

NORTHLAND POWER INCOME FUND



Annual Report 2003

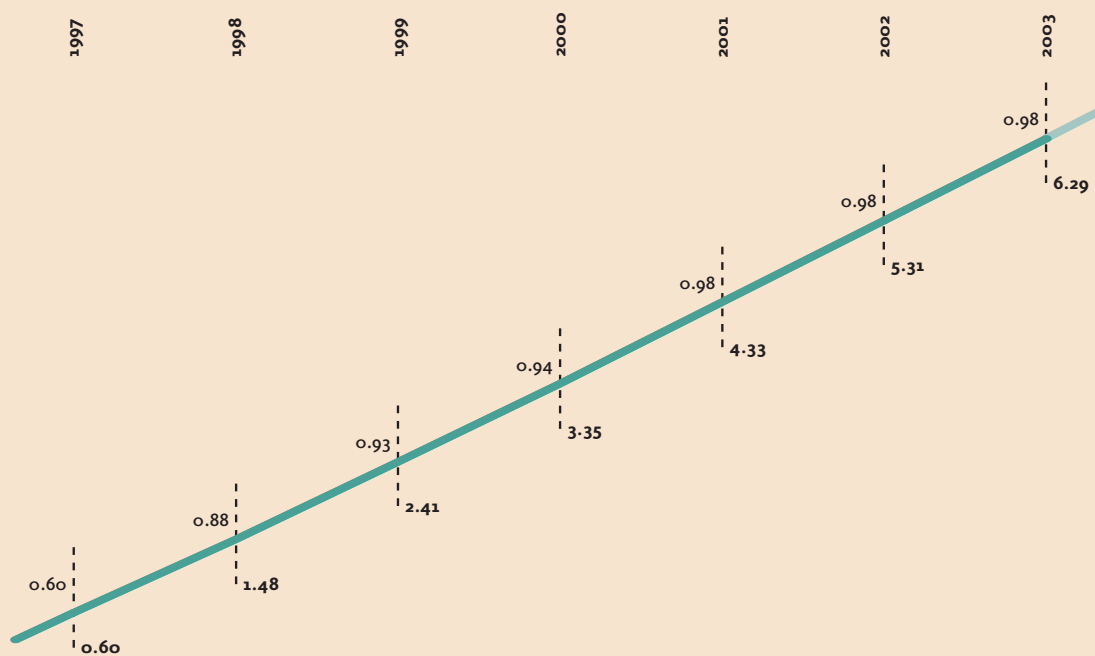
Northland Power Income Fund (“the Fund”) is a trust whose objective is to produce stable and sustainable levels of cash available for distribution to its Unitholders from energy-related businesses.

The Fund indirectly owns interests in four combined-cycle cogeneration power plants that efficiently and cleanly produce electricity and steam for sale. Two 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 of which the Fund owns 25%. Late in 2003, the Fund acquired 19% of Panda Energy Corporation and extended a loan to its wholly-owned subsidiary, Panda Interfunding Company LLC, to provide the Fund with an interest in two U.S. power plants that total 410 MW. Electricity and steam sales are made under long-term contracts with creditworthy entities to ensure revenue stability. Long-term contracts also assure the supply and price of natural gas, which is the Fund’s largest cost.

The Fund is administered and the Iroquois Falls Facility is managed by Northland Power Income Fund Management Inc., a wholly-owned subsidiary of Northland Power Inc., which is a leading Canadian independent power company with extensive experience in all aspects of private power development and operational management. Governance is provided by the five trustees of NPIF Commercial Trust (a wholly-owned subsidiary of the Fund) who have primary responsibility for oversight of the Fund and its investments as well as providing direction to the Manager.

The Fund’s trust units trade on the Toronto Stock Exchange under the symbol NPI.UN. The units are qualified investments and are not considered foreign property for RRSPs and DPSPs under the Canadian Income Tax Act.

Cumulative distributions per unit in dollars



Distributions to Unitholders were \$0.98 per unit in 2003, and are expected to increase to \$1.00 per unit in 2004.

The total return to Unitholders (distributions plus increase in trust unit market value) was 17% in 2003.

Sales revenue in 2003 was 26% higher than the prior year, and distributable cash was up 11%, both mainly as a result of the inclusion of Kingston's results.

The Kingston Facility's financial results significantly exceeded management's original objectives for accretion.

In late 2003, the Fund acquired an indirect interest in two U.S. combined-cycle cogeneration power plants totalling 410 MW through an investment in Panda Energy Corporation.

The Fund raised \$190 million in 2003 through the sale of subscription receipts and trust units.



**FROM GREAT
IDEAS, GREAT
RESULTS GROW**

The Fund has always been at the vanguard of developments in both the investment industry and the energy industry. Northland Power Income Fund was one of the first income funds based outside the oil & gas and mining industries and is the oldest of the Canadian power funds, with units available to the public for almost seven years. The successful replacement of the seven-year old General Electric gas turbines at the Fund's Iroquois Falls plant was a first anywhere in the world. As well, the Iroquois Falls plant was the first (and, so far, remains the only) independent non-utility generator to sell electricity into the wholesale spot market in Ontario.

Northland Power Income Fund Management Inc., as manager of the Fund, continues to act on our commitment to increase the size of the Fund through accretive acquisitions. The Fund's revenues and cash flows were up in 2003, primarily due to the Fund's acquisition of a 25% interest in a 110 MW cogeneration plant in Kingston, Ontario, in December 2002. In December of 2003, the Fund acquired for US\$99 million an interest in the cash flows of two combined-cycle cogeneration power plants located in Maryland and North Carolina that total 410 MW. This investment is expected to increase distributable cash flow per unit by 2% to 3%. And, as manager, we're actively seeking more acquisitions to diversify the Fund's portfolio and add to your returns.

New acquisitions mean new horizons, but as manager we continue to operate prudently within the Fund's mandate to deliver stable and sustainable distributions to Unitholders. Once again, we have delivered on our forecasts, with distributions in 2003 of \$0.98 per trust unit.

In this year's annual report, we decided to share with you, the Fund's Unitholders, some of the interesting ideas that someday may become important environmentally friendly sources of electricity, as well as great investment opportunities. We've done it in a light-hearted manner, incorporating whimsical drawings from Philippe Béha, an awarding-winning Canadian illustrator. However, we do have a serious underlying message: that the seeds of great energy ideas can grow to produce great results, and that's what Northland Power Income Fund is all about.

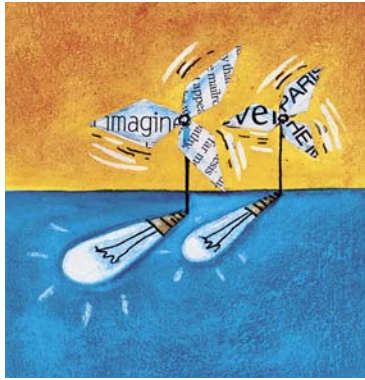
**IDEAS THAT
KEEP GROWING**

Most of us know that cogeneration is a marvelous technology to generate electricity and heat efficiently, but did you know that the technology dates back to medieval times?

Hot-air generation processes found in modern combustion turbines can be traced back to the medieval smoke-jack, a device used for turning a meat-roasting spit. The spit was fixed in a chimney and set in motion by the current of air passing up the chimney. By the early 17th century, a similar apparatus known as a steam jack used steam to propel itself. By the late 18th century, cogeneration technology had developed so far that steam engines were powered by waste steam from manufacturing processes and the hot condenser water was re-used for other process purposes.

Flash forward to the present and witness the Fund's new GE LM 6000 gas turbines at the Iroquois Falls plant, with higher output and efficiency than before, generating 120 MW of electricity and enough associated steam to meet the needs of the nearby Abitibi-Consolidated paper mill – all this while reducing nitrogen oxide emissions by 90%, exceeding clean air standards for Ontario and Canada and giving the Fund a new product for sale, nitrogen oxide allowances. Indeed, the daily operations of all the Fund's plants meet all regulated requirements for air and noise emissions and water discharge.





**IDEAS THAT
TAKE SAIL**

We've recently caught wind of another green idea with a deep history – catching wind to produce energy. Although wind has powered sailboats and driven windmills to grind flour and draw water for centuries – the first Canadian windmill was built beside the St. Lawrence River in the 1620s – harnessing wind power is a relatively new technology for energy production. It wasn't until the late 19th century that the first wind turbine for electricity generation came into use in Europe.

At the beginning of 2003, worldwide wind-generated capacity exceeded 31,000 MW (equivalent to all of Ontario's nuclear, coal and hydro capacity combined). Today, wind power is the world's fastest-growing energy source, with sustained growth rates of more than 30% per year. This growth is being driven largely by improvements in wind turbine technology, which have translated directly into improved economics. The cost of wind power has declined by about 70% over the last decade, to the point that wind is almost competitive with other power-generation technologies in many locations without giving any credit to its environmental benefits.

As of the beginning of 2002, there were about 205 MW of wind-generation facilities installed in Canada, producing enough electricity to supply about 56,000 typical Canadian homes. The same amount of coal-generated electricity would discharge about 449,000 tonnes of carbon dioxide into the atmosphere annually. Wind energy won't ever supply all of Canada's electrical requirements, but this non-polluting, renewable energy source may eventually supply up to 20% of our country's power.

Wind energy is an idea whose time has arrived. The parent company of the Fund's manager is active in wind power and has a number of projects under development, including a 54 MW wind facility in Quebec and a wind project in Ontario in partnership with the City of Sudbury. Wind power projects may become attractive investment opportunities for the Fund in the future.

IDEAS THAT CHANGE OUR WORLD Opportunity knocks in strange places, sometimes even in municipal landfills, and, as the Fund's manager, we'll consider unusual opportunities if they have the potential to deliver strong, consistent returns to Unitholders.

Landfill gas is an example of biomass energy, as are wood waste and any other form of plant and animal matter that can be turned into energy.

As refuse in landfill sites decomposes, it produces landfill gas, which can be captured from the landfill and used to produce energy. Electricity has been generated from landfill gas for over 20 years – there are more than 300 plants, mostly small, doing precisely that throughout North America.

Waste-to-energy power plants can also burn the refuse and use the heat generated to operate a steam-powered turbine. Furnaces in modern waste-to-energy plants destroy 90% of the refuse, leaving only 10% for landfill, and produce a useful product, electricity, with low emissions.

The Manager's parent company has been operating two plants in Northern Ontario partially fuelled by wood waste from the forestry industry since 1990 – another example of great ideas with the potential to produce great results.

IDEAS FOR THE FUTURE Where will the next great opportunity come from? You can never be sure. We've heard some far-out ideas, like the company harnessing the gravitational power of the moon to produce electricity in a unique undersea power station in Norway driven by the rise and fall of the tide. Or the plant in the U.S. that pumps compressed air into underground storage caverns at night, when electricity is cheap, and produces electricity from the compressed air during the day, when power rates are high.

Not every new concept produces long-term results, but these are the kinds of ideas that spark our interest every day as we look for new ways to deliver results to our Unitholders.

COMMITTED TO YOU We take our responsibilities seriously as manager of the Fund. Just as the Fund's gas turbines operate at nearly 100% dependability, we strive to produce the same dependability in returns to Unitholders. Fund distributions have grown since inception in 1997, and we believe there are many opportunities for growth on the horizon – from further acquisitions to capitalizing on the wholesale electricity market to further improving the Fund's technologies to increase output.

While our primary responsibility as manager is to generate returns for Unitholders, we think it is in everyone's long-term interests, including yours as investors, that the Fund continues to be part of the broad movement to cleaner energy. Even with a number of environmentally friendly and economically sound ideas already in place – such as cogeneration – we will continue to look for opportunities for the Fund to invest in power generation that contribute to a cleaner, more efficient and better world for generations to come, while providing Unitholders with the dependable, sustainable returns that you have come to expect from Northland Power Income Fund.

HIGHLIGHTS

Years ended December 31	2003	2002
Sales volume		
Electricity (MWh)	803,022	747,717
Steam (000 lb.)	1,153,462	1,088,090
Financial (\$000)		
Sales	91,132	72,344
Net income	18,808	19,171
Funds from operations before working capital changes	35,953	32,165
Cash from operations	40,878	31,283
Distributable cash ⁽¹⁾	33,725	30,303
Distributions declared to unitholders (\$000)	36,926	30,207
Distributions per unit	\$0.98	\$0.98

(1) Distributable cash is not a measure under GAAP, and there is no standardized measure of distributable cash. Distributable cash, as presented, may not be comparable to similar measures presented by other income funds.

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LETTER TO UNITHOLDERS The year 2003 was one of significant achievements. Northland Power Income Fund acquired an indirect interest in two U.S. power plants and successfully completed the Iroquois Falls gas turbine replacement project that commenced in 2002. Corporate governance was enhanced, and the Fund's structure was altered to better position the Fund to acquire additional assets and investments. Financial results exceeded the Manager's expectations at both Iroquois Falls and, by a wide margin, at Kingston CoGen.

Financial Results

During 2003 the Fund increased its revenue by \$18.8 million (26%), primarily as a result of the acquisition at the end of 2002 of a 25% interest in the Kingston CoGen Facility in Kingston, Ontario. The Kingston CoGen Limited Partnership distributed \$3.3 million to the Fund in 2003, significantly exceeding the \$2.5 million amount required for the acquisition to be minimally accretive. The Fund's distributable cash was \$33.7 million, an increase of \$3.4 million from the previous year. Distributions to Unitholders were maintained at \$0.98 per unit. While distributions for 2003 were above the level of distributable cash, this occurred primarily as a result of the timing of two transactions in 2003 – namely, the new gas turbines at the Iroquois Falls Facility were purchased late in 2002 but not fully operational until partway through 2003, and a portion of the Fund's offering of trust units in March 2003 was invested in low-yielding securities until the completion of the Panda transaction in December 2003. In 2004, distributable cash is expected to exceed forecast distributions of \$1.00 per unit.

Return to Unitholders

The return to Unitholders in 2003 (combining distributions and the increase in trust unit market value) was 17%. The combined return has been an annualized average of 12% over the almost seven years since the inception of the Fund in April 1997, compared to 8% for the TSX Total Return Index over the same period.

Investment in Panda Energy Corporation

Northland Power Income Fund Management Inc. (the "Manager") carefully considered a number of potential acquisitions and investments for the Fund during the year. In December 2003, the Fund made an investment of approximately US\$99 million in Panda Energy Corporation, an entity that indirectly owns two combined-cycle cogeneration power plants in the United States. The projects, 180 MW in North Carolina and 230 MW in Maryland, are expected to provide a stable, predictable source of cash flow based upon well-structured power purchase agreements with creditworthy counterparties. The investment in Panda Energy Corporation consists of a combination of debt and equity that will generate significant income for the Fund on a priority basis while diversifying the Fund's assets and sources of cash flow. The Panda transaction, which is discussed at greater length on page 12, is expected by the Manager to be 2% to 3% accretive to the Fund. Because income from this investment will be received in U.S. dollars, the Fund has prudently entered into arrangements to help protect against adverse changes in the U.S. dollar exchange rate for the next three years.

Issue of Additional Trust Units

The Fund raised additional capital through the sale of its securities twice in 2003. Both issues were well received by institutional and retail investors and were fully subscribed. The first offering, in March 2003, was for 6,957,500 trust units representing gross proceeds of approximately \$75 million (including the underwriters' over-allotment option). The second offering was in December 2003, when the Fund issued subscription receipts that were converted to 10,135,000 trust units representing gross proceeds of approximately \$116 million. The net proceeds of the March offering were used in part to repay the funds borrowed in November 2002 to finance the acquisition of the 25% interest in the Kingston CoGen facility and to purchase the new Iroquois Falls gas turbines. The remaining balance was combined with the net proceeds of the December issue to provide the cash for the investment in Panda Energy Corporation. The Fund now has 47,915,943 trust units outstanding.

Governance

During 2003, the Fund completed the internal restructuring that was approved at the last annual meeting of Unitholders in May 2003 and fully described in the related management information circular. As a result of that restructuring, the Trustees of NPIF Commercial Trust have the primary responsibility for oversight of the Fund and its investments, as well as providing direction to the Manager. The Fund adheres to the requirements of Canadian securities authorities and the Toronto Stock Exchange with respect to corporate governance matters as applicable to income funds and is monitoring ongoing developments respecting governance in Canada, as well as other jurisdictions.

Electricity Market in Ontario

The past year has included a significant amount of discourse and press coverage concerning the Ontario electricity market, as well as actions by both the former Conservative government and the new Liberal government. While these developments are important to many, the majority of these actions have concerned the retail sector rather than the wholesale market or generators such as the Fund. The power purchase agreements with Ontario Electricity Financial Corporation ("OEFC") that provide the bulk of the Fund's Ontario revenues remain fully in force and are unaffected. The Manager believes that the Fund will continue to be able to sell electricity beyond the volumes contracted to OEFC under the Iroquois Falls power purchase agreement on advantageous terms. The Fund is encouraged by the steps taken so far by the Liberal government with respect to the Ontario electricity sector.



Employees

The employees at Iroquois Falls successfully completed the installation of the new gas turbines at a net cost of about \$15 million, \$2 million below the original budget, while the Kingston CoGen employees dealt effectively with gas turbine operational problems encountered early in the year. Safety performance continues to be exemplary; there have been no lost-time injuries at Iroquois Falls since plant start-up in September 1996, and in 2003 Kingston CoGen achieved 2,500 consecutive days without a lost-time injury.

Outlook for 2004

The Fund's primary goal is to maintain consistent distributions to Unitholders. The investments made in 2002 and 2003 conform to that objective and have

brought additional stability by diversifying the Fund's assets and sources of cash flow.

The Fund increased its rate of monthly distributions to 8.25¢ in January 2004, an increase of 0.25¢ per month. Distributions for 2004 are forecast at \$1.00 per unit compared to \$0.98 last year. The taxability of those distributions is expected to be in the range of 75%.

In 2004 the Manager will be seeking to further improve the financial performance of the Fund's existing investments. In addition, the active but disciplined pursuit of acquisition and investment opportunities continues to be a priority of the Manager and the Trustees. The Fund is well positioned to maintain stable and sustainable distributions to its Unitholders, with a realistic expectation of continued growth.

A handwritten signature in black ink, appearing to read "James C. Temerty". The signature is stylized and written over a horizontal line.

James C. Temerty
Chairman
Northland Power Income Fund
Management Inc.

March 10, 2004

INVESTMENT IN PANDA ENERGY CORPORATION In December 2003 the Fund, through its subsidiary, Iroquois Falls Power Corp., made an investment of approximately US\$99 million in Panda Energy Corporation (“PEC”), an entity that, through its subsidiaries, owns two combined-cycle cogeneration facilities (“the Panda Facilities”) located in the U.S. The PEC investment conforms to the Fund’s objective of providing stable and sustainable cash flow to Unitholders and will help to diversify the Fund’s assets and sources of cash flow.

Panda Generating Facilities

PEC is an affiliate of Panda Energy International Inc., a privately held non-regulated electric generation company based in Dallas, Texas. The two Panda Facilities, the Panda-Brandywine Facility and the Panda-Rosemary Facility, produce electricity and steam using natural gas as the primary fuel with no. 2 fuel oil as a backup. The Panda Facilities each have two General Electric industrial gas turbines with heat recovery steam generators and a steam turbine, and supply steam to adjacent distilled water plants also owned indirectly by PEC. Both Panda Facilities are certified as qualifying facilities under U.S. federal energy legislation.

Electricity from the Panda Facilities is sold under long-term power purchase agreements to regulated public utilities to provide stability and predictability to the facilities’ cash flows. The power purchase agreements provide for fixed “capacity” payments that are not affected by the amount of electricity actually produced by the facility. “Energy” payments under the power purchase agreements are designed to offset the fuel and variable costs when the facilities are dispatched (i.e., requested to operate). The fuel supply for the Panda Facilities is contracted under terms that integrate with the provisions of the power purchase agreements. The Panda Facilities are dispatched for a limited number of hours per year, typically during periods of high electricity demand in winter and summer. Since the bulk of the payments under the power purchase

agreements are for “capacity,” the profit and cash flow of the Panda Facilities and PEC are largely independent of the level of actual electricity production.

The 230 MW Panda-Brandywine Facility is located in Maryland, just outside Washington, D.C., and started operations in October 1996. The facility sells electrical capacity and energy pursuant to a power purchase agreement with Potomac Electric Power Company, which has credit ratings of A2 and BBB+ (Moody’s and Standard & Poor’s, respectively). Under the power purchase agreement, which remains in force until October 2021, a monthly payment is made for capacity and the facility must be dispatched at 99 MW for no less than 60 hours per week. The Panda-Brandywine Facility has historically represented about 70% of the combined cash flows of the two Panda Facilities.

The 180 MW Panda-Rosemary Facility is located in Roanoke Rapids, North Carolina, and started operations in December 1990. The facility sells electrical capacity and energy pursuant to a power purchase agreement with Virginia Electric and Power Company, which has a long-term issuer rating of A3 from Moody’s and a credit rating of A- from Standard & Poor’s. The term of this power purchase agreement extends to December 2015.

The Investment

The investment by the Fund in PEC totalled US\$98.975 million. The PEC investment consists of a US\$93 million unsecured senior loan to a subsidiary of PEC and the purchase from PEC for US\$5.975 million of a 19% equity interest (9.5% voting) including an option to increase the equity participation in PEC to 49% in 2021 upon a further payment. The loan bears interest at an annual rate of 10.5% and is scheduled to be fully repaid through quarterly payments of principal and interest by November 2021.

The PEC loan is structured to provide principal and interest payments to the Fund in priority to any dividend payments. Interest on the loan should not be subject to U.S. withholding taxes, while dividends received by the Fund will be received after payment of U.S. corporate income taxes and withholding taxes.

The 19% equity interest provides the Fund with the opportunity to participate in increased revenues from the Panda Facilities, and the option, if exercised, will allow the Fund to benefit from up to 49% of any terminal value of the Panda Facilities.

The Manager expects the PEC investment to be 2% to 3% accretive in total to the Fund. The loan principal repayments are in addition to the expected accretion. The Manager considers that there is some upside potential arising from the Panda Facilities

through higher dispatch levels, gas and transportation cost optimization and sale of future NOx credits.

The Fund has entered into hedging arrangements to mitigate future adverse changes in the U.S. dollar exchange rate. Interest and principal payments to be received in U.S. dollars from the PEC loan are fully hedged for 2004, and a majority of the payments for 2005 and 2006 are also hedged at rates that protect, and potentially improve, the accretiveness of the PEC investment to the Fund.



PANDA GENERATING FACILITIES

LATE IN 2003, THE FUND ACQUIRED A 19% INTEREST IN TWO U.S. POWER PLANTS LOCATED IN MARYLAND AND NORTH CAROLINA. BOTH ARE COMBINED-CYCLE COGENERATION POWER FACILITIES THAT USE NATURAL GAS AS THEIR PRIMARY FUEL. ELECTRICITY AND STEAM SALES ARE MADE UNDER LONG-TERM CONTRACTS WITH CREDITWORTHY ENTITIES TO ENSURE REVENUE STABILITY.



IROQUOIS FALLS AND KINGSTON FACILITY

THE IROQUOIS FALLS FACILITY IS LOCATED APPROXIMATELY 650 KILOMETRES NORTH OF TORONTO ON THE WEST BANK OF THE ABITIBI RIVER. THE 110 MW GAS-FIRED COGENERATION KINGSTON FACILITY IS LOCATED WEST OF THE CITY IN LOYALIST TOWNSHIP ON LAND NEAR LAKE ONTARIO. BOTH PLANTS ARE IN CLOSE PROXIMITY TO THEIR STEAM HOSTS.

GOVERNANCE: As trustee, Computershare Trust
THE ROLES OF Company of Canada has responsi-
THE TRUSTEES bility for the administration
AND of the Fund. The Trustee has
THE MANAGER delegated administrative responsi-
bility for the Fund to Northland
Power Income Fund Management Inc. (the “Manager”) under an administration agreement.

The Board of Trustees of NPIF Commercial Trust has responsibility for oversight of the management

of the Iroquois Falls Facility, including the administration of the contracts and the operation of the business of selling electricity and steam.

In addition, the Board reviews the operations of the Kingston Facility and the Fund and provides advice to the Manager. The Board consists of five trustees, four of whom are independent of the Manager.

The Board has delegated the day-to-day management responsibilities to the Manager under a management agreement expiring in 2021.

DISTRIBUTION It is the Fund’s policy to distribute
AND FUNDING 100% of estimated cash flow to
POLICY Unitholders after providing for
capital reserves and any increases
in working capital, which are not
expected to be material. Any permitted acquisitions
and plant expansions would be funded by a combina-
tion of borrowings and the issuance of additional
trust units.

**MANAGEMENT'S
DISCUSSION
AND ANALYSIS**

The following is a discussion of the consolidated financial condition and results of operations of Northland Power Income Fund (the "Fund"). It should be read in conjunction with the audited consolidated financial statements on pages 35 through 51. Additional information relating to the Fund can be found in the Annual Information Form, which is filed electronically at www.sedar.com.

The annual report, including this Management's Discussion and Analysis ("MD&A") contains forward-looking statements with respect to the Fund and entities and assets that it owns or has an interest in, directly or indirectly, based on assumptions that the Manager considered reasonable at the time it was prepared on March 10, 2004. These forward-looking 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 on pages 27 through 33.

This MD&A compares the Fund's 2003 financial results to the financial results for 2002. The 2003 consolidated financial statements include Iroquois Falls Power Corp. ("IFPC"), the portfolio investment made by the Fund in PEC in 2003 and the Fund's 25% interest in Kingston CoGen Limited Partnership ("KCLP"); however, since the interest in KCLP was not acquired until December 31, 2002, only IFPC's results are included in the 2002 consolidated statements of income and deficit. All discussions with respect to KCLP reflect the Fund's 25% proportionate interest in KCLP. The Fund's investment in Panda Energy Corporation ("PEC") is accounted for under the cost method. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, distributions of capital and additional investment. Interest earned from the senior loan to Panda Interfunding Company LLC ("PIC") will be reported as interest income on the consolidated statements of income and deficit. Sixteen days of interest income was recorded in the consolidated 2003 results.

On November 25 the Fund filed a final prospectus for an offering of subscription receipts. On December 15 the subscription receipt offering closed, raising gross proceeds of \$115,741,700, and on the same date the subscription receipts were converted to 10,135,000 trust units. The proceeds from the issue, and cash on hand, were used by the Fund to make an investment of approximately US\$99.0 million in PEC, an entity that, through its subsidiaries, owns two combined-cycle cogeneration facilities located in the U.S. The investment in PEC consists of a US\$93.0 million unsecured senior loan to PIC, and the purchase from PEC for US\$5.975 million of a 19% equity interest (9.5% voting), including an option to increase the equity participation in PEC to 49% in 2021 upon a further payment.

The Fund's 2003 declared distributions to Unitholders of \$0.98 per unit (\$36,926,000) were consistent with the 2002 per unit amount, but up \$6,719,000 in total due to additional trust units issued in 2003.

Consolidated Revenue

In thousands of dollars except as indicated otherwise	2003	2002	2001
Electricity			
Production (MWh)	803,022	747,717	739,701
Average price (\$/kWh)	0.0905	0.0802	0.0737
Sales	72,646	60,001	54,545
Steam			
Production (000 lb.)	1,153,462	1,088,090	1,012,015
Average price (\$/000 lb.)	5.83	5.94	5.29
Sales	6,723	6,465	5,358
Natural gas – sales	11,763	5,878	8,508
Total consolidated revenue	91,132	72,344	68,411

Sales revenue at \$91.1 million in 2003 exceeded the prior year by \$18.8 million (26%), with KCLP accounting for all of the increase. Electricity and steam sales revenue exceeded 2002 by \$12.6 million (21%) and \$0.3 million (4.0%) respectively, while revenue from the resale of natural gas was up \$5.9 million (100%).

KCLP contributed \$14.8 million of electricity revenue in 2003 (nil in 2002.) Electricity revenue earned under the Iroquois Falls long-term power purchase agreement was down \$2.0 million in 2003 compared to 2002 due to downtime associated with the installation of the two new gas turbines and the new steam turbine generator stator. Also, unlike last year, Ontario Electricity Financial Corporation (“OEF”) fully exercised its limited right to curtail off-peak electricity purchases. The volume of sales under the Iroquois Falls power purchase agreement was 65,222 MWh (8.9%) lower than last year.

Non-contracted revenue earned from sales of electricity and operating reserves into the wholesale market from the Iroquois Falls Facility in 2003 totalled \$1.6 million, largely in line with 2002. The new gas turbines performed well and demonstrated their higher efficiency compared to the old machines; however, any material contribution to non-contracted sales from this investment was not realized in 2003 because low prices for electricity in the wholesale market during the latter half of 2003 (after the machines became operational) held back potential sales, while the realized reduction in NOx emissions, as expected, did not translate into additional revenue in 2003 through sale of NOx allowances.

Steam revenue was up 4.0% in 2003 compared to 2002 due to the contribution of KCLP. The volume of steam sales at Iroquois Falls in 2003 was in line with the prior year. While the selling price was up 2.0% because of an increase in the price of natural gas, which largely determines the steam selling price under the steam sales agreement, steam revenues at Iroquois Falls were down 2.8% from 2002 due to the recognition of approximately \$0.3 million in deferred revenue in the first quarter of 2002.

MANAGEMENT'S
DISCUSSION
AND ANALYSIS

Favourable market prices and the inclusion of KCLP resulted in \$5.9 million higher revenue from sales of natural gas in 2003 vs. 2002. Revenue earned at Iroquois Falls accounted for \$1.6 million of this increase as natural gas was resold to mitigate the cost of unused capacity under the transportation contract with TransCanada PipeLines Limited during the plant shutdowns required for installation of the new gas turbines and the steam turbine generator stator, as well as during lower-production summer months. KCLP took advantage of favourable market prices for natural gas by reducing off-peak electricity production to free up additional quantities of contracted natural gas for resale.

Consolidated Cost of Sales and Gross Profit

In thousands of dollars except as indicated otherwise	2003	2002	2001
Cost of natural gas for electricity and steam sales:			
Volume consumed (000 GJ)	7,750	7,044	6,963
Average price of gas consumed (\$/GJ)	4.18	3.80	3.52
Cost of gas consumed	32,373	26,799	24,490
Cost of natural gas purchased for resale	7,981	5,277	5,798
Total consolidated cost of sales	40,354	32,076	30,288
Consolidated gross profit	50,778	40,268	38,123

At \$40.4 million in 2003, the cost of natural gas was \$8.3 million higher than the prior year largely due to including KCLP's financial results. The total cost of natural gas at the Iroquois Falls Facility was down \$1.0 million as savings from lower gas consumption due to reduced production and increased efficiency of the new turbines more than offset the higher cost of natural gas resales. The cost of natural gas purchased for resale totalled \$8.0 million, \$2.7 million higher than in 2002 due to increased quantities and the inclusion of KCLP.

Electricity and natural gas management incentive fees earned by Northland Power Income Fund Management Inc. ("NPIFMI" or the "Manager") are included in the cost of sales. The Manager is responsible for the ongoing expenses of IFPC's participation in the wholesale electricity market and is entitled to the first \$240,000 of annual net profits (escalated each year with CPI) generated by IFPC's market participation and 25% of such profits thereafter. In 2003, NPIFMI earned \$1.5 million in electricity and natural gas management fees compared to \$1.0 million in 2002.

Consolidated gross profit at \$50.8 million was \$10.5 million higher than 2002, mainly as a result of the inclusion of KCLP's financial results.

Expenses and Income Before Taxes

In thousands of dollars except as indicated otherwise	2003	2002	2001
Plant operating costs	9,345	6,751	6,641
Amortization	15,762	11,294	9,243
Management & administration costs, including capital tax	3,847	2,891	1,709
Loan interest and bank fees	4,003	249	126
Other interest income	(1,341)	(71)	(247)
Foreign exchange loss	15	312	—
Total expenses including interest	31,631	21,426	17,472
Consolidated income before taxes	19,147	18,842	20,651

Total expenses in 2003, including interest, at \$31.6 million were \$10.2 million higher than 2002, mainly due to the inclusion of KCLP's results.

Plant operating costs were up \$2.6 million over 2002 due to the addition of KCLP's expenses, including an insurance deductible of \$0.4 million related to an unplanned gas turbine outage that occurred in January 2003 and expenditures associated with the installation of the replacement steam turbine generator stator at the Iroquois Falls Facility. The \$4.5 million increase in amortization represents the Kingston Facility expense plus the impact of accelerating amortization of the previous Iroquois Falls gas turbines; the former turbines were amortized to fair market value and returned to General Electric for a trade-in allowance of \$5.5 million.

Management and administration costs were \$1.0 million higher than last year largely because of the consolidation of the Fund's share of KCLP and one-time fees and legal costs associated with changes to the Fund's organizational structure, including establishing NPIF Commercial Trust as the principal vehicle for holding the Fund's current and future investments. Other interest income was \$1.3 million higher than in 2002 because the Fund recognized 16 days of interest on the US\$93,000,000 loan to PIC, and until December 15 the Fund was investing cash received from the issuance of trust units in the first quarter in excess of the amount remaining after repayment of the bank borrowings associated with the KCLP acquisition and the purchase of the new gas turbines. Interest expense of \$4.0 million arose mainly from KCLP's long-term non-recourse project debt and its levelization account with OEFC and interest on borrowings under the Fund's acquisition line of credit until it was fully repaid in March 2003.

Overall, increased gross profit from electricity, steam and natural gas sales more than offset higher expenses and resulted in income before taxes in 2003 at \$19.1 million, exceeding the 2002 level by \$0.3 million.

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Distributions to Unitholders and Distributable Cash

In thousands of dollars except as indicated otherwise

	2003	2002	2001
Funds from operations			
before working capital changes	35,953	32,165	30,978
Net change in working capital	4,925	(882)	1,017
Cash provided by operating activities			
Less: capital expenditures,			
net of cash reserves	(1,389)	(19,392)	42
Less: credit facility costs	–	(1,767)	–
Less: KCLP repayment of debt, net	(754)	–	–
Less: funds set aside for future			
maintenance costs	(85)	(88)	(86)
Add: credit facility drawdown			
for gas turbines	–	19,385	–
Cash available	38,650	29,421	31,951
Add/(deduct) net change			
in working capital	(4,925)	882	(1,017)
Distributable cash ⁽¹⁾	33,725	30,303	30,934
Distributions declared to Unitholders	36,926	30,207	30,207
Average number of trust units			
(thousands of units)	36,970	30,823	30,823
Per unit (\$/unit)			
Funds from operations before working			
capital changes	\$0.97	\$1.04	\$1.01
Cash available	\$1.05	\$0.95	\$1.04
Distributable cash ⁽¹⁾	\$0.91	\$0.98	\$1.00
Distributions declared to unitholders	\$0.98 ⁽²⁾	\$0.98	\$0.98

- (1) Distributable cash is not a measure under GAAP, and there is no standardized measure of distributable cash. Distributable cash, as presented, may not be comparable to similar measures presented by other income funds.
- (2) Distributions declared to Unitholders who received all 12 monthly distributions in 2003 totalled \$0.98 per unit. The total distributions declared divided by the weighted average number of trust units exceeds \$0.98 because of the impact of the offerings in March and December, when payments of a full monthly distribution were made to Unitholders who had held their units for only part of the month.

Funds from operations before changes in working capital at \$36.0 million exceeded the 2002 level by \$3.8 million. Cash available at \$38.7 million was \$9.2 million higher than the year-earlier level, due mostly to a significant change in non-cash working capital. The positive change in working capital in 2003 was comprised of a decrease in accounts receivable associated mainly with the timing of payments from OEFC for electricity sales (at the end

of 2003 only one month of electricity sales were receivable from OEFC, compared to two months in 2002) and the receipt in 2003 of KCLP's insurance claim related to a 2002 gas turbine incident, partially offset by a \$6.0 million decrease in accounts payable. The 2002 accounts payable balance included several unusual items that were paid by the end of 2003, including payables to General Electric for the new Iroquois Falls gas turbines and payables at KCLP related to service and parts associated with the December 2002 gas turbine outage. Capital expenditures in 2002 included the cost of the new gas turbines at Iroquois Falls (which were installed in 2003), while 2003 included installation costs and additional parts for the new gas turbines at Iroquois Falls and the purchase and installation of continuous emission monitoring equipment as required by the Ontario Ministry of Environment. The trade-in for the old turbines returned to GE was recognized in 2003.

Distributions declared to Unitholders for 2003 totalled \$36.9 million or \$0.98 per unit, consistent with the 2002 per unit distributions but up \$6.7 million in total due to the additional units issued in 2003.

Quarterly Financial Information

\$ millions except per trust unit amounts	2003	Q1	Q2	Q3	Q4	Total
Sales		24.6	20.1	21.9	24.5	91.1
Net income		6.7	2.8	4.1	5.2	18.8
Net income per unit		0.202	0.073	0.109	0.132	0.509
Cash from operations per unit		0.421	0.241	0.268	0.192	1.106
Distributions declared per unit		0.240	0.240	0.240	0.260	0.980
	2002	Q1	Q2	Q3	Q4	Total
Sales		21.0	14.7	16.0	20.6	72.3
Net income		8.0	3.6	2.9	4.7	19.2
Net income per unit		0.258	0.117	0.095	0.152	0.622
Cash from operations per unit		0.337	0.254	0.176	0.248	1.015
Distributions declared per unit		0.240	0.240	0.240	0.260	0.980

The majority of the Fund's revenue stream is from IFPC (KCLP generates approximately 21% of the Fund's revenues). IFPC's revenue streams are seasonal, as OEFC has contracted for more electricity from IFPC and pays a higher price in winter than in summer. In addition, steam sales to Abitibi tend to be higher in winter than summer as more steam is required for heating purposes. 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. In comparison, KCLP's power purchase agreement does not differentiate between winter and summer and therefore lends itself to less seasonality. Distributions to Unitholders prior to 2001 reflected IFPC's seasonality. The Manager received approval at the May 2001 Annual and Special Meeting of Unitholders for a Trust Indenture change that permitted monthly distributions (rather than quarterly) and the levelization of distributions throughout the year. Since the Fund's revenue streams are seasonal, while distributions are levelized through the year, the Fund's cash and cash equivalents balances are generally higher in the first and fourth quarters.

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Fourth Quarter Results

Total sales for the quarter at \$24.5 million were \$3.9 million ahead of the same period last year due to the addition of KCLP's \$5.0 million of sales revenue.

Electricity revenue under the Iroquois Falls power purchase agreement during the fourth quarter of 2003 was down \$1.0 million from the same period last year as electricity revenue in 2002 included a \$1.3 million retroactive rate increase. Electricity production at Iroquois Falls was adversely affected in the 4th quarter by an 8.5-day unscheduled outage on one gas turbine due to a compressor blade failure. However, revenue earned from sales of electricity and operating reserves into the wholesale market was up slightly from last year due to favourable sales volumes and wholesale market prices. Steam revenue was marginally lower because of reduced steam demand during the quarter. Revenue from the sale of natural gas was \$0.9 million higher than 2002 as a result of the contribution of KCLP; gas resold by the Iroquois Falls plant related to the mitigation of fixed transportation costs was in line with the same period last year.

The inclusion of KCLP's financial results added to the cost of sales and expenses. The total cost of natural gas at the Iroquois Falls Facility was down \$0.3 million, commensurate with lower gas consumption related to reduced production. Plant operating costs for the quarter were up \$0.7 million, mainly because of the inclusion of KCLP. Amortization expense was down \$1.5 million as the 4th quarter of 2002 included stepped-up amortization on the old Iroquois Falls gas turbines to reflect their reduced remaining life.

Management and administration costs, including those associated with the Kingston Facility, were down \$0.5 million from the 4th quarter of 2002, which included amortization of the costs of the credit facility and an additional fee paid to the manager related to the acquisition of KCLP. Foreign exchange costs were \$1.1 million higher in the quarter due to a non-cash foreign exchange adjustment related to the PIC loan. Interest expense of \$0.7 million arose primarily from KCLP's long-term non-recourse project debt, while interest income was up \$0.7 million largely due to 16 days of interest earned on the loan to PIC.

Income before taxes for the quarter ending December 31, 2003, increased by \$2.2 million due to incorporating KCLP's operations and the contribution of interest income from the PEC loan.

Issuance of Securities

During 2003, the Fund successfully raised additional capital through the sale of its securities in March and December. Both issues were well received by institutional and retail investors and were fully subscribed. A summary of the securities issues follows:

Use of Issuance Proceeds

In thousands of dollars except as indicated otherwise	Expected ⁽¹⁾	Actual
March 2003, offering ⁽²⁾		
Proceeds – net of costs	70,400	70,717
Repayment of credit facility	(42,500)	(44,070)
Balance for future acquisitions	27,900	26,647

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that represents the Fund's proportionate share of KCLP's closing cash; its use is restricted under KCLP's credit agreement and is exclusive of a \$1.5 million cash reserve for major maintenance costs as stipulated under KCLP's credit agreement.

Capital expenditures for the year were significantly lower than 2002, when the new gas turbines at IFPC were purchased. Capital expenditures in 2003 included installation costs and additional parts for the new turbines at Iroquois Falls and the purchase and installation of continuous emission monitoring equipment.

The Fund and its subsidiary, IFPC, have a line of credit totalling \$95 million consisting of a \$7.5 million revolving letter of credit facility used in meeting obligations under the TransCanada PipeLines Limited contract, a \$5 million revolving operating line of credit to be used for general corporate purposes and an \$82.5 million facility to assist in the funding of capital expenditures and investments. As of December 31, 2003, a letter of credit for \$7.5 million was outstanding and there were no borrowings under the operating or the acquisition line of credits.

Capital Structure of KCLP

KCLP has in place long-term non-recourse project financing in the amount of \$113.2 million with a syndicate of banks. For accounting purposes, the Fund's proportionate share of \$28.3 million is consolidated on the Fund's consolidated balance sheet. 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 KCLP and an assignment of the partners' ownership interests in KCLP.

The Fund's proportionate share of KCLP's outstanding balance on its levelization account with OEFC as consolidated for accounting purposes is \$7.3 million. Interest is accrued at a rate related directly to the interest rate on long-term Government of Canada bonds. The levelization account balance is expected to be reduced in its entirety over the term of the Kingston power purchase agreement.

The Fund and its wholly-owned subsidiary, IFPC, and KCLP are in compliance with all debt covenants in respect of the credit facility and the credit agreement, respectively.

Tax Treatment of Distributions

Distributions to Unitholders in 2003 were 39.3% tax-deferred compared to 46.5% in 2002. The tax deferral arises as the Fund's capital cost allowance and expenses reduce the Fund's income that would otherwise be taxable. The tax-deferred portion of distributions represents a return of capital for Canadian income tax purposes and reduces the adjusted cost base of the trust units.

Generally, a trust unit is considered to be capital property. The actual or deemed disposition of a unit will give rise to a capital gain (or loss) equal to the amount by which the proceeds of disposition of a trust unit are greater (or less) than the adjusted cost base of the unit and any associated selling expenses. The tax-deferred portion of distributions represents a return of capital for income tax purposes and reduces the adjusted cost base of the trust units.

Distributions in 2004 are expected to be approximately 25% tax-deferred and 75% taxable to Unitholders.

Distribution and Funding Policy

It is the Fund's policy to distribute 100% of estimated cash flow to Unitholders after providing for capital reserves and any increases in working capital, which are not expected to be material. Any permitted acquisitions and plant expansions would be funded by a combination of borrowings and the issuance of additional trust units.

As of March 10, 2004, the Fund has issued and outstanding 47,915,943 units.

Outlook

The contribution of the Iroquois Falls plant to the Fund's 2004 financial results is expected to exceed 2003 because of less downtime planned and the realization of benefits from the new gas turbines. Kingston CoGen has scheduled major overhauls of its gas and steam turbines for 2004 – these occur at intervals of approximately six years. KCLP's 2004 financial performance is expected to fall short of 2003's outstanding results because of the overhaul costs and the loss of profits during the associated downtime. The major overhauls were advanced to the first quarter of 2004 as a result of an unscheduled outage of Kingston's gas turbine in January 2004. The Panda investment, made late in 2003, will start contributing to results in 2004.

The Fund continues to seek acquisition opportunities that meet its criteria for increasing distributions while also protecting the Fund's current risk profile.

Monthly distributions to Unitholders in the year 2004 have been increased to \$0.0825 per unit – an expected distribution of \$0.0925 per unit in December 2004 will top up distributions to the \$1.00 level, \$0.02 per unit over the 2003 rate.

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Commitments/Contractual Obligations

In thousands of dollars	2004	2005	2006	2007	2008	>2008
Natural gas transportation,						
fixed portion	11,858	12,154	11,634	11,924	12,223	106,445
Management fees	927	950	974	998	1,023	13,216
KCLP debt	1,578	1,906	2,241	2,674	3,071	24,173
	14,363	15,010	14,848	15,596	16,317	143,834

The above table includes all fixed contractual obligations of the Fund, including 25% of KCLP's obligations. The amounts are based on the assumptions of a 2.5% annual Consumer Price Index increase and a \$US/\$Cdn exchange rate of \$1.35. The table includes natural gas transportation demand charges, which are incurred whether or not natural gas is shipped; base management fees to NPIFMI, EnCana Corporation and AES Kingston ULC; and principal repayments due on KCLP's term loan, senior secured notes and levelization account with OEFC.

With the exception of principal repayments on the KCLP levelization account, the above table does not include variable contractual obligations of the Fund (which typically relate directly to production or meeting performance criteria). Such obligations include General Electric maintenance fees, natural gas purchase costs, variable natural gas transportation costs and performance bonuses to the IFPC and KCLP managers. With respect to the agreements for the supply of electricity, there are no penalties for failure to supply.

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With respect to the supply of natural gas, there are no penalties for failure to purchase natural gas under these contracts; however, failure to purchase the minimum quantities required under these contracts could reduce the quantities that the suppliers are obligated to deliver under the respective agreements.

IROQUOIS FALLS FACILITY

The Iroquois Falls Facility generates electricity and sells it to OEFC under a power purchase agreement expiring in 2021. The power purchase agreement obligates OEFC to purchase certain quantities of electricity ranging from a monthly average of 77 MW in the summer months to 96 MW in the winter (the yearly average is approximately 85 MW).

Steam is supplied by the Iroquois Falls Facility to the neighbouring Abitibi pulp and paper mill under a steam sales agreement that expires in 2016.

The Iroquois Falls Facility is fuelled by natural gas provided by EnCana Corporation, Shell Canada Ltd. and Calpine Canada Resources Ltd. pursuant to gas supply contracts that end at various times between 2015 and 2017. The gas is transported through pipelines owned by TransCanada PipeLines Limited and Union Gas Limited from western Canada to the plant site under firm service agreements that run to 2016.

The maintenance of the two gas turbines is contracted to General Electric ("GE") under a maintenance agreement that was amended in December 2002 to incorporate the new LM 6000 PD gas turbines and, based upon the expected usage of the turbines, will continue until 2015.

The unionized employees at the Iroquois Falls Facility work under a collective agreement that expires June 30, 2005.

The Iroquois Falls Facility is operated by NPIFMI, a wholly-owned subsidiary of Northland Power Inc., under a management agreement expiring in 2021. The Manager administers the Fund under the administration agreement. NPIFMI changed its name from Iroquois Falls Power Management Inc. to its present name in conjunction with the reorganization of the Fund's structure following the 2003 Annual and Special Meeting of Unitholders.

KINGSTON FACILITY

KCLP has a long-term power purchase agreement with OEFC for the sale and delivery of a specified quantity of electricity through to January 31, 2017. The power purchase agreement can be extended for a further five years with the consent of both parties at rates agreed upon at that time.

In accordance with the terms of the KCLP credit agreement, KCLP maintains a major maintenance reserve to help cover the costs associated with regular planned gas turbine maintenance inspections and overhauls. The major maintenance reserve is funded and maintained in a separate interest-bearing account for an amount equal to the average anticipated major maintenance costs over the next six years in accordance with the annual operating budget. As at December 31, 2003, the Fund's 25% proportionate share of the balance in the major maintenance reserve account was \$1.5 million (2002 – \$1.6 million).

KCLP provides steam to an adjacent facility owned by KoSa under an energy services agreement that expires on January 31, 2017. KCLP also has long-term contracts with KoSa until January 31, 2018, for the supply of water from Lake Ontario through their pumphouse and for the treatment and disposal of process wastewater and sanitary wastewater.

The Kingston Facility has a natural gas purchase agreement with EnCana Corporation for the supply of natural gas through to January 31, 2017. TransCanada PipeLines Limited and Union Gas Limited transport the gas under separate long-term firm transportation agreements.

EnCana Corporation is responsible for the management of all aspects of the natural gas supply under a fuel management agreement with KCLP. As at December 31, 2003, forward sales commitments of excess gas totalled Cdn\$18.3 million (US\$14.1 million) – 2,723,000 GJ (2002 – Cdn\$15.4 million (US\$9.8 million) – 2,440,000 GJ).

KCLP has a multi-year maintenance program agreement with GE and one of its affiliates for the long-term supply of parts and repair services for the GE 6FA gas turbine to December 31, 2016. The total commitment over the life of the contract is approximately US\$20 million (base year is 2001), with an annual escalation of 4% applied each January 1 (commencing January 2001).

Operations and maintenance of the Kingston Facility are the responsibility of one of the partners, AES Kingston ULC, under long-term management and operations and maintenance agreements.

Risks and Uncertainties

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 IFPC's and KCLP's revenues, failure of OEFC to meet its contractual obligations would have an adverse effect on distributions. A portion of the Fund's distributable cash 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 either Potomac Electric Power Company or Virginia Electric and Power Company to meet its obligations could have an adverse effect on distributions.

Both the Iroquois Falls power purchase agreement and the Kingston power purchase agreement provide for certain rights to OEFC to curtail (reduce) electricity output during the summer. OEFC has generally availed itself of those rights at the Iroquois Falls Facility but not at the Kingston Facility. The Fund is unable to guarantee that OEFC will not request curtailment at the Kingston Facility, which could reduce revenues for KCLP and, therefore, the Fund's distributable cash.

The Ontario government enacted the *Electricity Pricing, Conservation and Supply Act, 2002*, on December 9, 2002, which may have a significant impact on Ontario's electricity markets and therefore on opportunities available to IFPC. The Manager is unable to assess any potential impact until the Ontario government clarifies its position with respect to the future of the wholesale electricity market. However, OEFC has confirmed that the Iroquois Falls agreement in principle reached in 2002 will not be affected by the new measures. Although the boards of trustees and directors of NPIF Commercial Trust and OEFC, respectively, approved the agreement in principle, a definitive agreement containing provisions of the agreement in principle has yet to be completed and, when it is, will be subject to the

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approval of both boards. Failure to achieve a final, approved definitive agreement could have an impact on the provisions of the Iroquois Falls power purchase agreement, including those provisions relating to the index used to adjust revenues from electricity sales.

Participation by IFPC in the de-regulated 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 CoGen facilities constitute a secondary source of revenue for the Fund. Abitibi's demand for steam is determined by operations at its Iroquois Falls pulp and paper mill, including the level of its own steam production. The Iroquois Falls Facility is obliged to respond to fluctuations in Abitibi's steam needs. Demand for steam has an impact on gas consumption, and unexpectedly large short-term fluctuations in steam demand increase gas consumption without a proportionate increase in steam revenue. Since May 2003 Abitibi has no longer been obligated to pay for a minimum quantity of steam through the take-or-pay provisions of the steam sales agreement. 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 any shortfalls in steam sales volume.

KCLP provides steam to an adjacent plant owned by KoSa under an energy services agreement. If a *force majeure* event occurs, such as a strike or lockout, KoSa will not be required to purchase any steam from KCLP or to compensate KCLP.

KCLP has a long-term contract with KoSa for the supply of water to KCLP from Lake Ontario through KoSa's pumphouse and for the treatment and disposal of process wastewater and sanitary wastewater. If a *force majeure* event occurs, such as a strike or lockout, KoSa may discontinue the supply of water and the disposal of wastewater. KCLP has the right to physically access KoSa's pumphouse and any other equipment necessary to draw sufficient amounts of water and dispose of wastewater for the Kingston Facility.

QUALIFYING FACILITY STATUS OF PANDA FACILITIES

If either of the Panda Facilities, Panda-Brandywine and Panda-Rosemary, were to lose its status as a qualifying facility, then it would no longer be entitled to an exemption from the United States Public Utility Holding Company Act of 1935, as amended. Loss of qualifying facility status could trigger defaults under covenants to maintain qualifying facility status in the power purchase agreements, steam sales agreements and project-level debt agreements for the Panda Facilities and result in termination, penalties or acceleration of indebtedness under such agreements, plus interest. Accordingly, the ability of PIC to meet its repayment obligation under the PIC senior loan is dependent on the Panda Facilities maintaining their qualifying facility status.

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 power purchase agreement subject to a 4% minimum annual increase. The gas contracts provide for price adjustments (subject to predefined ceilings) approximately every five 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. KCLP has a natural gas purchase agreement with EnCana Corporation for the supply of natural gas until 2017; EnCana Corporation is one of the general partners of KCLP. The gas costs escalate with transportation costs on the NOVA system and a predetermined amount over the Consumer Price Index. Failure by IFPC's or KCLP'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, IFPC and KCLP 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 Limited or Union Gas Limited to deliver natural gas to the Iroquois Falls Facility or the Kingston Facility will have an adverse impact on cash distributions.

The Panda Facilities have contracted for most of their natural gas supply and transportation services on an interruptible basis because both facilities are generally dispatched as peaking plants with the bulk of their dispatch hours occurring during the summer months when operational experience suggests that gas typically will be available for purchase. Interruptible gas supply and transportation arrangements are subject to interruption or curtailment during periods of peak demand for natural gas. If a power purchaser were to significantly increase its dispatch of one of the Panda Facilities, the risk of potential curtailment in natural gas supply and transportation for a period of time in excess of the time for which back-up fuel will permit electricity production, and thus the risk that either Panda-Brandywine or Panda-Rosemary would be unavailable for dispatch, would be increased.

EVENTS OF DEFAULT UNDER KINGSTON AND PANDA FACILITIES SENIOR DEBT

KCLP 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; KCLP 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 KCLP's ability to distribute cash to its partners, including the Fund. There can be no assurance that KCLP will satisfy these covenants. At December 31, 2003, the fair value of the interest rate swaps (the Fund's portion) was approximately \$5.5 million (2002 – \$5.6 million), which represents the amount KCLP would be required to pay to terminate the swap agreements at year-end.

The senior loan amount owed to the Fund by PIC is effectively subordinate to claims of creditors of PIC's subsidiaries. An event of default with any of the other creditors could result in the inability of Panda-Brandywine Limited Partnership or Panda-Rosemary Limited Partnership to make partnership distributions and a corresponding inability of PIC to make payments on the Fund's senior loan.

OPERATIONAL

The Fund's Facilities, comprising the Iroquois Falls, Kingston and Panda Facilities, are subject to operational risks that could have an adverse effect on cash distributions. These risks are partially mitigated by the proven nature of the technology and design of the Facilities,

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the availability of critical spares on site, the gas turbine maintenance agreement in respect of the Iroquois Falls Facility with GE, and participation by IFPC in the GE gas turbine lease pool, which guarantees the availability of replacement gas turbines on short notice.

Under the Iroquois Falls power purchase agreement, if IFPC delivers less than 80% of the on-peak target quantities in a month, the monthly capacity payment (which is the largest 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 KCLP 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 four 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 Facilities are dependent on capacity payments due from Potomac Electric Power Company and Virginia Electric and Power Company under the respective power purchase agreements. Capacity payments payable by Potomac Electric Power Company would be reduced if the Panda-Brandywine Facility cannot sustain 88% equivalent availability. Capacity payments by Virginia Electric and Power Company are subject to the Panda-Rosemary Facility satisfying certain seasonal capacity tests that may be required by Virginia Electric and Power Company at its sole discretion and the Panda-Rosemary Facility meeting certain minimum availability standards. If these minimum availability standards are not met, then capacity payments otherwise due from Virginia Electric and Power Company are subject to rebate or reduction and, in certain circumstances, payment of liquidated damages.

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 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 Facilities being involved from time to time in administrative and judicial proceedings relating to such matters, which could have a materially adverse effect on the Fund's business, financial condition and results of operations.

All current generating equipment at IFPC and KCLP is designed to produce NOx emissions below the current applicable standards. Ontario legislation that came into effect in 2004 will lower the level of permitted NOx emissions. Installation of the new gas turbines at the Iroquois Falls Facility reduced NOx emissions well below the permitted levels set out in the new legislation. The Manager understands that NOx emissions from KCLP's existing generating equipment fall well below those levels.

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 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, 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 that adversely affects the Fund and Unitholders.

The Fund has taken the position that interest payments on the senior loan to PIC qualify for an exemption from U.S. withholding tax as "portfolio interest." PEC intends to claim a deduction of interest paid to IFPC under the PIC senior loan in computing its income for United States federal income tax purposes. There is a risk that the U.S. Internal Revenue Service ("IRS") could successfully challenge these positions, in which case the portfolio interest exemption from U.S. withholding tax would not apply and otherwise deductible interest on the senior loan would be treated as non-deductible distributions. A successful challenge by the IRS of these positions could have a materially adverse effect on distributable cash of the Fund.

CURRENCY FLUCTUATIONS

Following the investment in PEC and the loan to PIC in December 2003, approximately 25 to 30% of the Fund's future cash flows will be in U.S. dollars. Exchange rate fluctuations between the U.S. and the Canadian dollar may affect the cash flow of the Fund, NPIF Commercial Trust or IFPC. The Fund and its subsidiaries have entered into forward contracts and other arrangements to manage exposures resulting from foreign exchange fluctuations for terms up to 36 months. To the extent that the Fund, NPIF Commercial Trust and IFPC have engaged in risk management activities related to the U.S. and Canadian dollar exchange rates, the Fund may not benefit from favourable exchange rate movements and it could become subject to credit risks associated with the counterparties with which it contracts.

MANAGEMENT'S
DISCUSSION
AND ANALYSIS

The Fund has entered into foreign exchange forward contracts in respect of a substantial portion of the interest and principal payments to be received on the PIC senior loan during fiscal 2004. As at December 31, 2003, these contracts were to sell US\$2 million per quarter, commencing in February 2004, at an exchange rate of Cdn\$1.33:US\$1.00. The fair value of these forward exchange contracts was \$208,000 favourable as at December 31, 2003. Subsequent to year-end, the Fund entered into additional foreign exchange option contracts in respect of a substantial portion of the interest and principal payments to be received on the PIC senior loan during fiscal years 2005 and 2006. The Fund is obligated to make delivery of U.S. dollars at the stated amounts on a quarterly basis on each of the forward exchange contracts and options. If the PIC loan payments are not made, the Fund would be required to purchase U.S. dollars on the open market at the relevant time.

LABOUR RELATIONS

Employees at the Iroquois Falls Facility are unionized. The current labour agreement with these employees lasts until June 30, 2005. In the event of a strike or lockout, the ability of the Iroquois Falls Facility to operate may be limited and its ability to generate cash for distributions may be impaired. Employees at the Kingston Facility and the Panda Facilities 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 AES Kingston ULC with respect to the management of the Kingston Facility and Panda Global Services Inc. with respect to the management of the Panda Facilities.

POTENTIAL CONFLICTS OF INTEREST

There may be situations in which the interests of Northland Power Inc. or the Manager will conflict with those of IFPC, NPIF Commercial Trust, NPIF Kingston L.P., PEC, and its subsidiaries, and the Unitholders. The Manager and its affiliates may engage in activities similar to the current activities of IFPC, NPIF Kingston L.P., KCLP, PEC and its subsidiaries. The Manager and its affiliates may acquire, own, manage and administer other generation 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.

There may be circumstances in which the interests of the Manager, its affiliates or entities managed by such parties will conflict with those of Unitholders. The Manager or its affiliates may make investments in the power generation industry on its own behalf or on behalf of persons other than Unitholders. The Manager or its affiliates may manage and administer such additional properties, as well as enter into other types of power-related management, advisory and investment activities. Neither the Manager nor its affiliates, or their respective managements, will carry on their full-time activities on behalf of the Unitholders and, when acting on their own behalf or on the behalf of others, may at times act in competition with the interests of Unitholders. In the event of such conflicts, decisions will be made on a basis consistent with the objectives and financial resources of each group

of interested parties, the time limitations on investment of such financial resources, and on the basis of operating efficiencies having regard to the then current holdings of properties of each group of interested parties consistent with the duties of the Manager to each such group of persons. The Manager intends to use all reasonable efforts to resolve such conflicts of interest in a manner that will treat the Fund or the entity in which the Fund is invested and the other interested party fairly, taking into account all of the circumstances of the respective parties, and to act honestly and in good faith in resolving such matters. Circumstances may arise where the trustees of NPIF Commercial Trust or members of the board of directors of a corporation in which the Fund has invested or the Manager are directors or officers of corporations that compete with the interests of the Fund. No assurances can be given that opportunities identified by such persons will be provided to the Fund or an entity in which the Fund has invested.

VARIABILITY OF DISTRIBUTIONS

The actual amount of cash distributions on the Fund's trust units will depend on numerous factors, including the financial performance of the Fund's operations, debt covenants and obligations, working capital requirements, future capital requirements and deductibility for Canadian and U.S. tax purposes respectively of interest payments on the senior loan to PIC. The market value of the trust units may deteriorate if the Fund is unable to maintain its cash distribution levels in the future, and that deterioration may be material.

Details of Facility Operations	2003		
In thousands of dollars except as indicated otherwise	IFPC	KCLP	Total
Sales volume			
Electricity (MWh)	678,625	124,397	803,022
Steam (ooo lb.)	1,081,551	71,911	1,153,462
Fuel consumption (ooo GJs)	6,603	1,147	7,750
Sales			
Electricity – contracted	56,274	14,767	71,041
Electricity – non-contracted	1,605	–	1,605
Steam	6,282	441	6,723
Natural gas	7,458	4,305	11,763
	71,619	19,513	91,132
Cost of sales			
Gas consumed	25,286	7,087	32,373
Gas resold	5,822	2,159	7,981
	31,108	9,246	40,354
Gross profit	40,511	10,267	50,778
Plant operating costs	7,026	2,319	9,345

MANAGEMENT'S RESPONSIBILITY Preparation of the financial statements and the annual report of Northland Power Income Fund (the "Fund") are the responsibility of the management of Northland Power Income Fund Management Inc. (the "Manager") as administrator of the Fund and manager of the Fund's wholly-owned subsidiary, Iroquois Falls Power Corp. ("IFPC") and NPIF Commercial Trust.

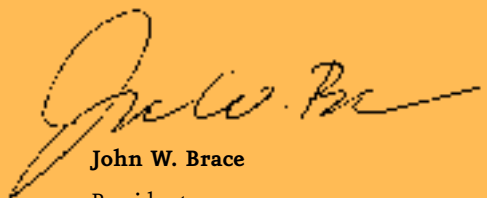
The accompanying consolidated financial statements have been prepared by the Manager in accordance with Canadian generally accepted accounting principles, and the financial information included in the annual report is consistent with the consolidated financial statements. Where appropriate, these consolidated financial statements reflect estimates based on judgments of the Manager. When alternative methods exist, the Manager has chosen those it deems most appropriate in the circumstances in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

The Manager is responsible for the development and maintenance of systems of internal accounting and administrative cost controls of high quality, consistent with a suitable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that the Fund's and IFPC's assets are appropriately accounted for and adequately safeguarded.

The Board of Trustees of NPIF Commercial Trust is responsible for ensuring that the Manager fulfills its contractual responsibilities for financial reporting and is ultimately responsible for reviewing the consolidated financial statements of the Fund and the accompanying management's discussion and analysis. The Board of Trustees carries out this responsibility principally through the Audit Committee, which it appoints and is composed solely of trustees independent of the Manager.

Ernst & Young LLP, the independent auditors, have examined the consolidated financial statements of the Fund. The independent auditors' responsibility is to express a professional opinion on the fairness of the consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion on the consolidated financial statements. Their report as auditors is set out on page 35.

The Audit Committee meets periodically with the Manager and the independent auditors to discuss internal controls, auditing matters and financial reporting issues and to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee also reviews the consolidated financial statements, management's discussion and analysis and the external auditors' report; examines the fees and expenses for audit services; and considers the engagement or reappointment of the external auditors. The Audit Committee reports its findings to the Board of Trustees for consideration prior to the issuance of the consolidated financial statements to the Unitholders. Ernst & Young LLP have full access to the Audit Committee and meet with the Committee both in the presence of the Manager and separately.



John W. Brace

President

Northland Power Income Fund Management Inc.



Anthony F. Anderson

Chief Financial Officer

Northland Power Income Fund Management Inc.

Auditors' Report

To the Unitholders of Northland Power Income Fund

We have audited the consolidated balance sheets of Northland Power Income Fund as at December 31, 2003 and 2002, and the consolidated statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Manager of the Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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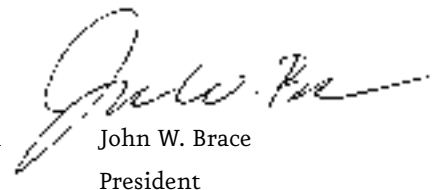
Toronto, Canada,
February 24, 2004

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS	Assets	2003	2002
	Current		
	Cash and cash equivalents	12,808	2,465
	Cash reserves [note 2]	1,501	1,608
	Accounts and other receivables [note 3]	8,853	20,329
	Inventories [note 4]	2,189	2,118
	Prepaid expenses	1,208	1,193
	Current portion of senior loan receivable [note 7]	916	-
	Total current assets	27,475	27,713
	Capital assets, net [note 5]	275,007	295,160
	Deferred credit facility costs, net [note 6]	-	87
	Investment in Panda Energy Corporation [note 7]	7,946	-
	Senior loan [note 7]	119,659	-
	Deferred charges [note 7]	3,500	-
	Future income tax asset [note 13]	1,665	2,004
		435,252	325,754
	Liabilities and Unitholders' equity		
	Current		
	Bank indebtedness [note 6]	-	721
	Accounts payable and accrued liabilities	7,099	13,100
	Current portion of Kingston CoGen Limited Partnership debt [note 8]	1,578	1,468
	Distribution payable to Unitholders	4,792	3,082
	Total current liabilities	13,469	18,371
	Bank credit facility [note 6]	-	45,107
	Kingston CoGen Limited Partnership debt [note 8]	34,065	34,929
		47,534	98,407
	Commitments and contingencies [notes 6, 8 and 12]		
	Trust units [note 9]	468,641	290,152
	Deficit	(80,923)	(62,805)
	Total Unitholders' equity	387,718	227,347
		435,252	325,754

See accompanying notes.

Approved on behalf of Northland Power Income Fund
by Northland Power Income Fund Management Inc.


John W. Brace
President

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT	2003	2002
Years ended December 31, in thousands of dollars, except per unit information		
Sales		
Electricity	72,646	60,001
Steam	6,723	6,465
Natural gas	11,763	5,878
	91,132	72,344
Cost of sales	40,354	32,076
Gross profit	50,778	40,268
Expenses		
Plant operating costs	9,345	6,751
Amortization	15,762	11,294
Management and administration costs	3,847	2,891
Interest expense and bank fees	4,003	249
Interest income	(1,341)	(71)
Foreign exchange [note 2]	15	312
	31,631	21,426
Income before income taxes	19,147	18,842
Provision for (recovery of) income taxes [note 13]		
Current	-	(14)
Future	339	(315)
	339	(329)
Net income for the year	18,808	19,171
Deficit, beginning of year	(62,805)	(51,769)
Distributions to Unitholders [note 10]	(36,926)	(30,207)
Deficit, end of year	(80,923)	(62,805)
Net income per trust unit [note 2]	\$0.51	\$0.62

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS	2003	2002
Years ended December 31, in thousands of dollars		
Operating activities		
Net income for the year	18,808	19,171
Items not involving cash:		
Amortization	15,762	11,294
Amortization of maintenance fee	-	813
Amortization of credit facility costs [note 6]	877	890
Provision for (recovery of) future income taxes [note 13]	339	(315)
Loss on disposal of capital assets	152	-
Foreign exchange	15	312
Funds from operations before changes in working capital	35,953	32,165
Net change in working capital balances related to operations	4,925	(882)
Cash provided by operating activities	40,878	31,283
Investing activities		
Cash reserves drawdown [note 2]	107	80
Investment in Panda Energy Corporation [note 7]	(7,946)	-
Loan to Panda Interfunding Company LLC [note 7]	(122,053)	-
Deferred costs [note 7]	(2,406)	-
Proceeds from sale of gas turbines	5,531	-
Investment in Kingston CoGen Limited Partnership [note 8]	-	(22,385)
Purchase of capital assets	(1,496)	(19,472)
Cash used in investing activities	(128,263)	(41,777)

continued...

CONSOLIDATED STATEMENTS OF CASH FLOWS	2003	2002
Financing activities		
Increase (decrease) in bank indebtedness [note 6]	(721)	721
Kingston CoGen Limited Partnership		
repayment of debt [note 8]	(754)	–
Credit facility increase (decrease) [note 6]	(44,070)	44,795
Credit facility costs [note 6]	–	(1,767)
Net proceeds from issuance of trust units [note 9]	70,717	–
Net proceeds from issuance of subscription receipts [note 9]	107,772	–
Distributions to Unitholders	(35,216)	(31,286)
Cash provided by financing activities	97,728	12,463
Net increase in cash and cash equivalents during the year		
	10,343	1,969
Cash and cash equivalents, beginning of year	2,465	496
Cash and cash equivalents, end of year	12,808	2,465
Supplemental cash flow information		
Interest paid	3,101	19
Income taxes paid	5	5

See accompanying notes.

December 31, 2003

1. Description of Business

Northland Power Income Fund (the "Fund") was established under the laws of the Province of Ontario pursuant to a Declaration of Trust. The objective of the Fund is to produce stable and sustainable levels of cash available for distribution to its Unitholders from energy-related businesses.

The Fund indirectly owns interests in four combined-cycle cogeneration power plants that efficiently and cleanly produce electricity and steam for sale. Two 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 of which the Fund owns 25%. Late in 2003, the Fund acquired 19% of Panda Energy Corporation ("PEC") and extended a loan to its wholly-owned subsidiary, Panda Interfunding Company LLC ("PIC") to provide the Fund with an interest in two U.S. power plants totalling 410 MW. Electricity and steam sales for each of the facilities are made under long-term contracts with creditworthy entities to ensure revenue stability. Long-term contracts also assure the supply and price of natural gas, which is the Fund's largest cost.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and within the framework of the significant accounting policies summarized as follows:

Principles of consolidation

These consolidated financial statements include the accounts of the Fund and the accounts of its wholly-owned subsidiaries, including Iroquois Falls Power Corp. ("IFPC"), NPIF Commercial Trust, NPIF Kingston LP and NPIF Kingston GP Inc. The Fund accounts for its joint venture interest in Kingston CoGen Limited Partnership ("KCLP") using the proportionate consolidation method. All inter-entity transactions have been eliminated.

The Fund's investment in PEC is accounted for under the cost method. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, distributions of capital and additional investment.

Cash and cash equivalents

Cash equivalents comprise only highly liquid investments with original maturities of less than 90 days and are recorded at cost, which approximates market value. As at December 31, 2003, \$2,754,000 (2002 - \$2,465,000) of the cash balance on the balance sheet was held by KCLP and is restricted in its use to the operations of KCLP by the terms of KCLP's credit agreement which provides, however, that cash in excess of approximately \$5,000,000 (\$1,250,000 being the Fund's proportionate share) may be distributed semi-annually to the partners, including the Fund, if certain financial tests are met.

Cash reserves

The Fund's proportionate share of KCLP's cash reserves for major maintenance costs is stipulated under KCLP's credit agreement for the non-recourse project financing of the Kingston CoGen project.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires that Northland Power Income Fund Management Inc. (the "Manager"), the administrator of the Fund and the manager of the Iroquois Falls Facility, make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories comprise natural gas, spare parts and other inventory. Natural gas is carried at the lower of cost, as determined on a weighted average basis, or net realizable value. Spare parts and other inventory are carried at the lower of cost or net replacement cost.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis at rates designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings and foundations	30 years
Plant and equipment	10 to 30 years
Contracts	over the term of the agreements
Vehicles	5 years
Office equipment, furniture and fixtures	5 years
Computers and computer software	2 years

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Assets included in construction in progress are not amortized until the installation of the assets is complete and the assets have entered into commercial operations.

Revenue recognition

Revenue for electricity, steam and natural gas is recognized upon delivery.

Net income per trust unit

Net income per trust unit is based on the consolidated net income for the year divided by the weighted average number of trust units outstanding during the year, which was 36,970,464 (2002 – 30,823,443).

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the period-end. Revenues denominated in foreign currencies are translated into Canadian dollars at the rates in effect at the time of the transactions and reflect the impact of the foreign exchange forward contracts entered into by the Fund.

For the year ended December 31, 2003, foreign exchange gains and losses are shown separately on the consolidated statements of income and deficit; previously these amounts had been included in management and administration costs. The comparative figures have been reclassified in order to conform to this presentation.

Derivative financial instruments

The Fund and its subsidiaries enter into foreign exchange forward and option contracts to manage exposures resulting from foreign exchange fluctuations in the ordinary course of business. Payments and receipts under such contracts are recognized as adjustments to interest expense on an accrual basis. Any resulting carrying amounts are included in receivables in the case of favourable contracts and accounts payable in the case of unfavourable contracts. To the extent that the contracts qualify for hedge accounting, unrealized gains and losses on outstanding contracts are deferred until realized. The realized gains and losses are included in income and recognized as an adjustment to the underlying transaction.

The Fund does not engage in trading or other speculative activities with respect to derivative financial instruments. 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 year-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 Fund is exposed to credit risk in the event of non-performance by its counterparties. However, the Fund does not anticipate non-performance, as the counterparties have a high credit rating.

The carrying value of financial instruments approximates fair value except where indicated.

Income taxes

The Fund follows the liability method of tax allocation, whereby future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Under the terms of the Income Tax Act (Canada), the Fund is not subject to income taxes to the extent that its taxable income in a year is paid or payable to a Unitholder. Accordingly, no provision for current income taxes for the Fund is made. In addition, the Fund is not subject to the recommendations of the Canadian Institute of Chartered Accountants Handbook ("CICA") section 3465 as the Fund is contractually committed to distribute to its Unitholders all or virtually all of its taxable income and taxable capital gains that would otherwise be taxable in the Fund. The Fund intends to continue to meet the requirements under the Income Tax Act (Canada) applicable to such trusts and there is no indication that the Fund will fail to meet those requirements.

The Fund's wholly-owned subsidiaries, IFPC and NPIF Kingston GP Inc., are subject to corporate income taxes as computed under the Income Tax Act (Canada) and CICA section 3465.

3. Economic Dependence and Concentration of Credit Risk

The Fund is dependent on lease income, interest income, dividends, distributions and loan repayments received. In 2003, approximately 80% (2002 – 83%) of the Fund's revenue was derived from the sale of electricity to Ontario Electricity Financial Corporation ("OEFEC").

Approximately 83% (2002 – 90%) of the year-end accounts receivable balance was due from OEFEC relating to electricity sales.

4. Inventories In thousands of dollars

Inventories consist of the following:	2003	2002
Natural gas	353	350
Spare parts and other inventory	1,836	1,768
	2,189	2,118

5. Capital Assets In thousands of dollars

Capital assets consist of the following:	2003		2002	
	Accumulated Cost	amortization	Accumulated Cost	amortization
Land	249	–	249	–
Buildings and foundations	48,159	11,007	48,159	9,332
Plant and equipment	283,425	57,966	277,441	53,594
Contracts	15,964	3,854	15,964	3,144
Vehicles	26	20	26	17
Office equipment, furniture and fixtures	93	63	73	52
Computers and computer software	100	99	99	97
Construction in progress	–	–	19,385	–
	348,016	73,009	361,396	66,236
Net book value		275,007		295,160

The useful life of IFPC's old turbines was reduced to coincide with the installation of the new turbines in 2003.

6. Bank Credit Facility

The Fund and its wholly-owned subsidiary, IFPC, have a credit agreement with the Canadian Imperial Bank of Commerce as agent for a syndicate of banks that establishes the following: an \$82,500,000 acquisition line of credit to assist in the funding of expansionary capital expenditures, acquisitions and investments by the Fund; a \$7,500,000 revolving-term letter of credit facility to be used in meeting obligations under gas transportation and supply contracts; and a \$5,000,000 revolving-term operating line of credit for general corporate purposes. The credit agreement expires on May 23, 2004, but is subject to an annual

renewal at the discretion of the Fund. As at December 31, 2003, the variable interest per annum under each of the lines of credit is charged at 4.8%, 3.9% or 2.4%. Standby fees of 0.3% per annum are charged on each of the undrawn letter of credit, operating line and acquisition facilities.

As at December 31, 2003, a letter of credit for \$7,460,000 (2002 – \$5,920,000) was outstanding under the letter of credit facility. As at December 31, 2003, nil (2002 – \$45,107,000) had been drawn on the acquisition line of credit and nil (2002 – \$721,000) had been drawn on the operating line.

Amounts drawn under the credit agreement are principally collateralized by a debenture security and by general security agreements which constitute a first priority lien on all of the real property and all of the present and future property assets of IFPC and the Fund, including the PEC shares and PIC loan, as well as a pledge by the Fund of its current and future interests in the capital stock of IFPC, notes payable and all other securities issued by IFPC to the Fund.

Costs associated with the negotiation of the credit agreement were fully amortized over the initial period of the agreement.

7. Investment in Panda Energy Corporation

On December 16, 2003, IFPC acquired a 19% equity interest in PEC, including a 9.5% voting interest and an option to increase its equity interest in PEC to 49% in 2021 upon a payment of a further amount for total cash consideration of \$7,946,000, including all transaction costs. The acquisition of PEC has been accounted for using the cost method.

On December 15, 2003, IFPC completed the funding of a senior loan to PIC. The senior loan will bear interest at the rate of 10.5% and will mature on November 20, 2021. The US\$93 million term loan is repayable over the 18-year term of the debt. Transaction costs incurred on this senior loan of \$3,500,000 are being deferred and amortized over the term of the loan and are recorded as deferred charges. IFPC will receive quarterly payments of blended principal and interest in accordance with a schedule of payments, which commenced on February 20, 2004.

PEC, through its wholly-owned subsidiaries, owns two combined-cycle cogeneration power facilities that use natural gas as their primary fuel. The 230 MW Panda-Brandywine Facility, which is located just outside Washington, D.C., has been operating since 1996 and sells electrical capacity and energy to Potomac Electric Power Company pursuant to a power purchase agreement that extends until 2021. The 180 MW Panda-Rosemary Facility, located in Roanoke Rapids, North Carolina, has been operating since 1990 and sells electrical capacity and energy to Virginia Electric and Power Company under a power purchase agreement that extends until 2015. Steam from both plants is sold to PEC subsidiaries for the manufacture of distilled water.

The Fund has entered into foreign exchange forward contracts in respect of a substantial portion of the interest and principal payments to be received on the PIC senior loan during fiscal 2004. As at December 31, 2003, these contracts were to sell US\$2.0 million per quarter, commencing in February 2004, at an exchange rate of 1.33. The fair value of these forward exchange contracts was \$208,000 favourable as at December 31, 2003.

Subsequent to year-end, the Fund entered into additional foreign exchange option contracts in respect of a substantial portion of the interest and principal payments to be received on the PIC senior loan during fiscal years 2005 and 2006. The various option contracts fix the rate of exchange for the following dollar amounts for each of the fiscal years as follows:

- US\$1,500,000 per quarter – 1.3140 to 1.3440
- US\$1,000,000 per quarter – 1.3330 to 1.3648
- US\$250,000 per quarter – 1.3440 if the rate is equal to or in excess of that amount at the time of exercise of the option

The value date of the option contracts is one banking day after the quarterly payment date. No separate foreign exchange derivative instruments have been entered into with respect to the expected equity distributions from PEC.

8. Acquisition of Interest in KCLP

KCLP ACQUISITION

On December 31, 2002, the Fund acquired 100% of the common shares of Pacific Kingston Energy Inc. (“PKE”) through the Fund’s wholly-owned trust (NPIF Commercial Trust) and NPIF Kingston Inc. At the time, PKE owned a 25% partnership interest in KCLP that owns a 110 MW cogeneration facility near Kingston, Ontario. The acquisition of KCLP was accounted for using the purchase method. The consideration paid by the Fund has been allocated to net assets acquired as follows:

Working capital	\$2,808,000
Capital assets	54,415,000
Contracts	2,296,000
Future tax assets	260,000
Debt	(34,929,000)
<hr/>	
Total purchase price	24,850,000
Less: cash acquired in KCLP	(2,465,000)
<hr/>	
Total cash purchase price paid	\$22,385,000
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Because the interest in KCLP was acquired on December 31, 2002, the consolidated balance sheet of the Fund at December 31, 2002, and the consolidated statements of cash flows for 2002 reflected the Fund’s acquisition of its interest in KCLP and the terms of the acquisition, respectively, but the consolidated statement of income for 2002 did not include any results of operations of KCLP.

On January 1, 2003, PKE was amalgamated with NPIF Kingston Inc., an indirectly wholly-owned subsidiary of the Fund. On June 19, 2003, NPIF Kingston Inc. changed its name to NPIF Kingston GP Inc. On July 1, 2003, NPIF Kingston GP Inc. sold its investment in KCLP to NPIF Kingston LP.

The figures outlined in this note represent the Fund’s 25% proportionate share of KCLP.

NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS

In thousands of dollars	2003	2002
Assets and liabilities		
Current assets	6,024	7,381
Capital assets	54,018	56,711
Future tax assets	—	260
Total assets	60,042	64,352
Current liabilities	2,969	4,573
Debt	34,065	34,929
Total liabilities	37,034	39,502
Earnings		
Sales	19,513	—
Expenses	17,984	—
Net income	1,529	—
Cash flow		
Funds from operations before working capital changes	4,837	—
Net change in non-cash working capital	(257)	—
Cash from operating activities	4,580	—
Cash used in investing activities	(354)	—
Cash used in financing activities	(3,937)	—
Net increase in cash and cash equivalents	289	—

KCLP DEBT

The figures outlined in this note represent the Fund's 25% proportionate share of KCLP's debt under its credit agreement (the "KCLP Credit Agreement"):

In thousands of dollars	2003	2002
Term loan	22,085	23,553
Senior secured note	6,250	6,250
Levelization account	7,308	6,594
	35,643	36,397
Less: current portion	1,578	1,468
	34,065	34,929

The KCLP Credit Agreement includes a \$4,582,000 letter of credit facility under which \$2,307,000 (2002 – \$4,044,000) was outstanding at December 31, 2003. Payments on the term loan facility are made semi-annually until March 31, 2013, and payments on the senior secured notes will be made semi-annually beginning September 30, 2013, and ending September 30, 2016.

The term loan bears interest, paid quarterly, at the prevailing prime lending rate plus 0.50% or the 90-day Bankers Acceptance rate plus 1.25%. The note bears interest, paid quarterly, at the prevailing prime lending rate plus 1.25% or the 90-day Bankers Acceptance rate plus 2.0%. The margins vary during the term of the KCLP Credit Agreement.

KCLP entered into interest rate swap agreements with two commercial banks terminating in June 2016 that effectively fix the interest rate of the KCLP credit facility over the life of the agreement. The notional amount of the interest rate swaps totalled \$28,335,000 at December 31, 2003 (2002 – \$29,803,000), with an effective interest rate of 7.96% (2002 – 7.95%), and the fair value was approximately \$5,458,000 unfavourable (2002 – \$5,634,000 unfavourable).

The Credit Agreement financing is principally collateralized by a first priority lien and security interest in all assets of KCLP, and a pledge of the partners' ownership interests in the KCLP partnership interests.

KCLP has established a "levelization account" that represents certain cash advances from OEFC. The power purchase agreement stipulates a predetermined formula under which cash is advanced to KCLP until January 2004, at which time repayment of the levelization account will commence over a period of time not to exceed the duration of the power purchase agreement. The levelization account balance accumulates interest based on the annually determined yield of the most recent 20-year Government of Canada bond. KCLP has the option to repay the advances, including accrued interest, at any time.

Principal repayments over the next five years and thereafter are as follows:

2004	\$1,578,000
2005	1,906,000
2006	2,241,000
2007	2,674,000
2008	3,071,000
>2008	24,173,000

\$35,643,000

9. Trust Units

The Fund may issue an unlimited number of trust units subject to rules governing the trust indenture. Each trust unit represents an equal beneficial interest in the Fund. All trust 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, and in the net assets of the Fund in the event of termination or winding-up of the Fund.

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The trust units are redeemable at any time on demand by the holders at their fair value, determined as the lesser of (a) 95% of the “market price” of the trust units on the principal market on which the trust units are quoted for trading during the 10-trading-day period commencing immediately after the date on which the trust units are surrendered for redemption and (b) the “closing market price” on the principal market on which the trust units are quoted for trading on the date that the trust units are surrendered for redemption.

The aggregate redemption price payable by the Fund in respect of any trust units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the following month, provided that the entitlement of Unit-holders to receive cash upon redemption of their trust units is subject to the limitations that (a) the total amount payable by the Fund in respect of such trust units and all other trust units tendered for redemption in the same calendar month shall not exceed \$200,000, (b) at the time such trust units are tendered for redemption the outstanding trust units of the Fund shall be listed for trading on a stock exchange or traded or quoted on any other market that NPIF Commercial Trust trustees consider, in their sole discretion, provides representative fair market value prices for the trust units or (c) the normal trading of trust units is not suspended or halted on any stock exchange on which the trust units are listed on the date that the trust units are tendered for redemption or for more than five trading days during the 10-trading-day period commencing immediately after the date on which the trust units are tendered for redemption.

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In thousands of dollars except as indicated otherwise	Number of units	Amount
Outstanding as of December 31, 2002 and 2001	30,823,443	290,152
March 5, 2003 issue, net of underwriter's fee ⁽¹⁾	6,050,000	61,785
Exercise of over-allotment, net of underwriter's fee ⁽¹⁾	907,500	9,268
Cost of issue		(336)
Exercise of subscription receipts, net of underwriters' fee ⁽²⁾	10,135,000	109,955
Cost of issue		(2,183)
Outstanding as of December 31, 2003	47,915,943	468,641

(1) On March 5, 2003, the Fund issued 6,050,000 trust units at \$10.75 each, pursuant to an agreement with a group of underwriters to raise \$61.8 million, net of underwriters' fees. An additional 907,500 units were issued at \$10.75 each, for net proceeds of \$9.3 million when the over-allotment option was exercised on March 19, 2003. The proceeds were used to repay the borrowings under the credit facility, which had been incurred for the acquisition of the 25% interest in KCLP and for the Iroquois Falls gas turbine upgrade project, and to establish a reserve for potential future acquisitions.

(2) On December 15, 2003, the Fund issued 10,135,000 subscription receipts, including 500,000 subscription receipts upon the exercise of the underwriters' option at \$11.42 per subscription receipt to raise proceeds of \$110.0 million, net of underwriters' fees. In accordance with the Subscription Receipt Agreement pursuant to which the subscription receipts were issued, the gross proceeds from the offering were deposited with a subscription receipt agent to be held in escrow. On the same date the conditions to the release of the escrowed funds were satisfied and, accordingly, trust units of the Fund were issued to the holders of the subscription receipt on a one-for-one basis. The proceeds from the issue were used by the Fund towards the investments by IFPC in PEC and its subsidiaries (see note 7).

10. Distributions to Unitholders

Distributions totalling \$0.98 per trust unit (2002 – \$0.98), being aggregate distributions of \$36,926,000 (2002 – \$30,207,000), were determined by the Manager of the Fund for the year ended December 31, 2003. For income tax purposes, \$14,514,531 (2002 – \$14,056,000) of the distributions is a return of capital.

11. Management Fee

The Manager is entitled to receive a fee from IFPC for services provided related to the operation and management of the Iroquois Falls cogeneration power 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, 2003, the Manager was paid \$517,000 (2002 – \$504,000). The Manager is entitled to a fee from NPIF Commercial Trust related to the administration of the trust and its investments. During the year, the Manager received \$30,000 (2002 – nil). Commencing in 2004, the Manager will also receive from PIC a loan administration fee of US\$125,000 and a manager's fee of US\$75,000 (to reimburse third party costs) per annum, adjusted annually to reflect changes in the U.S. Consumer Price Index.

The Manager is also entitled to operation-related incentive fees. During the year ended December 31, 2003, the Manager earned \$1,630,000 (2002 – \$1,118,000) as operation-related incentive fees. In addition the Manager may receive a management incentive fee equal to 25% of the amount by which annual distributions to the Unitholders exceed \$0.934 per unit, less the amount of certain operation-related incentive fees. During the year ended December 31, 2003, the Manager was paid nil (2002 – nil). During the year ended December 31, 2003, the Manager was also paid \$1,500,000 related to the acquisition of the interests in PEC. An additional \$500,000 is payable to the Manager in future years. The total \$2,000,000 fee to the Manager has been included in deferred charges in the consolidated balance sheets. For the year ended December 31, 2002, the Manager earned \$368,000 related to the acquisition of the interest in KCLP.

12. Commitments

IFPC and KCLP have entered into agreements for the supply of natural gas for various terms to 2017. These agreements were entered into in the normal course of business to purchase natural gas for electricity and steam generation on terms that would protect the profitability of sales under the long-term electricity sales contracts with OEFC. There are no penalties for failure to purchase natural gas under these contracts; however, failure to purchase the minimum quantities required under these contracts could reduce the maximum quantities available for purchase under the respective agreements.

IFPC and KCLP have entered into agreements for gas transportation that incorporate standard industry terms, including the approval of tariffs by applicable regulatory authori-

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ties. The natural gas transportation agreements include substantial demand charges, which are incurred whether or not gas is shipped.

Substantially all of the cost of sales, with the exception of incentive fees paid to the Manager, relate to the purchase and transportation of natural gas under these contracts.

13. Income and Other Taxes In thousands of dollars

The components of income tax expense (recovery) are as follows:

	2003	2002
Current		
Federal	–	(14)
Provincial	–	–
Future		
Federal	220	(234)
Provincial	119	(81)
Provision for (recovery of) income taxes	339	(329)

The components of future income assets are as follows:

Future tax assets

Undepreciated cost of capital in excess		
of capital assets book value	1,130	986
Loss carryforwards	1,112	994
Other	24	24
Total future tax assets	2,266	2,004
Valuation allowance	(601)	–
Net future tax assets	1,665	2,004
Income before income taxes	19,147	18,842
Combined federal and provincial income tax		
at statutory rate of 36.62% (2002 – 38.62%)	7,012	7,277
Manufacturing and processing deduction	60	(912)
Income of Fund distributed to Unitholders	(7,645)	(6,720)
Future income tax expense resulting from rate change	(214)	40
Valuation allowance	601	–
Large Corporations Tax and other items	525	(14)
Provision for (recovery of) income taxes	339	(329)

At December 31, 2003, financing expenses and underwriters' fees of \$10,606,000 (2002 – \$1,204,000) are deductible by the Fund for income tax purposes on a straight-line basis over the five years.

At December 31, 2003, IFPC has non-capital losses available for carryforward of approximately \$3,261,000 (2002 – \$3,504,000), which are available to reduce future-year taxable income. Of these losses, \$2,515,000 expire in 2005 and \$746,000 in 2010.

On December 15, 2003, IFPC completed its investment in a US\$93 million senior loan to PIC. The Fund received tax opinions on certain tax matters related to this investment. The consolidated financial statements of the Fund reflect these opinions: specifically, that the loan with PIC should be respected as debt; the interest on this loan, should be deductible by PIC for U.S. federal tax purposes; and that interest should not be subject to any U.S. federal income tax withholding.

There can be no assurance that the Internal Revenue Service ("IRS") will not challenge various tax filing positions taken by the Fund and PIC that could result in U.S. federal income tax liability and/or withholding tax liability.

Although management believes it is unlikely that the IRS would be successful, a reduction in the deductibility of the interest payment on the loan or the application of withholding taxes could result in the Fund incurring a liability for taxes and/or a reduction of future income and cash receipts. Any tax liability related to 2003 income would be minimal. In future years, if interest received from PIC is subject to withholding tax, management estimates that the impact on an annual basis would be approximately \$1.2 million in taxes.

In addition to the foregoing, the Fund is subject to various additional uncertainties concerning the interpretation and application of Canadian and U.S. tax laws that could affect the Fund's profitability and cash flows.

**HISTORICAL
REVIEW**

	2003	2002	2001	2000	1999	
Sales volume						
Years ending December 31,	Electricity (MWh)	803,022	747,717	739,701	739,687	778,307
in thousands,	Steam (ooo lb.)	1,153,462	1,088,090	1,012,015	997,164	868,431
except as specified	Sales					
	Electricity	\$72,646	\$60,001	\$54,545	\$50,570	\$51,704
	Steam	6,723	6,465	5,358	4,504	4,381
	Gas	11,763	5,878	8,508	6,502	3,765
		91,132	72,344	68,411	61,576	59,850
	Cost of sales	40,354	32,076	30,288	25,991	25,241
	Gross profit	50,778	40,268	38,123	35,585	34,609
	Expenses					
	Plant operating costs	9,345	6,751	6,641	5,967	5,762
	Amortization	15,762	11,294	9,243	9,240	9,242
	Management and administration costs	3,847	2,891	1,709	1,620	1,398
	Interest expense and bank fees	4,003	249	126	135	112
	Interest income	(1,341)	(71)	(247)	(259)	(316)
	Foreign exchange	15	312	—	—	—
		31,631	21,426	17,472	16,703	16,198
	Provision for (recovery of) income taxes					
	Current	—	(14)	8	20	21
	Future	339	(315)	3	(103)	—
		339	(329)	11	(83)	21
	Net income	\$18,808	\$19,171	\$20,640	\$18,965	\$18,390
	Funds from operations, before working capital changes					
	Per unit	\$0.97	\$1.04	\$1.01	\$0.95	\$0.93
	Cash from operations	\$40,878	\$31,283	\$31,995	\$23,135	\$29,270
	Per unit	\$1.11	\$1.01	\$1.04	\$0.75	\$0.95
	Distributable cash	\$33,725	\$30,303	\$30,934	\$29,175	\$28,592
	Per unit	\$0.91	\$0.98	\$1.00	\$0.95	\$0.93
	Distributions to unitholders					
	Per unit	\$0.98	\$0.98	\$0.98	\$0.94	\$0.93

**CORPORATE
AND UNITHOLDER
INFORMATION**

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M4V 3A1

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Chief Financial Officer, Northland
Power Income Fund Management
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Pierre R. Gloutney *

TRUSTEE
Chief Executive Officer and
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TRUSTEE
Director and Chairman
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Toronto, Ontario

Auditors

Ernst & Young LLP
Toronto, Ontario

Bank

Canadian Imperial Bank
of Commerce
Commerce Court West
Toronto, Ontario

Registrar and Transfer Agent

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

Trust Units

The trust units are listed on
the Toronto Stock Exchange
and trade under the symbol
NPI.UN.

Annual and Special Meeting

Tuesday, May 18, 2004, at 11:00 a.m.
TSX Conference Centre, Exchange
Tower, 130 King Street West
(corner of King and York Streets),
Toronto, Ontario

* Member of the Audit Committee of
NPIF Commercial Trust

Distribution Reinvestment Plan

The Distribution Reinvestment
Plan allows Unitholders who are
residents of Canada to automatic-
ally purchase additional trust units
from cash distributions received
each month. Participants do not pay
any costs associated with this plan,
including brokerage commissions.

For further information,
or to join the plan, contact your
financial adviser or broker.

**Standard & Poor's
Stability Rating**

The Fund has been assigned a
stability rating of SR-2 by Standard
& Poor's, which denotes a very high
level of stability in distributions.

Canadian artist Philippe Béha has
made Montreal his home for the
last 26 years. Educated at Beau-
Arts de Strasbourg, Philippe has
won numerous international
awards, including twice winning
the Governor General's Award.
He brings his creative flair to our
2003 Annual Report, using water-
colour and mixed media.

Northland Power Income Fund
Management Inc.

30 St. Clair Avenue West
17th Floor
Toronto, Ontario, Canada
M4V 3A1



GLOSSARY OF TERMS

ABITIBI	ABITIBI-CONSOLIDATED COMPANY OF CANADA
FUND	NORTHLAND POWER INCOME FUND
GAAP	GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
GJ	GIGAJOULES
IFPC	IROQUOIS FALLS POWER CORP.
IROQUOIS FALLS FACILITY	PLANT LOCATED IN IROQUOIS FALLS, ONTARIO
KCLP	KINGSTON CoGen LIMITED PARTNERSHIP
KINGSTON FACILITY	PLANT LOCATED NEAR KINGSTON, ONTARIO
KWH	KILOWATT HOUR
M	MILLION
MW	MEGAWATT
MWH	MEGAWATT HOUR
MANAGER	NORTHLAND POWER INCOME FUND MANAGEMENT INC.
NOx	NITROGEN OXIDES
NPIFMI	NORTHLAND POWER INCOME FUND MANAGEMENT INC.
OEFc	ONTARIO ELECTRICITY FINANCIAL CORPORATION
ON-PEAK	7:00 A.M. TO 11:00 P.M. LOCAL TIME ON WEEKDAYS, EXCLUDING PUBLIC HOLIDAYS DESIGNATED BY OEFc
PANDA FACILITIES	PANDA-BRANDYWINE FACILITY LOCATED IN MARYLAND & PANDA-ROSEMARY FACILITY LOCATED IN NORTH CAROLINA
PEC	PANDA ENERGY CORPORATION
PIC	PANDA INTERFUNDING COMPANY LLC

