

# Quarterly Report

## Northland Power Income Fund

Quarterly Report for the periods ended September 30, 2005

		3 months ended Sept. 30		9 months ended Sept. 30	
		2005	2004	2005	2004
<b>FINANCIAL AND OPERATING RESULTS</b>					
<b>FINANCIAL</b> (thousands, except per unit amounts)					
<i>This report covers Northland Power Income Fund's operations for the quarter and the 9 months ended September 30, 2005</i>	Sales	\$31,707	\$20,936	\$91,525	\$65,714
	Net income	\$5,217	\$1,021	\$32,126	\$21,781
	Funds from operations				
	before changes in working capital	\$14,978	\$10,955	\$48,150	\$34,489
	Distributable cash	\$13,947	\$10,176	\$47,807	\$33,933
	Distributions declared to Unitholders	\$12,560	\$11,860	\$36,911	\$35,578
	<i>Units Outstanding</i>	<i>49,308</i>	<i>47,916</i>	<i>49,308</i>	<i>47,916</i>
	<i>Average Number of Units Outstanding - basic</i>	<i>48,932</i>	<i>47,916</i>	<i>48,289</i>	<i>47,916</i>
	<i>Average Number of Units Outstanding - diluted</i>	<i>48,932</i>	<i>49,894</i>	<i>53,116</i>	<i>48,580</i>
	<b>Per Unit - basic</b>				
	Funds from operations				
	before changes in working capital	\$0.3061	\$0.2286	\$0.9971	\$0.7198
	Distributable cash	\$0.2850	\$0.2124	\$0.9900	\$0.7082
	Distributions declared to Unitholders	\$0.2550	\$0.2475	\$0.7625	\$0.7425
<b>OPERATIONS</b>					
<i>Electricity sales volume (megawatthours)</i>	<i>256,798</i>	<i>183,359</i>	<i>761,640</i>	<i>590,525</i>	
<i>Steam sales volume (thousands of pounds)</i>	<i>223,289</i>	<i>178,078</i>	<i>825,594</i>	<i>783,973</i>	
<i>Fuel consumption (thousands of gigajoules)</i>	<i>2,076</i>	<i>1,706</i>	<i>6,708</i>	<i>5,612</i>	



## **MANAGEMENT'S DISCUSSION & ANALYSIS**

### **Overview**

Northland Power Income Fund's (the "Fund") solid financial performance in the first half of the year continued into the third quarter of 2005. The quarter included three full months of operations from the Mont Miller wind facility. The first nine months of 2005 included a 50% share of the Kingston facility, compared to 25% last year.

The quarter's financial results were positively affected by increased market prices for electricity and natural gas. The selling price under the Iroquois Falls plant's power purchase agreement ("PPA") increased by 4.0% retroactive to January 1 as a direct result of higher wholesale market electricity prices in Ontario to which the rates under the PPA are related. Sales of electricity at Iroquois Falls outside the terms of the PPA at wholesale market prices significantly exceeded the prior year with respect to both prices and volumes. The Kingston plant received higher prices for natural gas resold. Financial results at the Panda-Brandywine plant exceeded last year due to higher dispatch levels associated with increased electricity demand because of this year's unseasonably hot summer. The Mont Miller project completed its first full quarter of operations; production was 6% below expectations as the hot weather adversely affected wind speeds in July and August.

For the three-month period ended September 30, 2005, the Fund generated distributable cash of \$13.9 million which exceeded last year by \$3.8 million. On a per-unit basis, distributable cash of \$0.285 per trust unit was up \$0.073 per unit from last year and exceeded the declared distributions. Readers should refer to the schedule of Distributable Cash and Distributions to Unitholders in the MD&A for the calculation of distributable cash (a non-GAAP financial measure).

Consolidated revenue and net income of the Fund at \$31.7 million and \$5.2 million for the quarter, respectively, were up from last year due to good performance from all of the Fund's facilities combined with the inclusion of the Mont Miller wind farm and an additional 25% of the Kingston facility's financial results.

Distributions to Unitholders declared for the quarter totaled \$0.2550 per unit. After quarter end the Fund announced a 3% increase in the rate of monthly distributions to \$0.0875 per unit and a top-up in December 2005 to bring actual distributions to \$1.05 per unit for 2005.

## Iroquois Falls Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2005	2004	2005	2004
<b>Sales Volume</b>				
Electricity (MWh)	160,780	151,879	524,576	509,897
Steam (000 lb.)	196,543	164,314	719,546	731,832
Fuel Consumption (000 GJs)	1,518	1,416	4,910	4,845
<b>Sales</b>				
Electricity	15,123	12,399	46,701	43,005
Steam	1,256	1,050	4,420	4,427
Natural gas	2,278	2,460	4,840	5,126
Emission allowances and credits	130	-	877	-
	18,787	15,909	56,838	52,558
<b>Cost of sales</b>				
Gas consumed	6,330	5,670	20,081	19,354
Gas re-sold	1,424	1,700	3,151	3,627
	7,754	7,370	23,232	22,981
<b>Gross profit</b>	11,033	8,539	33,606	29,577
<b>Plant operating costs</b>	1,560	1,621	4,619	4,602
<b>Capital expenditures</b>	34	34	64	69

Sales for the quarter at \$18.8 million were \$2.9 million (18%) higher than the same period last year as electricity revenue was up \$2.7 million due to an increase in the selling price of electricity under the PPA retroactive to January 1, 2005 as well as increased sales outside the terms of the PPA.

Escalation in the rates under the Iroquois Falls PPA is directly related to changes in the cost of electricity to large industrial wholesale power consumers in Ontario (the "Wholesale Customer Cost"). That cost incorporates a number of elements, including the commodity cost of the electricity in the Ontario wholesale market, which is quite volatile and has increased significantly over the last year. The Wholesale Customer Cost includes other elements which serve to dampen volatility, such as rates for transmission and the debt retirement charge, and adjustments related to Ontario Power Generation's obligation to deliver electricity from its "heritage" generating stations at controlled prices. Volatility in the Iroquois Falls PPA rates is further reduced as they are based primarily on a three-year rolling average of changes in the Wholesale Customer Cost, and they are further subject to a floor and ceiling mechanism under the PPA.

The escalator for rates under the Iroquois Falls PPA is estimated as at January 1st of each year by Ontario Electricity Financial Corporation. On July 1st a revision is made to the rates that apply for the balance of the year and corresponding retroactive adjustments are made for the preceding January to June period, in both cases based on the actual changes in the Wholesale Customer Cost for the first six months of the year. A further retroactive adjustment is made to the PPA rates and payments after the end of the year, calculated using actual Wholesale Customer Cost changes for the entire year compared to the previously estimated PPA rates.

As a result of higher than expected electricity wholesale market prices in Ontario during the first half of 2005, the July 1<sup>st</sup> revisions to the Iroquois Falls PPA rates resulted in a 4.0% selling price increase for most of the IFPC PPA rate components for the remainder of 2005 and a \$1.2 million positive retroactive revenue adjustment, of which \$0.3 million applied to previous years and \$0.9 million applied to the first and second quarters of 2005. High wholesale market electricity prices also provided the opportunity for increased sales

of electricity outside the terms of the PPA. Revenue for non-PPA sales in the third quarter exceeded the prior year by \$1.2 million due to increased volume (up 564%) and prices (up 72% on average).

Steam revenue was \$0.2 million higher than last year largely due to a 20% increase in demand. Abitibi has historically met a portion of its steam requirements by combusting waste materials (mostly bark) in an on-site wood-fired boiler. The retirement of Abitibi's wood-fired boiler on July 7, 2005 is expected to increase future steam demand at the Iroquois Falls facility. Despite a 17% increase in the average selling price of natural gas as compared to the same quarter last year, sales of natural gas to mitigate fixed transportation costs were down \$0.2 million due to a reduction in the volume of gas available for sale. Sales of emission allowances and credits generated revenue of \$0.1 million this quarter.

The cost of natural gas was up from last year commensurate with an increase in electricity production. Plant operating costs at \$1.6 million were in line with last year.

Sales for the first nine months are up \$4.3 million from last year largely due to increased electricity production and rates as described above, combined with revenue earned from the sales of emission allowances and credits. The cost of sales is up commensurate with a higher volume of electricity sales, while plant operating costs are in line with the same period in 2004.

### Kingston Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2005	2004	2005	2004
	50%	25%	50%	25%
<b>Sales Volume</b>				
Electricity (MWh)	60,284	31,480	191,891	80,628
Steam (000 lb.)	26,746	13,764	106,048	52,141
Fuel consumption (000 GJs)	558	290	1,798	767
<b>Sales</b>				
Electricity	7,501	3,830	23,904	9,832
Steam	212	86	829	324
Natural gas	2,846	1,111	7,017	3,000
Emission allowances and credits	182	-	182	-
	10,741	5,027	31,932	13,156
<b>Cost of sales</b>				
Gas consumed	3,554	1,846	11,161	5,152
Gas re-sold	1,233	552	3,202	1,469
	4,787	2,398	14,363	6,621
<b>Gross profit</b>	5,954	2,629	17,569	6,535
<b>Plant operating costs</b>	1,024	528	2,596	2,433
<b>Capital expenditures</b>	83	234	1,247	326

On December 15, 2004, the Fund purchased an additional 25% interest in Kingston CoGen Limited Partnership ("KCLP"). Accordingly, the Fund's financial results for 2005 consolidate 50% of the Kingston facility's operations, while 2004 includes 25%. The comments below relate to the operations of the Kingston facility in total, without reference to the Fund's increased ownership interest.

For the third quarter, electricity sales volume at the Kingston facility was down 4% from the same period last year due to the annual maintenance shutdown that was completed in September; the previous year's annual shutdown occurred during the first quarter of 2004. Electricity sales revenue was only down 2% due to an offsetting 2% average price increase. Steam revenue was affected by higher demand and an increase in the average selling price while sales of natural gas were up significantly from the third quarter of 2004 due to a 16% increase in the weighted average selling price received under forward sales contracts and on spot

market sales combined with a higher volume of gas available for resale. The Kingston facility made its first sale of emission credits this quarter.

The cost of sales was in line with last year as a reduction in the cost of natural gas consumed commensurate with lower production levels was offset by a higher cost of gas resold. Plant operating costs were in line with the same quarter last year despite the annual shutdown having occurred this quarter, as 2004 was affected by spare parts inventory adjustments for items that had been used during the major outage in the first quarter of 2004.

For the nine-month period ended September 30, electricity revenue is up significantly compared to last year as production in the first quarter of 2004 was adversely affected by downtime associated with the gas turbine outage and scheduled major maintenance on the gas and steam turbines. Steam revenue is higher due to increased demand and an increase in the average selling price. Revenue from the resale of natural gas is also up from last year due to higher prices and volumes as the facility's natural gas supply agreement restricted sales during the major outage in the first quarter of 2004. Natural gas costs are higher as electricity production and the average cost under the terms of the long-term gas supply contract has increased. Plant operating costs are lower than last year due to the cost of the unscheduled and scheduled turbine major maintenance in 2004.

Year to date capital expenditures are up due to the replacement of critical spare parts used in the 2004 gas turbine outage.

### Mont Miller Facility

<i>(in thousands of dollars except as indicated)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2005	2004	2005	2004
<b>Sales Volume</b>				
Electricity (MWh)	35,734	-	45,173	-
<b>Sales</b>				
Electricity	2,179	-	2,755	-
	2,179	-	2,755	-
<b>Gross profit</b>	2,179	-	2,755	-
<b>Plant operating costs</b>	495	-	598	-
<b>Capital expenditures</b>	4,931	40,281	24,396	40,281

The Mont Miller facility is a wind farm consisting of 30 Vestas V-80 turbines with a total installed capacity of 54 MW. The Mont Miller facility achieved commercial operations on June 9th, when it completed commissioning of all 30 turbines and began supplying electricity to Hydro-Québec under the terms of a 21-year power purchase agreement.

During the quarter, the facility operated with average availability in excess of 97%, well above the projected level in spite of downtime taken to fine tune the project's control systems. Unseasonably high temperatures in July and August caused average wind speeds to fall short of expectations, but September was windier than projected. As a result, electricity production for the quarter was approximately 6% below expectations, which is well within predicted seasonal variability. Fall and winter production is expected to significantly exceed that for the third quarter.

Since acquiring the Mont Miller project in August 2004 for \$2.8 million, the Fund has incurred \$92.2 million in project construction and development costs, comprising capital costs of \$90.0 million and deferred development costs of \$2.2 million. A total of \$4.4 million in interest costs related to the construction and term loan and the convertible unsecured debentures has been included in capital assets. Revenue received during the construction period was capitalized against the cost of the project. During the quarter, "total completion" was achieved under the construction contract for the facility, and the construction loan with The Manufacturers Life Insurance Company was converted to a term loan

according to the provisions of the credit agreement. With the completion of the project, the cash reserves of \$12.4 million held at June 30, 2005 were released this quarter.

Upon completion of the construction of the Mont Miller facility, the developer of the project, Mount Miller Construction and Services Inc. (a 50%-owned subsidiary of the parent of the Manager) was entitled to a one-time special distribution on the Class B Subordinated Units equal to the amount that the actual costs of construction were less than the Fund's committed investment in the project. Accordingly, Mount Miller Construction and Services Inc. received a special distribution in the amount of \$5 million during the quarter. This special distribution is included in the capital cost of the project as stated above since it relates directly to the Fund's cost of construction.

## Panda Energy Corporation

<i>(in thousands of dollars)</i>	3 months ended Sept. 30		9 months ended Sept. 30	
	2005	2004	2005	2004
Dividends	243	342	2,501	749
Interest income	2,667	3,256	9,772	9,759
Total investment income	2,910	3,598	12,273	10,508

Financial and operating results at the Panda-Brandywine plant for the quarter and year to date exceeded last year due to unseasonably hot weather resulting in transmission constraints and higher dispatch levels to meet increased electricity demand. According to the Manager of the Panda-Brandywine plant, production in August and September was the highest ever for each month.

The Fund's investment in Panda Energy Corporation ("PEC") generated investment income of \$2.9 million this quarter through a combination of interest and dividend payments. Investment income was lower than the same period last year due to the US\$18.9 million senior loan prepayment during the first quarter of 2005 that resulted from the sale of the Panda-Rosemary plant. Interest income this quarter reflected a 0.4% increase in the interest rate (to 10.9%) on the Fund's senior loan.

The large increase in investment income for the nine-month period is the result of a one-time equity distribution of US\$1.4 million and the receipt of a prepayment premium in the amount of US\$1.1 million, both in the first quarter, related to the Panda-Rosemary sale transaction. The Fund also received restructuring and wind-up fees totaling approximately US\$1.5 million which are not included in investment income, but are being amortized into income over the remaining term of the loan.

The Fund has foreign exchange option contracts in respect of the expected interest and principal payments to be received on the senior loan during fiscal years 2005 and 2006. The various option contracts hedge the rate of exchange for each quarter of 2005 and 2006, as follows:

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

The fair value of these option contracts was \$2.0 million favourable (December 31, 2004 - \$2.5 million favourable).

In addition, the Fund has entered into foreign exchange forward contracts in the amount of US\$900,000 that expire on February 21, 2007 at an average exchange rate of 1.22. The fair value of these forward contracts at September 30, 2005 was \$65,000 favourable.

## Consolidated Results

The following is a discussion of the consolidated financial condition and results of operations of the Fund which should be read in conjunction with the consolidated financial statements.

### **Third Quarter**

Sales at \$31.7 million were up \$10.8 million from the same period last year largely due to the impact of the additional 25% interest in the Kingston facility, acquired in 2004, combined with revenue earned from the Mont Miller wind farm and increased electricity revenues at the Iroquois Falls facility. The cost of sales was up \$2.8 million from last year commensurate with the increased ownership in Kingston.

Plant operating costs increased this quarter due to the additional interest in Kingston and commencement of commercial operations at Mont Miller. Management and administration costs were up \$0.3 million, a combination of higher legal fees and the inclusion of the Mont Miller expenses. Amortization was up \$1.9 million commensurate with the additional investment in Kingston and the start of commercial operations at Mont Miller.

Investment income at \$2.9 million was down from 2004 by \$0.7 million as a result of the US \$18.9 million senior loan principal prepayment on February 8, 2005. Due to the strengthening of the Canadian dollar during the quarter, the Fund recorded a \$4.5 million non-cash, foreign exchange loss on the translation of the PEC senior loan balance to the quarter-end U.S. dollar/Canadian dollar exchange rate. As a result of the Fund holding foreign exchange contracts, interest and principal payments expected to be received in 2005, 2006 and the first quarter of 2007 will be minimally affected by any changes in the value of the Canadian dollar. An additional expense has been included this quarter to account for the accretion of the asset retirement obligation related solely to the Mont Miller facility.

Interest expense at \$3.1 million was \$2.1 million higher than last year. The increase was due to including an additional 25% of Kingston's interest expense and the interest costs related to the convertible debentures, the proceeds from which were used primarily to fund the construction of the Mont Miller project.

The above factors, combined with the provision for future taxes at the Fund's Iroquois Falls subsidiary, resulted in net income for the third quarter of 2005 being \$4.2 million higher than last year.

### **Year to Date**

Sales at \$91.5 million are up by \$25.8 million for the nine months ended September 30 largely due to the impact of the additional 25% interest in Kingston acquired late in 2004 and the startup of the Mont Miller wind farm combined with increased revenue at the Iroquois Falls and Kingston facilities. The \$8.0 million increase in the cost of sales is commensurate with the inclusion of the additional 25% of Kingston's financial results and the increased level of electricity sales at both the Iroquois and Kingston facilities.

Total expenses are up \$5.6 million due largely to the impact of the startup of the Mont Miller wind farm and the additional 25% interest in Kingston on plant operating costs, amortization charges and management and administration costs. The \$0.9 million increase in management and administration costs largely occurred during the second quarter, and included legal fees to renegotiate the Fund's credit facility, costs associated with the local and investment community days at the Mont Miller facility and costs associated with documentation and testing of the Fund's systems of internal and disclosure controls relating to CEO/CFO certification. Investment income at \$12.3 million is substantially higher than 2004, of which \$3.4 million was due to the recognition of a portion of the one-time payments received from PEC from the sale of the Panda-Rosemary plant in the first quarter partially offset by lower interest payments in the second and third quarters as discussed previously. The Fund recorded a \$1.9 million non-cash, foreign exchange loss on the restatement of the PEC senior loan balance to quarter-end U.S. dollar/Canadian dollar exchange rate due to the strengthening of the Canadian dollar since year-end.

Interest expense is \$4.5 million higher than last year due to the reasons previously discussed.

The factors described above result in net income for the first nine months of 2005 being \$10.3 million higher than last year.

## Liquidity and Capital Resources

Since December 31, 2004, cash and cash equivalents at \$17.7 million have decreased by \$0.9 million, due to \$60.3 million in cash having been used for financing purposes, offset by \$49.4 million generated by operations and \$9.9 million provided by investing activities.

Cash provided by operating activities at \$49.4 million was \$19.1 million higher than the nine-month period of 2004 primarily due to net income being \$10.3 million higher, non-cash items (primarily amortization and foreign exchange losses) being \$3.9 million higher and a \$1.2 million decrease in non-cash working capital related chiefly to the timing of receipts for electricity sales to OEFC, which resulted in a \$5.4 million net increase over 2004.

Investing activities provided \$9.9 million of cash and reflected the receipt of \$25.4 million of principal and fees on the PEC senior loan prepayment (including funds applied to deferred charges) in the first quarter of 2005, offset by capital investments of \$25.7 million, primarily at the Mont Miller facility. Minimal capital expenditures are expected for the remainder of the year.

Cash used in financing activities was \$84.5 million higher than last year due to the repayment in 2005 of the outstanding balance on the acquisition line of credit and increased principal repayments at KCLP, offset by the proceeds from the Mont Miller construction and term loan. 2004 included \$61.8 million of convertible debenture receipts. Distributions to Unitholders are also up from last year, due to an increase in the amount of monthly distributions and the issuance of 1,392,240 trust units in settlement of the conversion of \$17.4 million of debentures.

During the quarter, cash and cash equivalents increased by \$2.1 million mainly due to the drawdown of cash reserves and increased income from operations. The remaining capital expenditures at the Mont Miller facility and amounts owing to the construction contractor were funded out of the \$12.4 million in cash reserves that were held at June 30, 2005.

## Distributable Cash and Distributions to Unitholders

<b>Distributions to Unitholders and Distributable Cash</b>		<b>3 Months ended Sept. 30</b>		<b>9 Months ended Sept. 30</b>	
<i>(unaudited, stated in thousands except per unit amounts)</i>		<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Cash provided by operating activities</b>		<b>\$ 13,042</b>	<b>\$ 6,268</b>	<b>\$ 49,380</b>	<b>\$ 30,302</b>
Net change in non-cash working capital balances		1,936	4,687	(1,230)	4,187
<b>Funds from operations before working capital changes</b> <sup>(1)</sup>		<b>\$ 14,978</b>	<b>\$ 10,955</b>	<b>\$ 48,150</b>	<b>\$ 34,489</b>
Property, plant and equipment		(5,048)	(40,549)	(25,707)	(40,676)
Add back: expansionary capital expenditures		4,931	40,281	24,396	40,281
Receipts of principal on senior loan, excluding prepayment		343	174	1,161	763
Senior loan prepayment fees		-	-	1,890	-
KCLP cash reserve drawdown <sup>(2)</sup>		342	-	789	248
KCLP repayment of debt, net		(1,574)	(664)	(2,802)	(1,107)
Funds set aside for future maintenance		(25)	(21)	(70)	(65)
<b>Distributable cash</b> <sup>(1)</sup>		<b>\$ 13,947</b>	<b>\$ 10,176</b>	<b>\$ 47,807</b>	<b>\$ 33,933</b>
<b>Distributions declared to Unitholders</b>		<b>\$ 12,560</b>	<b>\$ 11,860</b>	<b>\$ 36,911</b>	<b>\$ 35,578</b>
<b>Average number of trust units - basic (thousands of units)</b>		<b>48,932</b>	<b>47,916</b>	<b>48,289</b>	<b>47,916</b>
<b>Per unit (\$/unit)</b>					
Funds from operations before working capital changes	<sup>(1)</sup>	\$ 0.3061	\$ 0.2286	\$ 0.9971	\$ 0.7198
Distributable cash	<sup>(1)</sup>	\$ 0.2850	\$ 0.2124	\$ 0.9900	\$ 0.7082
Distributions declared to Unitholders		\$ 0.2550	\$ 0.2475	\$ 0.7625	\$ 0.7425

(1) Please refer to the disclosure statement regarding non-GAAP financial measures.

(2) KCLP's \$1,781,000 increase in cash reserves during Q3 2004 was excluded for purposes of calculating distributable cash, as this transfer was related to payables with General Electric which was settled in the fourth quarter of 2004.

Funds from operations before working capital changes of \$15.0 million in the third quarter of 2005 exceeded the 2004 level by \$4.0 million mainly due to higher net income after adjusting for non-cash charges. Distributable cash at \$13.9 million exceeded the 2004 level by \$3.8 million. For the year to date, distributable cash and distributable cash per basic unit significantly surpassed the first nine months of 2004 due to higher net income and the one-time contribution from the Panda-Rosemary sale during the first quarter of 2005.

For the nine months ended September 30, 2005, distributable cash exceeded distributions declared by \$10.9 million. The Fund applied a portion of the excess distributable cash along with the \$23.5 million proceeds from the senior loan prepayment and cash on hand to repay the Fund's acquisition line of credit (\$28.5 million in the first quarter and \$8.8 million in the second quarter). The Fund had drawn \$37.3 million on its acquisition line of credit in late 2004 to fund the additional 25% investment in KCLP.

## Non-GAAP Financial Measures

Included in this Management's Discussion & Analysis are references to the Fund's distributable cash and funds from operations before working capital changes, which are not measures under GAAP and there is no standardized measure of distributable cash and funds from operations before working capital changes. Distributable cash and funds from operations before working capital changes, as presented, may not be comparable to similar measures presented by other income funds. Management believes that these measures are widely accepted financial indicators used by investors to assess the performance of an income trust and its ability to generate cash through operations.

## Consolidated Quarterly Results

<i>\$ millions, except per unit information</i>	<b>Q3 2005</b>	<b>Q2 2005</b>	<b>Q1 2005</b>	<b>Q4 2004</b>	<b>Q3 2004</b>	<b>Q2 2004</b>	<b>Q1 2004</b>	<b>Q4 2003</b>
Total sales	<b>31.7</b>	27.9	31.9	25.2	20.9	21.4	23.4	24.5
Net income	<b>5.2</b>	10.3	16.6	5.4	1.0	10.1	10.6	5.2
Distributable cash	<b>13.9</b>	12.5	21.4	16.9	10.2	11.2	12.5	11.3
Distributions	<b>12.6</b>	12.2	12.1	12.3	11.9	11.9	11.9	10.8
<b><i>Per Unit statistics</i></b>								
Net income - basic	<b>0.107</b>	0.216	0.346	0.112	0.021	0.211	0.222	0.132
Net income - diluted	<b>0.107</b>	0.195	0.313	0.102	0.021	0.211	0.222	0.132
Distributable cash	<b>0.285</b>	0.259	0.447	0.353	0.212	0.234	0.262	0.285
Distributions	<b>0.255</b>	0.255	0.253	0.257	0.248	0.248	0.248	0.260

A significant portion of the Fund's sales and net income is generated by the Iroquois Falls facility. Iroquois Falls' sales are seasonal, as OEFC has contracted for more electricity, and pays a higher price, in winter than in summer. In addition, steam sales to Abitibi tend to be higher in winter than summer as more steam is required for heating purposes. This seasonality can be seen in the above chart, as total sales in the first and fourth quarter tend to be higher than sales in the second and third quarter. Seasonality has been dampened somewhat as the financial results for the Kingston facility, in which the Fund invested on December 31, 2002 and December 15, 2004, are less seasonal than Iroquois Falls. Net income has generally followed a similar seasonal pattern.

Beginning with the first quarter of 2004, net income includes interest earned on the senior loan receivable from a PEC subsidiary, dividends received from the Fund's 19% equity interest in PEC (neither of which varies materially by season), and any non-cash foreign exchange adjustments required to restate the US dollar denominated balance of the senior loan to the appropriate quarter-end Canadian dollar equivalent. Net income for the third quarter of 2005 was affected by a non-cash foreign exchange loss in the amount of \$4.4 million, partially offset by a \$1.2 million retroactive increase in the selling price of electricity under the Iroquois Falls power purchase agreement. Financial results from the Mont Miller facility are expected to follow a similar seasonal pattern to Iroquois Falls, as the Gaspésie region of Quebec tends to be windier in the winter months compared to the summer months.

## Trust Unit Information

As at September 30, 2005, the Fund had 49,308,183 trust units outstanding (December 31, 2004 – 47,915,943). Since December 31, 2004, a total of \$17.4 million of convertible unsecured debentures have been converted into 1,392,240 trust units.

## Commitments and Contractual Obligations

All of the Fund's obligations remain unchanged from December 31, 2004, except that the five-year warranty, maintenance and services agreement that Mount Miller Wind Energy Limited Partnership ("Miller LP") entered into with Vestas came into effect upon the start of commercial operations of the Mont Miller facility on June 9, 2005. The following table summarizes the fixed contractual obligations of the Mont Miller facility related to the warranty, maintenance and services agreement with Vestas.

<i>(In thousands of dollars)</i>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Vestas maintenance agreement	225	906	920	934	948	516

## Asset Retirement Obligation

The Fund's Mont Miller facility was constructed on land leased from the Government of Quebec for a 25-year period with an option to extend the leases for an additional 15 years. Upon the expiration of the leases, the leased land must be returned to its original condition and all turbines dismantled. A credit adjusted discount rate of 6.15% and an inflation rate of 2.50% were used to calculate the fair value of the asset retirement obligations. The majority of the costs are expected to be incurred in approximately 40 years once the original leases and 15 year extensions have expired. The Manager of the Fund is expecting to receive additional quotations detailing the costs of returning the leased land to its original condition at the end of the lease period. Accordingly, revisions to the Fund's asset retirement obligations will be made as new information is received.

These asset retirement obligations relate solely to the Mont Miller facility. As the Fund expects to use its other installed assets (the Iroquois Falls and Kingston facilities) for an indefinite period due to continuing overhauls and ownership of the lands, no removal date can be determined and consequently the Manager considers that a reasonable estimate of the fair value of any related asset retirement obligations cannot be made at this time.

## Risks and Uncertainties

Management believes that there have been no significant changes in risks and uncertainties that could affect the Fund's activities or results since the end of 2004, except as set out below.

Essentially all risks previously described relating to the construction of the Mont Miller facility and the reliance on Vestas to build the facility no longer apply as a result of commercial operations being achieved on June 9, 2005.

The Department of Finance (Canada) released a consultation paper on September 8, 2005 related to publicly listed income trusts and other flow-through entities ("FTEs"), and on September 19<sup>th</sup> it was announced that the Canada Revenue Agency had been requested by the government to postpone providing advance tax rulings respecting FTEs. The government's stated concerns relate to the tax and economic efficiency implications of what are commonly referred to as "income trusts". Given that the consultation process is ongoing, it is not possible to assess what impact, if any, this process will have on the Fund's unit value and distributions.

For more information concerning the Fund's risks and uncertainties, please refer to the Fund's most recent annual report and its Annual Information Form, dated March 28, 2005, which is filed electronically at [www.sedar.com](http://www.sedar.com).

## **New Accounting Policies Adopted in 2005**

In 2004, the Canadian Institute of Chartered Accountants issued in its final form, Accounting Guideline 15 (“AcG-15”), “Consolidation of Variable Interest Entities”. The new guideline requires enterprises to consolidate a variable interest entity if it is determined that the enterprise is the primary beneficiary of such entity. A variable interest entity is defined as an entity which cannot finance its activities without external support, or an entity in which the majority equity holders are not liable for future losses and do not benefit from future profits. AcG-15 became effective for interim and annual periods beginning on or after November 1, 2004. The application of this standard did not have any impact on the Fund’s financial position, its operating results or its treatment of its assets and the current statements of the Fund comply with AcG-15.

## **Outlook**

The Fund’s financial performance for the remainder of 2005 is expected to continue to exceed that for 2004 as a result of the increased investment in the Kingston facility in 2004, the contribution from the Mont Miller project, and the generally high market electricity prices in Ontario and high natural gas prices.

Standard & Poor’s (“S&P”) has communicated its intent to transition income trusts into the S&P/TSX Composite Index. The “Provisional S&P/TSX Income Trust Index”, which includes Northland Power Income Fund, was established in mid-September with a view to full transition of qualifying trusts into the composite index in March of 2006. The Manager of the Fund views index inclusion as a positive development that should increase trading volume in the Fund’s units and therefore improve their liquidity.

## ***Increase in Distributions***

Management of the Fund considers that much of the increase in distributable cash experienced in 2005 is sustainable as it is due to the results of its successful investments over the last few years and to upward pressure on electricity prices in Ontario. Consistent with its distribution policy, the Fund is announcing an increase in the rate of monthly distributions to \$0.0875 per unit per month, a 3% increase, effective with the November 2005 distribution. The distribution in December 2005 will be \$0.1125 per unit so that the total amount distributed in 2005 will be topped up to \$1.05. This represents an increase from the rate of \$1.02 established at the beginning of the year and 5% from the \$1.00 paid out in 2004. It is expected that distributions in 2006 will be \$1.05 per unit.

Management expects that distributable cash will significantly exceed even the new higher rate of distributions in 2005. Management intends to maintain a prudent sustainable level of distributions in relation to distributable cash, with excess cash being retained as capital reserves and held for reinvestment, such as in the St.-Ulric/St.-Léandre wind power project in Quebec that management expects the independent trustees to be asked to consider as an investment opportunity for the Fund in mid-2006.

Distributions to Unitholders are expected to be approximately 45% tax deferred for 2005.

On behalf of Northland Power Income Fund Management Inc.

[signed]

John W. Brace  
President  
November 10, 2005

## **CERTIFICATION OF INTERIM FILINGS**

I, John W. Brace, President of Northland Power Income Fund Management Inc., the Manager of Northland Power Income Fund, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Companies' Annual and Interim Filings) of Northland Power Income Fund, (the "issuer") for the interim periods ending September 30, 2005;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of the date and for the periods presented in the interim filings.

November 10, 2005

[signed]  
John W. Brace  
President  
Northland Power Income Fund  
Management Inc.

I, Anthony F. Anderson, Chief Financial Officer of Northland Power Income Fund Management Inc., the Manager of Northland Power Income Fund, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Companies' Annual and Interim Filings) of Northland Power Income Fund, (the "issuer") for the interim periods ending September 30, 2005;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of the date and for the periods presented in the interim filings.

November 10, 2005

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

## NORTHLAND POWER INCOME FUND

### Consolidated Balance Sheets

(unaudited, stated in thousands)

#### ASSETS

	Sept. 30, 2005	Dec. 31, 2004
<b>Current</b>		
Cash and cash equivalents	\$ 17,688	\$ 18,617
Cash reserves [Note 6]	301	1,937
Accounts and other receivables	13,002	22,444
Inventories	2,460	2,493
Prepaid expenses	2,523	4,438
Current portion of senior loan receivable [Note 5]	2,442	24,001
<b>Total current assets</b>	<b>38,416</b>	<b>73,930</b>
Deferred charges [Note 2]	5,580	8,369
Property, plant and equipment, net [Note 3]	412,523	397,367
Investment in Panda Energy Corporation [Note 5]	7,946	7,946
Senior loan receivable [Note 5]	81,886	86,935
Future income tax asset	1,653	1,140
	<b>\$ 548,004</b>	<b>\$ 575,687</b>

#### LIABILITIES AND UNITHOLDERS' EQUITY

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 7,462	\$ 9,653
Current portion of KCLP debt [Note 6]	4,374	3,812
Current portion of term loan [Note 8]	606	-
Distribution payable to Unitholders	4,191	4,432
<b>Total current liabilities</b>	<b>16,633</b>	<b>17,897</b>
Bank credit facility [Note 6]	-	37,300
KCLP debt [Note 6]	62,186	65,550
Asset retirement obligation [Note 7]	2,636	-
Construction and term loan [Note 8]	39,394	23,000
Convertible debentures [Note 9]	47,597	65,000
	<b>168,446</b>	<b>208,747</b>
<b>Trust units [Note 9]</b>	<b>486,044</b>	<b>468,641</b>
<b>Deficit</b>	<b>(106,486)</b>	<b>(101,701)</b>
<b>Unitholders' equity</b>	<b>379,558</b>	<b>366,940</b>
	<b>\$ 548,004</b>	<b>\$ 575,687</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	
	2005	2004	2005	2004
<b>Sales</b>				
Electricity	\$ 24,803	\$ 16,229	\$ 73,360	\$ 52,837
Steam	1,468	1,136	5,249	4,751
Natural gas	5,124	3,571	11,857	8,126
Emission allowances	312	-	1,059	-
<b>Total sales</b>	<b>31,707</b>	<b>20,936</b>	<b>91,525</b>	<b>65,714</b>
<b>Cost of sales</b>	<b>12,541</b>	<b>9,768</b>	<b>37,595</b>	<b>29,602</b>
<b>Gross profit</b>	<b>19,166</b>	<b>11,168</b>	<b>53,930</b>	<b>36,112</b>
<b>Expenses</b>				
Plant operating costs	3,079	2,149	7,813	7,035
Amortization	4,971	3,075	13,159	9,232
Management and administration costs	978	713	3,185	2,315
Accretion expense [Note 7]	28	-	28	-
	<b>9,056</b>	<b>5,937</b>	<b>24,185</b>	<b>18,582</b>
<b>Investment income [Note 5]</b>	<b>2,910</b>	<b>3,598</b>	<b>12,273</b>	<b>10,508</b>
<b>Income from operations</b>	<b>13,020</b>	<b>8,829</b>	<b>42,018</b>	<b>28,038</b>
Foreign exchange	4,443	6,657	2,226	3,190
Amortization of deferred charges [Note 2]	161	79	1,124	163
Interest income	(91)	(92)	(342)	(190)
Interest expense and bank fees	3,132	1,079	7,390	2,918
<b>Income before income taxes</b>	<b>5,375</b>	<b>1,106</b>	<b>31,620</b>	<b>21,957</b>
<b>Provision (recovery) for income taxes</b>				
Current	-	-	7	91
Future	158	85	(513)	85
	<b>158</b>	<b>85</b>	<b>(506)</b>	<b>176</b>
<b>Net income for the period</b>	<b>\$ 5,217</b>	<b>\$ 1,021</b>	<b>\$ 32,126</b>	<b>\$ 21,781</b>
Deficit, beginning of period	(99,143)	(83,881)	(101,701)	(80,923)
Distributions declared to Unitholders for the period	(12,560)	(11,860)	(36,911)	(35,578)
<b>Deficit, end of period</b>	<b>\$ (106,486)</b>	<b>\$ (94,720)</b>	<b>\$ (106,486)</b>	<b>\$ (94,720)</b>
<b>Average number of units outstanding - basic</b>	<b>48,932</b>	<b>47,916</b>	<b>48,289</b>	<b>47,916</b>
<b>Average number of units outstanding - diluted</b>	<b>48,932</b>	<b>49,894</b>	<b>53,116</b>	<b>48,580</b>
<b>Net income per trust unit- basic</b>	<b>\$ 0.1066</b>	<b>\$ 0.0213</b>	<b>\$ 0.6653</b>	<b>\$ 0.4546</b>
<b>Net income per trust unit - diluted</b>	<b>\$ 0.1066</b>	<b>\$ 0.0205</b>	<b>\$ 0.6276</b>	<b>\$ 0.4484</b>

## NORTHLAND POWER INCOME FUND

### Consolidated Statements of Cash Flows

(unaudited, stated in thousands except per unit amounts)

	3 Months Ended Sept. 30		9 Months Ended Sept. 30	
	2005	2004	2005	2004
<b>Operating activities</b>				
Net income for the period	\$ 5,217	\$ 1,021	\$ 32,126	\$ 21,781
Items not involving cash:				
Amortization	4,971	3,075	13,159	9,232
Amortization of deferred charges [Note 2]	161	79	1,124	163
Foreign exchange	4,443	6,657	2,226	3,190
Accretion expense [Note 7]	28	-	28	-
Loss on disposal of assets	-	38	-	38
Future income taxes	158	85	(513)	85
	<b>14,978</b>	<b>10,955</b>	<b>48,150</b>	<b>34,489</b>
Net change in non-cash working capital balances related to operations	<b>(1,936)</b>	<b>(4,687)</b>	<b>1,230</b>	<b>(4,187)</b>
<b>Cash provided by operating activities</b>	<b>13,042</b>	<b>6,268</b>	<b>49,380</b>	<b>30,302</b>
<b>Investing activities</b>				
Cash reserves drawdown (funding) [Notes 4 & 6]	12,697	(1,781)	1,636	(1,533)
Receipts of principal on senior loan [Note 5]	343	174	24,689	763
Net change in non-cash working capital balances related to Mont Miller	(4,816)	-	7,662	-
Acquisition [Note 4]	-	(2,478)	-	(2,478)
Deferred charges [Note 2]	(71)	(964)	1,665	(1,558)
Purchase of property, plant and equipment	(5,048)	(40,549)	(25,707)	(40,676)
<b>Cash (used in) provided by investing activities</b>	<b>3,105</b>	<b>(45,598)</b>	<b>9,945</b>	<b>(45,482)</b>
<b>Financing activities</b>				
Proceeds from construction and term loan [Note 8]	-	-	17,000	-
Convertible debenture receipts, net [Note 9]	-	61,788	-	61,788
KCLP drawdowns of debt	(1,574)	(664)	(2,802)	(1,107)
Credit facility decrease	-	-	(37,300)	-
Distributions to Unitholders	(12,455)	(11,860)	(37,152)	(36,417)
<b>Cash (used in) provided by financing activities</b>	<b>(14,029)</b>	<b>49,264</b>	<b>(60,254)</b>	<b>24,264</b>
<b>Net change in cash and cash equivalents during the period</b>	<b>2,118</b>	<b>9,934</b>	<b>(929)</b>	<b>9,084</b>
Cash and cash equivalents, beginning of the period	15,570	11,958	18,617	12,808
<b>Cash and cash equivalents, end of period</b>	<b>\$ 17,688</b>	<b>\$ 21,892</b>	<b>\$ 17,688</b>	<b>\$ 21,892</b>
<b>PER UNIT</b>				
Distributions declared to Unitholders	\$ 0.2550	\$ 0.2475	\$ 0.7625	\$ 0.7425

## NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*(all figures in notes are stated in thousands of dollars, except as indicated otherwise)*

### 1. Accounting Policies

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

The Fund’s investment in Panda Energy Corporation (“PEC”) is accounted for under the cost method.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to interim financial reporting. With the exception of the additional policies listed below, these unaudited interim consolidated financial statements follow the same accounting principles and methods of application as the annual consolidated financial statements as at December 31, 2004. The interim consolidated financial statements should be read in conjunction with the Fund’s annual consolidated financial statements included in the 2004 annual report.

#### ***Variable Interest Entities***

In 2004, the Canadian Institute of Chartered Accountants issued in its final form, Accounting Guideline 15 (“AcG-15”), “Consolidation of Variable Interest Entities”. The new guideline requires enterprises to consolidate a variable interest entity if it is determined that the enterprise is the primary beneficiary of such entity. A variable interest entity is defined as an entity which cannot finance its activities without external support, or an entity in which the majority equity holders are not liable for future losses and do not benefit from future profits. AcG-15 became effective for interim and annual periods beginning on or after November 1, 2004. The application of this standard did not have any impact on the Fund’s financial position, its operating results or its treatment of its assets and all current statements of the Fund comply with AcG-15.

#### ***Asset Retirement Obligations***

Effective January 1, 2004, Canadian generally accepted accounting principles required the recognition of the fair value of the retirement obligation for related long-term assets as a liability. Retirement costs equal to the retirement obligation are capitalized as part of the cost of the associated plant and equipment and amortized over the life of the asset. In subsequent periods, the liability is adjusted for the passage of time and for any changes in the amount or timing of the underlying future cash flows.

#### ***Revenue Recognition***

Revenue from electricity, steam and natural gas sales are recognized upon delivery. Any retroactive adjustments for electricity revenue in accordance with the underlying contracts are recorded once the amount has been confirmed with Ontario Electricity Financial Corporation. Interest and investment income is recognized as it is earned. Revenue from emission allowances is recognized upon the passage of title to the purchaser.

## 2. Deferred Charges

<i>(stated in thousands of dollars)</i>	<b>As at Sept. 30, 2005</b>	<b>As at Dec. 31, 2004</b>
Senior loan receivable transaction costs	703	3,333
Convertible debenture transaction costs	2,709	3,058
Mont Miller development costs	2,168	1,978
	<b>5,580</b>	<b>8,369</b>

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

- Senior loan receivable costs: over the term of the senior loan;
- Convertible debenture costs: over the term of the convertible debentures; and
- Mont Miller costs: over the term of the power purchase agreement.

During the first quarter of 2005, the Fund received \$1.9 million in wind-up and restructuring fees related to the PEC principal prepayment [see note 5]. These fees were applied against the deferred senior loan receivable transaction costs. In addition, a one-time amortization adjustment of \$679,000 was recorded against the senior loan receivable transaction costs to reflect the accelerated principal prepayment.

## 3. Property, Plant and Equipment

<i>(stated in thousands of dollars)</i>	<b>As at:</b>		<b>Dec. 31, 2004</b>
	<b>Sept. 30, 2005</b>	<b>Accumulated Amortization</b>	
	<b>Cost</b>	<b>Amortization</b>	<b>Value</b>
Land	371	-	371
Buildings and foundations	81,742	20,963	54,190
Plant and equipment	418,806	85,854	257,993
Contracts	23,748	5,370	19,197
Vehicles	26	25	3
Office equipment, furniture & fixtures	111	75	24
Computers and computer software	106	100	1
Construction in progress	-	-	65,588
	<b>524,910</b>	<b>112,387</b>	
Net book value		<b>412,523</b>	<b>397,367</b>

Included in the capital costs of the Mont Miller project are \$1.2 million of interest related to the construction and term loan and \$3.2 million of interest on the convertible unsecured subordinated debentures.

## 4. Investment in Mount Miller

On August 5, 2004, the Fund committed to invest \$95 million in a 54 MW wind power project to be constructed in the Gaspésie region of Quebec by Mount Miller Wind Energy Limited Partnership ("Miller LP"). The Fund made its investment in the project through its wholly-owned trust NPIF Commercial Trust. Construction of the project commenced in August 2004 with commercial operations beginning on June 9, 2005. The project was built on land leased from the Government of Québec for a 25-year period with an option to extend the leases for an additional 15 years. The project consists of 30 1.8 MW Vestas V80 turbines with all electricity produced being sold to Hydro-Québec, pursuant to the terms of a 21-year power purchase agreement. The acquisition was accounted for using the purchase method. The consideration paid by the Fund has been allocated to net assets acquired as follows:

*(stated in thousands of dollars)*

Working Capital	(1,574)
Contracts	4,334
Total purchase price	2,760
Less: cash acquired	(282)
Total cash purchase price paid	2,478

The Fund owns all of the Class A Priority Units in Miller LP. The Class A Priority Units are entitled to a priority annual cumulative distribution of \$5,786,880. After payment of that amount, distributions are shared equally between the holders of the Class A Priority Units and the Class B Subordinated Units (the developer of the project; Mount Miller Construction and Services Inc.) Upon completion of the construction, Mount Miller Construction and Services Inc. (a 50%-owned subsidiary of the parent of the Manager) was entitled to a one-time special distribution on the Class B Subordinated Units equal to the amount that the actual costs of construction were less than the Fund's committed investment in the project. Accordingly, Mount Miller Construction and Services Inc. received a special distribution in the amount of \$5 million during the quarter. This special distribution is included in the capital cost of the project since it relates directly to the Fund's cost of construction. During the quarter Miller LP drew down the final \$12.4 million in cash reserves to pay the remaining costs associated with the construction of the facility.

## **5. Investment in Panda Energy Corporation**

In December 2003 when Iroquois Falls Power Corp. ("IFPC") acquired a 19% equity interest in PEC and extended the senior loan of US\$93 million, PEC, through its wholly-owned subsidiaries, owned two combined-cycle cogeneration power facilities that use natural gas as their primary fuel: the 230 MW Panda-Brandywine facility, located just outside Washington D.C., and the 180 MW Panda-Rosemary facility, located in Roanoke Rapids, North Carolina. The Panda-Rosemary facility was sold on February 8, 2005 under the terms of an agreement that was executed in November 2004, and Panda-Rosemary LP was wound up shortly thereafter. At the closing of the sale, the Fund received US\$18.9 million [Cdn\$23.5 million] as partial repayment of the senior loan and payment of fees and dividends totaling US\$4.8 million [Cdn\$6.0 million]. The interest rate on the balance of the Fund's senior loan has been increased by 0.4% to 10.9% for the remainder of the term.

The majority of the proceeds from the Panda-Rosemary sale were used to repay \$28.5 million of the acquisition line of credit that was drawn to acquire the additional 25% interest in KCLP [see note 6]. The remaining outstanding balance on the acquisition line of \$8.8 million was repaid on June 30, 2005.

The Fund has foreign exchange option contracts in respect of the interest and principal payments to be received on the senior loan during fiscal years 2005 and 2006. The various contracts hedge the rate of exchange for 2005 and 2006, as follows:

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

The fair value of these option contracts was \$2.0 million favourable (December 31, 2004 - \$2.5 million favourable).

In addition, the Fund has entered into foreign exchange forward contracts in the amount of US\$900,000 that expire on February 21, 2007 at the average exchange rate of 1.22. The fair value of these forward contracts at September 30, 2005 was \$65,000 favourable.

## **6. Kingston CoGen Limited Partnership**

KCLP owns a 110 MW cogeneration facility located near Kingston, Ontario. On December 31,

2002, the Fund acquired a 25% general partnership interest in KCLP.

On December 15, 2004, the Fund acquired a further 25% interest in KCLP for \$36.5 million plus \$175,000 in transaction costs. The acquisition of KCLP has been accounted for using the purchase method. The Fund drew down its acquisition line of credit to fund the acquisition.

The consolidated financial statements include the Fund's 50% share of the financial position, operating results and cash flow of KCLP, which has been provided by the Manager of KCLP, as follows:

<i>(stated in thousands of dollars)</i>	<b>As at</b>	<b>As at</b>
	<b>Sept. 30, 2005</b>	<b>Dec. 31, 2004</b>
	<b>[50%]</b>	<b>[50%]</b>
<b>Financial Position</b>		
Current assets	12,333	12,954
Capital assets	112,360	115,808
<b>Total assets</b>	<b>124,693</b>	<b>128,762</b>
Current liabilities	5,851	5,474
Debt	62,186	65,550
<b>Total liabilities</b>	<b>68,037</b>	<b>71,024</b>

<i>(stated in thousands of dollars)</i>	<b>3 months ended Sept. 30</b>		<b>9 months ended Sept. 30</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>[50%]</b>	<b>[25%]</b>	<b>[50%]</b>	<b>[25%]</b>
<b>Earnings</b>				
Sales	10,741	5,027	31,932	13,156
Expenses	8,991	4,552	26,515	13,847
<b>Net income (loss)</b>	<b>1,750</b>	<b>475</b>	<b>5,417</b>	<b>(691)</b>
<b>Cash Flow</b>				
Cash from operating activities	3,762	3,584	10,334	4,044
Cash used in investing activities	(83)	(233)	(1,247)	(325)
Cash used in financing activities	(1,233)	(2,447)	(5,263)	(2,642)
<b>Net increase in cash and cash equivalents</b>	<b>2,446</b>	<b>904</b>	<b>3,824</b>	<b>1,077</b>

Current assets include cash reserves of \$301,000 (2004 - \$3,034,000) that are only available for use within the operation.

## 7. **Asset Retirement Obligation**

The Fund's Mont Miller facility was constructed on land leased from the Government of Quebec for a 25-year period with an option to extend the leases for an additional 15 years. Upon the expiration of the leases, the leased land must be returned to its original condition and all turbines dismantled. The majority of the costs are expected to be incurred in approximately 40 years once the original leases and 15-year extensions have expired.

The Fund has estimated the fair value of its total asset retirement obligations for the Mont Miller facility to be \$2.6 million, based on a total future liability of \$28.4 million. The Fund's credit adjusted discount rate of 6.15% and an inflation rate of 2.50% were used to calculate the fair value of the asset retirement obligations. These asset retirement obligations relate solely to the Mont Miller facility, as the Fund expects to use its other installed assets for an indefinite period. The Manager of the Fund is expecting to receive additional quotes detailing the costs of returning

the leased land to its original condition at the end of the lease period. Accordingly, revisions to the Fund's asset retirement obligations will be made as new information is received.

The following table reconciles the Fund's total asset retirement obligations activity for the three-month and nine-month periods ended September 30, 2005:

<i>(stated in thousands of dollars)</i>		<b>Three and nine months ended Sept. 30, 2005</b>
Balance at June 30, 2005		-
Increase related to Mont Miller facility		2,608
Accretion expense		28
<b>Balance at September 30, 2005</b>		<b>2,636</b>

## **8. Construction and Term Loan**

On October 8, 2004, Miller LP entered into a credit agreement with Manufacturers Life Insurance Company for a \$40 million secured construction and term loan. The agreement called for funding during the construction period and then conversion to a term loan on substantial completion of the construction and commencement of commercial operations of the Mont Miller project. On September 20, 2005, the \$40 million construction loan was converted into a term loan with interest at 6.5%. The loan calls for payments of interest only until December 31, 2005, and thereafter quarterly payments of principal and interest are payable until maturity on December 31, 2025. The quarterly principal payments are made in accordance with a schedule designed to fully amortize the loan over its term. The loan is without recourse to the Fund and is secured by assets and undertakings of Miller LP and the partners' partnership interests.

## **9. Trust Units and Convertible Unsecured Subordinated Debentures**

On August 26, 2004, the Fund closed an offering of 65,000 6.50% convertible unsecured subordinated debentures due June 30, 2011 (the "Convertible Debentures") at a price of \$1,000 per Convertible Debenture, for gross proceeds of \$65 million and net proceeds of approximately \$61.8 million. Interest is paid semi-annually in arrears on June 30 and December 31 in each year.

The Convertible Debentures are convertible into fully paid units of the Fund at the option of the holder at a conversion price of \$12.50 per unit and are redeemable by the Fund on or following June 30, 2007 provided that the trading price of the Fund's units reaches certain levels. The Fund may at its option satisfy its obligation to pay the redemption price or the principal amount of the Convertible Debentures in trust units of the Fund. At the time of issue, the Fund determined that the value of the embedded holder option was minimal and as a result the entire amount of the Convertible Debentures has been classified as a liability.

Since December 31, 2004, a total of \$17.4 million of convertible unsecured debentures have been converted into 1,392,240 trust units as follows:

<i>(stated in thousands of dollars, except for units)</i>	<b>Number of Units</b>	<b>Amount</b>
Outstanding as of December 31, 2004	47,915,943	468,641
Q1 conversion of unsecured subordinated debentures	42,080	526
Q2 conversion of unsecured subordinated debentures	117,360	1,467
Q3 conversion of unsecured subordinated debentures	1,232,800	15,410
	<b>49,308,183</b>	<b>486,044</b>

The dilutive effect of the convertible unsecured debentures is as follows:

<i>For the 9 months ended Sept. 30,</i>	<b>2005</b>	<b>2004</b>
Weighted average number of units outstanding, basic	48,289,485	47,915,943
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	4,826,458	664,234
Weighted average number of units outstanding, diluted	53,115,943	48,580,177

## 10. Segmented Information

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

*(stated in thousands of dollars)*

<b>For the 3 months ended Sept. 30, 2005:</b>	<b>Iroquois Falls</b>	<b>Kingston</b>	<b>Mont Miller</b>	<b>Corporate</b>	<b>Total</b>
Sales	18,787	10,741	2,179	-	31,707
Amortization	2,360	1,566	1,045	-	4,971
Operating income	6,913	3,255	539	2,313	13,020
Interest expense, net	10	1,506	651	874	3,041
<b>Sept. 30, 2004:</b>					
Sales	15,909	5,027	-	-	20,936
Amortization	2,354	721	-	-	3,075
Operating income	4,311	1,298	-	3,220	8,829
Interest expense, net	27	824	-	136	987

<b>For the 9 months ended Sept. 30, 2005:</b>	<b>Iroquois Falls</b>	<b>Kingston</b>	<b>Mont Miller</b>	<b>Corporate</b>	<b>Total</b>
Sales	56,838	31,932	2,755	-	91,525
Amortization	7,073	4,696	1,390	-	13,159
Operating income	21,122	9,923	623	10,350	42,018
Interest expense, net	34	4,506	809	1,699	7,048
<b>Sept. 30, 2004:</b>					
Sales	52,558	13,156	-	-	65,714
Amortization	7,070	2,162	-	-	9,232
Operating income	17,186	1,732	-	9,120	28,038
Interest expense, net	71	2,423	-	234	2,728

*(stated in thousands of dollars)*

<b>As at Sept. 30, 2005:</b>	<b>Iroquois Falls</b>	<b>Kingston</b>	<b>Mont Miller</b>	<b>Corporate</b>	<b>Total</b>
Property, plant & equipment, net	204,628	112,360	95,535	-	412,523
Senior loan and investment in PEC	-	-	-	92,274	92,274
<b>As at December 31, 2004:</b>					
Property, plant & equipment, net	211,637	115,808	69,922	-	397,367
Senior loan and investment in PEC	-	-	-	118,882	118,882

Corporate operating income for the nine months ended September 30, 2005 includes \$12.3 million (2004 – \$10.5 million) of interest and dividends from the senior loan and investment in PEC which, through its wholly-owned subsidiaries, owns the Panda-Brandywine facility.

All the Fund's assets and revenues are based in Canada with the exception of the investment in PEC and the senior loan to a PEC subsidiary, and income received from PEC, which relate to entities in the United States.

## 11. Comparative Figures

Certain amounts in the comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 consolidated interim financial statements.

## **FORWARD LOOKING STATEMENTS**

*The above disclosure contains certain forward-looking statements. Although these forward-looking statements are based upon Northland Power Income Fund's Manager's current reasonable expectations and assumptions, they are subject to numerous risks and uncertainties including those set out in the management's discussion and analysis section of the Fund's 2004 annual report and in the Fund's Annual Information Form dated March 28, 2005, certain of which are beyond the Manager's control. For this purpose, any statements that are contained herein that are not statements of historical fact may be forward-looking statements. 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 what benefits, including the amount of distributions, the Fund and Unitholders will derive therefrom.*

# **NORTHLAND POWER INCOME FUND**

## **TRUSTEE**

Computershare Trust Company of Canada  
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

## **TRUST UNITS AND DEBENTURES**

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

## **BANK**

Canadian Imperial Bank of Commerce  
Commerce Court West  
Toronto, Ontario M5L 1A2

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