

# Quarterly Report

Northland Power Income Fund

Quarterly Report for the period ending September 30, 2001

This report covers  
Northland Power Income  
Fund's (the "Fund's")  
operations for the  
3 months ended  
September 30, 2001,  
and for the 9 months  
to  
September 30, 2001

## FINANCIAL AND OPERATING RESULTS

	3 months ended Sept. 30		9 months to Sept. 30	
	2001	2000	2001	2000
<b>FINANCIAL</b> (thousands, except per unit amounts)				
Sales	\$13,791	\$12,699	\$50,000	\$43,354
Net Income	\$2,591	\$2,540	\$15,627	\$13,164
Funds from Operations				
Before Changes in Working Capital	\$5,286	\$5,417	\$23,270	\$20,370
Cash from Operations	\$523	\$722	\$25,741	\$16,745
Distributions Declared to Unitholders	\$7,244	\$4,624	\$21,114	\$20,961
<i>Units Outstanding</i>	<i>30,823</i>	<i>30,823</i>	<i>30,823</i>	<i>30,823</i>
<b>Per Unit</b>				
Net Income	\$0.08	\$0.08	\$0.51	\$0.43
Funds from Operations				
Before Changes in Working Capital	\$0.17	\$0.18	\$0.75	\$0.66
Cash from Operations	\$0.02	\$0.02	\$0.84	\$0.54
Distributions Declared to Unitholders	\$0.24	\$0.15	\$0.69	\$0.68
<b>OPERATIONS</b>				
<i>Electricity Production (megawatthours)</i>	<i>164,600</i>	<i>163,003</i>	<i>533,602</i>	<i>540,912</i>
<i>Steam Production (thousands of pounds)</i>	<i>199,240</i>	<i>182,407</i>	<i>719,212</i>	<i>704,181</i>
<i>Fuel Consumption (thousands of gigajoules)</i>	<i>1,567</i>	<i>1,520</i>	<i>5,021</i>	<i>5,294</i>



## **MANAGEMENT'S DISCUSSION**

### **Overview**

During the third quarter of 2001, net income was unchanged from the third quarter of last year. Production of electricity was up marginally while steam was up by 9%. Higher selling prices for electricity balanced higher fuel and other costs. Cash from operations was largely unchanged for the quarter; year-over-year changes in distributions and quarter-end cash reflected the move to monthly, levelized distributions to Unitholders.

### **Three Months to September 30, 2001**

Sales for the quarter at \$13.8 million were 9% ahead of the same period last year. Revenue from electricity sales was up by 9% because of a 7% increase in the average selling price of electricity under the long-term power purchase agreement and increased revenue associated with OEFC's sharing in the impact of gas contract price re-openers. Electricity production at 164,600 megawatt-hours was slightly ahead of 2000 as additional electricity sales were made outside the provisions of the Fund's power purchase agreement. Steam revenue at \$1.1 million was 21% higher as Abitibi-Consolidated Inc.'s own steam production was lower and the selling price, which is related to gas costs, was higher. Revenue from sales of natural gas associated with the mitigation of fixed transportation costs was up 2% due to favourable gas market prices.

The cost of natural gas consumed and re-sold was 16% higher than the same quarter last year. The volume of gas consumed was up 3% commensurate with the increased electricity and steam production. Gas prices were up due to contractual increases, including a 15% escalation in the price of approximately 60% of the Fund's contracted gas related to the reopening of one gas contract on January 1, 2001, and a 13% increase in the TransCanada PipeLines tariff. Expenses for the quarter exceeded last year primarily because of the timing of plant costs, and higher gas management incentive fees associated with the higher prices received on gas re-sold.

Distributions to unitholders declared in the third quarter of 2001 totalled \$0.235 per unit, \$0.085 per unit higher than 2000 due to the Fund having adopted a policy of monthly, levelized distributions.

The decrease in cash of \$6.6 million was consistent with the third quarter of 2000; levelized distributions to unitholders exceeded cash generated from operations due to the seasonality of revenue and production.

### **Nine Months to September 30, 2001**

Net income at \$15.6 million is \$2.5 million higher than 2000. Sales of \$50.0 million are 15% ahead of last year's results largely due to an increase in the selling price of electricity under the power purchase agreement and higher prices received for gas resales. The cost of sales is 11% higher because of higher unit costs for natural gas. The timing of plant costs and higher gas management fees resulted in expenses being \$1.6 million higher than last year.

The higher net income largely accounts for funds from operations before working capital changes at \$23.3 million being \$2.9 million ahead of last year. This change contributed to the increase in cash provided by operating activities (at \$25.7 million, \$9.0 million higher than the same period of 2000); the other major contributor was a reduction in working capital (increase in cash) due to the level of accounts receivable at December 31, 2000 compared to September 30, 2001 related to lower contractual volumes and prices for

electricity in summer compared to winter months. Cash and cash equivalents have increased from year-end mainly as a result of the decrease in accounts receivable.

## **OUTLOOK**

At this time the Fund expects to distribute \$0.98 per unit for the twelve months ending December 31, 2001, \$0.04 per unit higher than last year. Distributions to unitholders are expected to be approximately 80% tax deferred for 2001.

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, 2001 <i>(Unaudited)</i>	Dec. 31, 2000 <i>(Audited)</i>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,647	\$ -
Restricted cash	80	211
Accounts receivable	8,477	12,569
Inventories	1,996	1,673
Prepaid expenses	1,007	576
<b>Total Current Assets</b>	<b>13,207</b>	<b>15,029</b>
Deferred maintenance fees, net	1,086	1,905
Capital assets, net	232,574	239,425
Future income tax asset (Note 2)	1,540	1,432
<b>Total Assets</b>	<b>\$ 248,407</b>	<b>\$ 257,791</b>

#### LIABILITIES AND UNITHOLDERS' EQUITY

<b>Current Liabilities</b>		
Bank indebtedness	\$ -	\$ 2,105
Accounts payable and accrued liabilities	3,479	4,346
Distribution payable to unitholders	2,465	3,390
<b>Total Liabilities</b>	<b>5,944</b>	<b>9,841</b>
<b>Total Unitholders' Equity</b>	<b>242,463</b>	<b>247,950</b>
<b>Total Liabilities and Unitholders' Equity</b>	<b>\$ 248,407</b>	<b>\$ 257,791</b>

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

	3 Months Ended Sept. 30		9 Months Ended Sept. 30	
	2001	2000	2001	2000
<b>Sales</b>				
-Electricity	\$ 11,051	\$ 10,179	\$ 38,677	\$ 36,210
-Steam	1,095	905	4,123	3,353
-Natural Gas	1,645	1,615	7,200	3,791
<b>Total Sales</b>	<b>13,791</b>	<b>12,699</b>	<b>50,000</b>	<b>43,354</b>
<b>Cost of Sales</b>	<b>6,717</b>	<b>5,767</b>	<b>20,823</b>	<b>18,706</b>
<b>Gross Profit</b>	<b>7,074</b>	<b>6,932</b>	<b>29,177</b>	<b>24,648</b>
<b>Expenses</b>				
Plant operating costs	1,716	1,456	4,661	4,197
Amortization	2,311	2,310	6,932	6,930
Management and administration costs	387	372	2,186	1,031
Interest expense and bank fees	30	33	95	93
Interest income	(76)	(64)	(222)	(238)
	4,368	4,107	13,652	12,013
<b>Income before income taxes</b>	<b>2,706</b>	<b>2,825</b>	<b>15,525</b>	<b>12,635</b>
<b>Provision for (recovery of) income taxes</b>				
Current	4	(9)	6	14
Future (Note 2)	111	294	(108)	(543)
	115	285	(102)	(529)
<b>Net Income for the Period</b>	<b>\$ 2,591</b>	<b>\$ 2,540</b>	<b>\$ 15,627</b>	<b>\$ 13,164</b>
<b>Deficit, Beginning of Period</b>	<b>(43,036)</b>	<b>(39,235)</b>	<b>(42,202)</b>	<b>(33,522)</b>
<b>Distributions to Unitholders for the Period</b>	<b>(7,244)</b>	<b>(4,624)</b>	<b>(21,114)</b>	<b>(20,961)</b>
<b>Deficit, End of Period</b>	<b>\$ (47,689)</b>	<b>\$ (41,319)</b>	<b>\$ (47,689)</b>	<b>\$ (41,319)</b>
<b>Net Income per Unit</b>	<b>\$ 0.08</b>	<b>\$ 0.08</b>	<b>\$ 0.51</b>	<b>\$ 0.43</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>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
<b>Operating Activities</b>				
Net income for the period	\$ 2,591	\$ 2,540	\$ 15,627	\$ 13,164
Add (deduct) items not involving cash				
Amortization	2,311	2,310	6,932	6,930
Amortization of maintenance fee	273	273	819	819
Future income taxes (Note 2)	111	294	(108)	(543)
Funds from operations before changes in working capital	5,286	5,417	23,270	20,370
Net change in non-cash working capital balances related to operations	(4,763)	(4,695)	2,471	(3,625)
<b>Cash provided by operating activities</b>	<b>523</b>	<b>722</b>	<b>25,741</b>	<b>16,745</b>
<b>Investing Activities</b>				
Additions to capital assets	(10)	(25)	(81)	(136)
<b>Cash used in investing activities</b>	<b>(10)</b>	<b>(25)</b>	<b>(81)</b>	<b>(136)</b>
<b>Financing Activities</b>				
Restricted cash drawdown	7	28	131	157
Increase/(decrease) in bank indebtedness	-	1,602	(2,105)	1,602
Distribution to unitholders	(7,090)	(8,785)	(22,039)	(26,355)
<b>Cash used in financing activities</b>	<b>(7,083)</b>	<b>(7,155)</b>	<b>(24,013)</b>	<b>(24,596)</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>(6,570)</b>	<b>(6,458)</b>	<b>1,647</b>	<b>(7,987)</b>
Cash and cash equivalents, beginning of the period	8,217	6,458	-	7,987
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,647</b>	<b>\$ -</b>	<b>\$ 1,647</b>	<b>\$ -</b>
<b>PER UNIT</b>				
Funds from operations before changes in working capital	\$ 0.17	\$ 0.18	\$ 0.75	\$ 0.66
Cash provided by operating activities	\$ 0.02	\$ 0.02	\$ 0.84	\$ 0.54
Distribution declared to unitholders	\$ 0.24	\$ 0.15	\$ 0.69	\$ 0.68

**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 2000 Annual Report.

## **2. Change in Accounting Policy**

Effective January 1, 2000, the Fund adopted the liability method of tax allocation for accounting for income taxes as provided for in the new recommendations of the Canadian Institute of Chartered Accountants, section 3465. Under the liability method of tax allocation, 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.

The Fund's 2000 interim consolidated financial statements have been restated to conform to this new recommendation.

## **TRUSTEE**

Montreal Trust Company of Canada  
Corporate Services  
100 University Avenue  
Toronto, Ontario M5J 2Y1  
Attention: Corporate Services

## **REGISTRAR AND TRANSFER AGENT**

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

## **STOCK EXCHANGE LISTING**

The Toronto Stock Exchange  
Symbol: NPI.UN

## **BANK**

Canadian Imperial Bank of Commerce  
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Toronto, Ontario M5L 1A2

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