

NORTHLAND POWER INCOME FUND

ANNUAL INFORMATION FORM

For the year ended December 31, 2008

March 13, 2009

NORTHLAND POWER INCOME FUND

ANNUAL INFORMATION FORM

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All capitalized terms used in this document have the meanings assigned to them in the “Glossary of Terms” included on pages 48 through 53 of this Annual Information Form, unless otherwise defined.

FORWARD LOOKING STATEMENTS

This Annual Information Form contains certain forward looking statements with respect to Northland Power Income Fund and entities and assets that it owns or has an interest in, directly or indirectly, based on assumptions that management considered reasonable at the time they were prepared. These statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward looking statements. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the “Management’s Discussion and Analysis” of Northland Power Income Fund’s 2008 Annual Report and on pages 34 to 43 of this Annual Information Form.

THE FUND – CORPORATE STRUCTURE

THE FUND

The Fund is an unincorporated open ended trust, established under the laws of the Province of Ontario pursuant to the Original Fund Trust Indenture. The head and principal office of the Fund is located at 30 St. Clair Avenue West, 17th Floor, Toronto, Ontario, M4V 3A1. The Fund Trust Indenture amended, restated and replaced the Original Fund Trust Indenture, effective as of July 1, 2003 and now governs the Fund.

At a special meeting of the Unitholders held on January 30, 2007, the Unitholders approved certain amendments to the Fund Trust Indenture. The amendments were required to enable the Fund to carry out a planned internal reorganization of certain of its subsidiaries which was completed effective January 31, 2007 (the “Reorganization”). Both the Reorganization and the consequential amendments to the Fund Trust Indenture are described more fully in the Fund’s Management Information Circular dated January 2, 2007, which is available on SEDAR at www.sedar.com, and at page 9 of this Annual Information Form.

At the special meeting held on January 30, 2007, the Unitholders also approved amendments to the Fund Trust Indenture and the CT Trust Indenture that provide the Trustees with greater flexibility to determine the amount of distributions to be paid to Unitholders and to set record dates for Unitholder meetings.

CT

CT is an unincorporated open ended trust established under the laws of the Province of Ontario pursuant to a trust indenture dated December 20, 2002. CT is governed by the CT Trust Indenture, which amended and replaced the December 20, 2002 trust indenture. The Fund owns all of the issued and outstanding units of CT which is governed by a board of five individual trustees. NPIFMI acts as the manager of CT pursuant to the CT Management Agreement.

Through CT, the Fund indirectly owns the German Wind Farms, the Iroquois Falls Facility, the Kingston Facility, the Mont Miller Facility, the Panda Investment and has committed to make the Thorold Loan and the Jardin LP Loan. The relationships among CT and the subsidiaries which hold the foregoing investments are described below:

IROQUOIS FALLS FACILITY

Iroquois Falls Corp.

Iroquois Falls Corp. is a wholly-owned subsidiary of CT and owns the Iroquois Falls Facility. Iroquois Falls Corp. is a corporation continued under the laws of the Province of Ontario pursuant to the *Business Corporations Act* (Ontario). CT owns 100% of the shares of Iroquois Falls Corp. Iroquois Falls Corp. is subject to a unanimous shareholder agreement that restricts the powers of its board of directors in favour of its sole shareholder, CT.

KINGSTON FACILITY

Kingston LP

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

NPIF Kingston CoGen Corp.

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

NPIF Kingston L.P.

NPIF Kingston L.P. is a limited partnership established under the laws of the Province of Ontario pursuant to the *Limited Partnerships Act* (Ontario). NPIF Kingston L.P. is governed by a limited partnership agreement dated as of June 25, 2003 between NPIF Kingston, as general partner, and CT, as limited partner, as amended. CT and the Fund own all of the issued and outstanding limited partnership units of NPIF Kingston L.P. NPIF Kingston, in its capacity as general partner, manages the business and affairs of NPIF Kingston L.P.

NPIF Kingston

NPIF Kingston is a wholly-owned subsidiary of CT and the general partner of NPIF Kingston L.P. NPIF Kingston is a corporation incorporated under the laws of the Province of Ontario pursuant to the *Business Corporations Act* (Ontario). CT owns 100% of the shares of NPIF Kingston. NPIF Kingston is subject to a unanimous shareholder agreement that restricts the powers of its board of directors in favour of its sole shareholder, CT.

PANDA INVESTMENT

PEC

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

PIC

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

MONT MILLER FACILITY

Miller LP

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

Miller LP has outstanding 1 General Unit held by Miller GPCo, 21,120 Class A Priority Units held by CT and 1,000 Class B Subordinated Units held by the Miller Developer. The limited

partners of Miller LP have limited voting and approval rights in accordance with the Limited Partnership Agreement. The Class A Priority Units which have been issued to CT are sufficient to ensure that, on any matter requiring voting by the limited partners, CT will be able to exercise a greater number of votes than the Miller Developer, a corporation jointly owned by NPI and 3Ci, as the holder of the Class B Subordinated Units. Class B Subordinated Units are entitled to vote separately as a class in two circumstances only: (1) a proposal to change the business as defined in the Miller Limited Partnership Agreement (for example, a proposal to expand the Mont Miller Facility beyond 54 MW); and (2) a proposal to amend the Miller Limited Partnership Agreement in a manner which would impact the economic position of the Class B Subordinated Units. In either case, Miller LP may decide to purchase the Class B Subordinated Units at their fair market value, as determined by an independent valuator, if the Miller Developer withholds from voting or votes against any such proposal.

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

Miller GPCo

Miller GPCo is a wholly-owned subsidiary of CT and is the general partner of Miller LP. Miller GPCo is a corporation incorporated under the laws of Canada pursuant to the *Canada Business Corporations Act*. CT owns 100% of the shares of Miller GPCo. Miller GPCo is subject to a unanimous shareholder agreement that restricts the powers of its board of directors in favour of its sole shareholder, CT.

Millerco

Millerco is a wholly-owned subsidiary of CT. Millerco is a corporation incorporated under the laws of Canada pursuant to the *Canada Business Corporations Act*. Millerco was acquired by the Fund, through CT, at the time of its acquisition of the Mont Miller Facility. Millerco formerly held certain assets relating to the Mont Miller Facility which are now held by Miller LP.

GERMAN WIND FARMS

CIC Luxembourg S.a.r.l.

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

CIC Verwaltungs GmbH

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

DK Burgerwindpark Eckolstädt GmbH & Co. KG

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

DK Windpark Kavelstorf GmbH & Co. KG

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

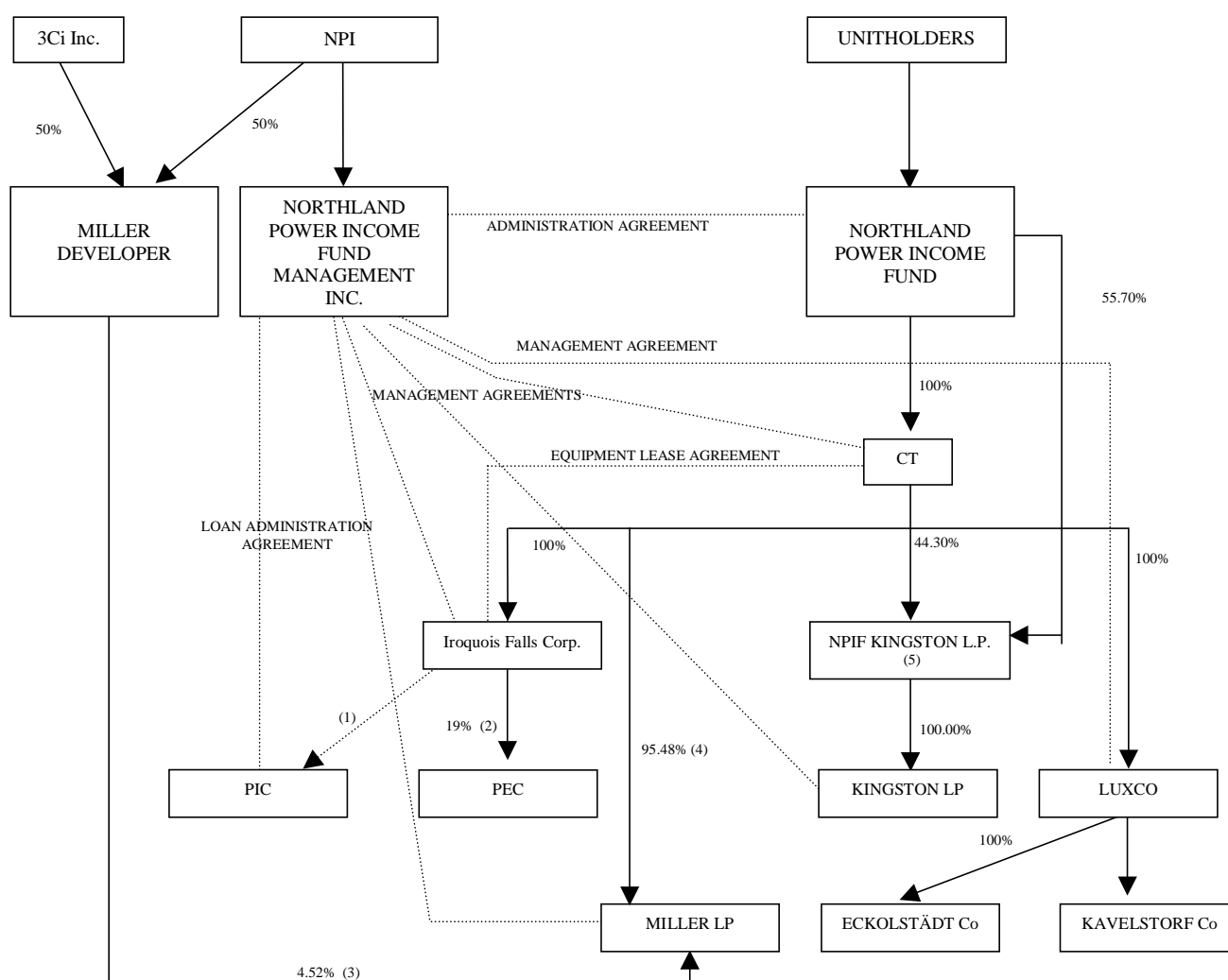
JARDIN D'ÉOLE WIND PROJECT

NPIF Quebec Wind Investments Inc.

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

ORGANIZATION

The following chart illustrates the primary structural and contractual relationships among the Fund, CT, Iroquois Falls Corp., Kingston LP, PEC, PIC, Miller LP, Luxco, the German Wind Farms and NPIFMI as of March 4, 2008. The organizational chart excludes the following general partners and holding companies: Miller Co, Miller GPCo, NPIF Kingston CoGen Corp., NPIF Kingston, CIC Verwaltungs GmbH, Northland Power Income Fund Europe Inc. and NPIF Quebec Wind Investments Inc. which are all wholly owned directly or indirectly by the Fund.



Notes:

- (1) The Fund, indirectly, funded a senior loan to PIC in the original amount of US\$93 million. The senior loan bore interest at the rate of 10.5% and will mature on November 20, 2021. The sale of the Panda-Rosemary Facility, which occurred on February 8, 2005, resulted in the prepayment of approximately 20% (US\$18.9 million) of the Fund's senior loan to PIC and payment of fees and dividends, through PEC, totalling some US\$4.8 million. After completion of the sale of the Panda-Rosemary Facility the interest rate on the balance of the senior loan increased by 0.4% to 10.9% for the remainder of its term. The Fund does not own any shares in PIC.

- (2) The Fund, indirectly, has a 19% equity interest in PEC, 9.5% of which is voting. The Fund has an option to increase its equity interest in PEC to 49% in 2021.
- (3) The Miller Developer owns 1,000 Class B Units of Miller LP which entitle the Miller Developer to 1,000 votes at meetings of the partners of Miller LP or 4.52% of votes.
- (4) CT owns 21,120 Class A units of Miller LP, which entitle CT to 21,120 votes at meetings of the partners of Miller LP or 95.48% of votes.
- (5) The interest in Kingston LP is held by the Fund and CT through their interests in NPIF Kingston L.P., the entity which holds a majority interest in Kingston LP. The Fund owns 12,571.11 limited partnership units of NPIF Kingston L.P. while CT owns 10,000 limited partnership units of NPIF Kingston L.P. CT also owns 100% of NPIF Kingston, the entity which holds a general partnership interest in NPIF Kingston L.P.

GENERAL DEVELOPMENT OF THE BUSINESS

OVERVIEW

Investment Objective of the Fund

The investment objective of the Fund, as set out in the Fund Trust Indenture, is to produce stable and sustainable levels of cash available for distribution to Unitholders from assets, businesses, acquisitions and investments related to the generation, production, conversion, transmission, distribution, purchase and sale of electricity and other forms of energy, energy related projects and fuels.

Acquisition and Investment Guidelines

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

- (a) An acquisition or investment must conform to the Fund's investment objective, be recommended by the Manager and be reviewed and approved by the CT Board.
- (b) An acquisition or investment must reasonably be expected to result in an increase in cash available for distribution per Unit or to otherwise provide value to the Unitholders. If the acquisition or investment involves construction, rehabilitation or development, the increase in cash available for distribution per Unit or in value to Unitholders may be deferred until completion of the construction, rehabilitation or development.
- (c) An acquisition or investment will not result in the Fund losing its status as either a "unit trust" or a "mutual fund trust" or holding excess "foreign property" under the Tax Act.

RECENT DEVELOPMENTS

\$95 million Bank Credit Facility

The Fund and Iroquois Falls Corp. entered into a credit facility with Canadian Imperial Bank of Commerce as agent for a syndicate of banks on May 24, 2002. The facility was subsequently amended and restated on May 20, 2005 and renewed on May 23, 2006. The credit facility provides a \$95 million line of credit facility with sub-limits, to assist in the funding of capital expenditures, acquisitions and investments by the Fund; letters of credit; and for Iroquois Falls Corp.'s general corporate purposes. The credit agreement expires on May 20, 2009, but is

subject to an annual renewal at the discretion of the Fund. As at December 31, 2008, outstanding letters of credit totalled \$52.3 million (2007 - \$27.5 million) and drawings of \$nil (2007 - \$nil million) were outstanding.

Insolvency of Calpine Gas and Settlement

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

On December 19, 2007, the Fund announced that it had reached a settlement with Calpine Gas of the claim filed by Iroquois Falls Corp. in the CCAA proceedings. Calpine Gas agreed to pay Iroquois Falls Corp. \$32.0 million to settle Iroquois Falls Corp.'s claim and Iroquois Falls Corp. agreed to pay \$10.5 million to the Backstop Supplier to settle Iroquois Falls Corp.'s mitigation obligation under the backstop provisions of that supplier's contract. As part of the settlement, the Fund's Manager received a \$6.5 million gas management incentive fee under the terms of the Iroquois Falls Management Agreement. Certain incentive fees which the Manager may earn in future will be reduced to take into consideration this one-time fee.

March 2006 Unit Offering and Acquisition of Remaining Interest in Kingston LP

On March 23, 2006, the Fund issued 11,560,000 subscription receipts, at \$15.15 per subscription receipt, to raise proceeds of \$165.8 million, net of costs. On the same date, the subscription receipts were converted to Units; the proceeds from the issue were used by the Fund to acquire the remaining 50% interest in Kingston LP from a subsidiary of The AES Corporation for \$127.9 million plus \$0.5 million in transaction costs and, after closing, to retire Kingston LP's \$33.5 million outstanding levelization account balance with Ontario Electricity Financial Corporation ("OEFC") which was outstanding under the Kingston Power Purchase Agreement. The acquisition of Kingston LP has been accounted for using the step by step purchase method.

Acquisition of German Wind Farms

On April 25, 2006, the Fund completed the acquisition of two operating wind farms in Germany for \$0.2 million, including transaction costs. The 7.2 MW Kavelstorf wind farm is located near Rostock in northern Germany and the 14.3 MW Eckolstädt farm is located in the Thuringen region in central Germany. Subsequent to the acquisition, the Fund in 2006 advanced a Euro 14 million loan (CAD \$19.0 million) to its European subsidiary, which was used to repay all third party debt owed by the German Wind Farms.

Internal Reorganization of Northland Power Income Fund and Certain of its Subsidiaries

In connection with the acquisition of the remaining 50% interest in Kingston LP in March 2006 the Manager had determined that it would be in the best interests of the Fund post closing to

realign the manner in which all of the ownership interests in Kingston LP were held on behalf of the Fund. The Fund had acquired its interests in three separate transactions and the original structure of Kingston LP reflected ownership interests by three separate, unrelated owners prior to the commencement of construction of the Kingston Facility in 1995. Accordingly, the Manager sought an advance tax ruling (“ATR”) from the Canada Revenue Agency in respect of an internal reorganization of the Fund and its subsidiaries which hold the Fund’s interests in Kingston LP to permit the bulk of the Fund’s holdings in Kingston LP to be held through the ownership of limited partner units in Kingston LP by NPIF Kingston L.P., an Ontario limited partnership, which already held the 25% interest in Kingston LP on behalf of the Fund which the Fund acquired in 2004. The Reorganization is described in greater detail in the Management Information Circular dated January 2, 2007 mailed to Unitholders in connection with the Special Meeting of Unitholders held on January 30, 2007 to consider the Reorganization. This Management Information Circular is filed on SEDAR and can be reviewed and obtained from the website, www.sedar.com. Unitholders approved the Reorganization by the required majority on January 30, 2007 and the Reorganization was completed on January 31, 2007.

Kingston LP Fuel Management Agreement

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

Subordinated Loan to Thorold Cogeneration Project

The Fund committed to provide a \$30 million loan (the “Thorold Loan”), including accrued interest during construction, to Thorold LP to assist in the financing of the Thorold Project. NPI is the project sponsor and equity provider.

Recourse for the Thorold Loan is limited to the assets of Thorold LP and the Thorold Loan is subordinated to the senior secured project debt and is in association with and on the same terms as the two other subordinated lenders, Manulife and Sun Life. Senior secured debt financing of \$415 million plus facilities for letters of credit and an operating line are being provided by Bank of Montreal and a syndicate of lenders, Manulife and Sun Life.

The Thorold Loan is being advanced over the 32 month project construction period, and has an effective interest rate of approximately 12.5%. Interest during construction is accrued and capitalized, and quarterly payments of interest and principal will commence after completion of plant construction. The Thorold Loan is to be repaid within 5 years of plant commercial operation. The Fund will finance the subordinated loan from cash on hand, surplus distributable cash and if necessary, under its credit facility with Canadian Imperial Bank of Commerce described above.

During the third quarter of 2007, the Fund received a \$0.5 million financing fee and a \$0.7 million commitment fee (both one-time in nature). These fees have been netted against the loan receivable from Thorold LP and will be recognized into income over the life of the Thorold Loan. As at December 31, 2008, the Fund had loaned Thorold LP \$16.1 million (2007 - \$4.1 million). Since financial close on August 16, 2007, the Fund has recognized \$0.2 million in commitment and financing fees and \$1.2 million in accrued interest.

Subordinated Loan to Jardin LP

The Fund has committed, through its indirect wholly-owned subsidiary, NPIF Quebec Wind Investments Inc., to provide a \$34.8 million loan to Jardin LP, the developer and owner of the Jardin d'Éole wind project in the Gaspésie region of Quebec. Jardin LP is wholly-owned by NPI and two affiliated companies that are owned by NPI's principal. The Fund's \$34.8 million loan will be subordinated to the senior secured project debt, with recourse limited to the assets of Jardin LP. The senior secured debt financing of \$153.0 million plus facilities for letters of credit and a bridge loan are being provided by a consortium of insurance companies led by Manulife and including Sun Life and Great-West Life.

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

Investment in PEC

In September 2008, the Fund received, after withholding tax, a one-time dividend of US\$6.9 million (Cdn\$7.3 million) from PEC largely associated with transactions that were entered into among Panda-Brandywine, L.P., PEPCO and Sempra whereby the PEPCO PPA has been replaced by a new PPA with Sempra. In addition, Sempra acquired the existing Panda-Brandywine Facility capital lease as part of the transaction. The Sempra PPA retains many of the characteristics of the PEPCO PPA, including pre-defined fixed capacity payments, variable payments when the plant operates designed to match variable operating costs, and a term extending to 2021. The Sempra fixed capacity payments are similar to those under the PEPCO PPA until 2016, but somewhat lower thereafter.

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

NARRATIVE DESCRIPTION OF THE BUSINESS

Ontario Industry Overview

The Ontario electricity industry has seen considerable change and refinement since the opening of the electricity market in 2002. These changes have included the imposition of price caps, rebates, regulated price plans, the establishment of prices for OPG generating assets and the creation of the OPA.

The OPA's mandate includes among other things the responsibility for ensuring an adequate, long term supply of electricity in Ontario. In order to fulfil this mandate the OPA has developed a 20-year Integrated Power System Plan ("IPSP") which identifies the need for new conservation, generation and transmission investments in Ontario recognizing the desire to phase out coal fired generation by 2014. In August 2007, the OPA submitted the IPSP to the OEB for its review and approval along with the electricity procurement processes of the OPA. In 2008, the OEB adjourned its hearings into the IPSP in order to allow the OPA to refile a revised IPSP based on a supplementary directive which had been issued by the Minister of Energy and Infrastructure. It is currently expected that a refiling will occur during the first half of 2009.

Until the IPSP is approved by the OEB the OPA is unable to procure new generation without a Ministerial Directive. Since 2005 the OPA under Ministerial directive have conducted a number of Requests for Proposals ("RFPs") for new renewable and gas-fired generation supply. A number of RFPs were completed in 2008 including RFPs for the North York region and Renewables III RFP. RFPs were also commenced for Combined Heat and Power ("CHP II") and approximately 850 MW of Generation in the Southwest Greater Toronto Area ("Southwest GTA"). In 2009, it is expected that additional RFPs will be launched by the OPA including an RFP for the Cambridge/Waterloo area.

In early 2009, the Minister of Energy and Infrastructure introduced Bill 150, the *Green Energy and Green Economy Act, 2009* ("GEA"). The GEA if passed will have considerable impact on the development of renewable generation in Ontario through the creation of a feed-in tariff program, the establishment of a streamlined approvals process and establishing a right to connect for renewable generation projects. The feed-in tariff program is described as a program which will provide standard program rules, standard contracts and standard pricing for classes of generating facilities differentiated by energy source. While the feed-in tariff has been described as being attractive from an investor perspective details are not yet available.

While the GEA is focused on renewable energy, the GEA will also result in significant amendments to 15 other statutes including the *Electricity Act*, the *Environmental Protection Act* and the *Planning Act*. As a result, the GEA may have an impact on current assets held by the Fund and may present additional opportunities for the Fund but could also have an impact on the timing and nature of such investments. The Manager will continue to monitor the RFPs issued by the OPA for any opportunities that they may create for the Fund along with any impact that the GEA may have on current assets held by the Fund. The Manager is currently unable to assess any potential impact on the Fund until the Ontario government releases further details on the GEA and potential regulations under the GEA.

Quebec Industry Overview

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

The Régie, created in 1996 by the provincial government, is responsible for reconciling the public interest, consumer protection and the fair treatment of the electricity transmitters and distributors. The Régie is also responsible for approving the supply plan of the distribution arm of Hydro-Québec. The supply plan includes a forecast of the needs of the Quebec market over the next ten (10) year period recognizing the heritage electricity pool of generation (165 TWh) provided by the generating arm of Hydro-Québec. To meet demand in excess of the heritage electricity pool, the distribution arm of Hydro-Québec must enter into supply contracts by conducting calls for tenders among interested power suppliers as described above.

Under its governing statute Hydro-Québec, one of the largest electric utilities in North America, has broad powers to generate, supply and deliver electricity in Quebec. In the early 1990's, the provincial government through Hydro-Québec committed to a large number of long term agreements to purchase electricity from independent power producers. In 2005, Hydro-Québec signed contracts with independent power producers for almost 1,000 MW of wind power. In 2007, Hydro-Québec received 66 bids for a combined total of 7,724 MW in response to a tender call for 2,000 MW of wind power. Contracts have since been signed with respect to 15 of such projects for a total of 2004.5 MW for deliveries commencing between 2011 and 2015.

On October 29, 2008, the Government of Québec adopted two Regulations regarding the issuance of a call for tenders by Hydro-Québec Distribution for 2 blocks of 250 MW of wind power, one block for power generated from aboriginal projects and the other from community projects. Hydro-Québec Distribution has since filed an application to the Régie to establish the non-monetary criteria applicable to the call for tenders. This application is still pending in front of the Régie.

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

THE FUND'S FACILITIES

The Fund indirectly owns interests in six power-generating facilities: three natural-gas-fired power plants that efficiently and cleanly produce electricity and steam for sale, and three wind farms, and has also committed to make the Thorold Loan and Jardin LP Loan. Two gas-fired cogeneration plants are located in Ontario: the 120 MW Iroquois Falls Facility that has been wholly owned by the Fund since its inception in 1997, and the 110 MW Kingston Facility which has been wholly owned by the Fund since it acquired the remaining 50% interest on March 23, 2006. Through its 19% equity interest in PEC and a loan to a PEC subsidiary, the Fund has an interest in the 230 MW Panda-Brandywine combined-cycle power plant located outside Washington, D.C. Electricity produced from the gas-fired plants is sold under long-term power purchase agreements with creditworthy customers to ensure revenue stability, and long-term contracts assure the supply and price of natural gas, which is the Fund's largest cost. The 54 MW Mont Miller Facility in the Gaspésie region of Quebec supplies electricity to Hydro-Québec

under the terms of a 21-year power purchase agreement. The Fund also owns the two German Wind Farms with a total capacity of 21.5 MW.

The following table summarizes the principal characteristics of each of the operating facilities in which the Fund had a direct or indirect interest as at December 31, 2008:

Project	Capacity	Power off-taker & rating*	PPA Term	Ownership	% of Cash Available for Distribution ⁽²⁾
Iroquois Falls	120 MW	OEFC (AA)	2021	100%	39%
Kingston CoGen	110 MW	OEFC (AA)	2017	100% ⁽¹⁾	30%
Panda-Brandywine ⁽¹⁾	230 MW	Sempra (BBB+)	2021	Loan + 19% (49% option in 2021)	23%
Mont Miller	54 MW	Hydro-Québec (A+)	2026	95%	4%
German Wind Farms	21.5 MW	N/A ⁽³⁾	2021 –2022	100%	4%

* Ratings by Standard & Poor's

- (1) An indirect subsidiary of the Fund, Iroquois Falls Corp., is the lender under a senior unsecured loan to PIC which indirectly owns the Panda-Brandywine Facility.
- (2) Represents the approximate share of the Fund's cash available for distribution (a non-GAAP measure) that was generated by each facility in 2008.
- (3) Electricity production from the German Wind Farms is purchased by local power distributors as required by German legislation at predetermined prices.

Natural-gas-fired and Cogeneration Facilities

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

By using natural gas to fuel the gas turbines at each of the Iroquois Falls, Kingston and Panda-Brandywine facilities, the Fund is using the cleanest burning fossil fuel. Natural-gas combustion results in virtually no atmospheric emissions of sulfur dioxide (SO₂) or small particulate matter, and far lower emissions of carbon monoxide (CO), nitrogen oxides (NO_x), and greenhouse gases such as reactive hydrocarbons and carbon dioxide (CO₂), than the combustion of other fossil fuels.

Wind Power

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

IROQUOIS FALLS FACILITY

General Background

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

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

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

The Iroquois Falls Facility sells up to 300,000 pounds of steam per hour to the neighbouring AbitibiBowater Iroquois Falls Mill under a 20-year steam sales agreement that expires at the end of 2016. Steam is sold at a price set annually that varies directly with the cost of gas purchased by Iroquois Falls Corp. Steam sales are generally higher in Winter than in Summer. Iroquois Falls Corp. is protected from the economic impact of adverse changes at the AbitibiBowater Iroquois Falls Mill until 2016 through provisions of the Iroquois Falls Power Purchase Agreement that increase OEFC's electricity purchase obligation to mitigate any material loss in steam sales revenue. On average, revenue generated from the sale of steam is expected to represent approximately 5 to 10% of the Fund's total revenues. For the year ended December 31, 2008, sales to AbitibiBowater represented approximately 9% (2007 – 9%) of Iroquois Falls Corp.'s total revenue from the Iroquois Falls Facility.

Other revenue is earned by selling natural gas to mitigate the cost of unused capacity under the transportation contract with TransCanada PipeLines Limited during lower production summer months and plant shutdowns. Such revenue represented approximately 9% of the total revenue in fiscal 2008 (2007 – 5%) for the Iroquois Falls Facility.

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

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

Operations

The Iroquois Falls Facility has the capacity to produce an annual average of 15% more electricity than the amount contracted to OEFC under the Iroquois Falls Power Purchase Agreement. The Iroquois Falls Facility has been successful in bidding into the wholesale market and sold incremental electricity beyond the volumes in the Iroquois Falls Power Purchase Agreement. In 2008, a total of 3,236 MWh of electricity was sold to the wholesale market (2007 – 7,324 MWh).

The Iroquois Falls Facility is intended to operate 24 hours a day, 365 days a year except for planned and unplanned downtime. Under the Iroquois Falls Power Purchase Agreement, OEFC has the right to curtail the Iroquois Falls Facility's electricity output by up to 20% of the contracted capacity during Summer off-peak hours without payment. The Iroquois Falls Facility was curtailed 38,000 MWh by OEFC under the Iroquois Falls Power Purchase Agreement in 2008 (2007 – 38,000 MWh).

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

Production from the Iroquois Falls Facility is higher in Winter than in Summer, and rates received from OEFC are also higher during the Winter. As a result, approximately 65% of the Iroquois Falls Facility's cash flow is earned in the Winter, and approximately 35% is earned during the Summer. On average, approximately 80 to 90% of the Iroquois Falls Facility's revenues are expected to be derived from electricity sales to OEFC. For the year ended December 31, 2008, sales of electricity represented approximately 82% (2007 – 86%) of Iroquois Falls Corp.'s total revenue from the Iroquois Falls Facility.

Employees

For the fiscal year ended December 31, 2008, the Iroquois Falls Facility was operated by a staff of 20 employees of an affiliate of the Manager that were augmented as required with outside contractors, and engineering services from Cogeneration Associates Limited, another affiliate of the Manager. The employees at the facility are members of the International Union of Operating Engineers. In 2005, a new collective agreement was entered into with employees at the Iroquois Falls Facility that runs until June 30, 2010.

Environmental Matters and Permits

The Iroquois Falls Facility holds all necessary permits and approvals required for operations and has an environmental monitoring and reporting system in place. In particular, current generating equipment at the Iroquois Falls Facility is designed to produce NO_x emissions below the levels set out in its permits and, because its NO_x emissions are low, Iroquois Falls Corp. has surplus NO_x allowances for sale. In 2008, the Iroquois Falls Facility sold approximately 200 tonnes of emission allowances and credits for \$0.1 million. There were no sales of emission allowances or credits in 2007.

KINGSTON FACILITY

General Background

Kingston LP owns a 110 MW natural-gas fired, combined-cycle cogeneration plant located west of Kingston, Ontario in Loyalist Township. The Kingston Facility is situated on approximately 11 acres of land near Lake Ontario. The plant started commercial operations on February 1, 1997. It was designed to provide electricity to Ontario Hydro (now OEFC) under a long-term power purchase agreement and steam to an adjacent industrial complex through a long-term energy services agreement. The natural gas required to fuel the Kingston plant is obtained through a series of long-term agreements and contracts for the supply and transportation of natural gas. The project has a similar contractual structure to the Fund's Iroquois Falls project and is also designed around General Electric equipment.

Power Purchase Agreement

Kingston LP is a party to the long-term Kingston Power Purchase Agreement with OEFC for the sale and delivery of monthly quantities of 93 MW to 109 MW of electricity (approximately 100 MW on average) through to January 31, 2017. The Kingston Power Purchase Agreement can be extended for a further 5 years with the consent of both parties at rates agreed upon at that time.

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

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

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

Kingston LP entered into a General Term Sheet with OEFC in 2006 that addresses the sharing of profits from incremental production from the Kingston Facility along with the sale of Operating Reserves and Ancillary Services to the IESO under the IESO Market Rules.

Energy Services Agreement and Water-Related Contracts

Kingston LP 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 the supply of water from Lake Ontario through their pumphouse and for the treatment and disposal of process wastewater and sanitary wastewater. Late in 2008, INVISTA informed Kingston LP that it intended to shut down its Millhaven facility indefinitely starting sometime in mid-2009. INVISTA will give Kingston LP six months notice once a shut down date has been determined. The Manager understands that INVISTA is also seeking a third party to purchase and operate its facility. The Manager is currently working with Loyalist Township and INVISTA on coordinating the future operation of their pumphouse and waste water treatment facility. An engineering firm has also been engaged to simultaneously explore alternative waste water treatment options. If Loyalist Township does not take ownership of INVISTA’s pumphouse and waste water treatment facility, the Manager is estimating capital costs in the \$1.0 million to \$1.5 million range to upgrade and integrate these systems with ongoing operating and maintenance costs at Kingston LP increasing marginally. Lost steam revenue is expected to be largely off-set by additional gas resales. However, the extent of this off-set is contingent on the market prices of gas.

Natural Gas Supply

Kingston LP is party to a natural gas purchase agreement with EnCana for the supply of natural gas to the Kingston Facility to January 31, 2017. The natural gas cost escalates with transportation costs on the NOVA system and a predetermined amount over the Consumer Price Index (as defined in the natural gas purchase agreement). TransCanada PipeLines Limited and Union Gas Limited transport gas under separate long-term firm transportation agreements.

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

Operations and Maintenance

After the Fund acquired the remaining 50% interest in Kingston LP on March 23, 2006, operations and maintenance of the Kingston Facility became the responsibility of the Manager, under long-term management, operations and maintenance agreements. Since the Fund’s initial investment in December 2002, Kingston LP has entered into a multi-year agreement with GE for the long-term supply of parts and specified repair services for the GE 6FA gas turbine. Late in 2004, Kingston LP entered into a new agreement under which GE assumed additional responsibilities and risks associated with scheduled and unscheduled maintenance on the gas turbine in return for a monthly fee and periodic payments. The total commitment over the remaining life of the contract is approximately US\$13.0 million. This agreement expires after 68,000 hours of operations (estimated to be in 2017).

Environmental Matters and Permits

The Kingston Facility holds all necessary permits and approvals required for operations and has an environmental monitoring and reporting system in place. All current generating equipment at the Kingston Facility is designed to produce NO_x emissions below the levels set out in its permits and because its NO_x emissions are low, Kingston LP has surplus NO_x allowances for sale. There were no sales of emission allowances in either 2008 or 2007 due to the continuation of low, unattractive market prices.

Capital Structure of Kingston LP

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

THE PANDA-BRANDYWINE FACILITY

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

The Panda-Brandywine Facility is currently leased by Panda-Brandywine, L.P. The lease, which expires on October 31, 2021, was entered into in connection with a sale leaseback transaction with GE Capital and other financing parties. Sempra acquired the lease as part of the September 2008 transactions. At the end of the current lease term, it may be renewed for an additional 5-year term. Alternatively, the facility may be purchased at fair market value at the end of the lease term or the renewal term.

The Panda-Brandywine Facility's Sales, Supply, Management and Maintenance Contracts

The Panda-Brandywine Facility sells electrical capacity and energy to Sempra pursuant to a power purchase agreement that expires on October 31, 2021, and may be extended by mutual agreement of the parties.

The Panda-Brandywine Facility produces both electricity and useful thermal energy in the form of steam. Electric capacity and energy sales are based on the terms of the power purchase agreement. The Sempra PPA retains the characteristics of the PEPCO PPA, including predefined fixed capacity payments, variable operating payments designed to match variable operating costs, including fuel, with the exception that Sempra will provide all natural gas needed for operations. The Sempra fixed capacity payments are similar to those under the PEPCO PPA until 2016, but somewhat lower thereafter. Under the Sempra PPA, the Panda-Brandywine Facility will generally be dispatched at full output (230 MW) or not at all. Under the previous PEPCO PPA, the facility was often part-loaded (i.e., not at full output), which is less efficient and harder on the machinery. A financial institution has committed to provide

letters of credit up to a maximum of approximately US\$7.0 million (under certain circumstances) guaranteeing Panda-Brandywine, L.P.'s performance under the power purchase agreement.

The distilled water plant owned indirectly by PEC was shutdown after the Sempra transaction was completed.

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

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

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

Environmental Matters and Permits

The Panda-Brandywine Facility has been designed to meet U.S. federal and Maryland environmental standards and the Manager understands it is in material compliance with current environmental requirements.

THE MONT MILLER FACILITY

General Background

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

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

Facility Design and Equipment

The Mont Miller Facility consists of 30 Vestas V80 wind turbines. Denmark based Vestas is the largest wind turbine manufacturer in the world, with over 25,000 MW of installed capacity worldwide. Each Vestas V80 wind turbine has a capacity of 1.8 MW. The turbines are mounted on 67 metre towers and equipped with 3 blades, each almost 40 metres in length. Electricity is generated at 690 volts then transformed to 34.5 kV for transmission through the collection system. The turbines supplied for the project are equipped with a special cold weather package to ensure their operability and survivability under extreme winter conditions.

The turbines are arrayed over a territory of approximately 25 square kilometres on a series of ridges and mountain tops ranging from 700 to almost 900 metres in altitude. The territory is Crown land which is leased for 25 years, renewable for an additional 15 years. A series of roads totalling over 20 kilometres in length has been built to install and service the turbines, which are connected by an underground collection system that takes the power to the Mont Miller Facility's substation. The project's substation is connected via Hydro-Québec's 5 kilometre dedicated power line to its nearest substation, where the power is fed into Hydro-Québec TransÉnergie's 161 kV transmission line.

The Mont Miller Facility's energy forecast and revenue projections are based on detailed wind studies. Wind speed data were collected on site for over 3 years then analyzed using sophisticated computer modeling and simulations by third party experts. The average wind speed at the individual turbines has been estimated at over 8.8 metres per second. After adjusting for normal energy losses due to transmission inefficiencies, downtime resulting from extreme weather conditions and scheduled maintenance, and other factors, the net energy output was forecast at 41.7% of the plant's 54 MW capacity, or approximately 195 GWh per year. Energy production during 2008 fell short of long-term expectations due to generally calmer winds during the year. In addition, Hydro-Québec TransÉnergie limited the wind farm to 60% load for 25 days mainly during the second half of the year to complete local substation maintenance. Nonetheless, wind speeds were within the expected range of variability.

Mont Miller's Sales and Maintenance Contracts

All the power produced by the Mont Miller Facility is sold to Hydro-Québec under the 21-year Miller LP Power Purchase Agreement. The price for the power was set at \$56 per MWh at the beginning of commercial operations of the facility. This price escalates at 1.5% per annum for the term of the Miller LP Power Purchase Agreement. Hydro-Québec purchases all the electricity produced by the Mont Miller Facility, and there is no minimum or maximum production or delivery requirement. In 2008, the Mont Miller Facility produced 153,136 MWh (2007 – 168,402 MWh) of electricity and revenue of \$9.7 million (2007 - \$10.5 million).

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

Miller LP has also entered into a 5-year warranty, maintenance and services agreement with Vestas. Under the terms of this agreement, Vestas provides all scheduled and unscheduled maintenance required for the wind turbines, including all labour, repairs, replacement parts, and

supplies. The agreement also provides specific guarantees for availability (95%) and power output (95% of the turbines' rated capacity) for a 5-year warranty period.

Operations

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

THE GERMAN WIND FARMS

General Background

The German Wind Farms consist of the 7.2 MW Kavelstorf wind farm, located on level agricultural land south of Rostock in northern Germany and the 14.3 MW Eckolstädt wind farm, located on flat land in the Thuringen region in central Germany. The Kavelstorf wind farm has been operating since April 2001, and the Eckolstädt wind farm has been operating since January 2000.

Facility Design and Equipment

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

Sales and Maintenance Contracts and Operations

The German Wind Farms are projected to supply 33,800 MWh of electricity to regional power utilities and receive a fixed tariff for all energy delivered of Euro 9.1¢/kWh for a term of 20 years under the provisions of German renewable energy legislation. Terms of all land lease agreements are for 30 years with expiration starting in 2029.

Management and day-to-day operations are provided by enXco GmbH, a German entity with considerable wind power experience, which is affiliated with Électricité de France, one of the largest power utilities in the world. Oversight of the German Wind Farms is provided by the Manager. In 2008, the German Wind Farms produced 35,331 MWh (2007 – 38,358 MWh) of electricity and revenue of \$5.1 million (2007 - \$5.2 million).

THE THOROLD PROJECT (OWNED BY NPI)

Thorold LP was a successful bidder under the OPA's request for proposals for combined heat and power projects, and entered into a 20-year agreement concerning electricity sales (the "CHP Contract") with the OPA on October 16, 2006.

The Thorold Project is a natural-gas-fired, combined-cycle cogeneration facility that will produce both electricity and steam from a 170 MW industrial gas turbine and associated 95 MW steam turbine. Electricity will be supplied under the CHP Contract, which will provide revenue assurance and stability to the project, and steam and electricity will be sold to the AbitibiBowater

Thorold Mill under a 20-year energy supply agreement. The Manager understands from AbitibiBowater that the Thorold Project will significantly reduce energy costs and improve the competitiveness of the AbitibiBowater Thorold Mill, which AbitibiBowater considers one of its strategic assets. Construction of the approximately \$520 million Thorold Project began in the third quarter of 2007, following the completion of all permitting and financing. Full commercial operations and supply of electricity are expected to commence in December 2009, about 3 months ahead of the original schedule.

The Thorold Project is configured around a General Electric industrial gas turbine that, when combined with the large steam demand from the AbitibiBowater Thorold Mill, will make the plant one of the most efficient power generators in Canada. The Thorold Project is being constructed by V.K. Mason Construction Co., a subsidiary of Kiewit Construction Co. of Omaha, Nebraska, under a construction contract that fixes the price and completion date, and guarantees the plant's output and efficiency. The Project will be operated and maintained on behalf of Thorold LP by a subsidiary of NPI.

The contractual structure of the Thorold Project is designed to insulate Thorold LP from exposure to electricity price and dispatch risk, natural-gas price volatility and delivery uncertainty, changes in steam demand, and performance-related issues. NPI, the project's sponsor and equity provider, will bear the primary risk of any construction cost overruns. The Fund has a right of first offer to acquire all or part of NPI's interests in the Thorold Project, should it decide to sell. This arrangement allows the Fund to be shielded from the construction and start-up risks and preserves the opportunity for a larger investment if authorized by the Trustees after the Thorold Project is completed.

JARDIN D'ÉOLE WIND PROJECT

The Fund has committed to provide a \$34.8 million loan to Jardin LP, the developer and owner of the Jardin d'Éole wind project in the Gaspésie region of Quebec. Two wholly-owned subsidiaries of NPI are the general partners of Jardin LP. The Fund's \$34.8 million loan will be subordinated to the senior secured project debt, with recourse limited to the assets of Jardin LP. The senior secured debt financing of \$153.0 million plus a letter of credit facility and a \$41.0 million bridge loan facility are being provided by a consortium of insurance companies led by Manulife and including Sun Life and Great-West Life.

The Jardin d'Éole wind project will be located on leased land, primarily agricultural, on the south shore of the St. Lawrence River close to the municipalities of Saint-Ulric and Saint-Léandre. Jardin LP signed a contract with Hydro-Québec in February 2005 for the supply of up to 150 MW of electricity from the Jardin d'Éole wind farm that expires 20 years after commencement of commercial operations. Jardin LP also expects to receive payments under the federal government's EcoEnergy program. Jardin LP has contracted with GE Wind Inc. and General Electric Canada for the delivery of 85 GE 1.5sle wind turbines, equivalent to 127.5 MW. The Jardin d'Éole wind farm may be expanded at a later date to the full 150 MW PPA capacity. Construction commenced during the second quarter of 2008 by Borea, a joint venture of Pomerleau Inc. and D.H. Blattner and Sons, with completion scheduled for December 2009. The wind farm will be operated and maintained on behalf of Jardin LP by a subsidiary of NPI.

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

As at December 31, 2008, a letter of credit in the amount of \$34.8 million was outstanding under the Fund's credit facility as security for its funding commitments to Jardin LP. During 2008, the Fund recognized \$0.4 million in stand-by fees on the \$34.8 million loan commitment.

DISTRIBUTIONS

Unitholder Distribution Policy

The Fund's policy is to pay monthly cash distributions to Unitholders. The Trustees determine the amount of cash to be distributed – consistent with the Fund's commitment to the stability and sustainability of future distributions – after providing for amounts required to administer and operate the Fund, and for capital expenditures, capital and other reserves, and amounts required for the payment of any tax liability of CT and increases in working capital that, in their judgment, ensure the Fund's long-term success.

Any permitted acquisitions and plant expansions would be funded by a combination of surplus cash available for distribution, borrowings and the issuance of additional Fund securities.

The Fund distributed a total of \$1.12 per unit to Unitholders for the year ended December 31, 2008 (2007 – \$1.08 per unit; 2006 – \$1.08 per unit). The \$1.12 per unit represents regular distributions of \$1.08 per unit and a one-time special distribution of \$0.04 per unit. The purpose of the special distribution was to ensure that cash distributions for the year at least equalled the taxable income allocated to Unitholders in 2008.

To allow Unitholders of the Fund who are residents of Canada to conveniently acquire additional Units by reinvesting their cash distributions, the Fund has established a distribution reinvestment plan. For Canadian tax purposes, the fiscal 2008 distributions of \$1.12 per Unit are treated as 100% taxable as ordinary income.

History of Distributions

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

<u>Month</u>	Distributions Declared per Unit (\$)		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
January	0.0900	0.0900	0.0875
February	0.0900	0.0900	0.0875
March	0.0900	0.0900	0.0875
April	0.0900	0.0900	0.0875
May	0.0900	0.0900	0.0875
June	0.0900	0.0900	0.0875
July	0.0900	0.0900	0.0875
August	0.0900	0.0900	0.0900
September	0.0900	0.0900	0.0900
October	0.0900	0.0900	0.0900
November	0.0900	0.0900	0.0900
December	0.1300	0.0900	0.1075
	<u>1.1200</u>	<u>1.0800</u>	<u>1.0800</u>

MANAGEMENT AND ADMINISTRATION OF THE FUND

ADMINISTRATION AND MANAGEMENT AGREEMENTS

Administration of the Fund

Administration of the Fund is the responsibility of the Fund Trustee, Computershare Trust Company of Canada. The Fund Trustee has delegated administrative responsibility to the Administrator under the terms of the Administration Agreement which terminates December 31, 2021. The Administrator's responsibilities under the Administration Agreement include: determining cash distributions for Unitholders, providing Unitholders with annual audited and interim unaudited financial statements and relevant tax information, and ensuring compliance by the Fund with all applicable securities legislation.

Role of the Manager

There are no directors or trustees of the Fund itself and management and administration of the Fund is performed by the Manager as the delegate of the Fund Trustee under the Fund Trust Indenture and the Administration Agreement. The Manager provides management and general administrative services to CT pursuant to the CT Management Agreement.

Role of the Board of Trustees

The CT Board of Trustees is the central governing body of the Fund. The CT Board of Trustees advises the Manager in respect of certain of the Manager's functions in relation to the Fund, exercises the discretionary power of the Fund Trustee under the Fund Trust Indenture and exercises approval rights in relation to the conduct of the business of the Fund.

The CT Trust Indenture provides that CT shall have five trustees, two of whom shall be appointed by the Manager and three of whom shall be nominees of the Fund elected by the

Unitholders. As of February 15, 2007, the roles of the Chair of CT and Chief Executive Officer of CT were separated. As of December 5, 2007, the CT Board of Trustees adopted a Mandate which described the role of the Board, the duties of the Lead Trustee and the Chair of CT.

Management of NPIF Commercial Trust

The CT Management Agreement was entered into between the Manager and CT as of July 1, 2003 under which the Manager is responsible for providing administrative services to, and managing the investments of, CT, which include CT's ownership (through Iroquois Falls Corp.) of the Iroquois Falls Facility, its indirect investment in Kingston LP, its indirect investment (through Iroquois Falls Corp.) in PEC and PIC, its investments in the Mont Miller Facility and the German Wind Farms, and any future investments by CT until December 31, 2021.

Management of Iroquois Falls Corp. and the Iroquois Falls Facility

The Iroquois Falls Facility is operated and managed by the Manager under the Iroquois Falls Management Agreement that was amended and restated effective July 1, 2003 and whose initial term ends December 31, 2021. Under the Iroquois Falls Management Agreement, the Manager assumed responsibility for all aspects of the operation, maintenance and management of the Iroquois Falls Facility as well as natural gas supply management and sales of electricity to the wholesale market from the Iroquois Falls Facility. The Manager is required to administer the Iroquois Falls Corp. natural-gas supply agreements including assuming responsibility for making all required nominations under such agreements on a timely basis and taking steps necessary to ensure that Iroquois Falls Corp. is in compliance with the natural-gas supply agreements and the gas transportation agreements.

Management of Kingston CoGen Limited Partnership

After the Fund acquired the remaining 50% interest in Kingston LP on March 23, 2006, operations and maintenance of the Kingston Facility became the responsibility of the Manager, under long-term management, operations and maintenance agreements. EnCana continues to be responsible for the management of all aspects of the natural gas supply under a fuel management agreement with Kingston LP.

Management of the Panda-Brandywine Facility

Panda Global Services Inc., an affiliate of Panda Energy International, Inc., provides operation and maintenance services for the Panda-Brandywine Facility pursuant to operation and maintenance agreements. Panda Global Services Inc. manages Panda-Brandywine, L.P. and is responsible for the management of PEC and PIC including financial statement preparation, reporting and cash management.

Management of Miller LP and the Miller LP Facility

The Mont Miller Facility is operated and managed by the Manager under the Mont Miller Management Agreement whose initial term ends with the PPA. Under the Mont Miller Management Agreement, the Manager assumed responsibility for all aspects of the operation, maintenance and management of the Mont Miller Facility once substantial completion of the project occurred.

Management of the German Wind Farms

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

MANAGEMENT AND ADMINISTRATION FEES

The Manager of the Fund is entitled to receive a fee for services provided relating to the operation and management of the Iroquois Falls Facility pursuant to a 25-year management agreement expiring in 2021. The annual fee is payable on an equal monthly basis and is adjusted annually with changes to the consumer price index. During the year ended December 31, 2008, the Manager was paid \$575,000 (2007 – \$565,000). The Manager is also entitled to operation-related incentive fees. During the year ended December 31, 2008, the Manager earned \$1,451,000 (2007 – \$7,377,000) as operation-related incentive fees, which are included in cost of sales, except for the one-time fee of \$6,450,000 earned in 2007 related to the settlement of the claim against Calpine Gas, which is included in the settlement of claim line in the consolidated statements of income (loss) and deficit. All other fees paid to the Manager are included in management and administrative costs.

The Manager is entitled to receive an annual \$400,000 fee that is payable on an equal monthly basis and is adjusted annually with changes to the consumer price index for services provided relating to the operation and management of the Kingston Facility, pursuant to a management agreement expiring in 2017. During the year ended December 31, 2008, the Manager was paid \$415,000 (2007 – \$407,000).

Commencing in 2004, the Manager began to receive from PIC a loan administration fee of US\$125,000 and a manager's fee of US\$75,000 per annum, adjusted annually to reflect changes in the U.S. consumer price index. During the year, the Manager received \$246,000 (2007 – \$236,000) related to the PIC loan administration and manager's fee.

The Mont Miller Facility is operated and managed by the Manager under a management agreement whose term ends with the PPA. In connection with the Mont Miller Facility, the Manager and affiliated parties of the Manager have received compensation as follows:

- (a) The Manager as manager of the Mont Miller Facility is responsible for all management functions and receives an annual fee of \$300,000 escalating annually according to changes in the Canadian consumer price index. Two-thirds of the fee is subordinated to Class A Priority distributions. During 2008, the Manager received \$107,000 (2007 – \$104,000).
- (b) Miller Developer (50% owned by the parent of the Manager), as the holder of Class B Subordinated Units of Miller LP, is entitled to receive, in any year, 49.95% of the amount by which available cash flow from Miller LP exceeds \$5,786,880 on an annualized basis. No amounts were paid to Mount Miller Construction and Services Inc. in 2008 or 2007.

The Manager is entitled to receive an annual management fee of €75,000 relating to the German Wind Farms, which is adjusted annually with changes to the consumer price index. In 2008, the Manager earned \$123,000 (2007 – \$105,000).

The Manager received a management incentive fee of \$1,565,000 (2007 – \$nil) equal to 25% of the amount by which annual distributable cash exceeded \$0.934 per unit, less the amount of certain operation-related incentive fees.

As at December 31, 2008, the Fund and its subsidiaries owed the Manager and its affiliates \$2,997,000 (2007 – \$3,129,000 million).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to the information under the heading "Management's Discussion and Analysis" on pages 12 through 57 of the Fund's Annual Report, which is incorporated herein by reference. The Annual Report is filed on SEDAR and can be reviewed and obtained from the website, www.sedar.com.

CAPITAL STRUCTURE

The Fund's capital consists of Units and Convertible Debentures. An unlimited number of Units are authorized and may be issued pursuant to the Fund Trust Indenture. As at December 31, 2008, the Fund had 62,353,143 Units outstanding (December 31, 2007 – 62,352,423). As at December 31, 2008, a total of \$36.0 million of Convertible Debentures had been converted into 2,858,160 Units of the Fund, of which a total of \$0.2 million of Convertible Debentures were converted into 19,040 Units during 2007. A total of \$9 thousand of Convertible Debentures were converted into 720 trust units during 2008.

TRUST UNITS

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

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

Issuance of Securities

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

Redemption Right

Units are redeemable at any time on demand by the holders thereof upon delivery to the Fund of a duly completed and properly executed notice requesting redemption. Upon receipt of the redemption request by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (“Redemption Price”) equal to the lesser of: (i) 95% of the “market price” (as defined in the Fund Trust Indenture) of the Units on the principal market on which the Units are quoted for trading during the ten trading day period commencing immediately after the date on which the Units are surrendered for redemption; and (ii) the “closing market price” (as defined in the Fund Trust Indenture) on the principal market on which the Units are quoted for trading on the date that the Units are surrendered for redemption.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during any calendar month shall be paid by cheque drawn on a Canadian chartered bank or a trust company on the last day of the following month; provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that (i) the total amount payable by the Fund in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed \$200,000 (provided that such limitation may be waived at the discretion of the Fund Trustee), (ii) at the time such Units are tendered for redemption the outstanding Units of the Fund are not listed for trading on a stock exchange and are not traded or quoted on any other market which the Fund Trustee considers, in its sole discretion, provides representative fair market value prices for the Units, or (iii) the normal trading of Units is suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the date that the Units are tendered for redemption or for more than five trading days during the ten day trading period commencing immediately after the date on which the Units are tendered for redemption.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then the redemption price for such Units shall be the fair market value thereof as determined by the Fund Trustee and shall, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution in specie of a combination of notes of any series or class of CT (“NPIF Commercial Trust Notes”) (or a combination of series and classes) and in a principal amount determined by the Fund Trustee having fair market value equal to the in specie Redemption Price as determined by the Fund Trustee in its sole discretion. No fractional NPIF Commercial Trust Notes in integral multiples of less than \$100 will be distributed and where the number of NPIF Commercial Trust Notes to be received by a Unitholder includes a fraction or a multiple of less than \$100, such number shall be rounded to the next lowest whole number or integral of \$100. For the purpose of effecting such distribution in specie, the Fund Trustee may require CT to redeem units issued by NPIF Commercial Trust (“NPIF Commercial Trust Units”) and/or NPIF Commercial Trust Notes held by the Fund in accordance with the CT Trust Indenture and the note indenture pursuant to which the NPIF Commercial Trust Notes are issued in consideration for the issuance of the NPIF Commercial Trust Notes to be distributed to the Unitholder whose Units are being redeemed as determined by the Fund Trustee.

The Fund shall be entitled to all interest paid or accrued and unpaid on the NPIF Commercial Trust Notes, if any, and the distributions paid or accrued and unpaid on any NPIF Commercial Trust Units redeemed in connection with the distribution in specie, on or before the date of the distribution in specie. It is anticipated that this redemption right will not be the primary mechanism for holders of Units to dispose of their Units. NPIF Commercial Trust Notes which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in such NPIF Commercial Trust Notes. NPIF Commercial Trust Notes may be subject to resale restrictions under applicable securities laws.

Meetings of Unitholders

The Fund Trust Indenture provides that meetings of Unitholders must be called and held for, among other things, the selection of the Independent Trustees of CT, appointment or removal of the auditors of the Fund, the approval of amendments to the Fund Trust Indenture (other than certain minor amendments), the sale, lease or exchange of all or substantially all of the property of the Fund (other than in connection with an internal reorganization or sale lease back transaction), any change of the Manager (other than to an affiliate of the Manager, except where the Fund Trustee is entitled to engage another person to perform the obligations of the Manager), or to authorize the termination, liquidation or winding up of the Fund.

CONVERTIBLE DEBENTURES

Convertible Debentures were issued under and pursuant to the provisions of the CD Indenture between the Fund and Computershare Trust Company of Canada, as trustee (the "Debenture Trustee"), dated August 26, 2004. The Convertible Debentures are limited in the aggregate principal amount to \$65 million and are due on June 30, 2011. The Fund may from time to time, without the consent of the holders of the Convertible Debentures, issue additional or other debentures.

The Convertible Debentures bear interest from August 26, 2004 at 6.5% per annum payable semi-annually on June 30 and December 31 in each year. Interest is payable based on a 365-day year.

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

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

Conversion Privilege

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

“Conversion Price”) (representing a premium of approximately 10% over the closing price on the TSX on August 5, 2004) being a ratio of 80 Units per \$1,000 principal amount of Convertible Debentures.

Redemption and Purchase

Prior to June 30, 2009, the Convertible Debentures may be redeemed at the option of the Fund, in whole at any time or in part from time to time, on not more than 60 days’ and not less than 30 days’ prior notice at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the Current Market Price determined on the date upon which the notice of redemption is given is at least 125% of the Conversion Price. On or after June 30, 2009 and prior to the Maturity Date, the Convertible Debentures may be redeemed by the Fund, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days’ and not less than 30 days’ prior written notice. No Convertible Debentures have been redeemed by the Fund.

Payment upon Redemption or Maturity

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

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

Unit Interest Payment Election

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

Priority over Unit Distributions

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

Limitation of Non-resident Ownership of Convertible Debentures

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

MATERIAL CONTRACTS

The Fund or its affiliates entered into a number of material contracts in 2008 or prior to 2008 which are still in effect. These contracts are as follows:

- (a) the CD Indenture;
- (b) the management agreement between NPIFMI and CT dated July 1, 2003 pursuant to which NPIFMI assumed responsibility of all aspects of the Fund's business, subject to the overall supervision of the CT Trustees;
- (c) the amended and restated administration agreement made as of July 1, 2003 between the Fund, Iroquois Falls Corp., CT and the Manager;
- (d) the amended and restated management agreement made as of July 1, 2003 between Iroquois Falls Corp., CT, and the Manager;
- (e) the Miller Limited Partnership Agreement;
- (f) the Engineering, Procurement and Construction Agreement and Intellectual Property Licence between Miller LP and Vestas dated July 29, 2004;
- (g) the wind impact agreement dated August 5, 2004 between NPI, CT, the Miller Developer, Miller LP, Miller GPCo, Millerco and 3Ci to compensate Miller LP for any impact of a neighbouring wind power project (under development by 3Ci) on the forecasted electricity production of the turbines at the Mont Miller Facility;
- (h) the management agreement between Miller LP and the Manager for the management of the Mont Miller Facility dated as of August 5, 2004;
- (i) the Warranty, Maintenance and Services Agreement between Miller LP and Vestas dated as of August 5, 2004;
- (j) the senior loan agreement between Iroquois Falls Corp. and PIC dated as of November 12, 2003, as amended by the letter agreement dated November 23, 2004, as amended by the second amendment to the senior loan agreement dated February 8, 2005, as amended by the third amendment to the senior loan agreement dated June 20, 2008.

- (k) the Fund Trust Indenture as amended by the first amendment dated as of February 17, 2005, as amended by the second amendment dated as of January 31, 2007;
- (l) the CT Trust Indenture as amended by the first amendment dated as of February 17, 2005, as amended by the second amendment dated as of February 15, 2006, as amended by the third amendment date as of January 31, 2007;
- (m) the subordinated loan agreement dated August 15, 2007 between Thorold LP, as borrower, Northland Power Thorold CoGen GP Inc., as general partner, and CT, Manulife, and Sun Life, as sub-debt lenders, and Manulife, as agent; and
- (n) the subordinated loan agreement dated May 2, 2008 between Jardin LP, as borrower, NPI Wind Power GP Inc., as general partner and NPIF Quebec Wind Investments Inc. as sub-debt lender.

MARKET FOR SECURITIES

The outstanding Units of the Fund are listed for trading on the Toronto Stock Exchange under the symbol NPL.UN. The table on the following page sets forth the reported high and low trading prices and trading volumes of the Units as reported by the TSX during 2008:

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<u>2008</u>			
January	\$12.35	\$10.81	4,547,300
February	12.98	11.89	1,607,300
March	12.89	11.91	3,281,000
April	13.10	12.61	1,359,200
May	13.04	12.20	1,156,700
June	13.42	12.50	1,742,900
July	12.66	11.30	1,343,700
August	12.90	12.20	929,100
September	12.95	11.49	1,645,900
October	12.09	9.59	3,559,700
November	11.88	10.44	2,052,100
December	11.66	10.38	2,091,300

The outstanding Convertible Debentures of the Fund are listed for trading on the Toronto Stock Exchange under the symbol NPI.DB. The table below sets forth the reported high and low trading prices and trading volumes of the Convertible Debentures as reported by the TSX in 2008:

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<u>2008</u>			
January	\$105.00	\$100.26	3,390
February	102.52	101.28	620
March	104.00	102.00	1,550

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
2008			
April	106.37	103.50	3,260
May	106.26	102.52	9,490
June	108.00	103.50	7,850
July	104.00	100.33	2,960
August	104.00	101.90	1,960
September	106.00	99.52	7,960
October	101.00	85.00	24,460
November	100.75	95.00	6,120
December	100.25	95.00	5,930

Stability Ratings

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

Standard & Poor's, a division of The McGraw-Hill Companies ("S&P"), has developed a rating scale to assist investors in understanding the risk profile of an investment in an income trust. The ratings in this scale are referred to as stability ratings. Through its rating scale, S&P characterizes the stability of the cash distribution stream among various income trusts. The stability ratings assess both the variability and sustainability of the cash distribution stream payable on the securities of an income trust in relation to other Canadian rated income trusts over the medium to long term. S&P assigns a single stability rating ranging from SR-1 through SR-7, with SR-1 (least variable and most sustainable) being the highest rating and SR-7 (most variable and least sustainable) being the lowest. S&P does not publish a stability rating for all income trusts.

On February 9, 2009, S&P confirmed the Fund's stability rating at SR-2 with a stable outlook, and that the Fund's distribution profile assessment remains moderate.

A stability rating is not a recommendation to buy, sell or hold securities and is subject to revision, suspension or withdrawal at any time by the rating organization.

RISK FACTORS

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

Contracts and Counterparties

The amount distributed by the Fund to Unitholders is dependent upon the parties to the Fund's long-term contracts continuing to fulfill their contractual obligations. In particular, as electricity sales represent a majority of Iroquois Falls Corp.'s and Kingston LP's revenues and all of Miller LP's revenues, failure of OEFC or Hydro-Québec to meet their contractual obligations would have an adverse affect on distributions. A portion of the Fund's cash available for distribution

originates from interest and principal payments on the senior loan to PIC and dividends from PEC that are dependent, in part, upon the parties to PEC's subsidiaries' long-term contracts continuing to fulfill their contractual obligations. In particular, failure of Sempra to meet its obligations to Panda-Brandywine, L.P. could have an adverse effect on distributions.

Both the Iroquois Falls and Kingston Power Purchase Agreements provide for certain rights of OEFC to curtail electricity output during the summer. OEFC has generally availed itself of those rights at the Iroquois Falls Facility but not at the Kingston Facility. Should OEFC exercise its curtailment rights, Kingston LP's revenues would be reduced, but the Fund's cash available for distribution would not be materially affected as these electricity revenues will be offset by gas resale revenue.

The Ontario government enacted the Electricity Restructuring Act, 2004, in December 2004, which introduced structural changes to the Ontario electricity market. OEFC confirmed that the Iroquois Falls Corp. agreement in principle respecting certain amendments to the Iroquois Falls Corp. PPA reached in 2002 was not affected by this measure. The agreement in principle contemplated that a formal agreement to replace the Iroquois Falls Corp. PPA would subsequently be entered into. No such replacement PPA has been entered into by OEFC with Iroquois Falls Corp. or with other parties which held similar PPA's. OEFC has stated that, with respect to all financial obligations under the Iroquois Falls Corp. PPA as modified by the agreement in principle, including those provisions relating to the index used to adjust revenues from electricity, the Iroquois Falls Corp. PPA is in full force and effect.

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

Steam sales by both the Iroquois Falls and Kingston facilities constitute a secondary source of revenue for the Fund. AbitibiBowater's demand for steam is determined by operations at its AbitibiBowater Iroquois Falls Mill, including the level of its own steam production. The Iroquois Falls Facility is obliged to respond to fluctuations in AbitibiBowater's steam needs. Demand for steam has an impact on natural gas consumption, and unexpectedly large short-term fluctuations in steam demand increase gas consumption without a proportionate increase in steam revenue. Since May 2003, AbitibiBowater has not been obligated to pay for a minimum quantity of steam. However, since January 1, 2002, the Fund has been protected through provisions of the Iroquois Falls Power Purchase Agreement that increase OEFC's electricity purchase obligations to make up for material shortfalls in steam revenue.

Kingston LP provides steam to an adjacent plant owned by INVISTA under an energy services agreement. If a *force majeure* event occurs, such as a strike or lock-out, INVISTA will not be required to purchase any steam from Kingston LP or to compensate Kingston LP.

Kingston LP has a long-term contract with INVISTA for the supply of water to the Kingston facility from Lake Ontario through INVISTA's pumphouse and treatment of the Kingston facility's waste water. As a result of INVISTA's announced closure, the Manager is working with Loyalist Township and INVISTA on coordinating the future operation of the pumphouse. If Loyalist Township does not take ownership of INVISTA's pumphouse and waste water

treatment facility, the Manager is estimating capital costs in the range of \$1.0 million to \$1.5 million to upgrade and integrate these systems with Kingston LP's future operating and maintenance costs expected to increase marginally. Lost steam revenue is expected to be largely off-set by additional gas resales; however, the extent of this off-set is contingent on the market prices of gas.

The current global credit crisis could impact the Fund's contract counterparties and/or the Fund's ability to extend its credit facility beyond its May 2009 expiry. Failure of the Fund to extend its credit facility or the Fund's counterparties to honour their contractual obligations may have a material adverse affect on distributable cash and/or require the Fund to increase its subordinated loan commitments to protect its investments.

Legal Contingencies

The Fund and its subsidiaries may be named as defendants in various claims and legal actions. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management. Management does not expect the outcome of claims or potential claims to have a material adverse effect on the Fund. Details on the Fund's litigation, claims and contingencies are outlined in note 23 of the Fund's audited consolidated financial statements.

Natural Gas Supply, Transportation and Price

Contracted natural gas prices for the Iroquois Falls Facility generally escalate with the new replacement electricity selling price index under the agreement in principle respecting certain amendments to the Iroquois Falls Power Purchase Agreement subject to a 4% minimum annual increase. The natural gas contracts, with expiration dates in 2015 and 2016, provide for price adjustments (subject to predefined ceilings) approximately every 5 years for which 50% of any resulting incremental costs are borne by OEFC. Alternatively, the periodic gas price adjusters could decrease contracted gas prices relative to electricity prices; OEFC shares in approximately 40% of any such savings. Kingston LP has a natural gas purchase agreement with EnCana for the supply of natural gas until 2017. The gas costs escalate with transportation costs on the NOVA system and a predetermined amount over the Canadian Consumer Price Index. Failure by Iroquois Falls Corp.'s or Kingston LP's natural gas suppliers to provide gas under the long-term contracts could result in higher gas prices if either were forced to make market purchases. Upon expiry of the above contracts, Iroquois Falls Corp. and Kingston LP will be required to renegotiate their respective contracts or enter into new gas supply arrangements. There is no assurance as to the price of natural gas under any new arrangements.

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

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

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

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

At December 31, 2008, the fair value of the interest rate swaps was approximately \$17.5 million unfavourable (2007 – \$11.6 million unfavourable) which represents the amount Kingston LP would be required to pay to terminate the swap agreements at year end.

Miller LP entered into a credit agreement with Manulife on October 8, 2004. The agreement provided for funding during the construction period of the Mont Miller Facility and then converted to a term loan on substantial completion of the project on September 20, 2005. The credit agreement is subject to certain covenants that are conventional for a construction and term loan that, if not met, may restrict Miller LP's ability to distribute cash to its partners, including the Fund.

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

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

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

Operational

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

Miller Facility and German Wind Farms are partially mitigated by the maintenance and service agreements with the original equipment suppliers.

Under the Iroquois Falls Power Purchase Agreement, if Iroquois Falls Corp. delivers less than 80% of the on-peak target quantities in a month, the monthly capacity payment (which is a component of the monthly payment) will be reduced by 6.66% for each 1% less than 80%. No capacity payment will be paid for a month in which the Iroquois Falls Facility delivers less than 65% of the on-peak target quantities.

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

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

The power purchase agreement with respect to the Mont Miller Facility has no minimum or maximum production or delivery requirement and no capacity charge. Similarly, German legislation governing payments to qualifying wind farms, such as the Fund's German Wind Farms, contains no such obligations.

Variability of Distributions

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

Variability of Wind-Based Revenue

The wind speeds at the Mont Miller Facility and the German Wind Farms will vary. Although the Fund believes that the wind survey and historical production data that has been collected demonstrates that the sites are economically viable, weather patterns could change or the historical data and technical predictions could prove not to accurately reflect the strength and consistency of the wind in the future. If there is insufficient wind, the underlying financial projections regarding the amount of electricity to be generated by the Mont Miller Facility and the German Wind Farms may not be met and cash available for distribution could be materially adversely affected.

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

Environment, Health and Safety

The Fund's facilities are subject to numerous and significant laws, including statutes, regulations, bylaws, guidelines, policies, directives and other requirements governing or relating

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

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

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

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

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

Although the Manager believes the operations of each of the facilities are currently in material compliance with applicable environmental laws, licenses, permits and other authorizations required for the operation of the facilities and although there are environmental monitoring and reporting systems in place with respect to all facilities, there is no guarantee that more stringent laws will not be imposed, that there will not be more stringent enforcement of applicable laws or that such systems will not fail, which may result in material expenditures. Failure by the

facilities to comply with any environmental, health or safety requirements, or increases in the cost of such compliance, including as a result of unanticipated liabilities or expenditures for investigation, assessment, remediation or prevention, could possibly result in additional expense, capital expenditures, restrictions and delays in the gas-fired facilities' activities, the extent of which cannot be predicted.

Insurance

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

Tax Related Risks

There can be no assurance that Canadian or United States income tax laws and government incentive programs respecting the treatment and status of mutual fund trusts will not be changed in a manner which adversely affects the Fund and Unitholders.

Mutual Fund Trust

It is assumed that the Fund currently qualifies as a "mutual fund trust" under the Tax Act. If the Fund ceases to so qualify the income tax considerations could be materially and adversely different in certain respects. Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is property other than taxable Canadian property as defined in the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act. Under the draft amendments, a trust will lose its status as a mutual fund trust if the aggregate fair market value of all the units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships is more than 50% of the aggregate fair market value of all the units issued by the trust, where more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of property. If the draft amendments are enacted as proposed, and if, at any time, more than 50% of the aggregate fair market value of the Units are held by the non-residents and partnerships other than Canadian partnerships, the Fund will thereafter cease to be a mutual fund trust. There are no provisions in the draft legislation that allow for rectification of the loss of mutual fund trust status. The December 6, 2004 Notice of Ways and Means Motion to implement the tax proposals contained in the 2004 Federal Budget did not contain this proposal and the Department of Finance indicated in a concurrent release that further discussions would be pursued with the private sector in this regard. The Fund Trust Indenture contains provisions to ensure, based on these draft amendments, that the Fund is not maintained primarily for the benefit of non-residents of Canada.

Specified Investment Flow Through Rules

New rules (the "SIFT Rules") relating to the federal income taxation of publicly traded income trusts (each a "SIFT trust") and certain other publicly traded flow-through entities were enacted on June 22, 2007.

Generally, under the SIFT Rules, certain distributions from a SIFT trust (such as the Fund) will not be deductible in computing the trust's taxable income, and the trust will be subject to tax on such distributions at a rate that is comparable to the general tax rate applicable to a Canadian corporation. To the extent that a distribution attracts this tax, it will be taxed in the hands of the receiving Unitholder as a taxable dividend from a taxable Canadian corporation, which dividend will be eligible for the enhanced dividend tax credit.

The SIFT Rules provide that a SIFT trust which was publicly listed before November 1, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing with the 2011 taxation year. However, the SIFT Rules also provide that an Existing Trust will become subject to this tax prior to the 2011 taxation year if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006, as determined under growth guidelines issued by the Department of Finance on December 15, 2006, as amended from time to time (the "Growth Guidelines").

The Growth Guidelines indicate that the Fund will not lose the benefit of the deferred application of the new SIFT Rules to 2011 if the equity capital of the Fund does not grow as a result of issuances of new equity (or equity equivalents) by an amount that exceeds the greater of \$50 million and an objective "safe harbour" amount based on the Fund's market capitalization as the end of trading on October 31, 2006 (measured in terms of the value of the Fund's issued and outstanding publicly traded units, which for this purpose, does not include debt, options or other interest convertible into units) (the "October 31, 2006 Benchmark"). More specifically, the "safe harbour" for the period from November 1, 2006 to 2011 will be as follows:

Time Period	Safe Harbour Amount
November 1, 2006 to December 31, 2007	40% of October 31, 2006 Benchmark
2008 - 2010	20% of October 31, 2006 Benchmark

Therefore, a SIFT trust is allowed growth over the four year transition period of up to 100% of its October 31, 2006 Benchmark.

The SIFT Rules may adversely affect the marketability of the Units and the ability of the Fund to undertake financing and acquisitions, and, at such time as the SIFT Rules apply to the Fund, the distributable cash of the Fund may be materially reduced.

On July 14, 2008, the Ministry of Finance released draft amendments to the Tax Act to facilitate the conversion of a SIFT trust into a publicly traded corporation, generally without adverse tax consequences for the SIFT trust or its unitholders (the "Conversion Rules"). The Conversion Rules will allow a SIFT trust to adopt one of two methods to convert into a corporation on a tax-deferred basis. The first method involves an exchange of the SIFT trust units for shares of the corporation. The second method involves a distribution of shares of an underlying corporation to the SIFT trust unitholders. The Conversion Rules will apply to conversions occurring between July 14, 2008 and January 1, 2013. The Conversion Rules were enacted on March 12, 2008.

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

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

The Fund has been in discussions with the federal Department of Finance and the Canada Revenue Agency concerning the application of the specified energy property rules in the Canadian Income Tax Act in 2005, 2006 and 2007. While these discussions with the Department of Finance and Canada Revenue Agency are ongoing, it is Canada Revenue Agency's current position that the Fund should refile its trust income tax returns. The Fund's consolidated statements of income (loss) and deficit for the year ended December 31, 2008, include a future tax recovery of \$9.1 million related to the impact of the ongoing discussions with the Department of Finance and Canada Revenue Agency on the determination of the Fund's future tax liabilities.

Currency Fluctuations

The Fund receives cash flows in U.S. dollars from the investment in PEC and the loan to PIC that exceed the amount of payment obligations in U.S. dollars, primarily related to the service agreements for the gas turbines at Iroquois Falls and Kingston. Exchange rate fluctuations between the U.S. and the Canadian dollar may affect the cash flow of the Fund, NPIF Commercial Trust or Iroquois Falls Corp. The Fund has entered into foreign exchange forward contracts in respect of a substantial portion of the US dollar interest and principal payments to be received from 2009 to 2012.

The Fund receives cash flows in euros from its investment in the German Wind Farms. Exchange rate fluctuations between the euro and the Canadian dollar may affect the cash flow of the Fund or CT. To partially mitigate its exposure to exchange rate fluctuations between the euro and the Canadian dollar, the Fund entered into foreign exchange forward contracts in respect of its net investment in the German wind farms that fix the exchange rate for a substantial portion of the interest and principal payments to be received from its German subsidiaries to 2012. The Fund is obligated to make delivery of U.S. dollars and euros at the stated amounts on a quarterly and semi-annual basis respectively, on each of the forward contracts even if the PIC loan payments or the euro loan repayments are not made. This would require the Fund to purchase U.S. dollars or euros on the open market at the relevant time. To the extent that the Fund, CT and Iroquois Falls Corp. have engaged in risk-management activities related to the U.S. and Canadian dollar and euro and Canadian dollar exchange rates, the Fund may not benefit from favourable exchange rate movements and could become subject to credit risks associated with the counterparties with which it contracts.

Labour Relations

Employees at the Iroquois Falls Facility are unionized. The current labour agreement with these employees lasts until June 30, 2010. In the event of a strike or lock-out, the ability of Iroquois Falls Corp. to operate may be limited and its ability to generate cash available for distribution may be impaired. Employees at the Kingston Facility, Mont Miller Facility and the Panda-Brandywine Facility are not unionized.

Reliance on Third Parties

The Fund is reliant upon the Manager for the administration and management of all matters relating to the Fund. The Fund is reliant on Panda Global Services Inc. with respect to the management of the Panda-Brandywine Facility and enXco GmbH with respect to the management of the German Wind Farms.

Potential Conflicts of Interest

There may be situations in which the interests of NPI or its affiliates other than the Manager will conflict with those of Iroquois Falls Corp., CT, Kingston LP, Miller LP, the German Wind Farms, PEC, its subsidiaries or the Unitholders. NPI or its affiliates may engage in activities similar to the current activities of Iroquois Falls Corp., CT, Kingston LP, Miller LP, the German Wind Farms, PEC and its subsidiaries. NPI or its affiliates may acquire, own, manage and administer other cogeneration or wind power facilities. The Manager may carry on its activities on behalf of companies other than those in which the Fund has invested and may be in competition with them.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Iroquois Falls Corp. has an outstanding claim against the engineering procurement & construction (“EPC”) contractor which constructed the Iroquois Falls Facility related to a possible reduction in the expected life of part of one of the plant’s major components, resulting in a warranty breach. The EPC contractor has counterclaimed for its costs related to this action, which would be payable only if Iroquois Falls Corp.’s claim is unsuccessful. If Iroquois Falls Corp. should be unsuccessful in its claim, costs payable by Iroquois Falls Corp. are currently estimated to be between several hundred thousand and one million dollars.

There are no other legal proceedings or regulatory actions outstanding involving the Fund.

BOARD OF TRUSTEES

The Fund has no directors or officers. The following information pertains to the board of Trustees of CT, the Fund’s wholly-owned subsidiary trust.

The CT Board consists of five Trustees, two of whom are appointed by the Manager and three of whom are selected by Unitholders.

The table below shows the names and province and country of residence of the members of the CT Board, the number of issued Units owned beneficially, directly or indirectly, by them, or over which they exercise control or direction, their principal occupations during the five preceding years and the year they first became Trustees of CT.

Name and Province of Residence	Positions and Offices held with CT	Principal Occupation(s) during five-year period ending December 31, 2008	Year Became Trustee ⁽¹⁾	Number of Units Beneficially Owned Directly or Indirectly ⁽²⁾
James C. Temerty ⁽³⁾ Ontario, Canada	Chair, and Trustee ⁽⁷⁾	Chair of Northland Power Inc. (the parent company of the Manager) previously President of Northland Power Inc.	2003	3,093,523 ⁽⁴⁾
Pierre R. Gloutney ⁽³⁾⁽⁵⁾ Quebec, Canada	Trustee	Previously, chair, MF Global Canada Co. and Chair and Chief Executive Officer, MAN Financial Canada Co. (formerly, Refco Canada Co.), previously also President, Refco Futures (Canada) Ltd. (investment dealer)	2003	26,591 ⁽⁸⁾
A. Warren Moysey ⁽⁶⁾⁽¹⁰⁾ Toronto, Ontario	Trustee	Chair and Director of Aviva Canada Inc. (insurance company); previously Chair and Director, CGU Canada Ltd. and Pilot Insurance Co. (insurance companies)	2003	1,500
F. David Rounthwaite ⁽⁵⁾⁽¹⁰⁾ Toronto, Ontario	Trustee	Partner, Miller Thompson LLP (law firm), previously, managing Director & General Counsel, Georgeson. Previously President and Director of Nereus Financial Inc. (investment management company).	2003	2,500
The Right Honourable John N. Turner, Q.C. ⁽⁵⁾⁽⁹⁾ Toronto, Ontario	Lead Trustee	Partner, Miller Thomson LLP (law firm)	2003	564

Notes:

- (1) Prior to the reorganization that took place as of July 1, 2003, each of the Trustees had been a director of Iroquois Falls Corp. since 1997.
- (2) This information, not being within the knowledge of the Manager, has been furnished by the respective Trustees individually, as of December 31, 2008. As of December 31, 2008, there was a total of 62,353,143 Units outstanding.
- (3) Nominee of the Manager.
- (4) Of these 3,093,523 Units, 2,275,962 Units are held directly and indirectly by Mr. Temerty, 180,542 Units are held by Mr. Temerty's spouse, Mrs. Louise Temerty, 102,804 are held by Mr. Temerty's children and 534,215 are held by the Temerty Family Foundation which Mr. Temerty directs.
- (5) Member of the Audit Committee of CT and an Independent Trustee.
- (6) Chair of the Audit Committee of CT, member of the Governance and Nominating Committee and an Independent Trustee.
- (7) Mr. Temerty was the Chair and Chief Executive Officer of CT from its establishment. Effective February 15, 2007, the roles of Chair and Chief Executive Officer were split with Mr. Temerty retaining the Chair and John W. Brace, formerly the President and Chief Operating Officer of CT, becoming President, Chief Executive and Chief Operating Officer.

- (8) Of these 26,591 Units, 19,349 are held directly and indirectly by Mr. Gloutney and 7,242 are held by Mr. Gloutney's spouse, Mrs. Dorothy Gloutney.
- (9) Effective February 15, 2007, Chair of the Governance and Nominating Committee and Lead Trustee.
- (10) Effective February 15, 2007, Member of the Governance and Nominating Committee and an Independent Trustee.

Approximately 5% (2007 - 5%) of the Units are beneficially owned, directly or indirectly, or controlled by the Trustees and senior officers of CT or the Manager.

The three Trustees who are not appointed by the Manager are subject to annual re-election at the annual general meeting of the Fund. Pursuant to the CT Trust Indenture which governs CT, the other two Trustees will be appointed by the Manager. Mr. Temerty and Mr. Gloutney are appointees of the Manager, and Mr. Moysey, Mr. Rounthwaite and Mr. Turner are nominees of the Fund.

AUDIT COMMITTEE

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

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

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

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

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

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

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

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

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

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

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

AUDITORS

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

Audit and Other Fees

For the years ended December 31, 2008 and 2007, Ernst & Young LLP were paid approximately \$429,567 and \$394,258 respectively, as detailed below, for services to the Fund and its wholly-owned subsidiaries.

	Year-ended December 31	
	2008	2007
Ernst & Young LLP		
Audit fees	\$ 390,492	\$ 360,508
Other Audit-related service fees	\$ -	\$ -
Non-audit services – tax	\$ 5,075	\$ -
All other fees	\$ 34,000	\$ 33,750
Total	\$ 429,567	\$ 394,258

In 2008 and 2007, “All other fees” include translation services.

TRANSFER AGENT AND REGISTRAR

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

ADDITIONAL INFORMATION

Additional information relating to the Fund may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of units, is contained in the Fund's Management Information Circular to be filed in connection with the Annual Meeting of Unitholders to be held on May 13, 2009.

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

Contact: Northland Power Income Fund
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GLOSSARY OF TERMS

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

“**AbitibiBowater**” means AbitibiBowater Inc.

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

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

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

“**Administrator**” means NPIFMI.

“**Annual Report**” means the Fund’s annual report for the year ended December 31, 2008.

“**ATR**” means an advance tax ruling from the Canada Revenue Agency.

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

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

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

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

“**CCAA**” means the *Companies’ Creditors Arrangement Act (Canada)*.

“**CD Indenture**” means the indenture dated August 26, 2004 between the Fund and Computershare Trust Company of Canada providing for the issuance of the Convertible Debentures.

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

“**Conversion Price**” is defined under the heading “Conversion Privilege”.

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

“**Credit Agreement**” means the credit agreement dated October 4, 2004 between Manulife and Miller LP.

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

“**CT Board**” or “**Trustees**” means the board of trustees of CT.

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

“**CT Trust Indenture**” means the supplemental and restated trust indenture dated as of July 1, 2003 which governs CT, as amended.

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

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

“**EnCana**” means EnCana Corporation.

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

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

“**Fund Trustee**” means Computershare Trust Company of Canada.

“**Fund Trust Indenture**” means the supplemental and restated trust indenture dated as of July 1, 2003, which governs the Fund, as amended.

“**GE Capital**” means the General Electric Capital Corporation.

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

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

“**Great West Life**” means The Great-West Life Assurance Company.

“**Hydro-Québec**” means Hydro-Québec, a Quebec Crown Corporation.

“**IESO**” means the Independent Electricity System Operator (IESO) (formerly, the Independent Electricity Market Operator (IMO)).

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

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

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

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

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

“**Jardin LP**” means Saint-Ulric Saint-Leandre Wind L.P., a Quebec limited partnership which owns the Jardin d'Éole wind project.

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

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

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

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

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

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

“**Manager**” means NPIFMI.

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

“**Maturity Date**” is defined under the heading “Conversion Privilege”.

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

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

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

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

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

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

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

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

“**Mont Miller Management Agreement**” means the management agreement dated August 5, 2004 between Miller LP, and the Manager providing for the management of the Mont Miller Facility.

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

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

“**NPI**” means Northland Power Inc., a corporation amalgamated under the laws of Ontario, which is the parent company of the Manager.

“**NPIF Commercial Trust Notes**” are defined under the heading “Redemption Right”.

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

“**NPIFMI**” means Northland Power Income Fund Management Inc., a corporation incorporated under the laws of Ontario pursuant to the *Business Corporations Act* (Ontario) which is a wholly-owned subsidiary of Northland Power Inc., a corporation that is indirectly owned by a trustee of CT.

“**OEB**” means the Ontario Energy Board.

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

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

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

“**OPA**” means the Ontario Power Authority.

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

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

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

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

“**Panda-Rosemary Facility**” means the 180 MW natural-gas fired combined-cycle cogeneration facility, located near Roanoke Rapids, North Carolina, U.S.A. that was sold on February 8, 2005.

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

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

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

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

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

“**Reorganization**” means the internal reorganization of the Fund and certain of its subsidiaries that was completed on January 31, 2007 and as is described more fully on page 9 of this Annual Information Form.

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

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

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

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

“**Thorold LP**” means Thorold CoGen LP, an Ontario limited partnership which owns the Thorold Project, and was established and is controlled by NPI.

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

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

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

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

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

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

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

**SCHEDULE “A” -
NPIF COMMERCIAL TRUST
(the “Trust”)**

AUDIT COMMITTEE CHARTER

Purpose of the Audit Committee

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

The Audit Committee shall report the results of its activities and associated recommendations to the Board and, as authorized by the Board, to Northland Power Income Fund Management Inc. (the “Manager”), in its capacity as administrator of the Fund, with respect to the financial statements of the Fund (which are the responsibility of the Manager) and of the Trust.

Meetings and Procedures

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

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

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

Audit Committee Responsibilities

- (i) *Annual Review of Audit Committee Charter*

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

(ii) *The External Auditor*

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

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

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

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

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

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

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

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

(iv) *Financial Statement Review*

The Audit Committee shall review the Fund's financial statements, MD&A, and annual and interim earnings press releases before the Manager publicly discloses this information on behalf of the Fund.

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

(v) *Compliance with Laws and Regulations*

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

(vi) *Complaints and "Whistle Blowers"*

The Audit Committee shall establish procedures for:

- (A) the receipt, retention and treatment of complaints received by the Fund, the Trust, the Manager and the Other Entities regarding accounting, internal accounting controls, or auditing matters; and
- (B) the confidential, anonymous submission by employees of the Fund, the Trust, the Manager and the Other Entities of concerns regarding questionable financial reporting, accounting or auditing matters.

Composition of the Audit Committee

(i) *Number of Members*

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

(ii) *Financial Literacy*

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

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

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

(iii) *Independence*

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

(iv) *Position Description – Audit Committee Chair*

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

Key Responsibilities of the Chair:

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

Authority and Resources of the Audit Committee

The Audit Committee has the authority to:

- (a) engage independent counsel and other advisors as it determines necessary to carry out its duties. For greater certainty the Audit Committee has the authority to retain, at the Trust's expense, special legal, accounting or such other advisors, consultants or experts it deems necessary in the performance of its duties;
- (b) set and pay the compensation for any advisors employed by the Committee. The Manager, Trust, or, as may be applicable, the Fund or the Other Entities, shall at all times make adequate provisions for the payment of all fees and other compensation, approved by the Committee, to the external auditor in connection with the issuance of its audit report, or to any consultants or experts employed by the Committee;
- (c) communicate directly with the internal and external auditors; and
- (d) conduct any investigation which it considers appropriate, and to communicate directly with and have direct access to the internal and external auditor as well as officers and employees of the Trust, the Fund, the Manager and the Other Entities, as applicable.

Risk Management and Insurance

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

- (i) foreign currency, interest rate and commodity hedging strategies; and
- (ii) insurance coverage.

Revised December 5, 2007

**APPENDIX I
MEANING OF INDEPENDENCE**

Part A: Meaning of Independence

1. An audit committee member is independent if he or she has no direct or indirect material relationship with the issuer.
2. For the purposes of subsection (1), a “material relationship” is a relationship which could, in the view of the issuer’s board of directors, be reasonably expected to interfere with the exercise of a member’s independent judgement.
3. Despite subsection (2), the following individuals are considered to have a material relationship with an issuer:
 - (a) an individual who is, or has been within the last three years, an employee or executive officer of the issuer;
 - (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the issuer;
 - (c) an individual who:
 - (i) is a partner of a firm that is the issuer’s internal or external auditor,
 - (ii) is an employee of that firm, or
 - (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer’s audit within that time;
 - (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual;
 - (i) is a partner of a firm that is the issuer’s internal or external auditor,
 - (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or
 - (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer’s audit within that time;
 - (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the issuer’s current executive officers serves or served at that same time on the entity’s compensation committee; and
 - (f) an individual who received, or whose immediate family member who is employed as an executive officer of the issuer received, more than \$75,000 in direct

compensation from the issuer during any 12 month period within the last three years.

4. Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because
 - (a) he or she had a relationship identified in subsection (3) if that relationship ended before March 30, 2004; or
 - (b) he or she had a relationship identified in subsection (3) by virtue of subsection (8) if that relationship ended before June 30, 2005.
5. For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
6. For the purposes of clause (3)(f), direct compensation does not include:
 - (a) remuneration for acting as a member of the board of directors or of any board committee of the issuer, and
 - (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.
7. Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because the individual or his or her immediate family member
 - (a) has previously acted as an interim chief executive officer of the issuer, or
 - (b) acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the issuer on a part-time basis.
8. For the purpose of Part A, an issuer includes a subsidiary entity of the issuer and a parent of the issuer.

Part B: Additional Independence Requirements

1. Despite any determination made under Part A, an individual who
 - (a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or

- (b) is an affiliated entity of the issuer or any of its subsidiary entities,
is considered to have a material relationship with the issuer.
2. For the purposes of subsection (1), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by
 - (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or
 - (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary entity of the issuer.
 3. For the purposes of subsection (1), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.