

Quarterly Report

Northland Power Income Fund

Quarterly Report for the period ended June 30, 2009

FINANCIAL AND OPERATING RESULTS

This report covers the operations of the Northland Power Income Fund (the "Fund") for the quarter and the 6 months ended June 30, 2009

	3 months ended June 30		6 months ended June 30	
	2009	2008	2009	2008
FINANCIAL (thousands, except per unit amounts)				
Sales	\$44,686	\$44,970	\$97,563	\$97,321
Income from Operations	\$14,445	\$15,279	\$36,002	\$37,983
Net Income (Loss)	(\$3,097)	\$11,240	\$13,816	\$26,962
Standardized Distributable Cash	\$18,935	\$34,976	\$41,540	\$56,614
Distributable Cash	\$17,113	\$19,522	\$39,628	\$42,793
Distributions Declared to Unitholders	\$16,836	\$16,835	\$33,671	\$33,670
<i>Units Outstanding</i>	62,353	62,353	62,353	62,353
<i>Average Number of Units Outstanding - basic</i>	62,353	62,353	62,353	62,353
<i>Average Number of Units Outstanding - diluted</i>	62,353	62,353	62,353	64,916
Per Unit				
Standardized Distributable Cash	\$0.3037	\$0.5609	\$0.6662	\$0.9080
Distributable Cash	\$0.2745	\$0.3131	\$0.6355	\$0.6863
Distributions Declared to Unitholders	\$0.2700	\$0.2700	\$0.5400	\$0.5400
OPERATIONS				
<i>Electricity Production (megawatthours)</i>	366,214	300,211	737,842	685,783
<i>Steam Production (thousands of pounds)</i>	236,313	271,928	603,602	652,921
<i>Fuel Consumption (thousands of gigajoules)</i>	2,905	2,556	5,831	5,613



MANAGEMENT'S DISCUSSION & ANALYSIS

Overview

Consolidated sales in the second quarter of 2009 were \$44.7 million while income from operations was \$14.4 million for the quarter. The facilities operated well during the quarter, however financial results were impacted by low market prices for natural gas, one-time legal and bank fees associated with the Fund renewing its credit facility and the Iroquois Falls facility shifting the annual maintenance outage to June versus the third quarter of 2008. As a result, income from operations fell short of a year ago by \$0.8 million.

Net income was \$14.3 million below the same quarter last year. Most of the change was the result of non-cash items relating to future taxes, foreign exchange and changes in fair value adjustments; \$0.8 million was due to lower income from operations and \$0.7 million was related to one-time fees associated with renewal of the Fund's line of credit. As a result of the agreement reached this quarter with the Canada Revenue Agency that the Fund will not be required to re-file its trust income tax returns and associated T-3s for the years 2005, 2006 and 2007, the Fund reversed the (non-cash) \$9.1 million future tax recovery recognized in the fourth quarter of 2008 (readers should refer to "Tax Treatment of Distributions" for additional information).

Distributable cash as determined by the Fund was \$17.1 million during the second quarter; in line with distributions declared to Unitholders. Distributable cash per unit for the quarter was \$0.27, compared with \$0.31 in 2008 largely due to the factors discussed above. Readers should refer to the schedule of Distributions to Unitholders and Distributable Cash for the calculation of distributable cash (a non-GAAP financial measure).

Distributions to Unitholders declared for the quarter totalled \$0.27 per unit.

During the quarter, the Fund and its subsidiary, Iroquois Falls Power Corp., renewed their \$95 million credit facility for two years until May 20, 2011.

Merger of the Fund and Northland Power Inc.

Subsequent to quarter end, on July 16th the Fund agreed to merge with Northland Power Inc. ("NPI") by acquiring all of the issued and outstanding shares of NPI. The merger was paid for largely with securities that are exchangeable into trust units of the Fund on or after January 16, 2012. Until then, these securities will not receive cash distributions. The merger with NPI was approved by the requisite majorities of the Fund's Unitholders on July 16, 2009. The merger 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.

With the merger, the Fund now has ownership or economic interests in 10 power projects totaling over 1,100 megawatts ("MWs") (net 872 MWs) that include clean natural-gas-fired plants as well as renewable wind and biomass projects. The merger has internalized management and created significant alignment through management's ownership of up to 47% of the Fund if all exchangeable securities are converted to trust units. The Fund's average power purchase agreement duration has been extended to 14 years. The merger has provided the Fund with an additional \$600 million of tax deduction pools which, combined with cash flow from NPI's four projects, will provide cash available for distribution to help to maintain the Fund's distribution of \$1.08 per unit even after the Fund becomes taxable in 2011. In addition, the merger provides the Fund with the ability to grow organically by generating its own development opportunities, as well as bringing in NPI's 3,600 MW pipeline of high-quality development prospects.

Iroquois Falls Facility

	3 months ended June 30		6 months ended June 30	
<i>(in thousands of dollars except as indicated)</i>	2009	2008	2009	2008
Sales Volume				
Electricity (MWh)	156,193	159,099	360,398	356,065
Steam (000 lb.)	208,428	213,512	514,268	507,513
Fuel Consumption (000 GJs)	1,464	1,491	3,339	3,325
Sales				
Electricity	14,682	14,728	35,875	35,482
Steam	1,615	1,570	3,873	3,559
Natural gas	759	2,328	894	3,103
Emission allowances and credits	-	-	80	116
	17,056	18,626	40,722	42,260
Cost of sales				
Gas consumed	7,475	7,231	17,426	16,156
Gas re-sold	864	2,321	987	3,134
	8,339	9,552	18,413	19,290
Gross profit	8,717	9,074	22,309	22,970
Plant operating costs	1,736	1,599	3,527	3,241
Capital expenditures	22	26	50	46

For the second quarter of 2009, electricity sales volume under the power purchase agreement (“PPA”) was down compared to the same quarter of last year as the scheduled annual maintenance outage was completed this quarter instead of in the third quarter as occurred in 2008. Electricity revenue was in line with last year as lower production was offset by a higher average selling price. Steam revenues were up slightly from the same period last year due to a higher average selling price which is tied to the delivered cost of contract natural gas. Sales of natural gas were down \$1.6 million as excess capacity under the plant’s gas transportation agreement was sold rather than mitigated through the purchase and resale of natural gas. During the quarter, there were no sales of emission allowances and credits, which are being retained due to the continued low market prices.

The cost of natural gas consumed during the quarter was up largely due to a price increase arising from the scheduled January 2009 “re-opening” of the price under one gas contract that represents approximately 70% of the facility’s gas supply; under the terms of the PPA 50% of this increase is mitigated through higher electricity rates paid by Ontario Electricity Financial Corporation (“OEFC”). Commensurate with lower natural gas resales, the cost of gas resold was down from last year. Plant operating costs at \$1.7 million were up this quarter due to the timing of the annual maintenance shutdown.

The parent of the Iroquois Falls facility’s steam host, AbitibiBowater Inc. (“AbitibiBowater”), and its subsidiaries filed for court protection from creditors in the United States and Canada on April 16th and 17th, respectively. AbitibiBowater’s Iroquois Falls’ newsprint mill continues to take steam from the Fund’s Iroquois Falls facility. It is management’s understanding that the Iroquois Falls mill is one of AbitibiBowater’s most efficient and cost effective operations in North America. As a result, management expects the Iroquois Falls mill to continue operating during the restructuring process. Furthermore, the Iroquois Falls facility is supplying steam to AbitibiBowater at a price that is considerably below AbitibiBowater’s alternatives, so management believes it is likely AbitibiBowater will honour the contract as long as the mill continues to operate. However, in the event that

AbitibiBowater's Iroquois Falls mill ceases operations, the Iroquois Falls facility can mitigate lost steam sales revenue because the offtaker under the PPA, OEFC, is required to purchase additional electricity in that event.

As at June 30, 2009, the Fund had approximately \$1.1 million of receivables owing from AbitibiBowater that are subject to the Companies' Creditors Arrangement Act ("CCAA") proceedings. At this time, all subsequent receivables have been collected. Management and the Fund's legal counsel will continue to monitor the situation and the collectability of the amounts owing; at this time, management of the Fund does not believe an allowance is required.

For the six-month period ended June 30th, electricity sales volume under the PPA was up compared to last year as low natural gas market prices made it economic to purchase natural gas to fuel additional off-peak production. Electricity revenue was higher due to increased production, partially offset by a retroactive revenue adjustment (reduction) of \$0.2 million related to the 2008 DCR calculation (the Iroquois Falls facility's pricing escalator for its PPA). Revenue earned from non-contracted sales of electricity and operating reserves into the wholesale market was \$0.2 million lower than last year due to fewer market opportunities. Steam revenues were up from last year due to increased demand and a higher average selling price. Sales of natural gas were down primarily because higher electricity production in the first quarter of 2009 resulted in higher gas consumption which left little excess capacity available for resale under the plant's gas transportation agreement. In addition, in the second quarter, excess gas transportation capacity was sold rather than mitigated through the purchase and resale of natural gas. Plant operating costs were up due to the timing of the annual maintenance outage.

Kingston Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended June 30		6 months ended June 30	
	2009	2008	2009	2008
Sales Volume				
Electricity (MWh)	169,120	108,949	280,603	235,109
Steam (000 lb.)	27,885	58,416	89,334	145,408
Fuel consumption (000 GJs)	1,441	1,065	2,492	2,288
Sales				
Electricity	19,513	16,773	37,382	34,403
Steam	246	378	776	936
Natural gas	4,772	6,755	11,285	12,236
	24,531	23,906	49,443	47,575
Cost of sales				
Gas consumed	9,088	7,774	17,003	15,810
Gas re-sold	2,981	2,812	5,702	5,034
	12,069	10,586	22,705	20,844
Gross profit	12,462	13,320	26,738	26,731
Plant operating costs	1,527	1,294	2,933	2,636
Capital expenditures	92	-	112	-

For the second quarter of 2009, low market prices for natural gas reduced or, at times, eliminated the benefit of re-selling contract natural gas that had not been committed earlier under forward sales agreements. This made it more economic to consume contract gas off-peak to generate electricity and to purchase gas at market prices to generate electricity or meet forward gas sales commitments. As a result, electricity production and sales at the Kingston facility were up considerably compared to the same

period last year while gas sales revenue was down. Steam revenue during the quarter was lower due to INVISTA (Canada) Company (“INVISTA”), the facility’s steam host, scaling back usage as it continues to prepare for the closure of its Millhaven facility (see below).

The cost of natural gas consumed was higher in the second quarter of 2009 compared with the same period in 2008, commensurate with the increased electricity production. The cost of natural gas resold was higher despite the lower gas resale revenues, as the cost of natural gas bought at market prices was allocated against forward gas sales. Plant operating costs were higher mainly due to additional gas turbine maintenance fees paid to General Electric that are partly based on fired hours of production.

In April, 2009 INVISTA provided formal notice to Kingston LP that it will be permanently closing its Millhaven facility in October 2009. Kingston LP has been providing steam to INVISTA under an energy services agreement that expires in 2017 and has contracts with INVISTA until 2018 for INVISTA to supply Kingston LP with water from Lake Ontario through its pumphouse, and for INVISTA to treat and dispose of Kingston LP process waste water and sanitary waste water. Management is currently investigating alternatives that would allow Kingston LP to meet its long-term water supply and sewage disposal requirements. The INVISTA agreements provide Kingston LP with 'step-in rights' to operate and maintain the pertinent INVISTA infrastructure, with Kingston LP manpower and at Kingston LP’s cost although lower cost arrangements are being evaluated and pursued. It is expected that over the long term, lost steam revenues will be largely offset by additional gas resale revenues.

For the six-month period ending June 30, 2009, electricity sales were up from the previous year as a result of the higher electricity production and reduced gas resales during off-peak periods. Steam revenue was lower as INVISTA continued to reduce consumption. Gas resale revenue decreased from the previous year due to continued low natural gas prices which affected gas resales that had not been previously sold forward.

The cost of natural gas consumed was higher in the first six months of 2009, consistent with the increase in electricity production. Despite lower gas resale revenues, the cost of gas resold was higher due mainly to the allocation of the cost of market gas against forward sales commitments, as discussed previously. Higher plant operating costs for the six months ended June 30, 2009 were mainly the result of additional turbine maintenance fees paid to General Electric.

Mont Miller Wind Farm

<i>(in thousands of dollars except as indicated)</i>	3 months ended June 30		6 months ended June 30	
	2009	2008	2009	2008
Sales Volume				
Electricity (MWh)	34,731	27,520	81,848	74,783
Sales				
Electricity	2,211	1,730	5,205	4,693
Gross profit	2,211	1,730	5,205	4,693
Plant operating costs	455	433	960	955
Capital expenditures	-	-	1	-

Mont Miller's second quarter and year-to-date electricity production surpassed the prior year due to stronger winds in April and May, partly offset by lighter winds in June and an 11-day forced outage when Hydro-Québec TransEnergie completed local substation maintenance. The capacity factor was 29% for the quarter and 35% year-to-date.

The turbines performed well and achieved overall equipment reliability of 98% during the quarter and 97% year-to-date.

German Wind Farms

<i>(in thousands of dollars except as indicated)</i>	3 months ended June 30		6 months ended June 30	
	2009	2008	2009	2008
Sales Volume				
Electricity (MWh)	6,170	4,643	14,993	19,826
Sales				
Electricity	888	708	2,193	2,793
Gross profit	888	708	2,193	2,793
Plant operating costs	277	256	504	507
Capital expenditures	-	-	-	-

During the second quarter of 2009, electricity production at the German wind farms exceeded the prior year and met long-term expectations. Year-to-date production was less than the prior year due to unusually strong winds during the first quarter of 2008, and lighter than expected winds at Eckolstädt in the first quarter of 2009. The German wind farms achieved a capacity factor of 13% for the quarter and 16% year-to-date.

The turbines performed well, with only minimal downtime during the quarter for the operator to complete scheduled blade repairs and gearbox inspections at Eckolstädt. Combined turbine reliability was 98% during the quarter and year-to-date, exceeding the long-term forecast of 97%.

Investment Income

<i>(in thousands of dollars)</i>	3 months ended June 30		6 months ended June 30	
	2009	2008	2009	2008
Panda Energy Corporation ("PEC"):				
Dividends	97	291	313	340
Interest income	1,912	1,812	4,071	3,705
	2,009	2,103	4,384	4,045
Thorold LP interest and fees	668	279	1,230	457
Jardin LP fees	174	75	348	75
Total investment income	2,851	2,457	5,962	4,577

The Fund's investment in PEC generated income of \$2.0 million this quarter, down \$0.1 million from the same period last year, through a combination of lower dividends (US\$100,000; 2008 - US\$294,000) and interest payments (US\$1,745,000; 2008 - US\$1,818,000) offset by favourable foreign exchange rates compared to last year.

Financial and operating results at the Panda-Brandywine facility for the quarter were lower than last year as relatively moderate weather through much of the quarter resulted in weak demand and relatively low prices for electricity. Electricity production was also affected by the facility's scheduled maintenance outage in May. During the quarter, the Panda-Brandywine facility produced 93,000 MWh of electricity, approximately 29,000 MWh less than last year.

As at June 30th, the Fund had loaned Thorold CoGen LP ("Thorold LP") \$19.3 million, excluding accrued interest, under its subordinated loan agreement with Thorold LP to finance construction of a 265 MW combined-cycle cogeneration facility in Thorold, Ontario. During the quarter, the Fund recognized \$0.7 million of income on the Thorold LP loan comprising commitment and financing fees and accrued interest. Construction of the Thorold facility remains on budget and on schedule with commercial operations expected to be achieved in the first quarter of 2010. AbitibiBowater's Thorold mill, the Thorold cogeneration facility's steam host, continues to operate through AbitibiBowater's restructuring and is expected to operate in the long term (whether owned by AbitibiBowater or another party) as the mill is cost efficient in comparison to similar plants in North America.

The Fund also recognized \$0.2 million in stand-by fees this quarter on the \$34.8 million loan commitment to Saint-Ulric Saint-Léandre Wind L.P.'s ("Jardin LP") 127.5 MW Jardin d'Éole wind farm, currently under construction in the Gaspésie region of Quebec. Construction of the Jardin d'Éole wind farm is on budget and on schedule to meet a December 1, 2009 commercial operations date. As of the end of June, 23 of 85 turbines were erected.

Consolidated Results

The following discussion of the consolidated financial condition and results of operations of the Fund should be read in conjunction with the unaudited interim consolidated financial statements for the periods ended June 30, 2009 and the Fund's 2008 Annual Report.

Second Quarter

Sales were down \$0.3 million compared with the second quarter of 2008 while the cost of sales was up \$0.3 million for the reasons cited under the description of each facility's results. Total plant operating costs were up \$0.4 million largely due to the timing of the annual maintenance outage at the Iroquois Falls facility and maintenance contract costs at the Kingston facility. Management and administration expenditures were up \$0.4 million compared to 2008 largely due to legal costs associated with renewing

the Fund's credit facility and continuation of the warranty claim against the Iroquois Falls facility's engineering, procurement and construction contractor. Amortization of property, plant and equipment was in line with the 2008 expense.

As discussed previously, investment income of \$2.9 million was \$0.4 million higher than in 2008. During the quarter, the Fund recorded the following non-cash adjustments: (i) a \$3.2 million gain on the change in fair value of Kingston LP's interest rate swaps, (ii) a \$1.8 million foreign exchange gain on the Fund's U.S. and euro foreign exchange contracts not designated as part of a hedging relationship, and (iii) an offsetting foreign exchange loss of \$6.4 million on the translation of the Panda senior loan balance to the quarter-end Canadian dollar/U.S. dollar exchange rate. The non-cash foreign exchange gains and losses mentioned above were due to the strengthening of the Canadian dollar during the quarter. Amortization of deferred charges and contracts were all in line with the prior year. Interest income was down this quarter due to lower interest rates, while interest expense and bank fees increased by \$0.8 million due to a one-time closing fee payable upon the renewal of the Fund's credit facility.

The factors described above resulted in income before income taxes for the second quarter of 2009 of \$5.5 million being \$4.7 million lower than last year. After the recovery of \$0.6 million of current income taxes and the provision of \$9.2 million of future income taxes (readers should refer to "Tax Treatment of Distributions" for additional information), net income was \$14.3 million lower than last year resulting in a loss of \$3.1 million.

Year to Date

Sales and the cost of sales were higher in the first six months of 2009 compared to a year earlier for the reasons previously described. Total plant operating costs were up \$0.6 million largely due to higher costs at the Iroquois Falls and Kingston facilities as cited previously.

Management and administration costs were up \$0.8 million commensurate with higher legal fees and additional professional consulting fees associated with the CEO/CFO certification process and conversion work with respect to International Financial Reporting Standards ("IFRS"). Because Kingston LP received the shut down notification from INVISTA in the first quarter, the Fund recorded a \$1.5 million write down of its capital assets that are associated with the transportation of steam and condensate to and from INVISTA.

Investment income at \$6.0 million was up \$1.4 million from 2008 largely due to interest and fees associated with the Thorold LP loan and the Jardin LP loan commitment. The Fund recorded a \$3.6 million non-cash foreign exchange loss on the restatement of the Panda senior loan balance to the quarter-end Canadian dollar/U.S. dollar exchange rate which was partially offset by a \$0.8 million non-cash foreign exchange gain on the Fund's U.S. and euro foreign exchange contracts not designated as part of a hedging relationship and a \$4.0 million non-cash gain related to the fair value of Kingston LP's interest rate swaps. Interest and bank charges were \$0.6 million higher than 2008 largely due to the renewal of the Fund's credit facility as discussed previously.

The above factors resulted in income before taxes of \$23.2 million being \$2.9 million lower than 2008. After the recovery of \$1.1 million of current income taxes and the \$10.5 million provision for future income taxes (readers should refer to "Tax Treatment of Distributions" for additional information), net income at \$13.8 million was \$13.1 million lower than last year.

Liquidity and Capital Resources

Cash and cash equivalents of \$41.6 million at June 30th decreased by \$3.9 million from December 31, 2008 as the \$41.7 million of cash generated by operations was more than offset by \$4.5 million of investing activities and \$41.0 million of financing activities.

Of the \$41.7 million cash provided by operating activities for the six-month period ended June 30, 2009, \$44.4 million related to operations, partially offset by a \$2.7 million change in working capital primarily associated with a reduction in accounts payable.

Cash used for investing activities included advances of \$3.1 million on the loan to Thorold LP, payment of \$1.5 million of costs (“other assets”) related to the Fund’s acquisition of NPI and \$1.2 million of cash set aside by Kingston LP for future maintenance costs, partially offset by receipts of principal on the Panda senior loan of \$1.6 million. Cash used for financing activities of \$41.0 million represented distributions to Unitholders of \$36.2 million and long-term debt repayments of \$4.9 million.

During the quarter, cash and cash equivalents decreased by \$0.1 million as cash from operations of \$19.0 million was offset by \$1.9 million of investing activities, largely due to advances on the loan to Thorold LP, and \$17.2 million of financing activities comprised mostly of distributions to Unitholders. The decrease in working capital of \$15.3 million in the second quarter of 2008 was the result of the timing of receipts for electricity sales to OEFC.

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.

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

Distributions to Unitholders and Distributable Cash

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

<i>(unaudited, stated in thousands except per unit amounts)</i>	3 Months ended June 30		6 Months ended June 30	
	2009	2008	2009	2008
Cash provided by operating activities	\$ 19,049	\$ 35,002	\$ 41,703	\$ 56,660
Capital expenditures	(114)	(26)	(163)	(46)
Standardized distributable cash	\$ 18,935	\$ 34,976	\$ 41,540	\$ 56,614
Northland Power Income Fund adjustments:				
Net change in non-cash working capital balances related to operations	(1,723)	(15,340)	2,668	(9,779)
Scheduled receipts of principal on Panda senior loan	836	755	1,591	1,448
Scheduled repayment of Mont Miller term loan	(318)	(277)	(637)	(554)
Scheduled repayment of KCLP term loans	-	-	(4,247)	(4,293)
KCLP cash reserve funding	(595)	(564)	(1,243)	(589)
Funds set aside for future maintenance	(22)	(28)	(44)	(54)
Distributable cash	\$ 17,113	\$ 19,522	\$ 39,628	\$ 42,793
Distributions paid to Unitholders	\$ 16,836	\$ 16,835	\$ 36,165	\$ 33,670
Standardized distributable cash payout ratio	89%	48%	87%	59%
Distributable cash payout ratio	98%	86%	91%	79%

<i>(unaudited, stated in thousands except per unit amounts)</i>	3 Months ended June 30		6 Months ended June 30	
	2009	2008	2009	2008
Cumulative - since inception				
Standardized distributable cash			\$ 503,505	\$ 415,925
Distributable cash			\$ 603,035	\$ 521,367
Distributions paid to Unitholders			\$ 537,487	\$ 467,651
Standardized distributable cash payout ratio			107%	112%
Distributable cash payout ratio			89%	90%
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Average number of trust units - basic (thousands of units)	62,353	62,353	62,353	62,353
Average number of trust units - fully diluted (thousands of units)	62,353	62,353	62,353	64,916
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Per unit (\$/unit)				
Standardized distributable cash - basic	\$ 0.3037	\$ 0.5609	\$ 0.6662	\$ 0.9080
Standardized distributable cash - fully diluted	\$ 0.3037	\$ 0.5609	\$ 0.6662	\$ 0.8721
Distributable cash - basic	\$ 0.2745	\$ 0.3131	\$ 0.6355	\$ 0.6863
Distributable cash - fully diluted	\$ 0.2745	\$ 0.3131	\$ 0.6355	\$ 0.6592

Cash from operations as well as standardized distributable cash for the quarter were both \$16.0 million lower than the same period of 2008 largely due to the timing of receipts for electricity sales to OEFC. Of the \$19.0 million cash provided by operating activities for the three-month period ended June 30, 2009, \$17.3 million related to operations, with the balance representing a \$1.7 million decrease in non-cash working capital. Standardized distributable cash for the quarter was \$18.9 million.

The table shows entity-specific “Northland Power Income Fund adjustments” to standardized distributable cash to arrive at “Distributable Cash”, the cash generated from the business that management believes is representative of the amount that is available to be distributed to Unitholders while preserving the long-term value of the business and the Fund. “Distributable Cash” as calculated above is consistent with the Fund’s calculation of distributable cash in past quarters and years. Readers should refer to the Fund’s 2008 Annual Report for additional information on the entity-specific adjustments to standardized distributable cash.

Distributable cash as determined by the Fund for the three months ended June 30th was \$17.1 million, \$2.4 million lower than the same period in 2008 largely due to low market prices for natural gas, one-time legal and bank fees associated with the Fund renewing its credit facility and the timing of the annual maintenance outage at the Iroquois Falls facility, as previously discussed.

Adversely affecting the standardized distributable cash and distributable cash payout ratios for the six months ended in June was the \$0.04 per unit special distribution declared by the Fund in December 2008 and paid in January 2009.

The cumulative standardized distributable cash payout ratio since inception of the Fund is greater than 100% largely because standardized distributable cash does not provide adjustments for expansionary capital expenditures; the Fund had significant expansionary capital expenditures between 2002 and 2005 related to the gas turbine upgrade at Iroquois Falls and the building of the Mont Miller wind farm, both of which were funded through the issuance of trust units. The Fund’s distributable cash calculation takes account of these expenditures. The payout ratio, based on the Fund’s calculation of distributable cash from inception to June 30, 2009 is 89%.

The Fund’s distributions have been, and are expected to be, funded from the operations of the Fund’s facilities and principal and interest payments on the Fund’s loans receivable.

Debt Covenants

The Fund conducts its businesses indirectly through separate legal entities (subsidiaries and affiliates),

and is dependent on receipt of cash from those entities to defray its corporate expenses and to make distributions to Unitholders. Certain of those entities have outstanding debt which was incurred to help fund the entities' original investments. Under the credit agreements for such debt, it is conventional for distributions of cash to the Fund to be prohibited if the loan is in default (notably for non-payment of principal or interest); or if the entity fails to achieve a benchmark "debt service coverage ratio" ("DSCR"), which is the ratio of earnings before interest, taxes, depreciation and amortization ("EBITDA", a non-GAAP performance indicator) for a specified time period to the scheduled loan principal and interest payments for the same time period; or if the debt exceeds a defined multiple of EBITDA. For the period ended June 30, 2009, the Fund and its subsidiaries were in compliance with all debt covenants. A summary of the latest debt covenant calculations, ratio ranges for the past 12 months and required ratios for each of the applicable Fund entities are shown below:

	Latest Calculation		Required Ratio	Previous 4 Quarter Range
	Period	Ratio		
Iroquois Falls - DSCR	12 months to June 30/09	515.00	> 2.25	391.1 to 596.0
Iroquois Falls - Debt to EBITDA	As at June 30/09	1.44	< 3.25	0.00 to 1.45
The Fund - DSCR ⁽¹⁾	12 months to June 30/09	4.40	> 2.25	3.5 to 4.6
The Fund - Debt to EBITDA ⁽¹⁾	As at June 30/09	1.50	< 3.25	0.9 to 1.5
Kingston - DSCR	12 months to Mar. 31/09	2.75	> 1.15	2.57 to 2.75
Miller LP - DSCR	12 months to June 30/09	2.18	> 1.20	2.04 to 2.18
Miller LP - DSCR Proforma	12 months to June 30/10	2.40	> 1.20	2.34 to 2.40
Panda Brandywine - DSCR	12 months to April 30/09	1.59	> 1.20	1.54 to 1.82

Note (1): Covenants removed subsequent to quarter end

Readers should refer to the Fund's 2008 annual report for additional details concerning its debt covenants.

The Fund and its subsidiary, Iroquois Falls Power Corp., have a credit facility with a syndicate of banks, with the Canadian Imperial Bank of Commerce as agent, that established a \$95.0 million credit with sub-limits to assist in the funding of expansionary capital expenditures, acquisitions and investments by the Fund, letters of credit and Iroquois Falls Power Corp.'s general corporate purposes. On May 13, 2009 the Fund and Iroquois Falls Power Corp. renewed this credit facility for two years incorporating higher rates than the expiring agreement, reflecting current market conditions.

Concurrent with the merger of the Fund and NPI, the credit agreement for the Fund's credit facility was amended to remove the previous covenants related to the Fund's DSCR and Debt to EBITDA ratios and to establish a new covenant whereby the ratio of the consolidated Debt of the Fund to consolidated Capitalization, which is debt plus equity, must be less than 65% as calculated on a quarterly basis. If the revised covenant calculation for the Fund had been in place at June 30, 2009, the ratios would have been as follows:

	Latest Calculation		Required Ratio	Previous 4 Quarter Range
	Period	Ratio		
The Fund - Debt to Capitalization	As at June 30/09	26.9%	< 65%	26.2% to 27.6%

Non-GAAP Financial Measures

Included in this Management's Discussion & Analysis are references to the Fund's distributable cash and EBITDA, which are not measures under Canadian generally accepted accounting principles ("GAAP"). Distributable cash and EBITDA, as presented, may not be comparable to similar measures presented by other income funds. Management believes that these measures are widely accepted financial indicators used by investors to assess the performance of an income trust and its ability to

generate cash through operations.

Historical Consolidated Quarterly Results

<i>\$ millions, except</i>	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>Per unit information</i>	2009	2009	2008	2008	2008	2008	2007	2007
Total sales	44.7	52.9	50.6	44.3	45.0	52.4	48.6	41.2
Net income (loss)	(3.1)	16.9	22.9	14.7	11.2	15.7	31.2	1.6
Standardized distributable cash	18.9	22.6	20.5	25.5	35.0	21.6	33.8	6.0
Distributable cash	17.1	22.5	21.2	20.8	19.5	23.3	29.9	19.1
Distributions declared	16.8	16.8	19.3	16.8	16.8	16.8	16.8	16.8
<i>Per unit statistics</i>								
Net income (loss) - basic	(0.050)	0.271	0.368	0.235	0.180	0.252	0.502	0.026
Net income (loss) - diluted	(0.050)	0.266	0.359	0.234	0.180	0.250	0.476	0.026
Standardized distributable cash	0.304	0.363	0.328	0.410	0.561	0.347	0.542	0.096
Distributable cash	0.275	0.361	0.341	0.334	0.313	0.373	0.480	0.307
Distributions declared	0.270	0.270	0.310	0.270	0.270	0.270	0.270	0.270

The Fund's financial results, particularly revenue and distributable cash, are affected by seasonal factors, which result in quarterly variations. At Iroquois Falls, OEFC has contracted for more electricity (and pays a higher price) in winter than in summer, resulting in more revenue in winter months. In addition, steam sales tend to be higher in winter than summer. Financial results from the Fund's wind farms follow a similar seasonal pattern to Iroquois Falls, as it tends to be windier in the winter months compared to the summer months. Seasonality at the consolidated level is dampened somewhat as the financial results for the Kingston facility are less seasonal than at the Iroquois Falls facility, and interest and fees on the Fund's loans to Thorold LP, Jardin LP, and PEC and the dividends received from the Fund's 19% equity interest in PEC are not affected by seasonal factors

The Fund's quarterly net income also varies due to any non-cash foreign exchange adjustments required to translate the US dollar and euro denominated balances of the Fund's Panda loan and investment in the German wind farms to the appropriate quarter-end Canadian dollar equivalent, and by fair value movements of the interest rate swap contracts entered into by Kingston LP. The net loss in the second quarter of 2009 was primarily the result of the Fund reversing the (non-cash) \$9.1 million future tax recovery recorded in the fourth quarter of 2008 (readers should refer to "Tax Treatment of Distributions" for additional information).

Trust Unit and Convertible Unsecured Subordinated Debenture Information

As at June 30, 2009, the Fund had 62,353,143 trust units outstanding (December 31, 2008 – 62,353,143). There were no conversions of unsecured subordinated debentures into trust units during the quarter. On July 16, 2009 2,312,367 trust units were issued in association with the NPI merger that increased the total outstanding to 64,665,510 units as at August 6, 2009.

Tax Treatment of Distributions

The Fund previously disclosed that it had been in discussions with the federal Department of Finance ("DoF") and the Canada Revenue Agency (CRA) concerning the application of the specified energy property rules in the Canadian 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 quarter, CRA informed the Fund that the Fund will not be required to refile its trust income tax returns and T-3s; as a result, during the quarter 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.

Risks and Uncertainties

For information concerning the Fund's risks and uncertainties, please refer to the Fund's 2008 Annual Report, its Annual Information Form, dated March 13, 2009, its Management Information Circular, dated May 1, 2009, and the Supplement to the Management Information Circular dated July 10, 2009, all of which are filed electronically at www.sedar.com and the Fund's website www.npifund.com.

Management's Responsibility for Financial Information

A rigorous and comprehensive financial governance framework is in place at the Fund and its subsidiaries. The Fund's 2008 Annual Report contains a statement signed by the Manager's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. The Fund filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators in March 2009 in association with the filing of the 2008 Annual Report and other annual disclosure documents. In those filings, the Manager's CEO and CFO certified, as required in Canada by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in the Fund's annual filings and the effectiveness of the Fund's disclosure controls and procedures. The CEO and CFO have certified the appropriateness of the financial disclosures in the Fund's interim filings for the periods ended June 30, 2009 with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements and that they are responsible for the design of disclosure controls and procedures and internal controls over financial reporting.

There have been no changes in internal controls over financial reporting during the quarter ended June 30, 2009 that have materially affected or are reasonably likely to materially affect the Fund's internal control over financial reporting.

The Fund's audit committee reviewed this MD&A, and the attached unaudited interim consolidated financial statements, and its Board of Trustees approved these documents prior to their release.

Accounting Changes

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3064, "Goodwill and Intangible Assets," replacing Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." New Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. These changes are effective for fiscal years beginning on or after October 1, 2008.

The adoption of this new standard had no impact on the Fund's consolidated financial results.

International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has announced its decision to replace Canadian GAAP with IFRS for all Canadian Publicly Accountable Enterprises. The effective changeover date is January 1, 2011, at which time Canadian GAAP will cease to apply for the Fund and will be replaced by IFRS. Following this timeline, the Fund will be required to prepare its first set of interim financial statements prepared under IFRS effective January 1, 2010.

Based on the work completed to date, management has so far identified the following issues related to the Fund's conversion to IFRS:

Transaction costs

On January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants' ("CICA") handbook section 3855, "Financial Instruments – Recognition and Measurement", which permitted transaction costs on financial assets and financial liabilities classified as other than held-for-trading to be

expensed as incurred. On implementation of handbook section 3855, the Fund chose to expense such costs. Previously, the Fund's transaction costs related to the issuance of the Panda senior loan and the convertible subordinated debentures were deferred and amortized using the straight-line method over the terms of the loans. Unamortized amounts were separately included in deferred charges on the consolidated balance sheet. As a result of implementing this new policy, \$2.7 million of deferred charges were charged to opening retained earnings on January 1, 2007.

Under IFRS, expensing of these transaction costs is not permitted. Therefore, these costs will be reinstated onto the Fund's consolidated balance sheet on January 1, 2010 for the purposes of IFRS reporting. These costs will be included with/netted against the carrying values of the convertible subordinated debentures and the Panda senior loan.

Hedging

In accordance with CICA handbook section 3865, "Hedges", the Fund is currently using hedge accounting for its euro forward contracts hedging its net investment in its German operations. As a result, gains and losses arising from changes in the fair values of the euro forward contracts are recorded in other comprehensive income to the extent that they are determined to be an effective hedge.

There is a difference in the definition of what constitutes the "net investment" in a foreign operation under IFRS compared to Canadian GAAP. As a result, exchange gains and losses on the hedging derivatives as well as those on the long-term inter-entity balances related to the acquisition or financing of the foreign operations not considered part of the net investment under IFRS will both be recognized in net income as opposed to other comprehensive income. The Fund expects to discontinue the use of hedge accounting for its net investment in its German operations upon the adoption of IFRS on January 1, 2010.

Transition to IFRS

Adoption of IFRS requires the application of "First Time Adoption of International Financial Reporting Standards" ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS policies effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 provides for certain mandatory exceptions and limited optional exemptions from this general requirement. The following are the optional exemptions available under IFRS 1 that the Fund may apply in preparing its first financial statements under IFRS.

Business Combinations

IFRS 1 allows for the guidance under IFRS 3R "Business Combinations" to be applied either retrospectively or prospectively. Retrospective application would require the Fund to restate all business combinations occurring before the date of transition to IFRS which is January 1, 2010. Management anticipates adopting IFRS 3R prospectively. Accordingly, all business combinations on or after January 1, 2010 would be accounted for in accordance with IFRS 3R and all previous business combinations would not be restated.

Cumulative Translation Differences

International Accounting Standard 21, "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS allows cumulative translation differences for all foreign operations to be deemed "nil" at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition of IFRS. The Fund's current expectation is to deem all cumulative translation differences to be nil on transition to IFRS.

Future Income Taxes

In addition to the previously identified differences between Canadian GAAP and IFRS, any changes to the Fund's accounting values as a result of the transition to IFRS would likely cause a corresponding tax asset or liability to be established based on the resultant differences between the carried values for accounting purposes and their associated tax bases.

Management, through the IFRS implementation committee, continues to identify and evaluate accounting policies necessary for the Fund to change over to IFRS; additional disclosures on the impact, if any, on the transition to IFRS will be provided.

The International Accounting Standards Board ("IASB") currently has activities underway which may change IFRS and such changes may impact the Fund. Management will assess any such changes as they are announced by the IASB.

Merger of the Fund and Northland Power Inc.

Pursuant to a share purchase agreement dated April 23, 2009 and amended on July 10, 2009, the Fund agreed to merge with NPI by acquiring all of the issued and outstanding shares of NPI from Northland Power Holdings Inc. ("NPHI"). This merger was made indirectly through NPIF Holdings L.P. ("Holdings LP"), a newly formed Ontario limited partnership controlled by the Fund. The merger was paid for largely with securities that are exchangeable into trust units of the Fund on or after January 16, 2012. Until then, these securities will not receive cash distributions.

The merger 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 a supplement to the circular dated July 10, 2009 both of which are posted on SEDAR, at www.sedar.com, and on the Fund's website www.npifund.com. The merger was approved by the requisite majorities of the Fund's Unitholders on July 16, 2009 and closed the same day.

In determining that the merger and related transactions were in the best interests of the Fund and Unitholders, the Independent Trustees considered the following:

- i. *Secures Fund's Future* – After a thorough review of the Fund's operations and its future direction, including an analysis of strategic alternatives, the Independent Trustees determined that combining the operations of the Fund and NPI represented the best means for the Fund to maintain and grow its cash available for distribution to Unitholders.
- ii. *Accretive to Distributable Cash per Fund Unit* - The merger is expected to be accretive to the Fund's cash available for distribution per Unit. The merger has been structured so that NPHI and the NPI LTIP Participants will not be entitled to any cash distributions payable on the securities issued to them until January 2012. It is expected that both the Thorold project and the Jardin d'Éole project would be generating substantial income by that time; EBITDA (earnings before interest, taxes, depreciation and amortization) is expected to increase by an estimated \$86 million to \$90 million.
- iii. *Solidifies Relationship with NPI* – The Fund has sourced all of its power projects through NPI. The merger allows the Fund to continue its close and positive relationship with NPI and its management.
- iv. *Provides Tax Advantages* – As they are developed, the projects acquired through the merger may have available capital cost allowances which can be claimed, as permitted in the Canadian Income Tax Act, to reduce federal and provincial income taxes. The undepreciated capital cost allowance for the Thorold project and the Jardin d'Éole project are expected to be over \$600 million, which will be available to shelter other income of the Fund from income tax after

imposition of the income tax on trusts beginning January 1, 2011. Additional allowances may be available as further projects are developed.

- v. *Maintains Current \$1.08 per Unit Distribution* - The Trustees plan to maintain the Fund as a trust until at least late 2010. The merger will enhance the Fund's ability to maintain the current cash distributions after 2010, whether the Fund remains as a trust or converts into a corporation.
- vi. *Secures Access to Large Pipeline of Development Projects* - NPI had a robust pipeline of near and long-term development projects, totalling, in aggregate, over 3,600 MW of capacity, including 1,230 MW of projects that are pre-qualified for current RFP processes. This portfolio of development projects is now the Fund's and will be the catalyst for the Fund's future growth prospects. The proposed *Green Energy and Green Economy Act, 2009 (Ontario)*, which will promote renewable energy projects, should enhance the value of the many renewable development projects in what is now the Fund's project pipeline.
- vii. *Internalizes Management* - The merger results in the internalization of the Fund's management function, enabling simplification of the existing organizational structure. It also eliminates the external management fees payable and ensures continued access to a dedicated management team with many years of experience in the power development industry.
- viii. *Aligns Interests of Management and Unitholders* - The merger aligns the interests of the senior officers of NPI, who will continue as senior officers of the Fund, with the interests of Unitholders through a significant ownership position (potentially up to 47% of the fund if the exchangeable securities are converted to trust units) and a new long-term incentive plan for Fund management.
- ix. *Diversifies the Fund's Cash Flows* - The merger reduces cash flow concentration risk and increases asset diversification, since cash flows will be derived from a greater number of completed projects. Currently, two of the Fund's facilities each account for over 32% of the Fund's cash flow; completion of the merger now results in no single project representing more than 30% of the Fund's cash flows once NPI's Thorold and Jardin d'Éole projects are completed and commence receiving revenues following attainment of commercial operation.
- x. *Sustains Cash Flows* - The average remaining term of the PPAs relating to NPI's projects is 16.4 years. As a result of the merger, the average life of the Fund's PPAs has increased from 11.4 years to 14.0 years. The increase in the average PPA life increases the stability of the Fund's cash flows.

Changes to the Fund's Governance Structure

In association with the merger, on July 16, 2009 the Unitholders approved changes to the Fund's governance structure whereby the trustees of NPIF Commercial Trust became trustees of the Fund itself replacing Computershare. In addition, provision was made to increase the size of the Board of Trustees from five to up to seven individuals, with six trustees being appointed for the current year. These trustees are James Temerty, The Right Honourable John Turner, Dr. Marie Bountrogianni, Pierre Gloutney, Warren Moysey and David Rounthwaite.

Outlook

The Fund's distributable cash is expected to continue to comfortably exceed cash distributions. However, due to the one-time payments from the Panda-Brandywine-related transactions in 2008, management expects the Fund's 2009 distributable cash to be lower than last year. Kingston LP has locked in a large portion of its gas resales at attractive prices for the balance of 2009 which will help protect margins against the forecasted continuation of low natural gas market prices. The merger with

NPI is expected to add only marginally to the Fund's income from operations until late in 2009 when the Jardin d'Éole wind farm is scheduled to be operational.

Distributable cash is expected to increase significantly in 2010 due to contributions from the Jardin d'Éole wind farm and from the Thorold cogeneration facility, scheduled to be operational in early 2010. Longer term, it is anticipated that selling prices under Iroquois Falls Power Corp.'s PPA, which are indirectly related to the wholesale cost of electricity in Ontario, will be subject to upward pressure due to the entry into commercial operation of new power plants and wind farms contracted by the Ontario Power Authority as well as Ontario Power Generation's success in having its administered rates increased.

Distributions to Unitholders in 2009 are expected to continue at the level of \$1.08 per unit.

(Signed) "John W. Brace"

John W. Brace
President and CEO
August 6, 2009

FORWARD LOOKING STATEMENTS

Certain statements in this quarterly report, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Fund's and its subsidiaries' current expectations. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, priorities, ongoing objectives, strategies and outlook of the Fund's and its subsidiaries' for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Although these forward-looking statements are based upon management's current reasonable expectations and assumptions, they are subject to numerous risks and uncertainties, including those set out in the management's discussion and analysis section of the Fund's 2008 annual report, the Fund's Annual Information Form dated March 13, 2009, the Fund's Management Information Circular dated May 1, 2009, and the Supplement to the Management Information Circular dated July 10, 2009 certain of which are beyond management's control. The Fund's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or what benefits, including the amount of distributions, the Fund and Unitholders will derive therefrom.

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

NORTHLAND POWER INCOME FUND

Consolidated Balance Sheets
(unaudited, stated in thousands)

ASSETS

	Jun. 30, 2009	Dec. 31, 2008
Current		
Cash and cash equivalents	\$ 41,603	\$ 45,512
Cash reserves	4,970	3,727
Accounts and other receivables (Note 4)	18,377	18,186
Inventories	4,274	4,697
Prepaid expenses	1,107	2,119
Current portion of Panda senior loan	3,011	3,509
Total current assets	73,342	77,750
Deferred charges	1,775	1,827
Other assets (Note 9)	1,607	-
Property, plant and equipment (Note 4)	367,016	382,735
Contracts	107,975	114,925
Investment in Panda Energy Corporation	6,050	6,050
Panda senior loan	69,909	74,610
Loan receivable from Thorold LP	20,885	16,510
Future income tax asset	1,103	1,124
	\$ 649,662	\$ 675,531

LIABILITIES AND UNITHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 8,922	\$ 12,683
Current portion of Kingston LP term loans	9,671	9,082
Current portion of Miller LP term loan	1,270	1,276
Distribution payable to Unitholders	5,612	8,106
Total current liabilities	25,475	31,147
Kingston LP term loans	62,577	67,413
Miller LP term loan	35,226	35,857
Other long term liabilities	3,834	3,435
Asset retirement obligation	2,511	2,438
Convertible debentures	29,035	29,035
Future income tax liability (Note 7)	73,465	63,025
Derivative financial instruments	16,735	22,229
	248,858	254,579
Trust Units (Note 6)	670,431	670,431
Accumulated other comprehensive income (Note 3)	793	1,086
Deficit	(270,420)	(250,565)
Total Unitholders' equity	400,804	420,952
	\$ 649,662	\$ 675,531

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

	<i>3 Months Ended Jun. 30</i>		<i>6 Months Ended Jun. 30</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
Sales				
Electricity	\$ 37,294	\$ 33,939	\$ 80,655	\$ 77,371
Steam	1,861	1,948	4,649	4,495
Natural gas	5,531	9,083	12,179	15,339
Emission allowances	-	-	80	116
Total sales	44,686	44,970	97,563	97,321
Cost of sales	20,408	20,138	41,118	40,134
Gross profit	24,278	24,832	56,445	57,187
Expenses				
Plant operating costs	3,995	3,582	7,924	7,339
Amortization of property, plant and equipment	6,850	7,009	13,730	13,984
Write down of property, plant and equipment (Note 4)	-	-	1,512	-
Management and administration costs	1,800	1,383	3,161	2,385
Accretion expense	39	36	78	73
	12,684	12,010	26,405	23,781
Investment income	2,851	2,457	5,962	4,577
Income from operations	14,445	15,279	36,002	37,983
Foreign exchange	4,624	409	2,839	(1,283)
Amortization of deferred charges	26	26	52	52
Amortization of contracts	3,475	3,476	6,950	6,951
Change in fair value of interest rate swaps	(3,203)	(1,739)	(3,991)	292
Interest income	(23)	(295)	(117)	(637)
Interest expense and bank fees	4,026	3,188	7,106	6,540
Income before income taxes	5,520	10,214	23,163	26,068
Provision for (recovery of) income taxes (Note 7)				
Current	(562)	(391)	(1,127)	(874)
Future	9,179	(635)	10,474	(20)
	8,617	(1,026)	9,347	(894)
Net income (loss) for the period	\$ (3,097)	\$ 11,240	13,816	26,962
Deficit, beginning of period	(250,487)	(246,400)	(250,565)	(245,287)
Distributions declared to Unitholders	(16,836)	(16,835)	(33,671)	(33,670)
Deficit, end of period	\$ (270,420)	\$ (251,995)	\$ (270,420)	\$ (251,995)
Average number of units outstanding - basic	<i>62,353</i>	<i>62,353</i>	<i>62,353</i>	<i>62,353</i>
Average number of units outstanding - diluted	<i>62,353</i>	<i>62,353</i>	<i>62,353</i>	<i>64,916</i>
Net income (loss) per trust unit- basic	\$ (0.0497)	\$ 0.1803	\$ 0.2216	\$ 0.4324
Net income per trust unit - diluted	\$ (0.0497)	\$ 0.1803	\$ 0.2216	\$ 0.4306

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

	<i>3 Months Ended Jun. 30</i>		<i>6 Months Ended Jun. 30</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
Net income (loss) for the period	\$ (3,097)	\$ 11,240	\$ 13,816	\$ 26,962
Other comprehensive income(loss):				
Change in translation of net investment in foreign operations	(268)	(310)	(515)	1,903
Change in fair value of hedged foreign currency forward contracts	492	700	209	(1,179)
Income tax affect of above	(47)	(145)	13	287
<hr/> Total other comprehensive income (loss)	<hr/> 177	<hr/> 245	<hr/> (293)	<hr/> 1,011
Total comprehensive income (loss)	\$ (2,920)	11,485	\$ 13,523	\$ 27,973

NORTHLAND POWER INCOME FUND

Consolidated Statements of Cash Flows

(unaudited, stated in thousands except per unit amounts)

	3 Months Ended Jun. 30		6 Months Ended Jun. 30	
	2009	2008	2009	2008
Operating activities				
Net income (loss) for the period	\$ (3,097)	\$ 11,240	\$ 13,816	\$ 26,962
Items not involving cash:				
Amortization of property, plant and equipment	6,850	7,009	13,730	13,984
Amortization of contracts	3,475	3,476	6,950	6,951
Write down of property, plant and equipment (Note 4)	-	-	1,512	-
Change in fair value of interest rate swaps	(3,203)	(1,739)	(3,991)	292
Foreign exchange	4,624	409	2,839	(1,283)
Accretion expense	39	36	78	73
Other long term liabilities	301	194	541	402
Future income taxes (Note 7)	9,179	(635)	10,474	(20)
Other	(842)	(328)	(1,578)	(480)
	17,326	19,662	44,371	46,881
Net change in non-cash working capital balances related to operations	1,723	15,340	(2,668)	9,779
Cash provided by operating activities	19,049	35,002	41,703	56,660
Investing activities				
Cash reserves funding	(595)	(564)	(1,243)	(589)
Loan to Thorold LP	(1,314)	(3,021)	(3,145)	(5,653)
Receipts of principal on Panda senior loan	836	755	1,591	1,448
Other assets (Note 9)	(698)	-	(1,497)	-
Purchase of property, plant and equipment	(114)	(26)	(163)	(46)
Cash used in investing activities	(1,885)	(2,856)	(4,457)	(4,840)
Financing activities				
Repayment of Miller LP term loan	(318)	(277)	(637)	(554)
Repayment of Kingston LP term loans	-	-	(4,247)	(4,293)
Distributions to Unitholders	(16,836)	(16,835)	(36,165)	(33,670)
Cash used in financing activities	(17,154)	(17,112)	(41,049)	(38,517)
Effect of exchange rate differences on cash and cash equivalents	(95)	(59)	(106)	257
Net change in cash and cash equivalents	(85)	14,975	(3,909)	13,560
Cash and cash equivalents, beginning of the period	41,688	26,896	45,512	28,311
Cash and cash equivalents, end of period	\$ 41,603	\$ 41,871	\$ 41,603	\$ 41,871
PER UNIT				
Distributions declared to Unitholders	\$ 0.2700	\$ 0.2700	\$ 0.5400	\$ 0.5400

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

1. Accounting Policies

These consolidated financial statements include the accounts of the Fund and all its subsidiaries. All inter-company transactions have been eliminated.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim financial reporting and thus do not contain all of the disclosures required by GAAP applicable to annual financial statements. As a result, these interim consolidated financial statements should be read in conjunction with the Fund's annual consolidated financial statements included in the 2008 Annual Report. These unaudited interim consolidated financial statements follow the same accounting principles and methods of application as the annual consolidated financial statements as at December 31, 2008.

2. Adoption of New Accounting Standards

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3064, "Goodwill and Intangible Assets," replacing Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." New Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. These changes are effective for fiscal years beginning on or after October 1, 2008.

The adoption of this new standard had no impact on the Fund's consolidated financial results.

3. Continuity of Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following:

<i>(stated in thousands of dollars)</i>	3 months ended June 30		6 months ended June 30	
	2009	2008	2009	2008
<i>Accumulated Other Comprehensive Income-net change in translation of net investment in self sustaining foreign operations:</i>				
Balance beginning of period	2,651	2,303	2,898	90
Realization of loss on reduction in net investment	(112)	(86)	(112)	(86)
Unrealized gain (loss) on translation of net investment	(156)	(224)	(403)	1,989
Balance end of period	2,383	1,993	2,383	1,993
<i>Accumulated Other Comprehensive Income-net change in fair value of foreign currency forward contracts hedging net investment of foreign operations:</i>				
Balance beginning of period	(2,035)	(1,386)	(1,812)	61
Realization of gain on reduction in net investment	88	52	88	52
Change in fair value	404	648	121	(1,231)
Income taxes	(47)	(145)	13	287
Balance end of period	(1,590)	(831)	(1,590)	(831)
<i>Total accumulated other comprehensive income</i>	793	1,162	793	1,162

4. Steam Off-takers

Kingston CoGen LP (“Kingston LP”) has been providing steam to an adjacent facility owned by INVISTA (Canada) Company (“INVISTA”) under an energy services agreement that expires in 2017. Kingston LP also has long-term contracts with INVISTA until 2018 for INVISTA to supply Kingston LP with water from Lake Ontario through its pumphouse and for INVISTA to treat and dispose of Kingston LP’s process waste water and sanitary waste water.

On April 9, 2009, INVISTA provided official notification to Kingston LP that it would be permanently closing its Millhaven facility. INVISTA’s notice provided for the continuation of services for a period of six months. As a result of receiving this notification, the Fund has recorded a \$1.5 million write down of its property, plant and equipment related to the assets associated with the transportation of steam and condensate to and from INVISTA.

On April 16th and 17th, the parent of the Iroquois Falls facility’s steam host, AbitibiBowater (“AbitibiBowater”) and its subsidiaries filed for court protection in the United States and Canada, respectively, to implement restructuring for the long term and to allow AbitibiBowater to continue normal business operations. AbitibiBowater continues to take steam from the Fund’s Iroquois Falls facility. The Fund has approximately \$1.1 million of receivables owing from AbitibiBowater that are subject to the Companies' Creditors Arrangement Act proceedings. At this time, all subsequent receivables have been collected. Management and the Fund’s legal counsel will continue to monitor the situation and the collectability of the amounts owing; at this time the management does not believe an allowance is required.

5. Bank Credit Facility

The Fund and its subsidiary, Iroquois Falls Power Corp., have a credit facility with a syndicate of banks with the Canadian Imperial Bank of Commerce as agent that establishes a \$95.0 million credit with sub-limits to assist in the funding of expansionary capital expenditures, acquisitions and investments by the Fund; letters of credit; and Iroquois Falls Power Corp.’s general corporate purposes. On May 13, 2009 the Fund and Iroquois Falls Power Corp. renewed their credit facility to May 20, 2011.

As at June 30, 2009, the variable interest per annum under each of the components of the credit facility is charged at 4.0%, 2.5% or 4.4% depending on the underlying reference rate. Standby fees of 0.6% per annum are charged on each of the undrawn credit facilities.

Amounts drawn under the credit facility are principally collateralized by a debenture security and by general security agreements that constitute a first-priority lien on all of the real property and all of the present and future property assets of Iroquois Falls Power Corp. and the Fund.

6. Trust Units and Convertible Unsecured Subordinated Debentures

Since January 1, 2009, no convertible unsecured debentures have been converted into Fund Trust Units.

Due to the conversion of the convertible unsecured debentures being anti-dilutive for both 2009 and 2008, they have been excluded from the calculation of the weighted average number of units outstanding, diluted for the three months ending June 30, 2009 and 2008.

The dilutive effect of the convertible unsecured debentures for the six months ending June 30th is as follows:

	2009	2008
Weighted average number of units outstanding, basic	62,353,143	62,352,423
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	-	2,563,146
Weighted average number of units outstanding, diluted	62,353,143	64,915,569

The conversion of the convertible unsecured debentures is anti-dilutive for the six months ending June 30, 2009 and has therefore been excluded from the calculation of the weighted average number of units.

7. Income and Other Taxes

The Fund had been in discussions with the federal Department of Finance (“DoF”) and the Canada Revenue Agency (CRA) concerning the application of the specified energy property rules in the Canadian 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 quarter, 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.

8. Segmented Information

As at June 30, 2009, the Fund indirectly owned two cogeneration facilities located in Ontario, a wind farm in Quebec and two wind farms in Germany. It also has a 19% equity interest in PEC and a senior loan to a PEC subsidiary, which along with loan and loan commitments to Thorold CoGen LP (“Thorold LP”) and Saint-Ulric Saint-Léandre Wind L.P. (“Jardin LP”), respectively, are included with the Fund’s corporate operating income for reporting purposes. These assets represent the Fund’s reportable segments at June 30, 2009.

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

(stated in thousands of dollars)

For the 3 months ended, June 30, 2009:	Iroquois		Mont			Total
	Falls	Kingston	Miller	Germany	Corporate	
Sales	17,056	24,531	2,211	888	-	44,686
Amortization	2,225	2,853	1,051	721	-	6,850
Operating income	4,390	7,853	580	(240)	1,862	14,445
Interest expense, net	27	1,816	596	6	1,558	4,003
June 30, 2008:						
Sales	18,626	23,906	1,730	708	-	44,970
Amortization	2,230	3,012	1,052	715	-	7,009
Operating income	4,946	8,850	121	(422)	1,784	15,279
Interest expense, net	(84)	1,894	606	(10)	487	2,893

(stated in thousands of dollars)

For the 6 months ended, June 30, 2009:	Iroquois		Mont			Total
	Falls	Kingston	Miller	Germany	Corporate	
Sales	40,722	49,443	5,205	2,193	-	97,563
Amortization	4,451	5,719	2,103	1,457	-	13,730
Operating income	13,694	16,100	1,890	(29)	4,347	36,002
Interest expense, net	(19)	3,691	1,190	1	2,126	6,989
June 30, 2008:						
Sales	42,260	47,575	4,693	2,793	-	97,321
Amortization	4,460	6,023	2,103	1,398	-	13,984
Operating income	14,748	17,750	1,387	616	3,482	37,983
Interest expense, net	(209)	3,878	1,224	(21)	1,031	5,903

The Class A Exchangeable Units are exchangeable on a one-for-one basis into Fund Units on or after January 16, 2012. The Replacement Rights represent a right to receive on or after January 16, 2012 Fund Units on a one-for-one basis. Prior to January 2012, none of these securities are eligible to receive any distributions.

The Fund has incurred \$1.6 million in costs related to this acquisition, which have been included in the Fund's consolidated balance sheet as "Other assets".

NORTHLAND POWER INCOME FUND

TRUSTEES

Mr. James C. Temerty
The Right Honourable John N. Turner
Dr. Marie Bountrogianni
Mr. Pierre Gloutney
Mr. A. Warren Moysey
Mr. F. David Rounthwaite

REGISTRAR AND TRANSFER AGENT

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Attention: Equity Services

TRUST UNITS AND DEBENTURES

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

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