is responsible for the preparation of the financial statements of the Fund and, as applicable, the Fund Entities. The external auditor is responsible for auditing those financial statements.

The Audit Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report, or performing other audit, review or attest services for the Fund, including the resolution of disagreements between management and the external auditor regarding financial reporting. The Audit Committee must recommend to the Board:

(A) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Fund and the Fund Entities; and

(B) the compensation of the external auditor.

The Audit Committee shall require the external auditor to report directly to the Audit Committee and shall monitor the independence and performance of the external auditor of the Fund. The Audit Committee shall monitor the integrity of the financial statements of the Fund, the financial reporting processes and systems of internal controls.

The Audit Committee must review and approve the hiring policies, as applicable, of the Fund and the Fund Entities regarding partners, employees and former partners and employees of the present and former external auditor of the Fund.

(iii) Pre-Approval of All Audit and Non-Audit Services

The Audit Committee shall approve all audit and pre-approve all non-audit services to be provided to the Fund and, as applicable, the Fund Entities by the Fund's external auditor. The Audit Committee may delegate to one or more of its independent members the authority to pre-approve all non-audit services, provided that: (i) the Audit Committee establishes pre-approval policies that are detailed as to the particular service; and (ii) any such pre-approval of non-audit services by any member to whom such authority has been delegated must be presented to the Audit Committee at its first scheduled meeting following such pre-approval.

The Audit Committee satisfies the pre-approval requirement if: (i) the aggregate amount of non-audit services that were not pre-approved is reasonably expected to be no more than 5 per cent of total fees paid to the external auditor during the fiscal year in which the services are provided; (ii) the services were not recognized as non-audit services by the Fund at the time of the engagement; and (iii) the services are immediately brought to the attention of the Audit Committee and approved, prior to the completion of the audit.

(iv) Financial Statement Review

The Audit Committee shall review the Fund's financial statements, MD&A, and annual and interim earnings press releases before such documents are publicly disclosed on behalf of the Fund.

The Audit Committee shall be satisfied that adequate procedures are in place for the review of the Fund's public disclosure of financial information extracted or derived from the Fund's financial statements, and must assess the adequacy of such procedures on an annual basis.

(v) Compliance with Laws and Regulations

The Audit Committee shall receive regular reports with respect to compliance with laws and regulations having a material impact on the financial statements including tax matters.

(vi) Complaints and "Whistle Blowers"

The Audit Committee shall establish procedures for:

(A) the receipt, retention and treatment of complaints received by the Fund and the Fund Entities regarding accounting, internal accounting controls, or auditing matters; and

(B) the confidential, anonymous submission by employees of the Fund or of the Fund Entities of concerns regarding questionable financial reporting, accounting or auditing matters.

Composition of the Audit Committee

(vii) Number of Members

The Audit Committee shall be composed of at least three independent Trustees of the Fund, appointed by the Board from time to time. Each member of the Audit Committee shall continue to be a member until a successor is appointed unless the member resigns, ceases to be qualified to serve or ceases to be a Trustee. One member of the Audit Committee shall be elected as Chair by the Committee.

(viii) Financial Literacy

Every member of the Audit Committee must be financially literate. An Audit Committee member who is not financially literate may be appointed to the Audit Committee, provided that such a member becomes financially literate within a reasonable period of time following his or her appointment.

"Financially literate" means having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues

that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Fund's financial statements.

(ix) Independence

An "Independent Trustee" means a Trustee who has no direct or indirect material relationship with the Fund or the Fund Entities, as applicable, other than interests and relationships arising from the holding of units of the Fund. A material relationship means a relationship which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment. Appendix I to this Charter describes in greater detail the requirements under National Instrument 52-110 and other applicable securities laws in effect as at the date of this Charter concerning the circumstances in which an individual is considered to have a material relationship with an issuer.

(x) Position Description – Audit Committee Chair

The fundamental responsibility of the Chair of the Audit Committee is to effectively manage the duties of the Audit Committee with respect to the Fund:

Key Responsibilities of the Chair:

- ensures that the Audit Committee is properly organized, functions effectively and meets its obligations and responsibilities
- establishes the frequency of Audit Committee meetings and reviews such frequency from time to time, as considered appropriate, or as requested by the Board or the Audit Committee
- presides at Audit Committee meetings
- establishes the agenda and related matters for committee meetings
- liaises and communicates with the Chair of the Board as necessary to co-ordinate input from the Audit Committee for Board of Trustees meetings
- liaises and communicates with the Fund's external auditors as necessary
- on behalf of the Audit Committee, reports to the Board on committee meetings
- serves as a person to whom confidential disclosures may be made under the Fund's Financial Integrity Policy

Authority and Resources of the Audit Committee

The Audit Committee has the authority to:

(a) engage independent counsel and other advisors as it determines necessary to carry out its duties. For greater certainty the Audit Committee has the authority to retain, at the Fund's expense, special legal, accounting or such other advisors, consultants or experts it deems necessary in the performance of its duties;

(b) set and pay the compensation for any advisors employed by the Committee. The Fund or the Fund Entities shall at all times make adequate provisions for the payment of all fees and other compensation, approved by the Committee, to the external auditor in connection with the issuance of its audit report, or to any consultants or experts employed by the Committee;

(c) communicate directly with the internal and external auditors; and

(d) conduct any investigation which it considers appropriate, and to communicate directly with and have direct access to the internal and external auditor as well as officers and employees of the Fund and the Fund Entities, as applicable.

Risk Management and Insurance

The Audit Committee shall review at least annually significant risk management strategies for the Fund and the Fund Entities and exposure in the following areas and such other areas as the Committee may deem appropriate from time to time:

(i) foreign currency, interest rate and commodity hedging strategies; and

(ii) insurance coverage.

Revised December 3, 2009

APPENDIX I

MEANING OF INDEPENDENCE

Part A: Meaning of Independence

1. An audit committee member is independent if he or she has no direct or indirect material relationship with the issuer.

2. For the purposes of subsection (1), a "material relationship" is a relationship which could, in the view of the issuer's board of directors, be reasonably expected to interfere with the exercise of a member's independent judgement.

3. Despite subsection (2), the following individuals are considered to have a material relationship with an issuer:

   (a) an individual who is, or has been with the last three years, an employee or executive officer of the issuer;

   (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the issuer;

   (c) an individual who:

      (i) is a partner of a firm that is the issuer's internal or external auditor,

      (ii) is an employee of that firm, or

      (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time;

   (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual;

      (i) is a partner of a firm that is the issuer's internal or external auditor,

      (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or

      (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer's audit within that time;

   (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the issuer's current executive officers serves or served at that same time on the entity's compensation committee; and

(f) an individual who received, or whose immediate family member who is employed as an executive officer of the issuer received, more than $75,000 in direct compensation from the issuer during any 12 month period within the last three years.

4. For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.

5. For the purposes of clause (3)(f), direct compensation does not include:

(a) remuneration for acting as a member of the board of directors or of any board committee of the issuer, and

(b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.

6. Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because the individual or his or her immediate family member

(a) has previously acted as an interim chief executive officer of the issuer, or

(b) acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the issuer on a part-time basis.

7. For the purpose of Part A, an issuer includes a subsidiary entity of the issuer and a parent of the issuer.

Part B: Additional Independence Requirements

8. Despite any determination made under Part A, an individual who

(a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or

(b) is an affiliated entity of the issuer or any of its subsidiary entities,

is considered to have a material relationship with the issuer.

9. For the purposes of subsection (1), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by

   (a) (a)n individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or

   (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary entity of the issuer.

10. For the purposes of subsection (1), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.