

**NORTHLAND POWER INCOME FUND**

**ANNUAL INFORMATION FORM**

**For the year ended December 31, 2004**

**March 28, 2005**

# NORTHLAND POWER INCOME FUND

## ANNUAL INFORMATION FORM

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**All capitalized terms used in this document have the meanings assigned to them in the “Glossary of Terms” included on pages 61 through 65 of this Annual Information Form, unless otherwise defined.**

### FORWARD-LOOKING STATEMENTS

*This Annual Information Form contains certain forward-looking statements with respect to Northland Power Income Fund and entities and assets that it owns or has an interest in, directly or indirectly, based on assumptions that management considered reasonable at the time they were prepared. These 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 in the “Management’s Discussion and Analysis” of Northland Power Income Fund’s 2004 Annual Report and on pages 43 to 51 of this Annual Information Form.*

## **THE FUND – CORPORATE STRUCTURE**

### **The Fund**

The Fund was established as an unincorporated open-ended trust under the laws of the Province of Ontario pursuant to the Original Fund Trust Indenture. The head and principal office of the Fund is located at 30 St. Clair Avenue West, 17<sup>th</sup> Floor, Toronto, Ontario, M4V 3A1.

Following the establishment of the Fund, changes to the Original Fund Trust Indenture were approved by the Unitholders, which are summarized below:

- At the 1999 annual meeting, Unitholders approved amendments to provide the Manager of the Fund with greater flexibility to undertake and finance acquisitions and/or plant expansions if they are of net economic benefit to the Fund and do not significantly alter the risk profile of the Fund.
- The Manager received approval at the 2000 annual meeting of Unitholders to make levelized monthly distributions (rather than quarterly) through the year. Levelized monthly distributions are attractive to investors who require regular, predictable monthly investment income. The Original Fund Trust Indenture was also changed to allow for non-Canadian investments and acquisitions, subject to certain criteria and the approval of the board of directors of IFPC.
- At the May 23, 2002 annual meeting of Unitholders, the Manager received approval to further enhance the Fund's investment capabilities and to provide the Fund with more flexibility to make acquisitions and to raise funds by the issuance of different types of securities.
- At the May 22, 2003 annual meeting of Unitholders, the Unitholders adopted a new investment objective for the Fund consistent with the pursuit of a growth and diversification strategy for the Fund, and approved changes to the Fund's organizational, governance and management structure and its ability to pursue acquisitions and make investments. While the catalyst for the changes was the acquisition of an interest in KCLP on December 31, 2002, the broader imperative was the transition of the Fund from a single-purpose entity whose principal asset was the Iroquois Falls Facility to an entity with diversified investments in revenue producing energy-related assets and businesses. To incorporate these changes, the Fund Trust Indenture which amends, restates and replaces the Original Fund Trust Indenture, was entered into effective as of July 1, 2003 and now governs the Fund.
- At the February 17, 2005 meeting of the CT Board, the Trustees approved minor amendments to the Fund Trust Indenture and the CT Trust Indenture to confirm that separate audited financial statements for CT itself are not required to be prepared as long as all of the units of CT are held by the Fund since the consolidated financial

statements of the Fund (which includes CT) are audited. These clarifying amendments have been made pursuant to Section 12.1 of the Fund Trust Indenture and Section 12.1 of the CT Trust Indenture, which permit the Trustees to remove any conflict or inconsistencies in the Fund Trust Indenture and the CT Trust Indenture or make minor corrections which are, in the opinion of the Trustees, necessary or desirable and not materially prejudicial to the unitholders.

#### **CT**

CT is an unincorporated open-ended trust established under the laws of the Province of Ontario pursuant to a trust indenture dated December 20, 2002 between NPIF Trustee Inc., a wholly-owned subsidiary of the Manager, as trustee and the Manager, as settlor. CT is governed by the CT Trust Indenture, which amended and replaced the December 20, 2002 trust indenture. The Fund owns all of the issued and outstanding units of CT. Effective as of July 1, 2003, NPIF Trustee Inc. was replaced as trustee of CT by a board of five individual trustees who had previously served as directors of IFPC until July 1, 2003. NPIFMI acts as the manager of CT pursuant to the CT Management Agreement.

#### **IFPC**

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

#### **NPIF Kingston**

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

#### **NPIF Kingston L.P.**

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

#### **KCLP**

KCLP is a limited partnership established under the laws of the Province of Ontario pursuant to the *Limited Partnerships Act* (Ontario). KCLP is subject to a partnership agreement. NPIF Kingston L.P. has a 50% general partnership interest in KCLP.

**PEC**

PEC is a corporation existing under the laws of Texas in which IFPC has a 19% equity interest; 9.5% of this interest is voting.

**PIC**

PIC is a limited liability company existing under the laws of Delaware and is a wholly-owned subsidiary of PEC.

**Miller GPCo**

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

**Miller LP**

Miller LP is a limited partnership established under the laws of the Province of Quebec. Miller LP was created for the purpose of acquiring the rights to develop, construct, own and finance the Mont Miller Project, and to operate, maintain, and sell electricity generated by the Mont Miller Project.

Miller LP is authorized to issue an unlimited number of General Units, Class A Priority Units, Class B Subordinated Units and Class C Units. Miller LP has outstanding 1 General Unit held by Miller GPCo, 21,120 Class A Priority Units held by CT and 1,000 Class B Subordinated Units held by the Miller Developer. The limited partners of Miller LP have limited voting and approval rights in accordance with the Limited Partnership Agreement. The Class A Priority Units which have been issued to CT are sufficient to ensure that, on any matter requiring voting by the limited partners, CT will be able to exercise a greater number of votes than the Miller Developer, a corporation jointly owned by NPI and 3Ci, as the holder of the Class B Subordinated Units. Class B Subordinated Units are entitled to vote separately as a class in two circumstances only: (1) a proposal to change the business as defined in the Miller Limited Partnership Agreement (for example, a proposal to expand the Mont Miller Project beyond 54 MW); and (2) a proposal to amend the Miller Limited Partnership Agreement in a manner which would impact the economic position of the Class B Subordinated Units. In either case, Miller LP may decide to purchase the Class B Subordinated Units at their fair market value as determined by an independent valuator if the Miller Developer withholds from voting or votes against any such proposal.

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

Class C Units are to be issued to the Miller Developer if the Miller Developer is required to make additional capital contributions to Miller LP to the extent that there is an overrun

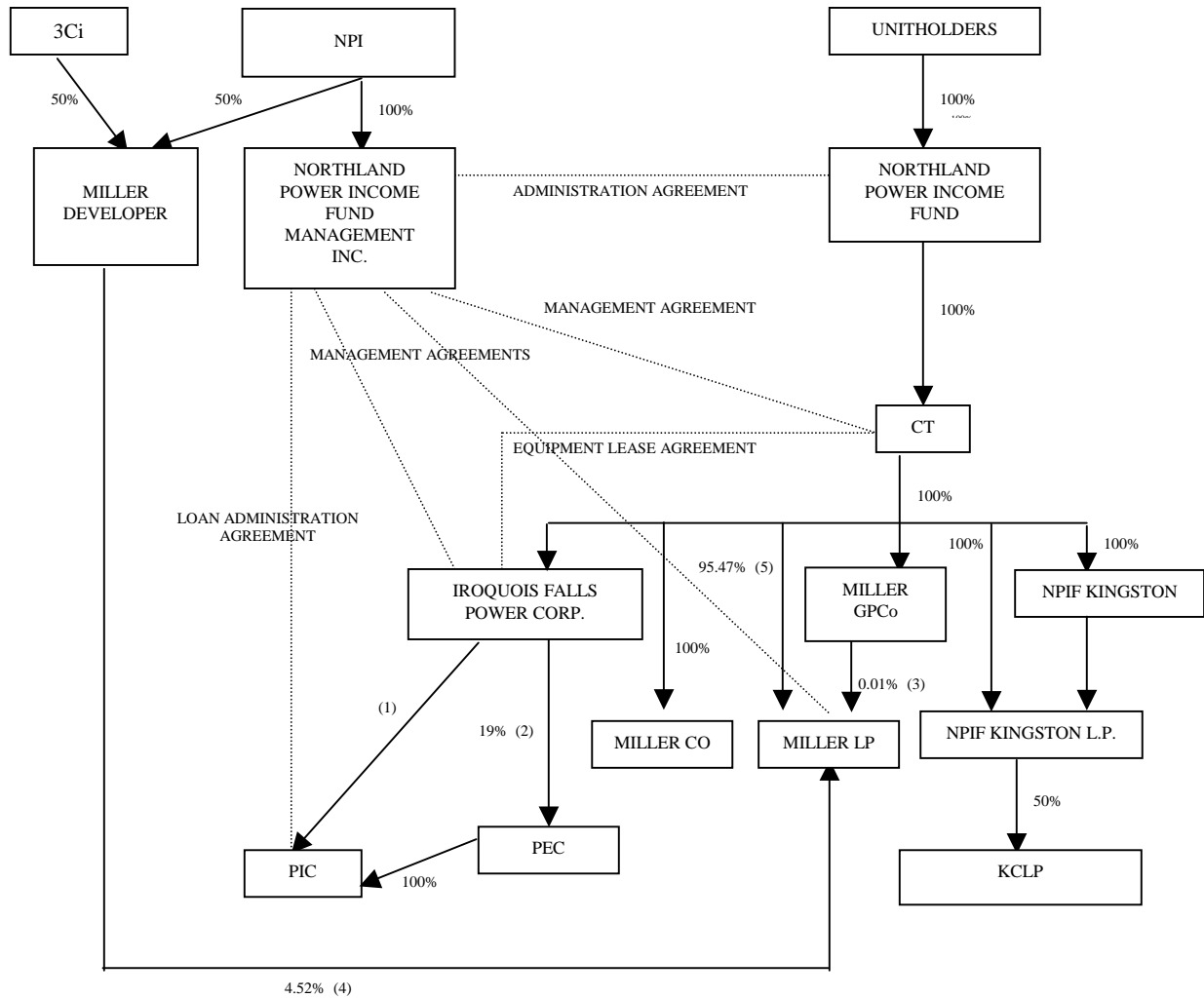
on the construction costs. Such Class C Units shall be redeemed and such capital contributions shall be repaid out of available cash that would otherwise be paid to the holders of Class B Subordinated Units.

**Millerco**

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

**Organization**

The following chart illustrates the primary structural and contractual relationships among the Fund, CT, IFPC, KCLP, PEC, PIC, Miller LP, Miller GPCo and NPIFMI.



**Notes:**

- (1) The Fund, indirectly, has funded a senior loan to PIC in the amount of US\$93 million. The senior loan bore interest at the rate of 10.5% and will mature on November 20, 2021. The sale of the Panda-Rosemary Facility, which occurred on February 8, 2005, resulted in the prepayment of approximately 20% (US\$18.9 million) of the Fund’s senior loan to PIC and payment of fees and dividends, through PEC, totalling some US\$4.8 million. After completion of the sale of the Panda-Rosemary Facility the interest rate on the balance of the senior loan increased by 0.4% to 10.9% for the remainder of its term. The Fund does not own any shares in PIC.
- (2) The Fund, indirectly, has a 19% equity interest in PEC, 9.5% of this interest is voting. The Fund has an option to increase its equity interest in PEC to 49% in 2021.
- (3) Miller GPCo owns one general unit of Miller LP, which entitles Miller GPCo to one vote at meetings of the partners of Miller LP, or 0.01% of votes.
- (4) The Miller Developer owns 1,000 Class B Units of Miller LP which entitle the Miller Developer to 1,000 votes at meetings of the partners of Miller LP or 4.52% of votes.
- (5) CT owns 21,120 Class A units of Miller LP, which entitle CT to 21,120 votes at meetings of the partners of Miller LP or 95.47% of votes.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **OVERVIEW**

The Fund indirectly owns interests in three combined-cycle cogeneration power plants that efficiently and cleanly produce electricity and steam for sale and one wind power project.

### **Investment Objective of the Fund**

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

### **Acquisition and Investment Guidelines**

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

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

## **RECENT DEVELOPMENTS**

### **RECENT DEVELOPMENTS**

#### **Acquisition of Interests in KCLP**

On December 31, 2002, the Fund's wholly-owned trust, CT, acquired a 25% general partnership interest in KCLP. The acquisition of this interest in KCLP was accounted for using the purchase method of accounting. The Fund's investment in KCLP is owned by NPIF Kingston L.P.

The other partners in KCLP at the time of acquisition were AES Kingston ULC, which is indirectly owned by The AES Corporation, a US-based energy company, and EnCana, one of the world's leading independent oil and gas companies.

On December 15, 2004, the Fund completed the acquisition of EnCana's 25% interest in KCLP for \$36.5 million plus \$175,000 in acquisition costs. After the acquisition, the Fund through CT and NPIF Kingston L.P. owns 50% of KCLP. The acquisition of the additional 25% interest in KCLP was accounted for using the purchase method of accounting.

The consolidated balance sheet of the Fund for 2004 reflects the Fund's 50% interest in KCLP, including the acquisition of EnCana's 25% interest on December 15, 2004. The 2003 consolidated financial statements of the Fund reflect a 25% interest in KCLP.

#### **KCLP Fuel Management Agreement**

In June 2004 the fuel management agreement between KCLP and EnCana was amended. Under the agreement EnCana is responsible for the management of all aspects of the gas supply under the fuel supply agreement between EnCana and KCLP, including re-selling contract natural gas that is not required by KCLP for the production of electricity. The amendment extends the term of the fuel management agreement to January 31, 2017 to make its termination coincident with the fuel supply agreement. The amendment also makes certain adjustments in KCLP's favour to the formula for sharing of profits from the resale of gas.

#### **KCLP CSA with General Electric**

In December 2004, KCLP entered into a new agreement with GE related to maintenance on its gas turbine to replace the previous parts and services agreement. Under the new agreement, GE is responsible for a portion of any additional costs associated with unscheduled maintenance on the gas turbine and provides certain parts warranties. The new agreement with GE essentially transfers a portion of future maintenance cost risk to GE. GE provided certain credits to KCLP that were used to offset the cost of certain parts installed during the first quarter 2004 major overhaul of the gas turbine.

### **\$95 million Bank Credit Facility**

The Fund and IFPC entered into a \$95 million credit facility with Canadian Imperial Bank of Commerce as agent for a syndicate of banks on May 24, 2002. The Facility was renewed on May 23, 2003 and May 23, 2004 and is up for renewal on May 23, 2005. The credit facility provides \$12.5 million of credit for working capital and letters of credit, plus a facility for \$82.5 million to assist in the funding of capital expenditures and acquisitions by the Fund. The purchase of the new gas turbines for use at the Iroquois Falls Facility (as described on pages 18 to 19) and the acquisition of KCLP were financed using the \$82.5 acquisition credit facility; \$45.1 million was drawn at December 31, 2002 for this purpose and repaid from the proceeds of the March 2003 offering of units described below. As at December 31, 2004, \$37.3 million was drawn on the acquisition line of credit to fund the acquisition of EnCana's 25% interest in KCLP. \$28.5 million of this line was repaid as of February 2005 from the proceeds of the sale of the Panda-Rosemary Facility described below.

### **March 2003 Unit Offering**

In March 2003, the Fund issued 6,957,000 Units at \$10.75 each for net proceeds of \$70.7 million. The proceeds of this offering were used to repay the borrowing under the Fund's credit facility, which had been incurred for the acquisition of the initial 25% interest in KCLP as at December 31, 2002 and the Iroquois Falls Facility gas turbine upgrade project, and to establish a reserve for potential future acquisitions.

### **Reorganization of Northland Power Income Fund and its Related Entities**

The Fund and its related entities completed an internal reorganization, effective as of July 1, 2003. The purpose of the reorganization was to alter the Fund's organizational, governance and management structure in order to complete the transition of the Fund from a single-purpose entity, owning only an investment in the Iroquois Falls Facility, to an entity with diversified investments in revenue producing energy-related assets and businesses. The reorganization, which included the transfer of the Iroquois Falls Facility Equipment, IFPC Note and IFPC Shares from the Fund to CT was approved by Unitholders on May 22, 2003 and implemented effective as of July 1, 2003.

### **December 2003 Unit Offering**

On December 15, 2003, the Fund issued 10,135,000 subscription receipts, at \$11.42 per subscription receipt, to raise proceeds of \$107.8 million, net of costs. On the same date, the subscription receipts were converted to Units; the proceeds from the issue, together with cash on hand were used by the Fund to fund the investment by IFPC in PEC and its subsidiaries (as more fully described below).

### **Investment in Panda Energy Corporation**

On December 15, 2003, IFPC completed the funding of a US\$93 million unsecured senior loan to PIC. The senior loan originally bore interest at the rate of 10.5% and will mature on November 20, 2021. The US\$93 million senior loan is repayable over its 18-year term. IFPC receives quarterly payments of blended principal and interest in accordance with a schedule of payments, which commenced on February 20, 2004.

Interest earned from the senior loan to PIC is reported as investment income on the consolidated statements of income and deficit of the Fund.

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 payment of a further amount, for total cash consideration of US\$5,975,000. The acquisition of PEC has been accounted for using the cost method of accounting. 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.

In November 2004, Panda-Rosemary, L.P. entered into an agreement to sell the Panda-Rosemary Facility. The sale to Dominion Virginia Power closed on February 8, 2005, and resulted in the prepayment of approximately 20% (US\$18.9 million) of the Fund's senior loan, and payment of fees and dividends, through PIC and PEC, totalling approximately US\$4.8 million. Panda-Rosemary, L.P. indirectly accounted for approximately 20% of the investment income generated by the Fund's PEC investment and PIC loan, in the aggregate. Following the completion of this sale, the interest rate on the balance of the Fund's senior loan to PIC increased by 0.4% to 10.9% for the remainder of its term.

#### **Investment in Miller LP**

On August 5, 2004, the Fund, through CT, acquired the Mont Miller Project, a 54 MW wind power project to be constructed in the Gaspésie region of Quebec by Miller LP. The Fund committed to provide \$95 million for the construction of the Mont Miller Project. Construction of the project commenced in August 2004 and is scheduled to be completed in April 2005. The project is being built on land leased from the Government of Quebec for a 25-year period with an option to extend the lease for an additional 15 years. When construction is complete, the project will consist of 30, 1.8 MW Vestas V80 turbines. All electricity produced will be sold to Hydro-Québec, pursuant to the terms of a 21-year power purchase agreement.

NPI, the parent of the Manager, and 3Ci sold the Mont Miller Project to the Fund and a committee of independent trustees of the CT Board determined that the consideration and the terms of the transaction were fair and reasonable from a financial point of view to the Fund and the Unitholders (see page 36).

#### **Convertible Unsecured Subordinated Debentures**

On August 26, 2004, the Fund completed a public offering of \$65 million principal amount 6.50% convertible unsecured subordinated debentures due June 30, 2011 (the "Convertible Debentures") for net proceeds of approximately \$61.8 million. Interest is paid semi-annually in arrears on June 30 and December 31 in each year commencing on December 31, 2004.

The Convertible Debentures are convertible into fully paid Units of the Fund at the option of the holder at a conversion price of \$12.50 per Unit and are redeemable on or following June 30, 2007, if the trading price of the Fund's Units reaches certain levels. The Fund may, at its option, satisfy its obligation to pay the redemption price on the principal amount of the Convertible Debentures through the issuance of Units of the Fund. The Fund determined that the value of the equity portion of the Convertible Debentures is minimal and, as a result, the entire amount of the Convertible Debentures has been classified as a liability.

The payment of principal and interest on the Convertible Debentures is subordinated in right of payment to the prior payment of all senior indebtedness of the Fund.

**Construction and Term Loan for Miller LP**

On October 8, 2004, Miller LP entered into a credit agreement with Manufacturers Life Insurance Company for a \$40 million construction and term loan in connection with the Mont Miller Project. The credit agreement provides for funding during the construction period and then conversion to a term loan on substantial completion of the construction and commencement of commercial operations of the Mont Miller Project. Interest is established at a rate based upon long-term bond yields in effect at the time of the various drawdowns under the credit agreement. Interest only is payable in respect of the loan until December 31, 2005 and thereafter quarterly payments of principal and interest are payable until maturity on December 31, 2025. The quarterly principal payments are made in accordance with a schedule designed to fully amortize the loan over its term. The loans are secured by the assets and undertaking of Miller LP and the partners' partnership interests. The lender has no recourse except to its security.

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

### **INDUSTRY OVERVIEW**

In October 1998, the Ontario government enacted the *Energy Competition Act, 1998* (the “Act”), which provided for the restructuring of Ontario Hydro, the commercialization of municipal electric utilities and, on a date to be determined by the Ontario government, the establishment of competitive wholesale and retail electricity markets and open access for all electricity providers to transmission and distribution networks. The Act also mandated an expanded role for the Ontario Energy Board in the regulation and licensing of participants in the new electricity market.

Ontario Hydro was restructured on April 1, 1999, allowing Ontario Power Generation Inc. to take ownership of Ontario Hydro’s electricity generation plants, including the nuclear stations. Hydro One Inc., through its wholly-owned subsidiary, Hydro One Networks Inc., assumed responsibility for bulk electricity transmission and is the entity that accepts delivery of electricity from the Iroquois Falls Facility and Kingston Facility. The IMO (now renamed the IESO) was created to ensure the matching of supply and demand in the new competitive market and is the entity to which IFPC bids to sell electricity produced above the volumes specified in the Iroquois Falls Power Purchase Agreement.

The legal successor to Ontario Hydro’s obligations under the Iroquois Falls Power Purchase Agreement and the Kingston Power Purchase Agreement is OEFC, an agency of the Province of Ontario that holds and administers the residual assets and liabilities of Ontario Hydro and particularly its debt, which was and continues to be guaranteed by the Government of Ontario.

On May 1, 2002, Ontario’s wholesale and retail electricity markets opened to competition and open access to transmission and distribution was established.

The Fund led the industry in Ontario by being the first holder of a long-term power purchase agreement with OEFC to reach agreement-in-principle on the required contract amendments to deal with the transition to an open competitive wholesale market for electricity and the other changes necessitated by Ontario’s electricity restructuring. The contract amendments took effect May 1, 2002; detailed drafting and approval of the final documentation by IFPC and OEFC remain outstanding.

The agreement-in-principle with OEFC defines a replacement for the Ontario Hydro price indices that helped determine year-over-year changes in the Fund’s electricity price under the Iroquois Falls Power Purchase Agreement. A new feature is a floor and ceiling price mechanism, both of which escalate each year, on 75% of the Iroquois Falls Facility’s contract electricity revenue that previously could increase or decrease without limitations. As a result, the Fund now has downside protection on 100% of its contracted Iroquois Falls electricity revenues compared to 25% previously.

The agreement-in-principle provides the Fund with increased value for the excess capacity of the Iroquois Falls Facility by selling into the wholesale market any electricity production beyond the Iroquois Falls Power Purchase Agreement volumes, as well as ancillary services such as operating reserves – OEFC shares in the profits based on an agreed formula. In July 2002, the Iroquois Falls Facility became the first non-utility generation plant to participate in Ontario's wholesale market as a dispatchable generator. The Iroquois Falls Facility has continued to make sales into Ontario's wholesale market when power prices are favourable.

Following the opening of Ontario's wholesale and retail markets, Ontario experienced high levels of demand for electricity during July, August and September, 2002, with resulting increases in the wholesale price of electricity and charges for imported power. Reacting to public concerns over electricity prices, the Government of Ontario passed the *Electricity Pricing, Conservation and Supply Act, 2002* on December 9, 2002 which introduced, among other things, a price freeze at 4.3 cents per kilowatt hour until May 1, 2006 for low volume and designated consumers.

The *Electricity Pricing, Conservation and Supply Act, 2002* did not contain any specific provisions which related to or affected the Iroquois Falls Power Purchase Agreement or the Kingston Power Purchase Agreement to which OEFC is a party or any wholesale market opportunities. A number of tax incentives for new generation were also enacted by the Ontario Government.

In October 2003 a new Liberal government was elected in Ontario and announced that it would be reviewing the electricity policies pursued by the former government and that new generation supply and conservation initiatives would be among its priorities. On December 18, 2003, the Government of Ontario passed the *Ontario Energy Board Amendment Act (Electricity Pricing), 2003*, which further amended the pricing of electricity for low volume and designated consumers, effectively removing the 4.3 cents price freeze applicable to such consumers as of April 1, 2004. In its stead, the Ontario Government authorized the Ontario Energy Board to develop a new mechanism for setting future electricity prices for low volume and designated consumers. This pricing mechanism is required to be in place no later than May 1, 2005. Until the OEB developed its pricing mechanism, the Government of Ontario established an interim regulated price for low volume and designated consumers which took effect on April 1, 2004. The first 750 kilowatt hours of electricity consumed by such consumers in any month will be priced at 4.7 cents per kilowatt hour and any consumption above that level will be priced at a higher rate of 5.5 cents per kilowatt hour.

The *Electricity Restructuring Act, 2004* was passed in December 2004, with most of the provisions in force as of February 5, 2005. The *Electricity Restructuring Act, 2004* is intended to reorganize Ontario's electricity sector to:

- ensure efficient and effective management of the electricity sector over the long-term;

- promote the expansion of new electricity supply and capacity, and facilitate load and electricity demand management, to ensure that future supply will be sufficient to meet demand;
- encourage electricity conservation and renewable energy; and
- ensure stable and competitive prices for Ontario's electricity consumers and regulate prices in parts of the electricity sector.

The *Electricity Restructuring Act, 2004* will create a hybrid market in which (i) initially the Ontario government and thereafter the Ontario Energy Board will establish the prices at which electricity may be sold which is produced by the nuclear and certain hydraulic stations owned by Ontario Power Generation Inc. ("OPG"), one of the successor companies to Ontario Hydro (the "OPG Regulated Assets") and (ii) the prices at which electricity produced by other generating facilities will be established through competitive or open-market processes. On February 23, 2005, the Ontario government announced the prices which the OPG Regulated Assets would receive for the sale of electricity until no later than April 1, 2008, and a 13 month revenue limit on electricity sales from assets owned by OPG other than the OPG Regulated Assets. On March 2, 2005, the Ontario government also announced that low volume and designated consumers would be entitled to participate in a regulated price plan developed by the OEB until April 1, 2008, after which only certain residential and general service customers would be eligible to participate in such a plan.

The *Electricity Restructuring Act, 2004* establishes the Ontario Power Authority as an independent, non-profit corporation responsible for ensuring long-term adequacy of electricity supply in Ontario. The OPA is authorized to:

- forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long-term;
- conduct independent planning for electricity generation, demand management, conservation and transmission and develop integrated power system plans for Ontario;
- engage in activities to facilitate the diversification of sources of electricity supplied by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources; and
- establish system-wide goals for the amount of electricity to be produced from alternative energy sources and renewable energy sources.

The OPA will be licensed by the OEB, which will also approve the fees and charges of the OPA, review the OPA integrated power system plan and approve OPA procurement processes and settlement and variance mechanisms. The OPA is responsible for developing appropriate procurement processes and has the power to enter into procurement contracts for electricity supply or capacity. The Iroquois Falls Power

Purchase Agreement and the Kingston Power Purchase Agreement remain in force and unaffected by the *Electricity Restructuring Act, 2004* and OEFC remains the legal successor to Ontario Hydro's obligations under these power purchase agreements.

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 steps taken so far by the Liberal Government with respect to the Ontario electricity sector. The Government's announcements concerning the need for new electricity supplies and the related request for proposal processes have been and will continue to be carefully monitored by the Manager to determine whether there are appropriate opportunities which may be pursued by the Fund.

The Fund is also monitoring developments in other jurisdictions, particularly Quebec. In 2004, Hydro-Québec selected almost 1,000 MW of wind energy projects in the Gaspésie region to be awarded power purchase agreements, and is expected to issue a request for proposals for a similar quantity in 2005. Included in Hydro-Québec's 2004 award were two wind power projects jointly proposed by the Fund and NPI. A 150 MW project in the Saint-Ulric/Saint-Léandre area is planned to start operating in 2007, while a 100.5 MW project near Mont-Louis is projected for 2010. The power purchase agreements were executed with Hydro-Québec as of February 25, 2005. NPI has and will continue to undertake the development of these two projects. Subject to the approval of the CT Board of the final arrangements, it is expected that these two projects will become part of the Fund's investments. Investment in either project on behalf of the Fund is subject to prior review and approval by an independent committee of the CT Board.

#### **THE FUND'S FACILITIES**

The three facilities from which the Fund currently derives its cash flow for distribution to Unitholders are combined-cycle cogeneration facilities that sell electricity to creditworthy entities pursuant to long-term power purchase agreements. 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 a 50% general partner interest (25% prior to December 15, 2004). The other facility is the 230 MW Panda-Brandywine Facility in which the Fund's subsidiary, IFPC, has a 19% equity interest through its 19% equity interest in PEC. As discussed previously, the Panda-Rosemary Facility was sold on February 8, 2005.

The following table summarizes the principal characteristics of each of the operating facilities in which the Fund had a direct or indirect interest as at December 31, 2004 (but excluding the Panda-Rosemary Facility which was sold on February 8, 2005) and the characteristics of the Mont Miller Project, which is scheduled to become operational in March 2005:

Project	Iroquois Falls	Kingston CoGen <sup>(1)</sup>	Panda-Brandywine <sup>(2)</sup>	Mont Miller <sup>(3)</sup>
Capacity	120 MW	110 MW	230 MW	54 MW
Power off-taker & rating*	OEFC (AA)	OEFC (AA)	PEPCO (BBB+)	Hydro-Québec (A+)
PPA Term	2021	2017	2021	2026
Ownership	100%	50%	Loan + 19% (49% option in 2021)	100%
% of Distributable cash <sup>(4)</sup>	55%	15%	20%	10%

\* Ratings by Standard & Poor's

- (1) The Fund increased its equity interest in the facility to 50% on December 15, 2004.
- (2) A subsidiary of the Fund is the lender under a senior unsecured loan with an outstanding balance of US\$73.3 million at February 8, 2005 (after the sale of the Panda-Rosemary Facility and resulting partial prepayment of the senior loan) to a subsidiary of Panda Energy Corporation that indirectly owns the Panda-Brandywine Facility.
- (3) The Mont Miller Project is scheduled to begin operations in April 2005.
- (4) Represents the approximate share of the Fund's distributable cash (a non-GAAP measure) that is expected to be generated by each facility in 2005; the projected contribution from the Mont Miller Project is based on twelve months of operations.

### **Cogeneration Facilities**

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

In arrangements where electricity is generated by itself in conventional power plants, approximately 30 to 35% of the fuel's energy content is converted into useful energy output in the form of electricity. The remainder is wasted as unused heat.

By producing electricity and steam simultaneously, cogeneration uses a higher proportion of the fuel's energy content. Depending on the degree of steam and/or useful heat utilization, 55% to 85% of the fuel's energy content is converted into useful energy output.

The systems at the Iroquois Falls, Kingston and Panda-Brandywine facilities have all the benefits of cogeneration but compared to other cogeneration technologies produce relatively more electricity, a higher value product, and less heat. This is achieved by using steam produced by boilers that capture heat from the gas turbine exhaust and directing it to a steam turbine, which powers a generator to produce more electricity, after which the steam is used for heating or other processes. Like simple-cycle cogeneration,

55 to 85% of the fuel energy is used, but electrical energy outputs of 50 to 55% can be achieved compared to the 30 to 35% electrical efficiencies of simple-cycle cogeneration.

By using natural gas to fuel the gas turbines at each of the Iroquois Falls, Kingston and Panda-Brandywine facilities, the Fund is using the cleanest-burning fossil fuel. Natural gas combustion results in virtually no atmospheric emissions of sulfur dioxide (SO<sub>2</sub>) or small particulate matter, and far lower emissions of carbon monoxide (CO), nitrogen oxides (NO<sub>x</sub>), and greenhouse gases such as reactive hydrocarbons and carbon dioxide (CO<sub>2</sub>), than the combustion of other fossil fuels.

### **Wind Energy**

Wind can be used to generate electricity through wind turbines that transform the kinetic energy of wind into electrical energy that can be harnessed for practical use. Wind energy projects are relatively simple to erect and can be constructed within a much shorter time frame than traditional electricity generation projects. Because wind energy projects do not have fuel costs, operating expenses for a wind energy project are lower than fossil-fuel methods of energy production.

Wind energy projects will likely continue to be developed with long-term power purchase agreements due to a number of factors, which include:

- (i) the ability of wind energy projects to offer stable long-term electricity generation;
- (ii) the ability of purchasers to secure emission reduction credits or other long-term “clean” credits from the use of renewable energy; and
- (iii) public and regulatory policies adopted in North America and Europe to encourage the development of renewable sources of electricity.

## **IROQUOIS FALLS FACILITY**

### **General Background**

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

### **Iroquois Falls Gas Turbine Upgrade Project**

The Iroquois Falls Facility originally employed first generation General Electric LM 6000 PA gas turbines that have relatively high emissions of NO<sub>x</sub> compared to newer technology. Ontario legislation that became effective January 1, 2004 required IFPC to take steps to reduce NO<sub>x</sub> emissions or to purchase NO allowances/credits. After investigation, the Manager, with the approval of the IFPC board of directors, decided to replace the original turbines with two new, state-of-the-art General Electric LM 6000 PD SPRINT™ gas turbines. The upgrade provides benefits in addition to decreasing NO<sub>x</sub> emissions and is expected to be an attractive investment, in particular when compared to

the alternative of purchasing NO allowances/credits. The new turbines became operational in the third quarter of 2003.

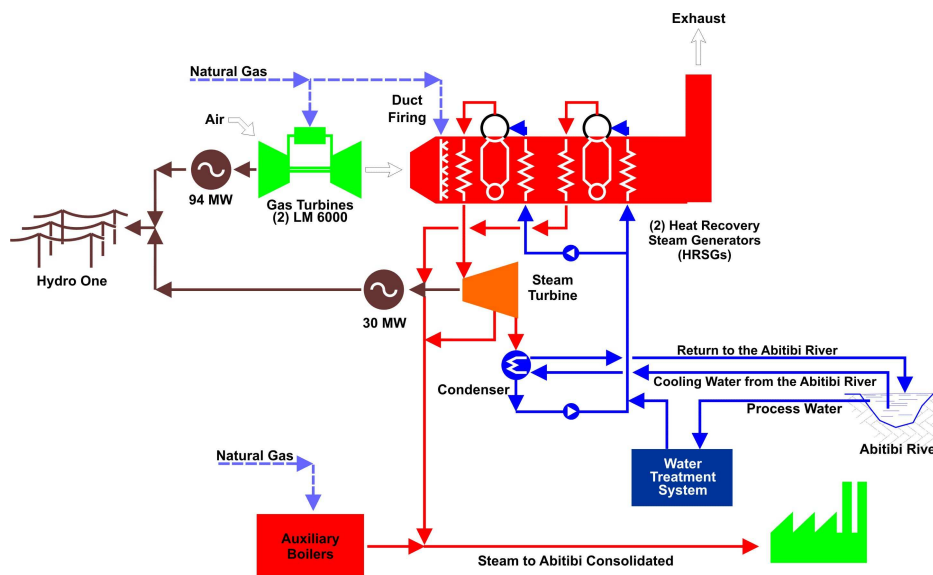
The new turbines increase the capacity at the Iroquois Falls Facility by approximately 10% on average and 20% during the hottest summer days, which allows additional sales into the Ontario wholesale electricity market during peak times. The efficiency of the Iroquois Falls Facility increased by 3%, reducing the volume and cost of natural gas consumed at the plant. NO<sub>x</sub> emissions are reduced by approximately 90% and provide the Fund with a new product to sell – NO allowances.

The new gas turbines are owned by CT and are leased by CT to IFPC together with the other equipment used at the Iroquois Falls Facility.

The net cost of the gas turbine upgrade project was approximately \$15 million, \$2 million below the original budget.

### **Plant Design and Equipment**

The principal items of the Iroquois Falls Facility Equipment include: two General Electric gas turbine generator sets as described above, two Babcock & Wilcox heat recovery steam generators (“HRSGs”) with duct burners, and a General Electric steam turbine generator set. The gas turbine generator sets, which are fuelled by natural gas, produce electricity. The hot exhaust gases from the gas turbines are sent to the two HRSGs. The heat input into the HRSGs can be supplemented by using natural gas burners (called duct burners). The high-pressure steam produced by the HRSGs is sent to the steam turbine generator set which produces more electricity. Steam is extracted from the steam turbine at lower pressure for delivery to the Abitibi-Consolidated Mill. Steam for the Abitibi-Consolidated Mill may be supplemented by duct firing or steam produced in two natural gas-fired auxiliary boilers. Steam is also used in winter to heat ethylene glycol which warms the inlet air to the gas turbines to optimize gas turbine output and prevent icing. Steam exhausted from the steam turbine is condensed in a once-through condensing system.



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

The Iroquois Falls Facility currently has a net rated capacity of 120 MW and generates and sells electricity to OEFC under the 25-year Iroquois Falls Power Purchase Agreement expiring in 2021. OEFC's obligation to purchase electricity under the Iroquois Falls Power Purchase Agreement is limited to stipulated monthly averages of between 75 MW and 96 MW, with the weighted monthly average being 85 MW. Incremental electricity sales in excess of the volume in the Iroquois Falls Power Purchase Agreement are made with successful bids to the new Ontario wholesale market, which opened on May 1, 2002. In 2004, a total of 4,538 MWh of electricity was sold to the wholesale market outside the Iroquois Power Purchase Agreement.

Production from the Iroquois Falls Facility is higher in Winter than in Summer, and rates received from OEFC are also higher during the Winter. As a result, approximately 65% of the Iroquois Falls Facility's cash flow is earned in the Winter, and approximately 35% is earned during the Summer. On average, approximately 80 to 90% of the Iroquois Falls Facility's revenues are expected to be derived from electricity sales to OEFC. For the year ended December 31, 2004 sales of electricity represented approximately 83% of IFPC's total revenue from the Iroquois Falls Facility.

The Iroquois Falls Facility sells up to 300,000 pounds of steam per hour to the neighbouring Abitibi-Consolidated Mill under a 20-year steam sales agreement that expires at the end of 2016. Steam is sold at a price set annually that varies directly with the cost of gas purchased by IFPC. Steam sales are generally higher in Winter than in Summer. IFPC is protected from the economic impact of adverse changes at the Abitibi-Consolidated Mill until 2016 through provisions of the Iroquois Falls Power Purchase Agreement that increase OEFC's electricity purchase obligation to mitigate any material loss in steam sales revenue. On average, revenue generated from the sale of

steam is expected to represent approximately 5 to 10% of the Fund's total revenues. For the year ended December 31, 2004, sales to Abitibi-Consolidated represented approximately 8% of IFPC's total revenue from the Iroquois Falls Facility.

Other revenue is earned by selling natural gas to mitigate the cost of unused capacity under the transportation contract with TransCanada PipeLines Limited during lower production summer months and plant shutdowns. Such revenue represented approximately 9% of the total revenue in fiscal 2004 for the Iroquois Falls Facility.

The new gas turbines installed in 2003 have performed well and generated excess NO allowances for sale because of their greatly reduced emissions of NO<sub>x</sub>. Late in 2004, the Iroquois Falls Facility made its first sale of emission allowances, when it sold approximately 300 tonnes of NO allowances for \$450,000.

The Iroquois Falls Facility is fuelled by natural gas provided by EnCana, Shell Canada Limited and Calpine Canada Resources Ltd. The natural gas from these suppliers is contracted pursuant to 20 year gas supply agreements expiring at various times between 2015 and 2017 which relate the fuel price escalation, in part, to the electricity selling price. The Iroquois Falls Facility's fuel supply strategy allows for flexibility in utilizing more cost-effective sources of natural gas for a portion of supply while maintaining the ability to source 100% of the Iroquois Falls Facility's requirements under the long-term contracts. The Iroquois Falls Facility uses TransCanada PipeLines Limited and Union Gas Limited to transport its gas pursuant to 20-year firm service agreements that expire in 2016.

The maintenance of the Iroquois Falls Facility's gas turbines is contracted to General Electric under a maintenance agreement that was amended in December 2002 to incorporate the two new LM6000 PD gas turbines and, based upon the expected usage of the turbines, will continue until 2015.

### **Operations**

The Iroquois Falls Facility is one of the most efficient, large cogenerating stations in Canada. The Iroquois Falls Facility has the capacity to produce an annual average of 15% more electricity (after the turbine upgrade) than the amount contracted to OEFC under the Iroquois Falls Power Purchase Agreement. In 2004, the Iroquois Falls Facility was successful in bidding into the wholesale market and sold incremental electricity beyond the volumes in the existing Iroquois Falls Power Purchase Agreement.

The Iroquois Falls Facility is intended to operate 24 hours a day, 365 days a year except for planned and unplanned downtime. Under the Iroquois Falls Power Purchase Agreement, OEFC has the right to curtail the Iroquois Falls Facility's electricity output by up to 20% of the contracted capacity during Summer off-peak hours without payment. The Iroquois Falls Facility was curtailed 38,000 MWh by OEFC under the Iroquois Falls Power Purchase Agreement in fiscal 2004.

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

### **Employees**

For the fiscal year ended December 31, 2004, the Iroquois Falls Facility was operated by a staff of 19 employees of an affiliate of the Manager that was augmented as required with outside contractors, and engineering services from COGENERATION Associates Limited, another affiliate of the Manager. On March 18, 1998 the employees at the facility voted to join the International Union of Operating Engineers. The first collective agreement for the Iroquois Falls plant employees was ratified on December 21, 1999. In 2002, the Manager executed a new collective agreement with employees at the Iroquois Falls Facility that runs until June 30, 2005.

### **Environmental Matters and Permits**

The Iroquois Falls Facility holds all necessary permits and approvals required for operations and has an environmental monitoring and reporting system in place. In particular, current generating equipment at the Iroquois Falls Facility is designed to produce NO<sub>x</sub> emissions below the permitted levels.

## **KINGSTON FACILITY**

### **General Background**

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

The Fund acquired a 25% general partnership interest in KCLP on December 31, 2002. On December 15, 2004, the Fund acquired an additional 25% general partner interest in KCLP from EnCana. The other partner in KCLP is AES Kingston ULC, which is indirectly owned by The AES Corporation, a US-based energy company.

### **Plant Design and Equipment**

The 110 MW Kingston Facility uses a General Electric 6FA high-efficiency industrial gas turbine. The plant incorporates a Babcock & Wilcox heat recovery steam generator, which is capable of producing up to 150,000 lbs/hr of steam for sale, and is designed for natural gas supplementary firing to augment output. Steam is delivered to a GE double

admission/single auto extraction/condensing steam turbine with a 6A3 generator rated at 45.2 MW. Extraction steam from the steam turbine is used to supply process steam through a heat exchanger for sale. The GE 6FA gas turbine utilizes GE's dry low NO<sub>x</sub> combustion technology to achieve NO<sub>x</sub> emissions below 25 parts-per-million.

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

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

The Kingston Power Purchase Agreement incorporates a levelization mechanism that was common in certain Ontario Hydro contracts, whereby Ontario Hydro/OEFC advances cash to the project in the early years (positive levelization payments) and the project repays OEFC in the later years (negative levelization payments) according to a defined schedule of amounts per kWh of on-peak production that is intended to fully repay OEFC by the end of the Kingston Power Purchase Agreement term. The balance owed to OEFC at any time represents the levelization account balance on which interest is accrued monthly.

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

KCLP provides steam to an adjacent facility owned by INVISTA (Canada) Company ("Invista"), formerly known as KoSa, under an energy services agreement that expires on January 31, 2017. Invista, with global headquarters in Houston, Texas, is one of the

world's largest producers of polyester and is a wholly-owned subsidiary of Koch Industries Inc. of Wichita, Kansas. Invista's Kingston factory produces polyethylene terephthalate resin (commonly known as PET) for use in plastic drink bottles and other applications. Invista's Kingston operation was the largest production line of its type in the world when it was built in 1997. The escalator for prices under the energy services agreement is tied to the price of natural gas. Revenue under the energy services agreement is equivalent to approximately 3% of electricity sales.

KCLP has a long-term contract with Invista for the supply of water from Lake Ontario through Invista's pumphouse and for the treatment and disposal of process wastewater.

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

EnCana continues to be responsible for the management of all aspects of the gas supply under a fuel management agreement with KCLP. During 2004, KCLP entered into an amended natural gas administration agreement with EnCana that extends the term of the agreement to January 31, 2017 and makes certain adjustments to the profit sharing formula in KCLP's favour.

Operations and maintenance of the Kingston Facility is the responsibility of the other partner, AES Kingston ULC, under long-term management, operations and maintenance agreements. Since the Fund's initial investment in December 2002, KCLP had entered into a multi-year agreement with GE for the long-term supply of parts and specified repair services for the GE6FA gas turbine. Late in 2004 KCLP entered into a new agreement under which GE takes on additional responsibilities and risks associated with scheduled and unscheduled maintenance on the gas turbine in return for a monthly fee. The total commitment over the life of the contract is approximately US\$6.5 million (the Fund's 50% share). This agreement expires after 68,000 hours of operations (estimated to be in 2016) (see page 9).

### **Environmental Matters and Permits**

The Kingston Facility holds all necessary permits and approvals required for operations and has an environmental monitoring and reporting system in place. All current generating equipment at the Kingston Facility is designed to produce NO<sub>x</sub> emissions below the levels set out in its permits and because its NO<sub>x</sub> emissions are low, the Manager understands that KCLP has NO allowances for sale.

### **Capital Structure of KCLP**

KCLP has in place long-term non-recourse project financing with a syndicate of banks. The interest rate has been fixed through interest-rate hedges on the outstanding loan

balance. The bank financing is fully amortized over the term of the Kingston Power Purchase Agreement. Security under the credit agreement is limited to the assets of KCLP and an assignment of the partners' ownership interests in KCLP.

### **KCLP Partnership Agreement**

Under the partnership agreement, as the Managing General Partner, AES Kingston ULC is required to manage and control KCLP's affairs and business including the scheduling of inputs and electricity generation under the Kingston Power Purchase Agreement and steam production under the energy services agreement. AES Kingston ULC is also responsible for all financial reporting aspects of the Kingston Facility. EnCana continues to be responsible for the management of all aspects of the natural gas supply under a fuel management agreement with KCLP.

The approval of the annual KCLP budget, amendments or modifications with respect to any material KCLP agreements, the arrangement of additional financing other than pursuant to the credit agreement and the sale or disposal of any significant KCLP assets requires unanimous partner approval. The Managing General Partner is able to make any expenditure which is reasonably judged by it to be necessary in the case of any emergency involving health, safety or the environment, and to borrow funds on any reasonable commercial basis for such purposes, provided it reports to the management committee. The management committee is comprised of a representative of each of the partners of KCLP.

### **PANDA FACILITIES**

The two Panda facilities, the Panda-Brandywine Facility and the Panda-Rosemary Facility, produce electricity and steam using natural gas as the primary fuel and No. 2 fuel oil as an alternative fuel. The Panda-Brandywine Facility and the Panda-Rosemary Facility 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. The Panda-Rosemary Facility was sold to Dominion Virginia Power on February 8, 2005.

### **THE PANDA-BRANDYWINE FACILITY**

The Panda-Brandywine Facility is a combined-cycle cogeneration facility located in Brandywine, Maryland, near Washington, D.C., with a total electrical generating capacity of 230 MW. The Panda-Brandywine Facility sells electrical capacity and energy to PEPCO, a utility that serves the District of Columbia and adjacent parts of Maryland. The facility commenced commercial operations on October 31, 1996. It is a qualifying facility, under the United States Public Utility Regulatory Policies Act of 1978, as amended ("PURPA") and therefore is currently exempt from rate regulation as an electric utility under federal and state law, provided that it continues to meet the applicable requirements of PURPA.

The Panda-Brandywine Facility is currently leased by Panda-Brandywine, L.P. The lease, which expires on October 31, 2021, was entered into in connection with a sale-leaseback transaction with General Electric Capital Corporation (“GE Capital”) and other financing parties. At the end of the current lease term, it may be renewed for an additional five-year term. Alternatively, the facility may be purchased at fair market value at the end of the lease term or the renewal term.

### **The Panda-Brandywine Facility’s Sales, Supply, Management and Maintenance Contracts**

The Panda-Brandywine Facility sells electrical capacity and energy to PEPCO pursuant to a power purchase agreement dated as of August 9, 1991. The agreement expires on October 31, 2021, and may be extended by mutual agreement of the parties.

The Panda-Brandywine Facility produces both electricity and useful thermal energy in the form of steam. Electric capacity and energy sales are based on the terms of the power purchase agreement. The power purchase agreement requires Panda-Brandywine, L.P. to supply PEPCO with all available capacity from the facility for the 25 year term of the agreement with a guaranteed dispatch level of at least 60 hours per week for the first 15 years. A financial institution has committed to provide letters of credit up to a maximum of approximately \$7.0 million (under certain circumstances) guaranteeing Panda-Brandywine, L.P.’s performance under the power purchase agreement.

Panda-Brandywine, L.P. sells steam to Brandywine Water Company for its water distillation process pursuant to a steam sales agreement dated March 30, 1995. Brandywine Water Company is an indirect wholly-owned subsidiary of PEC. The production and sale of such thermal energy allows the Panda-Brandywine Facility to maintain qualifying facility status.

Panda-Brandywine, L.P. has contracts for the supply of natural gas as well as the delivery of the gas by pipeline to the facility. The natural gas supply and transportation contract include both firm and non-firm components. A portion of the supply and the equivalent transportation are contracted on a firm basis to ensure that dispatch commitments to PEPCO can be met year-round. The balance of the gas and transportation are contracted on a non-firm basis for economic reasons. The Panda-Brandywine Facility also maintains a supply of No. 2 fuel oil as backup fuel. The backup fuel allows the facility to produce electricity when dispatched during gas delivery interruptions. The facility is capable of switching from natural gas to fuel oil without disrupting production.

Revenues paid for energy under Panda-Brandywine L.P.’s power purchase agreement are intended to closely track the delivered costs of natural gas under the contracts for gas and gas transportation, and the delivered costs for fuel oil under short-term contracts.

Panda-Brandywine, L.P. has entered into a treated effluent water purchase agreement dated September 13, 1994, with the County Commissioners of Charles County, Maryland to purchase up to 2.7 million gallons per day of treated effluent from a local sewage

treatment plant. The initial term expires on October 31, 2021 and may be extended for up to three successive five-year terms. Treated effluent is a by-product of the sewage treatment process and is used as the primary cooling water source for the cooling towers.

Panda-Brandywine, L.P. obtains operation and maintenance services for the facility from Panda Global Services Inc. pursuant to an operation and maintenance agreement dated June 17, 1999. The term of the agreement runs through October 31, 2005. It provides for payment of a fixed monthly fee, subject to certain adjustments. In addition, Panda Global Services Inc. is entitled to reasonable and actual direct costs incurred by it in its performance of the operation and maintenance services. The agreement also includes certain bonus and penalty provisions.

### **Environmental Matters and Permits**

The Panda-Brandywine Facility has been designed to meet U.S. federal and Maryland environmental standards and the Manager understands it is in material compliance with the current environmental requirements. Panda-Brandywine, L.P. has sold a portion of its NO<sub>x</sub> allowances for each of the years 2003, 2004 and 2005, which it believes will not be needed based on the historical and projected operations of the facility. A portion of the funds received from the sales of NO<sub>x</sub> emissions allowances is deposited in a reserve account to be used should the Panda-Brandywine Facility be required to repurchase allowances.

### **THE PANDA-ROSEMARY FACILITY**

The Panda-Rosemary Facility is a combined cycle cogeneration facility located in Roanoke Rapids, North Carolina, with a total electric generating capacity of approximately 180 MW. The Panda-Rosemary Facility was sold effective February 8, 2005.

### **Sale of Panda-Rosemary Facility**

On December 2, 2004, the Fund announced the sale by Panda-Rosemary LP of the Panda-Rosemary Facility. The sale of the Panda-Rosemary Facility to Dominion Virginia Power closed on February 8, 2005. Following the sale, the remaining assets of Panda-Rosemary LP are to be liquidated. Panda-Rosemary LP indirectly accounted for approximately 20% of the investment income generated by the Fund's PEC investment and loan.

The sale resulted in the prepayment of approximately 20% (US\$18.9 million) of the Fund's senior loan, and payment of fees and dividends, from PIC and PEC, totalling approximately US\$4.8 million. The interest rate on the balance of the Fund's senior loan was increased by 0.4% to 10.9% for the remainder of its term.

## **THE MONT MILLER PROJECT**

### **General Background**

The Mont Miller Project is a 54 MW wind power project located near the town of Murdochville, Quebec. Murdochville is a former mining town in the interior of the Gaspé Peninsula, approximately 80 kilometers west of Gaspé and 35 kilometers south of the St. Lawrence River. The facility is scheduled to commence operations in April 2005.

### **Facility Design and Equipment**

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

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

The Mont Miller Project's energy forecast and revenue projections are based on detailed wind studies. Wind speed data were collected on site for over 3 years then analyzed using sophisticated computer modeling and simulations. The average wind speed at the individual turbines has been estimated at over 8.8 meters per second. After adjusting for normal energy losses due to transmission inefficiencies, downtime resulting from extreme weather conditions and scheduled maintenance, and other factors, the net energy output is forecast at 41.7% of the plant's 54 MW capacity, or approximately 195 GWh per year.

The Mont Miller Project was developed by NPI, the parent company of the Manager, in a joint venture with 3Ci Inc., a Quebec-based wind power developer. Together, NPI and 3Ci were responsible for locating the site, securing the Power Purchase Agreement with Hydro-Québec, negotiating leases, environmental and other permitting, and negotiating the EPC Agreement with Vestas. NPI and 3Ci sold the project to the Fund in August 2004, and have retained a limited partner interest through the Miller Developer. Under the terms of the sale of the Mont Miller Project to the Fund, the Miller Developer has retained responsibility for overseeing the construction and commissioning of the plant. The Miller Developer has provided an undertaking to the Fund that it will fund any cost

overrun. This undertaking is guaranteed by NPI, ensuring that the total cost to the Fund will not exceed \$95 million.

Vestas, in addition to supplying the wind turbines, is designing, engineering, and constructing the entire project. Construction began in the middle of August 2004, immediately after the acquisition and financing of the Mont Miller Project were completed by the Fund. As of March 10, 2005, 10 wind turbines have been commissioned and are supplying power to the Hydro-Québec grid. To date, a total of 26 of the Mont Miller Project's 30 wind turbines have been fully erected and the civil works, substation and electrical collection system are essentially complete. The distribution system and substation have a one year warranty against defects, while the V80 turbines carry a five year warranty as summarized below. The performance of Vestas' obligations are guaranteed by Vestas Wind Systems A/S, the ultimate parent company of Vestas.

#### **Mont Miller's Sales and Maintenance Contracts**

All the power produced by the Mont Miller Project is contracted to be sold to Hydro-Québec under a 21-year power purchase agreement. The price for the power is set at \$56 per MWh at the beginning of commercial operations of the facility. This price escalates at 1.5% per annum for the term of the power purchase agreement. Hydro-Québec will purchase all the electricity produced by the Mont Miller Project, and there is no minimum or maximum production or delivery requirement.

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

Miller LP has also entered into a 5-year warranty, maintenance and services agreement with Vestas. Under the terms of these agreements, Vestas will provide all scheduled and unscheduled maintenance required for the wind turbines, including all labour, repairs, replacement parts, and supplies. Vestas has established a fully-stocked and manned centre in Murdochville to provide these services. The agreements also provide specific guarantees for availability (95%) and power output (95% of the turbines' rated capacity) for a five year warranty period.

#### **Operations**

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

**SELECTED CONSOLIDATED FINANCIAL INFORMATION  
OF THE FUND**

	<b>For the 12 Months ended December 31</b>				
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>(Audited Actuals)</b>				
<b>Sales Volume</b>					
Electricity (MWh)	807,812	803,022	747,717	739,701	739,687
Steam (million lbs.)	1,067	1,153	1,088	1,012	997
<b>Financial (\$'000s)</b>					
Sales	90,939	91,132	72,344	68,411	61,576
Net Income	27,138	18,808	19,171	20,640	18,965
Funds from operations before working capital changes	51,571	35,953	32,165	30,978	29,194
Cash generated from operations	47,409	40,878	31,283	31,995	23,135
Distributions declared to unitholders	47,916	36,926	30,207	30,207	28,974
Total Assets	575,687	435,252	325,754	247,379	257,791
Long Term Liabilities	190,850	34,065	80,036	-	-
<b>Units outstanding at year-end</b>	47,915,943	47,915,943	30,823,443	30,823,443	30,823,443
<b>Avg. number of units outstanding - basic</b>	47,915,943	36,970,464	30,823,443	30,823,443	30,823,443
<b>Avg. number of units outstanding - diluted</b>	49,720,315	36,970,464	30,823,443	30,823,443	30,823,443
<b>Per Unit - diluted</b>					
Net income per unit - basic	\$0.57	\$0.51	\$0.62	\$0.67	\$0.62
Net income per unit - diluted	\$0.55	\$0.51	\$0.62	\$0.67	\$0.62
Distributions declared per unit	\$1.00	\$0.98	\$0.98	\$0.98	\$0.94

The summary of financial information has been drawn from the audited financial statements of Northland Power Income Fund.



have similar seasonality in its sales pattern with higher electricity sales in Winter than in Summer.

Beginning with Q1 2004, net income includes interest earned on the US\$93 million senior loan receivable from PIC, dividends received from the Fund's 19% equity interest in PEC (neither of which varies materially by season), and any non-cash foreign exchange adjustments required to restate the US dollar denominated balance of the senior loan to the appropriate quarter end Canadian dollar equivalent. Net income for Q3 and Q4 2004 was negatively affected by non-cash foreign exchange adjustments of \$6.6 million and \$5.5 million, respectively.

For Canadian tax purposes, the fiscal 2004 distributions of \$1.00 per Unit are treated as 33.1% return of capital, which reduces the adjusted cost base of the Units, and 66.9% taxable as ordinary income. The tax deferral arises as the Fund's capital cost allowance and expenses reduce the Fund's income that would otherwise be taxable.

### History of Distributions

The following table includes per Unit cash distributions declared for the past three years.

<u>Month</u>	<u>Distributions Declared per Unit (\$)</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
January	0.0825	0.0800	0.0800
February	0.0825	0.0800	0.0800
March	0.0825	0.0800	0.0800
April	0.0825	0.0800	0.0800
May	0.0825	0.0800	0.0800
June	0.0825	0.0800	0.0800
July	0.0825	0.0800	0.0800
August	0.0825	0.0800	0.0800
September	0.0825	0.0800	0.0800
October	0.0825	0.0800	0.0800
November	0.0825	0.0800	0.0800
December	0.0925	0.1000	0.1000
	<b>1.0000</b>	<b>0.9800</b>	<b>0.9800</b>

## **MANAGEMENT AND ADMINISTRATION OF THE FUND**

### **ADMINISTRATION AND MANAGEMENT AGREEMENTS**

#### **Administration of the Fund**

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

The Fund has no directors or officers. The following information pertains to the board of trustees of CT. All of the issued and outstanding trust units of CT are owned by the Fund.

The CT Board has responsibility for overseeing the business of the Fund including the management of the Iroquois Falls Facility, and, following achievement of commercial operation, the management of the Mont Miller Project, and oversees the results of operations of the Kingston Facility, as well as IFPC's investments in PEC and PIC. Pursuant to unanimous shareholder agreements, the CT Board, as the governing body of CT, exercises the powers of directors in relation to both IFPC and NPIF Kingston, the general partner of NPIF Kingston L.P and Miller GP Co., the general partner of Miller LP. The CT Board consists of five trustees, two of whom are appointees of the Manager and three of whom are required under the CT Trust Indenture to be selected by Unitholders. The CT Board has delegated some of its management responsibilities to the Manager pursuant to the Iroquois Falls Management Agreement and the CT Management Agreement as described below.

#### **Management of NPIF Commercial Trust**

A management agreement was entered into between the Manager and CT as of July 1, 2003 under which the Manager is responsible for providing administrative services to, and managing the investments of, CT, which include CT's ownership (through IFPC) of the Iroquois Falls Facility, its indirect investment in KCLP, its indirect investment (through IFPC) in PEC and PIC, its investment in the Mont Miller Project and any future investments by CT, until December 31, 2021.

#### **Management of IFPC and the Iroquois Falls Facility**

The Iroquois Falls Facility is operated and managed by the Manager under a management agreement that was amended and restated effective July 1, 2003 and whose initial term ends December 31, 2021. Under the Iroquois Falls Management Agreement, the Manager assumes responsibility for all aspects of the operation, maintenance and management of

the Iroquois Falls Facility as well as natural gas supply management and sales of electricity to the wholesale market from the Iroquois Falls Facility. The Manager is required to administer the IFPC natural gas supply agreements including assuming responsibility for making all required nominations under such agreements on a timely basis and taking steps necessary to ensure that IFPC is in compliance with the natural gas supply agreements and the gas transportation agreements.

**Management of Kingston CoGen Limited Partnership**

AES Kingston ULC manages and controls KCLP's affairs and business including the scheduling of inputs and electricity production under the Kingston Power Purchase Agreement and steam production under the energy services agreement. AES Kingston ULC is responsible for all financial reporting for KCLP and operations and maintenance of the Kingston Facility under long-term management, operations and maintenance agreements with KCLP. EnCana is responsible for the management of all aspects of the natural gas supply under a fuel management agreement with KCLP.

**Management of the Panda-Brandywine Facility**

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

**Management of Miller LP and the Miller LP Facility**

After commercial operation has been achieved the Mont Miller Project will be operated and managed by the Manager under a management agreement whose initial term ends December 31, 2021. Under the management agreement, the Manager assumes responsibility for all aspects of the operation, maintenance and management of the Mont Miller Project once substantial completion of the project has occurred.

**MANAGEMENT AND ADMINISTRATION FEES**

The Manager is paid certain fees related to its on-going management and administration responsibilities to the Fund, CT, IFPC and Miller LP, and certain incentive fees related to its success at improving the profits of the Fund.

The Manager is entitled to receive a fee from the Fund and IFPC for services provided related to the operation and management of the Iroquois Falls Facility, pursuant to the 25 year Iroquois Falls Management Agreement. 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, 2004, the Manager was paid \$528,000. For the years ended December 31, 2003 and December 31, 2002, this fee was \$517,000 and \$504,000 respectively. The Manager is entitled to a fee from CT related to the administration of CT and its investments. The annual fee is payable monthly and is

adjusted annually for changes in the Consumer Price Index. During the year ended December 31, 2004, the Manager received \$61,000 in administration fees. For the year ended December 31, 2003, the Manager received \$30,000 in administration fees. The Manager received no administration fees in 2002. Commencing in 2004, the Manager began to receive from PIC a loan administration fee of US\$125,000 and a manager's fee of US\$75,000 (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, 2004, the Manager earned \$1,853,000 as operation-related incentive fees. For the years ended December 31, 2003 and December 31, 2002, the Manager earned \$1,630,000 and \$1,118,000, respectively, in operation-related incentive fees. In addition, the Manager may receive a management incentive fee equal to 25% of the amount by which the annual amount of distributable cash exceeds \$0.934 per Unit, less the amount of certain operation-related incentive fees. During the years ended December 31, 2004, December 31, 2003 and December 31, 2002, the Manager received no incentive fees relating to distributable cash in excess of \$0.934 per Unit.

During the years ended December 31, 2004 and December 31, 2003, the Manager was paid \$250,000 and \$1,500,000, respectively, related to the acquisition of the interests in PEC. An additional \$250,000 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 of the Fund.

During the year ended December 31, 2004, the Manager also earned \$550,000 related to the acquisition of the additional 25% interest in KCLP on December 15, 2004.

In connection with the acquisition and operation of the Mont Miller Project, the Manager and affiliated parties of the Manager have/will receive compensation as follows:

- (a) NPI, the parent of the Manager, received \$255,000 on its sale of the shares of Millerco and Miller GPCo to CT. Miller LP also assumed the obligation to reimburse the Miller Developer for costs incurred in the development of the Mont Miller Project to the date of acquisition including accrued management fees of \$210,000 (\$10,000 per month from November 1, 2002 to July 31, 2004);
- (b) The Miller Developer is being reimbursed by Miller LP for expenses incurred in connection with construction management services provided to Miller LP, which includes a monthly fee of \$10,000 payable to NPI in exchange for certain administrative services during the construction of the project;
- (c) The Miller Developer, as holder of Class B Subordinated Units of Miller LP, is entitled to receive, on final completion of the construction of the Mont Miller Project, a special distribution equal to the amount, if any, by which the actual costs of construction are less than the budgeted costs;

- (d) Upon successful commercial operation of the project, the Manager will be appointed manager of the Mont Miller Project and will be responsible for all management functions in return for an annual fee of \$300,000, escalating annually according to changes in the Canadian Consumer Price Index; and
- (e) The Miller Developer, as holder of Class B Subordinated Units of Miller LP, will be entitled to receive, in any year, 49.95% of the amount by which available cash flow from Miller LP exceeds \$5,786,880.

An independent committee of the Trustees unanimously determined that the payments to NPI and the Manager relating to the sale of the Mont Miller Project to the Fund, the entitlement to cash flow distributions and the management fee arrangement, over the life of the Mont Miller Project are fair and reasonable from a financial point of view to the Fund, its affiliates and the Unitholders.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Reference is made to the information under the heading "Management's Discussion and Analysis" on pages 14 through 40 of the 2004 Annual Report, which is incorporated herein by reference.

### **CAPITAL STRUCTURE**

The Fund's capital consists of Units and Convertible Debentures. An unlimited number of Units are authorized and may be issued pursuant to the Fund Trust Indenture. As at December 31, 2004, the Fund had 47,915,943 Units and \$65 million of Convertible Debentures outstanding.

#### **TRUST UNITS**

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

Unitholders of record on the last business day of each month are entitled to receive cash distributions of distributable income of the Fund in respect of that month. Such distributions are made by the 15<sup>th</sup> day of the following month.

#### **Redemption Right**

Units are redeemable at any time on demand by the holders thereof upon notice to the Fund, for a price per Unit ("Redemption Price") equal to the lesser of: (i) 95% of the "market price" (as defined in the Fund Trust Indenture) of the Units on the principal market on which the Units are quoted for trading during the ten trading day period commencing immediately after the date on which the Units are surrendered for redemption; and (ii) the "closing market price" (as defined in the Fund Trust Indenture) on the principal market on which the Trust Units are quoted for trading on the date that the Units are surrendered for redemption. The Redemption Price shall be paid in cash, subject to certain limitations specified in the Fund Trust Indenture. If such limitations apply, a Unitholder is entitled to receive an in specie distribution of notes and/or units of CT, subject to any applicable regulatory approvals and applicable provisions of securities laws.

### **Meetings of Unitholders**

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

### **CONVERTIBLE DEBENTURES**

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

The Convertible Debentures bear interest from August 26, 2004 at 6.5% per annum payable semi-annually on June 30 and December 31 in each year, commencing December 31, 2004; the first payment included accrued and unpaid interest for the period from August 26, 2004 to December 31, 2004. Interest is payable based on a 365-day year.

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

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

### **Conversion Privilege**

The Debentures are convertible at the holder's option into fully-paid, non-assessable and freely tradeable Units at any time prior to 5:00 p.m. (Toronto time) on the earlier of June 30, 2011 (the "Maturity Date") and the business day immediately preceding the date specified by the Fund for redemption of the Convertible Debentures, at a conversion price of \$12.50 per Unit (the "Conversion Price"), representing a premium of approximately 10% over the closing price on the TSX on August 5, 2004, being a ratio of 80 Units per \$1,000 principal amount of Convertible Debentures.

### **Redemption and Purchase**

The Convertible Debentures may not be redeemed by the Fund on or before June 30, 2007. Thereafter, but prior to June 30, 2009, the Convertible Debentures may be redeemed at the option of the Fund, in whole at any time or in part from time to time, on not more than 60 days' and not less than 30 days' prior notice at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the Current Market Price determined on the date upon which the notice of redemption is given is at least 125% of the Conversion Price. On or after June 30, 2009 and prior to the Maturity Date, the Convertible Debentures may be redeemed by the Fund, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice.

### **Payment upon Redemption or Maturity**

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

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

### **Unit Interest Payment Election**

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

### **Priority over Unit Distributions**

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

## **MATERIAL CONTRACTS**

The Fund or its affiliates entered into a number of material contracts in 2004 in connection with the acquisition of the Mont Miller Project, the offering of Convertible Debentures by the Fund, the acquisition of an additional 25% general partner interest in KCLP and the agreements consenting to the sale of the Panda-Rosemary Facility as follows:

- (a) the CD Indenture;
- (b) the underwriting agreement, dated August 9, 2004 between the Fund, the Manager and the Underwriters;
- (c) the Miller LP Power Purchase Agreement;
- (d) the Miller Limited Partnership Agreement;
- (e) the share purchase and subscription agreement between Millerco, CT, Miller GPCo, the Miller Developer, Miller LP, NPI and 3Ci, dated August 5, 2004, pursuant to which CT acquired control of the Mont Miller Project;
- (f) the EPC Agreement;
- (g) the wind impact agreement dated August 5, 2004 between NPI, CT, the Miller Developer, Miller LP, Miller GPCo, Millerco and 3Ci to compensate Miller LP for any impact of a neighbouring wind power project (under development by 3Ci) on the forecasted electricity production of the turbines at the Mont Miller Project;
- (h) the management agreement between Miller LP and the Manager for the management of the Mont Miller Project;
- (i) the Warranty, Maintenance and Services Agreement between Miller LP and Vestas dated as of August 5, 2004;
- (j) the stock purchase agreement between IFPC and PEC providing for the purchase by IFPC of a 19% equity interest (including a 9.5% voting interest) in PEC;
- (k) the senior loan agreement between IFPC and PIC; and
- (l) the partnership interest purchase and sale agreement between Encana and NPIF Kingston L.P.

## MARKET FOR SECURITIES

The outstanding Units of the Fund are listed for trading on the Toronto Stock Exchange under the symbol NPI.UN. The table on the following page sets forth the reported high and low trading prices and trading volumes of the Units as reported by the TSX during 2004:

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<b>2004</b>			
January	\$12.32	\$11.62	2,048,332
February	13.25	11.90	2,493,395
March	13.49	12.73	1,951,637
April	13.00	11.00	2,128,536
May	11.50	10.16	1,930,392
June	12.05	10.25	1,130,953
July	12.19	11.10	783,721
August	11.78	11.02	1,675,755
September	11.90	11.25	1,382,618
October	13.17	11.65	1,428,398
November	13.23	12.50	1,247,692
December	14.28	12.73	1,240,536

The outstanding Convertible Debentures of the Fund are listed for trading on the Toronto Stock Exchange under the symbol NPI.DB. The table below sets forth the reported high and low trading prices and trading volumes of the Convertible Debentures as reported by the TSX since August 26, 2004:

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<b>2004</b>			
August 26-31	100.74	99.95	124,630
September	103.50	100.30	85,680
October	105.50	102.75	24,630
November	108.00	103.26	29,615
December	114.90	104.75	25,150

### **Stability Ratings**

Standard & Poor's Rating Service ("S&P") has developed a rating scale to assist investors in understanding the risk profile of an investment in an income trust. Through its rating scale, S&P characterizes the stability of the cash distribution stream among various income trusts. The stability ratings assess both the variability and sustainability of the cash distribution stream payable on the securities of an income trust in relation to other Canadian rated income trusts over the medium to long-term. The S&P stability rating scale provides that a rating of SR-1 signifies the highest level of sustainability in cash flow generation and the lowest level of variability in the distribution stream relative to other rated Canadian income funds, while a rating of SR-7 signifies the highest amount of inherent variability in distributions and the lowest degree of sustainability in cash flow generation. The Fund has been assigned a stability rating of SR-2 with a negative outlook by Standard & Poor's, which denotes a very high level of stability in distributions.

On September 14, 2004, Dominion Bond Rating Service Limited updated its stability rating of the Fund to STA-2 (low) under its rating system.

## **RISK FACTORS**

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

### **Contracts and Counterparties**

The amount distributed by the Fund to Unitholders is dependent upon the parties to the Fund's long-term contracts continuing to fulfill their contractual obligations. In particular, as electricity sales represent a majority of IFPC's and KCLP's revenues and all of Miller LP's revenues once it is operational, failure of OEFC or Hydro-Québec to meet their contractual obligations would have an adverse affect 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 PEPCO to meet its obligations to Panda-Brandywine, L.P. could have an adverse effect on distributions.

Both the Iroquois Falls and Kingston Power Purchase Agreements provide for certain rights of OEFC to curtail (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 KCLP's revenues but not materially affect the Fund's distributable cash.

The Ontario government enacted the *Electricity Pricing, Conservation and Supply Act, 2002*, in December 2002 and the *Electricity Restructuring Act, 2004* in December 2004, both of which may have a significant impact on Ontario's electricity markets and electricity prices and therefore on opportunities available to IFPC for sales of electricity and ancillary products outside the Iroquois Falls Power Purchase Agreement. 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 CT Board and directors of OEFC 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 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 wholesale electricity market in Ontario may expose the Fund to additional risks. The Manager has established procedures to minimize such exposure as wholesale market transactions are undertaken.

Steam sales by both the Iroquois Falls and Kingston facilities constitute a secondary source of revenue for the Fund. Abitibi-Consolidated'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-Consolidated's steam needs. Demand for steam has an impact on natural gas consumption, and unexpectedly large short-term fluctuations in steam demand increase gas consumption without a proportionate increase in steam revenue. Since May 2003, Abitibi-Consolidated has not been obligated to pay for a minimum quantity of steam under 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 material shortfalls in steam revenue.

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

KCLP has a long-term contract with INVISTA for the supply of water to the Kingston Facility from Lake Ontario through INVISTA'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, INVISTA may discontinue the supply of water and the disposal of wastewater. KCLP has the right to physically access INVISTA's pumphouse and any other equipment necessary to draw sufficient amounts of water and dispose of wastewater for the Kingston Facility.

### **Legal Contingencies**

The Fund and its subsidiaries may be named as defendants in various claims and legal actions. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management. Management does not expect the outcome of claims or potential claims to have a material adverse effect on the Fund. Details on the Fund's litigation, claims and contingencies are outlined in note 19 of the audited consolidated financial statements.

### **Qualifying Facility Status of Panda-Brandywine Facility**

If the Panda-Brandywine Facility 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 Panda-Brandywine power purchase agreement with PEPCO, steam sales agreement and project-level debt agreement for the Panda-Brandywine Facility and result in termination, penalties or acceleration of indebtedness under such agreements, plus interest. Accordingly, the ability of PIC to meet its repayment obligations under the PIC senior loan is dependent on the Panda-Brandywine Facility maintaining its 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 Iroquois Falls Power Purchase Agreement subject to a 4% minimum annual increase. The natural gas contracts, with expiration dates between 2015 and 2017, 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 for the supply of natural gas until 2017. The gas costs escalate with transportation costs on the NOVA system and a predetermined amount over the 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 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-Brandywine Facility has contracted for most of its natural gas supply and transportation services on an interruptible basis because the facility is generally dispatched as a peaking plant with the bulk of its dispatch hours occurring during the summer months when operational experience suggests that natural 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 the dispatch of the Panda-Brandywine Facility were to significantly increase, 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 the Panda-Brandywine Facility would be unavailable for dispatch, would be increased.

### **Events of Default Under KCLP, Miller LP and Panda-Brandywine Facility 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, 2004, the fair value of the interest rate swaps (the Fund's portion) was approximately \$10.6 million (2003 – \$5.5 million) which represents the amount KCLP would be required to pay to terminate the swap agreements at year end.

Miller LP entered into a credit agreement with Manufacturers Life Insurance Company on October 8, 2004. The agreement provides for funding during the construction period of the Mont Miller Project and then converting to a term loan on substantial completion of the construction and commencement of commercial operations. The credit agreement is subject to certain covenants that are conventional for a construction and term loan that, if not met, may restrict Miller LP's ability to complete the Mont Miller Project and distribute cash to its partners, including the Fund.

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

### **Operational**

The Fund's cogeneration facilities, comprising the Iroquois Falls Facility, Kingston Facility and Panda-Brandywine Facility, are subject to operational risks that could have an adverse affect on cash distributions including premature wear or failure due to defects in design, material or workmanship. These risks are partially mitigated by the proven nature of the technology and design of the facilities, the availability of critical spares on site, the gas turbine maintenance agreement with GE for the Kingston Facility which KCLP entered into with GE in December 2004, 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 a component of the monthly payment) will be reduced by 6.66% for each 1% less than 80%. No capacity payment will be paid for a month in which the Iroquois Falls Facility delivers less than 65% of the on-peak target quantities.

The Kingston Power Purchase Agreement states that if 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 4 days), the number of on-peak hours used to calculate the target generation will be reduced by the number of on-peak hours in the period of *force majeure* during that month.

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

The power purchase agreement with respect to the Mont Miller Project has no minimum or maximum production or delivery requirement and no capacity charge. See the discussion on page 51 of this Annual Information Form concerning “Variability of Wind Resource” and “Turbine Design and Local Climatic Conditions”.

### **Environmental, Health and Safety**

The Fund’s cogeneration 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 cogeneration 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 cogeneration facilities being involved from time to time in administrative and judicial proceedings relating to such matters, which could have a material adverse effect on the Fund’s business, financial condition and results of operations.

All current generating equipment at IFPC and KCLP is designed to produce NO<sub>x</sub> emissions below permitted levels. Ontario legislation that came into effect in 2004 required plants whose NO<sub>x</sub> emissions exceeded specified amounts to purchase NO credits or allowances. Installation of the new gas turbines at the Iroquois Falls Facility in 2003 reduced NO<sub>x</sub> emissions well below the specified levels and allows IFPC to sell NO credits and allowances. The Manager understands that NO<sub>x</sub> emissions from KCLP’s existing generating equipment also fall well below those specified levels which allows KCLP to sell NO allowances.

Although the Manager believes the operations of each of the cogeneration facilities are currently in material compliance with applicable environmental laws, licenses, permits and other authorizations required for the operation of the cogeneration facilities and although there are environmental monitoring and reporting systems in place with respect to all cogeneration 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 cogeneration 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 cogeneration 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 rise to a loss or liability are insured or reasonably insurable.

### **Tax Related Risks**

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

The Fund has taken the position that interest payments on the senior loan made to IFPC from 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 may not apply and some or all of the otherwise deductible interest on the senior loan could be treated as non-deductible distributions. A successful challenge by the IRS of these positions could have a materially adverse affect on distributable cash of the Fund.

### **Currency Fluctuations**

The Fund will receive future cash flows from its investment in PEC and the loan to PIC in U.S. dollars. Exchange rate fluctuations between the U.S. and the Canadian dollar may affect the cash flow of the Fund, CT or IFPC. The Fund and its subsidiaries have entered into forward foreign exchange contracts and other arrangements to manage exposures resulting from foreign exchange fluctuations for terms up to 24 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 favorable exchange rate movements and could become subject to credit risks associated with the counterparties with which it contracts.

The Fund entered into 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 US dollars at the stated amounts on a quarterly basis on each of the forward exchange contracts and options even if the PIC loan payments are not made. This would require the Fund to purchase US dollars on the open market at the relevant time.

Significant changes in the Canadian dollar to US dollar exchange rate below CAD\$1.3124: US\$1.00 could reduce expected investment income from PEC in Canadian dollars after 2006, when existing foreign exchange options expire. The average interest income for the five years after 2006 is US\$7 million per year. Based upon the exchange rate at December 31, 2004, the reduction would be \$0.8 million per year.

### **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 lock-out, the ability of IFPC to operate may be limited and its ability to generate cash for distributions may be impaired. Employees at the Kingston Facility and the Panda-Brandywine Facility are not unionized.

### **Reliance on Third Parties**

The Fund is reliant upon the Manager for the administration and management of all matters relating to the Fund. The Fund is reliant on 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-Brandywine Facility.

### **Potential Conflicts of Interest**

There may be situations in which the interests of NPI or its affiliates other than the Manager will conflict with those of IFPC, CT, NPIF Kingston L.P., Miller LP, PEC, its subsidiaries and the Unitholders. NPI and its affiliates (other than the Manager) may engage in activities similar to the current activities of IFPC, NPIF Kingston L.P., KCLP, Miller LP, PEC and its subsidiaries. NPI and its affiliates (other than the Manager) may acquire, own, manage and administer other facilities 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 NPI, its affiliates (other than the Manager) or entities managed by such parties will conflict with those of Unitholders. NPI or its affiliates (other than the Manager) may make investments in the power generation industry on its own behalf or on behalf of persons other than Unitholders. NPI or its affiliates (other than the Manager) may manage and administer such additional properties, as well as enter into other types of power-related management, advisory and investment activities. NPI has stated it will use all reasonable efforts to resolve such conflicts of interest in a manner which 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 CT 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 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 Units may deteriorate if the Fund is unable to maintain its cash distribution levels in the future, and that deterioration may be material.

### **Liability of Unitholders**

The Fund Trust Indenture provides that no Unitholder (or annuitant under a Plan of which a Unitholder acts as trustee or carrier) will be held to have any personal liability and that no resort shall be had to the private property of any Unitholder or annuitant for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of the Fund or of the Trustee. Only assets of the Fund are intended to be liable and subject to levy or execution.

The Manager intends to use all reasonable efforts to ensure that no contractual obligations are binding upon any of the Unitholders or annuitants personally. Notwithstanding the foregoing, to the extent that any claims are not satisfied by the Fund, there is a risk that a Unitholder could be held personally liable for obligations of the Fund.

On December 16, 2004, the government of Ontario enacted the *Trust Beneficiaries Liability Act, 2004* which provides that beneficiaries of a trust established under the laws of Ontario which is a reporting issuer under Ontario's securities laws are not liable for the debts or obligations of such trust incurred after the date such legislation came into effect.

### **ADDITIONAL RISKS AND UNCERTAINTIES ASSOCIATED WITH THE MONT MILLER PROJECT**

Commercial start-up of the Mont Miller Project is expected to improve the diversification of the Fund's assets and provide an additional source of stable and growing cash flows. At that time, the Fund's cash flows will be diversified over four geographically separate facilities and three different regulatory regimes. Also, the Mont Miller Project uses wind power technology, so that risks to the Fund associated with using only natural gas-fired generation will be reduced.

However, the acquisition and construction of the Mont Miller Project presents certain risks specific to this project in addition to those associated with operating the existing power plants as previously. These additional risks include:

#### **Construction Risks**

The sites where the Mont Miller Project will be constructed are currently undeveloped and there are uncertainties associated with the construction of the project. There is a risk that construction will not be completed or will be delayed or that material cost over-runs will be incurred during the construction or, once constructed, the project will not immediately perform as intended. Any delay in construction may have an adverse impact on the distributions of Miller LP and distributable cash. Under an arrangement with the Miller Developer, some of the Fund's construction risk has been mitigated, as the Miller Developer has agreed to assume certain of these risks.

**Wind Power**

The Mont Miller Project is the Fund's first venture into wind power. The Fund and the Manager have no previous experience constructing or operating wind power facilities. The Fund and the Manager also have no previous experience constructing or operating a project in Quebec.

**Reliance on Supplier**

Vestas is the supplier of the wind turbines and the construction contractor. If for any reason Vestas is unable or unwilling to fulfill its contractual obligations, distributable cash could be materially adversely affected.

**Variability of Wind Resource**

The force with which the wind will blow at the project site will vary. Although the Fund believes that the wind survey data that has been collected demonstrates that the sites will be economically viable, weather patterns could change or the historical data could prove not to accurately reflect the strength, speed and consistency of the wind in the future. If there is insufficient wind, the underlying financial projections regarding the amount of electricity to be generated by the Mont Miller Project may not be met and distributable cash could be materially adversely affected.

**Turbine Design and Local Climatic Conditions**

The 1.8 MW Vestas V80 turbines selected for the Mont Miller Project were chosen because of their advanced design and their proven ability to withstand anticipated local weather conditions. However, there can be no assurance that these turbines will be able to withstand all weather conditions that may be experienced at the site, or that extreme weather will not otherwise materially affect the production of electricity.

**Termination of Power Purchase Agreement**

Revenues of the Mont Miller Project are almost entirely dependent on the Miller LP Power Purchase Agreement. The power purchase agreement provides that Hydro-Québec may terminate the agreement if the Mont Miller Project does not begin commercial operation by April 30, 2006. If the Miller LP Power Purchase Agreement is terminated, this would have material adverse impact on the distributions of Miller LP and distributable cash would be materially adversely affected.

## **LEGAL PROCEEDINGS**

On May 10, 2004, a statement of claim was served against IFPC by Coral Energy Canada Inc. and Shell Canada Limited, one of its contracted natural gas suppliers, in the amount of \$7.6 million plus interest. The claim concerns the price paid for deliveries of natural gas in excess of the supplier's contractual obligations to IFPC during the period November 1998 to April 2002. The gas supply contract remains in effect; the Manager believes that the claim is without merit and intends to defend it vigorously.

## **BOARD OF TRUSTEES AND CORPORATE GOVERNANCE**

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

The CT Board 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 CT Board reviews the results of operations of the Kingston Facility, the Fund, and the investment in PEC and PIC, the status of the Mont Miller Project and provides advice to the Manager. Pursuant to unanimous shareholder agreements, the CT Board, as the governing body of CT, exercises the powers of directors in relation to IFPC, NPIF Kingston, the general partner of NPIF Kingston L.P and Miller GPCo, the general partner of Miller LP. The CT Board consists of five trustees, two of whom are appointed by the Manager and three of whom are selected by Unitholders. The CT Board has delegated the day-to-day management responsibilities of the Iroquois Falls Facility to the Manager under the Iroquois Falls Management Agreement which expires in 2021. The CT Board has also delegated some of its management responsibilities in relation to its indirect ownership of the Iroquois Falls Facility and Mont Miller Project, its investment in KCLP, its investment in PEC and PIC, and future investments to the Manager under the CT Management Agreement which also expires in 2021. The CT Board however, has retained the right to approve all investments and acquisitions.

The table on the following page shows the names and municipalities of residence of the CT Board, the number of issued Units owned beneficially, directly or indirectly, by them, or over which they exercise control or direction, their principal occupations, and the year they first became trustees of CT.

Name and Municipality of Residence	Positions & Offices held with CT	Principal Occupation	Year Became Trustee <sup>(1)</sup>	Number of Units Beneficially Owned Directly or Indirectly <sup>(2)</sup>
James C. Temerty <sup>(3)</sup> Toronto, Ontario	Chairman and Trustee	Chairman of Northland Power Inc. (the parent company of the Manager) previously President of Northland Power Inc.	2003	1,519,400 <sup>(4)</sup>
Pierre R. Gloutney <sup>(3), (5)</sup> Terrasse Vaudreuil, Québec	Trustee	Chairman and Chief Executive Officer, Refco Futures (Canada) Ltd.; previously also President, Refco Futures (Canada) Ltd. (investment dealer)	2003	13,137
A. Warren Moysey <sup>(5)</sup> Toronto, Ontario	Trustee	Chairman and Director of Aviva Canada Inc. and Pilot Insurance Co. (insurance companies); previously Chairman and Director, CGU Canada Ltd.	2003	1,000
F. David Rounthwaite <sup>(5)</sup> Toronto, Ontario	Trustee	Principal, Nereus Financial Inc. (investment management company); previously Partner, McCarthy Tetrault LLP (law firm)	2003	1,000
The Right Honourable John N. Turner, Q.C. <sup>(5)</sup> Toronto, Ontario	Trustee	Partner, Miller Thomson LLP (law firm)	2003	500

- Notes: (1) Prior to the reorganization that took place as of July 1, 2003, each of the Trustees had been a director of IFPC since 1997.
- (2) This information, not being within the knowledge of the Manager, has been furnished by the respective trustees individually, as of March 10, 2005. As of March 10, 2005, there were a total of 47,958,023 Units outstanding.
- (3) Nominee of the Manager.
- (4) Of these 1,519,400 Units, 736,600 Units are held directly and indirectly by Mr. Temerty, 78,000 are held by Mr. Temerty's spouse, Mrs. Louise Temerty and 704,800 Units are held by the Temerty Family Foundation which Mr. Temerty directs.
- (5) Member of the Audit Committee of NPIF Commercial Trust.

Approximately 3.2% of the Units are beneficially owned, directly or indirectly, or controlled by the trustees and senior officers of the CT, IFPC or the Manager.

The three trustees who are not appointed by the Manager are subject to annual re-election at the annual general meeting of the Fund. Pursuant to the CT Trust Indenture which

governs CT, the other two trustees will be appointed by the Manager. Mr. Temerty and Mr. Gloutney are appointees of the Manager, and Mr. Moysey, Mr. Rounthwaite and Mr. Turner are nominees of the Fund.

### ***Corporate Governance***

The Toronto Stock Exchange (the “Exchange”) requires every listed company incorporated in Canada to disclose on an annual basis its approach to corporate governance with reference to the guidelines (the “TSX Guidelines”) adopted by the Exchange. The Manager considers that the Fund and CT have conformed to the TSX Guidelines to the extent consistent with the structure of the Fund and CT and the terms of the Fund Trust Indenture, CT Trust Indenture and the agreements to which the Fund and CT are parties.

In October 2004, Canadian Securities Administrators released proposed “National Policy 58-201 Corporate Governance Guidelines” and proposed “National Instrument 58-101 Disclosure of Corporate Governance Practices”. It is expected that these guidelines and the required disclosure on governance practices will become effective later in 2005 and will replace the TSX Guidelines.

There are no directors of the Fund itself and management and administration of the Fund is performed by the Manager as the delegate of the Fund Trustee under the Fund Trust Indenture and the Administration Agreement. The CT Board advises the Manager in respect of certain of the Manager’s functions in relation to the Fund, exercises the discretionary power of the Fund Trustee under the Fund Trust Indenture and exercises approval rights in relation to the conduct of the business of the Fund. The CT Board has the power, without the approval of Unitholders, to authorize the Fund and/or CT to exercise borrowing powers, make acquisitions or investments, or dispose of investments. The Fund Trust Indenture requires Unitholder approval before any fundamental change can be made in the business of the Fund or in the structure of the Fund or CT. Unitholder approval is also required before any change is made to the rights of the Unitholders.

At the Fund’s annual meeting on May 22, 2003, Unitholders approved changes to the Fund’s governance structure to provide the CT Board, the central governing body of the Fund, with broader powers to determine the activities that may be undertaken by the Fund, consistent with the Fund’s investment objectives as an owner of diversified investments in energy-related assets and businesses and its mandate for growth and diversification. These changes to the Fund’s governance structure were implemented effective July 1, 2003.

The Manager provides management and general administrative service to CT pursuant to the CT Management Agreement. Pursuant to the CT Management Agreement, the Manager has agreed to render advice and management services to CT in connection with its indirect ownership of the Iroquois Falls Facility, investment in KCLP, investment in PEC and PIC as well as any future acquisitions or future investments by CT.

The Manager also manages all aspects of the operation, maintenance, management, gas supply management and electricity sales of IFPC pursuant to the Iroquois Falls Management Agreement. Pursuant to the IFPC Management Agreement, the Manager has agreed to render advice and management services to IFPC in connection with its day-to-day operations in a manner consistent with the policies determined from time to time by the CT Board.

The composition of the CT Board is prescribed by the CT Trust Indenture. The CT Trust Indenture provides that CT shall have five trustees, two of whom shall be appointed by the Manager and three of whom shall be nominees of the Fund elected by the Unitholders. A majority of the CT Board namely, Messrs. Gloutney, Moysey, Rounthwaite and Turner, are unrelated and independent trustees.

There are no formal education programs for new trustees but there have been no new trustees since the CT Board was established as of July 1, 2003 and all of the trustees had formerly been directors of IFPC. The Manager provides such orientation and information as individual trustees may request.

In view of the size of the CT Board and the provisions of the Administration Agreement, CT Management Agreement, and Iroquois Falls Management Agreement which establish the role of the Manager as manager of CT and of the Iroquois Falls Facility, administrator of the Fund and delegate of the Fund Trustee, the CT Board has not established a separate committee for corporate governance, but is reviewing governance matters as a committee of the whole pending certain corporate governance initiatives of Canadian Securities Administrators. Assessment of the effectiveness of the CT Board and compensation are matters dealt with by the entire Board.

The Administration Agreement, CT Management Agreement and Iroquois Falls Management Agreement provide for the appointment of an arbitrator where certain types of disputes arise under the respective agreements, including the calculation of any management incentive fee payable to the Manager pursuant to the Administration Agreement or the Iroquois Falls Management Agreement. The Iroquois Falls Management Agreement also contemplates that the Board may engage outside advisors in certain circumstances.

#### ***Audit Committee***

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

All of the members of the Audit Committee are financially literate and the CT Board has determined that all members of the Audit Committee are independent – in each case as required by Multilateral Instrument 52-110 on Audit Committees.

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

**Warren Moysey (Chair)** – Mr. Moysey is Chairman and a Director of Aviva Canada Inc. and Pilot Insurance Co.; Director of CI Covington Fund I and Covington Fund II and member of the independent advisory committee, T.D. Asset Management Inc.; Mr. Moysey has previously been CEO of several financial services companies and prior to that spent 28 years with the Canadian Imperial Bank of Commerce, becoming a senior officer and director of the bank.

**Pierre Gloutney** – Mr. Gloutney is currently Chairman and CEO of Refco Futures (Canada) Ltd. and has over 35 years of experience in the securities business. Mr. Gloutney is the chairman of the Derivatives Committee of the Investment Dealers Association. Mr. Gloutney was previously vice-chair, governor and member of the executive committee of the Montreal Stock Exchange and previously a member of the executive committee and governor of the Canadian Derivatives Clearing Corp.

**F. David Rounthwaite** – Mr. Rounthwaite is a principal at Nereus Financial Inc., an investment and asset management company specializing in structured products. Mr. Rounthwaite is also counsel at the law firm of McCarthy Tétrault LLP and a chairman and trustee of Arriscraft International Income Fund. Prior to joining Nereus Financial, Mr. Rounthwaite was a partner at McCarthy Tétrault LLP

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

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

Please refer to page 59 of this AIF for disclosure regarding fees paid by the Fund to its external auditors, Ernst & Young LLP.

**INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL  
TRANSACTIONS**

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

## AUDITORS

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

### Audit and Other Fees

For the years ended December 31, 2004 and 2003, Ernst & Young LLP were paid approximately \$243,431 and \$1,212,571 respectively, as detailed below, for services to the Fund and its wholly-owned subsidiaries.

	<b>Year-ended December 31</b>	
	<b>2004</b>	<b>2003</b>
Ernst & Young LLP		
Audit fees	\$ 208,205	\$ 1,147,656
Other Audit-related services fees	\$ -	\$ 15,500
Non-audit services – tax	\$ 18,093	\$ 36,520
All other fees	\$ 17,133	\$ 12,895
<b>Total</b>	<b>\$ 243,431</b>	<b>\$ 1,212,571</b>

In 2004, the work performed by Ernst & Young LLP and referred to under “Audit fees” included work required of the auditors in connection with the Fund’s Convertible Debenture offering in August, 2004.

In 2003, the work performed by Ernst & Young LLP and referred to under “Audit fees” included work required of the auditors in connection with the Fund’s Unit offerings in March and December, 2003.

In 2003, work performed by Ernst & Young LLP and referred to under “Other Audit-related services fees” includes work requested of the auditors in connection with the accounting for future income taxes.

In 2004 and 2003, the work performed by Ernst & Young LLP and referred to under “Non-audit services - tax” relates to tax compliance of the Fund and certain of its wholly-owned subsidiaries.

In 2004 and 2003, “All other fees” include translation services.

## TRANSFER AGENT AND REGISTRAR

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

## **ADDITIONAL INFORMATION**

Additional information relating to the Fund may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including principal holders of units, is contained in the Fund's Management Information Circular for the Annual and General Meeting of Unitholders to be held on May 13, 2005.

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

Contact: Northland Power Income Fund  
c/o Northland Power Income Fund Management Inc.  
30 St. Clair Ave. West, 17<sup>th</sup> Floor  
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## GLOSSARY OF TERMS

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

**“Abitibi-Consolidated”** means Abitibi-Consolidated Company of Canada.

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

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

**“Administrator”** means NPIFMI.

**“Annual Report”** means the Fund’s annual report for the year ended December 31, 2004.

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

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

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

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

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

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

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

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

**“EnCana”** means EnCana Corporation.

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

**“Facility Equipment Lease Agreement”** means the amended and restated lease agreement dated as of July 1, 2003 between CT and IFPC, as amended from time to time, pursuant to which CT leases the Iroquois Falls Facility Equipment to IFPC.

**“Fund”** means Northland Power Income Fund, a trust established pursuant to the laws of Ontario.

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

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

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

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

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

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

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

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

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

**“Iroquois Falls Steam Sales Agreement”** means the agreement dated October 14, 1994 which provides for the sale of steam from IFPC to Abitibi-Consolidated.

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

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

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

**“Manager”** means NPIFMI.

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

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

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

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

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

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

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

**“Mont Miller Project”** means the 54 MW wind farm project, to be located on Mont Miller near Murdochville, Quebec.

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

**“NO”** means nitric oxide, a component of NO<sub>x</sub>, for which emissions limits and a credit/allowance trading system has been established in Ontario.

**“NO<sub>x</sub>”** means nitrogen oxides, a by-product of fossil fuel electricity generation.

**“NPI”** means Northland Power Inc., a corporation amalgamated under the laws of Ontario.

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

**“NPIFMI”** means Northland Power Income Fund Management Inc., a corporation incorporated under the laws of Ontario pursuant to the *Business Corporations Act*

(Ontario) which is a wholly-owned subsidiary of Northland Power Inc., a corporation that is indirectly owned by a trustee of CT.

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

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

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

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

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

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

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

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

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

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

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

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

**“Underwriters”** means CIBC World Markets Inc., BMO Nesbitt Burns Inc., Scotia Capital Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Canaccord Capital Corporation and FirstEnergy Capital Corp., being the underwriters of the Fund’s offering of Convertible Debentures in August 2004.

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

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

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

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

**SCHEDULE “A” -  
AUDIT COMMITTEE CHARTER**

**NPIF COMMERCIAL TRUST  
(the “Trust”)**

**Purpose of the Audit Committee**

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

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

**Meetings and Procedures**

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

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

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

### **Audit Committee Responsibilities**

(i) Annual Review of Audit Committee Charter

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

(ii) The External Auditor

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

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

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

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

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

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

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

must be presented to the Audit Committee at its first scheduled meeting following such pre-approval.

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

(iv) Financial Statement Review

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

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

(v) Compliance with Laws and Regulations

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

(vi) Complaints and "Whistle Blowers"

The Audit Committee shall establish procedures for:

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

### **Composition of the Audit Committee**

(i) Number of Members

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

(ii) Financial Literacy

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

“Financially literate” means having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Fund’s financial statements.

(iii) Independence

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

### **Authority and Resources of the Audit Committee**

The Audit Committee has the authority to:

- (a) engage independent counsel and other advisors as it determines necessary to carry out its duties. For greater certainty the Audit Committee has the authority to retain, at the Trust’s expense, special legal, accounting or such other advisors, consultants or experts it deems necessary in the performance of its duties;

- (b) set and pay the compensation for any advisors employed by the Committee. The Manager, Trust, or, as may be applicable, the Fund or the Other Entities, shall at all times make adequate provisions for the payment of all fees and other compensation, approved by the Committee, to the external auditor in connection with the issuance of its audit report, or to any consultants or experts employed by the Committee;
- (c) communicate directly with the internal and external auditors; and
- (d) conduct any investigation which it considers appropriate, and to communicate directly with and have direct access to the internal and external auditor as well as officers and employees of the Trust, the Fund, the Manager and the Other Entities, as applicable.

### **Risk Management and Insurance**

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

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

Dated November 10, 2004

## APPENDIX I

### MEANING OF INDEPENDENCE

- (1) A member of an audit committee is independent if the member has no direct or indirect material relationship with the issuer.
- (2) For the purposes of subsection (1), a material relationship means a relationship which could, in the view of the issuer's board of directors, reasonably interfere with the exercise of a member's independent judgement.
- (3) Despite subsection (2), the following individuals are considered to have a material relationship with an issuer:
  - (a) an individual who is, or has been, an employee or executive officer of the issuer, unless the prescribed period has elapsed since the end of the service or employment;
  - (b) an individual whose immediate family member is, or has been, an executive officer of the issuer, unless the prescribed period has elapsed since the end of the service or employment;
  - (c) an individual who is, or has been, an affiliated entity of, a partner of, or employed by, a current or former internal or external auditor of the issuer, unless the prescribed period has elapsed since the person's relationship with the internal or external auditor, or the auditing relationship, has ended;
  - (d) an individual whose immediate family member is, or has been, an affiliated entity of, a partner of, or employed in a professional capacity by, a current or former internal or external auditor of the issuer, unless the prescribed period has elapsed since the person's relationship with the internal or external auditor, or the auditing relationship, has ended;
  - (e) an individual who is, or has been, or whose immediate family member is or has been, an executive officer of an entity if any of the issuer's current executive officers serve on the entity's compensation committee, unless the prescribed period has elapsed since the end of the service or employment;
  - (f) an individual who
    - (i) has a relationship with the issuer pursuant to which the individual may accept, directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity

as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or

- (ii) receives, or whose immediate family member receives, more than \$75,000 per year in direct compensation from the issuer, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee, unless the prescribed period has elapsed since he or she ceased to receive more than \$75,000 per year in such compensation.
  - (g) an individual who is an affiliated entity of the issuer or any of its subsidiary entities.
- (4) For the purposes of subsection (3), the prescribed period is the shorter of
- (a) the period commencing on March 30, 2004 and ending immediately prior to the determination required by subsection (3); and
  - (b) the three year period ending immediately prior to the determination required by subsection (3).
- (5) For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with an internal or external auditor if the compensation is not contingent in any way on continued service.
- (6) For the purposes of clause (3)(f), compensatory fees and direct compensation do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.
- (7) For the purposes of subclause 3(f)(i), the indirect acceptance by a person of any consulting, advisory or other compensatory fee includes acceptance of a fee by
- (a) a person's spouse, minor child or stepchild, or a child or stepchild who shares the person's home; or
  - (b) an entity in which such person is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary entity of the issuer.

- (8) Despite subsection (3), a person will not be considered to have a material relationship with the issuer solely because he or she:
- (a) has previously acted as an interim chief executive officer of the issuer, or
  - (b) acts, or has previously acted, as a chair or vice-chair of the board of directors or any board committee, other than on a full-time basis.