

# Quarterly Report

## Northland Power Income Fund

Quarterly Report for the period ended March 31, 2010

### FINANCIAL AND OPERATING RESULTS

*This report covers  
the operations of the  
Northland Power Income Fund  
("Northland" or the "Fund")  
for the quarter ended  
March 31, 2010*

	<i>3 months to March 31</i>	
	<i>2010</i>	<i>2009</i>
<b>FINANCIAL</b> (thousands, except per unit amounts)		
Sales	\$63,045	\$52,877
Income from Operations	\$20,809	\$21,557
Net Income	\$9,936	\$16,913
Standardized Distributable Cash	(\$5,171)	\$22,605
Distributable Cash	\$18,416	\$22,515
Distributions Declared to Unitholders	\$19,272	\$16,835
<b>Per Unit</b>		
Standardized Distributable Cash	(\$0.0725)	\$0.3625
Distributable Cash	\$0.2580	\$0.3611
Distributions Declared to Unitholders	\$0.2700	\$0.2700
<b>OPERATIONS</b>		
<i>Electricity Production (megawatthours)</i>	497,229	371,628
<i>Steam Production (thousands of pounds)</i>	286,387	367,289
<i>Fuel Consumption (thousands of gigajoules)</i>	3,314	2,926



## MANAGEMENT'S DISCUSSION & ANALYSIS

### FIRST QUARTER OVERVIEW

Consolidated sales for Northland Power Income Fund (“**Northland**” or “**the Fund**”) for the three months ending March 31, 2010 exceeded the first quarter of 2009 due to higher electricity sales at Northland’s gas-fired cogeneration facilities and revenue from the Jardin d’Éole wind farm.

Net income was down from the same quarter last year, largely due to four factors:

- unusually light winds and unprecedented icing conditions at the wind farms and lower natural gas sales commensurate with weak prices for natural gas (approximate impact \$1.5 million),
- higher costs and lower reported investment income as a result of the merger with Northland Power Inc. (“**NPI**”) on July 16, 2009, including (i) higher management and administration and project development costs and (ii) the exclusion of interest and fees on the loans and loan commitments to Thorold CoGen L.P. (“**Thorold LP**”) and Saint-Ulric Saint-Léandre Wind LP (“**Jardin LP**”) (approximate impact \$3.5 million),
- higher non-cash expenditures including foreign exchange losses and contract amortization partially offset by the recovery of future income taxes (approximate impact \$1.0 million), and
- Interest (\$1.4 million) on the convertible debentures issued in late 2009.

### Operations

All Northland facilities operated well during the quarter. However, light winds and icing in both Canada and Europe adversely affected wind farm output and revenues.

### Distributions

Distributable cash was \$18.4 million for the quarter, \$4.1 million lower than the same period in 2009. The reduction was largely due to lower income from operations and increased interest costs associated with the new convertible subordinated debentures as well as interest and the first scheduled loan repayment on the Jardin d’Éole project debt.

Cash distributions to Unitholders declared for the quarter totalled \$0.27 per trust unit (“**Unit**”), representing a payout ratio of 105% of distributable cash. The payout ratio was adversely affected by the reduced level of distributable cash and the increase in cash distributions as a result of Units issued in 2009.

To protect itself from financing risk, Northland generally ensures that it has both equity and debt funding committed at the construction start of any new project. This risk management practice worsens our payout ratio during construction. Interest on subordinated convertible debentures and cash distributions on Units issued to fund Northland’s equity contribution to a new project cannot be accounted for in the project’s capital cost and therefore adversely affect the Fund’s payout ratio prior to the project coming into operation.

For these reasons Northland’s payout ratio may exceed 100% (i.e., cash distributions exceed distributable cash) in 2010 and for some future years. This high ratio is directly due to our success in developing new projects, such as Spy Hill and North Battleford.

### Significant Events

**Jardin d’Éole wind farm:** In association with the acquisition of NPI, Northland acquired a 33.5% non-controlling interest in Jardin LP. The remaining 66.5% ownership of Jardin LP was held by two companies (the “**Jardin Vendors**”) that are indirectly owned by the Chair of the Board of Trustees of Northland. On January 29, 2010, Northland acquired the remaining 66.5% ownership interest in Jardin LP from the Jardin Vendors for \$21.5 million.

**SaskPower PPA:** In February, Northland entered into a 20-year power purchase agreement (“PPA”) with the Saskatchewan Power Corporation (“SaskPower”) to build and own a new natural-gas-fired combined-cycle power plant. The 261 megawatt (“MW”) baseload facility will be built near North Battleford, Saskatchewan, about 150 km north-west of Saskatoon. All power produced will be sold to SaskPower under the PPA. The plant will use a General Electric gas turbine with associated heat recovery and a steam turbine. Construction is expected to begin in July 2010 with a scheduled commercial start in 2013. Project cost is budgeted at about \$700 million.

**Loblaw Solar:** In March, Loblaw Companies Limited (“Loblaw”) announced it will work with Northland to install photovoltaic solar panels on the roofs of four stores in Ajax, Orleans, Toronto and Whitby as part of a pilot project. The power will be sold to the Ontario Power Authority (“OPA”) under PPAs issued under the Ontario government’s *Green Energy and Green Economy Act, 2009* Feed-in-Tariff (“FIT”) program. Based on the success of the pilot project, Loblaw will evaluate the next phase of its planned roll-out of roof-top solar panels.

### **Subsequent Events**

**Thorold Commercial Start:** On April 1, Northland assumed operational control of its wholly-owned Thorold cogeneration facility from the engineering, procurement and construction contractor. This followed completion of all tests required to achieve commercial operations under its PPA with the OPA.

**FIT Awards:** On April 8, Northland announced that it had been awarded contracts by the OPA to build 216 MW of renewable green energy projects in Ontario. The total investment by Northland in the FIT program projects is expected to reach almost \$1 billion over the next four years.

**Spy Hill Financial Close:** On April 29, Northland announced that it had completed the financing for its wholly-owned 86 MW Spy Hill natural gas-fired peaking facility in Saskatchewan. A consortium of the Canadian Imperial Bank of Commerce, the Bank of Montreal, and the Bank of Nova Scotia has committed to provide construction and term financing of \$111 million.

### **Corporate Conversion**

Northland's annual meeting will be held on June 21, 2010 at 11:00 a.m. At the meeting, Unitholders will be asked to approve the proposed conversion of the Fund from an income trust to a corporation to be called Northland Power Inc. pursuant to a plan of arrangement. The independent Trustees of the Fund have approved the terms of the proposed corporate conversion. The corporate conversion is subject to Unitholder approval, the approval of the Ontario Superior Court of Justice and other third party and regulatory approvals. If all necessary approvals are obtained, the corporate conversion is intended to take effect on January 1, 2011.

Details of the proposed conversion will be set out in the management information circular for the Fund's annual meeting which is expected to be mailed in the last week of May.

### **Summary**

Northland management views first quarter operating results in the light of decisions made to secure the company’s future and pursue its strategic goals. The acquisition of NPI in 2009 had an immediate impact on costs while providing revenues over time. The Jardin d’Éole wind farm contributed to first quarter sales, and the Thorold facility began commercial operations immediately after quarter end and will start contributing to financial results in the second quarter.

The project pipeline acquired with NPI is proving its value; for example, the Saskatchewan Spy Hill and North Battleford thermal projects and the 216 MW in FIT projects awarded were all in NPI’s project pipeline.

Northland continues to pursue a disciplined approach to managing both operations and risk. The 265 MW Thorold cogeneration facility began commercial operations below budget and slightly ahead of schedule. Financing for the Spy Hill project was obtained with attractive terms on a non-recourse basis.

Management expects that the corporation resulting from the conversion will be able to maintain the current rate of distributions by paying a dividend of \$1.08 per annum, payable monthly, due to the increased cash flow and tax deferral from the additions of Thorold and Jardin d'Éole to the Fund, and the expected input of the two new Saskatchewan plants coming on stream. Collectively all four projects are expected to provide \$1.5 billion in capital cost allowance pools.

Management continues to be committed to a payout ratio below 100%. Northland is careful in calculating its project profitability threshold to recognize the impact of new construction on our payout ratio and to ensure that the Fund's distributable cash over time will exceed its distributions.

### **THERMAL FACILITIES**

Following is a discussion of the results of operations of Northland's Iroquois Falls and Kingston thermal facilities for the quarter ended March 31, 2010. The Thorold facility's results will be included in the thermal segment starting in the second quarter of 2010.

#### **Iroquois Falls Facility**

	<b>3 months ended Mar. 31</b>	
<i>(in thousands of dollars except as indicated)</i>	<b>2010</b>	<b>2009</b>
<b>Sales Volume</b>		
Electricity (MWh)	207,453	204,205
Steam (000 lb.)	286,387	305,840
Fuel Consumption (000 GJs)	1,898	1,875
<b>Sales</b>		
Electricity	22,932	21,193
Steam	2,356	2,258
Natural gas	1,848	135
Emission allowances and credits	170	80
	<b>27,306</b>	<b>23,666</b>
<b>Cost of sales</b>		
Gas consumed	10,600	9,951
Gas re-sold	1,833	123
	<b>12,433</b>	<b>10,074</b>
<b>Gross profit</b>	<b>14,873</b>	<b>13,592</b>
<b>Plant operating costs</b>	<b>1,790</b>	<b>1,791</b>
<b>Capital expenditures</b>	<b>37</b>	<b>28</b>

For the first quarter of 2010, electricity sales volume was up compared to the same quarter of last year as the purchase of affordable market gas allowed for the production of additional quantities of electricity for sale under the PPA during off-peak periods. Increased production combined with a higher average selling price and a retroactive revenue adjustment of \$0.2 million related to the 2009 direct customer rate calculation resulted in a \$1.7 million increase in electricity revenue. Most of the PPA rate components increased by 4.7% compared to the rates in the first quarter of 2009. Steam revenues were up from the same period last year due to a higher average selling price, which is tied to the delivered cost of contract natural gas, partially offset by five weeks of downtime at the AbitibiBowater newsprint mill. Sales of

natural gas were up \$1.7 million as excess capacity under the plant's gas transportation agreement was mitigated through the purchase and resale of natural gas.

Natural gas consumption was up this quarter compared to the same period last year, although proportionately less than the increase in electricity production due to the lower volume of steam sales. The cost of natural gas consumed during the quarter increased largely due to a 43% increase in TransCanada PipeLines Limited ("TCPL") transportation tolls. The cost of natural gas resold was up from last year commensurate with higher natural gas resale volumes. Since the merger with NPI, incentive fees are no longer an expense item included in the cost of sales at Iroquois Falls, reducing expenditures this quarter by \$0.1 million. Plant operating costs were consistent with the previous year.

### Kingston Facility

<i>(in thousands of dollars except as indicated)</i>	<b>3 months ended Mar. 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Sales Volume</b>		
Electricity (MWh)	170,907	111,483
Steam (000 lb.)	-	61,449
Fuel consumption (000 GJs)	1,416	1,051
<b>Sales</b>		
Electricity	21,816	17,869
Steam	-	530
Natural gas	4,410	6,513
	<b>26,226</b>	<b>24,912</b>
<b>Cost of sales</b>		
Gas consumed	10,139	7,915
Gas re-sold	2,439	2,721
	<b>12,578</b>	<b>10,636</b>
<b>Gross profit</b>	<b>13,648</b>	<b>14,276</b>
<b>Plant operating costs</b>	<b>1,423</b>	<b>1,406</b>
<b>Capital expenditures</b>	<b>-</b>	<b>20</b>

Electricity sales revenue at the Kingston facility was up 22% in the first quarter of 2010 compared to the same period last year. Approximately 60% of this increase was due to more off-peak electricity production in 2010 as low market gas prices made it economically advantageous to produce electricity during night-time off-peak periods rather than curtailing production in favour of re-selling contracted natural gas. The remainder of the increase was attributable to the escalation of on-peak PPA rates resulting primarily from the pass through of increased TCPL tolls. Natural gas resale volumes and sales were lower than 2009, as a result of the reduced nightly off-peak curtailments and a 14% lower average net selling price. No steam revenue was recorded during the quarter due to the indefinite closure of the facility's thermal host. The Kingston facility commenced a scheduled 5-day maintenance outage near the end of March. However, this outage had little impact on electricity revenues as Kingston achieved 100% of its on-peak targets in both March and April. There were no maintenance outages in the first quarter of 2009.

The cost of natural gas consumed was higher in the first quarter of 2010 compared to the same quarter last year. The 35% increase in the volume of gas consumed was significantly lower than the 53% increase in electricity production due to cessation of steam production. Scheduled price increases under

the gas supply contract and higher TCPL tolls increased the unit price of gas. The cost of gas resold was 10% lower due to reduced resale volumes. Plant operating costs were relatively consistent from year to year.

## WIND FACILITIES

Following is a discussion of the results of operations of Northland's wind facilities for the quarter ended March 31, 2010.

### Mont Miller Wind Farm

<i>(in thousands of dollars except as indicated)</i>	<b>3 months ended Mar. 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Sales Volume</b>		
Electricity (MWh)	27,608	47,117
<b>Sales</b>		
Electricity	1,778	2,994
Gross profit	1,778	2,994
Plant operating costs	556	505
Capital expenditures	-	1

Mont Miller's electricity production during the first quarter of 2010 was lower than the prior year and long term estimates due to unprecedented severe icing conditions in January and February and generally lighter winds. The capacity factor was 24%.

The turbines performed well and achieved overall equipment reliability of 97% during the quarter. Vestas replaced a gearbox in late January, with all related costs covered under the Vestas warranty, maintenance and service agreement.

### German Wind Farms

<i>(in thousands of dollars except as indicated)</i>	<b>3 months ended Mar. 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Sales Volume</b>		
Electricity (MWh)	8,513	8,823
<b>Sales</b>		
Electricity	1,117	1,305
Gross profit	1,117	1,305
Plant operating costs	251	227
Capital expenditures	-	-

Electricity production during the first quarter of 2010 fell short of long-term expectations due to icing conditions and light wind at Eckolstädt in January. Electricity sales were also negatively affected by the strengthening of the Canadian dollar versus the euro (approximately 11%), however Northland has entered into forward foreign exchange contracts until 2014 that protect the cash flow related to its

German operations.

The wind farms achieved a capacity factor of 18%. The turbines performed well during the quarter, with minimal downtime in late March to replace a failed generator at Eckolstädt. Combined turbine reliability met the long-term forecast of 97%.

### **Jardin d'Éole Wind Farm**

	<b>3 months ended Mar. 31</b>	
<i>(in thousands of dollars except as indicated)</i>	<b>2010</b>	<b>2009</b>
<b>Sales Volume</b>		
Electricity (MWh)	82,748	-
<b>Sales</b>		
Electricity	5,586	-
Gross profit	5,586	-
Plant operating costs	837	-
Capital expenditures	-	-

Jardin d'Éole's electricity production during the first quarter of 2010 fell short of the long term forecast due to light winds in January and February. The capacity factor was 31%.

The turbines performed very well and achieved overall equipment reliability of 99% during the quarter. Jardin LP has a two-year operations and maintenance agreement with General Electric (the turbine manufacturer) to provide turbine maintenance and equipment replacements for a fixed quarterly fee.

Plant operating costs were \$0.6 million lower than expected during the quarter due to a reduction in the quarterly operations and maintenance fee until General Electric completes a software upgrade on the turbine controllers. The upgrade is required on all General Electric turbines installed in the Gaspésie region to assist Hydro-Québec in maintaining local grid stability.

Management continues to work with Jardin LP's balance-of-plant contractor, Borea Construction ULC, and Hydro-Québec to obtain certain approvals related to the facility's substation that are delaying reimbursement of \$40.7 million of project construction costs from Hydro-Québec. Management expects to receive the cost reimbursement by year end at which time the funds will be applied to repay a temporary bridge loan.

**MANAGEMENT AND ADMINISTRATION, DEVELOPMENT AND OTHER SERVICES**

	<b>3 months ended Mar. 31</b>	
<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
Sales, other	1,032	-
Cost of sales, other	203	-
Gross profit	829	-
Management and administration :		
-Operations	2,620	1,361
-Development	1,560	-
Total management and administration	4,180	1,361
<b>Panda Energy Corporation ("PEC"):</b>		
Dividends	158	216
Interest income	1,767	2,159
	1,925	2,375
<b>Thorold LP interest and fees</b>	-	562
<b>Jardin LP interest and fees</b>	-	174
Total investment income	1,925	3,111

“Sales, other,” represents revenue earned from NPI’s wood chipping facility combined with fees earned from management and engineering services provided to Cochrane Power Corporation and Kirkland Lake Power Corp. which NPI manages on behalf of third party investors. Cost of sales represents wood waste costs and whole logs processed at the chipping facility that are turned into saleable wood chips and hog fuel for use in the production of pulp and paper.

Management and administration costs are \$2.8 million higher than the same quarter last year due to management and development costs incurred at NPI, which are high due to the current high level of development activity, additional consulting costs related to International Financial Reporting Standards transitional procedures and higher legal and accounting fees. Management and administration costs consist of salaries, consulting, legal and accounting fees, rent and associated office and travel costs.

Northland expenses management and administration costs related to development that cannot be directly attributable to a specific project, including costs related to determining the feasibility of prospective development projects. Northland defers pre-construction costs directly related to a new project once management determines that it intends to pursue that project through to completion. Should management determine that development of a particular project will be discontinued or where success is not highly likely, the deferred costs are expensed in the period the determination is made.

Income of \$1.9 million was generated this quarter from Northland’s investment in PEC which was down \$0.5 million from the same period last year, through a combination of lower dividends (US\$152,000; 2009-US\$173,000) and interest payments (US\$1,669,000; 2009 - US\$1,756,000) and a less favourable exchange rate. To protect the cash flow of the Fund, Northland has entered into foreign exchange forward contracts in respect of a portion of the interest and principal payments to be received on the Panda senior loan from 2010 to 2012.

Financial and operating results at the Panda-Brandywine facility for the quarter were lower than last year. During the quarter, the Panda-Brandywine facility produced 89,000 MWh of electricity, approximately 136,000 MWh less than last year as sustained cold weather during the first quarter of 2009 resulted in high demand and electricity prices.

As a result of the merger with NPI, Northland is no longer recognizing interest and fees on the loans and

loan commitments to Thorold LP and Jardin LP in the consolidated financial statements. This has no impact on Northland's distributable cash as fees and interest earned from Thorold LP and Jardin LP were excluded from distributable cash through the construction period.

## **Consolidated Results**

The following discussion of the consolidated financial condition and results of operations of Northland should be read in conjunction with the unaudited interim consolidated financial statements for the period ended March 31, 2010 and Northland's 2009 Annual Report.

### **First Quarter**

Sales in the first quarter of 2010 were up by \$10.2 million for the reasons discussed under the segment disclosure, and include additional sales revenue from the Jardin d'Éole wind farm and NPI's management services and the chipping facility. The cost of sales was up \$4.5 million as previously described. Total plant operating costs were \$1.2 million higher than the same period last year and include plant operating costs from the Jardin d'Éole wind farm and the chipping facility. Management and administration expenditures related to operations were up \$1.3 million compared to the first quarter of 2009 largely due to the inclusion of general and administration costs from Jardin LP and NPI including increased accounting and consulting fees. As discussed previously, management and administration expenditures for development totaled \$1.6 million and represent costs associated with project development including the costs of determining the feasibility of prospective projects. Amortization of property, plant and equipment was \$2.7 million higher than 2009 largely due to the inclusion of the acquired entities. The 2009 results included a \$1.5 million write down of capital assets associated with Kingston CoGen Limited Partnership's ("Kingston LP's") receipt of notification from INVISTA, its steam host, that it would be ceasing operation.

As discussed previously, investment income of \$1.9 million was \$1.2 million lower than in the first quarter of 2009. During the quarter, Northland recorded the following non-cash adjustments: (i) a \$0.2 million gain on the change in fair value of Kingston LP's and Thorold LP's interest rate swaps, (ii) a \$0.6 million foreign exchange loss on Northland's U.S. dollar and euro foreign exchange contracts not designated as part of a hedging relationship, and a foreign exchange loss of \$2.2 million on the translation of the PEC senior loan balance to the quarter-end Canadian dollar/U.S. dollar exchange rate. The non-cash foreign exchange losses mentioned above were due to the continued strengthening of the Canadian dollar during the quarter. Amortization of deferred charges was in line with the prior year, while amortization of contracts increased during the quarter as a result of the contracts acquired in the merger with NPI. Interest expense and bank fees increased by \$3.9 million due to interest on the convertible debentures issued in October 2009 and Jardin LP's construction and term loan.

The factors described above and the recovery of \$2.6 million of current and future taxes resulted in net income of \$9.6 million.

### **Liquidity and Capital Resources**

Cash and cash equivalents of \$89.0 million at March 31, 2010 decreased by \$27.8 million from December 31, 2009 as the \$28.9 million of cash generated from operations and \$13.6 million from financing activities were more than offset by \$70.2 million of investing activities.

Of the \$28.9 million cash provided by operating activities for the three-month period ended March 31, 2010, \$24.6 million related to operations and \$4.2 million represented changes in working capital primarily associated with the timing of payables. Cash used for investing activities included \$34.0 million for the purchase of property, plant and equipment, representing the construction costs for the Thorold project and initial payments to General Electric for the Spy Hill and North Battleford projects, \$3.3 million of deferred development costs, \$14.4 million of cash reserve funding and \$21.5 million to purchase the non-controlling interest in Jardin LP. The majority of the cash reserve balance relates to

Jardin LP and will be largely used to settle its construction payables. Partially offsetting these uses of cash was a \$2.5 million change in working capital related to activity at the Thorold, Spy Hill and North Battleford projects and Jardin wind farm and the receipt of a \$0.6 million principal repayment on the PEC senior loan.

Cash of \$13.6 million was provided by financing activities representing \$39.1 million drawn under the Thorold LP and Jardin LP construction and term loan facilities less distributions to Unitholders of \$19.3 million and long-term debt repayments of \$6.2 million.

Accounts receivable decreased \$1.8 million from year end, mainly due to the collection of input tax credits owing from the federal and provincial governments as a result of the construction activity at Thorold LP and Jardin LP. Accounts payable and accrued liabilities increased by \$5.0 million from December 2009, largely due to timing and amounts owing to General Electric related to the North Battleford project.

Goodwill and future income tax liabilities both increased from December 2009, as a result of the acquisition of the non-controlling interests' ownership of Jardin LP (due to timing differences between the non-controlling interests' accounting and tax values, Northland recorded an additional \$6.6 million of goodwill and \$6.8 million of future income tax liabilities as part of the acquisition).

As of March 31, 2010, Northland and its subsidiaries had \$67.1 million of letters of credit as follows:

<b>Credit Facility</b>	<b>Purpose</b>	<b>Amount (\$ millions)</b>
<b>CORPORATE</b>	operations	8.3
	advanced development	17.7
		26.0
<b>PROJECT ENTITY</b>		
<b>Kingston LP</b>	operations	9.2
<b>Jardin LP</b>	construction	7.2
<b>Thorold LP</b>	construction	23.6
<b>Cash collateralized</b>	development	1.1
		41.1
<b>Total</b>		67.1

On April 29, 2010, Northland announced that it had achieved financial close for its wholly-owned 86 MW Spy Hill peaking plant in Saskatchewan. Under the terms of the financing, a consortium consisting of the Canadian Imperial Bank of Commerce, the Bank of Montreal, and the Bank of Nova Scotia has committed to provide construction and term financing of \$111 million and a \$15 million letter of credit facility. The loan will be funded during construction under a variable advance schedule and bears interest, paid monthly at 7.6%. To minimize its exposure to interest rate risk, Northland also entered into an interest rate swap agreement to effectively fix the variable interest rate of the non-recourse debt (which is based primarily on 90-day bankers acceptance rates) at 4.84% plus the credit spread, with a term from June 30, 2010 to September 30, 2036 to cover both loan advances during construction and debt repayments during the commercial operations period. The notional amount of the outstanding interest rate swap is \$111 million. Once term conversion is achieved subsequent to the commencement of commercial operations, the loan requires blended payments of principal and interest over a 25-year year amortization period, with maturity five years from term conversion. The equity for the \$141 million facility has been provided by Northland.

## Cash 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 Northland:

<i>(unaudited, stated in thousands except per unit amounts)</i>	<b>3 Months ended Mar. 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash provided by operating activities</b>	<b>\$ 28,876</b>	<b>\$ 22,654</b>
Capital expenditures	(34,047)	(49)
<b>Standardized distributable cash</b>	<b>\$ (5,171)</b>	<b>\$ 22,605</b>
<b>Northland Power Income Fund adjustments:</b>		
Net change in non-cash working capital balances related to operations	(4,247)	4,391
Expansionary capital expenditures	33,908	-
Scheduled receipts of principal on Panda senior loan	576	755
Scheduled repayment of Miller LP term loan	(316)	(319)
Scheduled repayment of Jardin LP term loan	(1,063)	-
Scheduled repayment of Kingston LP term loans	(4,836)	(4,247)
Kingston LP cash reserve drawdown(funding)	(413)	(648)
Funds set aside for future maintenance	(22)	(22)
<b>Distributable cash</b>	<b>\$ 18,416</b>	<b>\$ 22,515</b>
<b>Cash Distributions paid to Unitholders</b>	<b>\$ 19,270</b>	<b>\$ 19,329</b>
Standardized distributable cash payout ratio	(373%)	86%
Distributable cash payout ratio	105%	86%
<b>Cumulative - since inception</b>		
Standardized distributable cash	<b>\$ 378,575</b>	<b>\$ 484,570</b>
Distributable cash	<b>\$ 652,345</b>	<b>\$ 585,922</b>
Cash distributions paid to Unitholders	<b>\$ 592,675</b>	<b>\$ 520,651</b>
Standardized distributable cash payout ratio	157%	107%
Distributable cash payout ratio	91%	89%
<b>Average number of trust units - basic (thousands of units) <sup>(1)</sup></b>	<b>71,373</b>	<b>62,353</b>
<b>Average number of trust units - fully diluted (thousands of units) <sup>(2)</sup></b>	<b>81,821</b>	<b>65,405</b>
<b>Per trust unit (\$/unit)</b>		
Standardized distributable cash - basic	\$ (0.0725)	\$ 0.3625
Standardized distributable cash - fully diluted	\$ (0.0725)	\$ 0.3456
Distributable cash - basic	\$ 0.2580	\$ 0.3611
Distributable cash - fully diluted	\$ 0.2251	\$ 0.3442

<sup>(1)</sup> The number of Units and the related per unit numbers are based solely on Trust Units of the Fund and do not include any Class A Exchangeable Units or Replacement Rights as they are not entitled to any cash distributions until January 2012.

<sup>(2)</sup> Average number of Units diluted is the sum of the weighted average number of Units in the basic calculation plus the number of Units that would be issued assuming conversion of the convertible unsecured subordinated debentures.

Standardized distributable cash for the quarter was \$27.8 million lower than the same period of 2009 largely due to expansionary capital expenditures associated with constructing the Thorold and

Saskatchewan facilities. As a result, standardized distributable cash for the quarter was \$24.4 million lower than cash distributions paid to Unitholders.

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 Northland. “Distributable Cash” as calculated above is consistent with Northland’s calculation of distributable cash in past quarters and years. Readers should refer to Northland’s 2009 Annual Report for additional information on the entity-specific adjustments to standardized distributable cash.

Distributable cash as determined by Northland for the three months ended March 31, 2010 was \$18.4 million, \$4.1 million lower than the same period in 2009 largely due to lower income from operations and increased interest costs associated with the new convertible subordinated debentures as well as interest and the first scheduled loan repayment on the Jardin d’Éole project debt.

The cumulative standardized distributable cash payout ratio since inception of Northland is greater than 100% largely because standardized distributable cash does not provide adjustments for expansionary capital expenditures. Northland’s expansionary capital expenditures have historically been funded by third-party financing and through the issuance of Units and/or convertible unsecured subordinated debentures. Northland’s distributable cash calculation adjusts for these expenditures. The payout ratio, based on Northland’s calculation of distributable cash from inception to March 31, 2010, is 91%.

Northland’s cash distributions have been, and are expected to be, funded from the operations of Northland’s facilities and principal and interest payments on the Panda senior loan receivable. Distributable cash per Unit was adversely affected by the issuance of additional Units in association with the NPI merger and the Unit offering in October 2009 with limited economic benefit in the form of additional distributable cash (the Jardin d’Éole wind farm has only been operational since late November 2009 and operational control of the Thorold facility was only passed to Thorold LP on April 1, 2010). For the first quarter of 2010, distributions in excess of distributable cash were funded from existing cash on hand.

## **Debt Covenants**

Northland conducts its businesses indirectly through separate subsidiary legal entities and is dependent on receipt of cash from those entities to defray its corporate expenses and to make cash distributions to Unitholders. Certain of those entities have outstanding debt which was incurred to help fund the entities’ original facilities. Under the credit agreements for such debt, it is conventional for distributions of cash to Northland 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**”), 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 March 31, 2010, Northland and its subsidiaries were in compliance with all debt covenants. A summary of the latest debt covenant calculations, and required ratio ranges for the past 12 months for each of the applicable Northland entities is shown below:

	Latest Calculation		Required Ratio	Previous 4 Quarter Range
	Period	Ratio		
Iroquois Falls - DSCR	12 months to Mar. 31/10	25.30	> 2.25	25.3 to 515.0
Iroquois Falls - Debt to EBITDA	As at Mar. 31/10	0.69	< 3.25	0.67 to 2.31
The Fund - Debt to Capitalization	As at Mar. 31/10	46.1%	< 65%	26.9% to 50.1%
Kingston - DSCR	12 months to Dec. 31/09	2.73	> 1.15	2.71 to 2.73
Miller LP - DSCR	12 months to Mar. 31/10	1.53	> 1.20	1.53 to 2.18
Miller LP - DSCR Proforma	12 months to Mar. 31/11	2.29	> 1.20	2.17 to 2.40
Panda Brandywine - DSCR	12 months to Jan. 31/10	1.58	> 1.20	1.50 to 1.59

Readers should refer to Northland's 2009 annual report for additional details concerning its debt covenants. Once Jardin LP and Thorold LP reach term conversion under the provisions of their credit facilities, they will be subject to similar debt covenants.

Northland and its subsidiary, Iroquois Falls Power Corp., have a credit facility with a syndicate of banks, with Canadian Imperial Bank of Commerce as agent that established a \$130 million credit with sub-limits to assist in the funding of expansionary capital expenditures, acquisitions and investments by Northland, letters of credit and Iroquois Falls Power Corp.'s general corporate purposes.

### **Outlook**

The benefits of the NPI merger in 2009 should start to have a materially favourable impact on the financial results of Northland starting in the second quarter of 2010 with the recognition of income from the Thorold facility beginning April 1st. Nonetheless, the heavy schedule of development activities and Northland's strategy of ensuring that funding is in place or committed for projects as they enter construction will put temporary pressure on the payout ratio until those facilities move from construction and into operation. As a result, the payout ratio in 2010 may well exceed 100%.

### **Construction**

**Thorold Project** - Thorold LP's 265 MW cogeneration facility achieved commercial operations under its PPA on March 28, 2010. Full control of the facility was passed from the EPC contractor to Thorold LP effective April 1, 2010. Start-up of the facility proceeded as expected, from commissioning of the generating equipment, to integrating the steam system with the AbitibiBowater mill, to completing the final PPA performance tests. Construction of the \$520 million project began in August 2007 and was completed under budget and a few days ahead of schedule.

The Thorold facility is now supplying electricity to the Ontario power grid under the terms of its 20-year PPA with the OPA and steam and electricity to the adjacent AbitibiBowater mill under a 20-year energy supply agreement. The facility's gas turbine is maintained by GE under the terms of a 20-year contractual services agreement.

### **Projects in Advanced Development**

#### **Spy Hill Peaking Project**

In September 2009 Northland announced that NPI had been awarded a 25-year PPA by SaskPower for an 86 MW natural-gas-fired peaking facility to be built near Spy Hill, Saskatchewan, about 200 kilometres east of Regina. As discussed previously, on April 29, 2010 Northland closed a non-recourse project debt financing for up to \$111 million, representing about 80% of the estimated \$141 million project cost, plus a \$15 million letter of credit facility. On-site construction of the facility is scheduled to commence in June 2010 with commercial operations expected in late 2011.

To protect itself against fluctuations in foreign exchange rates on construction costs, Northland has entered into a series of forward foreign exchange contracts totaling US\$41.2 million through to April 2011 at an average foreign exchange rate of CA\$1.096 to US\$1.00. To minimize its exposure to interest

rate risk, subsequent to quarter end Northland entered into an interest rate swap agreement to effectively fix the variable interest rate of the non-recourse debt (which is based primarily on 90-day bankers acceptance rates) at 4.84% plus the credit spread, with a term from June 30, 2010 to September 30, 2036 to cover both loan advances during construction and debt repayments during the commercial operations period. The notional amount of the outstanding interest rate swap is \$111 million.

### **North Battleford Baseload Project**

On February 8, 2010 Northland announced that 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 northwest of Saskatoon. Construction is expected to begin in July 2010, and the plant is scheduled to begin commercial operations in 2013. The total cost of the project is budgeted at approximately \$700 million.

To partially protect itself against fluctuations in foreign exchange rates on its US dollar denominated construction costs, Northland has entered into a series of forward foreign exchange contracts totaling US\$80.6 million through to July 2010 at a foreign exchange rate of CA\$1.0105 to US\$1.00.

Northland expects to complete the non-recourse project debt financing for the North Battleford project in the third quarter of 2010 for up to 80% of the project cost.

### **Projects awarded under Ontario Feed-In Tariff**

Ontario's feed-in tariff or 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 and waterpower. The OPA is responsible for implementing the FIT program under the *Green Energy and Green Economy Act, 2009* which also resulted in significant amendments to more than 15 other statutes including the *Electricity Act, 1998*, the *Environmental Protection Act* and the *Planning Act*, all designed to facilitate the development and construction of renewable energy projects.

On April 8, 2010, Northland announced that it had been awarded contracts to build 216 MW of renewable green energy projects under the FIT program. The awarded projects include 13 ground-mounted solar projects totaling 130 MW located across the province, the 60 MW Manitoulin Island wind farm, and four run-of-river hydro projects on the Kabinakagami River totaling 26 MW. Construction of the Manitoulin Island wind farm could begin this year, once all permitting is completed. Other projects are scheduled to be built from 2011 to 2014.

During quarter, Loblaw announced it will work with Northland to install photovoltaic solar panels on the roofs of four stores in Ajax, Orleans, Toronto and Whitby as part of a pilot project. The power will be sold to the OPA under PPAs issued under the Ontario government's *Green Energy and Green Economy Act, 2009* FIT program. Based on the success of the pilot project, Loblaw will evaluate the next phase of its planned roll-out of roof-top solar panels.

The total investment by Northland into the FIT program could reach almost \$1 billion over the next four years.

### ***Development Prospects***

#### **Mont Louis Wind Project**

The Mont Louis wind project is a 101 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 2004. The project is located on public land which has been secured under option. The project's environmental impact assessment and permitting have been completed.

**Hydro-Québec Wind Power Request for Proposals** – Hydro-Québec has announced two RFPs to purchase two blocks of 250 MW each of wind power generated in Quebec – one RFP is for projects with aboriginal groups as partners and a second for community projects, in each case with a maximum project size of 25 MW per project. On April 30<sup>th</sup> Hydro-Québec announced that the date for RFP submissions had been delayed to July 6<sup>th</sup>. Northland has acquired site control, measured wind, and initiated environmental assessments and preliminary engineering work on a number of sites across the province in preparation for submitting bids in response to these RFPs. Management expects to submit a number of 25 MW wind projects to the Hydro-Québec RFP.

**Combined Heat and Power** – The Ontario Government directed the OPA to procure 1,000 MW of power from combined heat and power (“CHP”) projects in 2006 of which approximately 442 MW has been contracted, including notably Northland’s 265 MW Thorold project. Northland is working with several potential industrial hosts 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 is expected to announce shortly a revised CHP procurement process to secure additional capacity under the existing directive.

**Hydro Pumped Storage** – Northland continues development on two potential pumped storage projects in Ontario, one in the south on privately-owned land which Northland has optioned and one in the north on crown land. These are longer term development projects that would provide backup for intermittent renewable energy resources, such as wind and solar, and act essentially as large batteries allowing the system operator to shift electricity generated from low demand periods to peak periods. These projects will only go forward once Northland has obtained long-term PPAs with the OPA.

### **Sustainability of Distributions**

Northland’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 has provided Northland with an additional \$600 million of tax deduction pools which, combined with cash flow from NPI’s projects, will increase the cash available for distribution to help maintain Northland’s distribution of \$1.08 per Unit even after Northland converts to a corporation in 2011. In addition, the merger provides Northland with the ability to grow organically by generating its own development opportunities, as well as bringing in a pipeline of high-quality development prospects.

An essential element of Northland’s business strategy to assure the predictability of distributions is to have the majority of Northland’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 such that revenue and cost escalation are linked, providing assurance of long-term profitability for the project.

### **Non-GAAP Financial Measures**

Included in this Management’s Discussion & Analysis are references to Northland’s distributable cash and EBITDA, which are not measures included in 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, however, 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>	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<i>Per unit information</i>	2010	2009	2009	2009	2009	2008	2008	2008
Total sales	63.0	59.8	45.2	44.7	52.9	50.6	44.3	45.0
Net income (loss)	9.6	26.1	(4.6)	(3.1)	16.9	22.9	14.7	11.2
Standardized distributable cash	(5.2)	(16.5)	(101.7)	18.9	22.6	20.5	25.5	35.0
Distributable cash	18.4	20.5	10.3	17.1	22.5	21.2	20.8	19.5
Cash distributions declared	19.3	19.3	17.5	16.8	16.8	19.3	16.8	16.8
<i>Per unit statistics</i>								
Net income (loss) - basic	0.100	0.277	(0.058)	(0.050)	0.271	0.368	0.235	0.180
Net income (loss) - diluted	0.099	0.265	(0.058)	(0.050)	0.266	0.359	0.234	0.180
<i>Per trust unit statistics <sup>(1)</sup></i>								
Standardized distributable cash	(0.073)	(0.234)	(1.582)	0.304	0.363	0.328	0.410	0.561
Distributable cash	0.258	0.292	0.161	0.275	0.361	0.341	0.334	0.313
Cash distributions declared	0.270	0.270	0.270	0.270	0.270	0.310	0.270	0.270

<sup>(1)</sup> The number of Units and the related per unit numbers are based solely on Units of the Fund and do not include any Class A Exchangeable Units as they are not entitled to any cash distributions until Jan. 2012.

Northland'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 to AbitibiBowater tend to be higher in winter than summer. Financial results from Northland'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 (and Thorold starting in the second quarter) are less seasonal than at the Iroquois Falls facility, and interest on the PEC senior loan and the dividends received from Northland's 19% equity interest in PEC are not materially affected by seasonal factors.

Northland'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 Northland's PEC loan and investment in the German wind farms, respectively, to the appropriate quarter-end Canadian dollar equivalent, and by fair value movements of the interest rate swap contracts entered into by Kingston LP and Thorold LP.

### Trust Unit and Convertible Unsecured Subordinated Debenture Information

As at March 31, 2010, Northland had 71,389,658 Units outstanding (December 31, 2009 – 71,371,130). A total of \$136,000 of the 2011 convertible debentures were converted into 10,880 Units and \$95,000 of the 2014 debentures were converted into 7,648 Units during the quarter. As of the date of this report, May 13, 2010, Northland has 71,496,153 Units outstanding and \$119.5 million of convertible unsecured subordinated debentures.

### Risks and Uncertainties

For information concerning Northland's risks and uncertainties, please refer to Northland's 2009 Annual Report, its Annual Information Form dated March 31, 2010 which was filed electronically at [www.sedar.com](http://www.sedar.com) and Northland's website [www.npifund.com](http://www.npifund.com).

### International Financial Reporting Standards

In March 2009, the Canadian Accounting Standards Board ("AcSB") re-confirmed that Canadian GAAP for publicly accountable enterprises will be converted to International Financial Reporting Standards ("IFRS") for interim and annual financial statements commencing on January 1, 2011. The transition date of January 1, 2010 will require the restatement, for comparative purposes, of Northland's

previously reported balance sheets as at December 31, 2009 and December 31, 2010 and Northland's interim and consolidated statements of income and cash flows for 2010.

Management of Northland commenced its IFRS conversion project in 2008 and developed a project plan for the conversion to IFRS that comprised three phases: IFRS diagnostic assessment, implementation and education, and completion of any system changes if required. The project is progressing as planned. Management has finalized phase one, IFRS diagnostic assessment, and is in the process of completing phase 2, IFRS implementation and education.

A more detailed discussion of Northland's transition to IFRS is contained in Northland's 2009 Annual Management, Discussion & Analysis ("MD&A") under the heading INTERNATIONAL FINANCIAL REPORTING STANDARDS. This discussion in Northland's 2009 MD&A includes a summary of the expected key accounting differences between Canadian GAAP and IFRS that have been identified by management so far, as well as the elections that are available upon first-time adoption of IFRS that could have a significant impact on Northland's financial statements. Tentative accounting policy choices, including IFRS 1 elections, were reviewed with Northland's Audit Committee in the fourth quarter of 2009.

During the first quarter of 2010, management began the process of quantifying differences identified between IFRS and Canadian GAAP and preparing an impairment analysis as of the transition date of January 1, 2010. During the year, management, with the assistance of its third-party consultants, intends to complete the quantification of identified differences and its impairment analysis, conclude on all financial statement presentation options, complete the opening balance sheet reconciliation, gather data for additional disclosure requirements, and develop draft IFRS financial statements.

Based on the work completed to date, management is expecting the transition to have minimal impact on information technology and internal controls over financial reporting for Northland and its subsidiaries.

At this time, it is not anticipated that the International Accounting Standards Board ("IASB") will announce any material new standards or amendments that will be effective on convergence in 2011. However, the progress and recommendations of the IASB projects for financial instruments, post-employment benefits, financial statement presentation, revenue recognition, accounting for income taxes and leases are being closely monitored to ensure that any potential adverse impacts to the convergence project can be minimized.

### **Management's Responsibility for Financial Information**

A rigorous and comprehensive financial governance framework is in place at Northland and its subsidiaries. Northland's 2009 Annual Report contains a statement signed by Northland's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") outlining management's responsibility for financial information contained in the report. Northland filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators in March 2010 in association with the filing of the 2009 Annual Report and other annual disclosure documents. In those filings, Northland'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 Northland's annual filings and the effectiveness of Northland's disclosure controls and procedures. The CEO and CFO have certified the appropriateness of the financial disclosures in Northland's interim filings for the periods ended March 31, 2010 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 March 31, 2010 that have materially affected or are reasonably likely to materially affect Northland's internal controls over financial reporting.

Northland'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.

Sincerely,

*(Signed) "John W. Brace"*

John W. Brace  
President and Chief Executive Officer  
May 13, 2010

## **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 Northland'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 Northland'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 Northland's 2009 annual report and Northland's Annual Information Form dated March 31, 2010 certain of which are beyond management's control. Northland'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, Northland 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 Northland's expectations for the coming year. The forward-looking statements may not be appropriate for other purposes. Other than as specifically required by law, Northland 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

	<i>Mar. 31, 2010</i>	<i>Dec. 31, 2009</i>
<b>Current</b>		
Cash and cash equivalents	\$ 89,021	\$ 116,851
Cash reserves	18,513	4,163
Accounts and other receivables	70,207	72,033
Inventories	4,993	4,912
Prepaid expenses	2,588	2,719
Current portion of Panda senior loan	2,382	2,401
<b>Total current assets</b>	<b>187,704</b>	<b>203,079</b>
<hr/>		
Deferred charges	1,696	1,722
Deferred development costs	11,326	8,018
Investment in Panda Energy Corporation	6,050	6,050
Panda senior loan	59,185	61,879
Goodwill (Note 4)	122,467	115,840
Contracts	259,287	263,420
Property, plant and equipment	1,058,042	1,034,517
	<b>\$ 1,705,757</b>	<b>\$ 1,694,525</b>

### LIABILITIES AND UNITHOLDERS' EQUITY

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 61,452	\$ 56,424
Current portion of long-term debt	47,808	42,421
Distribution payable to Unitholders	6,425	6,423
<b>Total current liabilities</b>	<b>115,685</b>	<b>105,268</b>
<hr/>		
Long-term debt	624,322	596,146
Other long term liabilities	1,722	1,525
Asset retirement obligation	5,740	5,653
Derivative financial instruments	36,115	37,019
Non-controlling interests (Note 4)	-	22,008
Convertible debentures	120,790	121,021
Future income tax liability (Note 4)	105,408	100,287
	<b>1,009,782</b>	<b>988,927</b>
<hr/>		
Trust Units (Note 5)	761,448	761,217
Replacement rights (Note 5)	45,180	44,716
Exchangeable units (Note 5)	206,865	198,821
Accumulated other comprehensive income (Note 3)	327	460
Deficit	(317,845)	(299,616)
<b>Total Unitholders' equity</b>	<b>695,975</b>	<b>705,598</b>
	<b>\$ 1,705,757</b>	<b>\$ 1,694,525</b>

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

	<i>3 Months Ended March 31</i>	
	<i>2010</i>	<i>2009</i>
<b>Sales</b>		
Electricity	\$ 53,229	\$ 43,361
Steam	2,356	2,788
Natural gas	6,258	6,648
Other	1,202	80
<b>Total sales</b>	<b>63,045</b>	<b>52,877</b>
<b>Cost of sales</b>	<b>25,214</b>	<b>20,710</b>
<b>Gross profit</b>	<b>37,831</b>	<b>32,167</b>
<b>Expenses</b>		
Plant operating costs	5,083	3,929
Amortization of property, plant and equipment	9,586	6,880
Write down of property, plant and equipment	-	1,512
Management and administration costs - operations	2,620	1,361
Management and administration costs - development	1,560	-
Accretion expense	98	39
	<b>18,947</b>	<b>13,721</b>
<b>Investment income</b>	<b>1,925</b>	<b>3,111</b>
<b>Income from operations</b>	<b>20,809</b>	<b>21,557</b>
Foreign exchange	2,756	(1,785)
Amortization of deferred charges	26	26
Amortization of contracts	4,133	3,475
Change in fair value of interest rate swaps	(187)	(788)
Interest income	(25)	(94)
Interest expense and bank fees	6,979	3,080
<b>Income before income taxes</b>	<b>7,127</b>	<b>17,643</b>
<b>Provision for (recovery of) income taxes</b>		
Current	(732)	(565)
Future	(1,842)	1,295
	<b>(2,574)</b>	<b>730</b>
<b>Minority interest in earnings of subsidiary</b>	<b>151</b>	<b>-</b>
<b>Net income for the period</b>	<b>9,550</b>	<b>16,913</b>
<b>Deficit, beginning of period</b>	<b>(299,616)</b>	<b>(250,565)</b>
Cash distributions declared to Unitholders	(19,272)	(16,835)
Distributions in kind (Note 5)	(8,507)	-
<b>Deficit, end of period</b>	<b>\$ (317,845)</b>	<b>\$ (250,487)</b>
<b>Average number of units outstanding - basic</b>	<i>95,900</i>	<i>62,353</i>
<b>Average number of units outstanding - diluted</b>	<i>96,344</i>	<i>65,405</i>
<b>Net income per trust unit- basic</b>	<b>\$ 0.100</b>	<b>\$ 0.271</b>
<b>Net income per trust unit - diluted</b>	<b>\$ 0.099</b>	<b>\$ 0.266</b>

**NORTHLAND POWER INCOME FUND**  
**Consolidated Statement of Comprehensive Income**  
*(unaudited, stated in thousands)*

	<i>3 Months Ended March 31</i>	
	<i>2010</i>	<i>2009</i>
<b>Net income for the period</b>	<b>\$ 9,550</b>	<b>\$ 16,913</b>
<b>Other comprehensive income(loss):</b>		
Change in translation of net investment in foreign operations	(1,102)	(247)
Change in fair value of hedged foreign currency forward contracts	1,171	(283)
Future income tax effect of above	(202)	60
Total other comprehensive income (loss)	(133)	(470)
<b>Total comprehensive income</b>	<b>\$ 9,417</b>	<b>\$ 16,443</b>

## NORTHLAND POWER INCOME FUND

### Consolidated Statements of Cash Flows

*(unaudited, stated in thousands except per unit amounts)*

	<i>3 Months Ended March 31</i>	
	<i>2010</i>	<i>2009</i>
<b>Operating activities</b>		
Net income for the period	\$ 9,550	\$ 16,913
Items not involving cash:		
Amortization of property, plant and equipment	9,586	6,880
Amortization of contracts	4,133	3,475
Change in fair value of interest rate swaps	(187)	(788)
Write down of property, plant and equipment	-	1,512
Foreign exchange	2,756	(1,785)
Accretion expense	98	39
Other long term liabilities	208	240
Future income taxes	(1,842)	1,295
Minority interest in earnings of subsidiary	151	-
Other	176	(736)
	<b>24,629</b>	<b>27,045</b>
Net change in non-cash working capital balances related to operations	4,247	(4,391)
<b>Cash provided by operating activities</b>	<b>28,876</b>	<b>22,654</b>
<b>Investing activities</b>		
Cash reserves funding	(14,350)	(648)
Loan to Thorold LP	-	(1,831)
Purchase of non-controlling interests in Jardin LP (Note 4)	(21,500)	-
Deferred development costs	(3,308)	-
Net change in working capital related to investing activities	2,476	-
Receipts of principal on Panda senior loan	576	755
Other assets	-	(799)
Purchase of property, plant and equipment	(34,047)	(49)
<b>Cash used in investing activities</b>	<b>(70,153)</b>	<b>(2,572)</b>
<b>Financing activities</b>		
Repayment of Miller LP term loan	(316)	(319)
Repayment of Kingston LP term loans	(4,836)	(4,247)
Jardin financing	3,800	-
Repayment of Jardin LP debt	(1,063)	-
Thorold subordinated financing	4,679	-
Thorold senior financing	30,600	-
Distributions to Unitholders	(19,270)	(19,329)
<b>Cash provided by (used in) financing activities</b>	<b>13,594</b>	<b>(23,895)</b>
Effect of exchange rate differences on cash and cash equivalents	(147)	(11)
<b>Net change in cash and cash equivalents</b>	<b>(27,830)</b>	<b>(3,824)</b>
Cash and cash equivalents, beginning of the period	116,851	45,512
<b>Cash and cash equivalents, end of period</b>	<b>\$ 89,021</b>	<b>\$ 41,688</b>
<b>PER UNIT</b>		
<b>Distributions declared to Unitholders</b>	<b>\$ 0.2700</b>	<b>\$ 0.2700</b>

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. Description of Business

Northland Power Income Fund (“**Northland**”) is a Canadian income trust that has ownership or economic interests in 10 power projects totaling over 1,100 megawatts (“**MW**”) (net 872 MW). Northland’s assets comprise natural-gas-fired plants which efficiently and cleanly produce electricity and steam as well as facilities generating renewable energy from wind and biomass. Sales are made almost entirely under long-term contracts with a current average duration of 13 years. Northland’s plants are located in Canada, the United States and Germany. In addition, Northland has the 86 MW Spy Hill project, 261 MW North Battleford project and 216 MW of wind, solar and run-of-river hydro projects awarded under the Ontario Power Authority’s Feed-in-Tariff program in advanced stages of development. Northland also has a diverse development portfolio of high-quality ‘Clean and Green’ energy projects, including wind, solar, natural gas, and hydro assets that supports its strategy of sustainable growth primarily through internally developed opportunities.

### 2. Accounting Policies

These consolidated financial statements include the accounts of Northland and all its subsidiaries. All inter-company transactions have been eliminated. As a result of the merger with Northland Power Inc. (“**NPI**”) on July 16, 2009, certain previously reported inter-company amounts between NPI and Northland are now eliminated on consolidation, including the loan receivable from Thorold CoGen Limited Partnership (“**Thorold LP**”), fees and interest earned on the loans and loan commitments to Thorold LP and Saint-Ulric Saint-Léandre Wind LP (“**Jardin LP**”) and management fees formerly paid to a subsidiary of NPI that was the Manager of Northland prior to July 16, 2009.

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 the disclosures required by GAAP applicable to annual financial statements. As a result, these interim consolidated financial statements should be read in conjunction with Northland’s annual consolidated financial statements included in the 2009 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, 2009.

### 3. Continuity of Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following:

	3 months ended Mar. 31	
<i>(stated in thousands of dollars)</i>	2010	2009
<b>Accumulated Other Comprehensive Income-net change in translation of net investment in self sustaining foreign operations:</b>		
Balance beginning of period	829	2,898
Unrealized gain (loss) on translation of net investment	(1,102)	(247)
Balance end of period	(273)	2,651
<b>Accumulated Other Comprehensive Income-net change in fair value of foreign currency forward contracts hedging net investment of foreign operations:</b>		
Balance beginning of period	(369)	(1,812)
Change in fair value of hedged foreign currency forward contracts	1,171	(283)
Future income taxes	(202)	60
Balance end of period	600	(2,035)
<b>Total accumulated other comprehensive income</b>	<b>327</b>	<b>616</b>

#### 4. Non-controlling Interests

In association with the acquisition of NPI, Northland acquired a 33.5% controlling interest in Jardin LP. The remaining 66.5% ownership of Jardin LP was held by two companies (the “**Jardin Vendors**”) that are indirectly owned by the Chair of the Board of Trustees of Northland. On January 29, 2010, Northland acquired the remaining 66.5% ownership interest in Jardin LP from the Jardin Vendors for \$21.5 million. As a result of timing differences between the non-controlling interests’ accounting and tax values, Northland recorded an additional \$6.6 million of goodwill and \$6.8 million of future income tax liabilities as part of the acquisition.

#### 5. Equity and Convertible Unsecured Subordinated Debentures

Northland has the following trust units (“**Units**”) outstanding as at March 31, 2010:

<i>(stated in thousands of dollars, except for units)</i>	<b>Number of Units</b>	<b>Amount</b>
Outstanding as of December 31, 2009	71,371,130	761,217
Conversion of unsecured subordinated debentures	18,528	231
Outstanding as of March 31, 2010	71,389,658	761,448

Since January 1, 2010, a total of \$136,000 of the 2011 convertible unsecured subordinated debentures and \$95,000 of the 2014 convertible unsecured subordinated debentures have been converted into Units. As at March 31, 2010, a total of \$28.9 million of the 2011 convertible unsecured subordinated debentures were outstanding and \$91.9 million of the 2014 convertible unsecured subordinated debentures.

Holdings LP (a subsidiary of Northland) has the following Class A Exchangeable Units (“**Class A Units**”) outstanding as at March 31, 2010:

<i>(stated in thousands of dollars, except for units)</i>	<b>Units Issued</b>	<b>Recognized for Accounting Purposes</b>	
		<b>Number</b>	<b>Amount</b>
Class A Units as of December 31, 2009	25,645,598	20,094,576	198,821
Recognition of Class A Units		630,747	8,044
Outstanding as of March 31, 2010	25,645,598	20,725,323	206,865

As at March 31, 2010, Holdings LP had respectively 8,067,723 and 8,496,078 Class B and Class C Convertible Units outstanding. For accounting purposes, these units are treated as contingent consideration, and since the contingency has not yet been resolved beyond a reasonable doubt, no value has been ascribed.

Northland has the following Replacement Rights outstanding as at March 31, 2010:

<i>(stated in thousands of dollars, except for units)</i>	<b>Units Issued</b>	<b>Recognized for Accounting Purposes</b>	
		<b>Number</b>	<b>Amount</b>
Replacement Rights as of December 31, 2009	6,032,191	4,209,035	44,717
Recognition of Replacement Rights		36,274	463
Outstanding as of March 31, 2010	6,032,191	4,245,309	45,180

The amount of recognition of value of Class A Units and Replacement Rights during the quarter has been recorded as “distributions in kind” in the consolidated statement of income and deficit.

The reconciliation of the numerator in calculating diluted net income for the period ending March 31 is as follows:

<i>(stated in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
Net income, basic	9,550	16,913
Add back: Convertible unsecured subordinated debentures interest and amortization	-	492
Net income, diluted	9,550	17,405

The reconciliation of the denominator in calculating diluted per-Unit amounts for the period ending March 31, 2010 is as follows:

	2010	2009
Weighted average number of Trust Units outstanding, basic	71,373,244	62,353,143
Weighted average number of Class A Units recognized, basic	20,305,954	-
Weighted average number of Replacement Rights recognized, basic	4,220,927	-
Total average number of Units outstanding, basic	95,900,125	62,353,143
Effect of dilutive securities:		
Replacement Rights and exchangeable securities	443,750	-
Convertible unsecured subordinated securities	-	3,051,738
Weighted average number of units outstanding, diluted	96,343,875	65,404,881

The conversion of the convertible unsecured subordinated debentures is anti-dilutive for the three months ending March 31, 2010 and has therefore been excluded from the calculation of the weighted average number of Units, diluted.

The calculation of basic net income per Unit is based on the consolidated net income for the period divided by the sum of the weighted average number of Units outstanding and the weighted average number of Class A Units and Replacement Rights recognized for accounting purposes. Diluted net income per Unit is calculated by dividing consolidated net income, plus expenses related to the debt that is being converted by the weighted average number of Units used in the basic net income per Unit calculation plus the number of Units that would be issued assuming conversion of the convertible unsecured subordinated debentures into Units and the weighted average number of Class A Units and Replacement Rights assuming that the date of recognition was January 1, 2010, for those recognized for accounting purposes during the period.

## 6. Segmented Information

As at March 31, 2010, Northland has identified the following operating segments: i) Thermal, ii) Wind and iii) Other; the last of which includes management and operations services, wood chipping and engineering services as well as the administration of Northland. These have been identified based upon the nature of operations and technology used in the generation of electricity. Northland analyzes the performance of its operating segments based on their operating income, which is defined as revenue less operating expenses.

Significant information for each segment is as follows:

*(stated in thousands of dollars)*

<b>For the 3 months ended, March 31, 2010:</b>	<b>Thermal</b>	<b>Wind</b>	<b>Other<sup>(1)</sup></b>	<b>Inter-company Eliminations</b>	<b>Total</b>
External Revenue	53,532	8,481	1,032	-	63,045
Inter-segmented revenue	-	-	2,014	(2,014)	-
<b>Total revenue</b>	53,532	8,481	3,046	(2,014)	63,045
Amortization	5,074	4,303	209	-	9,586
Operating income	20,463	2,233	(1,887)	-	20,809
Interest expense, net	1,736	3,137	2,081	-	6,954
<b>March 31, 2009:</b>					
External Revenue	48,578	4,299	-	-	52,877
Inter-segmented revenue	-	-	-	-	-
<b>Total revenue</b>	48,578	4,299	-	-	52,877
Amortization	5,092	1,788	-	-	6,880
Operating income	17,551	1,521	2,485	-	21,557
Interest expense, net	1,829	589	568	-	2,986

<sup>(1)</sup> Included in "other" are revenues and operating income from NPI's wood chipping facility, management fees from operating third-party facilities, investment income from PEC and PIC and management, administration and development expenditures. Also included is Thorold LP, which will be transferred to thermal in the second quarter.

(stated in thousands of dollars)

As at March 31, 2010:	Thermal	Wind	Other <sup>(1)</sup>	Inter-company	
				Eliminations	Total
Capital assets, net	264,563	289,163	504,316	-	1,058,042
Contracts, net	92,291	5,257	161,739	-	259,287
Senior loan and investment in PEC	-	-	67,617	-	67,617
Loan to Thorold CoGen LP	-	-	-	-	-
Goodwill	-	6,627	115,840	-	122,467
Total Assets	419,804	361,525	924,428	-	1,705,757

  

As at December 31, 2009	Thermal	Wind	Other <sup>(1)</sup>	Eliminations	Total
Capital assets, net	269,602	294,586	470,329	-	1,034,517
Contracts, net	95,667	5,357	162,396	-	263,420
Senior loan and investment in PEC	-	-	70,330	-	70,330
Goodwill	-	-	115,840	-	115,840
Total Assets	436,460	361,134	896,931	-	1,694,525

<sup>(1)</sup> Included in "other" are revenues and operating income from NP1's wood chipping facility, management fees from operating third-party facilities, investment income from PEC and PIC and management, administration and development expenditures. Also included is Thorold LP, which will be transferred to thermal in the second quarter.

Information on operations by geographic area is as follows:

(stated in thousands of dollars)

	Three months ended March 31	
	2010	2009
<b>Sales</b>		
Canada	61,928	51,572
Germany	1,117	1,305
	63,045	52,877

  

	As at March 31, 2010	As at December 31, 2009
<b>Capital Assets</b>		
Canada	1,048,637	1,023,520
Germany	9,405	10,997
	1,058,042	1,034,517

As at March 31, 2010 all of Northland's assets and sales were located in Canada and Germany with the exception of the investments in, and income from, PEC and its subsidiary, which relate to entities in the United States.

## 7. Subsequent Event

Northland announced on April 29<sup>th</sup> that it has achieved financial close for its wholly-owned 86 megawatt Spy Hill peaking plant in Saskatchewan. Under the terms of the financing, a consortium consisting of the Canadian Imperial Bank of Commerce, the Bank of Montreal, and the Bank of Nova Scotia have committed to provide construction and term financing of \$111 million. The remaining equity for the \$141 million project has been provided by Northland. The loan will be funded during construction under a variable advance schedule. Once term conversion is achieved subsequent to the commencement of commercial operations, the loan requires blended payments of principal and interest over a 25-year year amortization period, with maturity five years from term conversion. As required under the loan provisions, Northland entered into an interest rate swap agreement to effectively fix the variable interest rate of the non-recourse debt (which is based primarily on 90-day bankers acceptance rates) at 4.84% plus the credit spread, with a term from June 30, 2010 to September 30, 2036 to cover both loan advances during construction and debt repayments during the commercial operations period. During the construction period the all-in interest rate is 7.60%. The notional amount of the outstanding interest rate swap is \$111 million.

## **NORTHLAND POWER INCOME FUND**

### **TRUSTEES**

Mr. James C. Temerty  
The Right Honourable John N. Turner  
Dr. Marie Bountrogianni  
Mr. Pierre Gloutney  
Mr. A. Warren Moyses

### **OFFICERS**

Mr. John W. Brace, President and Chief Executive Officer  
Mr. Salvatore Mantenuto, Chief Operating Officer  
Mr. Anthony F. Anderson, Chief Financial Officer  
Ms. Linda L. Bertoldi, Secretary

### **REGISTRAR AND TRANSFER AGENT**

Computershare Trust Company of Canada  
100 University Avenue  
Toronto, Ontario M5J 2Y1  
Attention: Equity Services

### **TRUST UNITS AND DEBENTURES**

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

### **BANK**

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Commerce Court West  
Toronto, Ontario M5L 1A2

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