

Northland Power Income Fund (the “Fund”) is a trust that, directly and through its wholly-owned subsidiary, Iroquois Falls Power Corp. (“IFPC”), owns a 110 MW cogeneration power plant located in Iroquois Falls, Ontario (the “Facility”). The Facility supplies electricity to Ontario Electricity Financial Corporation (as successor to Ontario Hydro), and steam to the neighbouring Abitibi-Consolidated Inc. pulp and paper mill. The electricity and steam are sold, and natural gas is purchased, under long-term contracts that reduce the Fund’s exposure to unexpected price and volume fluctuations and provide predictable cash flow.

The Fund is administered and the Facility is managed by Iroquois Falls Power Management Inc., a wholly-owned subsidiary of Northland Power Inc., which is a leading Canadian independent power company with extensive experience in all aspects of private power development and operational management.

As at March 10, 2000 the Fund had 30,823,443 trust units outstanding which trade on The Toronto Stock Exchange under the symbol NPI.UN. The units are qualified investments under the Canadian Income Tax Act for RRSPs and DPSPs and are not considered foreign property for such plans.

Glossary of Terms

Abitibi	Abitibi-Consolidated Inc.
Facility	Plant located in Iroquois Falls, Ontario
Fund	Northland Power Income Fund
GJ	Gigajoules
IFPC	Iroquois Falls Power Corp.
kWh	Kilowatt hour
M	Million
MW	Megawatt
MWh	Megawatt hour
Manager	Iroquois Falls Power Management Inc.
OEFC	Ontario Electricity Financial Corporation
OIM	Ontario Interim Market
OPG	Ontario Power Generation Inc.

Highlights

Year ended December 31

	1999	1998
Production		
Electricity (MWh)	778,300	732,000
Steam (million pounds)	868	780
Financial (in thousands of dollars)		
Sales	59,850	55,429
Net Income	18,390	15,297
Cash Available for Distribution	29,138	27,300
Distributions declared to unitholders (in thousands of dollars)	28,666	27,125
Distributions per unit (in dollars)	\$0.93	\$0.88

- **Distributions at \$0.93 per unit (97.7% tax deferred) were in line with the forecast in last year's annual report and \$0.05 per unit higher than the \$0.88 per unit achieved in 1998.**
- **Sales revenue in 1999 was up 8% from the prior year, with electricity sales up 4% and steam up 18% from 1998 which was affected by the Abitibi strike.**
- **A first collective agreement for the Iroquois Falls plant employees was ratified on December 21, 1999.**
- **The plant employees achieved another safety milestone; there have been no lost-time injuries since plant start-up in 1996.**

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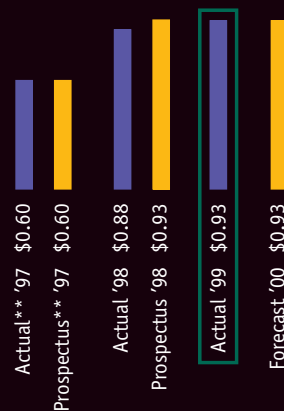


In common with other power income funds and partnerships, Northland Power Income Fund's total return in 1999 (distributions less decrease in unit value) was disappointing due to the sector's being out-of-favour with stock market investors. However, for those unitholders of the Fund who purchased units because they require predictable income, distributions met expectations, as they have since inception except during the 1998 Abitibi strike.

Data courtesy of CIBC World Markets Inc.

Distributions vs. Prospectus*

*dated April 3, 1997



**nine months

Letter to Unitholders

Distributions in 1999 totaled \$0.93 per unit, in line with the forecast in last year's annual report, and higher than the 1998 level of \$0.88 per unit.

Electricity revenue exceeded the prior year due to higher sales under the long-term power purchase agreement and additional sales to the Ontario Interim Market. Steam sales exceeded the 1998 level, which was affected by the Abitibi-Consolidated Inc. ("Abitibi") strike, but were below expectations because of a restructuring of Abitibi's mill operations early in 1999.

Electricity Industry Deregulation

The restructuring of Ontario Hydro on April 1, 1999 has not had a material impact on the long-term power purchase agreement that continues to underpin the Fund's electricity sales. Transitional issues concerning price indices and exclusivity provisions are under discussion with Ontario Electricity Financial Corporation, the Ontario government agency that now holds all rights, obligations and liabilities related to the power purchase agreement, and are expected to be resolved by the time the competitive market commences, which has been announced for November 2000. The Manager believes that the competitive market should, longer term, provide the opportunity to expand the Iroquois Falls plant.

Impact of Abitibi Restructuring

Abitibi retired the oldest of three paper machines at its Iroquois Falls mill in early 1999. As a result, for the last nine months of 1999 aggregate steam demand fell short of the take-or-pay quantities in the steam sales

agreement. As a consequence, Abitibi paid compensation under the take-or-pay provision. The Fund is protected from the economic impact of further adverse changes at Abitibi's mill until April 2003 by the take-or-pay provisions in the steam agreement with Abitibi, and thereafter until 2021 through provisions of the long-term power purchase agreement that increase OEFC's electricity purchase obligations to make up for a shortfall in steam revenue.

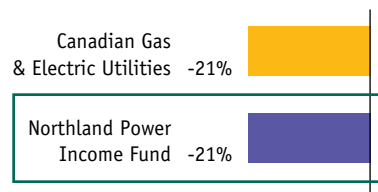
Market Performance

The market price of the Fund's units was down significantly in 1999. After producing returns of 16% in 1997 (from inception to year-end) and 10% in 1998, the combined return in 1999 (distributions less decrease in unit value) was minus 21%. This occurred despite the fact that, except during the 1998 Abitibi strike, the Fund has met its distribution projections since inception.

The disappointing performance of the Fund's unit price in 1999 largely mirrors that of utility securities in general, and power income funds in particular. The graph on the opposite page illustrates the performance of selected power income funds and limited partnerships, while the graph below compares the Fund's performance for the year to the returns from utility securities.

Total Return vs. Indices

Indices courtesy of TD Securities Inc.



The general decline in value was due to securities market conditions, and specifically the increase in long-term interest rates over the course of the year and the great investor interest in technology-related securities.

Acquisitions

At last year's annual meeting of unitholders, changes were approved to the trust indenture that reduced the quorum for unitholder meetings (from 20% to 10%) and provided greater flexibility to the Manager to undertake Canadian acquisitions and investments on the Fund's behalf, subject to the approval of the IFPC Board. While several opportunities were investigated in 1999, none proved to meet management's criteria for increasing distributions while also protecting the Fund's current risk profile.

Monthly Distributions

At this year's annual unitholder meeting, the Manager intends to seek approval for two additional trust indenture changes. The first change would permit monthly distributions (rather than quarterly) and the levelization of distributions through the year. The Manager believes that levelized monthly distributions will be attractive to investors who require regular, predictable monthly investment income. The second trust indenture change would allow non-Canadian investments and acquisitions, subject to certain criteria and the approval of the Board of IFPC.

2000 Forecast

The forecast for distributions in the year 2000 is \$0.93 per unit (approximately 95% tax-deferred), unchanged from 1999. The Manager will continue to seek opportunities for growth through prudent acquisitions and initiatives such as the sale of greenhouse gas credits.

The employees of the Iroquois Falls plant added another year to their outstanding record of no lost-time injuries since the plant startup in September 1996. The employees agreed to their first collective agreement late in the year; the agreement runs to June 30, 2002. I would like to thank the employees for their continued support in maintaining excellent operations at the plant.

On behalf of the administrator of the Fund and the Manager of the Iroquois Falls plant,



James C. Temerty, President

Iroquois Falls Power Management Inc.

March 10, 2000

Northland's Energy... Flowing into Ontario's De-Regulated Electricity Market

Iroquois Falls

The Facility is a cogeneration plant located in Iroquois Falls, Ontario, approximately 650 kilometers north of Toronto.

Roughly 90% of the Facility's revenue comes from electricity sales to Ontario Electricity Financial Corporation (OEFC), primarily under a 25-year power

purchase agreement. The remaining 10% represents steam sales to the neighbouring Abitibi-Consolidated Inc. pulp and paper mill.

Facility Management

The Manager of the Facility, Iroquois Falls Power Management Inc., is a wholly owned subsidiary of Northland Power Inc., a leading independent

power company with extensive experience in developing, engineering, operating, and maintaining private power projects. Northland Power Inc.

has earned a reputation for reliability, flexibility, responsiveness, and innovation through the success of its power projects.

Long Term Power Agreement

The Ontario government and OEFC have stated that the purchase agreement will continue to be honoured once the competitive market opens in 2000.

Ready Markets within 160 km

The area surrounding Iroquois Falls includes several large electricity consumers who could be potential customers of an expanded plant in the open market. They include the neighbouring Abitibi mill and the Falconbridge Kidd Creek copper/zinc refinery, one of the largest power consumers in Ontario.

Iroquois Falls' Generating Capacity

The City of Timmins provides a potential market of approximately 50,000 people to the Facility, only 80 km away. The Region of Timmins, including 35 townships, has a strong forestry industry and is one of the world's largest producers of gold, providing a ready market for the Facility once the competitive marketplace opens in November, 2000.

Open Markets in Ontario

When full competition begins the transmission grid and the entire electricity distribution system become available to all generators, including those

competitive suppliers from outside Ontario. It will be imperative that power producers manage their operations efficiently, to succeed in the open market.

Fuel Supply

The Facility is fuelled by natural gas provided by three major natural gas producers, pursuant to 20-year gas supply agreements. The Facility uses TransCanada PipeLines and Union Gas to transport its gas pursuant to 20 year firm service agreements.

Environmental Stewardship

Cogeneration is the simultaneous production of electric and thermal energy from one fuel source. It provides greater

efficiency, lower fuel costs and benefits the environment by reducing greenhouse gas production and virtually eliminating sulphur dioxide emissions.

Natural gas is the most environmentally friendly hydro-carbon fuel

Abitibi-Consolidated Inc.

One of the world's largest manufacturers and marketers of newsprint and uncoated groundwood papers. The mill at Iroquois Falls has two small, relatively old

paper machines producing specialty papers and one large, modern newsprint machine; one of the older machines was shut down in early 1999,

reducing steam demand. The Fund is protected from the economic impact of further adverse changes at Abitibi's mill until April 2003 by the

take-or-pay provisions of the steam sales agreement with Abitibi.

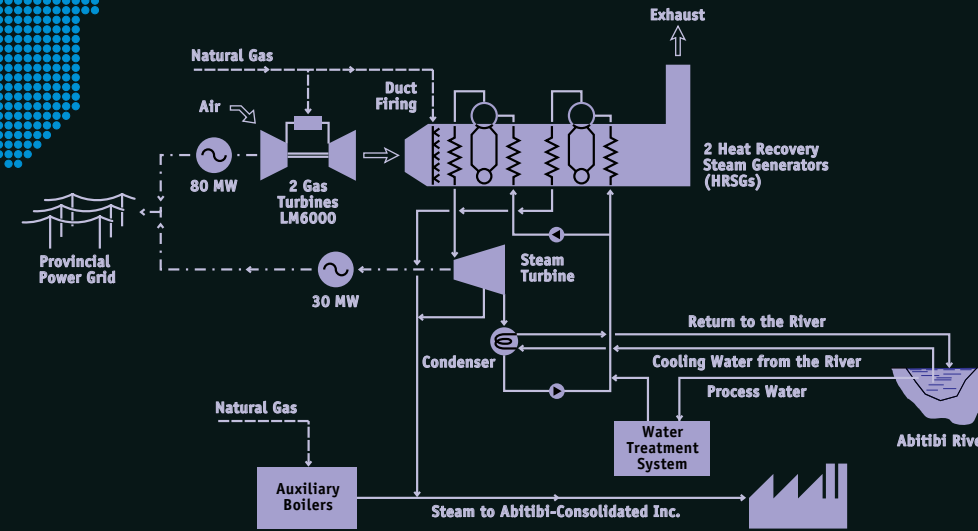
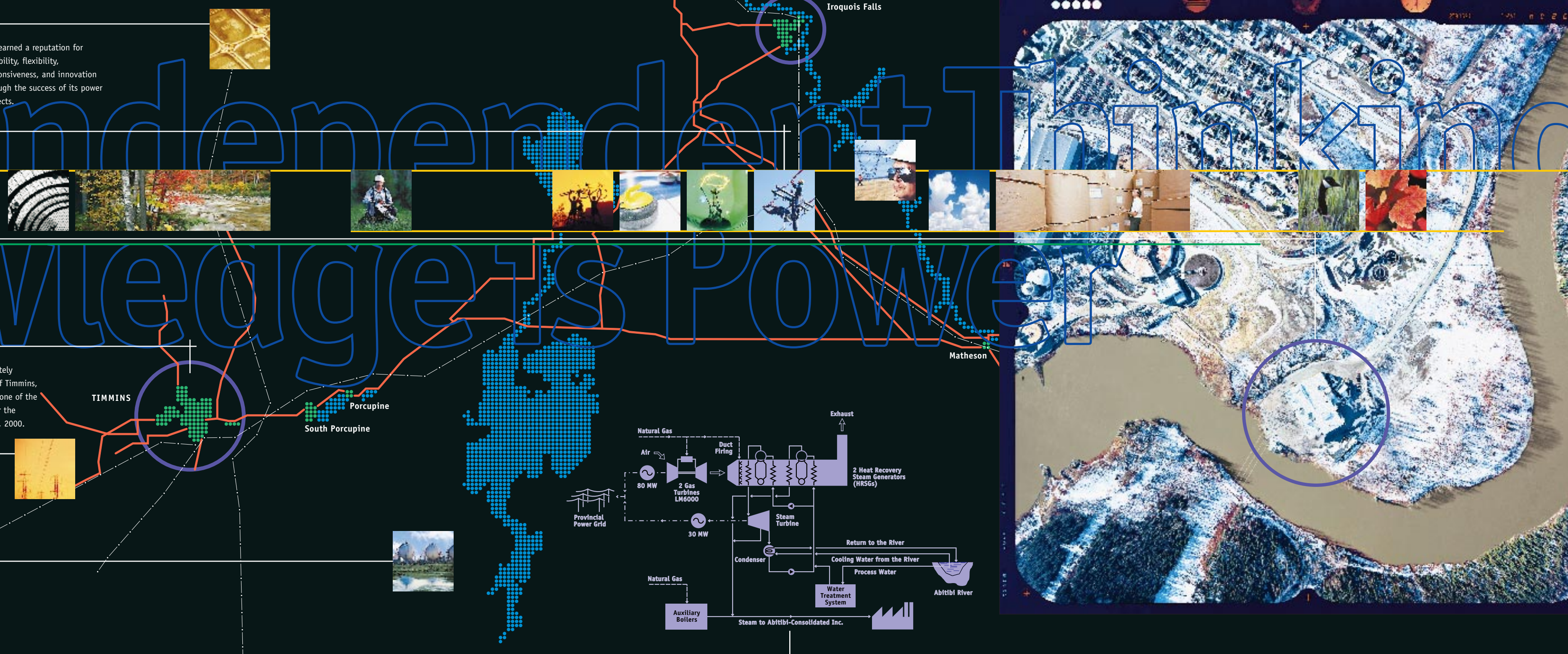
Efficient Energy Recovery

The Facility is a combined cycle cogeneration plant with a net rated capacity of 110 MW of electrical power. Natural gas

fuels two General Electric LM6000 gas turbine generator sets. The hot exhaust gases from the gas turbines are sent to two heat recovery steam generators.

The high pressure steam produced by the HRSGs is routed to the steam turbine generator set which produces more electricity.

Steam is extracted from the steam turbine at lower pressure for delivery to the Abitibi mill.



Industry Developments

As discussed in last year's annual report, Ontario Hydro was restructured on April 1, 1999. Ontario Power Generation Inc. ("OPG") took over Ontario Hydro's electricity generation plants, including the nuclear stations. Ontario Hydro Services Company Inc. assumed responsibility for bulk electricity transmission and is the entity to which the Iroquois Falls Facility delivers its electricity. The Independent Market Operator will have the responsibility for matching supply and demand in the new competitive market, and is the entity to which the Fund would bid to sell electricity produced above the volumes specified in the long-term power purchase agreement.

The legal successor to Ontario Hydro's obligations under the Fund's long-term power purchase agreement is Ontario Electricity Financial Corporation ("OEFC"), which is a crown agency whose obligations, including those under the power purchase agreement, are guaranteed by the province of Ontario, as were Ontario Hydro's.

Power Purchase Agreement Remains

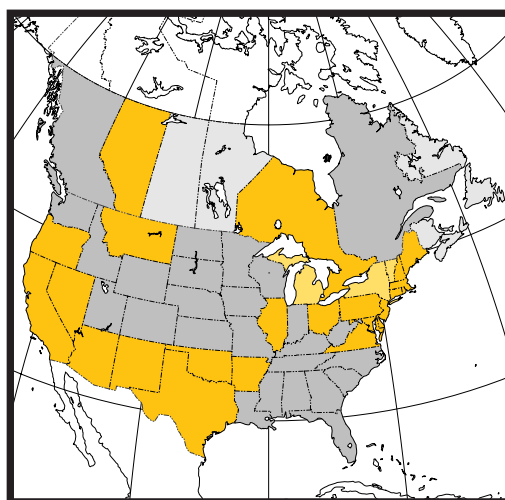
The restructuring of Ontario Hydro requires certain changes to the power purchase agreement to deal with the transition from a government monopoly to a competitive marketplace. The major transitional issues are the replacement of Ontario Hydro price indices that were the basis for selling price changes under the power purchase agreement, and the issue of Ontario Hydro's claims to exclusivity (with which the Manager does not agree) that relates to whether or not the Iroquois Falls plant will be allowed to sell production above the long-term power purchase agreement volumes into the competitive market – until now any such sales have been made to the Ontario Interim Market ("OIM") operated by Ontario Hydro and OPG. These issues are currently being discussed with OEFC and manage

ment anticipates that agreement will be reached before the competitive market opens, currently scheduled for November of 2000.

Last year's annual report referred to a process commenced by Ontario Hydro for a mutually agreed renegotiation of certain provisions of the power purchase agreement. The restructuring of Ontario Hydro took priority over this process and OEFC has cancelled the renegotiation process. However, OEFC has indicated that it is open to considering proposals that would be beneficial to it.

Longer-term

Assuming that the Fund is able to gain access to the competitive electricity market, which it expects to do, the Manager believes that the competitive market will yield higher prices for electricity sold outside the terms of the power purchase agreement than have been achievable from sales to the OIM, which is operated by OPG, a competitor. Longer term, the introduction of a competitive market should provide an attractive opportunity to expand the Iroquois Falls Facility.



Sources: US Energy Information Administration
Canadian Electricity Association

In Canada, restructuring legislation has been enacted in Ontario and Alberta. These two provinces are expected to have functioning competitive markets by the end of 2000.

- Restructuring Legislation Enacted
- Comprehensive Regulatory Order Issued
- Commission or legislative Investigation Ongoing
- Less Activity

Report on Operations

In 1999, the Fund distributed \$0.93 per unit to unitholders, which was 97.7% tax-deferred. This was in line with the forecast in last year's annual report, and exceeded the \$0.88 per unit distributed in 1998 which was affected by the five-month strike at Abitibi's Iroquois Falls mill and by a two-week steam turbine outage as described in last year's annual report.

Total sales revenue in 1999 of \$59,850 thousand was 8% ahead of 1998. Electricity production surpassed the prior year by 6% due to higher sales under the long-term power purchase agreement and additional sales to the OIM. Electricity sales at \$51,704 thousand were up 4%; proportionately less than production because the higher sales under the power purchase agreement were at lower, off-peak rates while additional sales to the OIM were made at prices below those under the power purchase agreement. Steam sales at \$4,381 thousand were above the strike-reduced level of 1998 by 18%. Other sales of \$3,765 thousand comprising natural gas resold to mitigate fixed gas transportation costs were up from 1998.

The cost of sales at \$25,166 thousand exceeded 1998 by 14%. Natural gas consumption at the Facility was up 6%, in line with the higher electricity production. The gas price was higher by 2% because of contractual gas price increases and higher transportation tariffs, partially offset by increased transportation cost mitigation. The cost of gas resold was up largely because of the higher gas sales volume.

Total plant and other costs, including interest but excluding income taxes, at \$16,273 thousand were down by \$1,829 thousand from 1998 because of the discontinuance of interest on the instalment receipt loan, which was repaid in 1998. Other cost categories were largely in-line with the prior year.

The Facility did not experience any Y2K-related problems.

Several acquisition opportunities were investigated in 1999 but, after detailed investigations, none proved to meet management's criteria for increasing distributions while also protecting the Fund's current risk profile. Efforts to sell greenhouse gas emission credits were also unsuccessful because of the extremely limited market.

On December 21, 1999, the employees at the Facility ratified a first collective agreement that expires June 30, 2002. The collective agreement is not expected to have a material impact on the operations of the Iroquois Falls facility or on distributions to unitholders.

At December 31, 1999, the Fund was entirely debt-free and held more than enough cash to pay the announced fourth-quarter distribution to unitholders of \$7,706 thousand.

As described in the Industry Developments section of this annual report, discussions are underway with OEFC regarding changes required in the long-term power purchase agreement as part of the transition to a competitive market. OEFC and the Manager have stated their joint intention to complete negotiations prior to the opening of the competitive market, which has been announced to become effective in November 2000.

2000 Forecast

Distributions for 2000 are forecast at \$0.93/unit, in line with 1999 distributions, of which approximately 95% is expected to be non-taxable (tax deferred) and 5% taxable. The pattern of distributions by quarter is expected to change after the time of the second-quarter distribution if the unitholders approve the proposed trust indenture changes to allow levelized monthly distributions.

Governance, The Board, Distribution and Funding Policy

Governance: The Roles of the Trustee, the IFPC Board and the Manager

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

The Board of Directors of IFPC has responsibility for the management of the Facility, 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 Fund and provides advice to the Manager. The Board consists of five directors, 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.

Directors & Officers of Iroquois Falls Power Corp.

James C. Temerty



Anthony F. Anderson



Linda L. Bertoldi



Pierre R. Gloutney



A. Warren Moysey



F. David Rounthwaite



The Right Honourable
John N. Turner, Q.C.

Distribution and Funding Policy

It is the Fund's policy to distribute 100% of cash flow to unitholders after providing for required capital expenditures and any increases in working capital, which are not expected to be material. It is anticipated that material capital expenditures that enhance cash flow and distributions to unitholders will be

financed using the operating line of credit which will then be repaid from incremental cash flow; permitted acquisitions and plant expansions, if any are undertaken, would be funded by a combination of borrowings and the issuance of additional trust units.

Management's Discussion and Analysis

Northland Power Income Fund (the "Fund") is a trust that was established in April 1997 to acquire the Iroquois Falls cogeneration facility (the "Facility"). The Fund's business activities are conducted through its wholly owned subsidiary, Iroquois Falls Power Corp. ("IFPC"), which sold electricity to Ontario Hydro until March 31, 1999 and thereafter to Ontario Electricity Financial Corporation ("OEFC") and steam to a neighbouring pulp and paper mill owned by Abitibi-Consolidated Inc. ("Abitibi"), primarily under long-term contracts.

This Management's Discussion and Analysis compares the Fund's 1999 financial results to the financial results for 1998.

The Fund's 1999 distributions to unitholders of \$28,666 thousand, or \$0.93 per unit, were up from 1998 distributions of \$0.88 per unit primarily because total sales were higher by 8.0%.

Revenue and Cost of Sales (In thousand of dollars except as indicated otherwise)	1999	1998
Electricity		
Production (MWh)	778,307	732,034
Average price (\$/kWh)	0.0664	0.0677
Sales	51,704	49,588
Steam		
Production (000 lbs.)	868,431	779,609
Average price (\$/000 lbs.)	5.04	4.76
Sales	4,381	3,713
Natural Gas	3,765	2,128
Total Sales	\$59,850	\$55,429
Cost of Electricity and Steam Sales: Natural Gas		
Volume consumed (000 GJ)	7,145	6,713
Average price of gas consumed (\$/GJ)	3.08	3.01
Cost of gas consumed	22,048	20,181
Cost of Natural Gas Sales	3,118	1,867
Total Cost of Sales	\$25,166	\$22,048

Facility electricity revenue in 1999 exceeded the 1998 level by \$2,116 thousand (4.3%) as a 6.3% increase in the volume sold was partly offset by a lower average selling price. OEFC's decision to only partially exercise its limited right to curtail off-peak electricity purchases during the summer months resulted in 18,571 MWh of higher sales under the long-term power purchase agreement. Successful bids to the Ontario Interim Market ("OIM") operated by Ontario Hydro and OPG provided 17,702 MWh of additional OIM sales. In addition, sales in 1998 under the power purchase agreement were adversely affected by a two-week steam turbine outage. The 1999 average selling price decreased by 1.9% because, while the average selling price under the power purchase agreement increased by 0.5%, off-peak generation (paid at a lower rate) and OIM sales at below power purchase agreement prices represented a greater proportion of revenue from electricity sales than in 1998.

Revenue	1999		1998	
Electricity sales	51,704	86.4%	49,588	89.5%
Steam sales	4,381	7.3%	3,713	6.7%
Natural gas sales	3,765	6.3%	2,128	3.8%
Totals – in thousands of dollars	59,850		55,429	

Steam revenue increased by 18.0% from 1998. Steam sales were reduced in 1998 by a five-month strike at Abitibi's Iroquois Falls mill, although Abitibi continued to take steam to meet its heating requirements even during the strike. While steam volume was up by 11.4% in 1999 over the prior year, this increase was less than had been anticipated because steam demand was adversely affected by a restructuring of Abitibi's mill operations in early 1999 which included the permanent shutdown of one of the smaller of its three paper machines. Steam volumes, in aggregate, for the nine months commencing April 1, 1999 were below the take-or-pay level which resulted in compensation under the take-or-pay clause of the long term steam sales agreement. The average steam price was 5.9% higher because of an increase in the price of natural gas, which partially determines the steam price, and because compensation was obtained under the take-or-pay provision of the steam sales agreement against which no steam was delivered.

Revenue of \$3,765 thousand was received for natural gas that was resold to mitigate the cost of unused capacity under the transportation contract with TransCanada PipeLines Limited ("TCPL") during lower production summer months and plant shutdowns. Natural gas sales in 1999 were \$1,637 thousand above the 1998 level. Sales were up as the gas market price was higher and winter peak fuel needs in 1999–2000 will be met through an increase in TCPL contracted capacity rather than use of storage in eastern Canada, as has been the past practice.

The cost of natural gas consumed at \$22,048 thousand was up 9.3% from the prior year. The volume of gas consumed was 6.4% higher, in line with the 6.3% increase in electricity production. The price of gas consumed was up from 1998 because of contractual gas price increases of 4% and because transportation costs were \$480 thousand higher than in 1998 due largely to a 4% increase in TCPL charges and an increase in Union Gas storage rates. These increases were partially offset by higher gas sales that mitigated fixed transportation costs, resulting in an average increase in the cost of gas consumed of 2.3%. Gas purchased for resale to mitigate the fixed cost associated with unused TCPL pipeline capacity totalled \$3,118 thousand, \$1,251 thousand higher than 1998 primarily because of the higher volume of sales in 1999.

Expenses Including Interest

In thousands of dollars except as indicated otherwise	1999	1998
Plant operating costs	\$5,762	\$5,890
Amortization	9,242	9,250
Management & administration costs, including capital tax	1,473	1,337
Instalment loan interest and bank fees	112	1,996
Other interest income	(316)	(371)
Total expenses including interest	\$16,273	\$18,102

Total expenses including interest at \$16,273 thousand were \$1,829 thousand lower than 1998 due largely to elimination of interest expense for the instalment receipt loan, which was fully repaid in April 1998. Plant operating expenses were down \$128 thousand from 1998, which was adversely affected by the cost of unexpected repairs to the steam turbine. Management and administration costs were \$136 thousand ahead of last year because of expenses associated with investigating several acquisition opportunities, none of which, after detailed investigation, proved to meet the Fund's criteria. Other interest income was \$55 thousand lower than in 1998 due largely to the declining balance in the prepaid General Electric Maintenance Fees account.

Net Income in 1999 exceeded the 1998 level by \$3,093 thousand because of higher gross profit and lower expenses.

Distributions to Unitholders

In thousands of dollars except as indicated otherwise	1999	1998
Cash provided by operating activities	\$29,270	\$27,421
Less capital expenditures, net of restricted cash	(57)	(41)
Less funds set aside for future maintenance costs	(75)	(80)
Cash available for distribution	\$29,138	\$27,300
Distribution declared to unitholders	\$28,666	\$27,125
Number of trust units (thousands of units)	30,823	30,823
Per unit (\$/unit)		
Cash available for distribution	\$0.95	\$0.89
Distribution declared to unitholders	\$0.93	\$0.88

Cash available for distribution in 1999 of \$29,138 thousand exceeded 1998 by \$1,838 thousand. Distributions declared to unitholders for 1999 totalled \$28,666 thousand or \$0.93 per unit, compared to \$27,125 thousand and \$0.88 per unit in 1998. The increases were due primarily to the additional revenue resulting from the higher electricity and steam sales.

Uses of Cash	1999	1998
Natural gas	25,165 ● 42.0%	22,048 ● 39.8%
Plant expenses	4,670 ● 7.8%	4,798 ● 8.7%
Management and administration	1,349 ● 2.3%	1,458 ● 2.6%
Distribution to unitholders	28,666 ● 47.9%	27,125 ● 48.9%
Totals – in thousands of dollars	59,850	55,429

Tax Treatment of Distributions

Distributions to unitholders in 1999 were 97.7% tax-deferred. The tax deferral arises as the Fund's capital cost allowance and expenses significantly reduce the Fund's income that would otherwise be taxable.

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 unit are greater (or less) than the adjusted cost base of the unit and any associated selling expenses. The tax-deferred portion of distributions represents return of capital for income tax purposes, and reduces the adjusted cost base of the trust units.

Distributions in 2000 are expected to be approximately 95% tax deferred and 5% taxable to unitholders.

Seasonality of Distributions

The Fund's cash available for distribution is seasonal as OEFC has contracted for more electricity and pays a higher price in winter than in summer. In addition, steam sales to Abitibi are higher in winter. Distributions to unitholders reflect this seasonality and the impact of the approximate one-month delay in collecting receivables and paying suppliers. The Manager will seek unitholder approval at this year's annual meeting of unitholders for a trust indenture change that will permit monthly distributions (rather than quarterly) and the levelization of distributions through the year.

Liquidity and Capital Resources

The Fund had no long-term debt at December 31, 1999. The Fund's subsidiary, IFPC, has a line of credit of \$12.5 million consisting of a \$7.5 million revolving letter of credit facility and a \$5 million revolving operating line of credit to be used for general corporate purposes. As of December 31, 1999, a letter of credit for \$5.9 million was outstanding, and there were no borrowings under the operating line of credit.

Distribution and Funding Policy

It is the Fund's policy to distribute 100% of estimated cash flow to unitholders after providing for required capital expenditures and any increases in working capital, which are not expected to be material. It is anticipated that material capital expenditures, if any, that enhance cash flow and distributions to unitholders will be financed using the operating line of credit which would then be repaid from incremental cash flow. Any permitted acquisitions and plant expansions would be undertaken only if approved by the IFPC Board of Directors and funded by a combination of borrowings and the issuance of additional units.

Commitments

The Facility generates electricity and sells it to OEFC under a power purchase agreement expiring in 2021. The power purchase agreement obligates OEFC to purchase 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). OEFC is required to purchase additional electricity after January 1, 2002 for the remaining term of the steam sales agreement if Abitibi permanently reduces or eliminates, or predicts an extended reduction in, its need for steam for a period of one year or more. Both the Ontario government and OEFC have committed that the Facility's long-term power purchase agreement will continue to be honoured notwithstanding the restructuring of Ontario Hydro.

Steam is supplied by the Facility to the neighbouring Abitibi pulp and paper mill under a steam sales agreement that expires in 2016. The agreement obligates Abitibi to pay for a minimum quantity of steam for a six-year period ending April 2003 under a take-or-pay clause that provides Abitibi with relief for a six-month period should a force majeure event occur, such as the strike in 1998.

The Facility is fueled by natural gas provided by PanCanadian Petroleum Limited, Shell Canada Ltd., and Encal Energy Ltd. pursuant to gas supply contracts that end at various times between 2015 and 2017. The gas is transported through pipelines owned by TCPL 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 General Electric Canada Inc. ("GE") under a maintenance agreement that expires in 2002 and is renewable at IFPC's option under similar terms.

The unionized employees at the Iroquois Falls plant ratified their first collective agreement on December 21, 1999. The agreement will be in effect until June 30, 2002. Operations and costs at the Facility will not be affected by the collective agreement.

The Facility is operated by Iroquois Falls Power Management Inc. (the "Manager"), a wholly owned subsidiary of Northland Power Inc., under a management agreement expiring in 2021. The Fund is administered by the Manager under the administration agreement.

Risks and Uncertainties

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 approximately 90% of the Fund's revenues, failure of OEFC to meet its contractual obligations would have an adverse affect on distributions.

On April 1, 1999 Ontario Hydro was reorganized into five successor companies. OEFC, one of the successor companies, holds all rights, obligations and liabilities related to the power purchase agreement. OEFC and the government of Ontario have confirmed that the Facility's long-term power purchase agreement will continue to be honoured after market deregulation in 2000.

Increases in the selling price of electricity under the power purchase agreement are indexed to Ontario Hydro selling price indices (the Direct Customer Rate ("DCR") and Average Customer Rate ("ACR")). The Fund's revenues from electricity sales under the power purchase agreement are directly tied to changes in the DCR and ACR, although approximately 23% of such electricity revenue is subject to 3.3% minimum escalation. Discussions with OEFC have commenced to establish mutually satisfactory replacements for the DCR and the ACR indices. The impact that such replacements may have on future electricity price changes under the power purchase agreement is not yet determinable.

The Fund has generated revenue from electricity sales to the OIM operated by OPG and, prior to OPG's formation, Ontario Hydro. Although the Manager considers otherwise, it is the position of OEFC that the Fund is required to sell any electricity it generates in excess of the quantities under the power purchase agreement

exclusively to OEFC. The OIM will be discontinued when the competitive market commences, which is currently expected in November, 2000. The Fund may not be permitted to sell electricity outside the terms of the power purchase agreement to the competitive market unless this matter is resolved with OEFC. As a result of the opening of the competitive market, some additional costs, such as generator licensing fees, could arise.

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 Facility is obliged to respond to fluctuations in Abitibi steam needs. Demand for steam has an impact on gas consumption, and unexpectedly large short-term fluctuations in steam demand increase gas consumption without a proportionate increase in steam revenue.

Contracted gas prices generally escalate with Ontario Hydro's DCR subject to a 4% minimum annual increase. The gas contracts provide for price adjustments (subject to predefined ceilings) approximately every five years for which only 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. The impact of replacing the DCR as escalator is not yet determinable. Failure by the Facility's natural gas suppliers to provide gas under the long-term contracts could result in higher gas prices.

Any failure by TCPL or Union Gas Limited to deliver natural gas to the Facility will have an adverse impact on cash distributions.

The Fund is subject to operational risks that could have an adverse affect on cash distributions. These risks are partially mitigated by the proven nature of the technology and design of the Facility, the availability of critical spares on site, the gas turbine maintenance agreement with GE, and participation in the GE gas turbine lease pool which guarantees the availability of replacement gas turbines on short notice. The Fund has business interruption insurance to help mitigate the impact on distributions of other adverse occurrences that are insured.

Although no Year 2000 issues have been experienced at the Facility to-date, it is not possible to conclude that all aspects of this issue that may affect the Fund, including those related to customers, suppliers, or other third parties, have been fully resolved.

The Facility operations are subject to numerous environmental laws and regulations. The Facility has an environmental monitoring and reporting system in place. Changes in environmental laws and regulations could possibly result in additional expenses, capital expenditures, and restrictions in the Facility's activities, the extent of which cannot be predicted.

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

Outlook

At this time, distributions to unitholders in the year 2000 are expected to be similar to the 1999 results of \$0.93 per unit.

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

The Manager will seek unitholder approval for two trust indenture changes at this year's annual meeting of unitholders. The first change would permit monthly distributions (rather than quarterly) and the levelization of distributions through the year. The second trust indenture change would allow non-Canadian investments and acquisitions, subject to certain criteria and the approval of the Board of IFPC.

Consolidated Financial Statements

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, 1999 and 1998 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 auditing standards generally accepted in Canada. 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, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Toronto, Canada
March 6, 2000

Ernst + Young LLP
Chartered Accountants

Consolidated Balance Sheets

As at December 31

In thousands of dollars

Assets [note 6]	1999	1998
Current		
Cash and cash equivalents	7,987	7,440
Restricted cash [note 1]	426	451
Accounts receivable [note 3]	6,406	6,004
Inventories [note 4]	882	1,606
Prepaid expenses	595	597
Total current assets	16,296	16,098
Deferred maintenance fee, net	2,997	4,089
Capital assets, net [note 5]	248,513	257,673
	267,806	277,860
Liabilities and Unitholders' Equity		
Current		
Accounts payable and accrued liabilities	3,470	3,248
Distribution payable to unitholders	7,706	7,706
Total liabilities	11,176	10,954
Commitments and contingencies [notes 6, 11 and 13]		
Unitholders' equity		
Unit capital [note 7]	290,152	290,152
Deficit	(33,522)	(23,246)
Total unitholders' equity	256,630	266,906
	267,806	277,860

See accompanying notes

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



President

Consolidated Statements of Income and Deficit

Year ended December 31

In thousands of dollars, except per unit information

	1999	1998
Sales	59,850	55,429
Cost of sales	25,166	22,048
Gross profit	34,684	33,381
Expenses		
Plant operating costs	5,762	5,890
Amortization	9,242	9,250
Management and administration costs [note 9]	1,473	1,337
Instalment loan, interest expense and bank fees	112	1,996
Interest income	(316)	(371)
	16,273	18,102
Income before income taxes	18,411	15,279
Provision for (recovery of) income taxes [note 10]		
Current	21	67
Deferred	—	(85)
	21	(18)
Net income for the year	18,390	15,297
Deficit, beginning of year	(23,246)	(11,418)
Distributions to unitholders	(28,666)	(27,125)
Deficit, end of year	(33,522)	(23,246)
Net income per Trust Unit [note 2]	\$0.60	\$0.50

See accompanying notes

Consolidated Statements of Cash Flows

Year ended December 31

In thousands of dollars

	1999	1998
Operating Activities		
Net income for the year	18,390	15,297
Add (deduct) items not involving cash		
Amortization	9,242	9,250
Amortization of maintenance fee	1,092	1,092
Instalment loan, interest expense and bank fees	—	1,863
Deferred income taxes	—	(85)
Loss on sale of capital assets	—	3
Funds from operations before changes in working capital	28,724	27,420
Net change in non-cash working capital balances related to operations	546	1
Cash provided by operating activities	29,270	27,421
Investing Activities		
Additions to capital assets	(82)	(276)
Proceeds from sale of capital assets	—	4
Cash used in investing activities	(82)	(272)
Financing Activities		
Restricted cash drawdown [note 1]	25	231
Second instalment proceeds on issuance of Trust Units	—	123,294
Repayment of instalment loan	—	(123,294)
Distributions to unitholders	(28,666)	(27,125)
Cash used in financing activities	(28,641)	(26,894)
Net increase in cash and cash equivalents during the year	547	255
Cash and cash equivalents, beginning of year	7,440	7,185
Cash and cash equivalents, end of year	7,987	7,440
Interest and income taxes paid		
Interest	83	119
Income Taxes	51	162

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 1999

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 dated February 17, 1997, as amended April 15, 1997, as an unincorporated open-ended trust. The Fund derives its distributable cash flow from Iroquois Falls Power Corp. ["IFPC"], a special-purpose corporation, wholly-owned by the Fund. Effective April 1, 1997, the Fund and IFPC purchased the Iroquois Falls cogeneration power facility [the "Facility"], located in Iroquois Falls, Ontario. The Facility produces electricity for sale to Ontario Electricity Financial Corporation ["OEFCC"] under the provisions of a contract expiring in 2021 and steam for sale to Abitibi-Consolidated Inc. ["Abitibi"] under the provisions of a contract expiring in 2016.

As part of the acquisition, restricted cash of \$1,983,000 was acquired in order to complete construction of the plant. At December 31, 1999, the restricted cash balance is \$426,000 [1998 – \$451,000]. The restricted cash used during the year is as follows:

In thousands of dollars	1999	1998
Purchase of capital assets	25	164
Reduction of contractor holdback payable	—	67
Total restricted cash used	25	231

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada "GAAP". The preparation of consolidated financial statements in conformity with GAAP requires that Iroquois Falls Power Management Inc. [the "Manager"], the administrator of the Fund and the manager of the 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. In the opinion of the Manager, actual results may differ from these estimates.

Principles of consolidation

These consolidated financial statements include the accounts of the Fund and the accounts of IFPC. All inter-entity transactions have been eliminated.

Cash and cash equivalents

Cash equivalents comprise only highly liquid investments with original maturities of less than ninety days and are recorded at cost, which approximates market value. The average interest rate on short-term investments held as at December 31, 1999 approximates 4.5% per annum [1998 – 4.7%].

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, and net realizable value. Spare parts and other inventory are carried at the lower of cost and net replacement cost.

Notes to Consolidated Financial Statements

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	30 years
Contracts [note 3]	over the term of the agreements
Vehicles	5 years
Office equipment, furniture and fixtures	5 years
Computers and computer software	2 years

Deferred maintenance fee

The deferred maintenance fee is amortized over the term of an agreement between IFPC and General Electric Canada Inc. for the maintenance of the gas turbines. This agreement expires in 2002 and is renewable upon expiry.

Revenue recognition

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

Income taxes

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 income taxes for the Fund is made. The Fund's wholly-owned subsidiary, IFPC, is subject to corporate income taxes as computed under the Income Tax Act (Canada). IFPC follows the deferral method of accounting for income taxes.

Net income per Trust Unit

Net income per Trust Unit is based on the consolidated net income for the year over the weighted average number of Trust Units outstanding during the year, which was 30,823,443 [1998 – 30,823,443].

3. Economic Dependence and Concentration of Credit Risk

The Fund is entirely dependent on the facility lease income, interest income and dividends received from IFPC. In 1999, approximately 84% [1998 – 88%] of IFPC's revenue is derived from the sale of electricity to OEFC pursuant to the power purchase agreement expiring in 2021. Approximately 7% [1998 – 7%] of IFPC's revenue is derived from the sale of steam to Abitibi pursuant to a contract expiring in 2016.

Approximately 86% [1998 – 90%] of the year-end accounts receivable balance is due from OEFC relating to electricity sales. And, approximately 14% [1998 - 10%] of the year-end accounts receivable balance is due from Abitibi relating to steam sales.

4. Inventories – In thousands of dollars

Inventories consist of the following:	1999	1998
Natural gas	39	759
Spare parts and other inventory	843	847
	882	1,606

Notes to Consolidated Financial Statements

5. Capital Assets – In thousands of dollars

Capital assets consist of the following:

	1999		1998	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Land	126	—	126	—
Buildings and foundations	23,159	2,120	23,159	1,348
Plant and equipment	236,817	21,694	236,773	13,798
Contracts	13,668	1,503	13,668	957
Vehicles	11	6	11	4
Office equipment, furniture and fixtures	55	20	35	12
Computers and computer software	89	69	71	51
	273,925	25,412	273,843	16,170
Net book value		248,513		257,673

6. Credit Agreement

The Fund has a credit agreement with the Canadian Imperial Bank of Commerce that is subject to renewal on the anniversary date of April 16, 2000, which, establishes a \$7,500,000 revolving term letter of credit facility to be used in meeting obligations under gas transportation and supply contracts and a \$5,000,000 revolving term operating line of credit for general corporate purposes. Interest per annum, under the operating line of credit agreement is charged at the bank's prime rate plus 2.0%. There is also a fee of 1.3% per annum charged on the outstanding amount of the letter of credit. Standby fees of 0.5% are charged on each of the undrawn letter of credit and operating line facilities.

At December 31, 1999, a letter of credit for \$5,920,000 [1998 – \$5,920,000] was outstanding under the letter of credit facility and no amounts have been drawn on the operating line.

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

Notes to Consolidated Financial Statements

7. Unitholder's Equity

The Trustee 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.

In thousands of dollars	1999	1998
Issued and outstanding		
30,823,443 Trust Units	290,152	290,152

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

The aggregate redemption price payable by the Fund in respect of any Trust Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the following month; provided that the entitlement of 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 IFPC's Directors 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 trading period commencing immediately after the date on which the Trust Units are tendered for redemption.

8. Distribution to Unitholders

Cash provided by operating activities for the year ended December 31, 1999 was \$0.95 per Trust Unit [1998 – \$0.89 per Trust Unit], being an aggregate amount of \$29,270,000 [1998 – \$27,421,000].

A distribution of \$0.93 per Trust Unit [1998 – \$0.88], being an aggregate distribution of \$28,666,000 [1998 – \$27,125,000], was determined by the Manager of the Fund for the year ended December 31, 1999. For income tax purposes, \$28,007,000 of the distribution is a return of capital.

9. Management Fee

Iroquois Falls Power Management Inc., as the Manager, is entitled to receive a fee from the Fund and IFPC for services provided related to the operation, management and administration of the Facility, pursuant to a 25-year management agreement expiring in 2021. The fee is payable on a monthly basis at a rate of 1/12 of \$460,000, adjusted annually with changes to the Consumer Price Index. During the year ended December 31, 1999, the Manager was paid \$469,000 [1998 – \$462,000].

The Manager is also entitled to receive a management incentive fee equal to 25% of the amount by which annual distributions to the unitholders exceed \$0.934 per Trust Unit. The Manager is also entitled to other operation-related incentive fees. During the year ended December 31, 1999, the Manager earned \$75,000 for operation related incentive fee [1998 – nil].

Notes to Consolidated Financial Statements

10. Income and Other Taxes – In thousands of dollars	1999	1998
Income before income taxes	18,411	15,279
Combined federal and provincial income tax at statutory rate of 44.62%	8,215	6,817
Manufacturing and processing deduction	(206)	—
Income of fund distributed to unitholders	(8,532)	(7,971)
Effect of tax losses not recorded	523	1,069
Large corporations tax and other items	21	67
Provision for (recovery of) income taxes	21	(18)

At December 31, 1999, financing expenses and underwriters' fees of \$7,699,000 [1998 – \$11,315,000] are deductible by the Fund for income tax purposes on a straight-line basis over the next three years.

At December 31, 1999, IFPC has non-capital tax losses available for carryforward of approximately \$5,280,000 [1998 – \$3,540,000] which are available to reduce future year taxable income. These losses expire from 2003 to 2016. The benefit of \$3,617,000 [1998 – \$2,419,000] of these losses has not been recognized in the consolidated financial statements.

11. Commitments

In the ordinary course of business, IFPC has entered into agreements to ensure an adequate supply of natural gas and transportation thereof to the Facility, expiring in the years 2015 to 2017.

12. Comparative Figures

Certain comparative figures have been reclassified in order to conform to the current year presentation.

13. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date to the year 2000 has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Fund, including those related to the efforts of customers, suppliers, or other third parties, have been fully resolved.

Corporate and Unitholder Information

Principal Office

c/o Iroquois Falls Power Management Inc.
30 St. Clair Avenue West
17th Floor
Toronto, Ontario M4V 3A2

Trustee

Montreal Trust Company of Canada
151 Front St. West
Suite 605
Toronto, Ontario M5J 2N1
Attention: Corporate Services

Directors & Officers of Iroquois Falls Power Corp.

James C. Temerty

President

President, Iroquois Falls Power Management Inc.
and Northland Power Inc.

Anthony F. Anderson

Chief Financial Officer

Vice President, Finance and Administration
Iroquois Falls Power Management Inc.
and Northland Power Inc.

Pierre R. Gloutney*

Director

President and Chief Executive Officer
Refco Futures (Canada) Ltd.

A. Warren Moysey*

Director

Company Director

The Right Honourable John N. Turner, Q.C.

Director

Partner, Miller Thomson

F. David Rounthwaite*

Director

Partner, McCarthy Tétrault

Linda L. Bertoldi

Secretary

Partner, Borden Ladner Gervais LLP

Legal Counsel

Borden Ladner Gervais LLP
Toronto, Ontario

Auditors

Ernst & Young LLP
Toronto, Ontario

Bank

Canadian Imperial Bank of Commerce
Main Branch, Commerce Court
Toronto, Ontario

Registrar & Transfer Agent

Montreal Trust Company of Canada
151 Front St. West
Suite 605
Toronto, Ontario M5J 2N1
Attention: Stock Transfer Services

Trust Units

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

Annual Meeting Date and Place

The third annual meeting of unitholders of Northland Power Income Fund will be held on Friday, May 26th, 2000 at 11:00 a.m. in the MacDonald Room of the Board of Trade of Metropolitan Toronto, First Canadian Place, Main Level (enter via Adelaide Street), Toronto, Ontario.

* Member of the Audit Committee

For Investor Information, Please Contact:

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Northland Income

