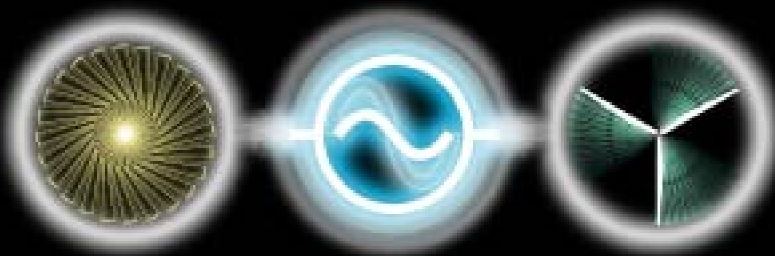
Profitability

Sustainability

Stability

Capability



The Abilities to Deliver

Durability

Northland Power Income Fund

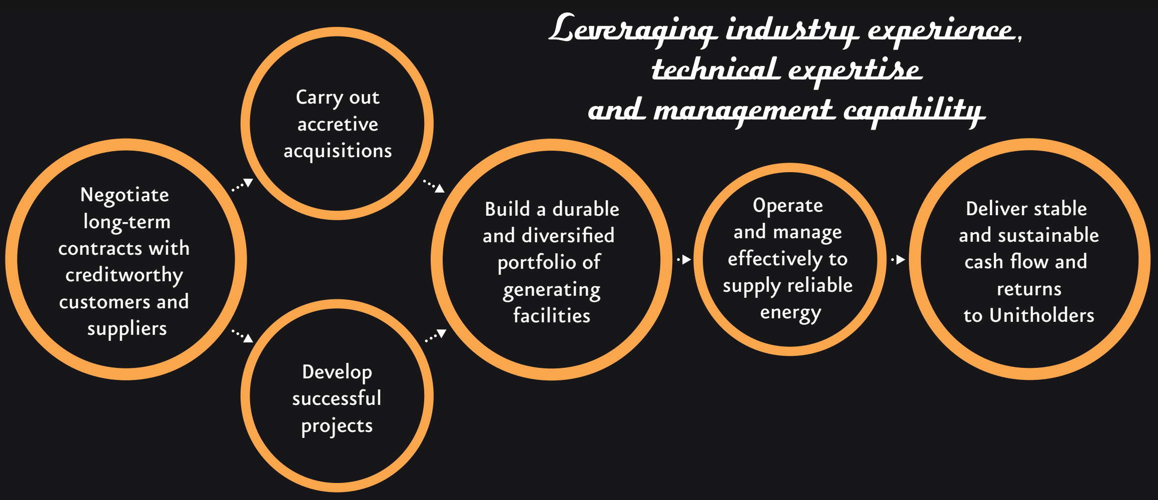
Annual Report 2004

Reliability

Adaptability

Responsibility

Northland Power Income Fund has the abilities to deliver



1. Iroquois Falls

The 120 MW natural-gas-fired combined-cycle cogeneration plant in Iroquois Falls, Ontario, supplies baseload electricity to Ontario Electricity Financial Corporation under a power purchase agreement to the year 2021.

2. Kingston

The 110 MW natural-gas-fired combined-cycle cogeneration plant near Kingston, Ontario, supplies baseload electricity to Ontario Electricity Financial Corporation under a power purchase agreement to the year 2017.

3. Brandywine

The 230 MW natural-gas- and fuel-oil-fired combined-cycle cogeneration plant in Brandywine, Maryland, supplies peak load electricity and capacity to Potomac Electric Power Company under a power purchase agreement to the year 2021.

4. Mont Miller

The 54 MW Mont Miller wind power project, with 30 wind turbines located near Murdochville, Quebec, will supply electricity to Hydro-Québec under a power purchase agreement to the year 2026.

Fund Profile

Northland Power Income Fund ("the Fund") is a Canadian, open-ended income trust that produces and sells electricity and steam under long-term contracts. The Fund owns interests in four power projects: three natural-gas-fired, combined-cycle cogeneration plants – a 120 megawatt ("MW") facility in Iroquois Falls and a 110 MW facility near Kingston, Ontario, and a 230 MW facility in Maryland – and a new 54 MW wind power project in Quebec that is expected to start up in March 2005. Since 1997, the Fund has been administered, and the Iroquois Falls facility managed, by Northland Power Income Fund Management Inc. (the "Manager"), a subsidiary of Northland Power Inc. – a leading independent power company with extensive experience in private power development and management. The Fund's units are traded on the Toronto Stock Exchange (symbol NPI.UN) and are qualified investments for RRSPs and DPSPs under the Canadian Income Tax Act.

Investment Objective and Strategy

The Fund's objective is to produce stable and sustainable levels of cash for distribution to Unitholders from assets, businesses and investments related to the production, conversion, transmission, distribution, purchase and sale of electricity and other forms of energy, energy-related projects and fuels. The Fund intends to build on its existing base of high-quality, contracted power facilities in order to increase and diversify its cash flow stream and the long-term value of its portfolio.

Portfolio of Facilities

	Technology	Start of Operations	Capacity	Equity Ownership	Net Capacity Owned	Contribution to Distributable Cash [1]
Canada						
Iroquois Falls, Ontario	Natural-gas cogeneration	1996	120 MW	100%	120 MW	55%
Kingston, Ontario [2]	Natural-gas cogeneration	1996	110 MW	50%	55 MW	15%
Murdochville, Quebec [3]	Wind turbines	2005	54 MW	100%	54 MW	10%
United States						
Brandywine, Maryland	Cogeneration	1996	230 MW	19% [4]	44 MW	20%
Total			**514 MW**	**48%**	**273 MW**	**100%**

Note: The Fund agreed in 2004 to the sale of the 180 MW Panda-Rosemary natural-gas-fired cogeneration facility; closing of the sale occurred February 8, 2005.

(1) 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 wind farm is based on 12 months of operations.

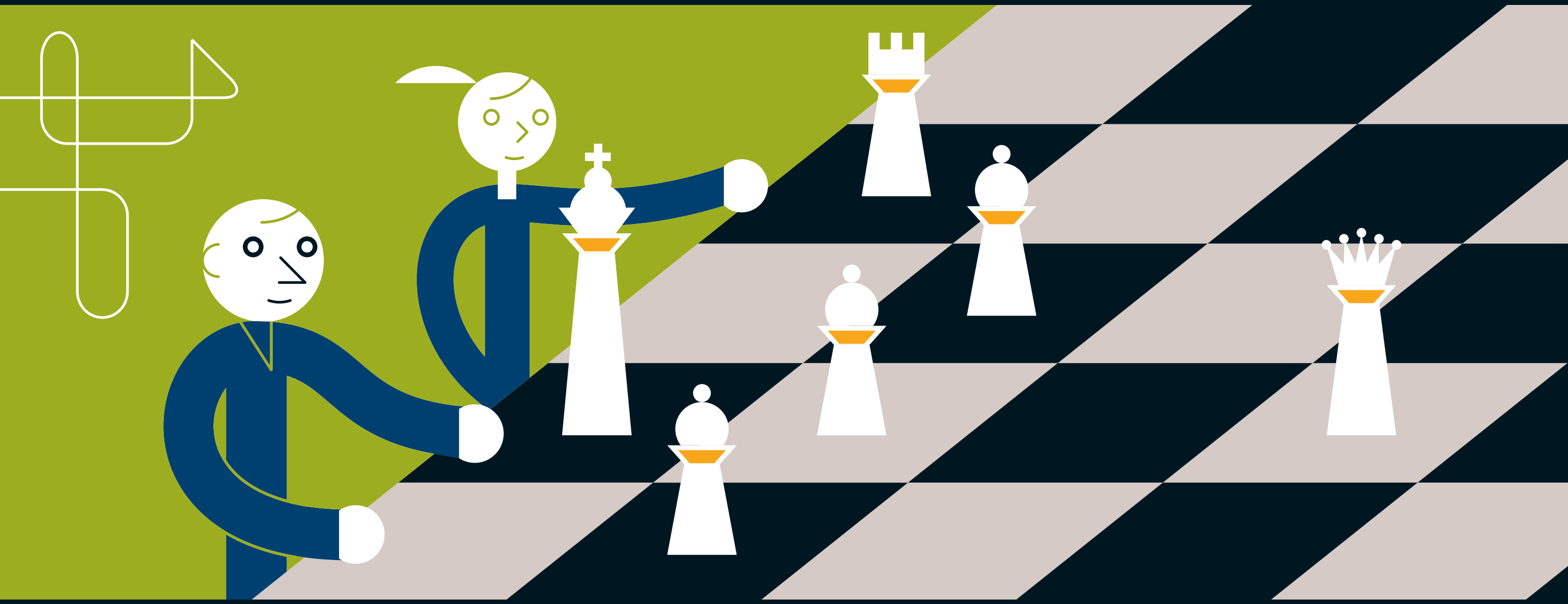
(2) The Fund increased its equity interest in the facility to 50% on December 15, 2004.

(3) The Mont Miller wind farm is scheduled to begin operation in March 2005.

(4) 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) to a subsidiary of Panda Energy Corporation that indirectly owns the Brandywine facility.

Abilities to deliver

The Fund has the abilities to invest astutely in energy projects, to manage them prudently and to deliver consistent cash flow and attractive returns.



Highlights of 2004

Net income increased 44% and distributable cash 47% over 2003

Cash distributions to Unitholders rose $0.02 per unit to $1.00

Acquired and financed $95 million Mont Miller wind power project in Quebec – further diversifying the Fund's portfolio and income, geographically and by technology

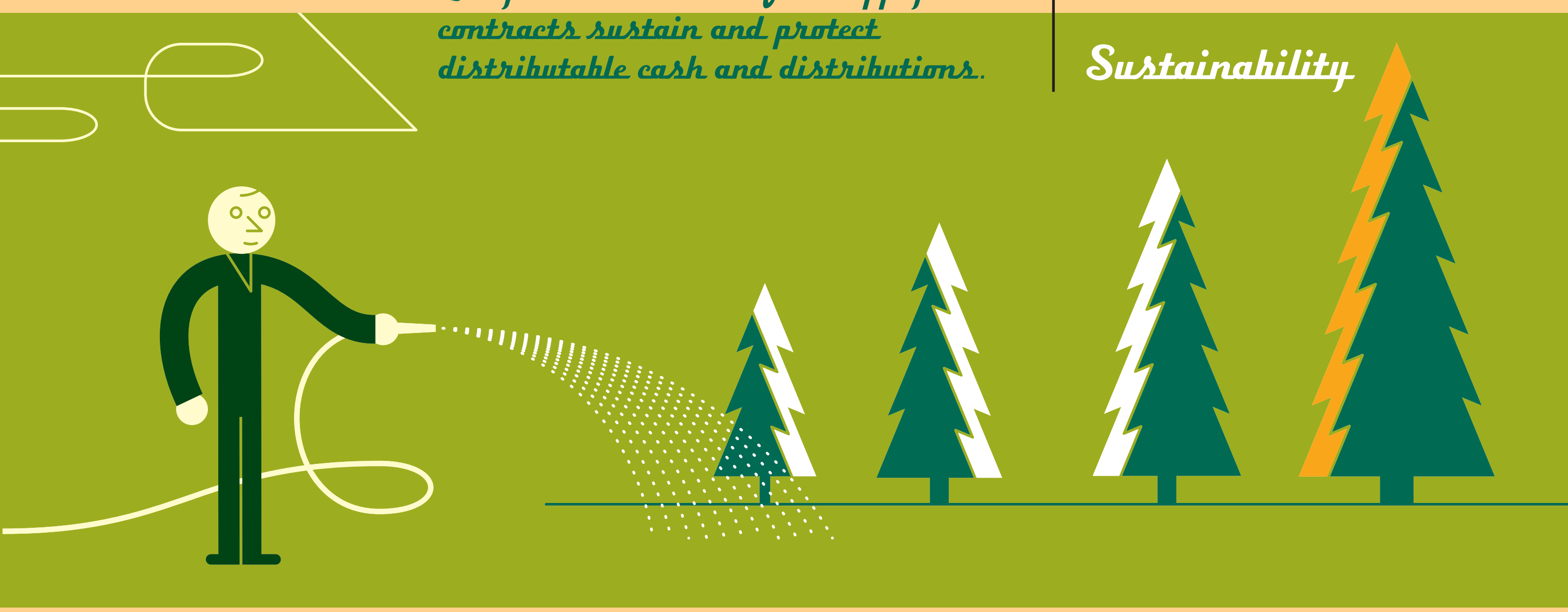
Acquired additional 25% interest in Kingston cogeneration plant for $36.5 million

Panda-Rosemary cogeneration plant in North Carolina sold – Fund received US$23.7 million at closing February 8, 2005

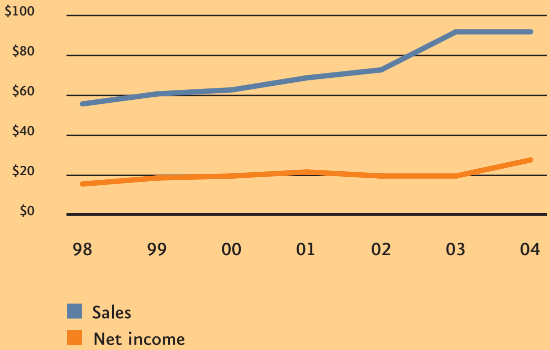
Unit price at year-end was $14.06 per unit – producing a return on investment to Unitholders of 29% in 2004

Long-term sales and fuel supply contracts sustain and protect distributable cash and distributions.

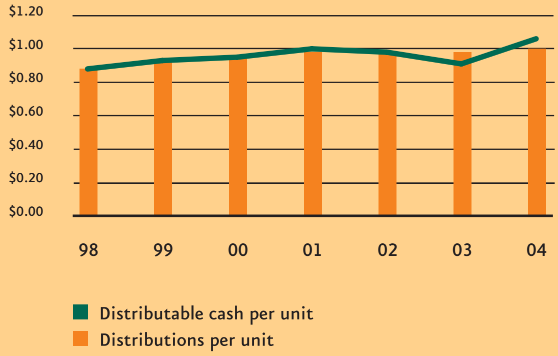
Sustainability



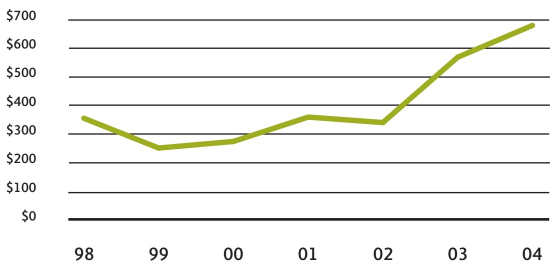
Sales and net income In millions



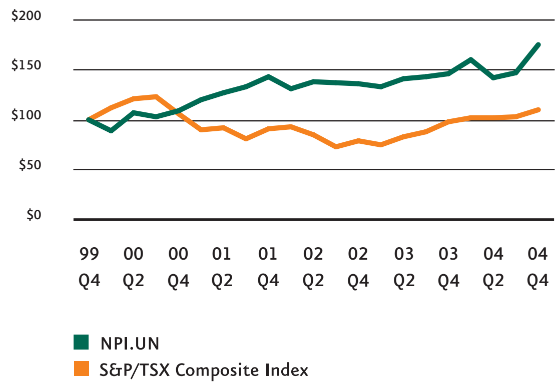
Distributable cash and distributions per unit In dollars



Year-end market capitalization In millions



NPI.UN versus S&P/TSX Composite Index



The Fund's power generation investments have produced dependable and growing profits for Unitholders.

Profitability

Highlights

Years ended December 31, in millions of dollars, except per unit information

	2004	2003	2002
Sales	**90.9**	91.1	72.3
Net income	**27.1**	18.8	19.2
Distributable cash	**50.8**	34.5	30.3
Distributions to Unitholders	**47.9**	36.9	30.2
Year-end market capitalization	**673.7**	567.3	339.1
Distributable cash per unit	**1.06**	0.93	0.98
Distributions per unit	**1.00**	0.98	0.98
Distribution yield (1)	**8.4%**	8.9%	8.4%
Return on investment (1)	**29%**	17%	4%

(1) Based on price at beginning of year.

Northland Power Income Fund had an outstanding year in 2004! Financial results were strong as all of the Fund's investments performed well. The Fund entered a new business sector – wind-generated power – with the acquisition of the 54 MW Mont Miller wind power project in Quebec. The Fund doubled its interest in the Kingston facility to 50% late in the year and announced that the Panda-Rosemary plant would be sold in 2005 with advantageous terms for the Fund. Importantly, distributions to Unitholders increased to $1.00 per trust unit in 2004, compared to $0.98 last year.

In this annual report we provide a brief spotlight on trends in the electricity industry that we believe may create opportunities for the Fund over the next few years. We also highlight some of the *abilities* that have contributed to the Fund's strong performance to this point and will continue to benefit the Fund and its Unitholders in the future.

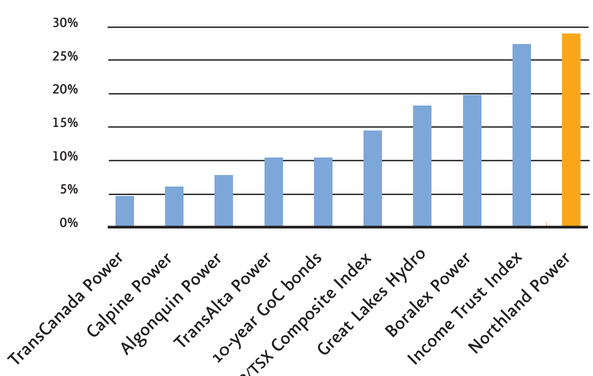
With proven technology and sure-footed management, the Fund has produced stable, secure and growing funds from operations and distributable cash.

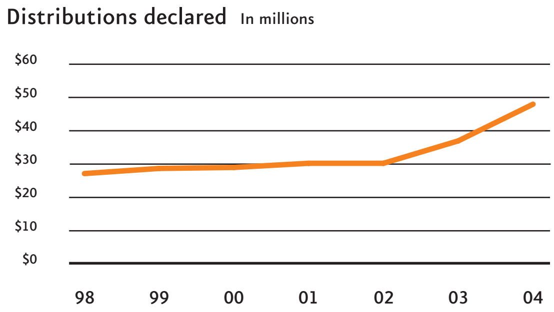
Financial Performance

The Iroquois Falls plant performed well in 2004, exceeding budget and last year's results; revenue included $450,000 received for nitric oxide (NOx) credits and allowances, supporting management's decision to replace the gas turbines last year with the latest low-emission models. The planned seven-year major overhauls of the Kingston plant's gas and steam turbines were completed in the first quarter in spite of complications caused by an unexpected gas turbine outage. Financial results from the Panda-Brandywine and Panda-Rosemary plants exceeded budget, and foreign exchange hedges shielded U.S. dollar investment income against the impact of the strengthening Canadian dollar.

The Fund's revenues from the Iroquois Falls and Kingston facilities were unchanged from 2003, while net income increased by 44% to $27 million due to the contribution of investment income from the Panda Energy Corporation ("PEC") investment and senior unsecured loan to PEC's subsidiary. Distributable cash totalled $51 million, compared to $34 million in 2003,

2004 Total return performance





full reinvestment of distributions, was 184%, or a compound annual average of 17%. In 2004, the Fund slightly outperformed the Income Trust Index in terms of total return and, by a much larger margin, outperformed its six closest peers in the power trust sector, as well as the S&P/TSX Composite Index and 10-year Government of Canada bonds.

Through its capable and knowledgeable management, the Fund has the benefit of more than 15 years experience in developing, owning, acquiring and operating power generation facilities.

while distributable cash per unit rose $0.13, or 14%, to $1.06, confirming our success in profitably deploying the capital raised last year.

The Fund is the oldest of the power income trusts, being about to enter its ninth year of operations as one of Canada's most respected trusts. When the Fund was established in 1997, the income trust structure was novel and the universe of Canadian business income trusts (excluding royalty trusts and REITs) consisted of 27 issuers with an aggregate market capitalization of approximately $10 billion. At the beginning of 2005, there are now 144 business trusts in Canada, representing a market capitalization of about $76 billion. During that time period, the market capitalization of the Fund increased from $308 million to $674 million, the Fund successfully completed three public offerings of units and convertible debentures, and the number of power generation projects in its portfolio increased from one to five. The total return as of December 31, 2004, to Unitholders who invested at the Fund's initial public offering in 1997, assuming

Investment Activities

In August 2004 the Fund acquired the 54 MW Mont Miller wind power project, including its 21-year power purchase agreement to deliver electricity to Hydro-Québec. In spite of challenges presented to the contractor by adverse winter weather, startup is on track for March 2005 and the Fund's construction costs will be unaffected. The project is being funded with the combination of a $40 million construction and term loan provided by Manufacturers Life Insurance Company and the majority of the proceeds from the Fund's $65 million issue of convertible unsecured subordinated debentures in August 2004.

In December 2004 the Fund purchased an additional 25% of Kingston CoGen Limited Partnership for $36.5 million, thereby increasing its ownership interest to 50% in a facility that we know well. The purchase was funded by drawing against the Fund's acquisition line of credit.

Late in 2003 the Fund invested approximately US$6 million in PEC and loaned US$93 million to PEC's subsidiary to give the Fund an indirect interest in the Panda-Brandywine and Panda-Rosemary cogeneration plants. During the fourth quarter of 2004, PEC entered into an agreement to sell the Panda-Rosemary power plant. At the closing of the sale on February 8, 2005, to Dominion Virginia Power, the Fund received prepayment of approximately 20% (US$19 million) of its loan and payment of fees and dividends totalling approximately US$4.8 million. Cash generated by the Panda-Brandywine plant will support future debt service payments on the outstanding balance of the loan; the interest rate increased by 0.4% to 10.9% after February 8, 2005, for the remainder of its term. The Panda-Rosemary transaction is accretive to the Fund and reduces the Fund's exposure to exchange rate fluctuations.

Competitive Strengths

The Fund has consistently delivered stable and sustainable distributions to Unitholders since its inception almost eight years ago. The Fund benefits from competitive strengths within the independent power generation industry and within the income trust sector. Independent investment analysts and others have cited the following advantages:

- The Fund sells an **essential product,** electricity, for which demand is growing, the price is inelastic and there is a need for new supply in many locales.
- The Fund's electricity sales are secured almost entirely under **long-term power purchase agreements** that, in combination with long-term natural-gas supply contracts for the cogeneration facilities, assure profitability.
- The Fund's assets are **strategically located, long-lived, efficient and environment-friendly** with predictable future requirements for maintenance and capital.
- Governments and load-serving utilities where the Fund operates are **encouraging electricity generation investment** by signing new long-term power purchase agreements.
- Northland Power Inc., the parent company of the Fund's Manager, has been an **industry leader in developing and operating safe, clean, economical power projects since 1988;** its professionals are entrepreneurial and forward-looking, while also being risk-averse.
- As a developer of power projects, Northland Power Inc. is uniquely qualified to provide a **knowledgeable and disciplined assessment** of the risks and opportunities related to acquisitions and investments that the Fund may be considering.
- The Fund's relationship with Northland Power Inc. provides it with **opportunities to participate in greenfield development projects,** such as the Mont Miller wind project, which generally provide higher returns than acquisitions of existing projects.
- The Fund's **low cost of capital** allows it to compete effectively for assets that meet its investment objectives.

Challenges and Opportunities

There will always be challenges related to operating plants using sophisticated technologies and, with Mont Miller, managing a business with variable wind as a "fuel". The Fund's physical assets will need to be renewed, upgraded and replaced over time. Expiring sales and fuel contracts will have to be extended or replaced on the best available terms. We will continue to manage the Fund's businesses prudently, maximizing the value of existing resources and ensuring that its plants are operated safely and in an environmentally responsible manner, with the long-term interests of Unitholders in mind.

We expect that the need to attract investment to the electricity sector will provide opportunities for further growth by the Fund. Promotion of environment-friendly technologies will encourage more investment in "green energy," such as wind power. We anticipate that growing demand for natural gas in North America will underpin high prices for this needed and non-renewable fuel, so we will seek investments that use natural gas effectively, either through high-efficiency cogeneration or through supplying predominantly peak electricity needs when demand is highest and the electricity has the greatest value.

The Fund and Northland Power Inc. have been awarded the opportunity to enter into long-term power purchase agreements with Hydro-Québec for two wind power projects totalling 250 MW in the Gaspésie region of Quebec. Management expects that the Fund will become a significant investor in both projects. Any investment by the Fund is subject to the review and approval of an independent committee of the trustees of NPIF Commercial Trust.

While the Fund has made a significant push into wind power in Quebec, we will continue to seek and evaluate investments in other geographic areas and in other technologies in order to continue to diversify the Fund's portfolio of assets. The Fund's prudently levered balance sheet, significant credit facilities and low funding cost should provide it with the financial flexibility to raise capital as required for accretive acquisitions and investments.

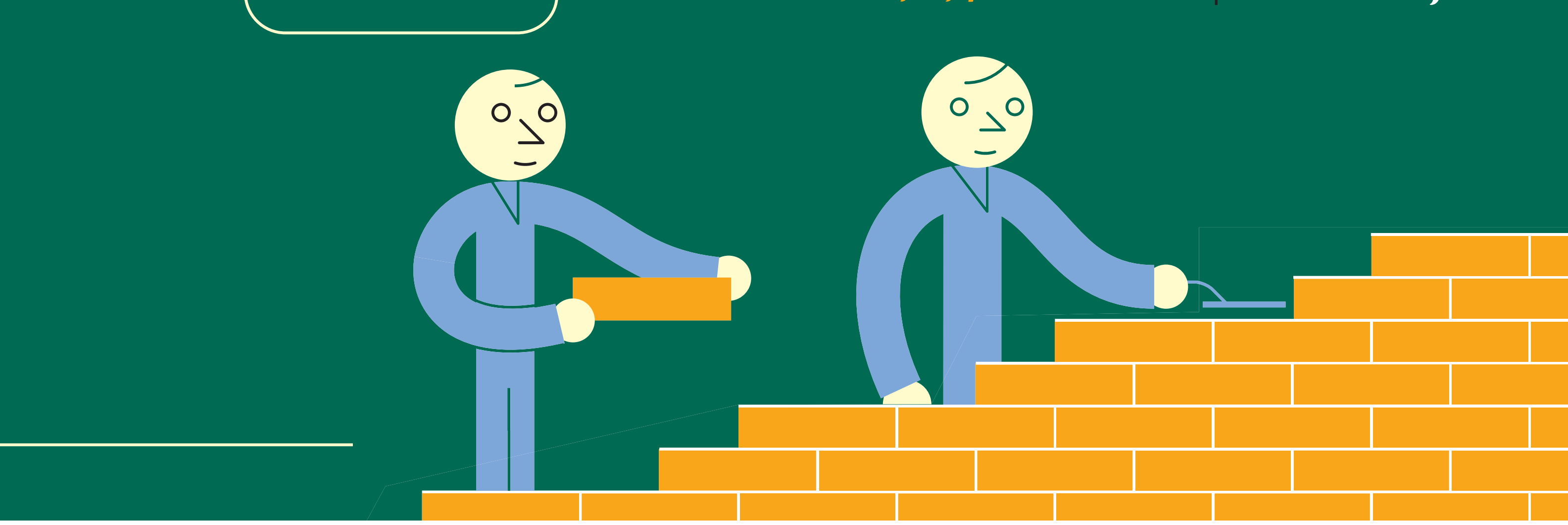
Outlook

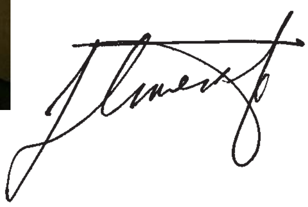
The Fund's financial results were strong in 2004 with distributable cash comfortably exceeding the amount of distributions to Unitholders. Financial results in 2005 will include the accretive impact of the Fund's increased investment in the Kingston Facility, the favourable impact of the sale of the Panda-Rosemary project and revenue and profits from the Mont Miller project after its startup, which is scheduled for March 2005. We expect that distributions to Unitholders in 2005 will increase to $1.02 per unit, up from $1.00 in 2004.

On behalf of the Fund's Trustees and Manager, we thank all of you – our stakeholders – for your confidence and support. Rest assured that we will continue to strive to manage the Fund in your best long-term interests.

The Fund's durable long-life assets use proven technologies, and capital maintenance costs are highly predictable.

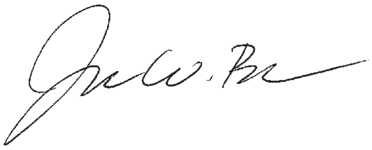
Durability





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

February 21, 2005



John W. Brace
President and CEO, Northland Power Income Fund Management Inc.

February 21, 2005

These are "interesting" times in the power industry, a critical part of the country's economy. There are a number of developments afoot in the industry segments in which the Fund operates that we expect will provide exciting opportunities for growth and investment.

Electricity Market Trends

In its most recent forecasts of Canadian energy supply and demand, the National Energy Board has projected an average annual increase of 2.3% in electricity consumption to the year 2013. In Ontario, increasing demand is expected to necessitate 10,000 MW of new generation capacity over the next decade, while meeting the Ontario government's pledge to retire 7,500 MW of coal-fired generation by 2007 will require about 25% of the province's current capacity to be replaced.

Faced with the enormous costs of building new generating facilities and replacing old ones, provincial governments and utilities are turning increasingly to the private sector to supply and finance new generation capacity. The governments of Ontario, Quebec and British Columbia all issued requests for proposals in 2004 that led, or will lead, to the execution of new long-term power purchase agreements for the supply of electricity from non-utility-owned plants.

In many areas there is increasing resistance by local residents to the construction of large-scale power generation plants and transmission lines. Smart energy solutions are required more than ever. A significant amount of new capacity is likely to come from efficient natural-gas-fired plants. Under public pressure to produce green power, the governments of Canada and most provinces are supporting a substantial movement toward renewable energy.

The Fund's focus, its existing investments and the experience and expertise of its management are in natural-gas-fired cogeneration and distributed generation plants located close to demand and in renewable energy, including wind power. These are precisely the industry segments where future opportunities appear to be the greatest.

Distributed Power Generation

There are significant disadvantages to the old model of very large centralized nuclear or coal-fired power plants located far from populated areas and connected to users through lengthy and unpopular high-voltage power transmission lines. Distributed generation consists of relatively smaller power generation facilities, including cogeneration plants that are located close to points of energy consumption.

Distributed generation is gaining broad interest for many sound reasons. Distributed generation reduces power delivery inefficiencies and costs related to transmission losses and congestion on transmission interfaces. It can improve electricity system reliability as numerous, smaller plants provide greater collective grid stability and are better able to withstand major, widespread outages, while the consequences of an individual plant failure are smaller and therefore easier and faster to fix. It can decrease the environmental impacts of power generation by improving the efficiency of use of non-renewable fossil fuels, thereby cutting carbon dioxide emissions, with potential benefits for climate change. In addition, smaller plants are inherently less susceptible to natural disaster or sabotage.

Cogeneration

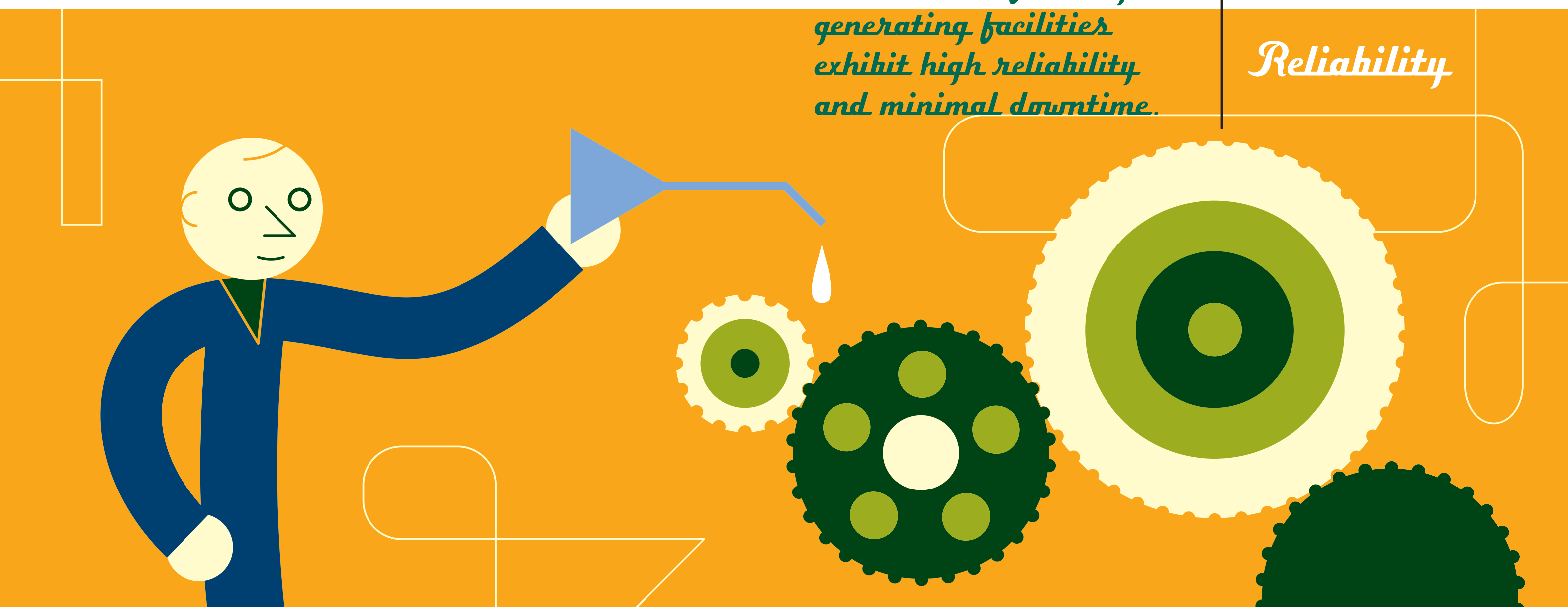
Cogeneration systems typically comprise a natural-gas-fired turbine driving an electrical generator, and a heat exchanger that recovers heat from the turbine exhaust as useful energy, usually steam, for nearby industrial or commercial operations. Combined-cycle cogeneration plants, such as those owned and/or operated by the Fund, also use the steam produced to drive a steam turbine to maximize higher-value electricity production. By recovering heat that would normally be wasted, up to 30% less fuel is consumed compared to producing electricity and heat separately. And "co-gen" is dependable – the gas turbines at all the Fund's projects operate at nearly 100% reliability. The National Energy Board is forecasting that combined-cycle cogeneration capacity will grow at an annual average rate of nearly 9% to 2013.

Natural-gas-fired cogeneration is environment-friendly. Ontario's Ministry of the Environment has set emission thresholds for certain airborne discharges from electricity generating stations and allows facilities that emit less than the threshold to sell the unused allowances. Due to the relatively clean and highly energy-efficient operation at Iroquois Falls, the Fund recorded a nitric oxide (NOx) sale with a value of $450,000 in 2004 and expects to receive more of this new source of revenue in the years to come.

Renewable Energy

No one source of electricity can supply all our needs. We Canadians must continue to diversify our sources of electricity in order to sustain our economy and environment. As the use of natural gas and other fossil fuels for power generation becomes more expensive and resistance to polluting emissions intensifies, renewable energy will become more competitive and demand will increase in response to public pressure.

The Fund's efficient and environment-friendly generating facilities exhibit high reliability and minimal downtime.



Although it blows irregularly, wind is abundant, inexhaustible, non-polluting and widely distributed. In many parts of Canada, wind generates power when we need it the most – during winter months and during daylight hours. The cost per kilowatt-hour of new, wind-generated electricity is highly dependent on the strength and consistency of the wind. In some geographic areas, wind power is already cost-competitive or even cheaper than alternatives. Since the fuel is free, with further economies of scale and technology improvements, wind power will soon become less expensive than developing new hydro, nuclear and natural-gas-fired plants in even more locations.

Wind power is the fastest-growing energy source, with capacity increasing more than 30% per year. Natural Resources Canada estimates that our country has almost 30,000 MW of developable wind resources, enough to supply 15% of Canada's electricity supply. The federal government has pledged to source 20% of its electricity from renewable resources and it has announced the quadrupling of its support for wind power development. Provinces across the country are selecting projects for new wind power capacity; more than 1,400 MW of capacity was awarded long-term power purchase agreements by provincially owned utilities in 2004 alone.

The Fund's Manager embraces the movement toward renewable energy. While renewable energy is environment-friendly and becoming increasingly accepted by the public, the fact is that it's good business. In addition, we have experience in the renewable energy field – 15 years ago, Northland Power Inc., the parent of the Fund's Manager, designed and built two facilities that used wood waste as a source of fuel. Many of our engineering, contracting and financing skills can readily be applied to wind power and other forms of renewable energy. The opportunities in wind power are vast, and management intends to make the Fund a significant player.

The Fund's Wind Power Initiatives

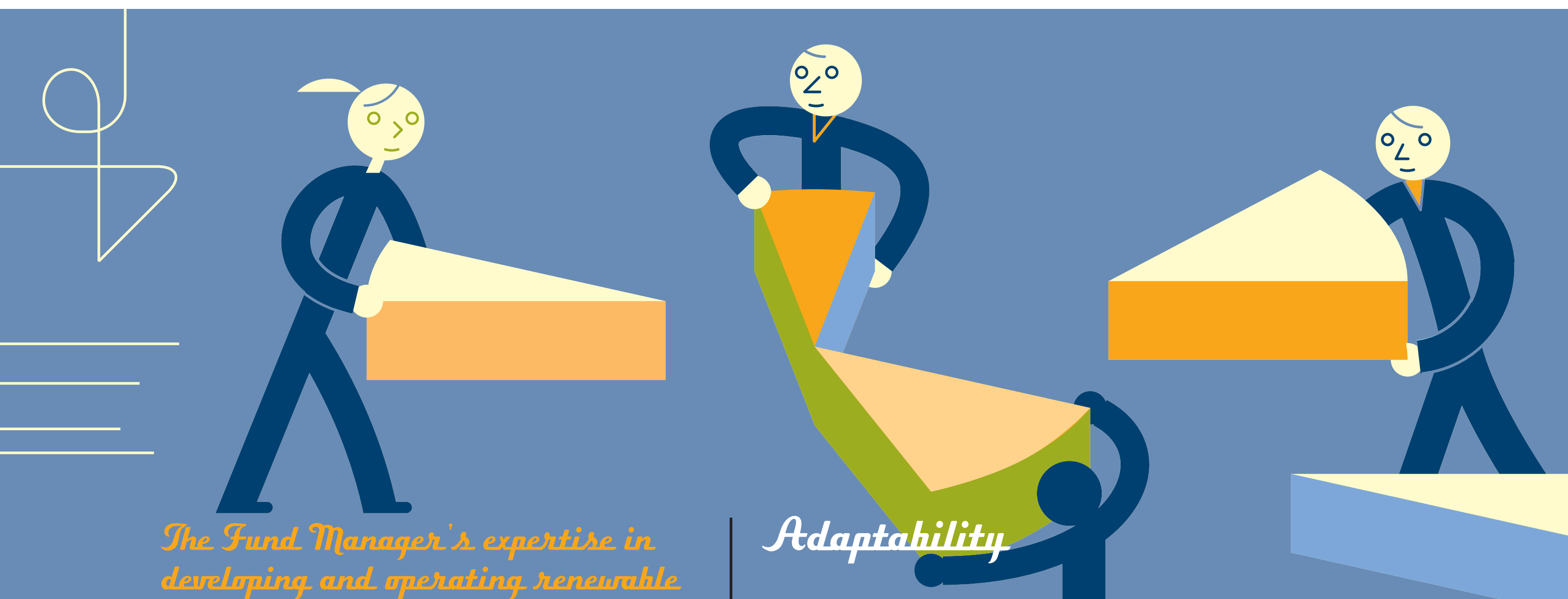
Investing in wind power diversifies the Fund's sources of electric power. Wind power is a natural fit into the

Fund's core business – generating revenues and profits from selling electricity under long-term contracts that provide assurance of stable and sustainable cash flows. Wind power facilities complement the Fund's existing portfolio of power generation plants.

The Fund's first investment in wind energy is the 54 MW Mont Miller project located on the outskirts of Murdochville, Quebec. In August 2004, the Fund committed $95 million for the acquisition and construction of the project. The project was financed through a $40 million, non-recourse construction and term loan and the majority of the proceeds of the $65 million offering of convertible unsecured subordinated debentures issued in August 2004.

The Mont Miller project consists of 30 Vestas V80 1.8 MW wind turbines. Vestas – the largest wind turbine manufacturer in the world – started constructing the project in August 2004 under a fixed-price contract and will provide maintenance services, as well as a five-year turbine warranty and performance guarantee. After the start of operations, scheduled for March 2005, the power will be sold under a 21-year power purchase agreement with Hydro-Québec. The Fund will receive 100% of project cash flow up to $5.8 million each year in order to mitigate the impact on the Fund of the natural variability of the wind and will share any excess with the developer of the project.

The Province of Quebec has been a leader in promoting wind power by granting long-term power purchase agreements through its government-owned utility, Hydro-Québec. Eastern Quebec has an excellent wind resource and is already home to more than 100 MW of wind generation capacity. The government has an explicit policy to exploit the wind potential of the Gaspésie region and attract new investment and jobs. In 2004, Hydro-Québec selected almost 1,000 MW of wind energy projects in the 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 Northland Power Inc. 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 are expected to be executed with Hydro-Québec once commercial arrangements have been finalized with the key project suppliers. Management expects that the Fund's trustees may consider investment in the first of these projects in 2006.

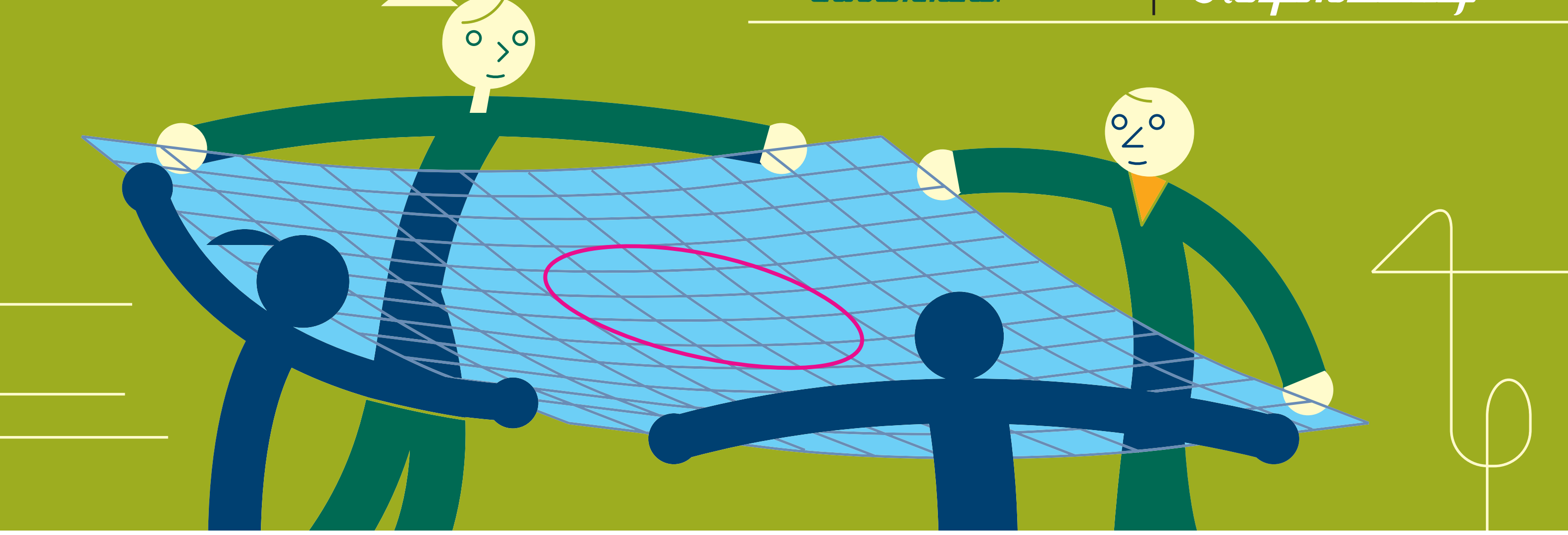


Adaptability

The Fund Manager's expertise in developing and operating renewable energy and gas turbine cogeneration plants is directly adaptable to the complementary business of wind power generation.

Responsibility

The Fund's qualified trustees and officers are fully responsible and committed to the diligent management of its assets, employees and their environment.



Corporate Governance

The Fund is governed by five knowledgeable and experienced trustees, four of whom are independent of the Fund's Manager. All have expertise relevant to the needs of the Fund. The trustees have a fiduciary responsibility to represent the interests of all Unitholders in overseeing the Fund's strategy, policies, risk management and investment decisions. They ensure that the Fund's Manager fulfills its responsibilities as set out in the management and administration agreements and they monitor payments from the Fund to the Manager to ensure that they correspond to the terms of the agreements or are conducted on arms-length terms. In 2004, a committee of the independent trustees was formed to consider the proposed investment in the Mont Miller project in which the parent of the Manager was involved as a co-developer; the trustees unanimously approved the terms of the investment after obtaining independent legal advice and a report from a professional valuation firm. The trustees exercise their duties in conformance with the requirements of Canadian securities authorities and the Toronto Stock Exchange and are closely monitoring proposed new corporate governance guidelines that may become applicable to reporting issuers such as the Fund.

Corporate Social Responsibility

Management is proud of its careful stewardship of the Fund's assets, plant employees and the environments in which we operate. Part of that stewardship entails the ongoing training of employees so that they can safely operate the Fund's high-technology facilities and also develop rewarding careers. Working with high-voltage electricity, high-pressure steam and equipment operating at high temperatures, employees are financially encouraged to continually improve their technical knowledge and accreditations. An important outcome of the training has been an outstanding safety performance at the Iroquois Falls plant, where there have been no lost-time accidents since plant startup in September 1996, or 327,000 man-hours of employment. The industry norm is one lost-time incident per 400,000 man-hours of employment.

Our environmental stewardship is demonstrated every minute that our cogeneration plants operate. In addition to meeting or exceeding all provincially regulated environmental and emission standards, the Iroquois Falls and Kingston plants have credits and allowances for sale by reason of emitting low levels of NOx, as does the Panda-Brandywine plant.

James C. Temerty
Chairman and Trustee
Chairman, Northland Power Income Fund Management Inc. (the Fund's Manager) and Northland Power Inc. (parent company of the Fund's Manager); since 1987 has managed the growth and development of Northland Power Inc. into a leading owner and operator of private power projects; chairman and major shareholder of Softchoice Corporation, a TSX-listed company; director, OMERS Capital Partners and member of the advisory council, Acuity Funds

John W. Brace
President and COO
President and CEO, Northland Power Income Fund Management Inc. and Northland Power Inc.; has been responsible for risk management, development, construction and operations of independent power facilities since 1988; previously co-owner of a water power development company; chairman and immediate past president of the Association of Power Producers of Ontario, which represents more than 95% of Ontario electricity generation capacity

Anthony F. Anderson
Chief Financial Officer
CFO, Northland Power Income Fund Management Inc. and Northland Power Inc.; has been responsible for the Fund's financial affairs since inception in 1997 and for acquisition and investment activities since 2000; involved in structuring debt and equity financings for power projects since 1989; trustee of Arriscraft International Income Fund; director of Canadian Association of Income Funds

Linda L. Bertoldi
Secretary
Partner, Borden Ladner Gervais LLP; specializes in electricity restructuring, mergers and acquisitions, and financings and serves as the chair of Borden Ladner Gervais LLP's National Electricity Group; has advised clients since 1987 concerning independent electric power project development, including structuring transactions, project finance, contract design and completion, regulatory issues, power purchase and energy sales agreements, construction contracts, operations and maintenance agreements; director of the Association of Power Producers of Ontario

Pierre R. Gloutney
Independent Trustee,
Member of Audit Committee
Chairman and CEO and previously president, Refco Futures (Canada) Ltd; has been involved in the securities business since 1968; chairman of the derivatives committee of the Investment Dealers Association; formerly 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.

A. Warren Moysey
Independent Trustee,
Chairman of Audit Committee
Chairman and director, Aviva Canada Inc. and Pilot Insurance Co.; director, Covington Fund I and Covington Fund II; member of Independent Advisory Committee T.D. Asset Management; previously CEO of several companies, including CI Mutual Funds Inc., Aetna Life Insurance Company of Canada and Central Guaranty Trust Company; spent 28 years with Canadian Imperial Bank of Commerce, obtaining extensive experience in retail banking, information technology and international banking, becoming a senior officer and director of the bank

F. David Rounthwaite
Independent Trustee,
Member of Audit Committee
Principal, Nereus Financial Inc., an investment and asset management company that specializes in structured products; counsel at McCarthy Tétrault LLP; chairman and trustee of Arriscraft International Income Fund; prior to July 2004, a partner at McCarthy Tétrault LLP, practising law concerning a wide range of electric power and energy matters, including nuclear and non-nuclear thermal energy systems, as well as cogeneration and hydro-electric projects; since 1980, involved in numerous power project financings in Canada for independent power plants

The Right Honourable
John N. Turner, Q.C.
Independent Trustee,
Member of Audit Committee
Partner, Miller Thomson LLP; previously served in the House of Commons for almost 25 years and is the only person to have represented three provinces (Quebec, Ontario and British Columbia); held the federal positions of Prime Minister, Leader of the Opposition, Solicitor General, Attorney General and Minister of Finance; practised law in Montreal, Toronto and Vancouver since 1954; Companion of the Order of Canada; director or member of advisory board of several Canadian companies

Governance: The Roles of the Trustees and the Board

As trustee, Computershare Trust Company of Canada has responsibility for the administration of the Fund. The Trustee has delegated administrative responsibility for the Fund to Northland Power Income Fund Management Inc. (the "Manager") under an administration agreement.

The Board of Trustees of NPIF Commercial Trust has responsibility for oversight of the management of the Iroquois Falls Facility, including the administration of the contracts and the operation of the business of selling electricity and steam. In addition, the Board reviews the operations of the Kingston Facility and the Fund and provides advice to the Manager. The Board consists of five trustees, four of whom are independent of the Manager. The Board has delegated the day-to-day management responsibilities to the Manager under a management agreement expiring in 2021.

Distribution and Funding Policy

It is the Fund's policy to distribute 100% of estimated cash flow to Unitholders after providing for capital reserves and any increases in working capital. Any permitted acquisitions and plant expansions would be funded by a combination of borrowings and the issuance of additional trust units.

Glossary of Terms

Abitibi	Abitibi-Consolidated Company of Canada
Fund	Northland Power Income Fund
GAAP	generally accepted accounting principles
GJ	gigajoules
IFPC	Iroquois Falls Power Corp.
Iroquois Falls Facility	plant located in Iroquois Falls, Ontario
KCLP	Kingston CoGen Limited Partnership
Kingston Facility	plant located near Kingston, Ontario
kWh	kilowatt hour
M	million
Manager	Northland Power Income Fund Management Inc.
Miller LP	Mount Miller Wind Energy Limited Partnership
Mont Miller Facility	wind farm located near Murdochville, Quebec
MW	megawatt
MWh	megawatt hour
NOx	nitric oxide
NPIFMI	Northland Power Income Fund Management Inc.
OEFC	Ontario Electricity Financial Corporation
on-peak	7:00 a.m. to 11:00 p.m. local time on weekdays, excluding public holidays designated by OEFC
PEC	Panda Energy Corporation
PIC	Panda Interfunding Company LLC, a wholly owned subsidiary of PEC
Vestas	Vestas Wind Energy Systems – Americas

The following is a discussion of the consolidated financial condition and results of operations of Northland Power Income Fund (the "Fund"). It should be read in conjunction with the audited consolidated financial statements. Additional information relating to the Fund can be found in the Annual Information Form, which is filed electronically at www.sedar.com. The Fund's financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). All dollar amounts in this Management's Discussion and Analysis ("MD&A") are in Canadian dollars unless otherwise stated.

The annual report, including this MD&A, contains forward-looking statements based on assumptions that the Manager considered reasonable at the time it was prepared on February 17, 2005. These statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the "Risks and Uncertainties" section.

Included in this MD&A are references to the Fund's distributable cash and distributable cash per unit and funds from operations before working capital changes as methods of highlighting the Fund's results and operations. Readers should be aware that distributable cash and funds from operations before working capital changes are not measures under Canadian generally accepted accounting principles and there is no standardized measure for them. Distributable cash and funds from operations before working capital changes as presented may not be comparable to similar measures presented by other income funds. Management believes these measures are widely accepted financial indicators used by investors to assess the performance of an income trust and its ability to generate cash through operations. This is especially true of the Fund, which pays out virtually all of its cash in regular distributions.

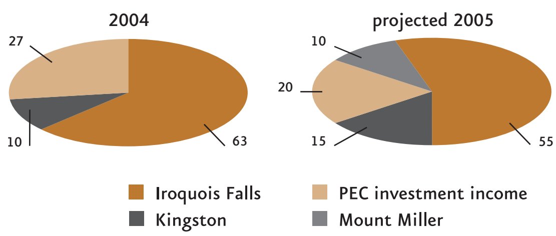
To help investors understand and evaluate investment in an income fund, income fund stability rating scales have been developed. According to Standard & Poor's, "The stability rating assesses both the volatility and sustainability of the cash distribution stream of the securities." On August 25, 2004, Standard & Poor's affirmed the Fund's SR-2 stability rating with a negative outlook, which denotes a very high level of stability in the distributions of the Fund. Dominion Bond Rating Service Limited ("DBRS") issued an unsolicited report on June 29, 2004, and attributed a stability rating of STA-2 (low) under its stability rating system. This rating was confirmed on September 14, 2004, after a full review of the Fund's investment in the Mont Miller wind project. The DBRS rating provides an indication of both the stability and sustainability of an income fund's distributable income.

This MD&A compares the Fund's 2004 financial results to the financial results for 2003. The 2004 consolidated financial statements include the accounts of the Fund and all of the accounts of Iroquois Falls Power Corp. ("IFPC"), NPIF Commercial Trust, NPIF Kingston LP, NPIF Kingston GP Inc., Mount Miller Wind Energy Limited Partnership ("Miller LP"), Mount Miller GP Inc. and Mount Miller Wind Power Energy Inc. The Fund's investment in Kingston CoGen Limited Partnership ("KCLP") increased from 25% to 50% on December 15, 2004, when a subsidiary of the Fund purchased an additional 25% general partnership interest. The consolidated financial statements of the Fund at December 31, 2004, reflect the Fund's 50% investment in KCLP. The Fund's investment in Panda Energy Corporation ("PEC") is accounted for under the cost method, whereby investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, distributions of capital and additional investments. Interest earned from the senior loan to Panda Interfunding Company LLC ("PIC"), a wholly owned subsidiary of PEC, and dividends earned on the 19% equity interest in PEC are reported as investment income.

Strategy and Key Performance Indicators

Northland Power Income Fund is a trust whose objective is to produce stable and sustainable levels of cash available for distribution to its Unitholders from energy-related businesses. At December 31, 2004, the Fund indirectly owned interests in four combined-cycle cogeneration power plants that efficiently and cleanly produce electricity and steam for sale. Two plants are located in Ontario: the 120 megawatt ("MW") Iroquois Falls Facility that has been wholly owned by the Fund since its inception in 1997 and the 110 MW Kingston Facility. On December 15, 2004, the Fund purchased for $36.5 million an additional 25% equity interest in the Kingston Facility, thereby increasing its ownership to 50%. Late in 2003, the Fund acquired 19% of PEC and extended a loan to its wholly owned subsidiary, PIC, to provide the Fund with an interest in two U.S. power plants, the 230 MW Panda-Brandywine plant located just outside Washington, D.C., and the 180 MW Panda-Rosemary plant located in North Carolina. In November 2004, an agreement was entered into to sell the Panda-Rosemary Facility on favourable terms; closing of the sale occurred February 8, 2005. At the combined-cycle plants, electricity and steam are sold under long-term contracts with creditworthy entities to ensure revenue stability. Long-term contracts also assure the supply and price of natural gas, which is the Fund's largest cost.

Sources of distributable cash Per cent



In August 2004, the Fund acquired the Mont Miller project, a 54 MW wind farm currently under construction in the Gaspésie region of Quebec. Once the Mont Miller project achieves commercial operations, it will sell all of the electricity it produces to Hydro-Québec under a 21-year power purchase agreement.

To achieve the Fund's objective of stable and sustainable levels of cash available for distribution to its Unitholders, the Fund focuses on maintaining a strong balance sheet, minimizing costs, utilizing assets efficiently and carefully managing the risk profile of the Fund. As part of this strategy, the Fund committed to invest $95 million in the 54 MW Mont Miller wind power project to improve the diversification of the Fund and provide an additional source of stable and growing cash flows. After the completion of the Mont Miller project and closing of the Panda-Rosemary sale, the Fund's cash flows will be diversified over four geographically separate facilities and three different regulatory regimes. Also, as the Mont Miller project will use turbine technology powered by wind, it will reduce the risks associated with the Fund's dependence on turbine technology powered by fossil fuels.

Long-term contracts minimize the Fund's exposure to market price fluctuations, provide a stable stream of revenues to support fixed operating costs, pay interest on debt, make capital expenditures and provide distributions to Unitholders.

Fund Management

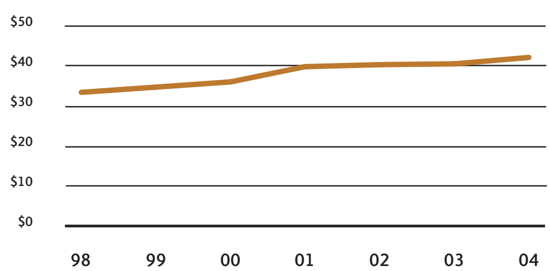
The Fund is administered and IFPC and Miller LP are managed by Northland Power Income Fund Management Inc. ("NPIFMI" or the "Manager"), a wholly owned subsidiary of Northland Power Inc., which is a leading Canadian independent power company with extensive experience in all aspects of private power development and management. Governance is provided by the five trustees of NPIF Commercial Trust (which is wholly owned by the Fund) who have primary responsibility for the oversight of the Fund and its investments, as well as providing direction to the Manager. Additional details on the relationship between the Manager and the Fund are outlined in note 15 of the audited consolidated financial statements of the Fund.

Iroquois Falls Facility

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

Steam is supplied by the Iroquois Falls Facility to the neighbouring Abitibi-Consolidated Company of Canada ("Abitibi") pulp and paper mill under a steam sales agreement that expires in 2016.

Iroquois Falls gross profit In dollars



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

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

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

The Iroquois Falls Facility is operated by NPIFMI under a management agreement expiring in 2021.

Iroquois Falls Facility

In thousands of dollars except as indicated	**2004**	2003	2002
Sales Volumes			
Electricity (MWh)	**693,851**	678,625	747,717
Steam (000 lb.)	**993,951**	1,081,551	1,088,090
Fuel consumption (000 GJ)	**6,574**	6,603	7,044
Sales			
Electricity – contracted	**58,741**	56,274	58,242
Electricity – non-contracted	**1,177**	1,605	1,759
Steam	**5,906**	6,282	6,465
Natural gas	**6,250**	7,458	5,878
Emission allowances	**450**	–	–
	72,524	71,619	72,344
Cost of sales			
Gas consumed	**26,039**	25,286	26,799
Gas resold	**4,368**	5,822	5,277
	30,407	31,108	32,076
Gross profit	**42,117**	40,511	40,268
Plant operating costs	**6,362**	7,026	6,751

Sales of $72.5 million in 2004 exceeded the prior year by $0.9 million (1%). A sale of emission allowances and an increase in contracted electricity sales more than offset reduced revenue from non-contracted electricity sales, steam sales and the resale of natural gas.

Electricity revenue under the Iroquois Falls power purchase agreement was up $2.5 million in 2004 compared to last year; 2003's production was adversely affected by downtime associated with the installation of the two new gas turbines and the new steam turbine generator stator.

Non-contracted revenue earned in 2004 from sales of electricity and operating reserves into the wholesale market totalled $1.2 million, $0.4 million lower than last year. Low wholesale market prices resulted in only 4,538 MWh of electricity being sold outside of the power purchase agreement, a drop of 8,939 MWh from last year. However, the sale of additional products to the wholesale market, namely operating reserves and congestion payments, of $0.7 million increased $0.3 million from 2003 and partially offset the lower electricity revenue.

Steam revenue fell 6% in 2004. While the average selling price of steam to Abitibi increased because of an escalation in the delivered price of natural gas, which largely determines the steam selling price under the steam sales agreement, steam revenues decreased from 2003 due to an 8% reduction in demand.

Sales of natural gas to mitigate fixed transportation costs at $6.3 million were down $1.2 million from last year, commensurate with a reduction in the volume of surplus gas, partially offset by an increase in the average market price.

The new gas turbines installed part-way through 2003 performed well and generated a new product for sale because of their greatly reduced emissions of nitric oxide (NOx). Late in 2004, the Iroquois Falls Facility made its first sale of emission allowances, when it sold approximately 300 tonnes of NOx allowances for $450,000.

At $30.4 million, the cost of natural gas in 2004 was $0.7 million lower than the prior year. The volume of gas consumed was down slightly from last year in spite of higher electricity production due to an improvement in plant efficiency related to the new turbines, while the average natural gas cost increased by 3% related to price increases under the terms of the long-term natural gas contracts. The cost of gas purchased for resale totalled $4.4 million, $1.5 million lower than in 2003 due to the lower volume of natural gas available for resale.

The Manager is responsible for managing the Iroquois Falls Facility's gas supply and resale, and bears the indirect expenses of its participation in the wholesale electricity market. During 2004, the Manager earned $1.7 million in electricity and natural gas incentive management fees, compared to $1.5 million in 2003, largely due to the higher margin earned on the resale of natural gas. Electricity and natural gas management incentive fees earned by the Manager are included in cost of sales.

Gross profit at $42.1 million increased $1.6 million from last year mainly due to increased earnings from contracted electricity sales and natural gas resale margins, plus the first-time sale of emission allowances.

Plant operating costs were $0.7 million lower than last year; costs in 2003 included a $1.1 million one-time expenditure to replace the steam turbine generator stator. Plant operating costs reflect a 3% decrease in fees paid under the GE maintenance agreement, which are payable in U.S. dollars, due to the strengthening of the Canadian dollar during 2004, despite higher electricity production and a 1% increase in the U.S. average fee per MWh.

Kingston Facility

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

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

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

EnCana Corporation is responsible for the management of all aspects of the gas supply under a fuel management agreement with KCLP. In 2004 the agreement was amended to extend its expiry to 2017, coincident with the expiry of the natural gas supply agreement. As at December 31, 2004, forward sales commitments of excess gas totalled $24.8 million – 3,550,000 gigajoules (GJ) (2003 – $18.3 million – 2,723,000 GJ).

Since the Fund's initial investment in KCLP in December 2002, KCLP has had a multi-year agreement with GE and one of its affiliates for the long-term supply of parts and specified repair services for the GE 6FA gas turbine. Late in 2004, in the ordinary course of business, 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).

Operation of the Kingston Facility is the responsibility of the other KCLP partner, AES Kingston ULC, under long-term management and operations and maintenance agreements.

In accordance with the terms of the KCLP Credit Agreement, KCLP maintains a Major Maintenance Reserve to cover the costs resulting from regular planned gas turbine maintenance inspections and overhauls. The Major Maintenance Reserve is funded and retained in a separate interest-bearing account or a Major Maintenance Reserve letter of credit is posted for an amount equal to the average anticipated major maintenance costs over the next six years in accordance with the annual operating budget. As at December 31, 2004, the Fund's 50% proportionate share of the balance in the Major Maintenance Reserve account was $1.1 million (2003 – $1.5 million).

On December 15, 2004, the Fund purchased an additional 25% interest in KCLP from EnCana Corporation at a cost of $36.5 million. The acquisition was funded through the Fund's line of credit. After the acquisition, EnCana Corporation remains responsible for the natural gas supply and its management under its agreements with KCLP.

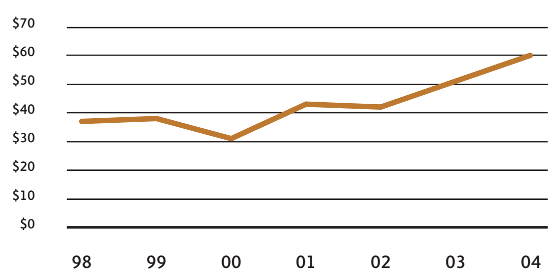
Kingston Facility

In thousands of dollars except as indicated	**2004**	2003	2002
Sales Volumes			
Electricity (MWh)	**113,961**	124,397	–
Steam (000 lb.)	**72,957**	71,911	–
Fuel consumption (000 GJ)	**1,077**	1,147	–
Sales			
Electricity – contracted	**13,927**	14,767	–
Electricity – non-contracted	**–**	–	–
Steam	**453**	441	–
Natural gas	**4,035**	4,305	–
	18,415	19,513	–
Cost of sales			
Gas consumed	**7,081**	7,087	–
Gas resold	**1,982**	2,159	–
	9,063	9,246	–
Gross profit	**9,352**	10,267	–
Plant operating costs	**2,430**	2,319	–

Major overhauls of the gas and steam turbines were scheduled to occur in February and March of 2004; these generally occur at intervals of six to eight years and were the first since the plant started up in 1996, with the next scheduled for 2010 or later. On January 28, 2004, a gas turbine part unexpectedly failed and caused significant internal damage to the machine. KCLP's insurers covered all repair and replacement costs resulting from this outage, net of the deductible, and all insurance proceeds were received during the year. As a result of this turbine incident and the scheduled major maintenance on the gas and steam turbines, electricity sales of $13.9 million were down $0.8 million (6%). The shortfall in production was partially offset by an increase in the contracted average selling price of electricity (3%).

Steam revenue at the Kingston Facility was 3% higher than last year due to an increase in both the volume of sales and the average selling price. Sales of natural gas decreased $0.3 million because the terms of Kingston CoGen's natural gas supply agreement restricted sales during the plant's major outage in the first quarter of 2004.

Cash flow from operations per MWh In dollars



The cost of natural gas was down $0.2 million from last year commensurate with lower electricity production and natural gas resales. The Kingston plant's operating costs were largely in line with 2003 as costs associated with the unscheduled and scheduled turbine major maintenance were partially offset by adjustments resulting from a review of the accounting for gas turbine repair costs, insurance proceeds and credits received from GE in connection with a new long-term gas turbine maintenance agreement.

Panda Facilities

In December 2003 the Fund, through its subsidiary IFPC, invested approximately US$99 million in PEC, an entity that indirectly owns two combined-cycle cogeneration facilities located in the U.S. 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 a backup fuel. Both facilities have two GE industrial gas turbines with heat-recovery steam generators and a steam turbine and supply steam to adjacent distilled water plants also owned indirectly by PEC. Both facilities are certified as qualifying facilities ("QFs") under U.S. federal energy legislation.

Electricity and capacity is sold under long-term power purchase agreements to regulated public utilities that afford stability and predictability to the cash flows. The power purchase agreements provide for fixed "capacity" payments that are not affected by the amount of electricity actually produced by the facility. "Energy" payments under the power purchase agreements are designed to offset the fuel and variable costs when the facilities are dispatched (i.e., requested to operate). The fuel supply is contracted under terms that integrate with the provisions of the power purchase agreements.

The 230 MW Panda-Brandywine Facility is located in Maryland, just outside Washington, D.C., and started operations in October 1996. The facility sells electrical capacity and energy pursuant to a power purchase agreement with Potomac Electric Power Company. Under the power purchase agreement, which remains in force until October 2021, a monthly payment is made for capacity and the facility must be dispatched at 99 MW for no less than 60 hours per week.

The 180 MW Panda-Rosemary Facility is located in Roanoke Rapids, North Carolina. The Panda-Rosemary Facility was sold to Dominion Virginia Power on February 8, 2005.

The Fund's US$99 million investment comprised a US$93 million unsecured senior loan to PIC, a wholly owned subsidiary of PEC; a 19% equity interest in PEC (of which 9.5% is voting) purchased for US$6 million; and an option to increase that equity participation to 49% in 2021 upon a further payment.

The 19% equity interest is expected to provide the Fund with the opportunity to participate in increased revenues from PEC and the option, if exercised, will allow the Fund to benefit from up to 49% of any terminal value. The loan bore interest in 2004 at an annual rate of 10.5% and is scheduled to be fully repaid through quarterly payments of principal and interest by November 2021. It is structured to provide principal and interest payments to the Fund in priority to any dividend payments. Interest on the loan is not expected to be subject to U.S. withholding tax, while dividends received by the Fund are subject to U.S. withholding tax.

The Fund entered into hedging arrangements to mitigate adverse changes in the U.S. dollar exchange rate that fully hedged U.S. dollar payments received in 2004.

Panda Energy Corporation

In thousands of dollars except as indicated	**2004**	2003	2002
Dividends	**860**	–	–
Interest income	**13,011**	563	–
Total investment income	**13,871**	563	–

Financial results at the Panda-Brandywine and Panda-Rosemary plants exceeded budget and met the Fund's expectations. In 2004 the Fund earned a total of $13.9 million in interest and dividends on the PEC equity investment and PIC senior loan. Investment income in 2003 included only 16 days of accrued interest as funding of the senior loan to PIC was not completed until December 15, 2003.

Due to the strengthening of the Canadian dollar during 2004, the Fund recorded an $8.7 million non-cash, foreign exchange loss on the restatement of the senior loan to the year-end U.S. dollar/Canadian dollar exchange rate. As a result of the Fund having entered into foreign exchange option contracts, interest and principal payments expected to be received in 2005 and 2006 will be minimally affected by any changes in the value of the Canadian dollar. The option contracts secure the rate of exchange in 2005 and 2006 for specified dollar amounts as follows:

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

The fair value of these option contracts at December 31, 2004, was $2.5 million favourable (2003 – $208,000 favourable). As a result of significant changes in the Canadian dollar/U.S. dollar exchange rate during 2004, investment income from PEC in Canadian dollars after 2006, when the existing foreign exchange options expire, could be lower than originally anticipated.

At the closing of the Panda-Rosemary sale on February 8, 2005, to Dominion Virginia Power, the Fund received US$18.9 million as partial prepayment of the senior loan and payment of fees and dividends totalling US$4.8 million. A further amount of US$73.3 million remained outstanding on the senior loan.

To protect against changes in the foreign exchange rate prior to the closing of the Panda-Rosemary sale, the Fund, on November 12, 2004, entered into a US$21.5 million variable-rate foreign exchange option contract that expires on May 13, 2005. The option entitles the Fund to convert the contracted U.S. dollars into Canadian dollars at a rate of 1.1907 if the actual rate at expiry is trading below that level. The rate of 1.1907 also applies if at any time prior to the expiry the actual rate exceeds 1.2614. The fair value of the variable-rate forward contract was $0.1 million unfavourable as at December 31, 2004.

Mont Miller Facility

On August 5, 2004, the Fund, through its wholly owned subsidiary NPIF Commercial Trust, acquired the Mont Miller project and committed to investing a total amount of $95 million. The project was financed through a $40 million, non-recourse construction and term loan with Manufacturers Life Insurance Company and the majority of the proceeds of the $65 million offering of convertible unsecured subordinated debentures issued in August 2004.

The Mont Miller Facility is a 54 MW wind farm currently under construction near the town of Murdochville, Quebec, in the Gaspésie region, approximately 80 kilometres west of Gaspé and 35 kilometres south of the St. Lawrence River. Construction of the facility is expected to be completed in March 2005, when commercial operations will commence.

All of the power produced by the Mont Miller Facility is contracted to be sold to Hydro-Québec under a 21-year power purchase agreement that will commence with commercial operations. The price of the power starts at $56 per MWh and increases at 1.5% per annum during the term of the agreement. There is no minimum or maximum production or delivery requirement. Miller LP will also receive a payment under the federal government's Wind Power Production Incentive program. The incentive is $10 per MWh of power produced, which is to be shared equally between Miller LP and Hydro-Québec and will be received for 10 years from the commencement of commercial operations.

The Mont Miller Facility will generate power from 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-metre towers and equipped with three blades of almost 40 metres in length. The turbines are arrayed over a territory of some 20 square kilometres on a series of ridges and mountain tops ranging from 700 to almost 900 metres in altitude. The site is on Crown land leased for 25 years from the Government of Quebec, renewable for an additional 15 years. The facility's substation is connected via a five-kilometre, dedicated power line to Hydro-Québec's nearest substation, where the power is fed into Hydro-Québec's 161-kV transmission line.

The average wind speed at the Mont Miller site has been estimated at over 8.8 metres per second. After adjusting for downtime resulting from extreme weather conditions and scheduled maintenance, among other factors, the projected net energy output is 41.7% of the plant's 54 MW capacity, or approximately 195 GWh per year according to independent wind expert Garrad Hassan and Partners Limited.

The Fund's Manager will manage operations of the Mont Miller Facility. Miller LP has entered into a five-year warranty, maintenance and service agreement with Vestas. Under the terms of this agreement, Vestas will provide all maintenance required for the wind turbines, including all labour, repairs, replacement parts and supplies. The agreement provides specific guarantees for availability (95%) and power output (95% of the turbines' rated capacity) and will come into effect once commercial operations have been successfully achieved.

Vestas, in addition to supplying the wind turbines, is designing, engineering and constructing the entire project. By the middle of February 2005, all the civil work (roadways, foundations, etc.) had been completed on site, the erection of turbines was nearly complete, the facility substation had been commissioned and the distribution system was progressing. Commercial operation is scheduled to begin in March 2005.

Under the terms of the project's power purchase agreement, the original developers, Northland Power Inc. and 3Ci Inc., have retained responsibility for overseeing the construction and commissioning of the plant and have provided cost overrun guarantees to the Fund, ensuring that the total development and construction costs will not exceed the Fund's budgeted investment in the project.

The Fund owns all of the Class A Priority Units in Miller LP, while an entity that is jointly owned by Northland Power Inc. and 3Ci Inc. owns all of the Class B Subordinated Units. Commencing with full commercial operations, the Class A Priority Units are entitled to a priority annual cumulative distribution of $5.8 million. After payment of that amount, distributions from Miller LP are shared equally between the holders of the Class A Priority Units and the Class B Subordinated Units. Upon completion of construction, the Class B Subordinated Units are entitled to a one-time special distribution based upon the amount that the actual costs of construction are less than the budgeted costs that Miller LP has agreed to pay.

Northland Power Income Fund Consolidated Results

In thousands of dollars except as indicated	2004	2003	2002
Sales Volumes			
Electricity (MWh)	**807,812**	803,022	747,717
Steam (000 lb.)	**1,066,908**	1,153,462	1,088,090
Fuel consumption (000 GJ)	**7,651**	7,750	7,044
Sales	**90,939**	91,132	72,344
Cost of sales	**39,470**	40,354	32,076
Gross profit	**51,469**	50,778	40,268
Expenses			
Plant operating costs	**8,792**	9,345	6,751
Amortization	**12,372**	15,762	11,294
Management and administration costs	**3,745**	2,970	2,001
	24,909	28,077	20,046
Investment income	**13,871**	563	–
Income from operations	**40,431**	23,264	20,222
Foreign exchange	**8,677**	15	312
Amortization of deferred charges	**321**	877	890
Interest (income)	**(265)**	(778)	(71)
Interest expense and bank fees	**3,944**	4,003	249
Income before income tax	**27,754**	19,147	18,842
Current income taxes	**91**	–	(14)
Future income taxes	**525**	339	(315)
	616	339	(329)
Net income	**27,138**	18,808	19,171

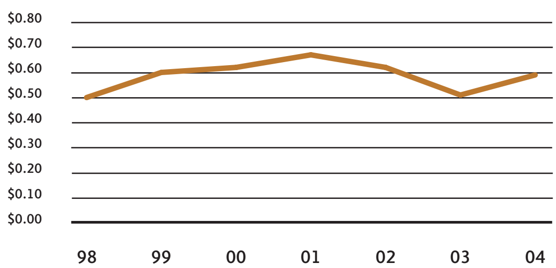
Sales at $90.9 million in 2004 were slightly lower than the prior year as a result of increased electricity sales being offset by reduced revenue earned from the resale of natural gas. Natural gas sales were down at the Kingston Facility due to resale restrictions during the first-quarter outage, while at the Iroquois Falls Facility there was a lower volume of gas available for resale to mitigate fixed transportation costs.

The cost of sales was down from last year commensurate with an improvement in plant efficiency at Iroquois Falls, lower electricity production at the Kingston plant and an overall reduction in gas resale volumes.

Plant operating costs decreased compared to the 2003 costs, which included a $1.1 million one-time expenditure to replace the steam turbine generator stator at the Iroquois Falls Facility. KCLP's plant operating costs were largely in line with 2003 as costs associated with the unscheduled and scheduled turbine major maintenance were partially offset by adjustments resulting from a review of the accounting for gas turbine repair costs, insurance proceeds and credits received from GE in connection with a new long-term gas turbine maintenance agreement. The $3.4 million decrease in amortization reflects a normal level of amortization for the year; the 2003 expense at the Iroquois Falls Facility included accelerated depreciation of the old gas turbines prior to their return to GE.

Management and administration costs were up $0.8 million over 2003 due to additional legal and regulatory costs incurred by the Fund and a $0.6 million fee to the Manager associated with acquiring the additional 25% interest in the Kingston Facility.

Net income per unit In dollars



During the year, the Fund earned $13.9 million in interest and dividends on the PEC equity investment and senior loan. A non-cash, unrealized foreign exchange loss of $8.7 million was incurred by the Fund on revaluation of the senior loan to the year-end U.S.dollar/Canadian dollar exchange rate due to the strengthening of the Canadian dollar.

Interest expense was in line with last year and largely represents interest on KCLP's long-term, non-recourse project debt and its levelization account with OEFC. A decrease in interest costs incurred by KCLP due to reductions in the outstanding loan balance was partially offset by additional interest costs incurred by the Fund accessing its acquisition line of credit twice during 2004. Interest costs associated with the Mont Miller project are being capitalized until completion of the facility. As at December 31, 2004, $1.4 million of interest related to the convertible unsecured subordinated debentures and $0.3 million of interest on the construction and term loan have been capitalized as part of the Mont Miller construction cost.

Overall, increased income from operations was augmented by a full year of interest and dividends on the PEC investment and resulted in net income in 2004 of $27.1 million exceeding the 2003 level by $8.3 million.

Convertible Unsecured Subordinated Debenture Offering

During the third quarter of 2004, the Fund sold convertible unsecured subordinated debentures to assist with the investment in and the construction of the Mont Miller project. A summary of the offering follows:

In thousands of dollars	Expected (1)	Actual
August 26, 2004, offering (2)		
Proceeds – net of costs	62,000	61,788
Funds required for Mont Miller transaction	(55,055)	(55,055)
Retained for debenture interest during construction	(2,400)	(2,400)
Funds retained for general purposes (3)	4,545	4,333

(1) As stated in the Fund's prospectus dated August 18, 2004.

(2) On August 26, 2004, the Fund closed an offering of 65,000 6.50% convertible unsecured subordinated debentures due June 30, 2011, at a price of $1,000 each, for gross proceeds of $65 million and net proceeds of approximately $61.8 million. Interest will be paid semi-annually in arrears on June 30 and December 31 in each year commencing on December 31, 2004. Proceeds from the offering, net of underwriters' fees and costs, were approximately $0.2 million less than expected as a result of higher than predicted legal and accounting costs incurred by the Fund in association with the offering.

(3) Included in funds retained for general purposes is a $2.5 million refundable deposit made to Hydro-Québec related to the Mont Miller investment. Upon successful inter-connection of the Mont Miller project, the $2.5 million deposit will be returned to Miller LP and the Fund.

Distributions to Unitholders and Distributable Cash

In thousands of dollars except as indicated otherwise	**2004**	2003 (1)	2002 (1)
Cash provided by operating activities	**47,409**	40,878	31,283
Net change in non-cash working capital	**4,162**	(4,925)	882
Funds from operations before working capital changes (2)	**51,571**	35,953	32,165
Capital expenditures	**(67,166)**	(1,496)	(19,472)
Add back: expansionary capital expenditures	**65,589**	757	19,385
Cash reserve drawdown	**956**	107	80
Kingston CoGen Limited Partnership repayment of debt – net	**(961)**	(754)	–
Credit facility costs	**–**	–	(1,767)
Funds set aside for future maintenance	**(87)**	(85)	(88)
Receipts of principal on senior loan	**941**	–	–
Distributable cash (2)	**50,843**	34,482	30,303
Distributions declared to Unitholders	**47,916**	36,926	30,207
Average number of trust units – basic (thousands of units)	**47,916**	36,970	30,823
Per unit ($/unit)			
Funds from operations before working capital changes	**$1.08**	$0.97	$1.04
Distributable cash	**$1.06**	$0.93	$0.98
Distributions declared to Unitholders	**$1.00**	$0.98	$0.98

(1) Comparative calculations for 2003 and 2002 have been adjusted to reflect the 2004 calculations that Management believes are more consistent with the methodology used by financial analysts and others to determine the amount of "distributable cash" and similar non-GAAP measures, such as "free cash flow," for income trusts.

(2) Distributable cash and funds from operations before working capital changes are not measures under GAAP and there is no standardized measure of distributable cash and funds from operations before working capital changes. Distributable cash and funds from operations before working capital changes, as presented, may not be comparable to similar measures presented by other income funds. Management believes that these measures are widely accepted financial indicators used by investors to assess the performance of an income trust and its ability to generate cash through operations. This is especially true of the Fund, which pays out virtually all of its cash in regular distributions.

Funds from operations before changes in working capital of $51.6 million exceeded the 2003 level by $15.6 million due to a combination of higher net income and an increase in the impact of non-cash items; largely, the $8.7 million non-cash foreign exchange charge related to the PIC senior loan. Distributable cash of $50.8 increased $16.4 million largely due to the investment income earned for a full year on the PEC investment. Distributable cash per basic unit of $1.06 exceeded distributions declared to Unitholders by $0.06 per unit.

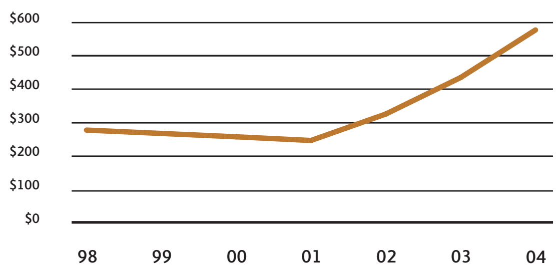
Distributions declared to Unitholders for 2004 totalled $47.9 million or $1.00 per unit, up $11.0 million in total or $0.02 per unit.

Liquidity and Capital Resources

In thousands of dollars except as indicated	**2004**	2003	2002
Cash and cash equivalents	**18,617**	12,808	2,465
Total assets	**575,687**	435,252	325,754
Total long-term liabilities	**190,850**	34,065	80,036

Cash and cash equivalents of $18.6 million have increased by $5.8 million since December 31, 2003, due to a combination of $47.4 million in cash generated by operations and $72.9 million provided by financing activities partially offset by $114.5 million used for investment purposes. Reducing cash from operations was a $4.2 million increase in working capital from IFPC and NPIF Commercial Trust due to the timing of the receivables and payables.

Assets In millions



The $72.9 million in cash generated by financing activities was the result of the Fund's convertible unsecured subordinated debenture offering, the establishment of the construction and term loan at Miller LP and accessing the acquisition line of credit over year-end for the KCLP acquisition, partially offset by distributions to Unitholders. Combined, this resulted in the Fund's long-term liabilities increasing by $125.3 million. The remaining increase in the Fund's long-term liabilities comprised an additional 25% of KCLP's long-term debt as a result of the December 15, 2004, acquisition of a further 25% in KCLP.

During 2004, the Fund used $114.5 million in cash for investment purposes. This comprised a net $32.6 million investment in KCLP; a $2.5 million investment in Mont Miller, $67.2 million of capital asset purchases and $2.6 million in deferred charges associated primarily with the Mont Miller project; and a $10.7 million increase in working capital at Miller LP. Miller LP working capital comprised GST and QST refunds receivable from the federal and Quebec governments, a $2.5 million prepaid deposit to Hydro-Québec and a credit note receivable from Vestas. Principal repayments on the senior loan receivable from PIC partially offset the uses of cash. These investment activities and the increase in working capital accounted for the increase in total assets of $140.0 million from 2003. As a result of the investment in KCLP on December 15, 2004, the Fund's consolidated assets in 2004 included 50% of KCLP's assets, compared to 25% in 2003. The increase in total assets was partially offset by the amortization of assets, the receipt of principal payments on the PIC senior loan and its revaluation to Canadian dollars at year-end.

The Fund and its subsidiary, IFPC, have a line of credit totalling $95 million consisting of a $7.5 million revolving letter of credit facility used in meeting obligations under the Iroquois Falls TransCanada PipeLines Limited contract, a $5 million revolving operating line of credit to be used by IFPC for general corporate purposes and an $82.5 million facility to assist in the funding of capital expenditures and investments. As of December 31, 2004, a letter of credit for $7.5 million was outstanding, and $37.3 million was borrowed under the acquisition line of credit as a result of the acquisition of the additional 25% equity interest in KCLP on December 15, 2004. There were no borrowings under the operating line of credit.

KCLP has in place long-term, non-recourse project financing in the amount of $107 million with a syndicate of banks. For accounting purposes, the Fund's proportionate share of $53.5 million is consolidated in the Fund's consolidated balance sheet. The interest rate has been fixed through interest-rate hedges on the outstanding loan balance. The bank financing is fully amortized over the term of the Kingston power purchase agreement. Security under the credit agreement is limited to the assets of KCLP and an assignment of the partners' ownership interest in KCLP.

The Fund's proportionate share of KCLP's outstanding balance on its levelization account with OEFC was $15.8 million. Interest is accrued at a rate related directly to the interest rate on long-term Government of Canada bonds. The levelization account balance is expected to be repaid in its entirety over the term of the Kingston power purchase agreement.

Miller LP has in place a credit agreement with Manufacturers Life Insurance Company for a $40 million construction and term loan. The agreement calls for funding during the construction period and conversion to a term loan on substantial completion of the construction and commencement of commercial operations. Interest is established at a rate based upon the long-term bond yields in effect at the time of the various drawdowns. The loan terms require only interest payments until December 31, 2005, and thereafter quarterly payments of principal and interest until the loan is fully repaid at maturity on December 31, 2025, prior to the expiration of the power purchase agreement with Hydro-Québec. As at December 31, 2004, $23.0 million had been drawn on the construction loan at an average interest rate of 6.57%, and $290,000 in interest had been incurred. Interest is capitalized during construction and included in construction in progress. Through the credit agreement with Manufacturers Life Insurance Company and the investment in Miller LP by NPIF Commercial Trust, there are adequate capital resources available to fund future commitments. Under an arrangement with the developer, Miller LP's construction risks have been largely mitigated, as the developer has agreed to assume these risks.

The Fund, IFPC, Miller LP and KCLP are in compliance with all debt covenants in respect of the credit facility and credit agreements, respectively.

Quarterly Financial Information

$ millions except per trust unit amounts	2004	Q1	Q2	Q3	Q4	Total
Sales		**23.4**	**21.4**	**20.9**	**25.2**	**90.9**
Net income		**10.6**	**10.1**	**1.0**	**5.4**	**27.1**
Net income per unit – basic		**0.222**	**0.211**	**0.021**	**0.112**	**0.566**
Net income per unit – diluted		**0.222**	**0.211**	**0.021**	**0.102**	**0.548**
Distributable cash per unit		**0.262**	**0.234**	**0.212**	**0.353**	**1.061**
Distributions declared per unit		**0.2475**	**0.2475**	**0.2475**	**0.2570**	**1.000**
	2003	Q1	Q2	Q3	Q4	Total
Sales		24.6	20.1	21.9	24.5	91.1
Net income		6.7	2.8	4.1	5.2	18.8
Net income per unit – basic		0.202	0.073	0.109	0.132	0.509
Net income per unit – diluted		0.202	0.073	0.109	0.132	0.509
Distributable cash per unit		0.302	0.170	0.179	0.285	0.933
Distributions declared per unit		0.2400	0.2400	0.2400	0.2600	0.9800

The majority of the Fund's sales and net income are generated by the Iroquois Falls Facility. Iroquois Falls' sales are seasonal, as OEFC has contracted for more electricity and pays a higher price in winter than in summer. In addition, steam sales to Abitibi tend to be higher in winter than in the summer as more steam is required for heating purposes. This seasonality can be seen in the above table, as sales in Q1 and Q4 are higher than sales in the summer months (Q2 and Q3). Seasonality has been dampened somewhat since the investment in Kingston CoGen on December 31, 2002. Net income has generally followed a similar seasonal pattern. The Mont Miller project is expected to have similar seasonality.

Beginning with Q1 2004, net income includes interest earned on the US$93 million senior loan receivable from PIC, dividends from PEC (neither of which varies materially by season) and any non-cash foreign exchange adjustments required to restate the U.S.-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.

Fourth Quarter Results

Total sales of $25.2 million were $0.7 million higher than the same period last year because of increased revenue from the sale of emission allowances at IFPC and natural gas to mitigate fixed transportation costs at both the Iroquois Falls and Kingston facilities. These increases were partially offset by a reduction in electricity sales at IFPC and steam sales revenue at both facilities.

Electricity revenue under the Iroquois Falls power purchase agreement was in line with the fourth quarter of the previous year, while revenue earned from the sale of electricity and operating reserves into the wholesale market was down $0.4 million due to low wholesale market prices. Steam revenue at Iroquois Falls decreased in the fourth quarter because of reduced demand, while revenue from the sale of natural gas increased by $0.6 million due to an increase in the volume of gas available for sale and favourable market prices. At the

Kingston Facility, an increase in the volume of natural gas available for sale and favourable market prices resulted in natural gas revenues exceeding last year by $0.1 million, while an increase in the selling price and slightly higher production resulted in higher electricity revenue.

The cost of natural gas was $0.4 million higher than last year commensurate with an increase in the volume of gas sales at both facilities partially offset by reduced consumption due to lower electricity production at the Iroquois Falls plant. The Kingston plant's operating costs were $0.9 million lower than last year due to adjustments resulting from a review of the accounting for gas turbine repair costs, the receipt of insurance proceeds from a claim associated with the first-quarter gas turbine unscheduled outage and credits received from GE. Plant operating costs at Iroquois Falls were in line with the fourth quarter of 2003. Management and administration expenses were $0.6 million higher in the quarter largely due to a fee earned by the Manager related to the Fund's acquisition of an additional 25% interest in KCLP.

During the quarter, the Fund earned $3.4 million in interest and dividends on the PEC equity investment and senior loan, up $2.8 million from last year, which included only 16 days of income earned from December 15, 2003, the funding completion date. Due to the strengthening of the Canadian dollar, the Fund recorded a $5.5 million non-cash foreign exchange loss on the restatement of the senior loan to the quarter-end U.S. dollar/Canadian dollar exchange rate. Interest expense in the quarter was up $0.3 million; the increase arises from the non-capitalized portion of interest on the convertible unsecured subordinated debentures issued in August 2004 and interest charged on the line of credit.

Income before taxes at $5.8 million fell short of the 2003 amount by $1.4 million, mainly as a result of the non-cash foreign exchange expense discussed above, partly offset by an increase in income from operations. After adding back non-cash items, including the foreign exchange losses, funds from operations before changes in working capital at $17.1 million were up $5.4 million over 2003.

Distributable cash at $16.9 million increased by $5.7 million over 2003 largely due to the increase in income from operations. Distributions declared to Unitholders increased by $1.5 million as additional units were issued in 2003, and the rate of monthly distributions was increased in January 2004.

Tax Treatment of Distributions

Distributions to Unitholders in 2004 were 33.1% tax-deferred (2003 – 39.3%). The tax deferral arises as the Fund's capital cost allowance and expenses significantly reduce the Fund's income that would otherwise be taxable. The tax-deferred portion of distributions represents a return of capital for Canadian income tax purposes and reduces the adjusted cost base of the trust units. Generally, a trust unit is considered to be capital property. The actual or deemed disposition of a unit will give rise to a capital gain (or loss) equal to the amount by which the proceeds of disposition of a trust unit are greater (or less) than the adjusted cost base of the unit and any associated selling expenses.

Distributions in 2005 are expected to be approximately 26% tax-deferred and 74% taxable to Unitholders.

Distribution and Funding Policy

It is the Fund's policy to distribute 100% of estimated cash flow to Unitholders after providing for capital reserves and funding increases in working capital. Any permitted acquisitions and plant expansions are undertaken only if approved by the Board of Trustees of NPIF Commercial Trust and funded by a combination of borrowings and the issuance of additional units. As of the date of this MD&A, the Fund has issued and outstanding 47,929,143 units.

Outlook

Distributions to Unitholders in 2005 are anticipated to be $1.02 per unit, a $0.02 per unit increase over 2004 distributions.

Management expects the Fund's 2005 financial results to exceed those in 2004 for several reasons:

- The Fund has increased its investment in KCLP from 25% to 50%.
- Payments resulting from the closing of the Panda-Rosemary sale on February 8, 2005, are expected to increase profits in 2005.
- The Mont Miller project is expected to contribute to financial results once it becomes operational, which is scheduled for March 2005.

The Manager used the majority of the funds received from the Panda-Rosemary sale in February 2005 to repay a significant portion of the acquisition line of credit that was drawn down to acquire the additional 25% interest in Kingston CoGen.

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

In 2004, Hydro-Québec selected two wind power projects jointly proposed by the Fund and Northland Power Inc. to be awarded long-term power purchase agreements. A 150 MW project in the Saint-Ulric/Saint-Léandre area is projected to start operating in 2007, while a 100.5 MW project near Mont-Louis is planned for 2010. Both projects will use wind turbines supplied by GE. The power purchase agreements are expected to be executed with Hydro-Québec once commercial arrangements have been finalized with the key project suppliers. Northland Power Inc. will be responsible for the development of these two projects, as well as all costs and risks through the development phase. The Manager expects that the Fund will become a significant investor in both projects. Any investment by the Fund is subject to the prior approval of the independent trustees of NPIF Commercial Trust. The Manager expects that the Fund's trustees may consider investment in the first of these projects late in 2006.

Asset Retirement Obligations

As the Fund expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently the Manager considers that a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time.

Critical Accounting Estimates

Due to the contractual nature of the Fund's business with highly rated counterparties, the Manager of the Fund believes the Fund is not exposed to the same number of critical accounting estimates that require management to make significant estimates or assumptions as other businesses of comparable size.

The selection and application of accounting policies is an important process that has developed as the Fund's activities have evolved and as accounting rules have changed. Accounting rules generally do not involve a selection among alternatives, but involve an implementation and interpretation of existing rules and the use of judgment relative to the circumstances existing in the Fund's business. Every effort is made to comply with all applicable rules on or before the effective date, and the Manager of the Fund believes the proper implementation and consistent application of accounting rules are critical. However, not all situations are specifically addressed in the accounting literature. In these cases, the Manager's best judgment is used to adopt a policy for accounting for these situations. This is accomplished by analogizing to similar situations and the accounting guidelines governing them, consideration of foreign accounting standards and consultation with the Fund's independent auditors about the appropriate interpretation and application of these policies.

Commitments/Contractual Obligations

In thousands of dollars	2005	2006	2007	2008	2009	>2009
Vestas EPC contract	23,070	–	–	–	–	–
Convertible debentures	4,225	4,225	4,225	4,225	4,225	71,338
Miller LP credit agreement	2,095	3,567	3,650	3,737	3,822	59,595
General Electric maintenance agreement	246	136	148	192	1,662	5,394
Natural gas transportation, fixed portion	15,878	15,360	15,668	15,981	16,300	121,896
Management fees	1,350	1,377	1,405	1,432	1,462	14,916
KCLP debt	8,832	9,179	9,734	9,930	10,664	64,963
	55,696	33,844	34,830	35,497	38,135	338,102

The table above includes all fixed contractual obligations of the Fund, including 50% of KCLP's obligations. The amounts are based on the assumptions of a 2% annual Consumer Price Index increase and a U.S. dollar/Canadian dollar exchange rate of $1.20. The table includes natural gas transportation demand charges, which are incurred whether or not gas is shipped; payments to GE by KCLP; base management fees to NPIFMI and AES Kingston ULC; and principal repayments and interest due on KCLP's term loan, senior secured notes and levelization account with OEFC.

As a result of the investment in the Mont Miller project, the Fund has entered into additional commitments through its subsidiary Miller LP. These include an engineer, procure and construct ("EPC") contract for the supply and installation of the 30 wind turbines and associated infrastructure with Vestas, and a construction and term loan with Manufacturers Life Insurance Company of Canada. Included in the table above are all fixed contractual obligations of Miller LP related to the contract with Vestas and repayment of all principal and interest amounts that will be owing to Manufacturers Life Insurance Company of Canada assuming an interest rate of 6.95% and full utilization of the $40 million facility by March 31, 2005.

With the exception of principal repayments on the KCLP levelization account and the payments to GE by KCLP, the table above does not include variable contractual obligations of the Fund (which typically relate directly to production or meeting performance criteria). Such obligations include natural gas purchase costs, variable natural gas transportation costs and performance bonuses to the IFPC and KCLP managers. With respect to the agreements for the supply of electricity, there are no penalties for failure to supply. With respect to the supply of natural gas, there are no penalties for failure to purchase natural gas under these contracts; however, failure to purchase the minimum quantities required under these contracts could reduce the quantities that the suppliers are obligated to deliver under the respective agreements.

The table above also does not include costs related to the five-year warranty, maintenance and services agreement that Miller LP has entered into with Vestas, as this agreement does not come into effect until successful commercial operations have been achieved.

Risks and Uncertainties

The risks and uncertainties discussed below highlight the more important and relevant factors that could significantly affect the Fund's operations. They do not represent an exhaustive list of all potential issues that could affect the financial results of the Fund and its subsidiaries.

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 Potomac Electric Power Company to meet its obligations could have an adverse effect on distributions.

Both the Iroquois Falls and Kingston power purchase agreements provide for certain rights to OEFC to curtail electricity output during the summer. OEFC has generally availed itself of those rights at the Iroquois Falls Facility but not at the Kingston Facility. 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, on December 9, 2002, and the Electricity Restructuring Act, 2004, in December 2004, both of which may have a significant impact on Ontario's electricity markets and therefore on opportunities available to IFPC for sales of electricity and ancillary products outside the 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 boards of trustees and directors of NPIF Commercial Trust and OEFC, respectively, approved the agreement in principle, a definitive agreement containing provisions of the agreement in principle has yet to be completed and, when it is, will be subject to the 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's demand for steam is determined by operations at its Iroquois Falls pulp and paper mill, including the level of its own steam production. The Iroquois Falls Facility is obliged to respond to fluctuations in Abitibi's steam needs. Demand for steam has an impact on 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 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 lockout, 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 materially 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 Facilities

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 power purchase agreement, steam sales agreement and project-level debt agreement 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 power purchase agreement subject to a 4% minimum annual increase. The gas contracts, with expiration dates from 2015 to 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 Corporation for the supply of natural gas until 2017. The gas costs escalate with transportation costs on the NOVA system and a predetermined amount over the Canadian Consumer Price Index. Failure by 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 it is partially dispatched as a peaking plant with the bulk of its dispatch hours occurring during the summer months when operational experience suggests that gas typically will be available for purchase. Interruptible gas supply and transportation arrangements are subject to interruption or curtailment during periods of peak demand for natural gas. If a power purchaser were to significantly increase its dispatch of the Panda-Brandywine Facility, the risk of potential curtailment in natural gas supply and transportation, for a period of time in excess of the time for which backup fuel will permit electricity production, and thus the risk that Panda-Brandywine would be unavailable for dispatch would be increased.

Events of Default Under Kingston, Miller LP and Panda-Brandywine 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 agreement with Panda-Brandywine Limited Partnership 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, Kingston and Panda-Brandywine plants, 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 in respect of the Iroquois Falls and Kingston facilities with GE and participation by IFPC in the GE gas turbine lease pool that 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 four days), the number of on-peak hours used to calculate the target generation will be reduced by the number of on-peak hours in the period of force majeure during that month.

The Panda-Brandywine Facility is dependent on capacity payments due from Potomac Electric Power Company under its power purchase agreement. Capacity payments payable by Potomac Electric Power Company 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.

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 materially adverse effect on the Fund's business, financial condition and results of operations.

All current generating equipment the Iroquois Falls and Kingston facilities is designed to produce NOx emissions below the current applicable standards. Ontario legislation that came into effect in 2004 lowered the level of permitted NOx emissions. Installation of the new gas turbines at the Iroquois Falls Facility in 2003 reduced NOx emissions well below the permitted levels set out in the new legislation. The Manager understands that NOx emissions from Kingston's existing generating equipment fall well below those levels.

Although the Manager believes the operations of each of the cogeneration facilities are currently in material compliance with applicable environmental laws, licences, 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 give rise to a loss or liability are insured.

Tax-Related Risks

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

The Fund has taken the position that interest payments on the senior loan 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 receives cash flows in U.S. dollars from the investment in PEC and the loan to PIC. Exchange rate fluctuations between the U.S. and the Canadian dollar may affect the cash flow of the Fund, NPIF Commercial Trust or IFPC. The Fund 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 U.S. 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 U.S. dollars on the open market at the relevant time. To the extent that the Fund, NPIF Commercial Trust and IFPC have engaged in risk-management activities related to the U.S. and Canadian dollar exchange rates, the Fund may not benefit from favourable exchange rate movements and could become subject to credit risks associated with the counterparties with which it contracts.

Significant changes in the Canadian dollar to U.S. 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, of $1.202, the reduction would be approximately $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 lockout, 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 Northland Power Inc. or its affiliates ("NPI") other than the Manager will conflict with those of IFPC, NPIF Commercial Trust, NPIF Kingston LP, Miller LP, PEC, its subsidiaries and the Unitholders. NPI may engage in activities similar to the current activities of IFPC, NPIF Kingston LP, KCLP, Miller LP, PEC and its subsidiaries. NPI 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 or entities managed by NPI will conflict with those of Unitholders. NPI may make investments in the power generation industry on its own behalf or on behalf of persons other than Unitholders. NPI 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 that will treat the Fund and the other interested party fairly, taking into account all of the circumstances of the respective parties, and to act honestly and in good faith in resolving such matters. Circumstances may arise where the trustees of NPIF Commercial Trust or members of the board of directors of a corporation in which the Fund has invested or the Manager are directors or officers of corporations that compete with the interests of the Fund. No assurances can be given that opportunities identified by such persons will be provided to the Fund or an entity in which the Fund has invested.

Variability of Distributions

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

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 present certain risks specific to this project in addition to those associated with operating the existing power plants. 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 developer, some of the Fund's construction risk has been mitigated, as the developer has agreed to assume certain of these risks.

Wind Power Facilities

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 have been collected demonstrate that the sites will be economically viable, weather patterns could change or the historical data could prove not to accurately reflect the strength and consistency of the wind in the future. If there is insufficient wind, the underlying financial projections regarding the amount of electricity to be generated by the 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 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. Although commercial operation is scheduled for March 2005, this schedule may not be realized. If the power purchase agreement is terminated, this would have a materially adverse impact on the distributions of Miller LP, and distributable cash would be materially adversely affected.

Preparation of the financial statements and the annual report of Northland Power Income Fund (the "Fund") are the responsibility of the management of Northland Power Income Fund Management Inc. (the "Manager") as administrator of the Fund and manager of the Fund's wholly owned subsidiaries, including NPIF Commercial Trust, Iroquois Falls Power Corp. ("IFPC") and Mount Miller Wind Energy Limited Partnership ("Miller LP").

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

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

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

Ernst & Young LLP, the independent auditors, have examined the consolidated financial statements of the Fund. The independent auditors' responsibility is to express a professional opinion on the fairness of the consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion on the consolidated financial statements. Their report as auditors is set out on page 42.

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

John W. Brace
President and CEO
Northland Power Income Fund Management Inc.

Anthony F. Anderson
Chief Financial Officer
Northland Power Income Fund Management Inc.

Auditors' Report

To the Unitholders of Northland Power Income Fund

We have audited the consolidated balance sheets of Northland Power Income Fund as at December 31, 2004 and 2003, and the consolidated statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Manager of the Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
February 17, 2005

Ernst & Young LLP
Chartered Accountants

Consolidated Balance Sheets

As at December 31,
in thousands of dollars

Assets	2004	2003
Current		
Cash and cash equivalents	**18,617**	12,808
Cash reserves [note 2]	**1,937**	1,501
Accounts and other receivables [note 3]	**22,444**	8,853
Inventories [note 4]	**2,493**	2,189
Prepaid expenses	**4,438**	1,208
Current portion of senior loan receivable [notes 9 and 18]	**24,001**	916
Total current assets	**73,930**	27,475
Deferred charges [note 5]	**8,369**	3,500
Capital assets, net [note 6]	**397,367**	275,007
Investment in Panda Energy Corporation [notes 9 and 18]	**7,946**	7,946
Senior loan receivable [notes 9 and 18]	**86,935**	119,659
Future income tax asset [note 16]	**1,140**	1,665
	575,687	435,252

Liabilities and Unitholders' equity		
Current		
Accounts payable and accrued liabilities	**9,653**	7,099
Current portion of Kingston CoGen Limited Partnership debt [note 10]	**3,812**	1,578
Distribution payable to Unitholders	**4,432**	4,792
Total current liabilities	**17,897**	13,469
Bank credit facility [note 7]	**37,300**	–
Kingston CoGen Limited Partnership debt [note 10]	**65,550**	34,065
Construction and term loan [note 11]	**23,000**	–
Convertible debentures [note 12]	**65,000**	–
	208,747	47,534
Commitments and contingencies [notes 7, 10, and 17]		
Trust units [note 13]	**468,641**	468,641
Deficit	**(101,701)**	(80,923)
Total Unitholders' equity	**366,940**	387,718
	575,687	435,252

See accompanying notes.

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

John W. Brace
President and CEO

Anthony F. Anderson
Chief Financial Officer

Consolidated Statements of Income and Deficit

Years ended December 31, in thousands of dollars, except per unit information

	2004	2003
Sales		
Electricity	**73,845**	72,646
Steam	**6,359**	6,723
Natural gas	**10,285**	11,763
Emission allowances	**450**	–
	90,939	91,132
Cost of sales	**39,470**	40,354
Gross profit	**51,469**	50,778
Expenses		
Plant operating costs	**8,792**	9,345
Amortization	**12,372**	15,762
Management and administration costs	**3,745**	2,970
	24,909	28,077
Investment income [notes 9 and 18]	**13,871**	563
Income from operations	**40,431**	23,264
Foreign exchange [note 2]	**8,677**	15
Amortization of deferred charges [note 5]	**321**	877
Interest (income)	**(265)**	(778)
Interest expense and bank fees	**3,944**	4,003
Income before income taxes	**27,754**	19,147
Provision for income taxes [note 16]		
Current	**91**	–
Future	**525**	339
	616	339
Net income for the year	**27,138**	18,808
Deficit, beginning of year	**(80,923)**	(62,805)
Distributions to Unitholders [note 14]	**(47,916)**	(36,926)
Deficit, end of year	**(101,701)**	(80,923)
Average number of units outstanding – basic	**47,916**	36,970
Average number of units outstanding – diluted	**49,720**	36,970
Net income per trust unit – basic	**$0.57**	$0.51
Net income per trust unit – diluted	**$0.55**	$0.51

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended December 31,
in thousands of dollars

	2004	2003
Operating activities		
Net income for the year	**27,138**	18,808
Items not involving cash:		
Amortization	**12,372**	15,762
Amortization of deferred charges [note 5]	**321**	877
Future income taxes [note 16]	**525**	339
Loss on disposal of capital assets	**2,538**	152
Foreign exchange	**8,677**	15
	51,571	35,953
Net change in non-cash working capital balances related to operations	**(4,162)**	4,925
Cash provided by operating activities	**47,409**	40,878
Investing activities		
Cash reserves drawdown [note 2]	**109**	107
Receipts of principal on senior loan [note 9]	**941**	–
Investment in Mont Miller [note 8]	**(2,478)**	–
Net change in non-cash working capital balances related to Mont Miller [note 8]	**(10,673)**	–
Investment in Panda Energy Corporation [note 9]	**–**	(7,946)
Loan to Panda Interfunding Company LLC [note 9]	**–**	(122,053)
Investment in KCLP [note 10]	**(32,611)**	–
Deferred charges [note 5]	**(2,573)**	(2,406)
Proceeds from sale of gas turbines	**–**	5,531
Purchase of capital assets	**(67,166)**	(1,496)
Cash used in investing activities	**(114,451)**	(128,263)

continued...

Years ended December 31,
in thousands of dollars

	2004	2003
Financing activities		
Decrease in bank indebtedness [note 7]	**–**	(721)
Net proceeds from convertible debenture receipts [note 12]	**61,788**	–
Kingston CoGen Limited Partnership repayment of debt [note 10]	**(961)**	(754)
Proceeds from construction and term loan [note 11]	**23,000**	–
Credit facility increase (decrease) [note 7]	**37,300**	(44,070)
Net proceeds from issuance of trust units [note 13]	**–**	70,717
Net proceeds from issuance of subscription receipts [note 13]	**–**	107,772
Distributions to Unitholders	**(48,276)**	(35,216)
Cash provided by financing activities	**72,851**	97,728
Net increase in cash and cash equivalents during the year	**5,809**	10,343
Cash and cash equivalents, beginning of year	**12,808**	2,465
Cash and cash equivalents, end of year	**18,617**	12,808
Cash and cash equivalents consist of		
Cash	**15,162**	3,322
Short-term investments	**3,455**	9,486
Supplemental cash flow information		
Interest paid	**4,409**	3,101
Income taxes paid	**91**	5

See accompanying notes.

December 31, 2004

1. Description of Business

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

The Fund as at December 31, 2004, indirectly owns interests in four combined-cycle cogeneration power plants that efficiently and cleanly produce electricity and steam for sale. Two plants are located in Ontario: the 120 MW Iroquois Falls Facility that has been wholly owned by the Fund since its inception in 1997 and the 110 MW Kingston Facility of which the Fund owns 50%. Late in 2003, the Fund acquired 19% of Panda Energy Corporation ("PEC") and extended a loan to its wholly owned subsidiary, Panda Interfunding Company LLC ("PIC") to provide the Fund with an interest in two U.S. power plants totalling 410 MW. In November 2004 the Panda-Rosemary power plant was sold. The sale closed February 8, 2005. In August 2004, the Fund acquired a 54 MW wind power project ("Mont Miller") currently under construction in the Gaspésie region of Quebec. Once the Mont Miller project achieves commercial operations, it will sell all of the electricity that it produces under a long-term power purchase agreement. For the combined-cycle plants, electricity and steam sales are made under long-term contracts with creditworthy entities to ensure revenue stability, and long-term contracts assure the supply and price of natural gas, which is the Fund's largest cost.

2. Summary of Significant Accounting Policies

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

Principles of consolidation

These consolidated financial statements include the accounts of the Fund and all subsidiaries. The Fund accounts for its joint venture interest in Kingston CoGen Limited Partnership ("KCLP") using the proportionate consolidation method. All inter-entity transactions have been eliminated.

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

Cash and cash equivalents

Cash equivalents comprise only highly liquid investments with original maturities of less than 90 days and are recorded at cost, which approximates market value. As at December 31, 2004, $8,128,000 (2003 – $2,754,000) of the cash balance on the balance sheet was held by KCLP and is restricted in its use to the operations of KCLP by the terms of KCLP's credit agreement, which provides, however, that cash in excess of approximately $5,000,000 ($2,500,000 being the Fund's proportionate share) may be distributed semi-annually to the partners, including the Fund, if certain financial tests are met.

Cash reserves

The Fund's proportionate share of KCLP's cash reserves for major maintenance costs is stipulated under KCLP's credit agreement for the non-recourse project financing of the Kingston CoGen project. Also included in cash reserves are amounts funded to Miller LP through its construction and term loan that can be accessed for project development upon the acceptance of submitted costs to Manufacturers Life Insurance Company (the lender for the construction and term loan).

Use of estimates

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

Inventories

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

Capital assets

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

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

Assets included in construction in progress are not amortized until the assets have entered into commercial operations. Interest costs incurred as a result of the construction and installation of the assets are included in construction in progress.

Revenue recognition

Revenue from electricity, steam and natural gas sales is recognized upon delivery. Interest and investment income is recognized as it is earned. Revenue from emission allowances is recognized upon the passage of title to the purchaser.

Net income per trust unit

The calculation of basic net income per trust unit is based on the consolidated net income for the year divided by the weighted average number of trust units outstanding during the year, which was 47,915,943 (2003 – 36,970,464). Diluted net income per unit is calculated by dividing consolidated net income plus the interest expense relative to the debt that is being converted by the weighted average number of units used in the basic net income per unit calculation plus the number of units that would be issued assuming conversion of the convertible unsecured subordinated debentures into trust units of the Fund.

Foreign currency translation

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

Derivative financial instruments

The Fund and its subsidiaries enter into foreign exchange forward and option contracts to manage exposures resulting from foreign exchange fluctuations in the ordinary course of business. To the extent that the contracts qualify for hedge accounting, unrealized gains and losses on outstanding contracts are deferred until realized. The realized gains and losses are included in income and recognized as an adjustment to the underlying transaction.

Interest rate swap contracts were entered into by KCLP in order to hedge rate risk on currently outstanding debt. The interest rate differentials paid or received under such contracts are recognized over the life of the contracts as adjustments to interest expense on long-term debt in the period incurred.

The Fund does not engage in trading or other speculative activities with respect to derivative financial instruments. The fair value of derivative financial instruments reflects the estimated amount that the Fund would have been required to pay if forced to settle all unfavourable outstanding contracts or the amount that would be received if forced to settle all favourable contracts at year-end. The fair value represents a point-in-time estimate that may not be relevant in predicting the Fund's future earnings or cash flows. The Fund is exposed to credit risk in the event of non-performance by its counterparties. However, the Fund does not anticipate non-performance by its counterparties, as the counterparties each have a high credit rating.

On January 1, 2004, the Fund prospectively adopted the recommendations of CICA Handbook Accounting Guideline 13, Hedging Relationships (AcG 13). AcG 13 applies to all existing and new hedging relationships. It requires that hedging relationships be formally documented at the inception of the hedge and that the effectiveness of hedging relationships be assessed at the inception and throughout the term of the hedge in order to apply hedge accounting. The adoption of these recommendations had no effect on the Fund's financial statements for 2004.

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

Income taxes

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

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

Certain of the Fund's wholly owned subsidiaries are subject to corporate income taxes as computed under the Income Tax Act and CICA Section 3465.

Impairment of long-lived assets
The Fund prospectively adopted the recommendations of CICA Handbook Section 3063 "Impairment of Long-Lived Assets" as of January 1, 2004. These recommendations require that an impairment loss on long-lived assets to be held and used be recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. The adoption of these recommendations had no impact on the results of operations for the year ended December 31, 2004.

Asset retirement obligations
The Fund prospectively adopted the recommendations of CICA Handbook Section 3110 "Asset Retirement Obligations" as of January 1, 2004. These recommendations focus on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. As the Fund expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time.

3. Economic Dependence and Concentration of Credit Risk

The Fund is dependent on lease income, interest income, dividends, distributions and loan repayments received. In 2004, approximately 81% (2003 – 80%) of the Fund's revenue was derived indirectly from the sale of electricity to Ontario Electricity Financial Corporation ("OEFC").

Approximately 41% (2003 – 83%) of the year-end accounts receivable balance was due from OEFC relating to electricity sales. Approximatly 35% (2003 – nil) was due as a refund of input tax credits related to the Mont Miller project.

4. Inventories In thousands of dollars

Inventories consist of the following:	**2004**	2003
Natural gas	**474**	353
Spare parts and other inventory	**2,019**	1,836
	2,493	2,189

5. Deferred Charges In thousands of dollars

Deferred charges consist of the following:	**2004**	2003
Senior loan receivable transaction costs	**3,333**	3,500
Convertible debenture transaction costs	**3,058**	–
Mont Miller development costs	**1,978**	–
	8,369	3,500

Deferred charges are amortized on a straight-line basis as follows:

- Senior loan transaction costs: over the term of the senior loan;
- Convertible debenture transaction costs: over the term of the convertible debentures; and
- Mont Miller development costs: once commercial operations have begun, costs will be amortized over the term of the power purchase agreement.

For the year ended December 31, 2004, amortization of deferred charges is shown separately on the income statement; previously these items were included as part of management and administration costs. The comparative figures have been reclassified in order to conform to this presentation.

6. Capital Assets In thousands of dollars

	2004		2003	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
Land	**371**	**–**	249	–
Buildings and foundations	**73,265**	**19,075**	48,159	11,007
Plant and equipment	**333,405**	**75,412**	283,425	57,966
Contracts	**23,748**	**4,551**	15,964	3,854
Vehicles	**26**	**23**	26	20
Office equipment, furniture and fixtures	**93**	**69**	93	63
Computers and computer software	**100**	**99**	100	99
Construction in progress	**65,588**	**–**	–	–
	496,596	**99,229**	348,016	73,009
Net book value		**397,367**		275,007

7. Bank Credit Facility

The Fund and Iroquois Falls Power Corp. ("IFPC") have a credit agreement with Canadian Imperial Bank of Commerce as agent for a syndicate of banks that establishes the following: an $82,500,000 acquisition line of credit to assist in the funding of expansionary capital expenditures, acquisitions and investments by the Fund; a $7,500,000 revolving-term letter of credit facility to be used in meeting obligations under IFPC's natural gas transportation and supply contracts; and a $5,000,000 revolving-term operating line of credit for IFPC's general corporate purposes. The credit agreement expires on May 23, 2005, but is subject to an annual renewal at the discretion of the Fund. As at December 31, 2004, the variable interest per annum under each of the lines of credit is charged at 3.8%, 4.5% or 3.8%. Standby fees of 0.3% per annum are charged on each of the undrawn letter of credit, operating line and acquisition facilities.

As at December 31, 2004, a letter of credit for $7,460,000 (2003 – $7,460,000) was outstanding under the letter of credit facility. As at December 31, 2004, $37,300,000 (2003 – nil) had been drawn on the acquisition line of credit and no drawings had been made on the operating line (2003 – nil).

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

8. Investment in Mont Miller

In 2004, the Fund committed $95 million for the acquisition and construction of a 54 MW wind power project in the Gaspésie region of Quebec by Mount Miller Wind Energy LP ("Miller LP"). The Fund made its investment in the project through its wholly owned trust NPIF Commercial Trust. Construction of the project commenced in August 2004 and is scheduled to be completed in March 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 and all electricity produced will be sold to Hydro-Québec, pursuant to the terms of a 21-year power purchase agreement. The acquisition was accounted for using the purchase method. The consideration paid by the Fund to acquire the project has been allocated to net assets acquired as follows:

In thousands of dollars	
Working capital	(1,574)
Contracts	4,334
Total purchase price	2,760
Less: cash acquired	(282)
Total cash purchase price paid	2,478

The Fund owns all of the Class A Priority Units in Miller LP. An entity that is 50% owned by an affiliate of the Fund's Manager owns all of the Class B Subordinated Units. Commencing with full commercial operations, the Class A Priority Units are entitled to a priority annual cumulative distribution of $5,786,880. After payment of that amount, distributions from Miller LP are shared equally between the holders of the Class A Priority Units and the Class B Subordinated Units. Upon completion of construction, the Class B Subordinated Units are entitled to a one-time special distribution based upon the amount that the actual costs of construction on the Mont Miller project are less than the Fund's budgeted investment in the project.

Miller LP is responsible for completing the construction and ensuring the successful commissioning of the project, including the purchase and installation of the wind turbines together with related infrastructure, roads, low-voltage electricity collection system and interconnection facilities with the electrical grid of Trans-Énergie, a division of Hydro-Québec.

The owner of the Class B Subordinated Units is responsible for advancing further cash as required, if the actual costs of construction and development are in excess of the Fund's budgeted costs.

As at December 31, 2004, a total of $67.6 million in construction and development costs had been incurred. The project is being financed using the majority of the proceeds of the offering of convertible unsecured subordinated debentures (see note 12) and a $40 million non-recourse construction and term loan financing with a major Canadian financial institution (see note 11).

9. Investments in Panda Energy Corporation

On December 16, 2003, IFPC acquired a 19% equity interest in PEC, including a 9.5% voting interest and an option to increase its equity interest in PEC to 49% in 2021 upon a payment of a further amount for total cash consideration of US$6,055,000 including all transaction costs. The acquisition of PEC has been accounted for using the cost method.

On December 15, 2003, IFPC completed the funding of a US$93 million senior loan to PIC. The senior loan bears interest at the rate of 10.5% and matures on November 20, 2021, and is repayable over the 18-year term of the loan. Transaction costs of $3.5 million are being deferred and amortized over the term of the loan and are recorded as deferred charges.

PEC, through its wholly owned subsidiaries, owned two combined-cycle cogeneration power facilities that use natural gas as their primary fuel. The 230 MW Panda-Brandywine Facility, which is located just outside Washington, D.C., has been operating since 1996 and sells electrical capacity and energy to Potomac Electric Power Company pursuant to a power purchase agreement that extends until 2021. The 180 MW Panda-Rosemary Facility, located in Roanoke Rapids, North Carolina, was sold on February 8, 2005, under the terms of an agreement that was executed in November 2004. Steam from the Panda-Brandywine plant is sold to PEC subsidiaries for the manufacture of distilled water.

As at December 31, 2004, the senior loan to PIC was due as follows:

Prepayment from sale of Panda-Rosemary facility	US$18,883,000
Scheduled quarterly repayments	US$1,147,869
Due within one year	US$20,030,869
Long-term receivable	US$72,262,247
Total receivable	US$92,293,116

The Fund entered into foreign exchange option contracts in respect of the interest and principal payments to be received on the PIC senior loan during fiscal years 2005 and 2006. The various put option contracts hedge the rate of exchange for the following dollar amounts for each of the fiscal years as follows:

- US$1,500,000 per quarter – 1.3140
- US$1,000,000 per quarter – 1.3330 to 1.3648

The fair value of these option contracts was $2,528,000 favourable (2003 – $208,000 favourable) as at December 31, 2004.

The Fund has also written call option contracts with notional amounts of $1,750,000 per quarter for 2005 and 2006 at a rate of 1.344. These contracts represent an economic hedge of the Fund's U.S. dollar exposure on the PIC senior loan and as a result these contracts are recorded at their fair value. At December 31, 2004, the fair value of these contracts was not significant.

At the closing of the sale of the Panda-Rosemary plant on February 8, 2005, to Dominion Virginia Power, the Fund received US$18.9 million as partial prepayment of the senior loan and payment of fees and dividends totalling US$4.8 million.

On November 12, 2004, the Fund entered into a US$21.5 million variable-rate forward foreign exchange option contract that expires on May 13, 2005. The option is intended to hedge the majority of the Fund's expected receipts from the Panda-Rosemary sale and entitles the Fund to convert U.S. dollars into Canadian dollars at a rate of 1.1907 if the actual rate at expiry is below that level. That rate of 1.1907 also applies if at any time prior to expiry the actual rate exceeds 1.2614.

The fair value of the variable-rate forward contracts was $143,000 unfavourable as at December 31, 2004.

For the year ended December 31, 2004, interest earned and dividends received by the Fund from PEC and PIC are shown on the income statement as investment income; previously these items were included as part of interest income. The comparative figures have been reclassified in order to conform to this presentation.

10. Acquisition of Interests in KCLP

KCLP Acquisition

On December 31, 2002, the Fund acquired a 25% general partnership interest in KCLP, which owns a 110 MW cogeneration facility near Kingston, Ontario.

On December 15, 2004, the Fund acquired a further 25% interest in KCLP through its wholly owned subsidiary NPIF Kingston LP from EnCana Corporation for $36.5 million plus $175,000 in transaction costs. The acquisition of KCLP was accounted for using the purchase method. The Fund drew down its acquisition line of credit to fund the acquisition. The consideration paid by the Fund has been allocated to net assets acquired as follows:

In thousands of dollars	
Working capital	3,739
Capital assets	62,163
Contracts	3,547
Long-term debt	(32,774)
Total purchase price paid	36,675
Less: cash acquired in KCLP	(4,064)
Total cash purchase price paid	32,611

The consolidated balance sheet of the Fund at December 31, 2004, reflects the Fund's acquisition of the additional 25% interest in KCLP. The consolidated statements of income and cash flows for the year ended December 31, 2004, include the Fund's original 25% interest in KCLP for the year and the Fund's additional 25% interest in the net income of KCLP for 16 days, subsequent to the date of acquisition to December 31, 2004.

The figures outlined in the following tables represent the Fund's 50% proportionate share of KCLP's balance sheet. The income statements and cash flows include the Fund's original 25% in KCLP up to December 15, 2004, and 50% thereafter.

As at December 31 – in thousands of dollars	**2004**	2003
Assets and liabilities		
Current assets	**12,954**	6,024
Capital assets	**115,808**	54,018
Total assets	**128,762**	60,042
Current liabilities	**5,474**	2,969
Debt	**65,549**	34,065
Total liabilities	**71,023**	37,034

Year ended December 31 – in thousands of dollars	**2004**	2003
Earnings		
Sales	**18,415**	19,513
Expenses	**17,859**	17,984
Net income	**556**	1,529
Cash flow		
Cash from operating activities	**5,323**	4,580
Cash used in investing activities	**(1,506)**	(354)
Cash used in financing activities	**(2,507)**	(3,937)
Net increase in cash and cash equivalents	**1,310**	289

KCLP Debt

The figures outlined in the following table and note represent the Fund's 50% proportionate share (2003 – 25%) of KCLP's debt under its credit agreement (the "KCLP Credit Agreement") and certain cash advances from OEFC ("levelization account") as at December 31:

In thousands of dollars	**2004**	2003
Term loan	**41,033**	22,085
Senior secured notes	**12,500**	6,250
Levelization account	**15,829**	7,308
	69,362	35,643
Less: current portion	**3,812**	1,578
	65,550	34,065

The KCLP Credit Agreement includes a $4,613,000 letter of credit facility under which $4,613,000 (2003 – $2,307,000) was outstanding at December 31, 2004. Payments on the term loan facility are made semi-annually until March 31, 2013, and payments on the senior secured notes will be made semi-annually beginning September 30, 2013, and ending September 30, 2016.

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

KCLP entered into interest rate swap agreements with two commercial banks terminating in June 2016 that effectively fix the interest rate of the KCLP credit facility over the life of the agreement. The notional amount of the interest rate swaps totalled $53,533,000 at December 31, 2004 (2003 – $28,335,000), with an effective interest rate of 7.97% (2003 – 7.96%), and the fair value was approximately $10,596,000 unfavourable (2003 – $5,458,000 unfavourable).

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

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

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

In thousands of dollars	
2005	3,812
2006	4,480
2007	5,365
2008	6,115
2009	6,958
>2009	42,632
	69,362

11. Construction and Term Loan

On October 8, 2004, Miller LP entered into a credit agreement with Manufacturers Life Insurance Company for a $40 million construction and term loan. The agreement calls for funding during the construction period and then conversion to a term loan on substantial completion of the construction and commencement of commercial operations. Interest is fixed at a rate based upon long-term bond yields in effect at the time of the various drawdowns. The loan terms require payments of interest only 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 loan is without recourse to the Fund and is secured by assets and undertakings of Miller LP and the partners' partnership interests. As at December 31, 2004, $23,000,000 had been drawn down at an average interest rate of 6.57% and $290,000 in interest had been incurred. Interest incurred during construction is capitalized and included in construction in progress.

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

In thousands of dollars	
2005	–
2006	465
2007	547
2008	637
2009	733
>2009	20,618
	23,000

12. Convertible Unsecured Subordinated Debentures

On August 26, 2004, the Fund completed a public offering of $65,000,000 principal amount 6.50% convertible unsecured subordinated debentures due June 30, 2011 (the "convertible debentures") at a price of $1,000 per convertible debenture, for gross proceeds of $65 million and 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 by the Fund on or following June 30, 2007, provided that 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 in trust units of the Fund. The Fund determined that the fair value of the embedded holder option at the time of issue was minimal and, as a result, the entire amount of the convertible debentures has been classified as a liability.

The payment of convertible debenture principal and interest is subordinated in right of payment to the prior payment of all senior indebtedness of the Fund. A total of $3.2 million in costs related to the convertible debentures, including the underwriters' fee, is being deferred and amortized over the term of the convertible debentures and is included in deferred charges. A total of $1.4 million in interest incurred during 2004 has been capitalized and included in construction in progress related to the Mont Miller project.

13. Trust Units

The Fund may issue an unlimited number of trust units subject to rules governing the trust indenture. Each trust unit represents an equal fractional beneficial interest in the Fund. All trust units are transferable and share equally in all distributions from the Fund whether of net income, return of capital, return of principal, interest, dividends or net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund.

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

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

In thousands of dollars except for units	Number of units	Amount
Outstanding as of December 31, 2002	30,823,443	290,152
February 24, 2003, issue, net of underwriters' fee (1)	6,050,000	61,785
Exercise of over-allotment, net of underwriters' fee (1)	907,500	9,268
Cost of issue		(336)
Exercise of subscription receipts, net of underwriters' fee (2)	10,135,000	109,955
Cost of issue		(2,183)
Outstanding as of December 31, 2003	47,915,943	468,641
Outstanding as of December 31, 2004	47,915,943	468,641

(1) On March 5, 2003, the Fund issued 6,050,000 trust units at $10.75 each, pursuant to an agreement with a group of underwriters to raise $61.8 million, net of underwriters' fees. An additional 907,500 units were issued at $10.75 each, for net proceeds of $9.3 million, when the over-allotment option was exercised on March 19, 2003. The proceeds were used to repay the borrowings under the credit facility, which had been incurred for the acquisition of the 25% interest in KCLP (see note 10), for the Iroquois Falls gas turbine upgrade project and to establish a reserve for potential future acquisitions.

(2) On December 15, 2003, the Fund issued 10,135,000 subscription receipts, including 500,000 subscription receipts, upon the exercise of the underwriters' option at $11.42 per subscription receipt, to raise proceeds of $110.0 million, net of underwriters' fees. In accordance with the subscription receipt agreement pursuant to which the subscription receipts were issued, the gross proceeds from the offering were deposited with a subscription receipt agent to be held in escrow. On the same date the conditions to the release of the escrowed funds were satisfied and, accordingly, trust units of the Fund were issued to the holders of the subscription receipts on a one-for-one basis. The proceeds from the issue were used by the Fund toward the investment by IFPC in PEC and a loan to its subsidiary (note 9).

The reconciliation of the denominator in calculating diluted per unit amounts is as follows:

	2004	2003
Weighted average number of units outstanding, basic	**47,915,943**	36,970,464
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	**1,804,372**	–
Weighted average number of units outstanding, diluted	**49,720,315**	36,970,464

14. Distributions to Unitholders

Distributions totalling $1.00 per trust unit (2003 – $0.98), being aggregate distributions of $47,916,000 (2003 – $36,926,000), were determined by the Manager of the Fund for the year ended December 31, 2004. For income tax purposes, $15,868,387 (2003 – $14,514,531) of the distributions is a return of capital.

15. Management Compensation

The Manager is entitled to receive a fee for services provided related to the operation and management of the Iroquois Falls Facility, pursuant to a 25-year management agreement expiring in 2021. The annual fee is payable on an equal monthly basis and is adjusted annually with changes to the Consumer Price Index. During the year ended December 31, 2004, the Manager was paid $528,000 (2003 – $517,000). The Manager is entitled to a fee from NPIF Commercial Trust related to the administration of the trust and its investments. During the year, the Manager received $61,000 (2003 – $30,000). Commencing in 2004, the Manager began to receive from PIC a loan administration fee of US$125,000 and a manager's fee of US$75,000 (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 (2003 – $1,630,000) as operation-related incentive fees. In addition the Manager may receive a management incentive fee equal to 25% of the amount by which annual distributable cash exceeds $0.934 per unit, less the amount of certain operation-related incentive fees. During the year ended December 31, 2004, the Manager was paid nil (2003 – nil).

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 and loan to PIC. 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.

During the year ended December 31, 2004, the Manager also earned $550,000 (2003 – nil) 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 received or will receive compensation as follows:

(a) The parent of the Manager (Northland Power Inc. – "NPI") received $255,000 on its sale of the shares of Mount Miller Wind Energy Inc. and Mount Miller GP Inc. to NPIF Commercial Trust. Miller LP also assumed the liabilities to reimburse the developer of the project, Mount Miller Construction and Services Inc. ("Miller Construction") (a 50%-owned subsidiary of NPI), 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) Miller Construction is being reimbursed by Miller LP for expenses incurred in connection with construction management services provided to Miller LP, which include a monthly fee of $10,000 payable to NPI in exchange for certain administrative services during the construction of the project.

(c) Miller Construction, 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 Fund's committed cost.

(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.

(e) Miller Construction, 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.

16. Income and Other Taxes In thousands of dollars

The components of income tax expense are as follows:

	2004	2003
Current		
Federal	**91**	–
Provincial	**–**	–
Future		
Federal	**340**	220
Provincial	**185**	119
Provision for income taxes	**616**	339

The components of future income tax assets are as follows:

Future tax assets		
Undepreciated capital cost in excess of capital assets book value	**920**	1,130
Loss carryforwards	**1,393**	1,112
Other	**32**	24
Total future tax assets	**2,345**	2,266
Valuation allowance	**(1,205)**	(601)
Net future tax assets	**1,140**	1,665

Income before income taxes	**27,754**	19,147
Combined federal and provincial income tax at statutory rate of 36.12% (2003 – 36.62%)	**10,025**	7,012
Manufacturing and processing deduction	**(12)**	60
Income of Fund distributed to Unitholders	**(10,684)**	(7,645)
Future income tax expense resulting from rate change	**–**	(214)
Valuation allowance	**604**	601
Large corporations tax and other items	**683**	525
Provision for income taxes	**616**	339

At December 31, 2004, financing expenses and underwriters' fees of $10,519,000 (2003 – $10,606,000) are deductible by the Fund for income tax purposes on a straight-line basis over five years.

At December 31, 2004, IFPC has non-capital losses available for carryforward of approximately $4,083,000 (2003 – $3,261,000), which are available to reduce future-year taxable income. Of these losses, $3,229,000 expire in 2005 and $854,000 expire in 2010.

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

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

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

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

17. Commitments

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

IFPC and KCLP have entered into agreements for gas transportation that incorporate standard industry terms including the approval of tariffs by applicable regulatory authorities. The natural gas transportation agreements include substantial demand charges, which are incurred whether or not gas is shipped.

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

During 2004, Miller LP entered into an agreement with Vestas-Canadian Wind Technology, Inc. under the terms of an engineer, procure and construct ("EPC") contract for the supply and installation of the 30 wind turbines and associated infrastructure for the Mont Miller project. Upon successful commercial operations of the Mont Miller project, a five-year warranty, maintenance and services agreement with Vestas-Canadian Wind Technology, Inc. will come into effect.

18. Segmented Information In thousands of dollars

The fund has investments in four facilities. Significant information for each facility is as follows:

2004	**Iroquois Falls**	**Kingston**	**Mont Miller**	**Corporate**	**Total**
Revenue	**72,524**	**18,415**	**–**	**–**	**90,939**
Amortization	**9,484**	**2,888**	**–**	**–**	**12,372**
Operating income	**25,246**	**3,746**	**–**	**11,439**	**40,431**
Interest expense, net	**90**	**3,189**	**–**	**400**	**3,679**
Capital assets, net	**211,637**	**115,808**	**69,922**	**–**	**397,367**
Senior loan and investment in PEC	**–**	**–**	**–**	**118,882**	**118,882**

2003	Iroquois Falls	Kingston	Mont Miller	Corporate	Total
Revenue	71,619	19,513	–	–	91,132
Amortization	12,867	2,895	–	–	15,762
Operating income (expense)	19,412	4,817	–	(965)	23,264
Interest expense, net	(27)	3,204	–	48	3,225
Capital assets, net	220,990	54,017	–	–	275,007
Senior loan and investment in PEC	–	–	–	128,521	128,521

Corporate operating income (expense) includes $13.9 million (2003 – $0.6 million) of interest and dividends from the senior loan and investment in PEC.

All the Fund's assets and revenue are based in Canada with the exception of the investments in and income from PEC and PIC, which relate to entities located in the United States.

19. Litigation, Claims and Contingencies

On May 10, 2004, a statement of claim was served against IFPC by 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 the claim vigorously.

Years ending December 31, in thousands, except as specified

	2004	2003	2002	2001	2000
Sales volumes					
Electricity (MWh)	**807,812**	803,022	747,717	739,701	739,687
Steam (000 lb.)	**1,066,908**	1,153,462	1,088,090	1,012,015	997,164
Sales					
Electricity	**$73,845**	$72,646	$60,001	$54,545	$50,570
Steam	**6,359**	6,723	6,465	5,358	4,504
Gas	**10,285**	11,763	5,878	8,508	6,502
Emission allowances	**450**	–	–	–	–
	90,939	91,132	72,344	68,411	61,576
Cost of sales	**39,470**	40,354	32,076	30,288	25,991
Gross profit	**51,469**	50,778	40,268	38,123	35,585
Expenses					
Plant operating costs	**8,792**	9,345	6,751	6,641	5,967
Amortization	**12,372**	15,762	11,294	9,243	9,240
Management and administration costs	**3,745**	2,970	2,001	1,709	1,620
	24,909	28,077	20,046	17,593	16,827
Investment income	**13,871**	563	–	–	–
Income from operations	**40,431**	23,264	20,222	20,530	18,758
Foreign exchange	**8,677**	15	312	–	–
Amortization of deferred charges	**321**	877	890	–	–
Interest (income)	**(265)**	(778)	(71)	(247)	(259)
Interest expense and bank fees	**3,944**	4,003	249	126	135
Income before income taxes	**27,754**	19,147	18,842	20,651	18,882
Provision for (recovery of) income taxes					
Current	**91**	–	(14)	8	20
Future	**525**	339	(315)	3	(103)
	616	339	(329)	11	(83)
Net income	**$27,138**	$18,808	$19,171	$20,640	$18,965
Purchase of capital assets					
Maintenance	**$1,577**	$739	$87	$89	$152
Expansionary	**$65,589**	$757	$19,385	–	–
Funds from operations before working capital changes	**$51,571**	$35,953	$32,165	$30,978	$29,194
Per unit – basic	**$1.08**	$0.97	$1.04	$1.01	$0.95
Distributable cash	**$50,843**	$34,482	$30,303	$30,934	$29,175
Per unit – basic	**$1.06**	$0.93	$0.98	$1.00	$0.95
Distributions to Unitholders	**$47,916**	$36,926	$30,207	$30,207	$28,974
Per unit	**$1.00**	$0.98	$0.98	$0.98	$0.94

Corporate Information

Trustees and Officers of NPIF Commercial Trust

James C. Temerty
Chairman and Trustee
Chairman, Northland Power Income Fund Management Inc. and Northland Power Inc.

John W. Brace
President and COO
President and CEO, Northland Power Income Fund Management Inc. and Northland Power Inc.

Anthony F. Anderson
Chief Financial Officer
Chief Financial Officer, Northland Power Income Fund Management Inc. and Northland Power Inc.

Linda L. Bertoldi
Secretary
Partner, Borden Ladner Gervais LLP

Pierre R. Gloutney *
Independent Trustee
Chief Executive Officer
Refco Futures (Canada) Ltd.

A. Warren Moysey *
Independent Trustee,
Chairman of Audit Committee
Director and Chairman
Aviva Canada Inc.

F. David Rounthwaite *
Independent Trustee
Principal, Nereus Financial Inc.

The Right Honourable John N. Turner, Q.C. *
Independent Trustee
Partner, Miller Thomson LLP

Principal Office

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For supplemental information about the Fund and its businesses, as well as the latest quarterly financial information and press releases, visit our website at www.NPIFund.com.

* Member of the Audit Committee of NPIF Commercial Trust

Unitholder Information

Legal Counsel
Borden Ladner Gervais LLP
Toronto, Ontario

Auditors
Ernst & Young LLP
Toronto, Ontario

Bank
Canadian Imperial Bank of Commerce
Commerce Court West
Toronto, Ontario

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

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

Annual Meeting Date and Place
Friday, May 13th, 2005, at 11:00 a.m. in the TSX Conference Centre, located at The Exchange Tower, 130 King Street West (corner of King & York streets), Toronto, Ontario

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

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

Stability Ratings
Standard & Poor's has assigned the Fund a stability rating of SR-2, with a negative outlook, which denotes a very high level of stability in distributions. Dominion Bond Rating Services Limited issued an unsolicited report on September 14, 2004, and attributed a stability rating of STA-2 (low) to the Fund under its stability rating system.

Images in our annual report are by Toronto-based Canadian illustrator Greg Mably. He graduated from the Ontario College of Art & Design in 1992. His work has appeared in numerous magazines and corporate communications worldwide. In addition to editorial work, he applies his creative skills to the design of wrapping paper, animation shorts, greeting cards and posters. *American Illustration* and the American Institute of Graphic Arts have recognized Greg's talents.

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NORTHLAND POWER
INCOME FUND

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