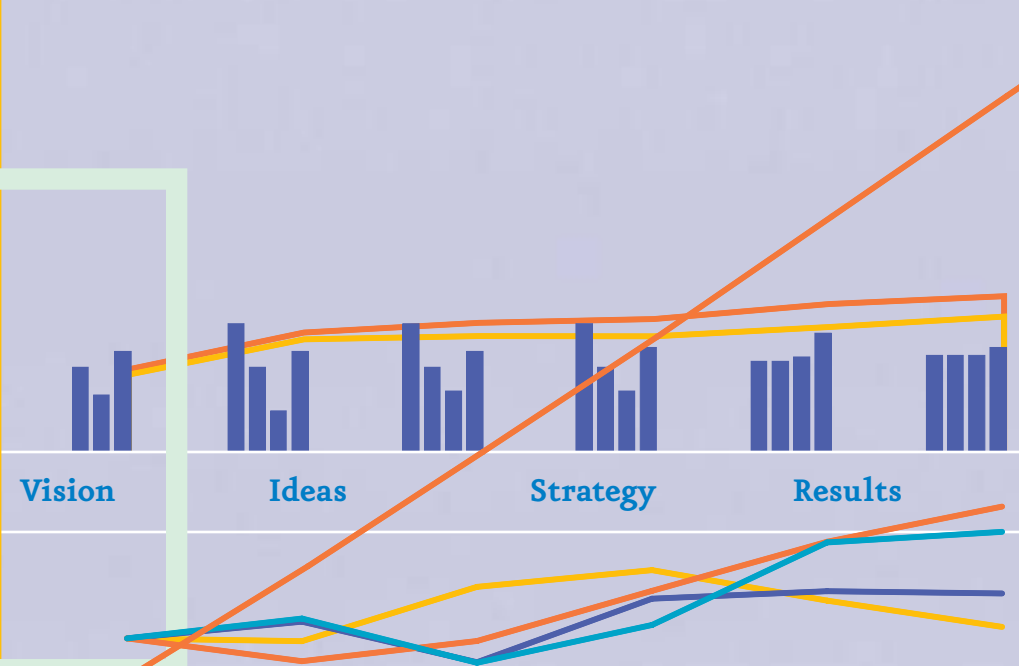


**Northland
Power
Income Fund**

69 months

Annual Report
2002



Distributions at \$0.98 per unit met management's expectations and matched the higher level established in 2001 and forecast in last year's annual report.

Sales revenue was 6% higher than 2001, mainly as a result of higher electricity revenue.

Amendments to the Iroquois Falls power purchase agreement were agreed with OEFC in 2002, improving downside protection and allowing the Fund to access the wholesale electricity market.

The Iroquois Falls plant employees ratified their second collective agreement, which will run until June 30, 2005, and added another year to their outstanding record of no lost-time accidents since the plant startup in 1996.

The Fund purchased **two new state-of-the-art General Electric gas turbines** to increase the output and improve the efficiency of the Iroquois Falls plant as well as provide NOx allowances for sale.

A minority interest in **Kingston CoGen Limited Partnership** was acquired by the Fund on December 31, 2002.

The Fund sold 6,957,500 trust units (including over-allotment option) at \$10.75 per unit to a group of underwriters for net proceeds of \$71.7 million on February 11, 2003.

Northland Power Income Fund (the "Fund") is a trust that supplies electricity to Ontario Electricity Financial Corporation, an agency of the Government of Ontario, and steam to manufacturing plants. Sales are made under long-term contracts to ensure revenue stability. Long-term contracts also assure the supply and price of natural gas, which is the Fund's largest cost.

The Fund owns a 110 MW cogeneration power plant located in Iroquois Falls, Ontario, and a 25% interest in a 110 MW cogeneration power plant located near Kingston, Ontario, and is seeking additional energy-related investments.

The Fund is administered and the Iroquois Falls 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.

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

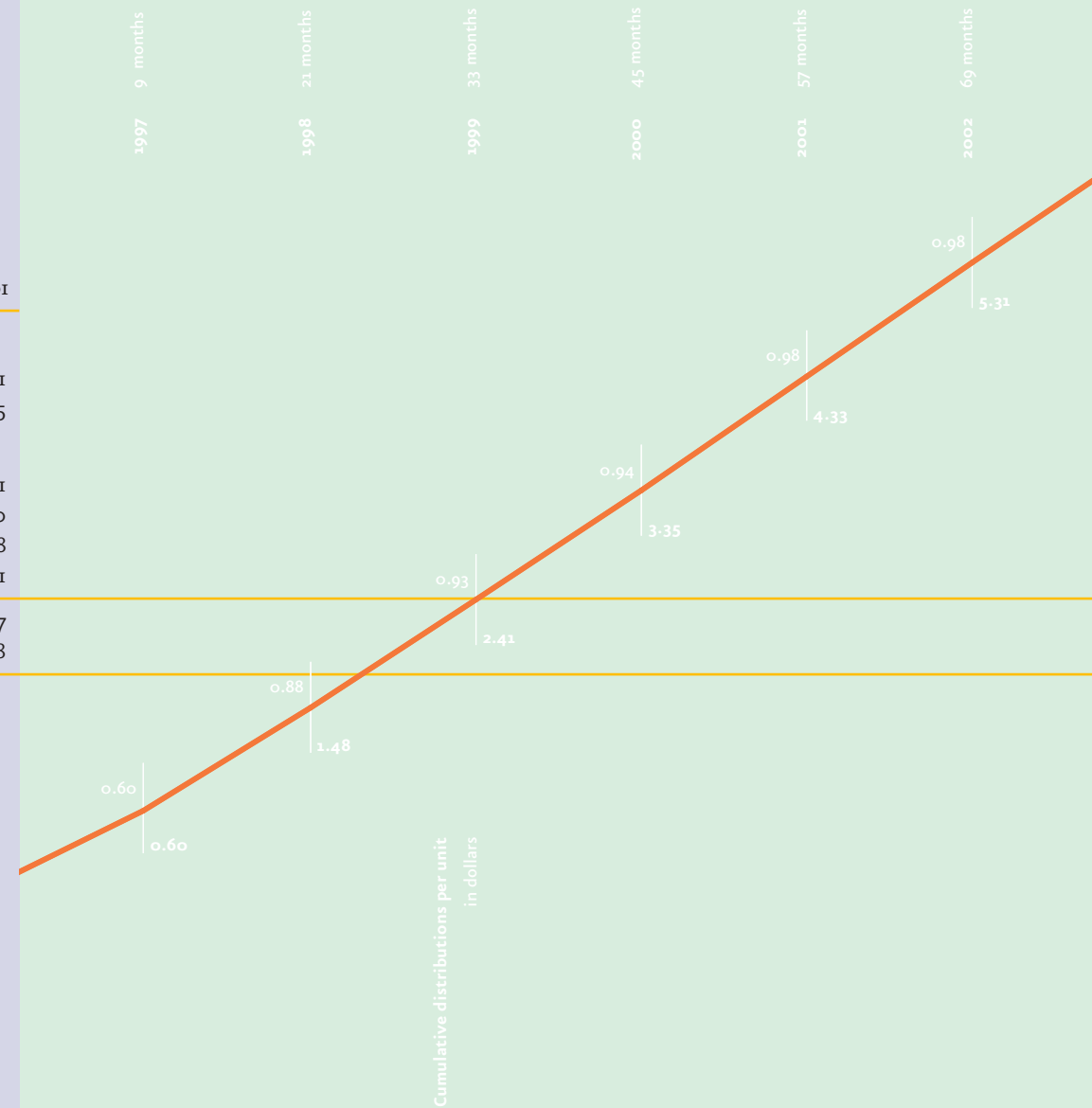


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Highlights

Years ended December 31	2002	2001
Sales volume		
Electricity (MWh)	747,717	739,701
Steam (ooo lb.)	1,088,090	1,012,015
Financial (\$ooo)		
Sales	72,344	68,411
Net income	19,171	20,640
Funds from operations before working capital changes	32,165	30,978
Cash available for distribution	29,421	31,951
Distributions declared to unitholders (\$ooo)	30,207	30,207
Distributions per unit	\$0.98	\$0.98

Northland Power Income Fund grew out of a vision – of fulfilling the need of investors for a low-risk source of income that would generate a higher return than traditional interest-bearing investments. The investment landscape at the time included income and royalty trusts based on depleting natural resources. In 1997, we were one of the first income funds in Canada rooted in a non-resource industry – the cogeneration power plant at Iroquois Falls. We broke new ground – others soon followed.



Letter to Unitholders

The year 2002 was an eventful one for Northland Power Income Fund and one in which the Fund had some notable successes.

During the year the Fund reached agreement-in-principle with Ontario Electricity Financial Corporation (“OEFC”) on key amendments required to the Iroquois Falls Facility’s power purchase agreement, commenced selling electricity and operating reserves from Iroquois Falls into the wholesale electricity market, entered into a new \$95 million bank credit facility, purchased new gas turbines for the Iroquois Falls Facility and completed the acquisition of a 25% interest in an operating cogeneration plant near Kingston, Ontario. In addition, the Manager executed a new collective agreement with the Iroquois Falls plant employees that runs until June 30, 2005. And, of course, the Fund maintained distributions to unitholders in 2002 at the higher annual level established last year of \$0.98 per unit.

With respect to financial results, revenues exceeded last year by 6% due to increases in the average selling price of electricity under the Iroquois Falls power purchase agreement and sales of electricity and operating reserves into the wholesale electricity market partially offset by lower gas sales. Net income fell short of 2001, due mainly to higher amortization charges. Funds from operations before working capital changes at \$1.04 per unit were up \$0.03 per unit over last year and exceeded distributions to unitholders for the sixth straight year.

The Fund’s strategy of having long-term contracts for electricity and steam sales, natural gas purchases and gas turbine major maintenance and replacement combined with high-quality assets and an excellent maintenance program continues to support the Fund’s goal of minimizing risks and providing sustainable cash distributions to unitholders.

Trust Unit Performance

The Fund’s total return in 2002 (distributions plus the increase in unit price) was 3%. The Fund’s return in 2002 compared favourably to the performance of other power income funds and the TSX Index. Distributions continue to exceed the initial level established in 1997.

The Wholesale Electricity Market in Ontario

The past year was a tumultuous one in Ontario’s electricity sector. As expected, the new Ontario wholesale market for electricity opened on May 1, 2002. The Fund led the industry in Ontario by being the first holder of a long-term power purchase agreement with OEFC to reach agreement-in-principle on the required contract amendments to deal with the transition to an

open market and the other changes necessitated by Ontario’s electricity restructuring. The contract amendments took effect May 1, 2002; detailed drafting and final approvals of the respective boards of directors are expected in 2003.

The agreement-in-principle with OEFC defines replacements for the old Ontario Hydro price indices that helped determine year-over-year changes in the Fund’s electricity price under the Iroquois Falls power purchase agreement. A new feature is a floor and ceiling price mechanism, both of which escalate each year, on the 75% of the Iroquois Falls Facility’s contract electricity revenue that previously was unbounded. As a result, the Fund now has downside protection on 100% of its contracted Iroquois Falls electricity revenues compared to 25% previously.

The agreement-in-principle provides that the Fund can achieve increased value for the excess capacity of the Iroquois Falls Facility by selling into the wholesale market any electricity production beyond the power purchase agreement volumes, as well as ancillary services such as operating reserves – OEFC shares in the profits based on an agreed formula. In July 2002, the Iroquois Falls Facility became the first non-utility generation plant to participate in Ontario’s wholesale market as a dispatchable generator and still remains the only one to do so. Sales outside the power purchase agreement accounted for \$1.8 million of revenue in the last six months of 2002 compared to \$0.8 million during all of 2001 when sales were made to the “interim” market controlled by Ontario Power Generation Inc.

In November 2002, the Ontario Government reacted to electricity price spikes experienced last summer due to extremely hot weather and a shortage of supply by announcing a price freeze of 4.3¢/kWh to 2006 as well as certain other changes to reduce price volatility for retail and small commercial customers. The announced measures are not expected to have a noticeable impact either on the Fund’s existing power purchase agreement revenues or wholesale market opportunities.

Iroquois Falls Gas Turbine Upgrade Project

On December 23, 2002, the Fund announced that it had purchased two new, state-of-the-art gas turbines to replace the older model LM 6000 turbines installed at Iroquois Falls. The new turbines were purchased from General Electric on favourable terms.

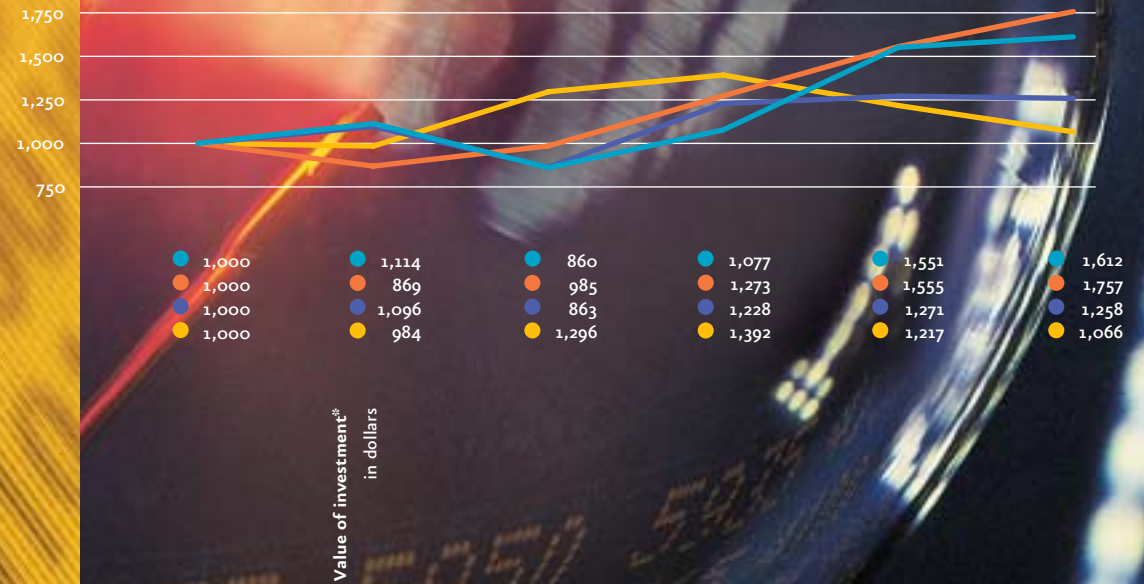
The new turbines will increase the capacity at the Iroquois Falls Facility by approximately 10% on average and 20% during the hottest summer days, which will allow additional sales into the wholesale electricity market during peak times. The efficiency of the Iroquois Falls Facility will be increased by 3%, reducing the volume and cost of natural gas consumed at the plant.

To realize our original vision, we signed long-term contracts with our customers, as well as our major suppliers, allowing us to generate a stable, predictable cash flow for unitholders. We also committed to using advanced technology in our equipment and processes, reducing environmental emissions and decreasing downtime. And we stayed flexible, allowing us to take advantage of opportunities, including those presented by the province's opening of the market for electricity to deliver added benefits to unitholders.

Ideas

- Northland Power Income Fund
- TSX Income Trust Total Return Index
- TSX Gas & Electric Utilities Index
- TSX Total Return Index

* Assumes \$1,000 invested on December 31, 1997. Distributions/dividends are reinvested.



Nitric oxide (NOx) emissions will be reduced by 90%, providing the Fund with a new product to sell – NOx allowances – once trading becomes active in 2004. The gas turbine technology at the heart of the Iroquois Falls plant will be state-of-the-art. The Manager expects the installation of the new gas turbines to be completed during the 2nd quarter of 2003.

The cost of the turbine upgrade project is expected to be \$17 million, including contingencies and net of a trade-in on the old turbines. The turbines were purchased using the Fund's new line of credit; of the \$95 million amount, \$82.5 million is available for acquisitions and investments while the balance is earmarked for operations.

Acquisitions

The Fund's trust indenture specifies a number of guidelines that any acquisition must meet, notably that acquisitions must be both consistent with the Fund's low-risk profile and be accretive to unitholders (i.e., must increase per-unit distributions on a long-term, sustainable basis). The Fund has followed a disciplined approach to pursuing acquisitions but, until this past year, had not been satisfied that the potential acquisitions it had examined met its exacting criteria.

The over-heated market in North America for power assets cooled significantly towards the end of 2002 as there were fewer buyers and many more sellers because of the depressed state of the independent power industry, particularly in the United States. Late in 2002, the Fund purchased for \$24.9 million a 25% interest in the Kingston CoGen Limited Partnership ("KCLP") that owns a 110 MW cogeneration facility near Kingston, Ontario. KCLP has a similar contractual structure to the Iroquois Falls Facility, with a long-term power purchase agreement with OEFC until 2017 and long-term steam sales and fuel supply contracts. A more detailed discussion on the Kingston operations can be found on page 6.

KCLP is expected to contribute roughly 10% to the Fund's future cash flow (after interest and principal payments on project debt), thereby providing revenue diversification. The acquisition is accretive, and cash flows are expected to exhibit growth over time as contractual revenues increase faster than costs. Kingston CoGen also has the opportunity to reduce off-peak electricity production in favour of re-selling natural gas, which provides a significant upside opportunity.

Subsequent to Year-End

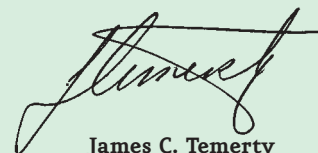
On February 11, 2003, the Fund sold 6,050,000 trust units at \$10.75 in a bought deal with a group of underwriters to raise \$61.8 million, net of the underwriters' fee plus an additional 907,500 units for net proceeds of \$9.3 million when the over-allotment option was exercised on March 14, 2003. The proceeds were used to repay the borrowings under the credit facility, which had been incurred for the acquisition of the 25% interest in Kingston CoGen and for the Iroquois Falls gas turbine upgrade project, and to establish a reserve for potential future acquisitions. With that cash and the line of credit fully available, the Fund remains well positioned to take immediate advantage of suitable acquisition opportunities as they arise.

2003 Outlook

As the Manager of the Fund has stated previously and demonstrated by its actions, the Fund is committed to providing unitholders with stable, sustainable cash distributions with some upside potential. The Fund will accomplish this goal by continuing to strive for operational excellence and by growing through sound plant expansions/upgrades and acquisitions that make sense. If conditions in 2003 continue as they have started, the upcoming year will be a busy one!

For 2003, the Fund will be maintaining monthly distributions of \$0.08 per unit. A top-up in December 2003 of \$0.10 per unit, consistent with 2002, would bring the total distributions for 2003 to the 2002 level of \$0.98 per unit. Approximately 35% of distributions is anticipated to be tax-deferred in 2003. The level of the Fund's distributions will be reviewed later in the year.

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



James C. Temerty

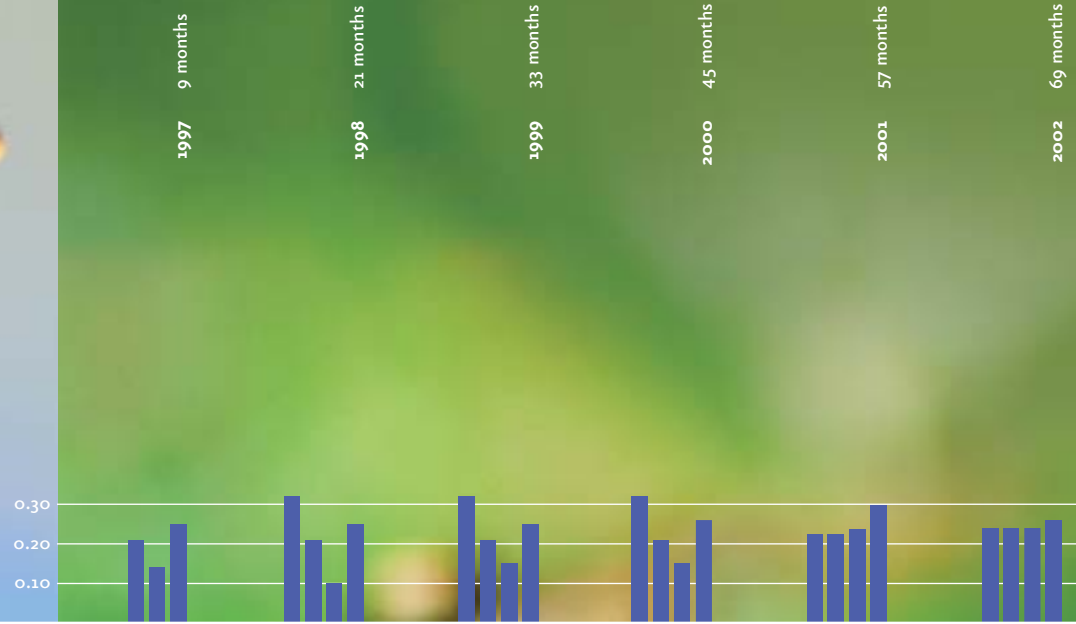
President

Iroquois Falls Power Management Inc.

March 26, 2003



At the heart of our ideas, lies a disciplined investment strategy. The Fund investigates opportunities, dismissing any that could adversely affect its risk profile. Prudent financial management includes levelling out the seasonal fluctuations that are inherent in the generation business, ensuring a regular monthly distribution to unitholders. To maintain this consistent performance, we employ a highly qualified staff with an unparalleled safety record who work together as a team to achieve operational excellence. We work closely with industry agencies to ensure that our unitholders' interests are considered in the establishment of government policy.



Strategy

0.210
0.140
0.250

0.320
0.210
0.100
0.250

0.320
0.210
0.150
0.250

0.320
0.210
0.150
0.260

0.225
0.225
0.235
0.295

0.240
0.240
0.240
0.260

Quarterly distributions
in dollars

Kingston CoGen Acquisition

On December 31, 2002, the Fund acquired a 25% indirect equity interest in Kingston CoGen Limited Partnership (“KCLP”) from a wholly-owned subsidiary of NRG Energy Inc. of Minneapolis.

KCLP owns a 110 MW gas-fired cogeneration plant located west of Kingston, Ontario, on approximately eleven acres of land near Lake Ontario. The plant started commercial operations on February 1, 1997.

It was designed to sell electricity to Ontario Hydro (now OEFC) under a long-term power purchase agreement and steam to an adjacent industrial complex through a long-term energy services agreement. The natural gas required to fuel the plant is obtained through a series of long-term agreements and contracts for the supply and transportation of natural gas. The project has a contractual structure very similar to the Fund’s Iroquois Falls Facility and also uses General Electric equipment.

The acquisition of the 25% interest in KCLP will provide:

- **Diversification:** The Fund will no longer be dependent solely on output from the Iroquois Falls Facility. The Fund expects to generate approximately 10% of its distributable cash flow from its interest in KCLP.
- **Accretion:** The acquisition is accretive to the Fund, as required by the Fund’s trust indenture.
- **No change in risk profile:** The acquisition will preserve the current risk profile of the Fund, also as required by the Fund’s trust indenture.
- **Growth:** KCLP’s revenue is expected, over time, to increase more than costs due to the payment structure in the power purchase agreement.

Plant Equipment

The 110 MW Kingston Facility uses a General Electric 6FA high-efficiency industrial gas turbine that utilizes General Electric’s dry low NOx combustion technology to achieve NOx emissions below 25 parts per million.

Operation and maintenance of the facility are the responsibility of one of the partners, AES Kingston ULC, under long-term management and operations and maintenance agreements. KCLP has also entered into a multi-year maintenance program agreement with General Electric

and one of its affiliates for the long-term supply of parts, repair services and field engineering services for the 6FA gas turbine until December 31, 2016.

Power Purchase Agreement

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.

Revenue under the power purchase agreement is based on several tariffs that escalate with certain costs, including natural gas prices, natural gas transportation rates and the Consumer Price Index, as well as a tariff that is predetermined to increase for each year of the agreement. The Kingston power purchase agreement provides an excellent complement to the Fund’s revenue streams from the Iroquois Falls Facility.

Energy Services Agreement

KCLP provides steam to an adjacent facility owned by KoSa, a subsidiary of Koch Industries Inc., under an energy services agreement that expires on January 31, 2017. KoSa’s Kingston plant produces polyethylene terephthalate resin (commonly known as PET) for use in plastic drink bottles and other applications. Revenue under the energy services agreement is equivalent to approximately 3% of total KCLP revenue.

Natural Gas Supply

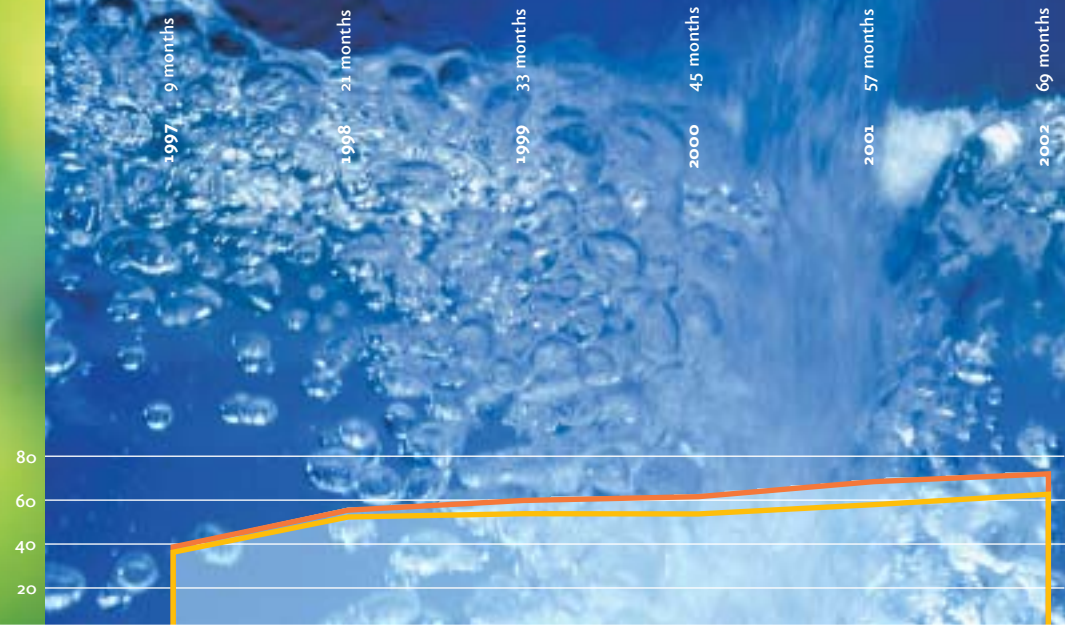
KCLP has entered into a natural gas purchase agreement with EnCana Corporation for the supply of natural gas to the Kingston Facility to January 31, 2017. The natural gas cost escalates with transportation costs on the NOVA system and a predetermined amount over the Consumer Price Index.

Capital Structure

KCLP has in place long-term non-recourse project financing in the amount of \$120 million with a syndicate of banks that is repaid over the term of the power purchase agreement. The Fund’s proportionate share at December 31, 2002, is \$30 million. The Fund’s proportionate share of KCLP’s outstanding balance on its levelization account with OEFC is \$7 million.

For more information on Kingston CoGen Limited Partnership, please visit the Fund’s Web site at www.npifund.com.

During some of the most tumultuous years in the provincial electricity market and the investment industry, the results show that we've realized our vision of steady returns. Over 69 months, annual distributions to unitholders have gradually increased to 98 cents. We've maximized the benefits of our existing facilities, amending our Iroquois Falls power sales agreement with the province, allowing us to sell excess power into the marketplace and guaranteeing that the price for our electricity will go up over time. Iroquois Falls' new gas turbines will reduce nitric oxide emissions by 90%, making an already clean facility even cleaner.



● Contracted
● Non-contracted

Results

● 36,284	● 54,324	● 53,813	● 53,707	● 57,937	● 62,686
● 2,407	● 3,105	● 6,037	● 7,869	● 10,474	● 9,284

Revenue
in thousands of dollars

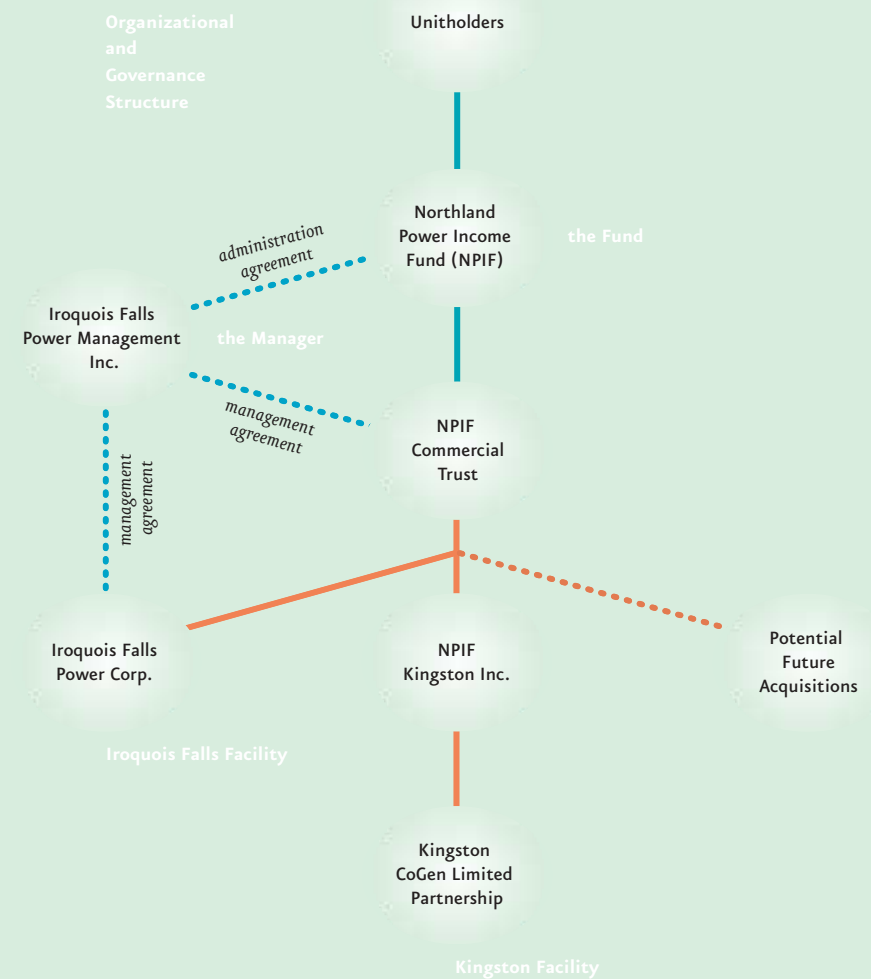
Changes to the Fund's Organizational and Governance Structures

At the Annual and Special Meeting to be held on May 22, 2003, unitholders will be asked to approve changes to the Fund's organizational and governance structure and the adoption of an investment objective consistent with pursuit of a growth and diversification strategy for the Fund. While the catalyst for the changes is the acquisition of the interest in KCLP, the broader imperative is the transition of the Fund to an entity with diversified investments in revenue producing energy-related assets and businesses.

The Fund was conceived in 1997 as a single-purpose entity owning only an investment in the Iroquois Falls cogeneration facility; as a result, significant limitations were imposed on its organizational and governance structure. Investors now expect income funds to demonstrate growth through both internal expansion and acquisitions. This requires that management and the representatives of the unitholders have the flexibility to make decisions in the interests of the unitholders without the need to seek their approval for specific transactions. The Fund has amended its trust indenture several times to permit acquisitions; nonetheless, its trust indenture places more responsibility for decisions on the unitholders, and less on management and the IFPC directors, than is now customary.

The proposed new organizational structure introduces NPIF Commercial Trust between the Fund and IFPC and KCLP to provide single-point responsibility for the Fund's investments in a tax-efficient manner. A board of trustees of NPIF Commercial Trust (the "CT Board of Trustees"), composed of the same individuals who currently serve as directors of IFPC, would replace the IFPC board of directors as the main governing body for the Fund. The CT Board of Trustees would provide independent oversight on major transactions and decisions and would have the power to enter into new agreements with the Manager for new acquisitions and to amend current arrangements. The CT Board of Trustees will have a fiduciary obligation to act in the best interests of the unitholders in discharging its oversight responsibilities.

The Manager would administer the Fund and NPIF Commercial Trust subject to the approval of the CT Board of Trustees. The CT Board of Trustees and the Manager would be bound by guidelines on future acquisitions, but these would be broadened to allow the CT Board of Trustees increased discretion. The Manager would continue as manager of IFPC and the Iroquois Falls Facility and, with the approval of the CT Trustees, may take on similar responsibilities for newly acquired entities. The administration and management agreements



would be for a committed term to ensure management stability. The agreements with the Manager would continue to contain an incentive fee arrangement similar to the existing arrangements with the Fund.

If the proposal is approved by unitholders of the Fund, the new structure would become effective after the Annual and Special Meeting of Unitholders and receipt of a favourable tax ruling that has been requested from the Canada Customs and Revenue Agency.



Iroquois Falls Facility



Kingston Facility

The purchase of 25% of the Kingston Facility in 2002 serves as a blueprint for our future. This carefully considered investment means the Fund's cash flow no longer relies solely on the Iroquois Falls Facility. Unitholders can look forward to diversification of risk and growth in distributions. By thoroughly investigating high-quality investment opportunities to generate steady incremental growth for our unitholders, we've turned our initial vision into reality.

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

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 Iroquois Falls Power Management Inc. (the “Manager”) under an administration agreement.

The Board of Directors of IFPC has responsibility for 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 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* and
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 estimated cash flow to unitholders after providing for capital reserves and any increases in working capital, which are not expected to be material. Any permitted acquisitions and plant expansions would be funded by a combination of borrowings and the issuance of additional trust units.

**Management's
Discussion
and Analysis**

The following is a discussion of the consolidated financial condition and results of operations of Northland Power Income Fund (the "Fund"). It should be read in conjunction with the audited consolidated financial statements on pages 19 to 27.

The annual report, including this management's discussion and analysis ("MD&A"), contains forward-looking statements with respect to the Fund and entities and assets that it owns or has an interest in, directly or indirectly, based on assumptions that the Manager considered reasonable at the time they were prepared. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described on pages 15 to 17.

This management's discussion and analysis compares the Fund's 2002 financial results to the financial results for 2001. The consolidated statements of income and deficit do not include the results of Kingston CoGen Limited Partnership ("KCLP"), as the Fund's 25% interest was not acquired until December 31, 2002. The December 31, 2002, consolidated balance sheet does include the Fund's proportionate share of the assets and liabilities of KCLP as of that date.

The Fund's 2002 declared distributions to unitholders of \$30.2 million, or \$0.98 per unit, were consistent with the 2001 distributions.

Revenue

In thousand of dollars except as indicated otherwise	2002	2001
Electricity		
Sales volume (MWh)	747,717	739,701
Average price (\$/kWh)	0.0802	0.0737
Sales	60,001	54,545
Steam		
Sales volume (000 lb.)	1,088,090	1,012,015
Average price (\$/000 lb.)	5.94	5.29
Sales	6,465	5,358
Natural gas		
	5,878	8,508
Total sales	\$72,344	\$68,411

Sales revenue at \$72.3 million in 2002 exceeded the prior year by \$3.9 million (6%). Electricity and steam sales revenue were up from 2001 by \$5.5 million (10%) and \$1.1 million (21%) respectively, while revenue from the resale of natural gas was down \$2.6 million (31%).

Electricity revenue earned under the Iroquois Falls long-term power purchase agreement was up 7.8% in 2002 compared to 2001 because of a 6.7% increase in the average selling price as well as increased revenue associated with Ontario Electricity Financial Corporation's ("OEFC") sharing in gas contract price re-openers. The volume of sales under the power purchase agreement was 7,187 MWh (1.0%) higher than last year because OEFC did not fully exercise its right to curtail a limited amount of off-peak electricity purchases during the summer months.

During the year, the Fund reached agreement-in-principle with OEFC concerning key amendments required to the Iroquois Falls power purchase agreement; drafting of the contract amendments and final approvals by OEFC's and IFPC's Boards are expected in 2003. An important transitional issue for IFPC and many other non-utility generators has been the need to establish with OEFC a replacement for the Ontario Hydro indices (the Direct Customer Rate and Average Customer Rate) that determined price changes under power purchase agreements. IFPC and OEFC have agreed on a replacement index that represents the fully delivered cost of electricity in Ontario to large industrial customers and is intended to operate in the same manner as the former Ontario Hydro Direct Customer Rate. The new index pertains to the 25% of IFPC's revenue under the power purchase agreement that currently enjoys a guaranteed minimum rate of escalation of 3.3%. The remaining 75% will be adjusted based on the same index subject to a floor and ceiling mechanism. The floor ensures that IFPC is protected from price decreases due to downside volatility in the index, while the ceiling limits IFPC's upside only if market price volatility is unusually high. Both the floor and ceiling escalate annually. The introduction of the new floor eliminates the risk that future electricity prices under the Iroquois Falls power purchase agreement will decline below May 1, 2002 levels. Electricity price changes under the Kingston power purchase agreement are not based on changes in the Direct Customer Rate and the Average Customer Rate.

Management's
Discussion
and Analysis

The agreement-in-principle regarding the Iroquois Falls power purchase agreement also confirms IFPC's entitlement to participate in the wholesale market for electricity, with OEFC receiving a share of the profits. Revenue earned since July 2002, when sales of electricity and operating reserves into the wholesale market commenced, totalled \$1.8 million. The volume of sales made to the wholesale market from July to December 2002 was in line with those made to the Ontario Interim Market during the whole of 2001; however, the average selling price was 90% higher.

Steam revenue was up 20.7% in 2002. The average steam price increased by 12.3% because of an increase in the price of natural gas, which largely determines the steam selling price under the steam sales agreement, and because of the recognition of \$0.3 million in steam revenue that had been deferred at the end of last year. Steam sales volume was 7.5% higher as Abitibi-Consolidated Company of Canada ("Abitibi") reduced its own steam production.

Revenue of \$5.9 million was received for natural gas that was resold to mitigate the cost of unused capacity under the transportation contract with TransCanada PipeLines Limited during lower-production summer months and plant shutdowns. Natural gas sales were \$2.6 million lower than last year due to lower market prices received compared to last year's historically high levels and a 10% decrease in the volume of gas re-marketed.

Cost of Sales

In thousand of dollars except as indicated otherwise	2002	2001
Cost of electricity and steam sales: natural gas		
Volume consumed (000 GJ)	7,044	6,963
Average price of gas consumed (\$/GJ)	3.80	3.52
Cost of gas consumed	26,799	24,490
Cost of natural gas purchased for re-sale	5,277	5,798
Total cost of sales	\$32,076	\$30,288

The cost of natural gas consumed in 2002 at \$26.8 million was \$2.3 million higher than the prior year. The volume of gas consumed was 1.2% higher, commensurate with increased electricity and steam production, while the average cost increased by 8.0% due to contractual gas price increases under the long-term gas supply and

transportation contracts, including the impact of the re-opener provisions of two supply contracts on January 1, 2002. Half of the price increase related to the re-openers was absorbed by OEFC through the provisions of the power purchase agreement, as noted above. The cost of gas purchased for resale totalled \$5.3 million, \$0.5 million lower than 2001 because the increase in contractual prices was more than offset by a lower volume of gas available for sale.

For the year ended December 31, 2002, electricity and natural gas management incentive fees earned by Iroquois Falls Power Management Inc. are included in the cost of sales; previously these incentive fees had been included in management and administration costs. The comparative figures have been reclassified in order to conform to this presentation. As previously authorized by the Fund's unitholders, the Manager is responsible for the ongoing expenses related to IFPC's participation in the wholesale electricity market and accordingly is entitled to the first \$240,000 of annual net revenues (escalated each year with the Consumer Price Index) generated by IFPC's market participation and 25% of such revenues thereafter. In 2002, Iroquois Falls Power Management Inc. earned \$1.0 million in electricity and natural gas management fees compared to \$1.6 million in natural gas management fees in 2001.

Expenses Including Interest

In thousands of dollars	2002	2001
Plant operating costs	\$6,751	\$6,641
Amortization	11,294	9,243
Management and administration costs, including capital tax	3,203	1,709
Loan interest and bank fees	249	126
Other interest income	(71)	(247)
Total expenses including interest	\$21,426	\$17,472

Total expenses including interest at \$21.4 million were \$4.0 million higher than 2001.

Iroquois Falls plant operating expenses increased slightly from 2001 due largely to higher General Electric maintenance agreement fees commensurate with increased electricity production. The amortization expense increased from 2001 by \$2.1 million due to an adjustment in the remaining life of the existing Iroquois

Management's
Discussion
and Analysis

Falls gas turbines, which will be replaced during the 2nd quarter of 2003.

Management and administration costs were \$1.5 million ahead of last year because of amortization of one-time fees and legal costs associated with establishing the \$95 million credit facility (\$0.9 million), an unrealized loss on foreign exchange (\$0.3 million) related to the purchase of the new turbines and fees paid to the Manager associated with the KCLP acquisition (\$0.4 million). Other interest income was lower than in 2001 as the prepaid General Electric maintenance fees account has been fully amortized.

Net income in 2002 was below the 2001 level by \$1.5 million, primarily the result of increased amortization.

Distributions to Unitholders

In thousands of dollars except as indicated otherwise	2002	2001
Funds from operations before changes in working capital	\$32,165	\$30,978
Net change in non-cash working capital	(882)	1,017
Cash provided by operating activities	\$31,283	\$31,995
Less: capital expenditures, net of cash reserves	(19,392)	42
Less: credit facility costs	(1,767)	–
Less: funds set aside for future maintenance costs	(88)	(86)
Add: credit facility drawdown for gas turbines	19,385	–
Cash available for distribution	\$29,421	\$31,951
Distribution declared to unitholders	\$30,207	\$30,207
Number of trust units (thousands of units)	30,823	30,823
Per unit (\$/unit)		
Funds from operations before working capital changes	\$1.04	\$1.01
Cash available for distribution	\$0.95	\$1.04
Distribution declared to unitholders	\$0.98	\$0.98

Funds from operations before changes in working capital at \$32.2 million were \$1.2 million above the 2001 level while cash available for distribution was \$2.5 million lower mainly due to costs associated with establishing the \$95 million

credit facility and a large outstanding receivable from OEFC relating to electricity sales. The \$2.1 million year-over-year increase in the receivable from OEFC included the impact of an upwards adjustment after year-end to the new index that affected the selling price for electricity under the power purchase agreement.

Distributions declared to unitholders for 2002 totalled \$30.2 million or \$0.98 per unit, equal to distributions made in 2001.

Tax Treatment of Distributions

Distributions to unitholders in 2002 were 46.53% 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. The tax-deferred portion of distributions represents a return of capital for Canadian income tax purposes and reduces the adjusted cost base of the 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 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 2003 are expected to be approximately 35% tax-deferred and 65% taxable to unitholders.

Liquidity and Capital Resources

Cash and cash equivalents increased by \$2.0 million from last year to \$2.5 million due to the acquisition of KCLP on December 31, 2002. The cash of \$2.5 million represents the Fund's proportionate share of KCLP's closing cash; its use is restricted under KCLP's credit agreement and is in addition to a \$1.6 million cash reserve for major maintenance costs as stipulated under KCLP's credit agreement.

While the Fund itself had borrowings at December 31, 2002 of \$0.7 million under its operating line of credit, this does not give a complete picture of its available liquid resources. Receipt of \$5.8 million for November electricity sales to OEFC was delayed to January 2, 2003, in a fashion similar to the prior year. Also contributing to a higher than normal 30-day level of accounts receivable was an amount of

\$1.4 million, also due from OEFC, as a price adjustment for sales from May 1 to December 31, 2002, that was receivable in the first quarter of 2003. These receivables, totalling \$7.2 million, less the operating line borrowings and the distribution payable to unitholders of \$3.1 million, represent \$3.4 million of liquid resources available to the Fund subsequent to December 31, 2002.

Effective May 23, 2002, the Fund and IFPC entered into a new credit agreement with Canadian Imperial Bank of Commerce as agent for a syndicate of banks. The new credit facility provides \$12.5 million of credit for working capital and letters of credit replacing an existing line, plus a new facility for \$82.5 million to assist in the funding of potential capital expenditures and investments by the Fund. As of December 31, 2002, a letter of credit for \$5.9 million was outstanding and \$0.7 million had been drawn on IFPC's operating line, while \$45.1 million was drawn on the Fund's acquisition line of credit in connection with the KCLP acquisition and the purchase of the new gas turbines for the Iroquois Falls Facility.

Capital Structure of KCLP

KCLP has in place long-term non-recourse project financing in the amount of \$120 million with a syndicate of banks. The Fund's proportionate share of \$30 million is included on the Fund's consolidated balance sheet. The interest rate has been fixed through interest-rate hedges on the outstanding loan balance. The bank financing is fully amortized over the term of the Kingston power purchase agreement. Financing under the credit agreement is principally collateralized by 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 is \$7 million. Interest is accrued at a rate related directly to the interest rate on long-term Government of Canada bonds. The levelization account balance is expected to be reduced in its entirety over the term of the Kingston power purchase agreement.

Distribution and Funding Policy

It is the Fund's policy to distribute 100% of estimated cash flow to unitholders after providing for capital reserves and any increases in working capital, which are not

expected to be material. Any permitted acquisitions and plant expansions would be funded by a combination of borrowings and the issuance of additional trust units.

Commitments

IROQUOIS FALLS FACILITY

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

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

The Iroquois Falls Facility is fuelled by natural gas provided by EnCana Corporation, Shell Canada Ltd., and Calpine Canada Resources Ltd. pursuant to gas supply contracts that end at various times 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 General Electric Canada Inc. ("GE") under a maintenance agreement that was amended in December 2002 to incorporate the two new LM 6000 PD gas turbines and, based upon the expected usage of the turbines, will continue until 2015. Upon the installation of the new turbines, fees to GE will escalate marginally from current levels to reflect the higher maintenance costs associated with the new units. Other than the fees, there are no material changes to the GE maintenance agreement.

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 Iroquois Falls Power Management Inc. (the "Manager"), a wholly-owned subsidiary of Northland Power Inc., under a management agreement expiring in 2021. The Manager administers the Fund under the administration agreement.

A summary of the agreements for the Iroquois Falls Facility can be found on the Fund's Web site at www.npifund.com.

KINGSTON FACILITY

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

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

The Kingston Facility has a 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, which indirectly owns a 25% partnership interest in KCLP, is responsible for the management of all aspects of the gas supply under a fuel management agreement with KCLP.

KCLP has a multi-year maintenance program agreement with GE and one of its affiliates for the long-term supply of parts, repair services and field engineering services for its 6FA gas turbine to December 31, 2016.

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

A summary of the agreements for the Kingston CoGen project can be found on the Fund's Web site at www.npifund.com.

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

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

The Ontario government enacted the Electricity Pricing, Conservation and Supply Act, 2002, on December 9, 2002, which may have a significant impact on Ontario's electricity markets and therefore on opportunities available to IFPC. The Manager is unable to assess any potential impact until the Ontario government clarifies its position with respect to the future of the wholesale electricity market. However, OEFC has confirmed that the Iroquois Falls agreement-in-principle reached in 2002 will not be affected by the new measures. 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 the boards of directors of IFPC and OEFC. Failure to achieve a final, approved definitive agreement could have an impact on the provisions of the Iroquois Falls power purchase agreement relating to the replacement index used to adjust revenues from electricity sales.

Participation in the de-regulated electricity market may expose the Fund to additional risks. The Manager has established procedures to minimize such exposure as wholesale market transactions are undertaken.

Steam sales by both the Iroquois Falls and Kingston CoGen facilities constitute a secondary source of revenue for the Fund. Abitibi's demand for steam is determined by operations at its Iroquois Falls pulp and paper mill, including the level of its own steam production. The Iroquois Falls Facility is obliged to respond to fluctuations in Abitibi's steam needs. Demand for steam has an impact on gas consumption, and unexpectedly large short-term fluctuations in steam demand increase gas consumption without a proportionate increase in steam revenue. Commencing in May 2003, Abitibi is no longer obligated to pay for a minimum quantity of steam through the take-or-pay provisions of the steam sales agreement. However, beginning on January 1, 2002, the Fund is protected through provisions of the Iroquois Falls power purchase agreement that increase OEFC's electricity purchase obligations to make up for any shortfalls in steam revenue.

**Management's
Discussion
and Analysis**

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

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

Contracted gas prices for the Iroquois Falls Facility generally escalate with the new replacement index in the Iroquois Falls power purchase agreement subject to a 4% minimum annual increase. The gas contracts provide for price adjustments (subject to predefined ceilings) approximately every five years for which 50% of any resulting incremental costs are borne by OEFC. Alternatively, the periodic gas price adjusters could decrease contracted gas prices relative to electricity prices; OEFC shares in approximately 40% of any such savings. KCLP has a 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 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, KCLP and IFPC will be required to renegotiate their respective contracts or enter into new supply arrangements. There is no assurance as to the price of gas under any new arrangements.

Any failure by TransCanada PipeLines Limited or Union Gas Limited to deliver natural gas to the Iroquois Falls Facility or the Kingston Facility will have an adverse impact on cash distributions.

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 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.

The Fund is subject to operational risks that could have an adverse effect on cash distributions. These risks are partially mitigated by the proven nature of the technology and design of both the Iroquois Falls and Kingston facilities, the availability of critical spares on site, the gas turbine maintenance agreement in respect of the Iroquois Falls Facility with GE, and participation by IFPC in the GE gas turbine lease pool, which guarantees the availability of replacement gas turbines on short notice.

Under the Iroquois Falls power purchase agreement, if IFPC delivers less than 80% of the on-peak target quantities in a month, the monthly capacity payment (which is the largest component of the monthly payment) will be reduced by 6.66% for each 1% less than 80%. No capacity payment will be paid for a month in which the Iroquois Falls Facility delivers less than 65% of the on-peak target quantities.

The Kingston power purchase agreement states that if KCLP delivers less than 80% of the on-peak target quantities, no capacity payment will be paid. However, if there is an event of force majeure at the Kingston Facility (which is defined to include equipment failure that lasts longer than four days), the number of on-peak hours used to calculate the target generation will be reduced by the number of on-peak hours in the period of force majeure during that month.

The Iroquois Falls and Kingston facilities are subject to numerous environmental laws and regulations and each have environmental monitoring and reporting systems in place. All current generating equipment at IFPC and KCLP is designed to produce NOx emissions below the current applicable standards. Ontario legislation that is scheduled to come into effect in 2004 establishes an allocation and cap and trading system for NOx emissions. Installation of the new gas turbines at the Iroquois Falls Facility is expected to reduce NOx emissions well below the

NOx allocation that IFPC is expected to receive. NOx emissions from KCLP's generating equipment currently fall well below the allocation that it is expected to receive. Changes in environmental laws and regulations could possibly result in additional expenses, capital expenditures and restrictions in the activities of IFPC and KCLP, the extent of which cannot be predicted.

There can be no assurance that insurance obtained in respect of the Iroquois Falls Facility or the Kingston Facility, including business interruption insurance, among others, will be sufficient, that it will continue to be offered on commercially reasonable terms, or that events that could give rise to a loss or liability are insured or reasonably insurable.

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

Trust Unit Offering

On February 11, 2003, the Fund sold 6,050,000 trust units to a syndicate of investment dealers at a price of \$10.75 per trust unit for net proceeds to the Fund of approximately \$61.8 million. The underwriters have an option to purchase an additional 15% of trust units on the same terms. The proceeds were used to retire the borrowings under the Fund's credit lines, with the excess amount set aside for use in future permitted acquisitions, as defined in the Fund's trust indenture.

Outlook

For 2003, the Fund expects contributions to profit and cash flows from KCLP as well as from the investment in the new Iroquois Falls gas turbines, although the full economic benefit of the turbine upgrade project will not be realized until 2004, when NOx trading is expected to become active.

The Fund continues to seek acquisition opportunities that meet its criteria for increasing distributions while also protecting the Fund's current risk profile. With 100% of the acquisition line of credit available and the extra cash set aside from the offering of trust units in 2003 for Permitted Acquisitions under the trust indenture, the Fund has greater flexibility to respond to acquisition opportunities that may present themselves in 2003.

Distributions to unitholders in the year 2003 are being continued at the same monthly rate of \$0.08/unit as in 2002 – a distribution of \$0.10/unit in December 2003 would top up distributions to the \$0.98 level of 2002.

Quarterly Financial Information

In millions except per trust unit amounts	2002				2001					
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Sales	21.0	14.7	16.0	20.6	72.3	20.5	15.7	13.8	18.4	68.4
Net income	8.0	3.6	2.9	4.7	19.2	7.8	5.2	2.6	5.0	20.6
Total assets	245.9	242.8	239.3	325.8		255.8	254.2	248.4	247.4	
Total long-term liabilities	0.0	0.0	0.0	80.0		0.0	0.0	0.0	0.0	
Cash from operations per unit	0.337	0.254	0.176	0.248	1.015	0.567	0.251	0.017	0.203	1.038
Distributions declared per unit	0.240	0.240	0.240	0.260	0.980	0.225	0.225	0.235	0.295	0.980

**Management's
Responsibility**

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

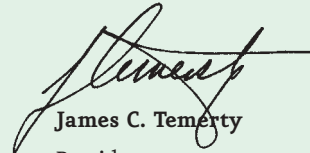
The accompanying consolidated financial statements have been prepared by the Manager in accordance with Canadian generally accepted accounting principles, and the financial information included in the annual report is consistent with the consolidated financial statements. Where appropriate, these consolidated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

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

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

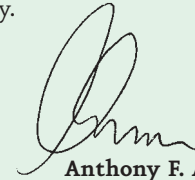
Ernst & Young LLP, the independent auditors, have examined the consolidated financial statements of the Fund. The independent auditors' responsibility is to express a professional opinion on the fairness of the consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion on the consolidated financial statements. Their report as auditors is set out on page 19.

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 Directors 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.



James C. Temerty
President

Iroquois Falls Power Management Inc.



Anthony F. Anderson
Chief Financial Officer

Iroquois Falls Power 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, 2002 and 2001, 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, 2002 and 2001, 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 24, 2003

Ernst & Young LLP
Chartered Accountants

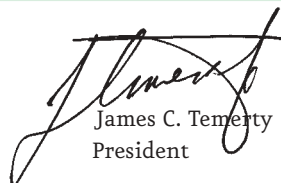
**Consolidated
Balance Sheets**

As at December 31,
in thousands
of dollars

Assets	2002	2001
Current		
Cash and cash equivalents	2,465	496
Cash reserves [note 2]	1,608	80
Accounts and other receivables [note 3]	20,329	12,111
Inventories [note 4]	2,118	1,365
Prepaid expenses	1,193	814
Total current assets	27,713	14,866
Deferred maintenance fee, net	–	813
Deferred credit facility costs, net [note 6]	877	–
Capital assets, net [note 5]	295,160	230,271
Future income tax asset [note 11]	2,004	1,429
	325,754	247,379
Liabilities and unitholders' equity		
Current		
Bank indebtedness [note 6]	721	–
Accounts payable and accrued liabilities	13,100	4,835
Current portion of Kingston CoGen Limited Partnership debt [note 7]	1,468	–
Distribution payable to unitholders	3,082	4,161
Total current liabilities	18,371	8,996
Bank credit facility [note 6]	45,107	–
Kingston CoGen Limited Partnership debt [note 7]	34,929	–
	98,407	8,996
Commitments and contingencies [notes 6, 7 and 12]		
Unitholders' equity [note 8]	227,347	238,383
	325,754	247,379

See accompanying notes.

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


James C. Temerty
President

**Consolidated
Statements
of Income
and Deficit**

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

	2002	2001
Sales		
Electricity	60,001	54,545
Steam	6,465	5,358
Natural gas	5,878	8,508
	72,344	68,411
Cost of sales [note 10]	32,076	30,288
Gross profit	40,268	38,123
Expenses		
Plant operating costs	6,751	6,641
Amortization	11,294	9,243
Management and administration costs [note 10]	3,203	1,709
Interest expense and bank fees	249	126
Interest income	(71)	(247)
	21,426	17,472
Income before income taxes	18,842	20,651
Provision for (recovery of) income taxes [note 11]		
Current	(14)	8
Future	(315)	3
	(329)	11
Net income for the year	19,171	20,640
Deficit, beginning of year	(51,769)	(42,202)
Distributions to unitholders [note 9]	(30,207)	(30,207)
Deficit, end of year [note 8]	(62,805)	(51,769)
Net income per trust unit [note 2]	\$0.62	\$0.67

See accompanying notes.

Consolidated Statements of Cash Flows	Operating activities	2002	2001
Years ended December 31 In thousands of dollars	Net income for the year	19,171	20,640
	Items not involving cash:		
	Amortization	11,294	9,243
	Amortization of maintenance fee	813	1,092
	Amortization of credit facility costs [note 6]	890	-
	Provision for (recovery of) future income taxes [note 11]	(315)	3
	Unrealized loss on foreign exchange	312	-
	Funds from operations before changes in working capital	32,165	30,978
	Net change in non-cash working capital balances related to operations	(882)	1,017
	Cash provided by operating activities	31,283	31,995
	Investing activities		
	Acquisition [note 7]	(22,385)	-
	Purchase of capital assets	(19,472)	(89)
	Cash used in investing activities	(41,857)	(89)
	Financing activities		
	Cash reserves drawdown [note 2]	80	131
	Increase (decrease) in bank indebtedness [note 6]	721	(2,105)
	Credit facility increase [note 6]	44,795	-
	Credit facility costs [note 6]	(1,767)	-
	Distributions to unitholders	(31,286)	(29,436)
	Cash provided by (used in) financing activities	12,543	(31,410)
	Net increase in cash and cash equivalents during the year	1,969	496
	Cash and cash equivalents, beginning of year	496	-
	Cash and cash equivalents, end of year	2,465	496
	Supplemental cash flow information		
	Interest paid	19	10
	Income taxes paid	5	8

See accompanying notes.

December 31, 2002

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 Fund derives its distributed cash flow from its wholly-owned subsidiary, Iroquois Falls Power Corp. (“IFPC”). The Fund also has an indirect 25% partnership interest in Kingston CoGen Limited Partnership (“KCLP”). The Fund acquired its indirect interest in KCLP on December 31, 2002. IFPC and KCLP own cogeneration power facilities located in Iroquois Falls and Kingston, Ontario, respectively, (the “Facilities”) that produce electricity for sale to Ontario Electricity Financial Corporation (“OEFC”) and steam to neighbouring facilities under long-term contracts. Natural gas required for the Facilities is purchased under long-term contracts expiring in the years 2015 to 2017.

2. Summary of Significant Accounting Policies

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

Principles of consolidation

These consolidated financial statements include the accounts of the Fund and the accounts of its wholly-owned subsidiary, IFPC. The Fund accounts for its partnership interest in KCLP using the proportionate consolidation method. 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. As at December 31, 2002, the Fund’s cash balance of \$2,465,000 was held by KCLP, and is restricted in its use to the operations of KCLP by the terms of KCLP’s credit agreement which provides, however, that cash in excess of approximately \$5,000,000 (\$1,250,000 being the Fund’s proportionate share) may be distributed semi-annually to the partners, including the Fund, if certain financial tests are met.

Cash reserves

The Fund’s proportionate share of KCLP’s cash reserves for major maintenance costs is stipulated under KCLP’s credit agreement for the non-recourse project financing of the Kingston CoGen project. In 2001, the cash reserves balance related to final amounts required for the construction of the IFPC Facility.

Use of estimates

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 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 depreciated until the installation of the assets is complete and the assets have entered into commercial operations.

Deferred maintenance fee

The deferred maintenance fee is amortized over the original term of an agreement between IFPC and General Electric Canada Inc. for the maintenance of the Iroquois Falls gas turbines, which ended in 2002.

Revenue recognition

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

Net income per trust unit

Net income per trust unit is based on the consolidated net income for the year divided by the weighted average number of trust units outstanding during the year, which was 30,823,443 (2001 – 30,823,443).

Financial instruments

KCLP uses interest rate swap contracts to manage interest rate risk. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on an accrual basis. Any resulting carrying amounts are included in receivables in the case of favourable contracts and accounts payable in the case

of unfavourable contracts. KCLP 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 KCLP 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 KCLP's future earnings or cash flows. KCLP is exposed to credit risk in the event of non-performance by its counterparties. However, KCLP does not anticipate non-performance, as the counterparties have a high credit rating.

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.

The Fund's wholly-owned subsidiaries, IFPC, NPIF Kingston Inc. and Pacific Kingston Energy Inc., the latter of which owns directly the 25% joint venture interest in KCLP, are subject to corporate income taxes as computed under the Income Tax Act and CICA section 3465.

3. Economic Dependence and Concentration of Credit Risk

The Fund is dependent on the lease income, interest income and dividends received from the Facilities. In 2002, approximately 83% (2001 – 80%) of the Iroquois Falls Facility's revenue was derived from the sale of electricity to OEFC. Approximately 8% (2001 – 8%) of the Iroquois Falls Facility's revenue was derived from the sale of steam to Abitibi-Consolidated Company of Canada ("Abitibi").

Approximately 90% (2001 – 93%) of the year-end accounts receivable balance was due from OEFC relating to electricity sales. Approximately, 4% (2001 – 5%) and 1% (2001 – nil) of the year-end accounts receivable balance was due from Abitibi and KoSa relating to steam sales, respectively.

4. Inventories – In thousands of dollars

Inventories consist of the following:	2002	2001
Natural gas	350	457
Spare parts and other inventory	1,768	908
	2,118	1,365

5. Capital Assets – In thousands of dollars

Capital assets consist of the following:	2002	2001
	Accumulated Cost amortization	Accumulated Cost amortization
Land	249	–
Buildings and foundations	48,159	9,332
Plant and equipment	277,441	53,594
Contracts	15,964	3,144
Vehicles	26	17
Office equipment, furniture and fixtures	73	52
Computers and computer software	99	97
Construction in progress	19,385	–
	361,396	66,236
Net book value	295,160	230,271

The useful life of IFPC's existing turbines has been reduced to coincide with the anticipated installation of the new turbines.

6. Bank Credit Facility

The Fund and its wholly-owned subsidiary 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 and IFPC; a \$7,500,000 revolving-term letter of credit facility to be used in meeting obligations under gas transportation and supply contracts; and a \$5,000,000 revolving-term operating line of credit for general corporate purposes. The credit agreement expires on May 23, 2003, but is subject to an annual renewal at the discretion of the Fund. As at December 31, 2002, the variable interest per annum under each of the lines of credit is charged at 4.8%, 1.4% or 4.1%. 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, 2002, a letter of credit for \$5,920,000 (2001 – \$5,920,000) was outstanding under the letter of credit facility. As at December 31, 2002, \$45,107,000 (2001 – nil) had been drawn on the acquisition line of credit and \$721,000 (2001 – nil) had been drawn on the operating line. Subsequent to year-end, the amount drawn on the acquisition line was repaid from the net proceeds of the trust unit offering [note 8].

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, notes payable and all other securities issued by IFPC to the Fund.

Costs associated with the negotiation of the credit agreement are being amortized over the initial period of the agreement.

7. Kingston CoGen Limited Partnership

KCLP ACQUISITION

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

Working capital	\$2,808
Capital assets	54,415
Contracts	2,296
Future tax assets	260
Long-term debt	(34,929)
Total purchase price	24,850
Less: cash acquired in KCLP	(2,465)
Total cash purchase price paid	\$22,385

Because the interest in KCLP was acquired on December 31, 2002, the consolidated balance sheet of the Fund at December 31, 2002, and the consolidated statement of cash flows for 2002 reflect the Fund’s acquisition of its interest in KCLP and the terms of the acquisition, respectively, but the consolidated statement of income for 2002 does not include any results of operations of KCLP.

Subsequent to year-end, on January 1, 2003, PKE was amalgamated with NPIF Kingston Inc., an indirectly wholly-owned subsidiary of the Fund.

KCLP DEBT

The figures quoted in this note represent the Fund’s 25% proportionate share of KCLP’s debt under its credit agreement (the “Credit Agreement”):

	2002
Term loan	\$23,553
Senior secured note	6,250
Levelization account	6,594
	36,397
Less: current portion	1,468
	\$34,929

The Credit Agreement includes a \$4,582,000 letter of credit facility under which \$4,044,000 was outstanding at December 31, 2002. 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 on September 30, 2013, and ending September 30, 2016.

The term loan and senior secured notes bear interest, paid quarterly, at the prevailing prime lending rate plus 0.25% and 1.25% respectively.

KCLP has 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 \$29,803,000 at December 31, 2002 with an effective interest rate of 7.95%, and the fair value was approximately \$5,634,000 (unfavourable).

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

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

Notes to Consolidated Financial Statements	Principal repayments over the next five years and thereafter are as follows:	
	2003	\$1,468,000
	2004	1,579,000
	2005	1,884,000
	2006	2,250,000
	2007	2,698,000
	Thereafter	26,518,000
		<hr/>
		\$36,397,000

8. Unitholders' Equity

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.

	2002	2001
Issued and outstanding		
30,823,443 trust units	290,152	290,152
Deficit	(62,805)	(51,769)
	<hr/>	<hr/>
	227,347	238,383

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 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 period commencing immediately after the date on which the trust units are tendered for redemption.

On February 11, 2003, the Fund sold 6,050,000 trust units to a syndicate of investment dealers at a price of \$10.75 per trust unit for net proceeds to the Fund of approximately \$61.8 million. The underwriters have an option to purchase an additional 15% of trust units on the same terms. The proceeds were used to retire the borrowings under the Fund's credit lines with the excess amount set aside for use in future Permitted Acquisitions, as defined in the Fund's trust indenture.

9. Distributions to Unitholders

Cash provided by operating activities for the year ended December 31, 2002, was \$1.01 per trust unit (2001 - \$1.04 per trust unit), being an aggregate amount of \$31,283,000 (2001 - \$31,995,000).

Distributions totalling \$0.98 per trust unit (2001 - \$0.98), being aggregate distributions of \$30,207,000 (2001 - \$30,207,000), were determined by the Manager of the Fund for the year ended December 31, 2002. For income tax purposes, \$14,056,000 (2001 - \$23,241,000) of the distributions is a return of capital.

10. Management Fee

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 Iroquois Falls cogeneration power 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, 2002, the Manager was paid \$504,000 (2001 - \$493,000).

The Manager is also entitled to operation-related incentive fees. During the year ended December 31, 2002, the Manager earned \$1,118,000 (2001 - \$1,719,000) as operation-related incentive fees. In addition, the Manager may receive a management incentive fee equal to 25% of the amount by which annual distributions to the unitholders exceed \$0.934 per unit, less the amount of certain operation-related incentive fees. During the year ended December 31, 2002, the Manager was paid nil (2001 - nil). During the year ended December 31, 2002, the Manager also earned \$368,000 (2001 - nil) related to the acquisition of the interest in KCLP.

For the year ended December 31, 2002, electricity and natural gas management incentive fees earned by the Manager are included in the cost of sales; previously these incentive fees had been included in management and administration costs. The comparative figures have been reclassified in order to conform to this presentation.

11. Income and Other Taxes		
In thousands of dollars	2002	2001
The components of income tax expense (recovery) are as follows:		
Current		
Federal	(14)	8
Provincial	–	–
Future		
Federal	(234)	2
Provincial	(81)	1
Provision for (recovery of) income taxes	(329)	11
The components of future income tax assets are as follows:		
Future tax assets		
Undepreciated cost of capital in excess of capital assets book value		
	986	623
Loss carryforwards	994	806
Other	24	–
Total future tax assets	2,004	1,429
Net future tax assets	2,004	1,429
Income before income taxes	18,842	20,651
Combined federal and provincial income tax at statutory rate of 38.62% (2001 – 42.12%)	7,277	8,698
Manufacturing and processing deduction	(912)	(1,000)
Income of Fund distributed to unitholders	(6,720)	(7,917)
Future income tax expense resulting from rate change	40	222
Large Corporations Tax and other items	(14)	8
Provision for (recovery of) income taxes	(329)	11

At December 31, 2002, financing expenses and underwriters' fees of \$1,204,000 (2001 – \$465,000) are deductible by the Fund for income tax purposes on a straight-line basis over the five years.

At December 31, 2002, IFPC has non-capital losses available for carryforward of approximately \$3,504,000 (2001 – \$3,229,000) which are available to reduce future year taxable income. These losses expire starting in 2006.

12. Commitments

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

IFPC and KCLP have entered into agreements for gas transportation that incorporate standard industry terms including the approval of tariffs by applicable regulated 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.

Historical Review		2002	2001	2000	1999	1998	1997 †
	Financial						
Years ending	Electricity production (MWh)	747,717	739,701	739,687	778,307	732,034	517,058
December 31	Steam production (ooo lb.)	1,088,090	1,012,015	997,164	868,431	779,609	769,833
In thousands of dollars, except as specified	Sales						
	Electricity	\$60,001	\$54,545	\$50,570	\$51,704	\$49,588	\$34,063
	Steam	6,465	5,358	4,504	4,381	3,713	3,067
	Gas	5,878	8,508	6,502	3,765	2,128	1,561
		72,344	68,411	61,576	59,850	55,429	38,691
	Cost of sales	32,076	30,288	25,991	25,241	22,048	15,090
	Gross profit	40,268	38,123	35,585	34,609	33,381	23,601
	Expenses						
	Plant operating costs	6,751	6,641	5,967	5,762	5,890	4,076
	Amortization	11,294	9,243	9,240	9,242	9,250	6,922
	Management and administration costs	3,203	1,709	1,620	1,398	1,337	924
	Interest expense and bank fees	249	126	135	112	1,996	4,629
	Interest income	(71)	(247)	(259)	(316)	(371)	(209)
		21,426	17,472	16,703	16,198	18,102	16,342
	Provision for (recovery of) income taxes						
	Current	(14)	8	20	21	67	98
	Future	(315)	3	(103)	0	(85)	85
		(329)	11	(83)	21	(18)	183
	Net income	\$19,171	\$20,640	\$18,965	\$18,390	\$15,297	\$7,076
	Funds from operations, before working capital changes	\$32,165	\$30,978	\$29,194	\$28,724	\$27,420	\$19,531
	per unit	\$1.04	\$1.01	\$0.95	\$0.93	\$0.89	\$0.63
	Cash from operations	\$31,283	\$31,995	\$23,135	\$29,270	\$27,421	\$17,973
	per unit	\$1.01	\$1.04	\$0.75	\$0.95	\$0.89	\$0.58
	Distributions to unitholders	\$30,207	\$30,207	\$28,974	\$28,666	\$27,125	\$18,494
	per unit	\$0.98	\$0.98	\$0.94	\$0.93	\$0.88	\$0.60

† nine months

**Corporate
and Unitholder
Information**

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President, Iroquois Falls Power
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Anthony F. Anderson

Chief Financial Officer
Chief Financial Officer, Iroquois Falls Power
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Director and Chairman
CGU Canada Ltd.

The Right Honourable

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Registrar and Transfer Agent

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

Trust Units

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

* Member of the Audit Committee

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.

Standard & Poor's Stability Rating

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

Annual and Special Meeting

The sixth annual meeting of unitholders of Northland Power Income Fund will be held on Thursday, May 22, 2003, at 11:00 a.m. in the TSX Conference Centre, located at the Exchange Tower, 130 King Street West (corner of King and York Streets), Toronto, Ontario.

Iroquois Falls Power Management Inc.

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Glossary of Terms

Abitibi	Abitibi-Consolidated Company of Canada
Fund	Northland Power Income Fund
GJ	Gigajoules
IFPC	Iroquois Falls Power Corp.
Iroquois Falls Facility	Plant located in Iroquois Falls, Ontario
KCLP	Kingston CoGen Limited Partnership
Kingston Facility	Plant located near Kingston, Ontario
kWh	Kilowatt hour
M	Million
MW	Megawatt
MWh	Megawatt hour
Manager	Iroquois Falls Power Management Inc.
NOx	Nitric Oxide
OEFC	Ontario Electricity Financial Corporation



**NORTHLAND POWER
INCOME FUND**