

# Quarterly Report

## Northland Power Income Fund

Quarterly Report for the period ended September 30, 2008

### FINANCIAL AND OPERATING RESULTS

This report covers  
Northland Power Income  
Fund's (the "Fund's")  
operations for the  
quarter and  
the 9 months ended  
September 30, 2008

	3 months ended Sept. 30		9 months ended Sept. 30	
	2008	2007	2008	2007
<b>FINANCIAL</b> (thousands, except per unit amounts)				
Sales	\$44,258	\$41,163	\$141,579	\$135,666
Net Income (Loss)	\$14,662	\$1,603	\$41,624	(\$58,483)
Standardized Distributable Cash	\$25,541	\$5,990	\$82,155	\$64,726
Distributable Cash	\$20,842	\$19,113	\$63,635	\$60,974
Distributions Declared to Unitholders	\$16,836	\$16,835	\$50,506	\$50,499
Units Outstanding	62,353	62,352	62,353	62,352
Average Number of Units Outstanding - basic	62,353	62,352	62,353	62,343
Average Number of Units Outstanding - diluted	64,876	62,352	64,916	62,343
<b>Per Unit</b>				
Standardized Distributable Cash	\$0.4096	\$0.0961	\$1.3176	\$1.0382
Distributable Cash	\$0.3343	\$0.3065	\$1.0206	\$0.9780
Distributions Declared to Unitholders	\$0.2700	\$0.2700	\$0.8100	\$0.8100
<b>OPERATIONS</b>				
Electricity Production (megawatthours)	275,791	320,259	961,574	1,019,782
Steam Production (thousands of pounds)	278,983	233,348	931,904	991,859
Fuel Consumption (thousands of gigajoules)	2,314	2,613	7,927	8,220



## MANAGEMENT'S DISCUSSION & ANALYSIS

### Overview

Consolidated sales for the quarter of \$44.3 million exceeded the third quarter of 2007 by \$3.1 million due to higher natural gas resales. Income before taxes at \$15.3 million was up \$13.3 million largely due to increased investment income of a one-time nature related to the Fund's indirect investment in the Panda-Brandywine facility as well as non-cash foreign exchange gains.

Third quarter operating income at the Iroquois Falls plant was up from last year primarily due to higher electricity and steam revenue, while operating income from the Kingston facility was down due to the impact of a scheduled two-week maintenance shut-down in September. Gross profit at both the Iroquois Falls and Kingston facilities continue to be negatively affected by significant increases since year end in TransCanada PipeLines Limited ("TCPL") transportation tariffs. Production and revenue at both the Mont Miller and German wind farms were down due to lighter winds than last year.

As announced on September 9<sup>th</sup>, the Fund received a US\$8.1 million dividend from Panda Energy Corporation ("PEC") and a restructuring fee of US\$1.3 million related to its loan to Panda Interfunding Company, LLC, a wholly-owned subsidiary of PEC. These payments are largely associated with transactions entered into by Panda-Brandywine, L.P. (a wholly-owned subsidiary of PEC that owns the Panda-Brandywine power-generating facility), including replacement of the existing power purchase agreement at the facility.

Distributable cash as determined by the Fund was \$20.8 million during the quarter and exceeded distributions paid to Unitholders by \$4.0 million. Distributable cash per unit for the quarter was \$0.33, compared to \$0.31 in 2007. Readers should refer to the schedule of Distributions to Unitholders and Distributable Cash for the calculation of distributable cash (a non-GAAP financial measure).

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

## Iroquois Falls Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2008	2007	2008	2007
<b>Sales Volume</b>				
Electricity (MWh)	149,363	153,699	505,428	510,724
Steam (000 lb.)	228,661	181,596	736,174	782,153
Fuel Consumption (000 GJs)	1,437	1,441	4,762	4,824
<b>Sales</b>				
Electricity	14,703	13,683	50,185	48,336
Steam	1,689	1,272	5,248	5,006
Natural gas	3,065	1,748	6,168	3,837
Emission allowances and credits	-	-	116	-
	19,457	16,703	61,717	57,179
<b>Cost of sales</b>				
Gas consumed	7,209	6,332	23,365	21,559
Gas re-sold	3,004	1,770	6,138	3,916
	10,213	8,102	29,503	25,475
<b>Gross profit</b>	<b>9,244</b>	<b>8,601</b>	<b>32,214</b>	<b>31,704</b>
<b>Plant operating costs</b>	<b>1,770</b>	<b>1,561</b>	<b>5,011</b>	<b>4,730</b>
<b>Capital expenditures</b>	<b>3</b>	<b>87</b>	<b>49</b>	<b>124</b>

For the third quarter, electricity sales volume under the power purchase agreement (“PPA”) was down compared to the third quarter of 2007 due to “backing down” (i.e., reducing) production during lower priced off-peak periods and the fact that non-contracted sales volume was lower due to weaker wholesale market prices compared to last year. Despite lower volume, electricity revenue was up \$1.0 million largely due to revenue adjustments from Ontario Electricity Financial Corporation (“OEF”) including a one-time retroactive payment of \$0.8 million relating to the sharing of incremental profits on non-contracted electricity sales in prior years. Steam revenues were up from the same period last year due to increased demand and a higher average selling price which is tied to the delivered cost of natural gas. Sales of natural gas were up \$1.3 million as market gas was purchased and resold to mitigate the cost of excess capacity under the plant’s gas transportation contract. There were no sales of emission allowances or credits during the quarter, which are being retained due to the continuation of unattractive, low market prices.

The cost of gas consumed during the quarter was up as a result of increased TCPL transportation tolls and a price increase resulting from the scheduled January 2008 “re-opening” of the price under one gas contract that represents approximately 30% of the facility’s gas supply; 50% of the latter increase is mitigated through higher payments from OEF. The cost of gas resold exceeded last year due to purchases of natural gas at generally higher market prices to mitigate fixed transportation tariffs. Plant operating costs at \$1.8 million were up \$0.2 million due to higher maintenance costs incurred during the 2008 annual scheduled maintenance shut-down in September.

For the nine-month period ended September 30<sup>th</sup>, electricity sales were \$1.8 million higher due to more on-peak production and retroactive payments received from OEF in the first and third quarters of 2008. Higher natural gas resales and cost of gas resold were the result of higher market prices. The cost of gas consumed was up \$1.8 million due to a 38% increase in TCPL tolls and a higher average cost of gas following the contract reopener. Plant operating costs incurred during the first nine months of 2008 were \$0.3 million greater than the same period last year, largely due to higher maintenance costs.

## Kingston Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2008	2007	2008	2007
<b>Sales Volume</b>				
Electricity (MWh)	89,046	125,485	324,155	356,429
Steam (000 lb.)	50,322	51,752	195,730	209,706
Fuel consumption (000 GJs)	877	1,172	3,165	3,396
<b>Sales</b>				
Electricity	13,602	15,835	48,005	47,947
Steam	328	304	1,264	1,216
Natural gas	8,021	5,274	20,257	17,661
	21,951	21,413	69,526	66,824
<b>Cost of sales</b>				
Gas consumed	7,455	7,576	23,266	22,184
Gas re-sold	3,428	2,365	8,461	7,381
	10,883	9,941	31,727	29,565
<b>Gross profit</b>	11,068	11,472	37,799	37,259
<b>Plant operating costs</b>	1,926	1,427	4,562	4,800
<b>Capital expenditures</b>	-	-	-	-

For the three-month period ending September 30<sup>th</sup>, electricity sales revenue at the Kingston facility was down 14% compared to 2007 primarily due to the occurrence in September 2008 of the annual scheduled maintenance shut-down; there was no scheduled maintenance outage in the third quarter of 2007.

Revenue from the resale of natural gas was up significantly from last year due to a higher average selling price and additional volumes available for resale due to additional nightly, off-peak curtailments and the two-week scheduled maintenance shut-down. Steam revenue increased during the quarter due to a higher steam price. There were no sales of emission allowances in either 2007 or 2008.

The cost of natural gas consumed this quarter was lower than in the third quarter of 2007 as increases in TCPL fuel tolls were more than offset by the decreased fuel consumption related to nightly curtailments and the two-week outage. The cost of gas resold was higher than last year due mainly to the increase in resale volumes as noted above. Plant operating costs this quarter reflected the impact of the scheduled major maintenance shut-down in September.

Despite lower electricity sales volume for the nine-month period ended September 30<sup>th</sup>, electricity sales revenues were in line with 2007 due to an escalation in PPA rates and a lower proportion of lower-priced, off-peak production relative to 2007. Steam revenue was largely unchanged. Revenue from the resale of natural gas was up from the previous year due to a higher volume of gas resold combined with a higher average selling price.

The cost of natural gas consumed was higher compared to the first nine months of 2007 primarily due to a 36% escalation in fixed and variable TCPL transportation tolls since year end. The cost of gas resold was up due to increased volumes.

As at September 30, 2008, the Kingston facility had forward sales commitments of natural gas for the remainder of 2008 in the amount of \$6.4 million (751,500 GJs), \$16.4 million (1,866,000 GJs) in 2009 and \$2.6 million (270,000 GJs) in 2010.

### Mont Miller Wind Farm

<i>(in thousands of dollars except as indicated)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2008	2007	2008	2007
<b>Sales Volume</b>				
Electricity (MWh)	31,253	33,800	106,036	123,407
<b>Sales</b>				
Electricity	1,986	2,117	6,679	7,661
	1,986	2,117	6,679	7,661
Gross profit	1,986	2,117	6,679	7,661
Plant operating costs	446	413	1,401	1,525
Capital expenditures	-	-	-	8

Mont Miller's electricity production during the third quarter of 2008 and for the year-to-date were below both the previous year and long term expectations due to lighter winds. Mont Miller's capacity factor was 26% for the quarter and 30% year-to-date.

The turbines continued to perform very well and achieved overall equipment reliability of 98% during the quarter and year-to-date. Vestas proactively replaced three gearboxes in the third quarter as part of the Metso Gearbox upgrade program; the remaining gearbox upgrade is expected to be complete by year end. All costs associated with equipment replacements and upgrades are covered by Vestas under Mont Miller's Warranty, Maintenance and Service agreement.

Plant operating costs for the quarter were consistent with the prior year, while year-to-date plant costs benefited from reduced electricity consumption costs and decreased engineering and environmental consulting fees.

### German Wind Farms

<i>(in thousands of dollars except as indicated)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2008	2007	2008	2007
<b>Sales Volume</b>				
Electricity (MWh)	6,129	7,275	25,955	29,222
<b>Sales</b>				
Electricity	864	930	3,657	4,002
	864	930	3,657	4,002
Gross profit	864	930	3,657	4,002
Plant operating costs	223	201	730	599
Capital expenditures	-	-	-	-

Electricity production during the third quarter of 2008 exceeded long-term expectations, but fell short of the prior year's results due to higher winds at Eckolstädt in 2007. Electricity production has exceeded the long term forecast year-to-date. The wind farms achieved a combined capacity factor of 13% during the quarter and 18% year-to-date.

The turbines continued to perform well, as the wind farms achieved combined turbine reliability of 97%

during the quarter and 98% year-to-date. Plant operating costs were slightly higher than the prior year due to scheduled equipment repairs and upgrades and the strengthening of the Euro versus the Canadian dollar.

## Investment Income

<i>(in thousands of dollars)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2008	2007	2008	2007
<b>Panda Energy Corporation ("PEC"):</b>				
Dividends	7,654	158	7,995	760
Interest income	1,990	1,954	5,695	6,165
	9,644	2,112	13,690	6,925
<b>Thorold CoGen LP interest and fees</b>	388	43	845	43
<b>Jardin d'Eole fees</b>	174	-	249	-
<b>Total investment income</b>	10,206	2,155	14,784	6,968

The Fund's investment in PEC generated income of \$9.6 million this quarter, up \$7.5 million from the same period last year, through a combination of higher dividends (US\$7,213,000; 2007 - US\$150,000) and relatively similar interest payments (US\$1,820,000; 2007 - US\$1,870,000). Included in the CA\$7.7 million of dividends received during the quarter was a special dividend payment of US\$8.1 million (US\$6.9 million after withholding taxes) associated with transactions entered into by Panda-Brandywine, L.P., including replacement of the existing PPA at the facility. Under the terms of the transactions entered into among Panda-Brandywine, L.P., Potomac Electric Power Company ("PEPCO") and Sempra Energy Trading LLC ("Sempra") this quarter, the PEPCO PPA has been replaced by a new PPA with Sempra. In addition, Sempra acquired the existing Panda-Brandywine capital lease as part of the transaction. The Sempra PPA retains the characteristics of the PEPCO PPA, including pre-defined fixed capacity payments, variable operating payments designed to match variable operating costs, including fuel, and a term extending to 2021, 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. As a result of the transactions, Panda-Brandywine L.P. received an upfront cash payment from Sempra as well as proceeds from selling its fixed-price natural gas supply contract that is no longer required under the new PPA with Sempra.

The Fund also received a restructuring fee of US\$1.3 million related to the loan to Panda Interfunding Company, LLC ("PIC"). For accounting purposes the restructuring fee has been netted against the Panda 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 loan. The other terms of the existing loan to PIC, including the interest rate of 10.9% and repayment by 2021, are unchanged.

Due to the change in the PPA at the Panda-Brandywine facility and the resulting special one-time dividend payment, the Fund considered its equity investment in PEC to have an "other than temporary" decline in value. This resulted in an impairment charge of \$1.9 million to reflect the Manager's best estimate of the fair value of the investment of \$6.1 million. The fair value, which represents the new carrying value, is based upon the present value of the anticipated reduced dividends for the duration of the PPA and an estimate of fair value of the equity investment at the end of the PPA. The Fund continues to retain its 19% equity interest in PEC.

Financial and operating results at the Panda-Brandywine plant for the quarter were lower than last year as unseasonably cool temperatures during July and August kept dispatch opportunities to a minimum. During the quarter, the Panda-Brandywine facility produced 151,000 MWh of electricity, approximately 31,000 MWh less than last year.

During and subsequent to quarter end, the Fund entered into new foreign exchange contracts related to payments on the Panda senior loan. The Fund now has the following U.S. dollar foreign exchange contracts outstanding as at November 6, 2008:

- US\$1.25 million per quarter to November 2009 at CA\$1.1120
- US\$1.25 million at February 2010 at CA\$1.0759

- US\$1.50 million per quarter from May 2010 to November 2012 at CA\$1.13334

As at September 30<sup>th</sup>, the Fund had loaned Thorold CoGen LP \$12.6 million, excluding accrued interest under its subordinated loan agreement with Thorold CoGen LP, which is constructing its 265 MW combined-cycle cogeneration facility in Thorold, Ontario. During the quarter, the Fund recognized \$0.4 million of income on the Thorold CoGen loan comprising \$38,000 of commitment and financing fees and \$350,000 of accrued interest. The Fund also recognized \$174,000 in stand-by fees this quarter on the \$34.8 million loan commitment to Saint-Ulric Saint-Léandre Wind L.P.'s Jardin d'Éole wind farm. Saint-Ulric Saint-Léandre Wind L.P. is currently constructing a 127.5 MW wind farm in the Gaspésie region of Quebec. Construction at the Thorold CoGen and Jardin d'Éole sites continue to be on schedule and on budget.

### **Consolidated Results**

The following discussion of the consolidated financial condition and results of operations of the Fund should be read in conjunction with the unaudited interim consolidated financial statements for the periods ended September 30, 2008 and the Fund's 2007 Annual Report.

### **Third Quarter**

Sales and cost of sales were each up \$3.1 million compared to 2007 for the reasons cited under the descriptions of each facility's results. Total plant operating costs were up \$0.8 million due to the scheduled maintenance outages at both the Iroquois Falls and Kingston facilities. Amortization of property, plant and equipment was higher this quarter due to the reclassification of major spare parts from inventory to property, plant and equipment on January 1, 2008 as a result of adopting new accounting standards (see "Accounting Changes" for further details).

As discussed previously, investment income of \$10.2 million was \$8.1 million higher than in 2007. During the quarter, the Fund recorded the following non-cash adjustments: (i) a \$0.3 million loss on the change in fair value of the Kingston facility's interest rate swaps, (ii) a foreign exchange gain of \$3.0 million on the translation of the Panda senior loan balance to the quarter-end Canadian dollar/U.S. dollar exchange rate and (iii) a \$1.9 million write down of the Fund's investment in PEC. Amortization of deferred charges and contracts and net interest expense were all in line with the prior year.

The factors described above resulted in income before income taxes for the third quarter of 2008 of \$15.3 million being \$13.3 million higher than last year. After the provision of \$1.1 million of current income taxes and the \$0.5 million recovery of future income taxes, net income at \$14.7 million was \$13.1 million higher than last year.

### **Year to Date**

Sales and cost of sales were up in 2008 compared to 2007 for the reasons previously described, while total plant operating costs were in line with last year.

Management and administration costs were down \$0.4 million commensurate with lower legal fees and one-time costs incurred last year related to the special Unitholder meeting held in the first quarter of 2007. Investment income at \$14.8 million was up from 2007 by \$7.8 million due to the special dividend received from PEC in September 2008 as described previously. The Fund recorded a \$5.1 million non-cash foreign exchange gain on the restatement of the PEC senior loan balance to the quarter-end Canadian dollar/U.S. dollar exchange rate due to a weakening of the Canadian dollar from year end, which was partially offset by a \$0.6 million non-cash loss on the fair value of the Kingston facility's interest rate swaps and the \$1.9 million write down of the Fund's investment in PEC. Interest and bank charges were \$0.3 million lower than 2007 due largely to reduced outstanding loan balances.

The above factors resulted in income before taxes of \$41.3 million being \$17.8 million higher than 2007. The impact of the \$82.3 million one-time, non-cash future income tax provision in 2007 related to Bill C-52 (taxation of income trusts) resulted in net income for the nine-month period ending September 30, 2008 being \$100.1 million higher than last year.

## **Liquidity and Capital Resources**

Cash and cash equivalents of \$45.2 million at September 30<sup>th</sup> increased by \$16.9 million since December 31, 2007 as a result of \$82.2 million of cash generated by operations being partially offset by \$5.5 million of investing activities and by \$59.9 million of financing activities.

Of the \$82.2 million cash provided by operating activities for the nine-month period ended September 30, 2008, \$70.1 million related to operations, with the balance representing a \$12.1 million decrease in working capital primarily associated with the timing of payables and receipts for electricity sales by the Iroquois Falls and Kingston facilities to OEFC; there was one month of electricity sales receivable at September 30, 2008 versus two months at December 31, 2007.

Cash used for investing activities of \$5.5 million in 2008 reflected advances of \$8.5 million on the loan to Thorold CoGen LP, partially offset by receipts of principal on the Panda senior loan and a restructuring fee of \$1.4 million related to the Panda transactions previously discussed. Cash used for financing activities of \$59.9 million represented distributions to Unitholders of \$50.5 million and long-term debt repayments of \$9.4 million.

Inventory decreased from \$9.6 million at December 31, 2007 to \$4.5 million at quarter end, largely due to a reclassification of major turbine spares from inventory to property, plant and equipment as a result of the implementation of the Canadian Institute of Chartered Accountants (“CICA”) new accounting requirements for major spare parts. Readers should refer to Note 2, “Adoption of New Accounting Standards” in the attached consolidated financial statements for additional details on the impact of the CICA’s new requirements.

Derivative financial instruments increased by \$1.5 million from year end due to the recognition of unrealized losses on the Fund’s interest rate swaps and foreign exchange contracts.

During the quarter, cash and cash equivalents increased by \$3.3 million mainly due to favourable operating results during the quarter providing \$25.5 million of cash from operations, partially offset by \$21.4 million of cash used for financing activities, which include Unitholder distributions and scheduled principal repayments on the long-term loans.

## **Sustainability of Distributions**

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

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

## ***Distributions to Unitholders and Distributable Cash***

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

<i>(unaudited, stated in thousands except per unit amounts)</i>	<b>3 Months ended Sept. 30</b>		<b>9 Months ended Sept. 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Cash provided by operating activities</b>	\$ 25,544	\$ 6,077	\$ 82,204	\$ 64,858
Capital expenditures	(3)	(87)	(49)	(132)
<b>Standardized distributable cash</b>	\$ 25,541	\$ 5,990	\$ 82,155	\$ 64,726
<b>Northland Power Income Fund adjustments:</b>				
Net change in non-cash working capital balances related to operations	(2,324)	11,843	(12,103)	(1,509)
Scheduled receipts of principal on Panda senior loan	731	658	2,179	2,026
PEC restructuring fee	1,362	-	1,362	-
Thorold CoGen LP financing and commitment fees	-	1,165	-	1,165
Scheduled repayment of Mont Miller term loan	(277)	(238)	(831)	(713)
Scheduled repayment of KCLP term loans	(4,245)	-	(8,538)	(3,715)
KCLP cash reserve (funding) utilization	78	(282)	(511)	(938)
Funds set aside for future maintenance	(24)	(23)	(78)	(68)
<b>Distributable cash</b>	\$ 20,842	\$ 19,113	\$ 63,635	\$ 60,974
<b>Distributions paid to Unitholders</b>	\$ 16,836	\$ 16,835	\$ 50,506	\$ 51,588
Standardized distributable cash payout ratio	66%	281%	61%	80%
Distributable cash payout ratio	81%	88%	79%	85%
<b>Cumulative - since inception</b>				
Standardized distributable cash			\$ 441,466	\$ 325,497
Distributable cash			\$ 542,209	\$ 448,666
Distributions paid to Unitholders			\$ 484,487	\$ 417,146
Standardized distributable cash payout ratio			110%	128%
Distributable cash payout ratio			89%	93%
<b>Average number of trust units - basic (thousands of units)</b>	<b>62,353</b>	<b>62,352</b>	<b>62,353</b>	<b>62,343</b>
<b>Average number of trust units - fully diluted (thousands of units)</b>	<b>64,876</b>	<b>62,352</b>	<b>64,916</b>	<b>62,343</b>
<b>Per unit (\$/unit)</b>				
Standardized distributable cash - basic	\$ 0.4096	\$ 0.0961	\$ 1.3176	\$ 1.0382
Standardized distributable cash - fully diluted	\$ 0.3937	\$ 0.0961	\$ 1.2656	\$ 1.0382
Distributable cash - basic	\$ 0.3343	\$ 0.3065	\$ 1.0206	\$ 0.9780
Distributable cash - fully diluted	\$ 0.3213	\$ 0.3065	\$ 0.9803	\$ 0.9780

Cash from operations as well as standardized distributable cash for the quarter at \$25.5 million were both higher than the same period of 2007 due to a \$5.3 million increase arising from operations and a \$14.2 million change in working capital related to the timing of payables and receipts for electricity sales by the Iroquois Falls and Kingston facilities to OEFC.

Standardized distributable cash for the quarter was \$8.7 million higher than distributions paid to Unitholders as the Fund continues to retain excess cash for reinvestment, funding of the loan commitments for the Thorold and Jardin d'Éole projects and as a cushion against potential future tax obligations commencing in 2011. For the nine-months ended September 30, 2008, standardized distributable cash at \$82.2 million was \$17.4 million higher than the same period last year as a \$6.8 million increase related to operations was combined with a \$10.6 million change in working capital primarily associated with the timing of payables and receipts for electricity sales by the Iroquois Falls and Kingston facilities.

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

Distributable cash as determined by the Fund for the three months ended September 30<sup>th</sup> at \$20.8 million was \$1.7 million higher than the same period in 2007 and was \$4.0 million higher than the distributions

paid to Unitholders. For the nine months ended September 30, 2008 distributable cash of \$63.6 million was up \$2.7 million. Distributable cash for the quarter and year to date were both higher than the prior year, mainly due to the receipt of the special dividend and restructuring fee from PEC as discussed previously partially offset by increased principal payments on Kingston CoGen Limited Partnership's term loan as a semi-annual payment fell into this quarter in the current year but into the fourth quarter in 2007.

The cumulative standardized distributable cash payout ratio since inception of the Fund is greater than 100% largely because standardized distributable cash does not provide adjustments for expansionary capital expenditures. As discussed in the 2007 Annual Report, the Fund had significant expansionary capital expenditures between 2002 and 2005 related to the gas turbine upgrade at Iroquois Falls and the building of the Mont Miller wind farm, both of which were funded through the issuance of trust units; the distributable cash calculation takes account of these expenditures. The payout ratio based on the Fund's calculation of distributable cash from inception to September 30, 2008 is 89%.

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

### **Debt Covenants**

The Fund conducts its businesses indirectly through separate legal entities (subsidiaries and affiliates), and is dependent on receipt of cash from those entities to defray its corporate expenses and to make distributions to Unitholders. Certain of those entities have outstanding debt which was incurred to help fund the entities' original investments. Under the credit agreements for such debt, it is conventional for distributions of cash to the Fund to be prohibited if the loan is in default (notably for non-payment of principal or interest); or if the entity fails to achieve a benchmark "debt service coverage ratio" ("DSCR"), which is the ratio of earnings before interest, taxes, depreciation and amortization ("EBITDA", a non-GAAP performance indicator) for a specified time period to the scheduled loan principal and interest payments for the same time period; or if the debt exceeds a defined multiple of EBITDA. For the period ended September 30, 2008, the Fund and its subsidiaries were in compliance with all debt covenants. A summary of the latest debt covenant calculations, ratio ranges for the past 12 months and required ratios for each of the applicable Fund entities are shown below:

	Latest Calculation		Required Ratio	Previous 4 Quarter Range
	Period	Ratio		
Iroquois Falls - DSCR	12 months to Sept. 30/08	508.30	> 2.25	453.3 to 508.7
Iroquois Falls - Debt to EBITDA	As at Sept. 30/08	0.00	< 3.25	0.00 to 0.00
The Fund - DSCR	12 months to Sept. 30/08	4.30	> 2.25	4.1 to 4.9
The Fund - Debt to EBITDA	As at Sept. 30/08	0.90	< 3.25	0.9 to 1.1
Kingston - DSCR	12 months to June 30/08	2.63	> 1.15	1.86 to 2.63
Miller LP - DSCR	12 months to Sept. 30/08	2.04	> 1.20	2.04 to 2.33
Miller LP - DSCR Proforma	12 months to Sept. 30/09	2.34	> 1.20	2.34 to 2.39
Panda Brandywine - DSCR	12 months to July 31/08	1.70	> 1.20	1.51 to 1.70

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

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

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

## Historical Consolidated Quarterly Results

<i>\$ millions, except</i>	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<i>Per unit information</i>	2008	2008	2008	2007	2007	2007	2007	2006
Total sales	44.3	45.0	52.4	48.6	41.2	42.9	51.6	47.9
Net income (loss)	14.7	11.2	15.7	31.2	1.6	(76.9)	16.9	12.7
Standardized distributable cash	25.5	35.0	21.6	33.8	6.0	18.8	39.9	18.1
Distributable cash	20.8	19.5	23.3	29.9	19.1	17.9	24.0	18.4
Distributions declared	16.8	16.8	16.8	16.8	16.8	16.8	16.8	17.9
<i>Per unit statistics</i>								
Net income (loss) - basic	0.235	0.180	0.252	0.502	0.026	(1.234)	0.271	0.205
Net income (loss) - diluted	0.234	0.180	0.250	0.476	0.026	(1.234)	0.268	0.204
Standardized distributable cash	0.410	0.561	0.347	0.542	0.096	0.302	0.640	0.290
Distributable cash	0.334	0.313	0.373	0.480	0.307	0.287	0.384	0.296
Distributions declared	0.270	0.270	0.270	0.270	0.270	0.270	0.270	0.288

Iroquois Falls' sales are seasonal, as OEFC has contracted for more electricity (and pays a higher price) in winter than in summer. In addition, steam sales tend to be higher in winter than summer. Financial results from the Fund's wind farms follow a similar seasonal pattern to Iroquois Falls, as it tends to be windier in the winter months compared to the summer months. Seasonality at the consolidated level is dampened somewhat as the financial results for the Kingston facility are less seasonal than at the Iroquois Falls facility.

Net income also includes interest and fees earned on the subordinated loan receivable from Thorold CoGen LP and the senior loan receivable from a PEC subsidiary, dividends received from the Fund's 19% equity interest in PEC (none of which varies materially by season), any non-cash foreign exchange adjustments required to translate the US dollar and Euro denominated balances to the appropriate quarter-end Canadian dollar equivalent and, beginning with the first quarter of 2007, fair value movements of the interest rate swap contracts entered into by the Kingston facility.

As a result of the factors stated above, the Fund's distributable cash per unit is normally highest in the first quarter and lowest during the second and third quarters.

### Trust Unit and Convertible Unsecured Subordinated Debenture Information

As at September 30, 2008, the Fund had 62,353,143 trust units outstanding (December 31, 2007 – 62,352,423). There were no conversions of unsecured subordinated debentures into trust units during the quarter. As at November 6, 2008, a total of 62,353,143 units were outstanding.

### Risks and Uncertainties

For information concerning the Fund's risks and uncertainties, please refer to the Fund's most recent Annual Report and its Annual Information Form, dated March 28, 2008, both of which are filed electronically at [www.sedar.com](http://www.sedar.com).

### Management's Responsibility for Financial Information

A rigorous and comprehensive financial governance framework is in place at the Fund and its subsidiaries, and at the Manager. Each year, the Fund's Annual Report contains a statement signed by the Manager's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. The Fund filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators in March 2008 in association with the filing of the 2007 Annual Report and other annual disclosure documents. In those filings, the Manager's CEO and CFO certified, as required in Canada by Multilateral Instrument 52-109 (Certification of Disclosure in Issuers'

Annual and Interim Filings), the appropriateness of the financial disclosures in the Fund's annual filings and the effectiveness of the Fund's disclosure controls and procedures. The Manager's CEO and CFO have certified the appropriateness of the financial disclosures in the Fund's interim filings with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the periods ended September 30, 2008, and that they are responsible for the design of disclosure controls and procedures and internal controls over financial reporting.

There have been no changes in internal controls over financial reporting during the quarter ended September 30, 2008 that have materially affected or are reasonably likely to materially affect the Fund's internal control over financial reporting.

As in prior quarters, NPIF Commercial Trust's audit committee reviewed this MD&A, and the attached unaudited interim consolidated financial statements, and its Board of Trustees approved these documents prior to their release.

### **Accounting Changes**

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

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

### **Canadian Accounting Standards Board's Strategic Plan**

On January 10, 2006, the Canadian Accounting Standards Board ("AcSB") ratified a new strategic plan that will significantly affect the way financial reporting will be carried out in Canada. The plan entails converging Canadian generally accepted accounting principles with International Financial Reporting Standards ("IFRS") by January 1, 2011. Changing from current Canadian generally accepted accounting principles to IFRS will be a significant undertaking that may materially affect reported financial positions and results of operations of the Fund.

During the quarter, the Manager with the assistance of third-party consultants began the process of identifying, evaluating and selecting accounting policies necessary for the Fund to change over to IFRS. Although the Manager's impact assessment activities are underway and progressing according to plan, continued progress is necessary before the Fund can prudently increase the specificity of the disclosure of pre and post IFRS changeover accounting policy differences.

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

The change-over from Canadian generally accepted accounting principles to IFRS on January 1, 2011 is not expected to have an impact on the Fund's distributable cash.

### **Outlook**

The Fund's distributable cash for the year 2007 amounted to \$1.46 per unit, or \$1.28 per unit after backing out the one-time impact of the Calpine settlement related to its 2006 gas supply contract default. After

adjusting for the special dividend and restructuring fee received from PEC and PIC, distributable cash for 2008 is expected to be in line with the \$1.28 per unit achieved in 2007. Gross profit at Iroquois Falls will continue to be adversely affected by the previously mentioned gas supply contract price re-opener that is 50% mitigated through higher payments from OEFC, while margins at both Iroquois Falls and Kingston are being compressed by jumps of almost 40% in TCPL transportation tariffs this year. On the upside, margins on natural gas sales at Kingston should improve due to higher gas prices earlier in the year – about 80% of projected sales for the balance of the year are now subject to forward contracts. It is anticipated that selling prices under the Iroquois Falls PPA, which are indirectly related to the wholesale cost of electricity in Ontario, will be subject to upwards pressure in the long term due to the entry into commercial operation of new power plants and wind farms contracted by the Ontario Power Authority as well as Ontario Power Generation's success in having its administered rates increase. Selling prices under Kingston's PPA will also be subject to upward pressure as, among other factors, TCPL's transportation tariff increases during 2008 will be passed through to Kingston's 2009 rates.

The credit crisis that has gripped the world's economies is expected to have minimal direct impact on the Fund and its operations other than the costs under the Fund's operating and acquisition credit facility are expected to increase when the facility is renewed in May 2009. The steep decline in natural gas prices during the quarter has limited Kingston's ability to enter into additional forward sales contracts for 2009 and 2010, however, the weakening of the Canadian dollar versus the U.S. dollar allowed the Manager of the Fund to enter into additional foreign exchange contracts after quarter end to lock in favourable rates for future payments from PEC and PIC.

On behalf of Northland Power Income Fund Management Inc.

*(Signed) "John W. Brace"*

John W. Brace  
President  
November 6, 2008

## **FORWARD LOOKING STATEMENTS**

*Certain statements in this quarterly report, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Fund's and its subsidiaries' current expectations. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, priorities, ongoing objectives, strategies and outlook of the Fund's and its subsidiaries' for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Although these forward-looking statements are based upon the Fund's Manager's current reasonable expectations and assumptions, they are subject to numerous risks and uncertainties, including those set out in the management's discussion and analysis section of the Fund's 2007 annual report and in the Fund's Annual Information Form dated March 28, 2008, certain of which are beyond the Manager's control. The Fund's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or what benefits, including the amount of distributions, the Fund and Unitholders will derive therefrom.*

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

## NORTHLAND POWER INCOME FUND

### Consolidated Balance Sheets

(stated in thousands)

#### ASSETS

	Sept. 30, 2008	Dec. 31, 2007
<b>Current</b>		
Cash and cash equivalents	\$ 45,162	\$ 28,311
Cash reserves	3,141	2,630
Accounts and other receivables	12,158	32,073
Inventories	4,513	9,619
Prepaid expenses	2,762	2,789
Current portion of Panda senior loan [Note 7]	2,987	2,557
<b>Total current assets</b>	<b>70,723</b>	<b>77,979</b>
Deferred charges	1,853	1,932
Property, plant and equipment	389,127	405,744
Contracts	118,401	128,827
Investment in Panda Energy Corporation [Note 7]	6,050	7,946
Panda senior loan [Note 7]	65,778	64,659
Loan receivable from Thorold CoGen LP	12,479	3,113
Future income tax asset	934	590
	<b>\$ 665,345</b>	<b>\$ 690,790</b>

#### LIABILITIES AND UNITHOLDERS' EQUITY

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 8,205	\$ 16,233
Current portion of KCLP term loans	9,082	8,539
Current portion of Mont Miller term loan	1,234	1,108
Distribution payable to Unitholders	5,612	5,612
<b>Total current liabilities</b>	<b>24,133</b>	<b>31,492</b>
KCLP term loans	67,413	76,494
Mont Miller term loan	36,176	37,133
Other long term liabilities	2,876	2,475
Asset retirement obligation	2,387	2,275
Convertible debentures	29,035	29,044
Future income tax liability [Note 8]	74,165	73,850
Derivative financial instruments	12,275	10,767
	<b>248,460</b>	<b>263,530</b>
Trust Units	670,431	670,422
Accumulated other comprehensive income [Note 5]	623	151
Deficit	(254,169)	(243,313)
<b>Total Unitholders' equity</b>	<b>416,885</b>	<b>427,260</b>
	<b>\$ 665,345</b>	<b>\$ 690,790</b>

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

	3 Months Ended Sept. 30		9 Months Ended Sept. 30	
	2008	2007	2008	2007
<b>Sales</b>				
Electricity	\$ 31,155	\$ 32,565	\$ 108,526	\$ 107,946
Steam	2,017	1,576	6,512	6,222
Natural gas	11,086	7,022	26,425	21,498
Emission allowances	-	-	116	-
<b>Total sales</b>	<b>44,258</b>	<b>41,163</b>	<b>141,579</b>	<b>135,666</b>
<b>Cost of sales</b>	<b>21,096</b>	<b>18,043</b>	<b>61,230</b>	<b>55,040</b>
<b>Gross profit</b>	<b>23,162</b>	<b>23,120</b>	<b>80,349</b>	<b>80,626</b>
<b>Expenses</b>				
Plant operating costs	4,365	3,602	11,704	11,654
Amortization	6,882	6,792	20,866	20,588
Management and administration costs	1,110	1,007	3,495	3,909
Accretion expense	37	46	110	140
	<b>12,394</b>	<b>11,447</b>	<b>36,175</b>	<b>36,291</b>
<b>Investment income</b>	<b>10,207</b>	<b>2,155</b>	<b>14,784</b>	<b>6,968</b>
<b>Income from operations</b>	<b>20,975</b>	<b>13,828</b>	<b>58,958</b>	<b>51,303</b>
Foreign exchange	(3,039)	4,438	(4,322)	10,499
Amortization of deferred charges	27	27	79	79
Amortization of contracts	3,475	3,743	10,426	11,230
Change in fair value of interest rate swaps	334	585	626	(3,493)
Write down in PEC investment to fair value	1,896	-	1,896	-
Interest income	(319)	(253)	(956)	(713)
Interest expense and bank fees	3,334	3,309	9,874	10,165
<b>Income before income taxes</b>	<b>15,267</b>	<b>1,979</b>	<b>41,335</b>	<b>23,536</b>
<b>Provision for (recovery of) income taxes</b>				
Current	1,127	(8)	253	(88)
Future	(522)	384	(542)	82,107
	<b>605</b>	<b>376</b>	<b>(289)</b>	<b>82,019</b>
<b>Net income (loss) for the period</b>	<b>\$ 14,662</b>	<b>\$ 1,603</b>	<b>\$ 41,624</b>	<b>\$ (58,483)</b>
<b>Deficit, beginning of period - as previously stated</b>	<b>(251,995)</b>	<b>(242,539)</b>	<b>\$ (243,313)</b>	<b>\$ (139,269)</b>
Cumulative effect of adopting new accounting standards [Note 2]	-	-	(1,974)	(9,520)
<b>Deficit, beginning of period - as adjusted</b>	<b>(251,995)</b>	<b>(242,539)</b>	<b>(245,287)</b>	<b>(148,789)</b>
Distributions declared to Unitholders	(16,836)	(16,835)	(50,506)	(50,499)
Net income (loss) for period	14,662	1,603	41,624	(58,483)
<b>Deficit, end of period</b>	<b>\$ (254,169)</b>	<b>\$ (257,771)</b>	<b>\$ (254,169)</b>	<b>\$ (257,771)</b>
<b>Average number of units outstanding - basic</b>	<b>62,353</b>	<b>62,352</b>	<b>62,353</b>	<b>62,343</b>
<b>Average number of units outstanding - diluted</b>	<b>64,876</b>	<b>62,352</b>	<b>64,916</b>	<b>62,343</b>
<b>Net income (loss) per trust unit- basic</b>	<b>\$ 0.2352</b>	<b>\$ 0.0257</b>	<b>\$ 0.6676</b>	<b>\$ (0.9381)</b>
<b>Net income (loss) per trust unit - diluted</b>	<b>\$ 0.2337</b>	<b>\$ 0.0257</b>	<b>\$ 0.6641</b>	<b>\$ (0.9381)</b>

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

	<b>3 Months Ended Sept. 30</b>		<b>9 Months Ended Sept. 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Net income (loss) for the period</b>	<b>\$ 14,662</b>	<b>1,603</b>	<b>\$ 41,624</b>	<b>\$ (58,483)</b>
<b>Other comprehensive income (loss):</b>				
Change in translation of net investment in foreign operations	(1,225)	(201)	678	(1,592)
Change in fair value of hedged foreign currency forward contracts	904	299	(275)	1,486
Future income tax affect of above	(218)	-	69	-
<b>Total other comprehensive income (loss)</b>	<b>(539)</b>	<b>98</b>	<b>472</b>	<b>(106)</b>
<b>Total comprehensive income (loss)</b>	<b>\$ 14,123</b>	<b>1,701</b>	<b>\$ 42,096</b>	<b>\$ (58,589)</b>

## NORTHLAND POWER INCOME FUND

### Consolidated Statements of Cash Flows

*(stated in thousands except per unit amounts)*

	3 Months Ended Sept. 30		9 Months Ended Sept. 30	
	2008	2007	2008	2007
<b>Operating activities</b>				
Net income (loss) for the period	\$ 14,662	\$ 1,603	\$ 41,624	\$ (58,483)
Items not involving cash:				
Amortization	6,882	6,792	20,866	20,588
Amortization of contracts	3,475	3,743	10,426	11,230
Other	(544)	(16)	(1,024)	36
Change in fair value of interest rate swaps	334	585	626	(3,493)
Write down in PEC investment to fair value	1,896	-	1,896	-
Foreign exchange	(3,039)	4,438	(4,322)	10,499
Accretion expense	37	46	110	140
Other long term liabilities	39	345	441	725
Future income taxes	(522)	384	(542)	82,107
	23,220	17,920	70,101	63,349
Net change in non-cash working capital balances related to operations	2,324	(11,843)	12,103	1,509
<b>Cash provided by operating activities</b>	<b>25,544</b>	<b>6,077</b>	<b>82,204</b>	<b>64,858</b>
<b>Investing activities</b>				
Cash reserves utilization (funding)	78	(282)	(511)	(938)
Loan to Thorold CoGen LP	(2,868)	(1,335)	(8,521)	(1,335)
Restructuring fee [Note 7]	1,362	-	1,362	-
Thorold CoGen LP financing and commitment fees	-	1,165	-	1,165
Receipts of principal on Panda senior loan	731	658	2,179	2,026
Purchase of property, plant and equipment	(3)	(87)	(49)	(132)
<b>Cash (used in) provided by investing activities</b>	<b>(700)</b>	<b>119</b>	<b>(5,540)</b>	<b>786</b>
<b>Financing activities</b>				
Repayment of Mont Miller term loan	(277)	(238)	(831)	(713)
Bank indebtedness	-	1,765	-	1,765
Repayment of KCLP term loans	(4,245)	-	(8,538)	(3,715)
Credit facility decrease	-	-	-	(5,000)
Distributions to Unitholders	(16,836)	(16,835)	(50,506)	(51,588)
<b>Cash used in financing activities</b>	<b>(21,358)</b>	<b>(15,308)</b>	<b>(59,875)</b>	<b>(59,251)</b>
Effect of exchange rate differences on cash and cash equivalents	(195)	(42)	62	(179)
<b>Net change in cash and cash equivalents</b>	<b>3,291</b>	<b>(9,154)</b>	<b>16,851</b>	<b>6,214</b>
Cash and cash equivalents, beginning of the period	41,871	28,852	28,311	13,484
<b>Cash and cash equivalents, end of period</b>	<b>\$ 45,162</b>	<b>\$ 19,698</b>	<b>\$ 45,162</b>	<b>\$ 19,698</b>
<b>PER UNIT</b>				
Distributions declared to Unitholders	\$ 0.2700	\$ 0.2700	\$ 0.8100	\$ 0.8100

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. Accounting Policies

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

The Fund's investment in Panda Energy Corporation ("PEC") is accounted for under the cost method.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim financial reporting and thus do not contain all of the disclosures required by GAAP applicable to annual financial statements. As a result, these interim consolidated financial statements should be read in conjunction with the Fund's annual consolidated financial statements included in the 2007 Annual Report. These unaudited interim consolidated financial statements follow the same accounting principles and methods of application as the annual consolidated financial statements as at December 31, 2007 except for changes as outlined in Note 2.

### 2. Adoption of New Accounting Standards

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

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

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

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

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

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

The Fund will earn fees of 2% per annum on its loan commitment during most of the 18-month construction period and 6% per annum on funds actually advanced; the first cash advance is expected late in 2009. All accrued fees and interest are expected to be paid to the Fund when commercial operations of the Jardin d'Éole wind farm commence. Quarterly payments of interest will also commence after the construction period. The Fund has an option to acquire a 50% equity ownership interest in SUSL once the project is in full commercial operations for \$34.8 million. During the quarter, the Fund recognized \$0.2 million of fees related to its loan commitment to SUSL.

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

### **4. Financial Instruments and Risk Management**

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

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

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

The fair values for the Fund's interest rate swap contracts and foreign exchange forward contracts are provided by the counterparties to these contracts and are reviewed by the Fund's Manager for reasonableness based on actual foreign exchange and interest rate movements during the quarter.

#### ***Categories of Financial Assets and Liabilities***

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

(in thousands of dollars)

<b>As at:</b>	<b>Sept. 30, 2008</b>	<b>Dec. 31, 2007</b>
Financial assets held for trading <sup>1</sup>	60,461	63,014
Loans and receivables <sup>2</sup>	81,244	70,329
Financial liabilities held for trading <sup>3</sup>	26,092	32,612
Other financial liabilities <sup>4</sup>	142,940	152,318

  

	<b>Three months ended Sept. 30, 2008</b>	<b>Nine months ended Sept. 30, 2008</b>
<b>For the six months ended:</b>		
Gain (loss) on financial assets held for trading	-	-
Gain (loss) on loans and receivables	3,007	5,081
Gain (loss) on financial liabilities held for trading	787	(1,508)
Gain (loss) on other financial liabilities	-	-
Fee and interest income on financial assets not held for trading	2,552	6,789
Interest expense on financial liabilities not held for trading	(3,221)	(9,499)

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

### **Financial Risk Factors**

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

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

#### *Market Risk*

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

##### (i) Interest Rate Risk

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

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

Kingston CoGen Limited Partnership's (KCLP's) amortizing term loans of \$76.5 million as at September 30, 2008, bear variable interest rates that give rise to interest rate risk. To mitigate this risk, KCLP has entered into interest rate swap contracts to effectively fix its interest rates. Changes in the fair value of the interest rate swap contracts are recorded in the Fund's consolidated statement of income and deficit.

As at September 30, 2008, if interest rates had been 100 basis points higher/lower with all other variables held constant, the change in income before taxes, which includes interest on the debt and the change in fair value of the interest rate swaps, would have been \$2.3 million higher/lower.

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

##### (ii) Foreign Currency Risk

As at September 30, 2008, all of the Fund's assets and sales were located in Canada and Germany with the exception of the investments in, and income from, Panda Energy Corporation (PEC) and

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

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

At the time of providing the US\$93 million senior loan to PIC in 2003, the Fund entered into foreign exchange forward contracts (that came to an end in the first quarter of 2007) and were at a rate of CA\$1.3134 per \$1US. The contracts were entered into to effectively fix the amount the Fund would receive quarterly from PEC and PIC with respect to interest and dividends and the scheduled principal repayments that were not offset by U.S. dollar payment obligations at IFPC and KCLP. During and subsequent to the quarter, the Fund entered into new foreign exchange contracts related to payments on the Panda Senior Loan. As at November 6, 2008 the Fund has the following U.S. dollar foreign exchange contracts outstanding:

- US\$1.25 million per quarter to November 2009 at CA\$1.1120
- US\$1.25 million at February 2010 at CA\$1.0759
- US\$1.50 million per quarter from May 2010 to November 2012 at CA\$1.13334

At September 30, 2008, if the Canadian dollar had been 5% higher/lower against the U.S. dollar with all other variables held constant, income before taxes for the three month period ended September 30, 2008 would have been \$2.3 million higher/lower, as a result of the non-cash foreign exchange gains/losses on the senior loan receivable from PIC, partially offset by the fair value change in the U.S. dollar foreign exchange contracts.

With respect to the German wind farms, the Fund expects to receive approximately € million a year (€ million semi-annually) until at least 2020. Because the Euro foreign exchange market is extremely thin beyond 5 years, the hedging program that was put in place at the time of the German wind farm investment was to sell forward € million per year for 5 years at a rate of CAD\$1.4334 per € and a lump sum amount of €10 million, which represented the Fund's remaining net investment in the German wind farms at the end of year 5 at a rate of CAD\$1.4536 per €. The hedging program was rolled forward by 18 months in November 2007 with the result that the Fund currently has foreign exchange forward contracts of € million per year to May 2012 (4 years) with a lump sum amount of € million in October 2012 at approximately the same rates as when the program was initiated.

As discussed previously, Euro currency risk arises on translation of the net assets of the German wind farms. As a result, gains and losses arising on the translation of the Fund's net investment in the German wind farms and gains and losses arising from changes in the fair values of foreign currency forward contracts that hedge its net investment in Germany and that are determined to be an effective hedge are recorded in other comprehensive income.

Exchange gains and losses on the hedging derivatives that have been recognized in other comprehensive income are recognized in net income in the same period during which corresponding gains or losses arising from the translation of the financial statements of the self-sustaining foreign operation are recognized in net income. Also included in net income are the changes in fair value on any Euro forward contracts not designated as part of a hedging relationship.

Exchange gains and losses arising from the translation of the financial statements of the Fund's net investment in the German wind farms are included in the determination of income when there has been a reduction in the net investment by way of a reduction in equity or through the settlement of

a long-term inter-entity balance that has been considered part of the Fund's net investment.

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

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

#### *Credit Risk*

Credit risk arises from cash and cash equivalents held with banks and financial institutions, entering into derivative financial instruments, granting loans and receivables to customers, PIC and Thorold CoGen LP and making loan commitments to Thorold CoGen LP and SUSL. The maximum exposure to credit risk, other than for the loan commitments, is equal to the carrying value of the financial assets. As security for its remaining funding commitments to Thorold CoGen LP and SUSL letters of credit in the amount of \$12.7 million and \$34.8 million, respectively were outstanding under the Fund's credit facility at September 30, 2008.

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

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

The loan receivable from PIC is unsecured, but due to the contractual nature of the operations of Panda Brandywine, where revenues and the majority of costs are contracted long-term with creditworthy counterparties, the risk of default is deemed minimal. The Fund's loan to Thorold CoGen LP is secured, however the security is subordinated to the senior secured project debt.

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

The Manager of the Fund does not expect any losses from non-performance by its counterparties.

#### *Liquidity Risk*

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

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

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

were holding cash and cash equivalents of \$45.2 million and had undrawn lines of credit available of \$39.2 million.

The contractual maturities of the Fund's liabilities were presented in the Fund's 2007 Annual Report. In addition to the commitments disclosed in the 2007 Annual Report, the Fund has the following commitments as at September 30, 2008 related to its financial liabilities:

*(in thousands)*

		3 mos.					
	Currency	2008	2009	2010	2011	2012	>2012
Thorold CoGen LP loan commitments	CAD\$	3,492	6,301	2,789			
Jardin d'Eole loan commitments	CAD\$	-	34,800				
USD foreign exchange contracts	US\$	1,250	5,000	3,500	3,000	3,000	
Euro foreign exchange contracts	Euro	1,000	2,000	2,000	2,000	10,000	
KCLP interest rate swaps	CAD\$	824	3,086	2,685	2,221	1,727	2,280

The Fund is also subject to internal liquidity risk as it conducts its business activities through separate legal entities (subsidiaries and affiliates), and is dependent on receipts of cash from those entities to defray its corporate expenses and to make distributions to Unitholders. Certain of those entities have outstanding debt which was incurred to help fund the entities' original investments. Under the credit agreements for such debt, it is conventional for distributions of cash to the Fund to be prohibited if the loan is in default (notably for non-payment of principal or interest); or if the entity fails to achieve a benchmark "debt service coverage ratio" ("DSCR"), which is the ratio of earnings before interest, taxes, depreciation and amortization ("EBITDA", a non-GAAP performance indicator) for a specified time period to the scheduled loan principal and interest payments for the same time period; or if the debt exceeds a defined multiple of EBITDA. For the period ended September 30, 2008, the Fund and its subsidiaries were in compliance with all debt covenants.

### ***Management of Capital***

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

As at September 30, 2008, the Fund's total managed capital was \$561.7 million comprised of Unitholders' equity of \$418.8 million, interest bearing debt of \$113.9 million and convertible unsecured subordinated debentures of \$29.0 million.

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

As an income trust, management targets a maximum debt to total enterprise value of 30%, but the Manager and Trustees are currently re-evaluating that in light of changes to market expectations resulting from the announced taxation of income trusts commencing in 2011. As at September 30, 2008, the Fund's ratio of total debt to enterprise value was 17%. For purposes of this calculation, the Manager defines debt as the total of all borrowings (amortizing term loans and bank credit facilities) and convertible subordinated debentures and enterprise value as the summation of debt, as defined previously and the Fund's market capitalization at September 30, 2008 (number of outstanding units multiplied by the closing unit price).

To date, the Manager's strategy with respect to debt has been to leverage primarily within individual project entities (subsidiaries of the Fund). Most debt is non-recourse beyond its

applicable project, has a fixed interest rate for its term and is fully repaid (amortized) over the life of the associated project's off-take or supply contracts to ensure that the project is debt-free at that point in its physical life when its economics are least predictable (i.e., at the maturation of its contracts). The maximum amount of debt that any project can support is determined with reference to the risk associated with the project and particularly the potential variability of the cash flows. Fully contracted gas-fired projects can generally support proportionately more debt than wind farms which are subject to cash flow volatility due to the natural variability of the wind resource.

## 5. Continuity of Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following:

<i>(stated in thousands of dollars)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2008	2007	2008	2007
<b>Accumulated Other Comprehensive Income-net change in translation of net investment in self sustaining foreign operations:</b>				
Balance beginning of period	1,993	(1)	90	1,390
Realization of loss on reduction in net investment	-	-	(86)	(49)
Unrealized gain on translation of net investment	(1,225)	(201)	764	(1,543)
Balance end of period	768	(202)	768	(202)
<b>Accumulated Other Comprehensive Income-net change in fair value of foreign currency forward contracts hedging net investment of foreign operations:</b>				
Balance beginning of period	(831)	(58)	61	(1,245)
Realization of gain on reduction in net investment	-	-	52	43
Change in fair value	904	299	(327)	1,443
Future income taxes	(218)	-	69	-
Balance end of period	(145)	241	(145)	241
<b>Total accumulated other comprehensive income (loss)</b>	<b>623</b>	<b>39</b>	<b>623</b>	<b>39</b>

## 6. Trust Units and Convertible Unsecured Subordinated Debentures

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

<i>(stated in thousands of dollars, except for units)</i>	Number of Units	Amount
Outstanding as of December 31, 2007	62,352,423	679,731
Q1 conversion of unsecured subordinated debentures	-	-
Q2 conversion of unsecured subordinated debentures	720	9
Q3 conversion of unsecured subordinated debentures	-	-
Outstanding as of Sept. 30, 2008	62,353,143	679,740

The reconciliation of the denominator in calculating diluted per-unit amounts for the three months ending September 30<sup>th</sup> is as follows:

	2008	2007
Weighted average number of units outstanding, basic	62,353,143	62,352,423
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	2,523,179	-
Weighted average number of units outstanding, diluted	64,876,322	62,352,423

The reconciliation of the denominator in calculating diluted per-unit amounts for the nine months ending September 30<sup>th</sup> is as follows:

	2008	2007
Weighted average number of units outstanding, basic	62,353,061	62,342,674
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	2,563,105	-
Weighted average number of units outstanding, diluted	64,916,166	62,342,674

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

## 7. Investment in Panda Energy Corporation (“PEC”)

In December 2003, the Fund acquired a 19% equity interest in PEC and extended the senior loan receivable of US\$93 million to PIC. PEC, through its wholly owned subsidiaries, owns the 230 MW Panda-Brandywine facility, located just outside Washington, D.C.

In September 2008, the Fund received, after withholding tax, a one-time dividend of US\$6.9 million from PEC largely associated with transactions that have been entered into among Panda-Brandywine, L.P., Potomac Electric Power Company (“PEPCO”) and Sempra Energy Trading LLC (“Sempra”), whereby the PEPCO PPA has been replaced by a new PPA with Sempra. 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 related to the loan to PIC. The restructuring fee has been 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 loan. The other terms of the existing loan to PIC, including the interest rate of 10.9% and repayment by 2021, are unchanged.

Due to the change in the PPA at the Panda-Brandywine facility and the resulting special one-time dividend payment, the Fund considered its equity investment in PEC to have an “other than temporary” decline in value. This resulted in an impairment charge of \$1.9 million to reflect the Manager’s best estimate of the fair value of the investment of \$6.1 million. The fair value, which represents the new carrying value, is based upon the present value of the anticipated reduced dividends for the duration of the PPA and an estimate of fair value of the equity investment at the end of the PPA. The Fund continues to retain its 19% equity interest in PEC.

## 8. Income and Other Taxes

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

## 9. Segmented Information

The Fund indirectly owns two cogeneration facilities located in Ontario, a wind farm in Quebec and two wind farms in Germany. It also has a 19% equity interest in PEC and a senior loan to PIC, which along with loan and loan commitments to Thorold CoGen LP and SUSL, respectively

are included with the Fund's corporate operating income for reporting purposes. These assets represent the Fund's reportable segments at September 30, 2008.

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

*(stated in thousands of dollars)*

<b>For the 3 months ended, Sept. 30, 2008:</b>	<b>Iroquois Falls</b>	<b>Kingston</b>	<b>Mont Miller</b>	<b>Germany</b>	<b>Corporate</b>	<b>Total</b>
Sales	19,457	21,951	1,986	864	-	44,258
Amortization	2,230	2,893	1,051	708	-	6,882
Operating income	4,978	6,036	360	(180)	9,781	20,975
Interest expense, net	(32)	1,945	612	(19)	509	3,015
<b>Sept. 30, 2007:</b>						
Sales	16,703	21,413	2,117	930	-	41,163
Amortization	2,233	2,851	1,057	651	-	6,792
Operating income	4,450	7,030	513	(32)	1,867	13,828
Interest expense, net	(7)	1,962	629	2	470	3,056

*(stated in thousands of dollars)*

<b>For the 9 months ended, Sept. 30, 2008:</b>	<b>Iroquois Falls</b>	<b>Kingston</b>	<b>Mont Miller</b>	<b>Germany</b>	<b>Corporate</b>	<b>Total</b>
Sales	61,717	69,526	6,679	3,657	-	141,579
Amortization	6,690	8,916	3,154	2,106	-	20,866
Operating income	19,726	23,786	1,747	436	13,263	58,958
Interest expense, net	(241)	5,823	1,836	(40)	1,540	8,918
<b>Sept. 30, 2007:</b>						
Sales	57,179	66,824	7,661	4,002	-	135,666
Amortization	6,679	8,718	3,172	2,019	-	20,588
Operating income	19,185	23,200	2,562	1,057	5,299	51,303
Interest expense, net	(27)	6,088	1,878	10	1,503	9,452

Corporate operating income for the three months ended September 30, 2008 includes \$9.6 million (2007 – \$2.1 million) of interest and dividends from the senior loan receivable and investment in PEC and \$0.6 million of interest and fees from the Thorold CoGen LP loan and the SUSL loan commitment (2007 – \$43,000).

*(stated in thousands of dollars)*

<b>As at Sept. 30, 2008:</b>	<b>Iroquois Falls</b>	<b>Kingston</b>	<b>Mont Miller</b>	<b>Germany</b>	<b>Corporate</b>	<b>Total</b>
Property, plant & equipment	169,224	127,799	77,758	14,346	-	389,127
Contracts	7,381	105,165	3,646	2,209	-	118,401
Senior loan and investment in PEC	-	-	-	-	74,815	74,815
Loan to Thorold CoGen LP	-	-	-	-	12,479	12,479
<b>As at December 31, 2007:</b>						
Property, plant & equipment	175,865	133,155	80,912	15,812	-	405,744
Contracts	7,791	114,882	3,801	2,353	-	128,827
Senior loan and investment in PEC	-	-	-	-	75,162	75,162
Loan to Thorold CoGen LP	-	-	-	-	3,113	3,113

Information on operations by geographic area is as follows:

*(stated in thousands of dollars)*

	<b>Three months ended Sept. 30</b>		<b>Nine months ended Sept. 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Sales</b>				
Canada	43,394	40,233	137,922	131,664
Germany	864	930	3,657	4,002
	<u>44,258</u>	<u>41,163</u>	<u>141,579</u>	<u>135,666</u>
		<b>As at Sept. 30, 2008</b>		<b>As at December 31, 2007</b>
<b>Property, Plant &amp; Equipment</b>				
Canada		374,781		389,932
Germany		14,346		15,812
		<u>389,127</u>		<u>405,744</u>

As at September 30, 2008 all of the Fund's assets and sales were located in Canada and Germany with the exception of the investments in, and income from, PEC and PIC, which relate to entities in the United States.

# **NORTHLAND POWER INCOME FUND**

## **TRUSTEE**

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

## **REGISTRAR AND TRANSFER AGENT**

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

## **TRUST UNITS AND DEBENTURES**

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

## **BANK**

Canadian Imperial Bank of Commerce  
Commerce Court West  
Toronto, Ontario M5L 1A2

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