

# Quarterly Report

## Northland Power Income Fund

Quarterly Report for the period ending September 30, 2002

### FINANCIAL AND OPERATING RESULTS

This report covers  
Northland Power Income  
Fund's (the "Fund's")  
operations for the  
3 months ended  
Sept. 30, 2002  
and for the 9 months  
to  
Sept. 30, 2002

	3 months ended Sept. 30		Year to Sept. 30	
	2002	2001	2002	2001
<b>FINANCIAL</b> (thousands, except per unit amounts)				
Sales	\$16,017	\$13,791	\$51,702	\$50,000
Net Income	\$2,928	\$2,591	\$14,475	\$15,627
Funds from Operations				
Before Changes in Working Capital	\$6,586	\$5,286	\$22,015	\$23,270
Cash from Operations	\$5,424	\$523	\$23,652	\$25,741
Distributions Declared to Unitholders	\$7,398	\$7,244	\$22,194	\$21,114
<i>Units Outstanding</i>	30,823	30,823	30,823	30,823
<b>Per Unit</b>				
Net Income	\$0.095	\$0.084	\$0.470	\$0.507
Funds from Operations				
Before Changes in Working Capital	\$0.214	\$0.171	\$0.714	\$0.755
Cash from Operations	\$0.176	\$0.017	\$0.767	\$0.835
Distributions Declared to Unitholders	\$0.240	\$0.235	\$0.720	\$0.685
<b>OPERATIONS</b>				
<i>Electricity Production (megawatthours)</i>	175,354	164,600	545,314	533,602
<i>Steam Production (thousands of pounds)</i>	195,033	199,240	753,275	719,212
<i>Fuel Consumption (thousands of gigajoules)</i>	1,628	1,567	5,111	5,021



## MANAGEMENT'S DISCUSSION

### Overview

During the quarter, as previously announced, the Fund reached agreement in principle with Ontario Electricity Financial Corporation ("OEFC") concerning amendments to the Fund's long-term power purchase agreement that were made necessary by the opening of the competitive electricity market in Ontario and the restructuring of Ontario Hydro. The agreement in principle allowed the Fund to commence participating in Ontario's competitive electricity market in July, 2002; financial results for the quarter include the impact of the sale of electricity and other electricity-related products into the market.

In November, the government announced a number of measures designed to bring price stability to consumer and commercial electricity prices in Ontario until 2006. The government specifically stated that the competitive wholesale electricity market will continue to function, although at the time of writing the government has not yet introduced final legislation in respect of the announced measures. The Fund has confirmed with OEFC that the agreement in principle mentioned above will be honoured, notwithstanding recent government announcements.

Also during the quarter, the Fund entered into a new bank credit facility in the amount of \$95 million for the purpose of replacing an existing \$12.5 million operating line of credit plus a new \$82.5 million line for investments. Costs associated with the new credit line are reflected in this quarter's results.

Distributions to unitholders declared for the third quarter of 2002 totalled \$0.24 per unit, \$0.015 per unit higher than 2001.

### Three Months to September 30, 2002

Total sales for the quarter at \$16.0 million were 16% higher than the same period last year. Electricity revenue earned under the long-term power purchase agreement was up 9% compared to 2001 because of a 4% increase in the average selling price as well as increased revenue associated with OEFC's sharing in gas contract price re-openers. Electricity production under the power purchase agreement was 7,500 MWh (5%) ahead of 2001 as OEFC did not fully exercise its limited right to curtail off-peak electricity purchases during the summer months. Revenue earned from sales of electricity and operating reserves to the competitive market totalled \$1.3 million. Despite lower steam production, steam revenue for the quarter at \$1.2 million was 11% ahead year-over-year because of a higher steam selling price and the recognition of additional revenue upon completion of the summer take-or-pay reconciliation. Revenue from sales of natural gas associated with the mitigation of fixed transportation costs was up \$0.4 million due to higher sales volume.

The volume of natural gas consumed exceeded last year by 4% commensurate with the increased electricity production. The cost of natural gas was up \$1.5 million due, for the most part, to the higher volume and price increases under the long-term gas supply contracts related to the reopener provisions of two contracts on January 1, 2002. Plant operating costs for the quarter were down 23% largely because the annual maintenance shutdown occurred in Q2 this year compared to Q3 in 2001. Management and administration costs were up \$0.5 million due to costs associated with securing the \$95 million credit facility.

Beginning with the 3<sup>rd</sup> quarter of 2002, electricity and natural gas management incentive fees earned by Iroquois Falls Power Management Inc. have been included in the cost of sales. Previously, incentive fees had been included in management and administration costs. Comparative figures have been reclassified in order to conform to this presentation.

At \$6.6 million, funds from operations before changes in working capital were \$1.3 million above the 2001 level. Cash provided by operating activities at \$5.4 million was up \$4.9 million from the same period last year largely due to a \$3.6 million decrease in non-cash working capital associated with the timing of payments from OEFC for electricity sales.

## **Nine Months to September 30, 2002**

Sales at \$51.7 million are \$1.7 million above last year's results. Electricity and steam sales have increased by 8% and 11% respectively while natural gas sales are down \$1.9 million due to lower prices received from the resale of natural gas compared to last year's historically high levels. The cost of sales increased by 11% because of higher unit costs for natural gas. Total expenses are \$1.0 million higher than last year due primarily to additional maintenance costs and fees associated with establishing the \$95 million credit facility with CIBC. These factors caused income before income taxes to fall short of the 2001 level by \$1.7 million. Cash from operations is \$2.1 million lower than last year owing to a combination of lower net income and temporary changes in working capital.

Cash and cash equivalents decreased by \$0.5 million from year-end as cash provided by operating activities is subject to seasonality while distributions to unitholders have been leveled. The seasonality of electricity rates under the power purchase agreement also caused accounts receivable to be \$2.5 million lower than at year-end. Inventories increased by \$0.5 million due to payments related to the steam turbine generator stator purchase which is now expected to be installed in 2003, while deferred costs also increased by \$0.5 million as fees incurred to establish the \$95 million credit facility were partially offset by the completion of deferred maintenance fees amortization. Distributions payable at September 30, 2002 were \$1.7 million less than at year-end, as the December 2001 amount included an adjustment to bring last year's total distributions to \$0.98 per unit.

## **OUTLOOK**

The Fund continues to forecast distributions of \$0.98 per unit for the twelve months ending December 31, 2002. Distributions to unitholders are expected to be approximately 50% tax deferred for 2002.

On behalf of Iroquois Falls Power Management Inc.

James C. Temerty  
President

## NORTHLAND POWER INCOME FUND

### Consolidated Balance Sheets

(stated in thousands)

#### ASSETS

	Sept. 30, 2002 (Unaudited)	Dec. 31, 2001 (Audited)
<b>Current</b>		
Cash and cash equivalents	\$ -	\$ 496
Restricted cash	80	80
Accounts receivable	9,635	12,111
Inventories	1,823	1,365
Prepaid expenses	1,058	814
<b>Total Current Assets</b>	<b>12,596</b>	<b>14,866</b>
Deferred credit facility costs, net (Note 2)	1,271	-
Deferred maintenance fees, net	-	813
Capital assets, net	223,403	230,271
Future income tax asset	2,074	1,429
	<b>\$ 239,344</b>	<b>\$ 247,379</b>

#### LIABILITIES AND UNITHOLDERS' EQUITY

<b>Current</b>		
Bank indebtedness	\$ 1,516	\$ -
Accounts payable and accrued liabilities	4,698	4,835
Distribution payable to unitholders	2,466	4,161
<b>Total Liabilities</b>	<b>8,680</b>	<b>8,996</b>
<b>Unitholders' Equity</b>	<b>230,664</b>	<b>238,383</b>
	<b>\$ 239,344</b>	<b>\$ 247,379</b>

**NORTHLAND POWER INCOME FUND**  
**Consolidated Statements of Income and Deficit**  
(unaudited, stated in thousands except per unit amounts)

	<i>3 Months Ended Sept. 30</i>		<i>9 Months Ended Sept. 30</i>	
	<i>2002</i>	<i>2001</i> <i>(NOTE 3)</i>	<i>2002</i> <i>(NOTE 3)</i>	<i>2001</i> <i>(NOTE 3)</i>
<b>Sales</b>				
Electricity	\$ 12,785	\$ 11,051	\$ 41,797	\$ 38,677
Steam	1,219	1,095	4,590	4,123
Natural Gas	2,013	1,645	5,315	7,200
<b>Total Sales</b>	<b>16,017</b>	<b>13,791</b>	<b>51,702</b>	<b>50,000</b>
<b>Cost of sales</b>	<b>8,424</b>	<b>6,882</b>	<b>24,490</b>	<b>22,052</b>
<b>Gross Profit</b>	<b>7,593</b>	<b>6,909</b>	<b>27,212</b>	<b>27,948</b>
<b>Expenses</b>				
Plant operating costs	1,322	1,716	4,871	4,661
Amortization	2,309	2,311	6,926	6,932
Management and administration costs	710	222	1,516	957
Interest expense and bank fees	90	30	146	95
Interest income	(19)	(76)	(63)	(222)
	<b>4,412</b>	<b>4,203</b>	<b>13,396</b>	<b>12,423</b>
<b>Income before income taxes</b>	<b>3,181</b>	<b>2,706</b>	<b>13,816</b>	<b>15,525</b>
<b>Provision for (recovery of) income taxes</b>				
Current	(19)	4	(14)	6
Future	272	111	(645)	(108)
	<b>253</b>	<b>115</b>	<b>(659)</b>	<b>(102)</b>
<b>Net Income for the Period</b>	<b>\$ 2,928</b>	<b>\$ 2,591</b>	<b>\$ 14,475</b>	<b>\$ 15,627</b>
Deficit, Beginning of Period	(55,018)	(43,036)	(51,769)	(42,202)
Distributions to Unitholders for the Period	(7,398)	(7,244)	(22,194)	(21,114)
<b>Deficit, End of Period</b>	<b>\$ (59,488)</b>	<b>\$ (47,689)</b>	<b>\$ (59,488)</b>	<b>\$ (47,689)</b>
<b>Net Income per Trust Unit</b>	<b>\$ 0.095</b>	<b>\$ 0.084</b>	<b>\$ 0.470</b>	<b>\$ 0.507</b>

**NORTHLAND POWER INCOME FUND**  
**Consolidated Statements of Cash Flows**  
(unaudited, stated in thousands except per unit amounts)

	<i>3 Months Ended Sept. 30</i>		<i>9 Months Ended Sept. 30</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
<b>Operating Activities</b>				
Net income for the period	\$ 2,928	\$ 2,591	\$ 14,475	\$ 15,627
Add (deduct) items not involving cash:				
Amortization	2,309	2,311	6,926	6,932
Amortization of maintenance fee	631	273	813	819
Amortization of credit facility costs (Note 2)	446	-	446	-
Future income taxes	272	111	(645)	(108)
Funds from operations before changes in working capital	6,586	5,286	22,015	23,270
Net change in non-cash working capital balances related to operations	(1,162)	(4,763)	1,637	2,471
<b>Cash Provided by Operating Activities</b>	<b>5,424</b>	<b>523</b>	<b>23,652</b>	<b>25,741</b>
<b>Investing Activities</b>				
Purchase of capital assets	(12)	(10)	(58)	(81)
Credit facility costs (Note 2)	(1,717)	-	(1,717)	-
<b>Cash Used in Investing Activities</b>	<b>(1,729)</b>	<b>(10)</b>	<b>(1,775)</b>	<b>(81)</b>
<b>Financing Activities</b>				
Restricted cash drawdown	-	7	-	131
Increase/(Decrease) in bank indebtedness	1,516	-	1,516	(2,105)
Distributions to unitholders	(7,398)	(7,090)	(23,889)	(22,039)
<b>Cash used in Financing Activities</b>	<b>(5,882)</b>	<b>(7,083)</b>	<b>(22,373)</b>	<b>(24,013)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents During the Period</b>	<b>(2,187)</b>	<b>(6,570)</b>	<b>(496)</b>	<b>1,647</b>
Cash and cash equivalents, beginning of the period	2,187	8,217	496	-
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ -</b>	<b>\$ 1,647</b>	<b>\$ -</b>	<b>\$ 1,647</b>
<b>PER UNIT</b>				
Funds from operations before changes in working capital	\$ 0.214	\$ 0.171	\$ 0.714	\$ 0.755
Cash provided by operating activities	\$ 0.176	\$ 0.017	\$ 0.767	\$ 0.835
Distribution declared to unitholders	\$ 0.240	\$ 0.235	\$ 0.720	\$ 0.685

NORTHLAND POWER INCOME FUND

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

### 1. Accounting Policies

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting principles and methods of application as the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the Fund's annual consolidated financial statements included in the 2001 Annual Report.

### 2. Credit Agreement

The Fund and its wholly-owned subsidiary, Iroquois Falls Power Corp. ("IFPC") have a credit agreement with the Canadian Imperial Bank of Commerce, that is subject to renewal on the anniversary date of May 23, 2003, which establishes a \$82,500,000 acquisition line of credit to assist in the funding of expansionary capital expenditures and investments by the Fund, a \$7,500,000 revolving-term letter of credit facility to be used in meeting obligations under gas transportation and supply contracts and a \$5,000,000 revolving-term operating line of credit for general corporate purposes. As at September 30, 2002 the variable interest per annum under each of the line of credits is charged at 4.8%, 3.1% or 4.2%. Standby fees of 0.3% are charged on each of the undrawn letter of credits and operating line facilities.

Amounts drawn under the credit agreement are principally collateralized by a debenture security and by general security agreements that constitute a first priority lien on all of the real property and all of the present and future property assets of IFPC and the Fund, 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.

### 3. Comparative Figures

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

## FORWARD LOOKING STATEMENTS

*The above disclosure contains certain forward-looking statements. Although these forward-looking statements are based upon current expectations and assumptions, they are subject to numerous risks and uncertainties, certain of which are beyond the Fund's control, including: fluctuations in commodity prices for natural gas and electricity, fluctuations in regulated tariffs for natural gas transportation, the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, the opening of the competitive electricity market, negotiations with OEFC with respect to changes required to the Fund's long-term power purchase agreement in connection with the transition to the competitive electricity market, and unexpected occurrences at the Iroquois Falls plant that could affect production and/or costs. The Fund's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of distributions, the Fund and unitholders will derive therefrom.*

## **NORTHLAND POWER INCOME FUND**

### TRUSTEE

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Toronto, Ontario M5J 2Y1  
Attention: Corporate Services

**REGISTRAR AND TRANSFER AGENT**

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

**STOCK EXCHANGE LISTING**

The Toronto Stock Exchange  
Symbol: NPI.UN

**BANK**

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