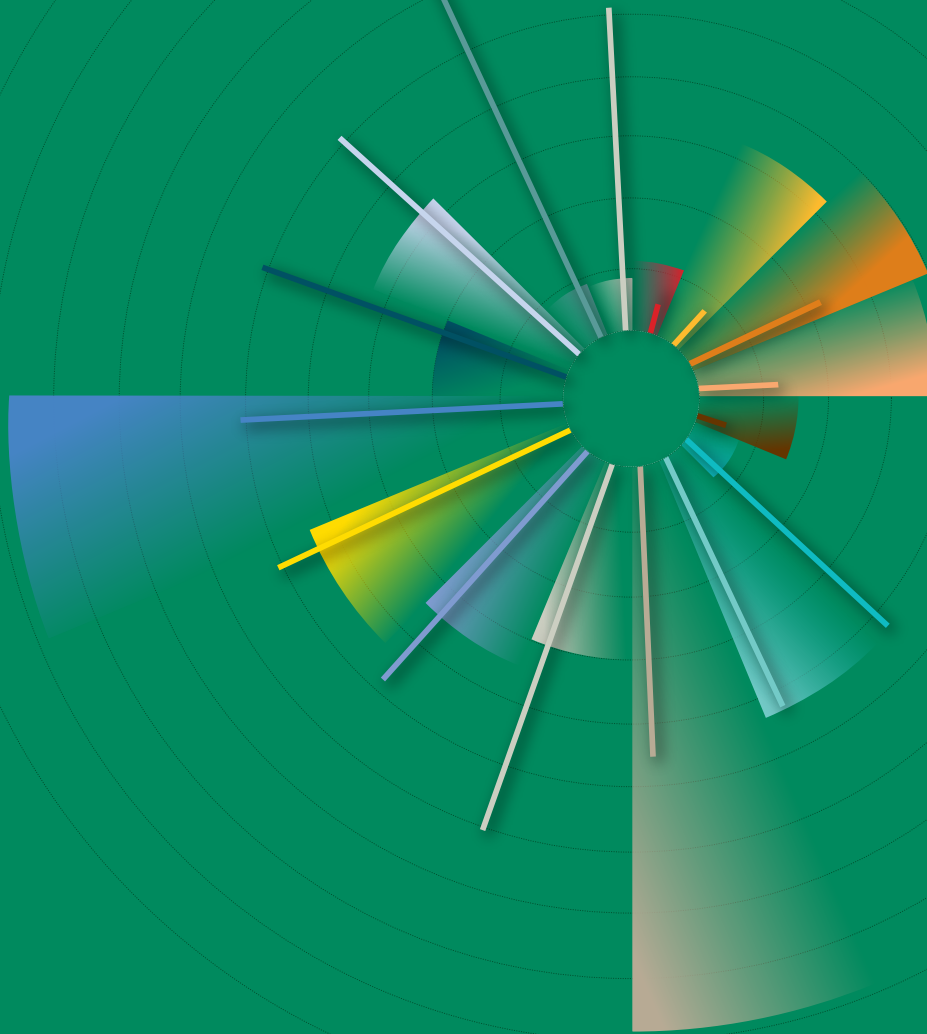
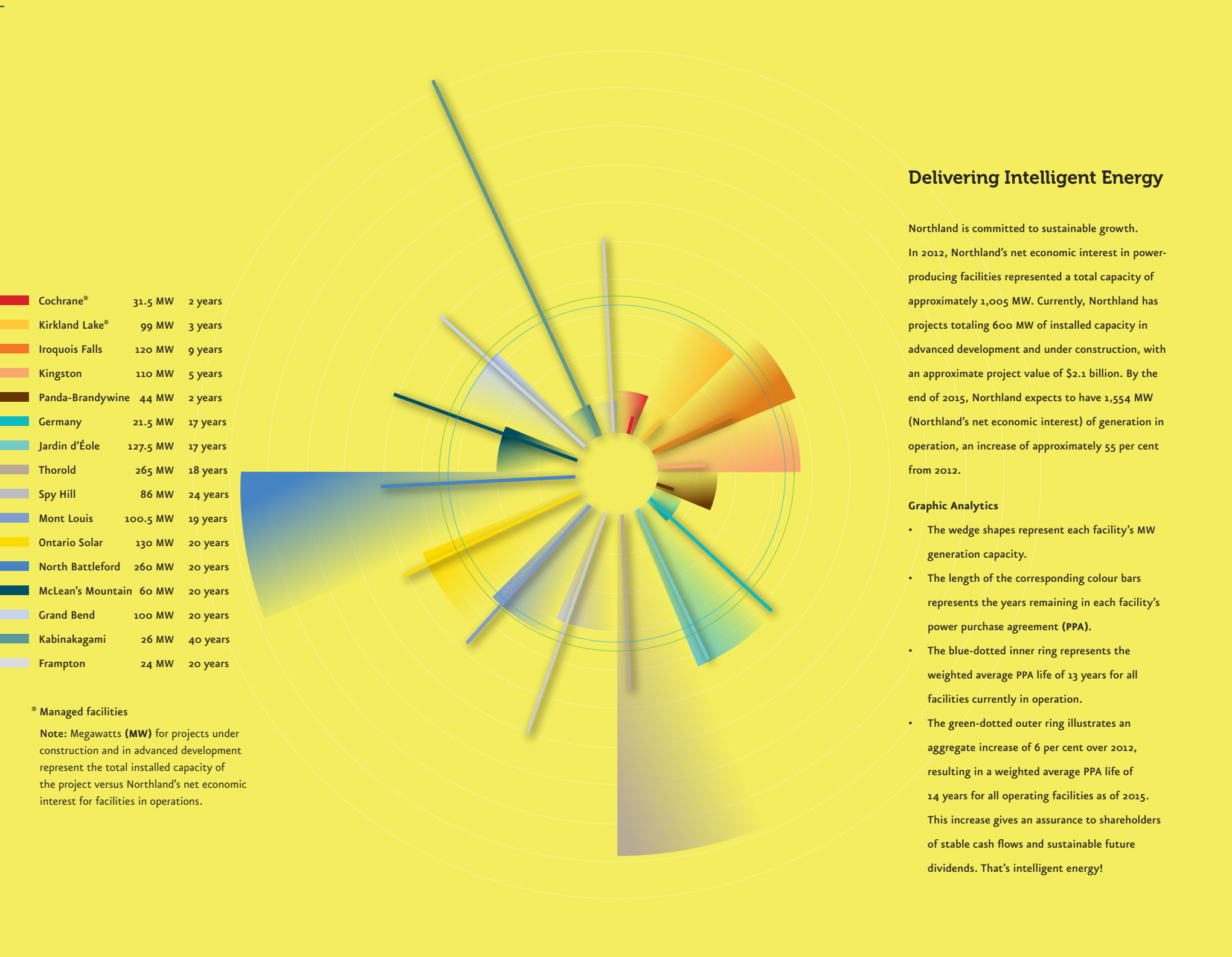


INTELLIGENT **ENERGY** for a GREENER PLANET

2012
Annual Report







NORTHLAND POWER INC.

Northland Power has been delivering intelligent energy since 1987.

To us, intelligent energy means a commitment to develop, build, own and operate clean and green power generation projects, in Canada and internationally, in order to generate long-term stable cash flows and provide regular dividends to shareholders, while creating a more sustainable future.

As we look to the future, our focus is unwavering. We will:

- Continue to deliver dividends to shareholders;
- Pursue sustainable growth that enables stable performance;
- Leverage innovative technological, partnership and financing opportunities;
- Deliver projects on time and on budget; and
- Balance a focus on growth with a commitment to excellence and stewardship.

16th Annual Report

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2012 was a year of staying the course and delivering on our commitments.

Overview

Northland began operations in 1987 with a mission: to bring private power to Ontario while supporting a greener future for our planet. Since then, the Company has experienced a number of milestones: becoming one of Canada's first independent power producers (**IPP**), owning the first Canadian thermal plant to use unprocessed wood chips as fuel, and being the first IPP in Ontario to obtain public financing for a power plant. More recently, we affirmed our commitment to produce clean and green energy by positioning ourselves at the forefront of IPP wind and solar development.

In 2009–2010, the Company underwent a significant transformation – from an income fund that focused only on operating assets to an established, fully integrated, publicly traded power corporation. Since incorporation we have experienced remarkable growth. Our megawatts (**MW**) in operation and under contract have grown from 349 MW to 1,605 MW – an increase of 360%. Earnings before interest, taxes, depreciation and amortization (**EBITDA**) have grown by 68% and are expected to increase by an additional 45% in 2013. From the beginning, we have delivered average annual returns of approximately 13% to investors, outperforming the TSX.

2012 was a year of staying the course and delivering on our commitments. We made continued progress towards a number of critical milestones, which will enable us to meet our obligations while seizing new opportunities. In our pursuit of sensible growth, Northland remains diligent, advancing only those opportunities that meet our strict risk/benefit assessment. Our development team continues to advance a number of exciting opportunities that are creating innovative, intelligent solutions for off-takers, and promise stable cash flows with attractive returns on capital.

As we look to the future, we remain dedicated to our core mission: to deliver dividends to shareholders and value to stakeholders by fostering reliable, stable growth through the development and operation of a diverse, sustainable portfolio of assets that will perform over the long term.

We remain dedicated to our core mission: to deliver dividends to shareholders and value to stakeholders by fostering reliable, stable growth through the development and operation of a diverse, sustainable portfolio of assets that will perform over the long term.

2012 Significant Events

2012 was a productive and successful year for Northland. We made significant progress on a number of key initiatives. With several projects at critical points in their development, we remained focused on ensuring that those projects continue to advance on time and on budget, and on maintaining the momentum needed to continue our growth trajectory.

Construction on the 260 MW natural-gas-fired combined-cycle baseload North Battleford project is nearing completion, with the contractor reporting construction to be 97% complete as of December 31, 2012. In July, we announced the start of construction for the first six of our 13 Ontario ground-mounted solar projects, totalling 60 MW. In October, our 60 MW McLean's Mountain wind project received its Renewable Energy Approval, and preliminary site clearing activities began just before year end.

It was also a gainful year financially. In May, Northland again effectively accessed the capital markets, closing a public offering of 4.8 million preferred shares for aggregate proceeds of \$120 million. These funds were used to advance development projects, repay bank indebtedness, and for general corporate purposes. In addition, we raised \$227 million for our first six ground-mounted solar projects with an 18-year term loan from commercial banks. As bank markets tighten and regulation increases, securing long-term 18-year financing is becoming increasingly difficult. Our success demonstrates Northland's strong relationship with the financial community as well as the quality of our projects. In January 2013, we refinanced our Spy Hill facility by issuing \$156.3 million of 4.14% senior secured amortizing Series A bonds. The private bond placement represents a new avenue of financing for Northland and we remain committed to our focus on non-recourse financing, with interest rates fixed and repayment tied to the term of the project's power purchase agreement (**PPA**). The bonds were rated A (stable) by Dominion Bond Rating Service – one of the highest ratings for a stand-alone project in the Canadian independent power industry.

With an eye to the future, we sustained momentum on our robust yet disciplined portfolio of development projects. While no new PPAs were signed in 2012, we continued to advance a number of promising development opportunities in regions across Canada and the U.S., some of which have already been publicly announced. In August, we entered into a working relationship with the Innu Takuaikan

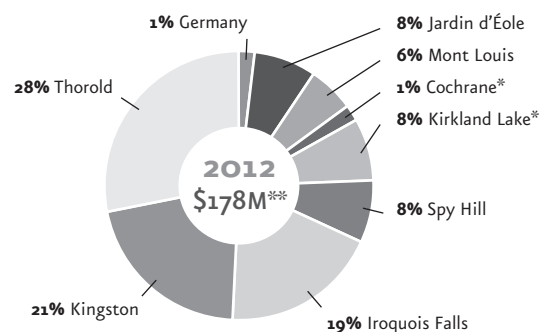
Uashat Mak Mani-Utenam (**ITUM**) for exclusive rights on the development, construction and operation of up to 1,000 MW of wind energy projects located in Quebec on the traditional territory of the Uashaunnuat people. We also advanced a number of hydro and wind projects in British Columbia.

Establishing a greater presence in the U.S. over the past year has us well-positioned to advance a number of early-stage initiatives throughout the country. In October, we publically announced our acquirement of the rights for the development and construction of two gas-fired peaking plants in Illinois. We also have a number of other promising initiatives currently in development.

While uncovering several exciting new prospects in 2012, we continued to press forward on numerous initiatives in more advanced stages of development, including the Marmora pumped storage project, which received support from all three of Ontario's political parties. We are also working towards resumption of bilateral negotiations for our Queen's Quay and Oshawa cogeneration projects after a year of political instability in Ontario.

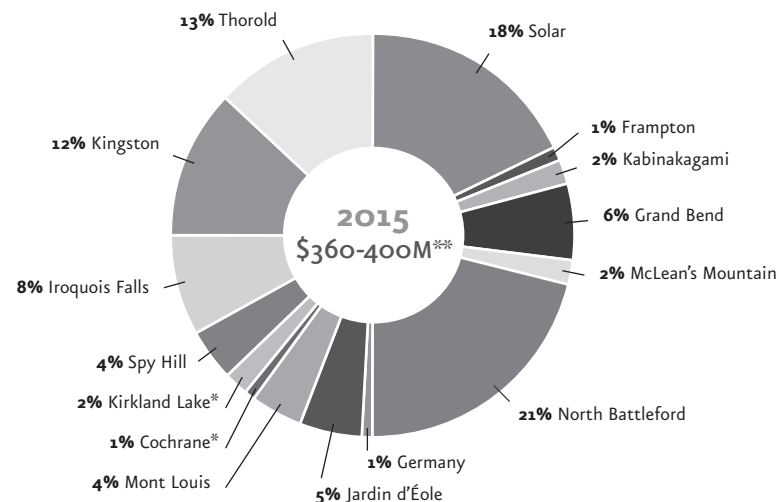
We are optimistic that these efforts will bear fruit in the near future. As we continue to expand our development portfolio, we remain consistent in our approach: maintaining a strategic focus on technological and geographical diversity, developing strong and effective partnerships, prudently managing development costs and pursuing sustainable, measured growth.

EBITDA by Facility

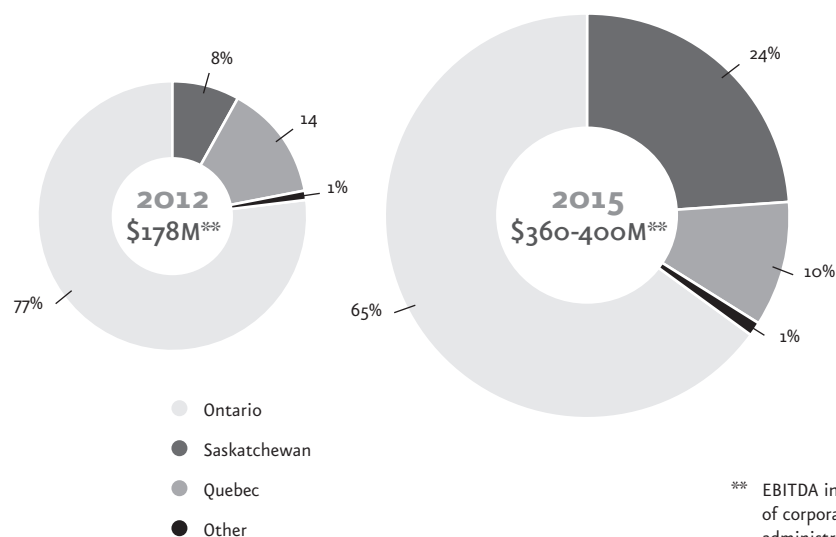


* Managed facilities

** EBITDA includes the impact of corporate management and administration expenses.

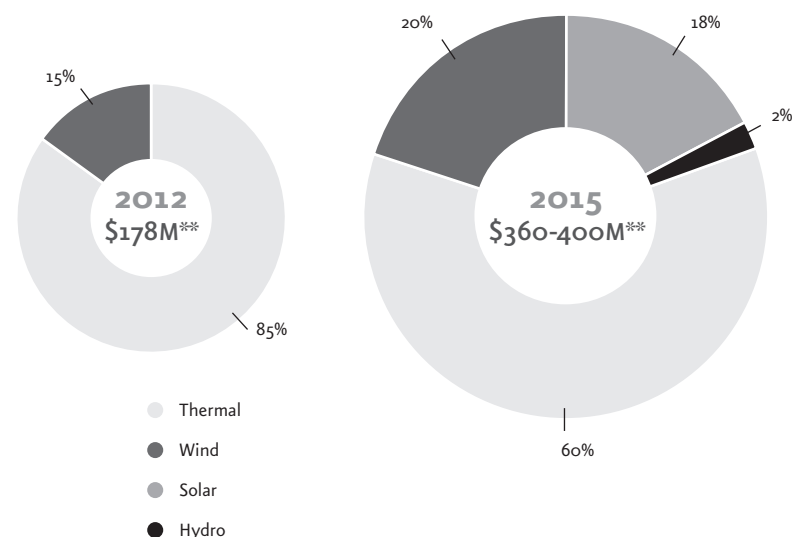


EBITDA by Geography



** EBITDA includes the impact of corporate management and administration expenses.

EBITDA by Technology



2012 Performance

2012 was a safe and productive year for our operating facilities. They again performed without a lost-time incident. Our Cochrane, Ontario facility, which Northland manages on behalf of third-party investors, achieved a remarkable industry milestone – 20 years without a lost-time incident. Overall, our facilities' operations met expectations, with the exception of our wind farms, which were subject to natural fluctuations based on weather systems and grid availability issues in Quebec. This was offset, however, by a strong performance from our thermal facilities.

From a financial perspective, Northland's growth story continues to unfold. Our EBITDA increased to \$178.6 million in 2012 – a 19% increase from 2011. This growth primarily reflects our two new operating facilities, Spy Hill and Mont Louis, coming on line, in addition to the Kirkland Lake performance incentive fee, which we began receiving in the fourth quarter of 2011. We expect this momentum to continue in 2013 with the start of operations in North Battleford and the first phase of our ground-mounted solar program. For additional discussion on our results, please refer to our Management's Discussion and Analysis.

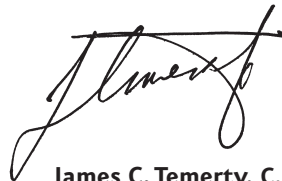
Commitment to Dividends

We recognize that shareholders are attracted to our reliable and consistent dividend, and have made it a priority to continue to pay out annual dividends of \$1.08 per share. We will continue to take the necessary measures to ensure that our liquidity is more than sufficient to cover our dividend moving forward.

On the Horizon

Northland's future is bright. As jurisdictions in Canada and abroad build and renew critical energy infrastructure, and the global shift to clean and renewable energy continues, we are well-positioned to pursue sustainable growth that will enable us to deliver intelligent energy to stakeholders and steady returns to shareholders. Guiding our collective efforts is a steadfast commitment to integrity, leadership, accountability and stewardship. We are confident that we have the right people, strategies and assets in place to deliver on our commitments, and thank you for your continued confidence in our abilities and potential.

Sincerely,



James C. Temerty, C.M.
Director and Chairman
of the Board



John W. Brace
President and CEO

Management's Discussion and Analysis 2012

The following is a discussion of the consolidated financial position and operating results of Northland Power Inc. (**"Northland" or the "Company"**) as of December 31, 2012, and the fiscal year then ended. It should be read in conjunction with Northland's 2012 audited consolidated financial statements. Additional information relating to Northland can be found in the Company's 2012 Annual Information Form (**AIF**), which is filed electronically at www.sedar.com under Northland's profile and posted on Northland's website at www.northlandpower.ca. Northland's financial statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) and amounts in this management's discussion and analysis (**MD&A**) are in Canadian thousands of dollars or thousands of share amounts unless otherwise indicated.

The purpose of this MD&A is to help the reader understand the nature and importance of changes and trends in the business, as well as the risks and uncertainties that may affect Northland's operating results and financial position. Accordingly, this MD&A contains forward-looking statements that are based on certain estimates and assumptions as of February 21, 2013; actual results may differ materially. Readers should refer to *Section 15: Forward-Looking Statements* in this MD&A for additional information regarding forward-looking statements.

This MD&A compares Northland's fiscal 2012 financial results and financial position with those of fiscal 2011 and is organized as follows:

| | | | | | |
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Section 1: Description of Business

Northland owns or has a net economic interest in power-producing facilities with a total capacity of approximately 1,005 megawatts (**MW**). Northland's operating assets comprise facilities that produce electricity from natural gas and renewable resources for sale under long-term power purchase agreements (**PPAs**) to creditworthy customers in order to ensure cash flow stability. Northland's current construction projects include the 260 MW North Battleford natural-gas-fired baseload facility and 60 MW of ground-mounted solar projects, which are scheduled to reach commercial operations in 2013. In December 2012, Northland executed a contract to purchase 24 wind turbines for the McLean's Mountain 60 MW wind farm located on Manitoulin Island, Ontario, and during the month of December, site clearing began with major construction activities planned for early spring 2013. Northland's advanced development projects encompass wind, solar and run-of-river hydro, including 196 MW with PPAs awarded under the Ontario Power Authority (**OPA**) Feed-in Tariff Program (**FIT Program**), and a 24 MW PPA with Hydro-Québec to construct a wind project in Quebec; Northland expects to construct these projects over the next two to three years. In addition, Northland has an extensive portfolio of projects in earlier stages of development.

Northland's consolidated financial statements include the results of Northland and its subsidiaries, of which the most significant are:

- i. Iroquois Falls Power Corp., which owns a 120 MW natural-gas-fired cogeneration facility located in northern Ontario, herein referred to as **"Iroquois Falls"**;
- ii. Kingston CoGen Limited Partnership, which owns a 110 MW natural-gas-fired combined-cycle facility located in eastern Ontario, herein referred to as **"Kingston"**;
- iii. Thorold CoGen L.P., which owns a 265 MW natural-gas-fired cogeneration facility located in the Niagara region of Ontario, herein referred to as **"Thorold"**;
- iv. Spy Hill Power L.P., which owns an 86 MW natural-gas-fired peaking facility located in eastern Saskatchewan, herein referred to as **"Spy Hill"**;
- v. Saint-Ulric Saint-Léandre Wind L.P., which owns a 127.5 MW wind farm located in the Gaspésie region of Quebec, herein referred to as **"Jardin"**;
- vi. DK Windpark Kavelstorf GmbH & Co. KG and DK Burgerwindpark Eckolstädt GmbH & Co. KG, which own two wind farms totalling 21.5 MW located in eastern Germany, together herein referred to as the **"German wind farms"**;
- vii. Mont-Louis Wind L.P., which owns a 100.5 MW wind farm located in the Gaspésie region of Quebec, herein referred to as **"Mont Louis"**;

- viii. North Battleford Power L.P., which owns a 260 MW natural-gas-fired combined-cycle project under construction in northwest Saskatchewan that is scheduled to reach commercial operations during the second quarter of 2013, herein referred to as **"North Battleford"**; and
- ix. Ground-mounted solar partnerships, which consists of six, 10 MW solar projects under construction near Smiths Falls and Belleville in eastern Ontario, and Huntsville in central Ontario, all of which are scheduled to reach commercial operations by the third quarter of 2013, together herein referred to **"Ground-mounted Solar Phase 1"**.

Northland also owns a 19% equity interest in Panda Energy Corporation, which through its wholly owned subsidiaries, owns the 230 MW combined-cycle Panda-Brandywine facility, herein referred to as **"Panda-Brandywine"**.

Northland owned the Mont Miller wind farm through its subsidiary Mount Miller Wind Energy Limited Partnership (**"Mont Miller"**) until it was sold on December 16, 2010.

Northland's financial results also include fees received for the management of two natural-gas- and biomass-fired generation facilities in Kirkland Lake (**"Kirkland Lake"**) and Cochrane (**"Cochrane"**), Ontario; Northland manages these facilities on behalf of third-party owners to which it leases the land and buildings.

Revenue from wood chipping, rooftop solar projects, and management and operation services is included as "other" in the revenue section of the consolidated statements of income (loss).

Readers should refer to Northland's 2012 AIF, dated February 21, 2013, for further details on Northland's facilities.

Northland's conversion from an income trust to a corporation became effective on January 1, 2011. Northland's business is now carried on by Northland Power Inc., a Canadian corporation organized under the laws of Ontario, Canada. Northland Power Income Fund (**"the Fund"**), NPIF Commercial Trust (**"NPIF CT"**), NPIF Holdings LP (**"Holdings LP"**), Northland Preferred Equity Inc. (**"Prefco"**), Northland Power Income Fund Management Inc. (the former manager of the Fund) and the original Northland Power Inc. (**NPI**) were effectively wound up or amalgamated into Northland Power Inc., which holds the interests in Northland's significant subsidiaries as described above. **In this MD&A henceforth, "Northland" refers to Northland Power Income Fund for events prior to January 1, 2011, and Northland Power Inc. for subsequent events.**

Northland's common shares (**"Shares"**), cumulative rate reset preferred shares, series 1 (**"Series 1 Preferred Shares"**), cumulative rate reset preferred shares, series 3 (**"Series 3 Preferred Shares"**) and convertible unsecured subordinated debentures (**"2014 Debentures"**) qualify as investments for RRSPs and DPSPs under the Canadian Income Tax Act.

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Section 2: Strategy and Key Factors Supporting Sustainability

Investment Objective

Northland's objective is to provide shareholders with stability and growth from assets, businesses and investments related to the production, conversion, delivery and sale of electricity and other energy-related products. Northland defines stability as producing stable and sustainable levels of free cash flow to support a consistent dividend payout on its Shares over the long term. Growth derives primarily from internally generated opportunities to develop, finance, construct, own, operate and manage power generation facilities that have strong long-term agreements and that provide stable, long-term cash flows.

.....

Strategy

Northland's strategy leverages a management team with more than 200 years of power industry experience and an average tenure at Northland of over 17 years. The team operates and manages the Company's fleet of operating assets to ensure maximum operating efficiency, long-term profitability, best-in-class health and safety records and respect for the environment and host communities. Northland's operating experiences are continually shared with its development, engineering and construction groups to ensure this knowledge is factored into the development and construction of all new projects the Company undertakes.

In pursuing growth, Northland utilizes its long-term experience to identify and execute development opportunities that are expected to produce stable cash flows with superior returns on capital. Northland manages its development processes sensibly, constantly balancing costs against the probability of success. The Company develops projects utilizing different technologies, such as thermal (natural gas, biomass, and combined heat and power), wind, solar, hydro and pumped storage. Renewable energy from wind, hydro and solar is attractive due to government policies aimed at sustainability and reducing greenhouse gas emissions. Clean-burning natural-gas-fired plants, including cogeneration facilities, provide reliable baseload power, while natural-gas-fired peakers provide grid support and backup for renewable generation, which is generally intermittent. Northland's principal geographical focus for growth initiatives will continue to be Canada, but it has begun exploring opportunities in other jurisdictions, particularly the United States.

With respect to capital, Northland management prudently maintains sufficient liquidity to meet short- and medium-term cash needs and ensures the Company has access to sufficient resources to capitalize on opportunities as they arise. Northland finances its projects primarily with non-recourse project debt with interest rates fixed and repayment tied to the terms of the projects' initial PPAs. Each project is undertaken as a special-purpose entity so that an adverse event at one facility does not affect Northland's other facilities. By owning and operating high-quality assets and applying its deep, long-term experience, Northland expects to continue to enjoy a competitive cost of capital, which maximizes returns from growth initiatives.

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Long-Term Contracts

A key part of Northland's strategy is to ensure the majority of revenues and costs are predetermined under long-term contracts with creditworthy counterparties. The major terms of Northland's long-term PPAs and fuel supply contracts are aligned for each project such that revenues and cost escalations are substantially linked, assuring long-term profitability and predictability for each project.

The following table lists the counterparties and the expiry year of the revenue contracts for each of Northland's generating facilities and the expiry year of the corresponding fuel supply contract. Except as otherwise noted, all power off-takers are of investment grade as appraised by one or more rating agencies.

Operating and Managed Facilities

| Project ⁽¹⁾ | Ownership | Capacity | Net ownership capacity | Power off-taker | PPA term | Fuel supply term |
|------------------------|-----------|----------|------------------------|--------------------|--------------------|--------------------|
| THERMAL | | | | | | |
| Iroquois Falls | 100% | 120.0 MW | 120.0 MW | OEFC [†] | December 2021 | 2015–16 |
| Kingston | 100% | 110.0 MW | 110.0 MW | OEFC | January 2017 | 2017 |
| Thorold | 100% | 265.0 MW | 265.0 MW | OPA ^{††} | March 2030 | N/A ⁽²⁾ |
| Spy Hill | 100% | 86.0 MW | 86.0 MW | SaskPower | October 2036 | N/A ⁽³⁾ |
| WIND | | | | | | |
| Jardin | 100% | 127.5 MW | 127.5 MW | Hydro-Québec | November 2029 | N/A ⁽⁴⁾ |
| Mont Louis | 100% | 100.5 MW | 100.5 MW | Hydro-Québec | September 2031 | N/A ⁽⁴⁾ |
| German wind farms | 100% | 21.5 MW | 21.5 MW | N/A ⁽⁵⁾ | N/A ⁽⁵⁾ | N/A ⁽⁴⁾ |

continued...

| Project ⁽¹⁾ | Ownership | Capacity | Net ownership capacity | Power off-taker | PPA term | Fuel supply term |
|------------------------|--------------------|----------|------------------------|--------------------------|--|--------------------|
| OTHER | | | | | | |
| Panda-Brandywine | 19% | 230.0 MW | 43.7 MW | JP Morgan ^{†††} | May 2014 | N/A ⁽⁶⁾ |
| Rooftop solar | 75% | 1.0 MW | 0.8 MW | OPA | April – September 2031 | N/A ⁽⁴⁾ |
| Cochrane | 75% ⁽⁷⁾ | 42.0 MW | 31.5 MW | OEFC | January 2015 | 2016 |
| Kirkland Lake | 75% ⁽⁷⁾ | 132.0 MW | 99.0 MW | OEFC | August 2015 & August 2030 ⁽⁸⁾ | 2015 |

† Ontario Electricity Financial Corporation

†† Ontario Power Authority

††† JP Morgan Ventures Energy Corporation

(1) Northland also owns a small wood chipping facility located on Vancouver Island.

(2) Thorold purchases natural gas at spot market prices; the commodity cost and variable transportation charges are effectively recovered through sales of electricity to the Ontario wholesale electricity market.

(3) SaskPower provides all required fuel to operate the facility and assumes all natural gas-price risk under the long-term PPA.

(4) Wind and solar availability is based on long-term site studies undertaken as part of the development decision-making process. Northland assumes the risk that the actual wind and solar resources will meet expectations.

(5) German electricity production is purchased by local power utilities at predetermined prices under German federal legislation.

(6) JP Morgan provides all required fuel to operate Panda-Brandywine.

(7) Northland owns the land and buildings that are leased long-term to the project owner and has only a minor ownership interest in the generating equipment; however, the management agreements provide Northland with an effective 75% economic interest upon reaching certain thresholds under the facilities' financing agreements.

(8) The PPAs expire or require renegotiation in 2015 with respect to natural-gas-fired sales and 2030 with respect to wood-fired sales.

Projects Under Construction

| Project | Ownership | Capacity | Net ownership capacity | Power off-taker | PPA term | Fuel supply term |
|------------------------------|-----------|----------|------------------------|-----------------|----------------------------------|--------------------|
| North Battleford | 100% | 260.0 MW | 260.0 MW | SaskPower | 20 years from COD ⁽²⁾ | N/A ⁽¹⁾ |
| Ground-mounted Solar Phase 1 | 100% | 60.0 MW | 60.0 MW | OPA | 20 years from COD | N/A ⁽³⁾ |
| McLean's Mountain | 50% | 60.0 MW | 30.0 MW | OPA | 20 years from COD | N/A ⁽³⁾ |

(1) SaskPower will effectively assume all natural gas-price risk under the long-term PPA.

(2) Commercial operations date.

(3) Wind and solar availability is based on long-term site studies undertaken as part of the development decision-making process. Northland assumes the risk that the actual wind and solar resources will meet expectations.

Projects in Advanced Development

| Project | Ownership | Capacity | Net ownership capacity | Power off-taker | PPA term |
|----------------------|-----------|----------|------------------------|-----------------|-------------------|
| Grand Bend | 100% | 100.0 MW | 100.0 MW | OPA | 20 years from COD |
| Ground-mounted Solar | 100% | 70.0 MW | 70.0 MW | OPA | 20 years from COD |
| Kabinakagami | 50% | 26.0 MW | 13.0 MW | OPA | 40 years from COD |
| Frampton | 67% | 24.0 MW | 16.0 MW | Hydro-Québec | 20 years from COD |

Readers should refer to Northland's 2012 AIF, dated February 21, 2013, for further details on Northland's facilities and projects.

Maintenance of Capacity

To maintain its capacity, defined as electricity production capacity measured in megawatts, Northland (i) invests in durable assets that have a long physical life; (ii) undertakes regular predictive and preventive maintenance; and (iii) makes improvements to major equipment when economically viable. The gas turbines at the Iroquois Falls, Kingston, Thorold and Spy Hill facilities are maintained under long-term contracts with the original equipment supplier, General Electric and its subsidiaries (**collectively, GE**), that include provisions for routine inspections, maintenance and repairs, as well as periodic overhauls of the hot gas path components at intervals equivalent to approximately three operating years and major turbine overhauls at intervals equivalent to approximately six operating years. These overhauls return the gas turbines to essentially as-new condition. The wind turbines at Jardin, Mont Louis and the German wind farms are also maintained by original suppliers and/or service providers under contracts. The cost of maintenance under these contracts is included in operating expenses. Since the replacement and upgrading of Iroquois Falls' gas turbines in 2003, there has been no change to the capacity of any of Northland's facilities.

The Iroquois Falls, Kingston, Thorold and Spy Hill facilities schedule annual three- to 10-day outages for equipment inspections, maintenance and repairs. Major shutdowns are generally for longer periods when steam turbine overhauls are required and, in the case of Kingston and Thorold, for gas turbine hot gas path and major overhauls. At Iroquois Falls, the length of outages for gas turbine overhauls is reduced by the use of replacement turbines leased from GE, and lost revenue is mitigated to a degree by the ability of the plant to partially recover lost PPA production with its excess capacity. Kingston's gas resale agreement with Cenovus Energy Inc. (previously EnCana Corporation) allows it to mitigate lost electricity production during shutdowns through the resale of contracted natural gas. Thorold is unable to directly mitigate lost income during outages; however, its power contract payments were sized to allow for periodic maintenance outages. Major shutdowns of the gas turbines at Spy Hill are not planned until many years in the future due to the expected low number of dispatch hours. Any parts and services required for unplanned events at Spy Hill will be procured in accordance with the agreed-rates and discounts from GE.

The direct costs of overhauling the gas turbines at Iroquois Falls, Kingston and Thorold are largely covered by the GE maintenance agreements. Northland's facilities also fund maintenance reserve accounts, which substantially minimize the cash flow impact of scheduled major maintenance inspections and overhauls.

.....

Post-Contract Economics

Northland's operating facilities earn revenue under long-term PPAs, generally from 20 to 25 years in duration. Northland's two managed plants (Cochrane and Kirkland Lake), for which it earns management and performance incentive fees, will have most of their contracted PPAs expire or require renegotiation in 2015. The expiry of PPAs at Northland's wholly owned facilities will begin with Kingston in 2017, followed by Iroquois Falls in 2021. These four facilities are contracted with the Ontario Electricity Financial Corp. (**OEFC**) and operate largely as baseload facilities.

On November 23, 2010, the Minister of Energy directed the OPA to renegotiate the OEFC contracts in advance of their expiry. Northland has commenced the process of engaging with the OPA in pursuit of obtaining new contracts for its owned and managed facilities with OEFC PPAs.

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Section 3: Facility Results

Thermal Facilities

The following is a discussion of the operating results for Northland's thermal facilities for the year ended December 31, 2012:

| In thousands of dollars except as indicated | 2012 | 2011 | 2010 |
|---|----------------|----------------|----------------|
| Electricity Production (MWh*) | | | |
| Iroquois Falls | 729,413 | 727,670 | 729,835 |
| Kingston | 769,149 | 819,298 | 808,261 |
| Thorold ⁽¹⁾ | 876,858 | 1,107,241 | 582,441 |
| Spy Hill ⁽²⁾ | 130,071 | 41,980 | — |
| | 2,505,491 | 2,696,189 | 2,120,537 |
| Sales | | | |
| Iroquois Falls | 88,592 | 92,665 | 92,700 |
| Kingston | 98,026 | 100,865 | 105,516 |
| Thorold | 105,620 | 123,568 | 76,529 |
| Spy Hill ⁽³⁾ | 21,553 | 5,322 | — |
| | 313,791 | 322,420 | 274,745 |
| Cost of sales | | | |
| Iroquois Falls | 41,828 | 45,132 | 43,939 |
| Kingston | 48,883 | 53,130 | 53,164 |
| Thorold | 36,477 | 52,585 | 27,321 |
| Spy Hill | 3,629 | 1,446 | — |
| | 130,817 | 152,293 | 124,424 |
| Gross profit | 182,974 | 170,127 | 150,321 |

continued...

| | | | |
|---|---------|---------|---------|
| In thousands of dollars except as indicated | 2012 | 2011 | 2010 |
| | | | |
| Plant operating costs | | | |
| Iroquois Falls | 8,244 | 7,538 | 7,554 |
| Kingston | 5,723 | 5,967 | 6,477 |
| Thorold | 10,471 | 9,772 | 7,953 |
| Spy Hill | 1,564 | 293 | — |
| | 26,002 | 23,570 | 21,984 |
| | | | |
| EBITDA⁽⁴⁾ | | | |
| Iroquois Falls | 38,403 | 39,876 | 39,691 |
| Kingston | 43,115 | 41,277 | 45,520 |
| Thorold | 58,569 | 61,070 | 41,152 |
| Spy Hill | 16,321 | 3,580 | — |
| | 156,408 | 145,803 | 126,363 |
| | | | |
| Capital expenditures⁽⁵⁾ | | | |
| Iroquois Falls | — | 23 | 96 |
| Kingston | 6,287 | 1,115 | 58 |
| Thorold | 155 | — | — |
| Spy Hill | — | — | — |
| | 6,442 | 1,138 | 154 |
| | | | |

* Megawatt hours, a unit of electrical energy equal to 1,000 kilowatt hours

(1) Thorold began commercial operations on April 1, 2010.

(2) Spy Hill began commercial operations on October 19, 2011.

(3) As a result of accounting for the Spy Hill operations as a finance lease, \$4.8 million (2011 – \$1.7 million) is reported as electricity revenue, \$14.1 million (2011 – \$3.6 million) as finance lease income and \$2.6 million (2011 – \$nil) as receipt of lease receivable for the 12 months ending December 31, 2012.

(4) Earnings before interest, taxes, depreciation and amortization.

(5) Capital expenditures exclude construction-related items. The majority of gas turbine maintenance is provided under long-term, fixed-price contracts that are charged to the income statement based on the terms of those contracts.

Northland's thermal assets comprise both baseload and dispatchable facilities. The Iroquois Falls and Kingston baseload plants are operated with the objective of generating 100% of contracted on-peak and off-peak production volumes, and receive a fixed price for all electricity sold. Thorold and Spy Hill are dispatchable facilities, which operate either when market conditions are economic or as requested by the contract counterparty. The dispatchable facilities receive contract payments that are largely dependent on their ability to operate according to contract parameters as opposed to maximizing production; these payments ensure gross profit is generally fixed in spite of changes in production levels. The thermal facility contracts are further described in Northland's 2012 AIF.

Electricity production during 2012 was lower than the prior year due to fewer dispatch hours at Thorold in the first and fourth quarters (as unseasonably warm weather and low gas market prices reduced electricity prices and demand) and a planned major maintenance outage at Kingston in October 2012, partially offset by the inclusion of Spy Hill, which began commercial operations on October 19, 2011.

Gross profit and earnings before interest, taxes, depreciation and amortization (**EBITDA**) exceeded the prior year due to the addition of Spy Hill's operating results and a significant PPA rate escalation at Kingston related to the pass-through of 2011 TransCanada PipeLines Limited ("**TransCanada**") toll increases. These increases were partially offset by downtime associated with the planned Kingston major maintenance outage, lower PPA prices at Iroquois Falls, and a decrease in steam-related revenue at Thorold due to lower pricing driven by the cost of gas and reduced demand by its steam host. Plant operating costs exceeded the prior year primarily due to additional equipment inspections and repairs at Iroquois Falls and Thorold, and a full year of expenses at Spy Hill.

Capital expenditures increased significantly over 2012 and were primarily associated with Kingston's planned major maintenance outage.

THERMAL OUTLOOK

Thorold has scheduled a 16-day outage in the second quarter of 2013 to complete periodic inspections and maintenance on its gas turbine, steam turbine and ancillary equipment. Northland's other thermal facilities are not expected to have extended outages during 2013.

The annual escalation of PPA rates at Northland's Ontario baseload facilities (and of similar PPAs held by other industry participants) are affected by changes in the Direct Customer Rate (**DCR**), a measure originally established by Ontario Hydro. As a result of the restructuring of Ontario Hydro, a new methodology for calculating the DCR for the purposes of PPA escalation was agreed on by OEFC in 2002;

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the change affected industry participants, including Northland. One component of the DCR is based on the Global Adjustment, a charge paid by Ontario electricity consumers that was introduced in 2005. In 2011, the Ontario government passed a regulation that changed the manner in which the Global Adjustment is paid by electricity consumers. As a result of that regulation, OEFC has changed its treatment of the Global Adjustment for the purposes of determining the DCR; OEFC's change has had a negative impact on Iroquois Falls' PPA escalation associated with the DCR. The change also negatively impacts Northland's managed facilities Cochrane and Kirkland Lake. As a result of OEFC's actions, on December 27, 2012, Iroquois Falls, Kirkland Lake, Cochrane and other affected industry participants commenced legal proceedings against OEFC relating to OEFC's interpretation of certain provisions in their respective PPAs. The proceedings are at their inception and the outcomes at this time are unknown.

Northland's Iroquois Falls and managed facilities continue to be negatively affected by sharp rises in gas transportation rates on the TransCanada pipeline over the past several years. Kingston is somewhat insulated from these rate increases as its PPA includes a cost pass-through depending on the effective date of a rate increase. Interim TransCanada tolls starting January 1, 2012, were set by the National Energy Board (**NEB**) at the high levels in effect during 2011. In September of 2012, the NEB established final tolls for 2012 at the same levels as the interim tolls that took effect in January 2012. In November 2012, TransCanada proposed that the interim tolls starting January 1, 2013, were to be set at the same level as the 2012 final tolls. The NEB approved this request and current TransCanada tolls are at the same high rates as in 2012. During most of 2012, a formal rate hearing was held by the NEB to look into the 2012–2013 TransCanada tolls application. The oral part of the hearing concluded in December 2012 with little consensus reached by the stakeholders. The NEB is expected to provide its decision on final 2012–2013 tolls in the latter half of 2013. With interim tolls now in place for 2013, Northland does not expect to receive any relief from current high toll levels in the first part of 2013; however, management is optimistic that the NEB's ruling will ultimately result in a decrease in TransCanada tolls in future years.

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Wind Facilities

The following is a discussion of the operating results for Northland's wind facilities for the year ended December 31, 2012:

| In thousands of dollars except as indicated | 2012 | 2011 | 2010 ⁽¹⁾ |
|--|---------------|---------------|---------------------|
| Electricity Production (MWh) | | | |
| Jardin | 327,349 | 317,833 | 301,662 |
| Mont Louis ⁽²⁾ | 274,628 | 90,313 | — |
| German wind farms | 31,563 | 33,213 | 26,782 |
| | 633,540 | 441,359 | 328,444 |
| Electricity Production (MWh) – long-term forecast | | | |
| Jardin | 358,920 | 358,920 | 358,920 |
| Mont Louis ⁽²⁾ | 306,000 | 107,557 | — |
| German wind farms | 33,785 | 33,785 | 33,785 |
| | 698,705 | 500,262 | 392,705 |
| Sales | | | |
| Jardin | 22,454 | 21,649 | 20,380 |
| Mont Louis | 18,207 | 5,938 | — |
| German wind farms | 3,748 | 4,174 | 3,496 |
| | 44,409 | 31,761 | 23,876 |
| Gross profit | 44,409 | 31,761 | 23,876 |

continued...

| | | | |
|---|--------|--------|---------------------|
| In thousands of dollars except as indicated | 2012 | 2011 | 2010 ⁽¹⁾ |
| | | | |
| Plant operating costs | | | |
| Jardin | 6,151 | 5,980 | 3,996 |
| Mont Louis | 6,137 | 1,676 | — |
| German wind farms | 1,189 | 1,340 | 1,126 |
| | | | |
| | 13,477 | 8,996 | 5,122 |
| | | | |
| EBITDA | | | |
| Jardin | 16,192 | 15,579 | 16,401 |
| Mont Louis | 12,034 | 4,261 | — |
| German wind farms | 2,645 | 2,529 | 1,912 |
| | | | |
| | 30,871 | 22,369 | 18,313 |
| | | | |
| Capital expenditures⁽³⁾ | | | |
| Jardin | 150 | 26 | — |
| Mont Louis | — | — | — |
| German wind farms | — | — | — |
| | | | |
| | 150 | 26 | — |
| | | | |

(1) Excludes Mont Miller.

(2) Mont Louis began commercial operations on September 17, 2011.

(3) Capital expenditures exclude construction-related items. The majority of wind turbine maintenance is provided under long-term, fixed-price contracts that are charged to the income statement based on the terms of those contracts.

Electricity production, revenues and EBITDA during 2012 exceeded the prior year primarily due to the inclusion of the Mont Louis wind farm for a full year and a higher wind resource at Jardin. Production was below the long-term forecasts due to: (i) calm winds at the Quebec wind farms; (ii) several outages at Mont Louis for Hydro-Québec to complete various system upgrades; and (iii) downtime at both Mont Louis and Jardin for equipment repairs and to complete end-of-warranty maintenance work, respectively. As described in Northland's 2012 AIF, the long-term production forecasts were prepared by specialized wind consulting firms prior to acquisition or the start of construction. Operating expenses exceeded the prior year largely due to a full year of results at Mont Louis.

The two Quebec wind farms have \$47.3 million in substation cost reimbursements outstanding from Hydro-Québec. Jardin's remaining \$17.3 million cost reimbursement and Mont Louis' \$30 million cost reimbursement will be received once the facilities meet Hydro-Québec's over-voltage criteria. GE completed a study related to the over-voltage issue and has agreed with Hydro-Québec on an over-voltage solution for Mont Louis, which will be implemented at GE's cost. GE will complete a similar study to define the solution for Jardin.

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WIND OUTLOOK

Northland expects higher availability in 2013 compared with 2012 due to fewer Hydro-Québec outages and less downtime for end-of-warranty maintenance work.

Northland expects that the outstanding \$47.3 million related to the substation cost reimbursements will be received from Hydro-Québec in 2013.

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Management and Administration, Development and Other Services, including Investment Income

The following is a discussion of Northland's financial results related to management and administration, development and other services for the year ended December 31, 2012:

| In thousands of dollars | 2012 | 2011 | 2010 |
|--|--------|-------|--------|
| Other sales and income | | | |
| Electricity and chipping revenue | 2,208 | 1,541 | 3,097 |
| Management and incentive fees | 18,630 | 3,998 | 2,452 |
| Dividends received from Panda-Brandywine | 355 | 223 | 12,593 |
| | 21,193 | 5,762 | 18,142 |
| Cost of sales, other | 675 | 627 | 1,659 |
| Gross profit | 20,518 | 5,135 | 16,483 |
| EBITDA | 19,520 | 4,163 | 15,545 |

"Other sales and income" represents revenue earned from Northland's wood chipping facility and rooftop solar projects, combined with fees earned from management services provided to Cochrane and Kirkland Lake, which Northland manages on behalf of third-party owners. "Cost of sales, other" represents the cost of wood waste processed at the chipping facility.

Management and incentive fees for the 12 months ended December 31, 2012 both significantly exceeded the prior year due to the incentive fees that Northland earns from Kirkland Lake. The performance incentive fee entitles Northland to share in Kirkland Lake's cash flows after all operating and financing expenditures. In 2011, Northland became eligible to receive a performance incentive fee from Kirkland Lake during the fourth quarter.

Sales, gross profit and EBITDA also benefitted from the inclusion of Northland's rooftop solar facilities, which entered commercial operations late in the third quarter of 2011.

| In thousands of dollars | 2012 | 2011 | 2010 |
|--|-----------------|----------|----------|
| Management and administration | | | |
| Operations ⁽¹⁾ | 13,736 | 12,911 | 13,774 |
| Development ⁽²⁾ | 13,714 | 9,085 | 6,688 |
| Total management and administration | 27,450 | 21,996 | 20,462 |
| Less: facility management and administration costs | (932) | (1,163) | (1,239) |
| Write-off of deferred development costs | (1,661) | (1,697) | (3,383) |
| EBITDA | (28,179) | (22,530) | (22,606) |

(1) Includes facility management and administration costs.

(2) Excludes write-offs of deferred development costs.

Management and administration expenses related to operations and development were up \$5.5 million compared with 2011. Operations-related expenses were up \$0.8 million due to costs related to increased head count as well as increased professional fees associated with ongoing operational activity. Development-related management and administration expenses were \$4.6 million higher than last year largely due to an increase in development activity on early-stage prospects, which are expensed. Development-related management and administrative expenses for 2012 also include the expensed portion of Northland's Long-Term Incentive Plan (**LTIP**) awards.

Northland expenses management and administration costs related to development that cannot be directly allocated to a specific advanced development project, including costs associated with determining the feasibility of prospective development projects. Northland defers pre-construction costs directly related to advanced development projects once it is determined by management that a given project has a high likelihood of being pursued through to completion. Should Northland determine that development of a particular advanced development project is no longer highly likely to be pursued through to completion, the deferred costs are expensed in the period the determination is made. In 2012, Northland expensed \$1.7 million (2011 – \$1.7 million) of previously deferred development costs for a project which no longer qualifies for capitalization under Northland's deferred development policy.

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Section 4: IFRS and Non-IFRS Financial Measures

On January 1, 2013, certain new standards, amendments and interpretations to existing IFRS standards became effective. Readers should refer to Note 3 to the consolidated financial statements for additional information on the new standards, amendments and interpretations that may be relevant to Northland's 2013 consolidated financial statements.

This MD&A includes references to Northland's free cash flow and EBITDA, which are not measures prescribed by IFRS. Free cash flow and EBITDA, as presented, may not be comparable to similar measures presented by other companies. These measures should not be considered alternatives to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. Rather, these measures are provided to complement IFRS measures in the analysis of Northland's results of operations from management's perspective. Management believes that free cash flow and EBITDA are widely accepted financial indicators used by investors to assess the performance of a company and its ability to generate cash through operations.

Readers should refer to *Section 5: Consolidated Results* for a reconciliation of Northland's reported EBITDA to its consolidated income (loss) before taxes and *Section 6: Equity, Liquidity and Capital Resources* for a reconciliation of Northland's free cash flow to its cash provided by operating activities.

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Section 5: Consolidated Results

The following discussion of the consolidated financial condition and results of operations of Northland should be read in conjunction with the audited consolidated financial statements for the years ended December 31:

In thousands of dollars except as indicated

| | 2012 | 2011 | 2010 |
|---|----------------|-----------|-----------|
| Energy volumes | | | |
| Electricity (MWh) | 3,139,031 | 3,137,548 | 2,577,089 |
| Sales | 362,303 | 356,221 | 312,491 |
| Cost of sales | 131,492 | 152,920 | 126,083 |
| Gross profit | 230,811 | 203,301 | 186,408 |
| Expenses | | | |
| Plant operating costs | 40,496 | 33,526 | 30,161 |
| Depreciation of property, plant and equipment | 62,558 | 56,986 | 54,995 |
| Write-off of accounts receivable | — | — | 1,111 |
| Management and administration costs – operations | 13,736 | 12,911 | 13,774 |
| Management and administration costs – development | 13,714 | 9,085 | 6,688 |
| Impairment of property, plant and equipment | — | 164 | — |
| | 130,504 | 112,672 | 106,729 |

continued...

| | | | |
|--|-----------------|-----------|-----------|
| In thousands of dollars except as indicated | 2012 | 2011 | 2010 |
| | | | |
| Investment income | 355 | 223 | 12,593 |
| Finance income – leases | 14,129 | 3,558 | – |
| | | | |
| Operating income | 114,791 | 94,410 | 92,272 |
| Finance costs | 63,966 | 55,041 | 58,734 |
| Amortization of contracts and other intangible assets | 19,422 | 20,077 | 19,614 |
| Write-off of deferred development costs | 1,661 | 1,697 | 3,383 |
| Impairments | 23,053 | 33,155 | – |
| Foreign exchange (gain) loss | (55) | (3,625) | 276 |
| Finance (income) | (815) | (744) | (387) |
| Fair value (gain) loss of interest rate swaps | (1,955) | 129,000 | 53,761 |
| Fair value loss on convertible shares and Replacement Rights | 14,199 | 14,308 | 224,414 |
| Lease accounting (gain) | (2,964) | (35,003) | – |
| Other (income) | – | (900) | – |
| (Gain) on the sale of Mont Miller | – | – | (7,312) |
| | | | |
| (Loss) before income tax | (1,721) | (118,596) | (260,211) |
| | | | |
| Current income taxes | 4,990 | 2,955 | 1,577 |
| Deferred income taxes | 3,202 | (58,442) | (55,960) |
| | | | |
| Provision for (recovery of) income taxes | 8,192 | (55,487) | (54,383) |
| | | | |
| Net (loss) | (9,913) | (63,109) | (205,828) |
| | | | |
| Net (loss) per share – basic | (\$0.18) | (\$0.61) | (\$2.89) |
| Net (loss) per share – diluted | (\$0.18) | (\$0.61) | (\$2.89) |
| | | | |

Net loss for 2012 at \$9.9 million was \$53.2 million lower than the previous year. The following section describes significant factors contributing to this change:

- **SALES** – increased \$6.1 million compared with 2011 for the reasons discussed under the facility results and primarily reflect the inclusion of a full year of financial results from the Spy Hill and Mont Louis facilities, higher PPA prices at Kingston and the performance incentive fee received from Kirkland Lake.
- **COST OF SALES** – down \$21.4 million due to lower natural gas costs and lower production at Thorold in the first and fourth quarters of 2012.
- **PLANT OPERATING COSTS** – increased by \$7 million largely due to the inclusion of Spy Hill and Mont Louis and for reasons previously discussed under the facility results.
- **MANAGEMENT AND ADMINISTRATION COSTS** – \$5.5 million higher than the prior year largely due to increased head count and expanded development activity on early-stage prospects.
- **FINANCE LEASE INCOME** – increased \$10.6 million due to the full-year inclusion of Spy Hill. The fixed monthly capacity payments received from SaskPower are treated as lease income, while electricity sales are recognized in sales revenue. In 2011, the transition to lease accounting resulted in the recognition of \$3.6 million in finance income and a one-time \$35 million non-cash gain. The accounting treatment of Spy Hill as a finance lease has no impact on Northland's EBITDA or free cash flow.
- **FINANCE COSTS** – increased by \$8.9 million from 2011 due to the recognition of a full year of interest charges on the Spy Hill and Mont Louis debt. A substantial portion of the 2011 interest on these facilities was capitalized during the construction period. The increase in interest expense was partially offset by lower convertible debenture interest due to conversions of the 2014 Debentures into Shares.
- **AMORTIZATION OF CONTRACTS AND OTHER INTANGIBLE ASSETS** – decreased during the year largely as a result of the impairments to contracts identified in 2011.
- **NON-CASH FAIR VALUE LOSSES** – \$13.9 million during 2012 and comprising a \$2 million gain on the change in fair value of interest rate swaps associated with non-recourse project debt, offset by a \$14.2 million loss in the fair value of Northland's Class B convertible shares ("**Class B Shares**") due to an increase in Northland's Share price and a shorter discounting period and a \$1.7 million expense of deferred development costs, as discussed previously.
- **NON-CASH IMPAIRMENTS** – \$10.1 million lower than 2011 and relate to Northland's contracts and other intangible assets, goodwill and Panda-Brandywine equity investment. It is anticipated that there will be annual impairments as future cash flows (which are used to determine an asset's recoverable amount) are realized, unless there are changes in discount rates, and updates to long-term forecasts and market estimates are made.

With respect to the impairment of property, plant and equipment and intangible assets and goodwill, at each reporting date Northland assesses whether there is an indication that an asset may be impaired. If any indication exists, or when the annual impairment testing is required, Northland estimates each non-financial asset's recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell, or its value in use. When the carrying amount of an asset exceeds its estimated recoverable amount, the asset is considered impaired and is written down to its recoverable amount. To determine the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The above-mentioned impairments were the result of forecasted cash flows being realized and continued updates to long-term forecasts and other market estimates.

Northland's policy is to hedge the majority of the interest rate and foreign exchange exposures related to its projects; changes in market rates give rise to non-cash mark-to-market adjustments each year as a result of Northland's accounting election to forego the application of hedge accounting. These interest rate swap and foreign exchange adjustments are non-cash items, will reverse over time, and have no impact on the cash obligations of Northland or its projects.

- **OTHER INCOME** – decreased by \$0.9 million due to 2011 proceeds from the sale of Northland's South Kent wind development project recognized in 2011.
- **CURRENT TAXES** – increased by \$2 million from 2011 largely due to taxes associated with the additional preferred share dividends from the May 2012 issuance of the Series 3 Preferred Shares.

The factors described above combined with a \$3.2 million provision for deferred taxes, resulted in a net loss for the year of \$9.9 million, which was \$53.2 million lower than the previous year.

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Earnings Before Interest, Taxes, Depreciation and Amortization

EBITDA is calculated as revenue less operating costs before interest expense, income taxes, depreciation of capital assets and amortization of contracts, non-cash impairments and lease accounting gains and non-cash (unrealized) fair value changes. EBITDA provides an indication of Northland's capacity to generate income from operations before taking into account management's financing decisions and the costs of consuming tangible and intangible capital assets, which vary according to asset type and management's estimate of their useful lives.

The following table reconciles Northland's reported EBITDA to its loss before income taxes:

| In thousands of dollars except as indicated | 2012 | 2011 | 2010 |
|---|----------------|------------------|------------------|
| Income (loss) before income taxes | (1,721) | (118,596) | (260,211) |
| Adjustments: | | | |
| Amortization of property, plant and equipment | 62,558 | 56,986 | 54,995 |
| Amortization of contracts and other intangible assets | 19,422 | 20,077 | 19,614 |
| Finance costs, net | 63,151 | 54,297 | 58,347 |
| Change in fair value of interest rate swaps | (1,955) | 129,000 | 53,761 |
| Fair value loss on convertible shares and Replacement Rights | 14,199 | 14,308 | 224,414 |
| Unrealized foreign exchange (gain) loss | 271 | (3,625) | 1,212 |
| Amortized fee income | — | — | (1,225) |
| Impairments | 23,053 | 33,319 | — |
| Lease accounting (gain) | (2,964) | (35,003) | — |
| Lease receivable | 2,606 | (59) | — |
| EBITDA | 178,620 | 150,704 | 150,907 |

Northland's 2012 consolidated EBITDA increased from the prior year primarily due to contributions from Mont Louis and Spy Hill, favourable operating results from Kingston, and the performance incentive fee earned from Kirkland Lake, partially offset by lower results at Iroquois Falls and Thorold, and increased management and administration costs.

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Section 6: Equity, Liquidity and Capital Resources

Equity and Convertible Unsecured Subordinated Debenture Information

As at December 31, 2012, Northland had outstanding 86,041,930 Shares (2011 – 78,027,019 Shares), 6,000,000 Series 1 Preferred Shares, 4,800,000 Series 3 Preferred Shares, 29,851,868 Class A Shares, 4,289,808 Class C convertible shares (**"Class C Shares"**) and 759,355 contingent Replacement Rights. In addition, Northland has 8,067,723 Class B Shares, which are classified as a liability on the consolidated balance sheets. During the year, a total of \$10.5 million of the 2014 Debentures were converted into 844,737 Shares (2011 – 1,348,603, which also includes conversions of the 6.5% convertible unsecured subordinated 2011 Debentures). In 2012, a total of 1,847,445 Shares (2011 – 138,138 Shares) were issued under Northland's Dividend Reinvestment Plan (**DRIP**), whereby common shareholders and the Class A shareholder may elect to reinvest their dividends in Shares of Northland to be issued from treasury at up to a 5% discount to the market price. On June 30, 2011, a total of \$1.2 million of the 6.5% convertible unsecured subordinated 2011 Debentures matured.

On January 16, 2012 (**"Conversion Date"**), all of Northland's Class A Shares became exchangeable on a one-for-one basis into Shares and became entitled to dividends on the same basis as Northland's Shares. As of the date of this report, no Class A Shares have been exchanged for Shares. Additionally, 4,528,269 Replacement Rights held by senior management of Northland became exercisable and were subsequently exchanged for Shares; this included the 388,937 Replacement Rights that were previously subject to a reduction if Northland failed to declare annual dividends of at least \$1.08 per Share prior to the Conversion Date. Pursuant to certain adjustments, 5,464 contingent Replacement Rights were cancelled.

The terms of Northland's Class B Shares and Class C Shares provide that these securities may be converted into Class A Shares and a portion of the Replacement Rights may be exchanged for Shares based on the development profits attributable to certain of Northland's electricity generation projects as they are completed.

A process for determining the convertibility of these securities (**"Determination Process"**) was established under the terms of the 2009 merger between NPI and the Fund and is incorporated in Northland's Corporate Articles. Northland's 100.5 MW Mont Louis wind farm, 86 MW Spy Hill facility and four rooftop solar projects achieved commercial operations in 2011. These projects, along with the South Kent development project that was sold in 2011, were determined to be all of the qualifying projects eligible to be included in the first Determination Process. A special committee of the independent directors of Northland (**"Special Committee"**) was appointed by the Board to oversee the first Determination Process and retained BMO Nesbitt Burns Inc. as its independent financial adviser (**"Financial Adviser"**) to determine the fair market value and the development profits.

On January 17, 2012, as a result of the first Determination Process, 4,206,270 Class C Shares were converted into Class A Shares on a one-for-one basis and 739,103 Replacement Rights held by senior management of Northland were converted into Shares.

Subsequent to the first Determination Process, 4,289,808 additional Class C Shares and 8,067,723 Class B Shares remain outstanding and may be converted into Class A Shares in further Determination Processes. In addition, up to an additional 759,355 contingent

Replacement Rights may be convertible into Shares in proportion to the remaining Class C Shares that become eligible for conversion into Class A Shares.

On May 24, 2012, Northland issued 4.8 million Series 3 Preferred Shares at a price of \$25.00 per Share, for aggregate gross proceeds of \$120 million (\$116 million after costs and underwriters' fees). The \$116 million of net proceeds was consistent with the expected net proceeds as disclosed in the prospectus dated May 15, 2012. Northland has used the net proceeds from the offering to fund the equity portion of Ground-mounted Solar Phase 1, to fund additional ground-mounted solar project development, to repay bank indebtedness, to replenish working capital, and for general corporate purposes. Readers should refer to Note 17 to the consolidated financial statements for additional details.

Northland also has an employee LTIP that provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries. The number of Shares awarded at each milestone is determined using the amount of expected development profits at that milestone date. As a result, the amount of LTIP costs recognized depends on the estimated number of Shares to be issued at each milestone date, which in turn is based on management's best estimate of a project's expected development profit. Changes in estimates about the number of Shares to be issued, forfeiture rates and vesting dates and changes in fair value up to the grant date are recognized in the period of the change. During 2012 and 2011, milestones were achieved requiring management to estimate the share-based cost of LTIP awards. For the year ended December 31, 2012, Northland issued 55,357 Shares to employees and capitalized \$7.6 million (2011 – \$2.5 million) and expensed \$0.3 million (2011 – \$nil) of costs under the LTIP.

As of the date of this MD&A, Northland has outstanding 86,372,132 Shares, 6,000,000 Series 1 Preferred Shares, 4,800,000 Series 3 Preferred Shares, 29,851,868 Class A Shares, 4,289,808 Class C Shares and 759,355 contingent Replacement Rights.

Liquidity and Capital Resources

In thousands of dollars except as indicated

| | 2012 | 2011 | 2010 |
|--|------------------|-----------|-----------|
| Cash and cash equivalents – opening | 49,505 | 111,546 | 116,851 |
| Cash provided by operating activities | 161,677 | 127,473 | 141,050 |
| Cash used in investing activities | (374,100) | (336,000) | (292,789) |
| Cash provided by financing activities | 195,270 | 146,466 | 146,561 |
| Effect of exchange rate differences | (4) | 20 | (127) |
| Cash and cash equivalents – ending | 32,348 | 49,505 | 111,546 |
| Total assets | 2,518,681 | 2,254,028 | 2,023,915 |
| Total long-term liabilities | 1,673,178 | 1,381,279 | 1,675,882 |

Cash and cash equivalents at \$32.3 million decreased by \$17.2 million since December 31, 2011, as \$161.7 million generated by operations and \$195.3 million from financing activities were more than offset by \$374.1 million used for investing activities.

Operating activities in 2012 provided \$161.7 million in cash. This included a net loss of \$9.9 million, \$184.7 million in non-cash and non-operating items such as foreign exchange, amortization, writedowns and impairments, and the change in fair value of interest rate swaps and Class B Shares, combined with a \$13.1 million increase in working capital since December 2011 primarily associated with the timing of year-end payables, receivables and deposits. The increase in cash from operating activities in 2012 was largely the result of higher EBITDA as described earlier.

Cash used for investing activities during 2012 consumed \$374.1 million including: (i) \$303.7 million of additions to property, plant and equipment, mostly representing construction costs at North Battleford and the Ground-mounted Solar Phase 1 projects; (ii) \$60.7 million in deferred development costs, largely representing expenditures on Ground-mounted Solar Phase 1 projects; (iii) \$17.7 million transferred to restricted cash, the majority of which is associated with Ground-mounted Solar Phase 1 to be used to settle construction-related payables; and (iv) a \$7.2 million change in working capital related to the timing of construction payables, net of receivables, which includes the receipt of \$14.1 million by Jardin as part of the substation cost reimbursement owing from Hydro-Québec. Investing activities for 2012 also included \$0.8 million of interest received.

Cash from financing activities provided \$195.3 million, comprising: (i) \$116 million of net proceeds from the Series 3 Preferred Share offering in May 2012; (ii) \$327.6 million of advances under the North Battleford, Ground-mounted Solar Phase 1, Spy Hill and Mont Louis loan facilities; offset by (iii) \$100.2 million of common, Class A and preferred share dividends; (iv) \$80.4 million of debt repayments, including \$45.6 million in bridge loans at Mont Louis and Jardin; (v) \$60.6 million in interest payments; and (vi) \$7.2 million net repayment on Northland's corporate operating line of credit.

Total assets and long-term liabilities

The following sections describe significant changes in Northland's consolidated balance sheet and include schedules of property, plant and equipment, deferred development costs and debt.

The following table provides a continuity of the cost of Northland's property, plant and equipment by segment and Northland's deferred development:

| | Cost balance as of December 31, 2011 | Purchases | Write-offs | Other ⁽¹⁾ | Exchange rate differences | Cost balance as of December 31, 2012 |
|-------------------------------------|---|-----------|------------|----------------------|---------------------------------|---|
| In thousands of dollars | | | | | | |
| Operations | | | | | | |
| Thermal ⁽²⁾ | 984,452 | 6,442 | (4,073) | — | — | 986,821 |
| Renewable | 397,480 | 150 | — | (1,450) | (184) | 395,996 |
| | 1,381,932 | 6,592 | (4,073) | (1,450) | (184) | 1,382,817 |
| Construction | | | | | | |
| Thermal | 381,461 | 127,290 | — | 5,326 | — | 514,077 |
| Renewable | — | 161,075 | — | 59,024 | — | 220,099 |
| | 381,461 | 288,365 | — | 64,350 | — | 734,176 |
| Corporate⁽³⁾ | 16,705 | 8,781 | — | (1,007) | — | 24,479 |
| Total | 1,780,098 | 303,738 | (4,073) | 61,893 | (184) | 2,141,472 |
| Deferred development ⁽⁴⁾ | 22,109 | 60,705 | (1,661) | (55,625) | — | 25,528 |

(1) Includes transfers, tax credits, LTIP shares granted.

(2) Excludes Spy Hill lease receivable.

(3) Includes rooftop solar, the chipping facility and certain costs related to projects in advanced development.

(4) All deferred development costs associated with Northland's McLean's Mountain wind project will be transferred to construction-in-progress in the first quarter of 2013.

The following table provides a continuity of Northland's debt:

| | Debt balance as of December 31, 2011 | Financings ⁽¹⁾ | Repayments | Amortization of fair value adjustments | Debt balance as of December 31, 2012 |
|--------------------------------|---|---------------------------|------------|--|---|
| In thousands of dollars | | | | | |
| Operations | | | | | |
| Thermal ⁽²⁾ | 520,126 | 9,200 | (26,843) | 1,927 | 504,410 |
| Renewable ⁽³⁾ | 278,203 | 17,917 | (53,517) | 717 | 243,320 |
| | 798,329 | 27,117 | (80,360) | 2,644 | 747,730 |
| Construction | | | | | |
| Thermal | 216,900 | 149,300 | — | — | 366,200 |
| Renewable | — | 151,200 | — | — | 151,200 |
| | 216,900 | 300,500 | — | — | 517,400 |
| Corporate⁽⁴⁾ | 8,257 | 1,071 | (8,257) | — | 1,071 |
| Total | 1,023,486 | 328,688 | (88,617) | 2,644 | 1,266,201 |

(1) The \$27.1 million of operations financings include amounts received by Spy Hill (\$9.2 million) and Mont Louis (\$17.9 million) that were associated with construction activities but were received after the facilities began commercial operations.

(2) Includes a \$25 million favourable fair value adjustment as at December 31, 2012.

(3) Includes a \$8.3 million favourable fair value adjustment as at December 31, 2012.

(4) Excludes 2014 Debentures.

On January 21, 2013, Spy Hill's debt was repaid in full with the proceeds of a \$156.3 million, 4.14% Canadian private placement of senior secured amortizing bonds. The bonds will require blended payments of principal and interest beginning March 31, 2013, and will be amortized until maturity on March 31, 2036, six months prior to the expiry of the PPA. The bonds require funding of certain reserve accounts, notably a six-month debt service reserve, unplanned maintenance reserve and major maintenance reserve. The trust indenture governing the bonds requires that a debt service coverage ratio (**DSCR**) of at least 1.20 be achieved for the 12-month period ending on the immediately preceding distribution date for each quarterly distribution. The bonds were rated A (stable) by Dominion Bond Rating Service (**DBRS**).

On January 23, 2013, Kingston repaid in full its non-recourse bank term loan and senior secured note and settled its associated interest rate swaps.

The following section describes the significant changes in Northland's consolidated balance sheet:

- **TOTAL ASSETS** – increased due to the purchase of property, plant and equipment, primarily related to construction of the North Battleford and Ground-mounted Solar Phase 1 projects, and deferred development costs, partially offset by the writedowns of contracts and other intangible assets and goodwill, as discussed earlier.
- **TOTAL LONG-TERM LIABILITIES** – increased largely due to borrowings to fund construction activities. Partially offsetting higher interest-bearing loans was a decrease in the 2014 Debentures due to conversions to Shares during 2012 and the decrease in fair value of Northland's derivative financial instruments.
- **RESTRICTED CASH** – increased by \$17.7 million primarily due to construction-related activities at the Ground-mounted Solar Phase 1 projects and the temporary funding of a long-term debt reserve at Mont Louis.
- **TRADE AND OTHER RECEIVABLES** – increased by \$5 million due to input tax credits owing from the Federal government and the timing of receipt of electricity sales, partially offset by Jardin's receipt of \$14.1 million from Hydro-Québec related to its substation cost reimbursement.
- **PREPAIDS** – decreased by \$2.7 million largely due to interconnection payments made with respect to Northland's Ground-mounted Solar Phase 1 projects, while the \$163.8 million lease receivable is associated with the lease accounting for Spy Hill.
- **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES** – decreased largely due to the timing of construction-related payables and interest payments associated with outstanding interest-bearing loans and borrowings. The decrease in short-term interest-bearing loans and borrowings was mainly the result of Jardin and Mont Louis both repaying their bridge loans during the year.

The balance of the 2014 Debentures decreased by \$9.7 million to \$26.7 million due to conversions to Shares. The value of derivative financial instruments decreased to \$215.6 million due to the settlement of existing interest rate swaps and changes in market interest rates that, for accounting purposes, required the recording of non-cash gains on interest rate swaps. Northland's policy is to hedge the majority of the interest rate and foreign exchange exposures related to its projects; changes in market rates give rise to non-cash mark-to-market adjustments as a result of Northland's election to forgo the application of hedge accounting. These non-cash adjustments will reverse over time and have no impact on the future cash obligations or cash flows of Northland's projects.

In 2012, Northland recognized a \$21.4 million increase in total shareholders' equity. The increase in preferred shares was the result of Northland issuing the Series 3 Preferred Shares on May 24, 2012, for net proceeds of \$116 million, while the increase in Shares was due to the conversion of Replacement Rights and 2014 Debentures and the issuance of additional Shares under the LTIP and DRIP programs. The \$6.9 million increase in LTIP reserve was the result of a potential liability under Northland's LTIP program, which may be paid out to employees in Shares subsequent to year end if certain milestones occur. Offsetting the above-mentioned increases was a decrease in retained earnings as a result of the \$9.9 million net loss during 2012 and \$135.3 million in common, Class A and preferred share dividends.

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Debt Covenants

Northland generally conducts its business indirectly through separate subsidiary legal entities and is dependent on receipt of cash from those entities to defray its corporate expenses and to pay interest on convertible debentures, and cash dividends to common, preferred and Class A shareholders. Certain of those entities have outstanding debt arising from non-recourse project finance debt sourced at the subsidiary entity. Under the credit agreements for such debt, distributions of cash to Northland are typically prohibited if the loan is in default (notably for non-payment of principal or interest), or if the entity fails to achieve a benchmark DSCR (which is the ratio of EBITDA, adjusted for certain items, to the scheduled interest and principal payments for a specified time period). For the year ended December 31, 2012, Northland and its subsidiaries were not in default in respect of any loan agreements and were in compliance with all debt covenants.

As of December 31, 2012, Northland and its subsidiaries had \$181.3 million in letters of credit outstanding as follows:

| In millions of dollars | Purpose | Amount |
|-------------------------------------|---------------------------------------|--------|
| Corporate⁽¹⁾ | | |
| | Operations | 56.5 |
| | Advanced development and construction | 55.5 |
| | | 112.0 |
| Project entity⁽²⁾ | | |
| | Operations | 42.3 |
| | Construction | 27.0 |
| | | 69.3 |
| | | 181.3 |

(1) Secured by Northland's \$250 million corporate line of credit.

(2) Secured by facility or project-level credit agreements.

Sustainability of Cash Flows and Dividends

Northland continues to pursue its proven business strategy of providing shareholders with stability and long-term growth. Northland's primary focus is to maximize the results from its existing operating facilities in order to maintain stable cash flow streams over their asset lives, while safeguarding the environment, the health and safety of its employees, and its host communities. For current and future development projects, Northland intends to continue its strategy of utilizing long-term sales, supply and maintenance agreements to ensure stable margins and non-recourse project finance structures to reduce financial risks. Northland will continue to exercise judgment, discipline and acumen in its development activities to ensure maximum success. The discipline that has been applied to operations, construction and development underpins management's confidence in Northland's ability to continue to meet its stakeholder commitments.

Northland's Board and management are committed to maintaining the current dividend of \$1.08 per share on an annual basis, payable monthly. Northland's management and Board have anticipated the impact of growth on the payment of dividends and are confident that Northland has adequate access to funds to meet its dividend commitment, including operating cash flows, cash and cash equivalents on hand and, as necessary, its line of credit or external capital.

On October 29, 2012, Standard & Poor's reaffirmed Northland's debt rating of BBB- with a positive outlook. Standard & Poor's report credited stable cash flows from long-term power purchase agreements with provincial agencies and government-owned utilities, consistent financial strategy, and continued diversification as the basis for reaffirming Northland's rating and outlook.

On November 9, 2011, Northland announced an amendment to its DRIP whereby common shareholders and the Class A shareholder may elect to reinvest their dividends in Shares of Northland to be issued from treasury at up to a 5% discount to the market price. While the future uptake on Northland's revised DRIP is uncertain (average uptake since inception has been 27%), based on a review of comparable companies with similar DRIP programs, management expects that the net result will be a material reinvestment of cash dividends into Northland, improving the efficiency and reducing the cost of raising equity for future projects.

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Free Cash Flow/Distributable Cash and Dividends to Shareholders

In 2012, Northland declared dividends to shareholders of \$1.08 per Share. This was consistent with the prior year.

The following calculation of free cash flow/distributable cash is based on the audited consolidated financial statements of Northland:

| In thousands of dollars except as indicated | 2012 | 2011 | 2010 |
|---|-----------------|----------|----------|
| Cash provided by operating activities | 161,677 | 127,473 | 141,050 |
| Northland adjustments | | | |
| Net change in non-cash working capital balances | | | |
| related to operations | 13,092 | 15,105 | 575 |
| Capital expenditures, net – non-expansionary | (6,281) | (3,100) | (731) |
| Interest paid, net | (59,805) | (42,988) | (51,401) |
| Scheduled principal repayments on term loans | (34,720) | (28,636) | (18,957) |
| Funds set aside for scheduled principal repayments | 1,669 | (1,669) | – |
| Restricted cash utilization (funding) for major maintenance | 1,986 | (1,763) | (1,247) |
| Scheduled receipts of principal on Panda-Brandywine senior loan | – | – | 1,259 |
| Write-off of deferred development costs | (1,661) | (1,697) | (3,383) |
| Funds set aside for asset purchase | (750) | – | – |
| Preferred share dividends | (11,484) | (7,875) | (3,349) |
| Free cash flow/distributable cash | 63,723 | 54,850 | 63,816 |

continued...

| In thousands of dollars except as indicated | | | |
|---|----------------|--------|--------|
| | 2012 | 2011 | 2010 |
| Cash dividends/distributions paid to common and Class A shareholders/unitholders | 88,734 | 80,727 | 77,982 |
| Free cash flow/distributable cash payout ratio ⁽¹⁾ | 139% | 147% | 122% |
| Total dividends⁽²⁾/distributions to common and Class A shareholders/unitholders | 121,551 | 84,673 | 77,982 |
| Free cash flow/distributable cash payout ratio ⁽¹⁾ | 191% | 154% | 122% |
| Cumulative – since inception | | | |
| Free cash flow/distributable cash payout ratio ⁽¹⁾ | 101% | 97% | 93% |
| Average number of shares/units – basic (000s)⁽³⁾ | 115,058 | 76,863 | 72,290 |
| Average number of shares/units – diluted (000s)⁽⁴⁾ | 115,058 | 76,863 | 81,821 |
| Per share/unit | | | |
| Free cash flow/distributable cash – basic | \$0.55 | \$0.71 | \$0.88 |
| Free cash flow/distributable cash – diluted | \$0.55 | \$0.71 | \$0.85 |

(1) A payout ratio in excess of free cash flow generally results from the payment of interest on subordinated convertible debt and dividends on preferred and common shares raised to fund construction projects prior to those projects generating cash flows, as well as the funding of development activities.

(2) Total dividends to common and Class A shareholders represents cash dividends plus share dividends issued as part of Northland's DRIP.

(3) The number of shares and the related per-share amounts for 2012 is the sum of the weighted average number of common shares and Class A Shares of Northland, both of which are eligible to receive dividends and do not include any convertible debentures, Class B or C Shares or contingent Replacement Rights.

(4) Average number of shares/units diluted is the sum of the weighted average number of shares/units used in the basic calculation plus the number of shares/units that would be issued assuming conversion of the convertible unsecured subordinated debentures. For 2012, the average number of shares includes the weighted average number of Class A Shares.

The calculation of free cash flow is consistent with Northland's calculation of distributable cash for the periods prior to 2011 and with the calculations of cumulative free cash flow and dividends incorporating distributable cash and distributions, respectively, for prior periods. As a result of net interest expense being excluded from cash flows from operations under IFRS, Northland now includes an adjustment to deduct net interest paid to arrive at free cash flow.

Free cash flow is the cash generated from the business that Northland's management believes is representative of the amount that is available to be paid as dividends to shareholders while preserving the long-term value of the business. Northland calculates free cash flow by deducting capital expenditures, except those specified as expansionary, from cash from operations and then adjusting for the following:

- Short-term changes in operating working capital that are expected to be largely reversed in succeeding periods (or represent reversals from previous periods);
- One-time fees related to acquisitions that are included in operating activities for accounting purposes but arise as a direct consequence of Northland's investing activities;
- Scheduled principal payments received on debt advanced by Northland to Panda-Brandywine (included on the basis that, with interest received, they are related to and comprise the results of specific investing activities);
- Scheduled repayments of principal on debt (because these payments must be made before funds are available for distribution to the shareholders of Northland);
- Cash receipts of one-time fees and reimbursements that are being deferred and recognized into income over a period of time;
- Payment of preferred share dividends;
- Write-off of deferred development costs (because these costs are not included in the free cash flow calculation when incurred due to their discretionary nature); and
- Funds identified as being set aside or reserved (or utilized) for future maintenance.

Free cash flow of \$63.7 million was \$8.9 million higher than in 2011; significant factors increasing and decreasing free cash flow in 2012 are described below.

Factors increasing free cash flow were:

- \$19.7 million higher EBITDA from Northland's operating facilities, largely due to the addition of Spy Hill and Mont Louis and increased PPA prices at Kingston;
- \$14.6 million increase in Kirkland Lake and Cochrane management and performance incentive fees; and
- \$3.7 million net change in major maintenance cash reserves as Kingston utilized a significant portion of its maintenance reserve in 2012 to help fund its planned major outage, while 2011 included a temporary \$2 million reserve contribution at Thorold.

Factors decreasing free cash flow were:

- \$11.7 million higher net interest expense and scheduled loan repayments, largely due to a full-year inclusion of Spy Hill and Mont Louis;
- \$3.6 million increase in preferred share dividends due to the issuance of the Series 3 Preferred Shares;
- \$6.5 million net, higher corporate management and administration costs, which includes increased development prospecting expenditures; in addition, 2011 included a \$0.9 million gain on the sale of the South Kent project;
- \$3.2 million net increase in operations-related capital expenditures largely associated with Kingston's planned major outage;
- \$2.4 million reduction in long-term liabilities, largely associated with Kingston's GE milestone payment related to its gas turbine maintenance agreement; and
- \$1.7 million of other items, including higher current income taxes largely associated with the Series 3 Preferred Shares.

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Payout Ratio

For the 12-month period ended December 31, 2012, Northland's dividend payments were 139% of free cash flow, or 191% on an all-cash dividend basis (if the impact of the DRIP was excluded). This payout in excess of free cash flow largely reflects the level of spending on growth initiatives and payments of dividends on equity capital raised for construction projects for which corresponding cash flows will not be received until future years. Northland management expects that the Company will continue to pay dividends at the \$1.08 level. Management expects the dividend payout ratio to drop below 100% in 2014. Dividend payments could continue to exceed free cash flow if significant additional equity investments are made as a result of future development successes. Nonetheless, management and the Board are committed to ensuring that Northland maintains sufficient liquidity to pay dividends during these periods of high growth.

Northland has a prudent policy of raising the capital required for its projects at the start of construction to provide protection against financing risk. While equity and debt funding is generally committed at the beginning of construction, it may be several years before a project starts to generate cash flow. For accounting purposes, interest on project-level debt is capitalized during the construction period and included in the capital cost of the project. However, that accounting treatment is not available for the equity contributed by Northland to the project entity. The Company assesses investment returns using discounted cash flow techniques that take into account the fact that Northland funds its equity during the start of construction but does not begin to receive cash returns until after a project begins commercial operations. Nonetheless, because Northland incurs the impact of dividends on common or preferred shares and interest on convertible unsecured subordinated debentures before each project begins to generate revenue, free cash flow, free cash flow per share and the payout ratio are adversely affected until projects currently under construction reach commercial operations.

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Section 7: Construction and Development Activities

Projects Under Construction

North Battleford – Saskatchewan

In February 2010, Northland executed a PPA with SaskPower for a 260 MW natural-gas-fired combined-cycle baseload plant to be built near North Battleford, Saskatchewan. When it achieves commercial operations, the project will receive monthly payments under its PPA that are designed to cover all fixed costs, debt service and investment returns. The PPA also provides protection against changes in the market price of natural gas because fuel costs are passed through to SaskPower. Northland will be responsible for operating the plant to achieve specified efficiency and reliability levels. The contractual structure of the project is designed to ensure predictable, stable and sustainable cash flows over the entire 20-year term of the PPA.

The facility will use a GE 7FA gas turbine with an associated heat recovery steam generator and a steam turbine to generate electricity. The project is being constructed by Kiewit Power Partners under an engineering, procurement and construction (**EPC**) contract that fixes the price and completion date and, with GE, guarantees the plant's output and efficiency. Facility completion under the EPC contract and commercial operations are scheduled to occur before the end of the second quarter of 2013 following the completion of construction, commissioning and synchronization with the SaskPower grid. North Battleford has entered into a 25-year maintenance agreement with GE to cover planned and unplanned maintenance and repairs on the combustion turbine, generator, control systems and auxiliaries supplied by GE.

The budgeted capital cost of \$677 million is being partially funded with \$580 million in non-recourse project debt provided by an international syndicate of 15 banks. Readers should refer to Note 12 to the consolidated financial statements for additional information related to North Battleford's debt.

Construction commenced in June 2010 and is currently proceeding on schedule and within budget. The EPC contractor reports that approximately 97% of the contractor's milestones were completed by December 31, 2012. Construction progressed well in 2012, with all major equipment installed, balance-of-plant ancillary equipment completed, and utility interconnections in place. The focus shifted from construction to commissioning in the fourth quarter, with those activities now well underway. Subsequent to year end, first fire of the gas turbine, an important commissioning milestone, was completed on January 26, 2013.

Ground-mounted Solar Phase 1 – Ontario

Northland's Ground-mounted Solar Phase 1 projects comprise six individual 10 MW projects totalling 60 MW. The projects are located near Smiths Falls and Belleville in eastern Ontario, and Huntsville in central Ontario; each has a 20-year PPA with the OPA under Ontario's renewable energy FIT Program.

The Ground-mounted Solar Phase 1 projects are being constructed by Miwel Construction, a wholly owned subsidiary of Aecon Group Inc., under contracts that fix the price and completion date. Northland has supply contracts in place with MEMC Singapore PTE Ltd. for photo-voltaic (**PV**) modules, and with SMA Solar Technology Canada, Inc. for power platforms (which include inverters, a transformer and related electrical equipment).

The budgeted capital cost for the Phase 1 projects is \$285 million, and is being funded in part by \$227 million of non-recourse project financing for an 18-year term and a \$30 million letter of credit facility. The all-in rate including interest rate swaps and credit spreads for the first four years after term conversion is 5.2% for three of the projects and 5.3% for the remaining three. Readers should refer to Note 12 to the consolidated financial statements for additional information related to Ground-mounted Solar Phase 1 debt.

All six projects are expected to be on budget and achieve commercial operations sequentially from early to mid 2013.

McLean's Mountain Wind Project – Ontario

McLean's Mountain is a 60 MW wind project located on Manitoulin Island, Ontario. The project is being developed through a 50/50 partnership with the United Chiefs and Councils of Mnidoo Mnising First Nations. The project has a 20-year PPA with the OPA under Ontario's renewable energy FIT Program.

The wind farm will comprise 24, 2.5 MW wind turbines supplied by GE, and will be constructed by White Construction under a fixed-price balance-of-plant contract.

McLean's Mountain completed its environmental permitting with the receipt of its renewable energy approval (**REA**) on October 31, 2012. In December 2012, 24 wind turbines were ordered and site clearing commenced with major construction activities planned for early spring 2013. Commercial operations are scheduled for early 2014. The project is estimated to cost approximately \$190 million.

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Projects in Advanced Development

Northland has 220 MW of projects in advanced development comprising 124 MW of wind, 70 MW of ground-mounted solar and 26 MW of hydro. All of these projects are being developed in Ontario under PPAs awarded by the OPA FIT Program, with the exception of the Frampton, Quebec 24 MW wind project that has a PPA awarded by Hydro-Québec.

The following table provides a summary of these projects and Northland's respective ownership interest:

| Project | Ownership | Gross project capacity | Net ownership capacity | Region | Power off-taker | PPA term |
|----------------------|-----------|------------------------------|------------------------------|---------|--------------------|----------------------|
| Grand Bend | 100% | 100.0 MW | 100.0 MW | Ontario | OPA | 20 years from COD |
| Ground-mounted Solar | 100% | 70.0 MW | 70.0 MW | Ontario | OPA | 20 years from COD |
| Kabinakagami | 50% | 26.0 MW | 13.0 MW | Ontario | OPA | 40 years from COD |
| Frampton | 67% | 24.0 MW | 16.0 MW | Quebec | Hydro-Québec | 20 years from COD |

Grand Bend Wind Project – Ontario

Northland is developing a 100 MW wind project to be located in Grand Bend, Ontario. Detailed discussions have advanced with several First Nations groups for their participation in the project. Environmental permitting work for the project is well underway, and construction is currently targeted to begin in late 2013 or early 2014 following successful completion of environmental permitting. The capital cost for the project is anticipated to be approximately \$385 million, and commercial operations is targeted for late 2014.

Ground-mounted Solar Projects – Ontario – Future Phases

Northland began construction on 60 MW of its 130 MW solar portfolio under PPAs in 2012, and has continued to advance the development of the remaining 70 MW, which comprises seven projects situated throughout Ontario. Environmental permitting work is complete for three of these seven projects, which have received their REAs, and is well advanced for the others. Commercial operations of the projects remains targeted to be staggered through to the end of 2014. The total capital cost for the seven projects is estimated to be \$325 million.

Kabinakagami Hydro Projects – Ontario

Northland is developing 26 MW of hydro power to be provided from four run-of-river projects on the Kabinakagami River near Hearst, Ontario. The projects are being developed in 50/50 partnership with Constance Lake First Nation. Pre-construction site engineering and geotechnical work is well advanced, and equipment suppliers have been shortlisted. Permitting work to obtain the project's Environmental Assessment (**EA**) approval from the Ministry of the Environment is nearing completion. The \$180 million capital cost estimate for this hydro portfolio continues to be under review as construction logistics, timing and the result of *force majeure* claims are assessed. Commercial operations of the projects are currently forecast for the latter half of 2015.

Frampton Wind Project – Quebec

This 24 MW wind project will be located on the south shore of the St. Lawrence River near Frampton, Quebec, and will be 33% owned by the municipality of Frampton. The PPA with Hydro-Québec calls for a commercial operations date of late 2015. The project is expected to use Enercon wind turbines supplied from a Quebec manufacturing facility, and the project is forecast to have a capital cost of \$75 million.

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Section 8: Outlook

Northland actively pursues new power development opportunities that encompass a range of clean technologies, including natural gas, wind, solar and hydro, to provide a sustainable source of energy in various geographic regions and political jurisdictions. Northland believes this diversified strategy will mitigate the risk of adverse changes to local demographics or governmental policies.

Throughout 2012, Northland continued to execute on its strategy of expanding its earlier-stage development pipeline in its targeted market areas. Examples of new initiatives include a working arrangement with a First Nations group in Quebec and the acquisition of rights to develop two gas-fired peaking plants in Illinois. Additional progress has been made on wind power projects in both Quebec and British Columbia, and on additional hydroelectric power projects in British Columbia. Northland continues to seek opportunities for new natural gas-fired power projects and renewable energy projects in the U.S. Northland also continues to consider its Ontario developments, particularly the Oshawa and Queen's Quay cogeneration projects, the Marmora pumped storage project, and other projects to be excellent prospects in the medium to longer term, despite the difficult political climate that has emerged over the last several months. Northland's approach continues to be one of ensuring a balance between pursuing and progressing development opportunities that meet the Company's investment criteria, while prudently managing the Company's cost exposure to early-stage projects.

In 2013, management expects Northland to generate EBITDA of approximately \$255 million to \$265 million compared with \$178.6 million in 2012. This estimate reflects the following noteworthy changes:

- \$80 to \$85 million in additional EBITDA from North Battleford and the Ground-mounted Solar Phase 1 projects once they reach commercial operations;
- \$2 to \$5 million lower EBITDA from Northland's operating thermal facilities as higher EBITDA from Kingston due to higher PPA prices and no planned major maintenance outages in 2013 will be more than offset by reduced EBITDA at Iroquois Falls due to lower PPA prices and higher gas costs and a 16-day outage at Thorold;
- \$2 to \$5 million higher EBITDA from Northland's wind farms, as they are anticipated to operate closer to their long-term production forecasts and significant downtime in 2012 associated with Hydro-Québec system repairs, and end-of-warranty inspections are not expected to recur;
- A net reduction in EBITDA from management and administration and other sales and income of \$2 million, as other sales and income are anticipated to be lower and management expects slightly higher corporate management and administration costs; and
- 2012 EBITDA included a \$1.7 million write-off of deferred development costs.

Management expects that EBITDA will increase to a range of \$360 to \$400 million on an annualized basis starting in 2014 once the projects in construction and advanced development are completed and begin commercial operations.

Northland's 2013 dividend payments, on a total dividend basis, are expected to exceed free cash flow due largely to the level of spending on growth initiatives and payments of dividends on equity capital raised for construction projects for which corresponding cash flows will not be received until future years. For 2013, management expects the cash dividends to be 75–85% of free cash flow including the impact of reinvested dividends, and 105–115% of free cash flow on a total dividend basis (compared with 139% and 191%, respectively, in 2012). Management expects the dividend payout ratio to drop below 100% in 2014 on a total dividend basis. Dividend payments could continue to exceed free cash flow if significant additional equity investments are made as a result of future development successes.

The 2013 payout ratio reflects the higher forecasted EBITDA as described previously, along with the following noteworthy changes in free cash flows and dividend payments:

- \$40 to \$45 million in free cash flow from North Battleford and Ground-mounted Solar Phase 1 projects once they reach commercial operations;
- \$15 to \$20 million higher free cash flow from the current thermal facilities due to: (i) reduced debt service at Spy Hill related to its bond refinancing on January 21, 2013; and (ii) minimal debt service and reduced capital expenditures at Kingston due to its full loan repayment on January 23, 2013, and no planned major maintenance outages in 2013;
- \$3 million lower free cash flow due to a full year of Series 3 Preferred Share dividends, including applicable taxes;
- An increase in cash and share dividends as a result of recognizing Replacement Rights, Class B and C Shares and LTIPs once North Battleford and the Ground-mounted Solar Phase 1 projects reach commercial operations; and
- Other items, including higher interest costs that are expected to negatively affect free cash flow up to approximately \$2 million.

Northland's Board and management are committed to maintaining the current dividend of \$1.08 per share on an annual basis, payable monthly. Northland's management and Board have anticipated the impact of growth on the payout ratio and are confident that Northland has adequate access to funds to meet its dividend commitment, including operating cash flows, cash and cash equivalents on hand and, if necessary, use of its line of credit or external financing. Management expects the Company's improved DRIP (announced on November 9, 2011) to provide an additional source of liquidity.

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Section 9: Historical Consolidated Quarterly Results

| In millions of dollars except per-share amounts | December 31, | | | | |
|---|--------------|--------|--------|--------|--------|
| | Q1 | Q2 | Q3 | Q4 | 2012 |
| Sales | 100.6 | 85.6 | 82.9 | 93.2 | 362.3 |
| EBITDA | 54.8 | 42.7 | 37.6 | 43.5 | 178.6 |
| Net income (loss) | 49.7 | (34.9) | (22.2) | (2.5) | (9.9) |
| Free cash flow | 22.6 | 17.7 | 5.7 | 17.7 | 63.7 |
| Net income (loss) per share – basic | 0.40 | (0.31) | (0.21) | (0.05) | (0.18) |
| Net income (loss) per share – diluted | 0.37 | (0.31) | (0.21) | (0.05) | (0.18) |
| Free cash flow per share ⁽¹⁾ | 0.20 | 0.16 | 0.05 | 0.15 | 0.55 |
| Dividends declared per share | 0.27 | 0.27 | 0.27 | 0.27 | 1.08 |

| In millions of dollars except per-share amounts | December 31, | | | | |
|---|--------------|--------|--------|--------|--------|
| | Q1 | Q2 | Q3 | Q4 | 2011 |
| Sales | 96.3 | 80.2 | 80.9 | 98.8 | 356.2 |
| EBITDA | 43.9 | 31.5 | 30.0 | 45.3 | 150.7 |
| Net income (loss) | 55.3 | (23.6) | (71.5) | (23.3) | (63.1) |
| Free cash flow | 18.7 | 10.5 | 2.8 | 22.8 | 54.8 |
| Net income (loss) per share – basic | 0.46 | (0.22) | (0.62) | (0.21) | (0.61) |
| Net income (loss) per share – diluted | 0.42 | (0.22) | (0.62) | (0.21) | (0.61) |
| Free cash flow per share ⁽¹⁾ | 0.25 | 0.14 | 0.04 | 0.29 | 0.71 |
| Dividends declared per share | 0.27 | 0.27 | 0.27 | 0.27 | 1.08 |

(1) Beginning with Q1-2012, the per-share statistics are based on the weighted average number of common shares and Class A Shares. Prior to Q1-2012, the per-share statistics are based solely on the weighted average number of common shares.

Northland's financial results are affected by seasonal factors, which result in quarterly variations. At Kirkland Lake, which impacts Northland's performance incentive fee, and at Iroquois Falls, OEFC has contracted for more electricity and pays a higher price in winter than in summer, resulting in higher revenue in winter months. The financial results at Northland's wind farms follow a similar seasonal pattern, as it tends to be windier in winter months compared with summer months. Seasonality at the consolidated net income and EBITDA level is partially mitigated by the Kingston, Thorold and Spy Hill results, which are less seasonal due to their contract provisions.

The Ground-mounted Solar Phase 1 projects are expected to follow a seasonal pattern that is the opposite of Northland's wind farms, as it is expected that the solar projects will generate higher revenue and EBITDA in the summer months. The North Battleford project should be less affected by seasonality due to its contract provisions.

Northland's quarterly net income also varies due to any non-cash foreign exchange adjustments required to translate US-dollar and euro-denominated balances to the appropriate quarter-end Canadian-dollar equivalent and by fair value movements of Northland's Class B Shares and interest rate swap contracts.

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Section 10: Fourth-Quarter 2012 Results

Northland's fourth-quarter sales were \$93.2 million, a \$5.6 million decrease from the same quarter in 2011, while free cash flow of \$17.7 million was down \$5 million. Major variances compared with the fourth quarter of 2011 are discussed below.

Thermal Facilities

Electricity production during the three months ended December 31, 2012 was lower than the prior year due to fewer economic dispatch hours at Thorold (due to unseasonably warm weather and low market gas prices that reduced electricity prices and demand) and a scheduled major maintenance outage at Kingston in October 2012. Gross profit and EBITDA were lower than the prior year as lower production at both Kingston and Thorold combined with lower PPA prices at Iroquois Falls were only partially offset by lower natural gas costs. Plant operating costs increased due to equipment inspections and repairs at Iroquois Falls and Thorold.

Wind Facilities

Electricity production and EBITDA during the three months ended December 31, 2012 exceeded the prior year primarily due to a higher wind resource at Jardin and Mont Louis. Quarterly production was below the long-term forecasts due to: (i) calm winds at the Quebec wind farms; (ii) several outages at Mont Louis for Hydro-Québec to complete various system upgrades; and (iii) downtime at both Mont Louis and Jardin for equipment repairs and to complete end-of-warranty maintenance work, respectively. Operating expenses were down from the prior year largely due to lower insurance and GE warranty costs at Jardin and two gearbox repairs in 2011 at the German wind farms.

Management, Administration and Other

Northland's operations-related management and administration costs for the quarter were flat relative to 2011, while development-related management and administration costs for the quarter were up \$3.1 million largely due to the significantly increased expenses related to development activity on early-stage prospects, as well as higher 2012 compensation costs. Fourth quarter development activity in 2011 was more focused on advanced development projects, which are capitalized as deferred development costs into contracts and other intangible assets rather than expensed.

Northland's Kirkland Lake and Cochrane quarterly management and performance incentive fee income increased \$5.3 million. Northland became eligible to receive performance incentive fees from Kirkland Lake during the fourth quarter of 2011. The performance incentive fee entitles Northland to share in Kirkland Lake's cash flows after all operating and financing expenditures.

Investment income was up due to higher dividends from Panda-Brandywine.

Northland recorded the following non-cash adjustments during the quarter: (i) a \$1.7 million expense of previously deferred development costs; (ii) \$14.5 million in gains associated with changes in fair value, including \$13.6 million on the change in fair value of interest rate swaps and a \$0.9 million gain related to the Class B Shares; and (iii) a \$0.7 million exchange gain on Northland's U.S. and euro foreign exchange contracts not designated as a part of a hedging relationship. These non-cash amounts were the result of changes in the exchange value of the Canadian dollar versus the U.S. dollar and euro during the fourth quarter and changes in the interest rate forward yield curve. Amortization of contracts was down from the same period last year as a result of non-cash impairments recognized in 2011 and 2012.

The \$23.1 million of non-cash impairments were the result of forecasted cash flows being realized and continued updates to long-term forecasts and other market estimates.

Finance costs decreased by \$0.5 million largely due to 2014 Debentures being converted into common shares during the year.

The above factors, combined with a \$4.6 million provision for current and deferred taxes, resulted in a net loss for the fourth quarter of 2012 being \$20.7 million lower than the fourth quarter of 2011.

Cash and cash equivalents decreased by \$23.3 million during the quarter as \$45.6 million of cash generated from operations and \$45.1 million of cash provided by financing activities were more than offset by \$114.1 million of cash used for investing activities. Cash used in investing activities included \$5.5 million of deferred development costs, \$132.1 million of capital expenditures, the majority of which related to construction of the North Battleford and Ground-mounted Solar Phase 1 projects, which were partially funded by \$18.5 million of restricted cash utilization. A working capital increase was largely related to the timing of input tax credit receivables and vendor payables. During the fourth quarter, \$103.3 million of draws under the loan facilities and \$1.1 million of bank indebtedness were partially offset by principal repayments and dividend payments.

Fourth-quarter free cash flow at \$17.7 million was \$5 million lower than the same period last year. The factors affecting the quarter were: lower cash flows from the facilities, higher management and administrative costs, increased capital expenditures and debt repayments partially offset by the Kirkland Lake performance incentive fee, lower finance costs and restricted cash funding.

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Section 11: Commitments/Contractual Obligations

The following table includes all fixed contractual obligations of Northland and its subsidiaries. The amounts are based on the assumptions of a 2% annual consumer price index increase, a Canadian-dollar/US dollar exchange rate of \$1.01 and Canadian-dollar/euro exchange rate of \$1.30. The table includes natural gas transportation demand charges for which Northland is liable whether or not natural gas is shipped; forecasted or fixed payments to GE by Northland's thermal facilities; base operations management fees to EDF EN Deutschland GmbH (formerly enXco GmbH), which manages the German wind farms, and Cenovus Energy Inc., which is responsible for the management of all aspects of the gas supply under a fuel management agreement with Kingston; and fixed contractual obligations related to the warranty, maintenance and services agreements for the wind farms. The cash obligations related to the leases for land and buildings and dismantlement are also included.

| In thousands of dollars | 2013 | 2014 | 2015 | 2016 | 2017 | >2017 |
|--|---------|--------|--------|--------|--------|---------|
| Natural gas transportation, fixed portion | 45,528 | 45,069 | 45,935 | 46,819 | 22,560 | 36,963 |
| Maintenance agreements | 10,543 | 9,739 | 7,781 | 7,767 | 7,695 | 62,235 |
| Leases | 2,703 | 2,735 | 2,785 | 2,837 | 2,881 | 33,567 |
| Management fees | 1,083 | 1,104 | 1,092 | 936 | 80 | — |
| Construction, excluding debt, interest and fees | 196,952 | — | — | — | — | — |
| Dismantlement funding | — | — | — | — | — | 6,924 |
| | 256,809 | 58,647 | 57,593 | 58,359 | 33,216 | 139,689 |

Except in circumstances where cancellation of the agreements would result in material penalties, the above table does not include variable contractual obligations of Northland (which typically relate directly to production or meeting performance criteria). Such obligations include natural gas purchase costs, variable natural gas transportation costs and variable payments to maintenance providers. Except for the Jardin, Mont Louis and Spy Hill PPAs, the electricity supply contracts contain no penalties for failure to supply. With respect to the supply of natural gas, generally there are no penalties for failure to purchase natural gas under these contracts; however, failure to purchase specified annual quantities could reduce the future delivery obligations of the suppliers.

Readers should refer to Note 4 and Note 22 to the consolidated financial statements for additional information related to Northland's financial liabilities and commitments and obligations.

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Section 12: Critical Accounting Estimates

Preparing financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and expenses. Northland's operating facilities and investments operate under long-term contracts with credit-worthy counterparties. As a result, management believes it is not exposed to critical accounting estimates to the same degree as merchant businesses of comparable size. For Northland, the amounts recorded for deferred development costs, impairment of non-financial assets, decommissioning liabilities, income taxes, fair value of financial assets and financial liabilities and depreciation of property, plant and equipment, contracts, LTIP and leases are based on estimates. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the consolidated financial statements of future periods.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is discussed below.

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Impairment of Non-Financial Assets

Northland's impairment tests for goodwill, other intangible assets and property, plant and equipment are based on value-in-use calculations that use a discounted cash flow model. The cash flows are derived from the forecasts over the remaining useful lives of the assets of the cash-generating units (**CGUs**), less an allocation of forecasted corporate costs, and do not include restructuring activities that Northland is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows and the amounts allocated for corporate overhead.

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Decommissioning Liabilities

Northland's decommissioning liabilities relate solely to its wind facilities, which are located on leased land. Northland expects to use its installed assets at the thermal facilities for an indefinite period due to continuing equipment overhauls and ownership of the lands; as a result, management considers that a reasonable estimate of the fair value of any related decommissioning liabilities cannot be made at this time.

Northland has estimated the fair value of its total decommissioning liabilities for all of its wind farms to be \$12.4 million, based on an estimated total future liability. An average discount rate of 2.5–3.9% and an inflation rate of 2% were used to calculate the fair value of the decommissioning liabilities. Revisions to Northland's decommissioning liabilities will be made if new information is received.

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Income Taxes

Preparation of the consolidated financial statements requires an estimate of income taxes in each of the jurisdictions in which Northland operates. The process involves an estimate of Northland's current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes. These differences result in deferred tax assets and liabilities that are included in Northland's consolidated balance sheets.

An assessment is also made to determine the likelihood that Northland's future tax assets will be recovered from future taxable income.

Judgment is required to continually assess changing tax interpretations, regulations and legislation, to ensure liabilities are complete and to ensure assets, net of valuation allowances, are realizable. The impact of different interpretations and applications could be material.

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Fair Value of Financial Assets and Financial Liabilities

Where the fair value of financial assets and financial liabilities that are recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, counterparty risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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Property, Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets are depreciated over their useful lives, taking into account residual values, where appropriate. Assessments of useful lives and residual values are performed annually after considering factors such as technological innovation, maintenance programs, relevant market information and management considerations. In assessing residual values, Northland considers the remaining life of the asset, its projected disposal value and future market conditions.

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Long-Term Incentive Plan

Northland's LTIP provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries. During 2011, the terms of the Plan providing for the granting of Shares under the LTIP were established. The costs of LTIP awards that are for employees whose activities are directly attributable to the development and construction of certain Northland facilities are included in property, plant and equipment, and the costs of LTIP awards relating to the performance of the facility are expensed during the year. The LTIP cost for a period is based on expected development cost profits for a project and recognized over the expected vesting period. The calculation of development profit is sensitive to the estimation of future cash flows for each particular project and the discount rate used to discount those expected cash flows.

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Leases

Where Northland determines that a contract's provisions contain or are a lease and result in the counterparty assuming the principal risks and rewards of ownership of the asset, the arrangement is a finance lease. Assets subject to finance leases are not reflected as property, plant and equipment, and the net investment in the lease, represented by the present value of the amounts due from the lessee, is recorded in the consolidated balance sheets as a financial asset, classified as a lease receivable. The payments considered to be part of the leasing arrangement are apportioned between a reduction in the lease receivable and finance income. The amount recorded as lease receivable, finance lease income and gain on transition to lease accounting is sensitive to the estimation of future cash inflows and the discount rate used to discount those expected cash inflows.

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Section 13: Management's Responsibility for Financial Information

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis, so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of Northland's disclosure controls and procedures was conducted as of December 31, 2012, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Northland's disclosure controls and procedures, as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

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Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Northland's internal controls over financial reporting include policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and value of the assets and liabilities of Northland to permit preparation of the financial statements in accordance with IFRS and provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of Northland's assets that could have a material effect on the financial statements.

As a result of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of the design and operation of Northland's internal controls over financial reporting was conducted as of December 31, 2012, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Northland's internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

No changes were made in Northland's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, Northland's internal controls over financial reporting in the year ended December 31, 2012.

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Review and Approval of Financial Information

Northland's Audit Committee reviewed this MD&A and the attached audited consolidated financial statements, and its Board of Directors approved these documents prior to their release.

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Section 14: Risks and Uncertainties

Readers should refer to Northland's 2012 AIF, dated February 21, 2013, which can be found at www.sedar.com under Northland's profile and on www.northlandpower.ca, for a summary of the more important and relevant factors that could significantly affect the operations and financial results of Northland and its subsidiaries.

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Section 15: Forward-Looking Statements

This MD&A contains certain forward-looking statements that are provided for the purpose of presenting information about management's current expectations and plans. Readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects," "anticipates," "plans," "believes," "estimates," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions of future or conditional verbs such as "may," "will," "should," "would" and "could." These statements may include, without limitation, statements regarding future EBITDA, cash flows and dividend payments; the construction, completion, attainment of commercial operations, cost and output of development projects; plans for raising capital; and the operations, business, financial condition, priorities, ongoing objectives, strategies and outlook of Northland and its subsidiaries. These statements are based upon certain material factors or assumptions that were applied in developing the forward-looking statements, including the design specifications of development projects, the provisions of contracts to which Northland or a subsidiary is a party, management's current plans and its perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Although these forward-looking statements are based upon management's current reasonable expectations and assumptions, they are subject to numerous risks and uncertainties. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, construction risks, counterparty risks, operational risks, the variability of revenues from generating facilities powered by intermittent renewable resources and the other factors described in Northland's 2012 AIF, dated February 21, 2013, which can be found at www.sedar.com under Northland's profile and on Northland's website at www.northlandpower.ca. Northland'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. The forward-looking statements contained in this MD&A are based on assumptions that were considered reasonable on February 21, 2013. Other than as specifically required by law, Northland undertakes no obligation to update any forward-looking statements to reflect events or circumstances after such date or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

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Management's Responsibility

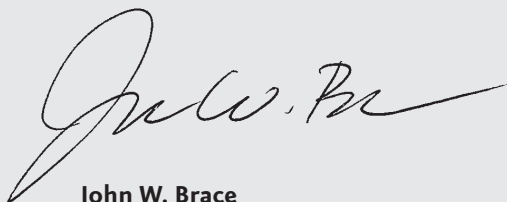
Management is responsible for the preparation of Northland's financial statements and annual report. Management has prepared the accompanying consolidated financial statements in accordance with International Financial Reporting Standards, and the financial information included in the annual report is consistent with the consolidated financial statements. Where appropriate, these consolidated financial statements reflect estimates based on the judgments of management. When alternative methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

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

The Board of Directors and Audit Committee (comprised of independent directors) are responsible for reviewing the consolidated financial statements of Northland and the accompanying management's discussion and analysis and ensuring that management fulfills its contractual responsibilities for financial reporting.

Ernst & Young LLP, the independent auditors, have examined the consolidated financial statements of Northland. The independent auditors' responsibility is to express a professional opinion on the fairness of the consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion on the consolidated financial statements. Their report as auditors is set out on page 63.

The Audit Committee of Northland meets periodically with management and the independent auditors to discuss internal controls, auditing matters and financial reporting issues and to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee also reviews the consolidated financial statements, management's discussion and analysis and the external auditors' report; examines the fees and expenses for audit services; and considers the engagement or reappointment of the external auditors. The Audit Committee reports its findings to the Board of Directors for consideration prior to the issuance of the Northland consolidated financial statements to the shareholders. Ernst & Young LLP have full access to the Audit Committee and meet with the committee both in the presence of management and separately.



John W. Brace
President and CEO
Northland Power Inc.



Paul J. Bradley
Chief Financial Officer
Northland Power Inc.

Independent Auditors' Report

To the Shareholders of Northland Power Inc.

We have audited the accompanying consolidated financial statements of Northland Power Inc., which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income (loss), comprehensive (loss), changes in equity and cash flows for the years ended December 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

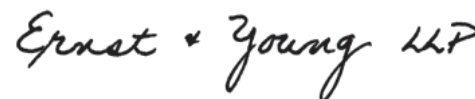
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Northland Power Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

Toronto, Canada
February 21, 2013

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

As at, in thousands
of Canadian dollars

| | December 31, 2012 | December 31, 2011 |
|---|----------------------|----------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | 32,348 | 49,505 |
| Restricted cash | 27,285 | 9,613 |
| Trade and other receivables | 125,841 | 120,819 |
| Inventories [Note 6] | 7,468 | 7,249 |
| Prepayments | 11,181 | 13,850 |
| Lease receivable [Note 7] | 2,989 | 2,704 |
| Total current assets | 207,112 | 203,740 |
| Lease receivable [Note 7] | 163,764 | 166,655 |
| Investment in Panda-Brandywine [Note 8] | 3,500 | 5,400 |
| Property, plant and equipment [Note 9] | 1,722,123 | 1,419,095 |
| Contracts and other intangible assets [Note 10] | 199,608 | 217,295 |
| Goodwill [Note 11] | 222,574 | 241,843 |
| Total assets | 2,518,681 | 2,254,028 |
| Liabilities and shareholders' equity | | |
| Current | | |
| Bank indebtedness [Note 12] | 1,071 | 8,257 |
| Trade and other payables | 92,888 | 101,378 |
| Interest-bearing loans and borrowings [Note 12] | 39,998 | 76,355 |
| Dividends payable | 10,430 | 7,022 |
| Total current liabilities | 144,387 | 193,012 |
| Interest-bearing loans and borrowings [Note 12] | 1,225,132 | 938,874 |
| Convertible debentures [Note 13] | 26,668 | 36,405 |
| Other liabilities | 2,056 | 2,636 |

continued...

As at, in thousands
of Canadian dollars

| | December 31, 2012 | December 31, 2011 |
|---|----------------------|----------------------|
| Liabilities and shareholders' equity <i>continued</i> | | |
| Provisions [Note 14] | 12,437 | 12,040 |
| Derivative financial instruments [Note 16] | 215,566 | 217,093 |
| Deferred tax liability [Note 15] | 44,890 | 42,001 |
| Liabilities excluding those attributed to shareholders | 1,671,136 | 1,442,061 |
| Convertible shares [Note 17.3] | 146,429 | 132,230 |
| Liabilities attributed to shareholders | 146,429 | 132,230 |
| Total liabilities | 1,817,565 | 1,574,291 |
| Shareholders' equity | | |
| Preferred shares [Note 17.1] | 262,195 | 145,638 |
| Common shares [Note 17.2] | 964,311 | 844,360 |
| Long-Term Incentive Plan reserve [Note 17.2] | 9,391 | 2,485 |
| Convertible shares [Note 17.3] | 499,033 | 499,033 |
| Replacement Rights [Note 17.3] | 11,098 | 88,169 |
| Accumulated other comprehensive income | 1,018 | 752 |
| Deficit | (1,045,930) | (900,700) |
| Total shareholders' equity | 701,116 | 679,737 |
| Total liabilities and shareholders' equity | 2,518,681 | 2,254,028 |

See accompanying notes.



James C. Temerty, C.M.
Director and Chairman
of the Board



Pierre R. Gloutney
Director and Chairman
of the Audit Committee

Consolidated Statements of Income (Loss)

Years ended December 31,
in thousands of Canadian dollars
except per-share and share
information

| | 2012 | 2011 |
|---|----------------|----------------|
| Sales | | |
| Electricity | 326,349 | 328,020 |
| Steam and natural gas | 15,673 | 22,551 |
| Management fees and other | 20,281 | 5,650 |
| Total sales | 362,303 | 356,221 |
| Cost of sales | 131,492 | 152,920 |
| Gross profit | 230,811 | 203,301 |
| Expenses | | |
| Plant operating costs | 40,496 | 33,526 |
| Management and administration costs – operations | 13,736 | 12,911 |
| Management and administration costs – development | 13,714 | 9,085 |
| Depreciation of property, plant and equipment [Note 9] | 62,558 | 56,986 |
| Impairment of property, plant and equipment | – | 164 |
| | 130,504 | 112,672 |
| Investment income | 355 | 223 |
| Finance lease income [Note 7] | 14,129 | 3,558 |
| Operating income | 114,791 | 94,410 |
| Finance costs [Note 18] | 63,966 | 55,041 |
| Amortization of contracts and other intangible assets [Note 10] | 19,422 | 20,077 |
| Write-off of deferred development costs [Note 10] | 1,661 | 1,697 |
| Impairment of contracts and other intangible assets [Note 19] | 1,684 | 25,466 |
| Impairment of goodwill [Note 19] | 19,269 | 7,689 |
| Foreign exchange (gain) | (55) | (3,625) |
| Finance (income) | (815) | (744) |

continued...

Consolidated Statements of Income (Loss) continued

Years ended December 31,
in thousands of Canadian dollars
except per-share and share
information

| <i>continued</i> | 2012 | 2011 |
|--|-----------------|------------------|
| Fair value (gain) loss on interest rate swaps | (1,955) | 129,000 |
| Fair value loss on convertible shares [Note 17.3] | 14,199 | 14,308 |
| Writedown of Panda-Brandywine equity investment [Note 8] | 2,100 | — |
| Lease accounting (gain) [Note 7] | (2,964) | (35,003) |
| Other (income) | — | (900) |
| (Loss) before income taxes | (1,721) | (118,596) |
| Provision for (recovery of) income taxes | | |
| Current [Note 15] | 4,990 | 2,955 |
| Deferred [Note 15] | 3,202 | (58,442) |
| | 8,192 | (55,487) |
| Net (loss) for the year | (9,913) | (63,109) |
| Weighted average number of shares outstanding – | | |
| basic (000s) [Note 21] | 120,538 | 117,037 |
| Weighted average number of shares outstanding – | | |
| diluted (000s) [Note 21] | 120,538 | 117,037 |
| (Loss) per share – basic | (\$0.18) | (\$0.61) |
| (Loss) per share – diluted | (\$0.18) | (\$0.61) |

See accompanying notes.

Consolidated Statements of Comprehensive Loss

As at December 31, in thousands
of Canadian dollars

| | 2012 | 2011 |
|---|----------------|----------|
| Net (loss) for the year | (9,913) | (63,109) |
| Exchange differences on translation of foreign operations | 66 | (132) |
| Balances transfer to net income | 600 | — |
| Change in fair value of available-for-sale financial assets | (400) | (100) |
| Total other comprehensive income (loss) | 266 | (232) |
| Total comprehensive (loss) | (9,647) | (63,341) |

See accompanying notes.

Consolidated Statements of Changes in Equity

| Year ended December 31, 2012 | | | | | | | | | |
|--|----------------|---------------|----------------|----------------|--------------------------------|--------------------|-----------------------------------|---|---------------------------------------|
| | Common | Replacement | Convertible | Preferred | Long-Term Incentive Plan | Deficit | Available- for-sale reserve | Foreign currency translation reserve | Total share- holders' equity |
| In thousands of Canadian dollars | shares | Rights | shares | shares | reserve | | | | |
| December 31, 2011 | 844,360 | 88,169 | 499,033 | 145,638 | 2,485 | (900,700) | (200) | 952 | 679,737 |
| Net (loss) | — | — | — | — | — | (9,913) | — | — | (9,913) |
| Conversion of debentures | 10,492 | — | — | — | — | — | — | — | 10,492 |
| Exercise of | | | | | | | | | |
| Replacement Rights | 76,991 | (76,991) | — | — | — | — | — | — | — |
| Cancelled Replacement Rights | — | (80) | — | — | — | — | — | — | (80) |
| Change in translation of net investment in foreign operation | — | — | — | — | — | — | — | 66 | 66 |
| Change in fair value of available-for-sale securities | — | — | — | — | — | — | 200 | — | 200 |
| LTIP shares | 974 | — | — | — | 6,906 | — | — | — | 7,880 |
| Issuance of preferred shares | — | — | — | 120,000 | — | — | — | — | 120,000 |
| Cost of preferred share issuance | — | — | — | (3,963) | — | — | — | — | (3,963) |
| Deferred income taxes | (198) | — | — | 520 | — | — | — | — | 322 |
| Common and Class A share dividends | 31,692 | — | — | — | — | (123,834) | — | — | (92,142) |
| Preferred share dividends | — | — | — | — | — | (11,483) | — | — | (11,483) |
| December 31, 2012 | 964,311 | 11,098 | 499,033 | 262,195 | 9,391 | (1,045,930) | — | 1,018 | 701,116 |

continued...

| Year ended December 31, 2011 | Common shares | Replacement Rights | Convertible shares | Preferred shares | Long-Term Incentive Plan reserve | Deficit | Available- for-sale reserve | Foreign currency translation reserve | Total shareholders' equity |
|---|------------------|-----------------------|-----------------------|---------------------|---|-----------|-----------------------------------|---|----------------------------------|
| In thousands of Canadian dollars | | | | | | | | | |
| January 1, 2011 | 806,775 | 88,169 | 499,033 | 145,946 | — | (746,488) | (100) | 1,084 | 794,419 |
| Net (loss) | — | — | — | — | — | (63,109) | — | — | (63,109) |
| Conversion of debentures | 35,571 | — | — | — | — | — | — | — | 35,571 |
| Deferred income taxes | (218) | — | — | (308) | — | — | — | — | (526) |
| Change in translation of net investment in foreign operation | — | — | — | — | — | — | — | (132) | (132) |
| Change in fair value of available-for-sale securities | — | — | — | — | — | — | (100) | — | (100) |
| LTIP shares | — | — | — | — | 2,485 | — | — | — | 2,485 |
| Common Share dividends | 2,232 | — | — | — | — | (83,228) | — | — | (80,996) |
| Preferred share dividends | — | — | — | — | — | (7,875) | — | — | (7,875) |
| December 31, 2011 | 844,360 | 88,169 | 499,033 | 145,638 | 2,485 | (900,700) | (200) | 952 | 679,737 |

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended December 31,
in thousands of Canadian dollars
except per-share amounts

| | 2012 | 2011 |
|---|----------------|----------------|
| Operating activities | | |
| Net (loss) for the year | (9,913) | (63,109) |
| Items not involving cash or operating activities: | | |
| Depreciation of property, plant and equipment [Note 9] | 62,558 | 56,986 |
| Amortization of contracts and other intangible assets [Note 10] | 19,422 | 20,077 |
| Write-off and impairment of property, plant and equipment, contracts and other intangible assets and goodwill [Note 19] | 22,614 | 35,016 |
| Writedown of Panda-Brandywine equity investment [Note 8] | 2,100 | — |
| Finance costs, net | 64,118 | 47,420 |
| Fair value (gain) loss on interest rate swaps | (1,955) | 129,000 |
| Fair value loss on convertible shares [Note 17.3] | 14,199 | 14,308 |
| Finance lease [Note 7] | 2,606 | (59) |
| Lease accounting (gain) [Note 7] | (2,964) | (35,003) |
| Foreign exchange (gain) loss | 271 | (3,625) |
| Other | (1,489) | 9 |
| Deferred income taxes (recovery) [Note 15] | 3,202 | (58,442) |
| | 174,769 | 142,578 |
| Net change in non-cash working capital balances related to operating activities | (13,092) | (15,105) |
| Cash provided by operating activities | 161,677 | 127,473 |

continued...

Years ended December 31,
in thousands of Canadian dollars
except per-share amounts

| | 2012 | 2011 |
|--|------------------|------------------|
| Investing activities | | |
| Purchase of property, plant and equipment [Note 9] | (303,738) | (362,259) |
| Restricted cash utilization (funding) | (17,672) | 62,538 |
| Increase in intangible assets [Note 10] | (60,705) | (13,376) |
| Interest received | 815 | 744 |
| Net change in working capital related to investing activities | 7,200 | (23,647) |
| Cash used in investing activities | (374,100) | (336,000) |
| Financing activities | | |
| Proceeds from borrowings | 327,617 | 300,400 |
| Repayment of borrowings | (80,360) | (28,637) |
| Increase (decrease) in bank indebtedness | (7,186) | 8,257 |
| Preferred share issuance, net [Note 17.1] | 116,037 | — |
| Maturity of convertible debentures [Note 13] | — | (1,221) |
| Interest paid | (60,620) | (43,731) |
| Preferred share dividends [Note 17.1] | (11,484) | (7,875) |
| Common share dividends [Note 20] | (88,734) | (80,727) |
| Cash provided by financing activities | 195,270 | 146,466 |
| Effect of exchange rate differences on cash and cash equivalents | (4) | 20 |
| Net change in cash and cash equivalents during the year | (17,157) | (62,041) |
| Cash and cash equivalents, beginning of year | 49,505 | 111,546 |
| Cash and cash equivalents, end of year | 32,348 | 49,505 |
| Per share | | |
| Dividends declared to shareholders | \$1.08 | \$1.08 |

See accompanying notes.

Notes to the Annual Consolidated Financial Statements

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December 31, 2012

1. Description of Business

Northland Power Inc. (**“Northland” or the “Company”**) is incorporated under the laws of Ontario, Canada and has ownership or net economic interests, through its subsidiaries, in operating power-producing facilities and a pipeline of construction and development projects. Northland’s operating assets comprise facilities that produce electricity from natural gas and renewable sources, primarily wind, for sale under long-term power purchase agreements (**PPAs**) to assure revenue stability. Northland’s operating assets and investments are located in Canada, the United States and Germany.

The 2012 audited consolidated financial statements include the results of Northland and its subsidiaries, of which the most significant are listed in the following table:

| Entity name | Country of incorporation | Ownership December 31, 2012 | Ownership December 31, 2011 |
|--|--------------------------|--------------------------------|--------------------------------|
| Iroquois Falls Power Corp. (“Iroquois Falls”) | Canada | 100% | 100% |
| Kingston CoGen Limited Partnership (“Kingston”) | Canada | 100% | 100% |
| Thorold CoGen L.P. (“Thorold”) | Canada | 100% | 100% |
| Spy Hill Power L.P. (“Spy Hill”) | Canada | 100% | 100% |
| Saint-Ulric Saint-Léandre Wind L.P. (“Jardin”) | Canada | 100% | 100% |
| Mont-Louis Wind L.P. (“Mont Louis”) | Canada | 100% | 100% |
| DK Windpark Kavelstorf GmbH & Co. KG and DK Burgerwindpark Eckolstädt GmbH & Co. KG (the “German wind farms”) | Germany | 100% | 100% |
| North Battleford Power L.P. (“North Battleford”) | Canada | 100% | 100% |
| Ground-mounted Solar Partnerships (“Ground-mounted Solar Phase 1”) | Canada | 100% | 100% |

Northland’s financial results also include income earned from a 19% equity interest in Panda Energy Corporation (**“Panda-Brandywine”**) and fees received for the management of two natural gas- and biomass-fired generation facilities in Kirkland Lake (**“Kirkland Lake”**) and Cochrane (**“Cochrane”**), Ontario that Northland manages on behalf of third-party owners, to which it also leases the land and buildings. Additional operating facilities included are Northland Power Chips Limited Partnership (**“Chips”**) and a rooftop solar partnership in which Northland has a 75% interest.

2. General Information

Northland is a corporation domiciled in Canada with common shares ("**Shares**"), cumulative rate reset preferred shares, series 1 ("**Series 1 Preferred Shares**"), cumulative rate reset preferred shares, series 3 ("**Series 3 Preferred Shares**") and convertible unsecured subordinate debentures ("**2014 Debentures**") that are publicly traded. Northland is the parent company for the operating subsidiaries, which carry on the Company's business. Northland's registered office is located in Toronto, Ontario.

Northland's conversion from an income trust to a corporation became effective on January 1, 2011. Northland's business is now carried on by Northland Power Inc., a Canadian corporation organized under the laws of Ontario, Canada. Northland Power Income Fund ("**the Fund**"), NPIF Commercial Trust ("**NPIF CT**"), NPIF Holdings LP ("**Holdings LP**"), Northland Preferred Equity Inc. ("**Prefco**"), Northland Power Income Fund Management Inc. (the former manager of the Fund) and the original Northland Power Inc. (**NPI**) were effectively wound up or amalgamated into Northland Power Inc., which holds the interests in Northland's significant subsidiaries as described above. Throughout these financial statements "Northland" refers to Northland Power Income Fund for events prior to January 1, 2011, and Northland Power Inc. for subsequent events.

3. Summary of Significant Accounting Policies

3.1 Basis of Preparation and Statement of Compliance

These consolidated financial statements of Northland and its subsidiaries were prepared in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**). The date of transition to IFRS was January 1, 2010.

These consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand except when otherwise indicated.

3.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of Northland and its subsidiaries at December 31, 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Northland obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

3.3 Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given and equity instruments issued less liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and

liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost, being the excess of the cost of the business combination over Northland's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the costs of the acquisition are less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Northland's cash-generating units (**CGUs**) that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU of which a portion is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the portion of CGU disposed of and the portion of the CGU retained.

3.4 Foreign Currency Translation

Northland's consolidated financial statements are presented in Canadian dollars, which is Northland's functional currency. Each entity in Northland determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. All of the Company's subsidiaries report in Canadian dollars with the exception of the German wind farms, which report in euros. Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange prevailing at the balance sheet date. All differences are taken to the income statement. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates in effect at the date when the fair value was determined.

The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity (accumulated other comprehensive income). On disposal of a foreign operation, the deferred cumulative amount recognized in equity relating to the particular foreign operation is recognized in the income statement.

3.5 Revenue Recognition

Revenue is recognized to the extent that it is probable the economic benefits will flow to Northland and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes or duty.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of electricity, steam, natural gas and emissions allowances

Revenue from electricity, steam and natural gas sales is recognized upon delivery to the customer. A portion of the electricity sold under certain long-term PPAs is subject to retroactive adjustments for certain market-related escalation indices. Management records the impact of these estimated retroactive adjustments on a monthly basis and records the impact, if any, of the difference between previously estimated and actual adjustments in the month the retroactive payment is determined by the customer or counterparty. Revenue from emission allowances is recognized upon the passage of title to the purchaser.

Rendering of services

Northland recognizes management fees and operations-related incentive fees as earned based on the terms of its respective facility agreements and as work is performed.

Interest and investment income

Interest and investment income are recognized as they are earned.

3.6 Taxes

Current income tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used in the computations are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax

Deferred income tax is provided using the liability method at the reporting date on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting income nor taxable income or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable income will be available against which the deductible temporary differences, carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting income nor taxable income or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Sales taxes

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from or payable to the taxation authority is included as part of receivables or payables in the balance sheet.

3.7 Financial Instruments

Northland's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), counterparty risk and liquidity risk. Northland's overall risk management activities address the unpredictability of financial markets and seek to minimize potential adverse effects on Northland's financial performance. Northland's lenders may impose obligations on Northland to minimize exposure to financial risks, particularly under non-recourse project financing arrangements. Northland uses derivative financial instruments to mitigate certain risk exposures. Northland does not purchase any derivative financial instruments for speculative purposes.

Risk management is the responsibility of the corporate finance function, which identifies, evaluates and, where appropriate, mitigates financial risks. Material risks are monitored and are regularly discussed with the Audit Committee of the Board of Directors.

The fair values of derivative financial instruments reflect the estimated amount that Northland would have been required to pay if forced to settle all unfavourable outstanding contracts or the amount that would be received if forced to settle all favourable contracts at year end. The fair value represents a point-in-time estimate that may not be relevant in predicting Northland's future earnings or cash flows.

Northland determines the fair value of its financial instruments based on the following hierarchy:

- LEVEL 1 – Where financial instruments are traded in active financial markets, fair value is determined by reference to the appropriate quoted market price at the reporting date. Active markets are those in which transactions occur with significant frequency and volume to provide pricing information on an ongoing basis.
- LEVEL 2 – If there is no active market, fair value is established using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable market data where possible, including recent arm's-length market transactions, and comparisons to the current fair value of similar instruments; but where this is not feasible, inputs such as liquidity risk, counterparty risk and volatility are used.
- LEVEL 3 – Valuations at this level are those with inputs that are not based on observable market data.

Northland's cash and cash equivalents, restricted cash and convertible unsecured subordinated debentures are classified as Level 1, with all other financial assets and liabilities classified as Level 2 except for Northland's investment in Panda-Brandywine, which is classified as Level 3. Assessment of the significance of a particular input to the fair value measurement requires judgment; any changes in assumptions may affect the reported fair value of financial instruments.

Financial assets

Financial assets are classified into one of the following four categories: loans and receivables; financial assets at fair value through profit or loss; held-to-maturity investments; and available-for-sale financial assets. Northland determines the classification of its financial assets at initial recognition. The category determines subsequent measurements and whether any resulting income and expense is recognized in income or loss or in comprehensive income for the period. All financial assets are initially recorded at fair value.

All financial assets except those at fair value through profit or loss are subject to review for impairment no less often than at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Northland's financial assets include cash and cash equivalents, restricted cash, trade and other receivables and investment in Panda-Brandywine.

Loans and receivables

Financial assets are classified as loans and receivables if they are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are carried at amortized cost using the effective interest rate method with gains and losses recognized when the asset is derecognized. Northland's cash and cash equivalents, restricted cash, trade, lease and other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by Northland that do not meet the hedge accounting criteria as defined by IAS 39, "Financial Instruments Recognition and Measurement" (**IAS 39**). Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated for accounting purposes as effective hedging instruments. Financial assets at fair value through profit and loss are carried on the balance sheet at fair value with gains or losses recognized in the income statement.

Northland has not designated any financial assets at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the income statement. Reassessment occurs only if there is a

change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. Northland has determined that it does not have any embedded derivatives that are required to be accounted for separately.

Held-to-maturity investments

Financial assets are classified as held to maturity if management has the positive intention and ability to hold to maturity and they have fixed maturity dates with fixed or determinable payments. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, with gains and losses recognized when the asset is derecognized. Northland did not have any held-for-maturity investments at December 31, 2012, or December 31, 2011.

Available for sale

Financial assets are classified as available for sale if they are designated as such or are not classified in any of the three preceding categories. Available-for-sale financial assets are carried at fair value, with unrealized gains and losses recorded in equity until the asset is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in the income statement.

Northland's investment in Panda-Brandywine has been designated as an available-for-sale financial asset that is measured at fair value.

For available-for-sale financial investments, Northland assesses at each reporting date whether there is objective evidence that an investment or group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the consolidated income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in equity.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Northland determines the classification of its financial liabilities at initial recognition.

Northland's financial liabilities include trade and other payables, bank indebtedness, interest-bearing loans and borrowings, dividends payable, convertible unsecured subordinated debentures, derivative financial instruments and Class B Shares. Financial liabilities are initially measured at fair value, with subsequent measurement determined based on their classification as described below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes Class B Shares and derivative financial instruments entered into by Northland that do not meet hedge accounting criteria as defined by IAS 39. Gains or losses on liabilities held for trading are recognized in the income statement.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized, as well as through the amortization process. Northland's financial liabilities classified as loans and borrowings include trade and other payables, bank indebtedness, interest-bearing loans and borrowings, dividends payable and convertible debentures.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions) without any deduction for transaction costs. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's-length market transactions, reference to the current fair value of another instrument that is essentially the same, discounted cash flow analysis or other valuation models.

Amortized cost of financial instruments

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

The carrying values of Northland's financial instruments are as follows:

| As at December 31, in thousands of dollars | 2012 | 2011 |
|---|-----------|-----------|
| Financial assets held for trading ⁽¹⁾ | 59,633 | 59,118 |
| Loans and receivables ⁽²⁾ | 292,594 | 290,178 |
| Available for sale ⁽³⁾ | 3,500 | 5,400 |
| Financial liabilities at fair value through profit or loss ⁽⁴⁾ | 361,995 | 349,323 |
| Other financial liabilities ⁽⁵⁾ | 1,396,187 | 1,168,291 |

(1) Cash and cash equivalents and restricted cash.

(2) Trade and other receivables and lease receivable.

(3) Investment in Panda-Brandywine.

(4) Derivative financial instruments and Class B Shares.

(5) Bank indebtedness, accounts payable and accrued liabilities, dividends payable, interest-bearing loans and borrowings and convertible unsecured subordinated debentures.

The estimated fair value of other financial liabilities as at December 31, 2012 is \$1.4 billion (December 31, 2011 – \$1.3 billion).

Additional details of Northland's gains, losses, income and expenses with respect to its financial instruments are as follows:

| For the year ended December 31, in thousands of dollars | 2012 | 2011 |
|--|----------|-----------|
| Income on financial assets not held for trading | 14,129 | 3,559 |
| (Loss) on other financial liabilities | (62,809) | (53,700) |
| (Loss) on financial liabilities at fair value through profit or loss | 12,244 | (143,308) |

3.8 Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such costs include the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Likewise, when a major maintenance other than as described below is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. See Note 3.18, "Provisions," for further information about the measurement of the decommissioning liabilities.

Depreciation is provided on a straight-line basis at rates designed to amortize the cost of the assets over their estimated useful lives as follows:

| | |
|--|--|
| Buildings and foundations | 30 to 40 years |
| Plant and equipment | 10 to 30 years |
| Vehicles and meteorological towers | 5 years |
| Office equipment, furniture and fixtures | 5 years |
| Computers and computer software | 2 years |
| Leasehold improvements | Straight-line over the term of the lease |

Assets included in construction in progress (**CIP**) are not amortized until the assets have entered into commercial operations.

The costs of all maintenance provided under long-term, fixed-price contracts are charged to the income statement based on the terms of the contract. All major overhaul expenditures that are not incurred under long-term maintenance contracts are capitalized and amortized over the average expected period between major overhauls.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each balance sheet date and adjusted prospectively if appropriate.

3.9 Leases or Arrangements Containing a Lease

Northland enters into power contracts to provide services at predetermined prices. Northland assesses each power contract to determine whether it is or contains a lease that conveys to the counterparty the right to the use of Northland's property, plant and equipment in return for payment. If the power contract meets the definition of a lease and the terms of the contract do not transfer all of the benefits and risks of ownership of property, plant and equipment, it is classified as an operating lease.

Finance lease amounts due are recorded as finance lease receivables and are initially recognized at amounts equal to the present value of the minimum lease payments receivable. Finance lease income is recognized in a manner that produces a constant rate of return on Northland's net investment in the lease and is included in operating income.

At the date of commercial operations Northland separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

3.10 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare it for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.11 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, other than deferred development costs, are not capitalized, and the expenditure is reflected in the income statement in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates and adjusted prospectively. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Deferred development costs

Development expenditures on an individual project are capitalized when Northland can demonstrate:

- the technical feasibility of completing the project so that it will be available for use or sale;
- the intention to complete and ability to use or sell the project;
- the project will generate future economic benefits;
- the availability of resources to complete the project; and
- the ability to measure reliably the expenditures during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied, requiring the asset to be carried at cost less any impairment losses. During the period of development, the asset is tested for impairment annually or earlier if any indicators exist.

Deferred development costs include pre-construction costs directly related to new projects. Deferral begins once it is determined by management that a given project has a high likelihood of being pursued through to completion. Costs are deferred up to the closing of project financing and the start of construction, at which time they are reclassified to the cost of property, plant and equipment or recorded as intangible assets, as appropriate. All indirect research and development costs not eligible for capitalization have been expensed and are recognized in “management and administration costs – development.”

Contracts

Contracts relate to the fair value of the PPAs, natural gas purchase agreements, steam sales agreements of the operating entities and management agreements when they were acquired by Northland and are recorded net of accumulated amortization. Contract amortization is provided on a straight-line basis over the terms of the agreements.

3.12 Inventories

Inventories comprise natural gas, spare parts and other inventory. Natural gas is carried at the lower of cost, as determined on a weighted average basis, or net realizable value. Spare parts and other inventory are carried at the lower of cost as determined or net realizable value.

3.13 Impairment of Non-Financial Assets

Northland assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists or when annual impairment testing for an asset is required, Northland estimates the asset's recoverable amount. An asset's estimated recoverable amount is the higher of an asset's or CGU's estimated fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its estimated recoverable amount, the asset is considered impaired and is written down to its estimated recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, Northland estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its estimated recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

Goodwill

Goodwill is tested for impairment annually and also when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount for each CGU to which the goodwill relates. Where the estimated recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

3.14 Cash and Cash Equivalents

Cash equivalents comprise only highly liquid investments with remaining maturities of less than 90 days at the date of acquisition.

3.15 Convertible Shares

See Note 17.3, “Convertible Shares and Replacement Rights,” for additional details on all conversions and exchanges of convertible shares during 2012.

Class A Shares

As part of the consideration for the 2009 merger between the privately held Northland Power Inc. and Northland Power Income Fund (“**Merger**”), Class A Units were issued from Holdings LP. These Class A Units became Class A Shares upon corporatization on January 1, 2011.

The number of Class A Shares was subject to reduction if Northland’s rate of cash dividends failed to achieve a threshold by January 16, 2012. All Class A Shares that were subject to reduction have been recognized for accounting purposes.

The value of the Class A Shares not subject to reduction has also been recognized for accounting purposes in the consolidated financial statements of Northland. The Class A Shares are recorded in equity and are included in the calculation of basic earnings per share.

The Class A Shares were entitled to dividends and became convertible into Shares on a one-for-one basis on January 16, 2012 (**Conversion Date**).

Class C Shares

As part of the merger with NPI, Holdings LP issued Class C Units, which became Class C Shares (**“Class C Shares”**) upon corporatization on January 1, 2011. The Class C Shares are eligible to be converted to Class A Shares based upon Northland’s “development profits” from qualifying development projects owned by NPI at the date of the merger. The Class C Shares carry one vote per Class C Share but have no rights to dividends and are not transferable. Class C Shares convert to Class A Shares proportionally as Northland achieves development profits of up to \$100 million on certain qualifying development projects.

The Class C Shares are recorded in equity and are included in the calculation of basic earnings per share.

Class B Shares

As part of the merger with NPI, Holdings LP issued Class B Units, which became Class B Shares (**“Class B Shares”**) upon corporatization on January 1, 2011. The Class B Shares are eligible to be converted to Class A Shares based upon Northland’s future development profits from qualifying development projects owned by NPI at the date of the merger. The Class B Shares carry no voting rights and no rights to dividends and are not transferable. The Class B Shares are not convertible into Class A Shares until after all Class C Shares have been converted into Class A Shares. The Class B Shares are convertible based on a portion of development profits above \$100 million, and the number of Class B Shares to be converted is based on Northland’s Share price when specific milestones relating to development profits thresholds (specifically, the date when associated PPAs were signed) are achieved.

Given there is uncertainty in the number of shares to be converted, the timing of conversion and the conversion price, the Class B Shares are classified as financial liabilities for accounting purposes in accordance with IAS 32, “Financial Instruments: Presentation.”

The Class B Shares will continue to be remeasured to fair value at each reporting date until the shares are issued. The fair value adjustments are recorded in the “Fair value loss on convertible shares” line in the consolidated statements of income (loss).

3.16 Replacement Rights

Coincident with the merger with NPI, Northland issued Replacement Rights in settlement of NPI’s obligations under a long-term incentive plan. Each Replacement Right may be exercised to acquire one Common Share for no additional consideration. Replacement Rights carry no voting rights or rights to receive dividends and are not transferable.

The Replacement Rights are recorded in equity and are included in the calculation of basic earnings per share from the date that they were recognized as equity for accounting purposes.

3.17 Share-Based Payments

As part of Northland’s Long-Term Incentive Plan (**LTIP**), Northland provides equity-settled share-based compensation to employees when projects achieve certain milestones. Northland has the option to settle the LTIP in cash but has not done so to date. The fair value of the awards is based on the grant date share price and, to the extent that services are provided in advance of the grant date, Northland’s reporting date share price. A forfeiture rate has been estimated to reflect the Shares that will vest upon achieving those milestones. Estimates are subsequently revised if there is any indication that the number of Shares expected to vest differs from previous estimates. Generally, 75% of these shares vest on the date a development project reaches commercial operations. The cost of the LTIP shares awarded is recognized over the estimated vesting period and is capitalized to the extent that the employees are providing services during the year that are directly involved in the development and construction of a project. The remaining 25% vest approximately one year thereafter, when a project has met performance expectations.

3.18 Provisions

General

Provisions are recognized when Northland has a present obligation (legal or constructive) as a result of a past event and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where Northland expects some or all of a provision to be reimbursed (for example, under an insurance policy or warranty agreement), the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Decommissioning liabilities

Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statements of income (loss) as a "finance cost." The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

3.19 Significant Management Judgments in Applying Accounting Policies and Estimation Uncertainty

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses and in applying accounting policies. The actual results are likely to differ from the judgments, estimates and assumptions made by management and will seldom equal the estimated results.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is discussed below.

Deferred development costs

Management monitors the progress of projects in the internal prospecting phase, development phase and advanced development phase by using a project management system. Advanced development costs are recognized as an asset when certain criteria are met, whereas prospecting and development phase project costs are expensed as incurred.

Determining which projects will continue to be pursued and when to defer costs for advanced development phase projects requires judgment. Management reviews on a regular basis the feasibility of each project that is being developed and, should management determine that development of a particular project is no longer highly likely to be pursued to completion, the deferred costs are expensed in the period the determination is made.

Impairment of non-financial assets

Northland's impairment tests for goodwill, other intangible assets and property, plant and equipment are based on value-in-use calculations that use a discounted cash flow model. The cash flows are derived from the forecasts over the remaining useful lives of the assets of the CGUs and do not include restructuring activities that Northland is not yet committed to. The estimated recoverable amount is sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows. The key assumptions used to estimate the recoverable amount for the different CGUs are further explained in Note 19.

Income taxes

Preparation of the consolidated financial statements requires an estimate of income taxes in each of the jurisdictions in which Northland operates. The process involves an estimate of Northland's current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes. These differences result in deferred tax assets and liabilities that are included in Northland's consolidated balance sheets.

An assessment is also made to determine the likelihood that Northland's deferred future tax assets will be recovered from future taxable income.

Judgment is required to continually assess changing tax interpretations, regulations and legislation to ensure liabilities are complete and to ensure assets, net of valuation allowances, are realizable. The impact of different interpretations and applications could be material.

Fair value of financial assets and financial liabilities

Where the fair value of financial assets and financial liabilities that are recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, counterparty risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are depreciated over their useful lives taking into account estimated residual values, where appropriate. Assessments of useful lives and residual values are performed annually after considering factors such as technological innovation, maintenance programs, relevant market information and management considerations. In assessing residual values, Northland considers the remaining life of the asset, its projected disposal value and future market conditions. The carrying amounts are analyzed in Notes 9 and 10.

Long-Term Incentive Plan

Northland's LTIP provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries. During 2011, the terms of the Plan providing for the granting of shares under the LTIP were established. The costs of LTIP awards that are for employees whose activities are directly attributable to the development and construction of certain Northland facilities are included in property, plant and equipment and the costs of LTIP awards relating to the performance of the facility are expensed during the year. The LTIP cost for a period is based on expected development cost profits for a project and recognized over the expected vesting period. The calculation of development profit is sensitive to the estimation of future cash inflows for each particular project and the discount rate used to discount those expected cash inflows.

Leases

Where Northland determines that a contract's provisions contain or are a lease and result in the counterparty assuming the principal risks and rewards of ownership of the asset, the arrangement is classified as a finance lease. Assets subject to finance leases are not reflected as property, plant and equipment, and the net investment in the lease, represented by the present value of the amounts due from the lessee, is recorded in the consolidated balance sheets as a financial asset, classified as a lease receivable. The payments considered to be part of the leasing arrangement are apportioned between a reduction in the lease receivable and finance income. The amount recorded as lease receivable, finance lease income and gain on transition to lease accounting is sensitive to the estimation of future cash inflows and the discount rate used to discount those expected cash inflows.

3.20 Future Accounting Policies

As of December 31, 2012, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by Northland.

Management anticipates that all of the relevant pronouncements will be adopted for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that may be relevant to Northland's consolidated financial statements is provided below.

IAS 1, "Presentation of Financial Statements" (effective for annual periods beginning on or after January 1, 2013)

The amendment addresses the presentation of items of other comprehensive income that requires the grouping of items within other comprehensive income.

IAS 12, "Income Taxes" (effective for annual periods beginning on or after January 1, 2013)

The amendment addresses recovery of underlying assets for deferred income.

IFRS 9, "Financial Instruments" (effective from January 1, 2015)

The IASB intends to replace IAS 39 in its entirety. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss (**FVTPL**) and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard.

IFRS 10 "Consolidation" (effective from January 1, 2013)

IFRS 10 requires an entity to consolidate an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

IFRS 10 replaces SIC-12, "Consolidation – Special Purpose Entities," and parts of IAS 27, "Separate Financial Statements" (**IAS 27**).

IFRS 11, "Joint Arrangements" (effective from January 1, 2013)

IFRS 11 requires an entity to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, "Interests in Joint Ventures," and SIC-13, "Jointly Controlled Entities – Non-monetary Contributions by Venturers."

IFRS 12, "Disclosure of Interests in Other Entities" (effective from January 1, 2013)

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special-purpose vehicles and off-balance-sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of and risks associated with an entity's interests in other entities.

IFRS 13, "Fair Value Measurement" (effective from January 1, 2013)

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards (effective from January 1, 2013)

In addition, there have been amendments to existing standards, including IAS 27 and IAS 28, "Investments in Associates and Joint Ventures" (**IAS 28**). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

Northland management continues to evaluate the impact of these IFRS amendments on its consolidated financial statements and anticipates that the only required change to Northland's accounting policies relates to the accounting for interests in joint ventures. Historically, Northland has accounted for interests in joint ventures using the proportionate consolidation method; however, the new standards (IFRS 11) will require Northland to account for those interests using the equity method and apply the accounting treatment retrospectively.

4. Financial Risk Factors

Northland's overall risk management approach seeks to mitigate the financial risks to which it is exposed in order to maintain stable and sustainable levels of cash available to pay dividends to shareholders. Northland does not seek to mitigate fair value risk. Northland classifies financial risks into the categories of market risk, counterparty risk and liquidity risk.

The risks associated with Northland's financial instruments and Northland's policies for minimizing these risks are as follows.

Market Risk

Market risk is the risk that the fair value or future cash flows of Northland's financial instruments will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk. Financial instruments affected by market risk include the available-for-sale investments, loans and borrowing, and derivative financial instruments. Components of market risk to which Northland is exposed are discussed below.

(i) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

The objective of Northland's interest rate risk management activities is to minimize the volatility of cash flows otherwise subject to fluctuating interest costs. In order to manage this risk, Northland enters into fixed-rate amortizing debt or, alternatively, enters into interest rate swap agreements to convert the majority of floating interest expense into fixed interest expense.

Changes in the fair value of all interest rate swap contracts are recorded in Northland's consolidated statements of income (loss) and deficit. The fair values for these interest rate swap contracts were based on calculations using valuation models with observable interest rates.

For the year ended December 31, 2012, if interest rates had been 100 basis points higher or lower with all other variables held constant, the change in income before taxes, which includes the change in fair value of the interest rate swaps, would have been \$117.7 million higher or lower. However, this change would have had no material impact on Northland's future cash flows.

Northland's interest rate derivative contracts rely on counterparties, usually financial institutions with strong credit ratings, to financially settle the net amounts owed under the swap contracts in periods when the floating rate is above the effective swap rate. See "Counterparty Risk" below.

(ii) Foreign currency risk

As at December 31, 2012, all of Northland's assets and sales were located in Canada and Germany with the exception of the investments in and income from Panda-Brandywine, which relate to entities in the United States. Foreign exchange risk arises because the Canadian equivalent of transactions denominated in foreign currencies may vary due to changes in exchange rates and because euro-denominated consolidated financial statements of Northland's German wind farms may vary on consolidation into Canadian dollars.

It is Northland's objective to hedge material net foreign currency cash flows to the extent practical in order to protect Northland from material foreign exchange risk and therefore cash flow fluctuations. Northland's foreign currency exposure includes US-dollar investment income from Panda-Brandywine, partially offset by US-dollar expenditures at Northland's facilities and euro income from the German wind farms.

At December 31, 2012, if the Canadian dollar had been 5% higher or lower against the U.S. dollar with all other variables held constant, income before taxes would have been \$2.5 million higher or lower, which includes the fair value change in the US-dollar foreign exchange contracts.

Exchange gains and losses on the hedging derivatives that have been recognized in other comprehensive income are recognized in net income in the same period during which corresponding gains or losses arising from the translation of the consolidated financial statements of the self-sustaining foreign operation are recognized in net income. Also included in net income are the changes in fair value on any euro forward contracts not designated as part of a hedging relationship.

At December 31, 2012, if the Canadian dollar had been 5% higher or lower against the euro with all other variables held constant, income before taxes would have been \$0.6 million higher or lower, which includes the fair value change in the euro foreign exchange contracts.

Northland's foreign exchange derivative contracts rely on counterparties, usually financial institutions with strong credit ratings, to financially settle the net amounts owed under the forward contracts in periods when the floating rate is above the effective swap rate. See "Counterparty Risk."

Counterparty Risk

Counterparty risk arises from cash and cash equivalents held with banks and financial institutions, counterparty exposure arising from derivative financial instruments, receivables due from customers and loan commitments from financial institutions for the construction of projects. The maximum exposure to counterparty risk, other than for the loan commitments, is equal to the carrying value of the financial assets.

The objective of managing counterparty risk is to prevent losses in financial assets. To meet this objective, the majority of Northland's revenues are under long-term contracts with creditworthy counterparties such as government-related entities, and Northland's foreign exchange and interest rate swap contracts and loan commitments are with creditworthy financial institutions. Electricity and other sales are generally to government-related entities with investment-grade credit ratings.

As at December 31, 2012, approximately 92% (2011 – 95%) of Northland's consolidated trade and other receivables were owing from government-related entities.

In 2012, approximately 95% (2011 – 91%) of Northland's consolidated revenue was derived indirectly from the sale of electricity to government-related entities.

For electricity and other sales, Northland and its subsidiaries have not provided allowance accounts, do not hold collateral from counterparties, and have not purchased credit derivatives to mitigate counterparty risk. All reported accounts receivable amounts at December 31, 2012 are current.

Over all, the nature of Northland's business and contractual arrangements serves to minimize Northland's counterparty risk. Northland does not expect any material losses from non-performance by its counterparties.

Liquidity Risk

Liquidity risk arises through an excess of financial obligations over available financial assets at any point in time. Liquidity risk includes the risk that, as a result of Northland operational liquidity requirements:

- Northland may not have sufficient funds to settle a transaction on the due date;
- Northland may be forced to sell financial assets at a value that is less than what they are worth; or
- Northland may be unable to settle or recover a financial asset at all.

Northland's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. Northland achieves this by endeavouring over the long term to pay out less than 100% of its free cash flow in dividends to shareholders and through the availability of funding from committed credit facilities. As at December 31, 2012, Northland and its subsidiaries were holding cash and cash equivalents of \$32.3 million less \$1.1 million of bank indebtedness and had undrawn lines of credit available of \$138 million.

The contractual maturities of Northland's financial liabilities at December 31, 2012 are as follows:

| In thousands of dollars | Currency | 2013 | 2014 | 2015 | 2016 | 2017 | >2017 |
|--------------------------------------|----------|---------|---------|---------|---------|---------|-----------|
| US\$ foreign exchange contracts | US\$ | 5,550 | 10,600 | 5,400 | 10,800 | 4,800 | 14,400 |
| Euro foreign exchange contracts | Euro | 2,000 | 6,500 | — | — | — | — |
| Amortizing loans, including interest | | | | | | | |
| rate swaps and fees | CA\$ | 136,641 | 155,280 | 153,453 | 155,005 | 146,637 | 2,056,644 |
| Convertible subordinated debentures, | | | | | | | |
| including interest | CA\$ | 1,761 | 29,940 | — | — | — | — |

Northland is also subject to internal liquidity risk as it conducts its business activities through separate legal entities (subsidiaries and affiliates) and is dependent on receipts of cash from those entities to defray its corporate expenses and to make dividend payments to shareholders. Certain of those entities have outstanding debt that was incurred to help fund the entities' original investments. Under the credit agreements for such debt, it is conventional for distributions of cash to Northland to be prohibited if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark debt service coverage ratio (**DSCR**), which is the ratio of earnings before interest, taxes, depreciation and amortization (**EBITDA, a non-IFRS performance indicator**) for a specified time period to the scheduled loan principal and interest payments for the same time period. For the period ended December 31, 2012, Northland and its subsidiaries were in compliance with all debt covenants.

Northland will be required to refinance, renew or extend debt instruments as they become due. The ability to refinance, renew or extend debt instruments is dependent on the capital markets up to the time of maturity, which may affect the availability, pricing or terms and conditions of replacement financing.

5. Management of Capital

Northland defines capital that it manages as the aggregate of its shareholders' equity and interest-bearing debt, including convertible unsecured subordinated debentures. Northland's objectives when managing capital are to (i) help ensure the stability and sustainability of dividends to shareholders for the long term; and (ii) finance assets with amortizing debt in order to address decreasing economic value over time, particularly as assets depreciate and PPAs and other contracts change or expire.

As at December 31, 2012, total managed capital was \$2.0 billion, consisting of shareholders' equity of \$0.7 billion, interest-bearing debt of \$1.3 billion and convertible unsecured subordinated debentures of \$26.7 million.

In order to maintain or adjust the capital structure, Northland may exercise discretion in the amount of dividends declared to shareholders, including cash dividend savings through its Dividend Reinvestment Plan (**DRIP**), return of capital to shareholders, issuance of new Shares, repurchase of Shares from the market or issuance or redemption of convertible unsecured subordinated debentures.

To date, management's strategy with respect to debt has been to leverage primarily within individual project entities (subsidiaries of Northland). The significant majority of Northland's debt is non-recourse beyond the facility or project for which the debt was raised, has a fixed interest rate (or a fixed underlying rate for mini-perm loans) for its term and is fully repaid (amortized) over the life of the associated project's power contracts or supply contracts to ensure that the project is debt-free at that point in its physical life when its economics are least predictable, particularly at the expiration of its original power contracts.

As at December 31, 2012, Northland's ratio of total debt to enterprise value was 34.6%. For purposes of this calculation, management defines debt as the total of all borrowings (amortizing term loans and bank credit facilities) and convertible unsecured subordinated debentures and enterprise value as the summation of debt, as defined previously, plus Northland's equity capitalization at December 31, 2012, calculated by multiplying the number of outstanding Shares, Class A, Class B, Class C and Replacement Rights by the closing Share price, and adding the number of outstanding preferred shares multiplied by the closing Preferred Share price.

6. Inventories

Inventories consist of the following:

| In thousands of dollars | December 31, 2012 | December 31, 2011 |
|---------------------------------|-------------------|-------------------|
| Natural gas | 982 | 589 |
| Spare parts and other inventory | 6,486 | 6,660 |
| | 7,468 | 7,249 |

During 2012, Northland and its subsidiaries expensed \$1.7 million (2011 – \$0.7 million) of inventory to cost of sales and plant costs.

7. Leases

Northland as Lessor

On October 19, 2011, the Spy Hill facility began commercial operations. For accounting purposes, Northland's Spy Hill long-term PPA is considered to be a finance lease arrangement, whereby Northland is considered to lease the Spy Hill facility to SaskPower for 25 years. For the year ending December 31, 2012, finance lease income of \$14.1 million (2011 – \$3.6 million) was recognized. The 2011 consolidated statements of income (loss) also include a \$35 million gain on transition to lease accounting to represent the difference between the fair value of minimum lease payments and the carrying value of assets at that time.

The amounts receivable under finance lease accounting are as follows:

| | December 31, 2012 | | December 31, 2011 | |
|---------------------------------------|-------------------|-----------------------------|-------------------|-----------------------------|
| | Minimum lease | Present value of minimum | Minimum lease | Present value of minimum |
| In thousands of dollars | payments | lease payments | payments | lease payments |
| Within one year | 16,874 | 2,989 | 16,858 | 2,704 |
| Two to five years | 64,747 | 11,513 | 65,618 | 11,386 |
| Long-term | 303,322 | 152,251 | 319,508 | 155,269 |
| | 384,943 | 166,753 | 401,984 | 169,359 |
| Less: Unearned finance income | (218,190) | — | (232,625) | — |
| Total finance lease receivable | 166,753 | 166,753 | 169,359 | 169,359 |

| | December 31, 2012 | December 31, 2011 |
|---------------------------------------|-------------------|-------------------|
| In thousands of dollars | | |
| Current | 2,989 | 2,704 |
| Long-term | 163,764 | 166,655 |
| Total finance lease receivable | 166,753 | 169,359 |

The interest rate inherent in the lease was fixed for the entire lease term at the lease inception date at approximately 8.4% per annum.

Northland as Lessee

Northland and several of its facilities have entered into land and building leases with private landowners and public municipalities. These leases range from three to 20 years with no renewal option included in the contracts. There are restrictions placed upon Northland by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2012 are as follows:

.....
In thousands of dollars

| | |
|---|---------------|
| Within one year | 2,703 |
| After one year but not more than five years | 11,238 |
| More than five years | 33,567 |
| | 47,508 |

8. Investment in Panda-Brandywine

.....
Northland has a 19% interest in Panda-Brandywine, which, through its wholly owned subsidiaries, owns the 230 megawatt (**MW**) Panda-Brandywine facility, located just outside Washington, D.C. Panda-Brandywine is a private entity that is not listed on a public exchange.

The fair value of the 19% interest in unquoted ordinary shares of Panda-Brandywine has been estimated using a discounted cash flow model. The valuation requires management to make certain assumptions about the model inputs, including credit risk and volatility. The assumptions used have been determined to be within a range that can be reasonably assessed and are used in management's estimate of the fair value of the equity investment. Management has determined that the potential effect of using reasonable alternatives as inputs to the valuation model would reduce the fair value by \$0.2 million (2011 – \$0.4 million) using less favourable assumptions and increase the fair value by \$0.2 million (2011 – \$0.4 million) using more favourable assumptions.

For the year ended December 31, 2012, a portion of the Panda-Brandywine asset balance was determined to be impaired as the decline in the recoverable amount below cost is other than temporary. The impairment was a result of two items (a) the Panda-Brandywine facility not being dispatched as often as originally forecast due to changes in the marketplace; and (b) the valuation approach (discounted cash flow method) creates an expectation that the fair value will decline over time. The asset has been reduced by \$2.1 million to its fair value and the loss was recognized in net income. The impairment has no impact on Northland's 19% equity interest nor the percentage of dividends Northland is entitled to receive from Panda-Brandywine.

9. Property, Plant and Equipment

| | | | | | Office | | | | |
|------------------------------|-------|-----------|-----------|------------|-----------|-----------|-----------|-----------|-----------|
| | | Buildings | Plant | Vehicles | equipment | Computers | | Construc- | |
| | | and foun- | and | and mete- | furniture | and | Leasehold | tion in | |
| | | datations | equipment | orological | and | computer | improve- | Progress | |
| In thousands of dollars | Land | | | towers | fixtures | software | ments | (CIP) | Total |
| COST | | | | | | | | | |
| January 1, 2011 | 1,891 | 138,294 | 1,072,955 | 2,893 | 940 | 1,777 | 24,623 | 303,393 | 1,546,766 |
| Foreign exchange | — | — | (312) | — | — | — | — | — | (312) |
| Additions | 405 | 483 | 3,568 | 26 | 113 | — | 1,528 | 356,136 | 362,259 |
| Transfer from CIP | — | 12,734 | 122,747 | 1,087 | 12 | 3 | 8,659 | (145,242) | — |
| Transfer to lease receivable | — | — | — | — | — | — | — | (134,296) | (134,296) |
| Disposals and other | (164) | 99 | 4,374 | — | (9) | — | — | 1,381 | 5,681 |
| December 31, 2011 | 2,132 | 151,610 | 1,203,332 | 4,006 | 1,056 | 1,780 | 34,810 | 381,372 | 1,780,098 |
| Foreign exchange | — | — | (184) | — | — | — | — | — | (184) |
| Additions | 1,120 | 262 | 6,596 | — | 1 | 97 | 303 | 295,359 | 303,738 |
| Transfer from intangible | — | — | — | — | — | — | — | 55,625 | 55,625 |
| Disposals and other | — | (67) | (5,462) | — | — | — | — | 7,724 | 2,195 |
| December 31, 2012 | 3,252 | 151,805 | 1,204,282 | 4,006 | 1,057 | 1,877 | 35,113 | 740,080 | 2,141,472 |

Included in additions above are \$27.5 million of borrowing costs (interest and commitment fees) that were capitalized during the year ended December 31, 2012 (2011 – \$23.8 million).

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10. Contracts and Other Intangible Assets

| In thousands of dollars | Deferred development costs | Contracts | Total |
|---|----------------------------------|------------------|------------------|
| | | | |
| COST | | | |
| January 1, 2011 | 10,430 | 319,197 | 329,627 |
| Additions | 13,376 | — | 13,376 |
| Impairment | — | (25,466) | (25,466) |
| Write-offs | (1,697) | — | (1,697) |
| December 31, 2011 | 22,109 | 293,731 | 315,840 |
| Additions | 60,705 | — | 60,705 |
| Transfer to property, plant and equipment | (55,625) | — | (55,625) |
| Impairment, net [Note 19] | — | (1,684) | (1,684) |
| Write-offs | (1,661) | — | (1,661) |
| December 31, 2012 | 25,528 | 292,047 | 317,575 |
| AMORTIZATION | | | |
| January 1, 2011 | — | (78,468) | (78,468) |
| Amortization | — | (20,077) | (20,077) |
| December 31, 2011 | — | (98,545) | (98,545) |
| Amortization | — | (19,422) | (19,422) |
| December 31, 2012 | — | (117,967) | (117,967) |
| NET BOOK VALUE | | | |
| December 31, 2011 | 22,109 | 195,186 | 217,295 |
| December 31, 2012 | 25,528 | 174,080 | 199,608 |

Deferred Development Costs

Deferred development costs include pre-construction costs directly related to the development of new projects. Costs are deferred up to the closing of project financing and the start of construction, at which time they are reclassified to the cost of property, plant and equipment. Should management determine that development of a particular project is no longer highly likely to be pursued to completion, the deferred costs are expensed in the period the determination is made. For the year ended December 31, 2012, \$1.7 million (2011 – \$1.7 million) of development costs previously deferred were expensed.

Contracts

The net book value relates to the fair value of the PPAs, natural gas purchase agreements, steam sales agreements of the operating entities, and management and operations agreements when they were acquired by Northland, net of amortization. For the year ended December 31, 2012, a portion of the contracts' balance was determined to be impaired. See Note 19 for further detail.

11. Goodwill

Acquired goodwill was allocated to CGUs that were expected to benefit from the synergies of the acquisition. See the goodwill continuity schedule below. For the year ended December 31, 2012, a portion of the goodwill balance was determined to be impaired. See Note 19 for further detail.

.....
In thousands of dollars
.....

COST

| | |
|--------------------------|----------------|
| January 1, 2011 | 284,626 |
| Additions | — |
| Disposals | — |
| December 31, 2011 | 284,626 |
| Additions | — |
| Disposals | — |
| December 31, 2012 | 284,626 |

continued...

.....
In thousands of dollars
.....

IMPAIRMENT

| | |
|--------------------------|---------------|
| January 1, 2011 | 35,094 |
| Impairment | 7,689 |
| Disposals | — |
| December 31, 2011 | 42,783 |
| Impairment [Note 19] | 19,269 |
| Disposals | — |
| December 31, 2012 | 62,052 |

NET BOOK VALUE

| | |
|--------------------------|----------------|
| December 31, 2011 | 241,843 |
| December 31, 2012 | 222,574 |

.....

12. Bank Credit Facility and Interest-Bearing Loans and Borrowings

Bank Credit Facility

Northland has a credit facility with a syndicate of banks establishing a \$250 million revolving line of credit to assist in the funding of development activities, acquisitions and investments in projects, as well as for general corporate purposes including letters of credit. On May 31, 2011, this credit facility was increased from the previous level and the maturity extended to May 31, 2015.

As at December 31, 2012, the interest rate charged on the credit facility is 3.8% (2011 – 3.8%). Standby fees of 0.4% (2011 – 0.4%) per annum are charged on each of the undrawn components of the credit facility.

As at December 31, 2012, letters of credit totalling \$112 million (2011 – \$52.5 million) and drawings of \$1.1 million (2011 – \$8.3 million) were outstanding under Northland's credit facility.

Amounts drawn under the credit facility are principally collateralized by a debenture security and by general security agreements that constitute a first-priority lien on all of the real property of Iroquois Falls and all of the present and future property and assets of Iroquois Falls and Northland.

Interest-Bearing Loans and Borrowings

Northland generally finances projects through secured credit arrangements at the subsidiary level that are non-recourse to Northland.

Northland's subsidiaries interest-bearing loans and borrowings include the following:

| In thousands of dollars except as indicated | Note | Maturity | Rate ⁽¹⁾ | As at | As at |
|---|------|------------|---------------------|----------------------|----------------------|
| | | | | December 31, 2012 | December 31, 2011 |
| Kingston | (a) | 2013, 2016 | 10.1% | 32,431 | 45,121 |
| Thorold | (b) | 2015, 2030 | 6.5% | 361,527 | 373,205 |
| Spy Hill | (c) | 2017, 2036 | 8.0% | 110,452 | 101,800 |
| North Battleford | (d) | 2020, 2033 | 7.1% | 366,200 | 216,900 |
| Jardin | (e) | 2029 | 6.0% | 126,804 | 146,854 |
| Mont Louis | (f) | 2031/2032 | 6.6% | 116,516 | 131,349 |
| Ground-mounted Solar Phase 1 | (g) | 2030 | 5.2/5.3% | 151,200 | — |
| Total | | | | 1,265,130 | 1,015,229 |
| Less: Current portion | | | | (39,998) | (76,355) |
| Non-current | | | | 1,225,132 | 938,874 |

(1) The weighted average interest rates of the subsidiary borrowings.

- (a) On January 23, 2013, Kingston repaid its term loan and senior secured note in their entirety and settled associated outstanding interest rate swaps. At December 31, 2012, the Kingston loan facilities included a term loan for \$7.4 million and a senior secured note for \$25 million. Payments on the term loan were payable semi-annually, and payments on the senior secured note were payable semi-annually beginning September 30, 2013, and ending September 30, 2016. Both the term loan and senior secured note bore interest, paid quarterly, at the prevailing rates plus the applicable credit spread. Kingston entered into interest rate swap agreements with two commercial banks that effectively fixed the interest rate of the loans under the Kingston credit agreement over their lives.
- (b) The Thorold senior loan was funded 50% by bank lenders and 50% by institutional lenders. The institutional tranche of the Thorold senior loan, representing \$201 million at the outset, called for the first blended quarterly payment of principal and interest at 6.32% on December 31, 2010, in accordance with a schedule designed to fully amortize the loan over its term until maturity on March 31, 2030. The bank tranche of the Thorold senior loan, representing \$199.1 million at the outset, was converted on November 30, 2010,

to a term loan with payments of principal and interest at the prevailing rate plus an applicable spread over a 20-year amortization period to March 31, 2030, with maturity in September 2015. As required under provisions of the Thorold senior loan, Thorold entered into interest rate swap agreements that effectively fixed the interest rate of the bank tranche to March 2030. For accounting purposes, as part of the merger with NPI, a fair value adjustment was made to Thorold's total debt in the table above for \$25.0 million and \$26.9 million for December 31, 2012 and December 31, 2011, respectively.

- (c) On January 21, 2013, the Spy Hill term loan was repaid in full as a result of Spy Hill issuing a \$156.3 million non-recourse project bond, as further described in Note 26. On April 14, 2010, Spy Hill entered into a non-recourse credit facility with a syndicate of banks for a \$111 million senior secured construction and term loan and a \$15 million letter of credit facility. The loan required blended payments of principal and interest based on a 25-year amortization period, with maturity in February 2017. As required under the loan provisions, Spy Hill entered into interest rate swap agreements to effectively fix the variable interest rate of non-recourse debt plus the applicable credit spread to September 30, 2036.
- (d) On August 30, 2010, North Battleford entered into a non-recourse credit facility with a syndicate of banks for a \$542 million senior secured construction and term loan and a \$38 million letter of credit facility. The loan is being funded during construction under a variable advance schedule. Once term conversion is achieved subsequent to commercial operations, the loan requires blended payments of principal and interest over a 20-year amortization period, with maturity seven years from term conversion. As required under the loan provisions, North Battleford entered into interest rate swap agreements to effectively fix the variable interest rate of the non-recourse debt plus the applicable credit spread, with a term to June 30, 2033, to cover both loan advances during construction and debt repayments during the commercial operations period. All interest paid during the construction period has been capitalized.
- (e) On May 2, 2008, Jardin entered into a non-recourse credit facility with a syndicate of institutional lenders for a \$153.0 million senior secured term loan ("**Jardin Senior Loan**") and a \$41.0 million bridge loan ("**Jardin Bridge Loan**"). Conversion to a term loan occurred on May 31, 2012. The Jardin Senior Loan will be repaid through quarterly blended payments of principal and interest at 6.0% until maturity on November 30, 2029, with the principal payments fully amortizing the loan over its term. The Jardin Bridge Loan was provided to help fund the cost of the substation pending receipt of a cost reimbursement payment from Hydro-Québec Distribution. The Jardin Bridge Loan was repaid in April, 2012. As part of the merger with NPI, an accounting fair value adjustment similar to the one made at Thorold was made to Jardin's debt for \$8.3 million and \$9.0 million on December 31, 2012 and December 31, 2011, respectively.
- (f) On November 17, 2010, Mont Louis entered into a non-recourse credit facility with a syndicate of institutional lenders for a \$106 million senior secured term loan ("**Mont Louis Senior Loan**") and a \$30 million bridge loan ("**Mont Louis Bridge Loan**"). Conversion to a term loan occurred on January 31, 2012. The Mont Louis Senior Loan will be repaid through quarterly blended

payments of principal and interest at 6.6% until maturity on September 16, 2031, with the principal payments fully amortizing the loan over its term. Investissement Québec, a provincial government investment agency, also lent \$13.9 million to the Mont Louis project in April 2012; repayment of the loan is guaranteed by Northland. The Investissement Québec loan is interest free until April 2015, at which time interest will be charged at the annual rate of 5% until April 2017. After 2017 and until the loan's maturity in March 2032, interest will be charged at an annual rate of 5.5%. The principal balance outstanding is due upon maturity of the loan in March 2032. The Mont Louis Bridge Loan was provided to help fund the cost of the substation and collection system pending receipt of a cost reimbursement payment from Hydro-Québec Distribution, and was repaid in June 2012.

- (g) On July 16, 2012, Northland completed \$227 million of non-recourse project financing for six solar projects totalling 60 MW, which are located in Ontario. The non-recourse credit facility is provided by a syndicate of banks with \$115 million allocated to three projects ("**Cluster 1**") and \$112 million allocated to the remaining three projects ("**Cluster 2**"). Once term conversion is achieved, the loans will require blended payments of principal and interest based on an 18-year amortization period. As required under the loan provisions, the projects entered into interest rate swap agreements to effectively fix the variable interest rate of the non-recourse debt. The loans and interest rate swaps have a term to December 31, 2030, to cover both loan advances during construction and debt repayments during the commercial operations period. The all-in rate including interest rate swaps and credit spreads for the first four years after term conversion is 5.2% for Cluster 1 and 5.3% for Cluster 2.

As of December 31, 2012, the principal repayments on subsidiary borrowings due within the next five years and thereafter are as follows:

| In thousands of dollars ⁽¹⁾ | 2013 | 2014 | 2015 | 2016 | 2017 | >2017 |
|--|--------|--------|--------|--------|--------|-----------|
| Kingston ⁽²⁾ | 11,002 | 7,143 | 7,143 | 7,143 | — | — |
| Thorold | 13,766 | 14,665 | 14,888 | 16,069 | 17,003 | 310,164 |
| Spy Hill ⁽³⁾ | 1,191 | 817 | 453 | 652 | 1,773 | 105,567 |
| North Battleford | 3,044 | 12,773 | 12,073 | 12,464 | 13,485 | 487,889 |
| Jardin | 5,574 | 5,952 | 6,355 | 6,129 | 6,487 | 104,597 |
| Mont Louis | 3,116 | 3,596 | 3,998 | 4,319 | 4,582 | 96,905 |
| Ground-mounted Solar Phase 1 | 2,305 | 10,511 | 10,866 | 10,730 | 11,122 | 181,466 |
| | 39,998 | 55,457 | 55,776 | 57,506 | 54,452 | 1,286,588 |

(1) The chart excludes the Jardin and Thorold fair value adjustments referred to in the notes above.

(2) As noted above, subsequent to year end, the Kingston debt was repaid. See Note 12(a) for further detail.

(3) As noted above, subsequent to year end, the Spy Hill debt was refinanced with bonds. See Notes 12(c) and 26 for further detail.

13. Convertible Debentures

On August 26, 2004, Northland closed an offering of 65,000 6.5% convertible unsecured subordinated debentures (**"2011 Debentures"**) due June 30, 2011, at a price of \$1,000 per convertible debenture, for gross proceeds of \$65 million and net proceeds of approximately \$61.8 million. Interest was paid semi-annually in arrears on June 30 and December 31 in each year. During 2011, a total of \$18.8 million of 2011 Debentures was converted into 1,505,680 shares. The 2011 Debentures matured on June 30, 2011, which resulted in a payment of \$1.2 million to the convertible unsecured subordinated debenture holders.

On October 15, 2009, Northland closed an offering of 6.25% convertible unsecured subordinated debentures (**"2014 Debentures"**) due December 31, 2014, at a price of \$1,000 per convertible debenture, for gross proceeds of \$92.0 million (\$88.1 million net of underwriters' fees and costs). The 2014 Debentures are convertible into fully paid Shares of Northland at the option of the holder at a conversion price of \$12.42 per Share and are redeemable by Northland on or following January 1, 2013, provided that the trading price of Northland's Shares reaches certain levels. Northland may at its option satisfy its obligation to pay the redemption price of the 2014 Debentures in Shares of Northland at maturity. Northland determined that the fair value of the embedded holder option at the time of issue was nominal, and as a result the entire amount of the 2014 Debentures was classified as a long-term liability. As at December 31, 2012, the book value of 2014 Debentures excluding costs of issuance is \$28.2 million.

The payment of convertible unsecured subordinated debenture principal and interest is subordinated in right of payment to the prior payment of all senior indebtedness of Northland.

During 2012, a total of \$10.5 million (2011 – \$16.8 million) of the 2014 Debentures were converted into 844,737 Shares (2011 – 1,348,603).

14. Provisions

Northland's wind farms are located on lands leased from private and public landowners. Upon the expiration of the leases, the leased lands must be returned to their original condition and all turbines dismantled.

Northland has estimated the fair value of its total decommissioning liabilities to be \$12.4 million, based on an estimated total future liability. A discount rate of 2.54% to 3.93% (2011 – 2.54% to 3.93%) and an inflation rate of 2.0% (2011 – 2.0%) were used to calculate the fair value of the asset retirement obligations. These decommissioning liabilities relate solely to Northland's wind farms because Northland expects to use its other installed assets for an indefinite period. Revisions to Northland's decommissioning liabilities will be made if new information is received.

The following table reconciles Northland's total decommissioning liabilities activity:

In thousands of dollars

| | |
|--------------------------|---------------|
| January 1, 2011 | 6,935 |
| Additions | 6,147 |
| Accretion | 315 |
| Foreign exchange impact | 1 |
| Cost adjustments | (1,358) |
| December 31, 2011 | 12,040 |
| Accretion | 402 |
| Foreign exchange impact | (5) |
| December 31, 2012 | 12,437 |

15. Deferred Income Taxes

The following table sets forth Northland's reported tax expense for the years ended December 31:

In thousands of dollars

| Consolidated income statement | 2012 | 2011 |
|---|--------------|-----------------|
| Current | | |
| Based on taxable income of current year | 218 | 3 |
| Tax on dividend payments | 4,772 | 2,952 |
| Total current taxation expense for the year | 4,990 | 2,955 |
| Deferred | | |
| Deferred tax on origination and reversal of temporary differences | 4,409 | (27,981) |
| Deferred tax due to changes in tax rates | (981) | (31,113) |
| Prior-year (under) over provision | (165) | 312 |
| Deferred tax due to writedown of tax asset | (61) | 340 |
| Total deferred tax expense (recovery) for the year | 3,202 | (58,442) |
| Total income tax expense (recovery) | 8,192 | (55,487) |
| Recognized directly in equity | | |
| Deferred | | |
| Deferred taxes related to origination and reversal of temporary differences related to financing fees | (319) | 526 |
| Total tax charged to equity | (319) | 526 |

The following table sets forth a reconciliation of Northland's effective tax rate for the years ended December 31:

| In thousands of dollars except for tax rate | 2012 | 2011 |
|--|--------------|-----------------|
| Loss before income taxes | (1,721) | (118,596) |
| Combined basic federal and provincial income tax rate | 26.50% | 28.25% |
| Income tax recovery based on statutory rate | (456) | (33,503) |
| Adjustment for non-deductible (taxable) expenses | 5,334 | 2,872 |
| Deferred tax expense (recovery) relating to changes in tax rates or change in legal structure | — | (29,721) |
| Remeasurement of deferred tax liability for rate changes | (981) | (1,392) |
| Rate difference related to origination and reversal of temporary differences | (271) | 2,773 |
| Tax expense associated with payment of preferred share dividends | 4,793 | 2,952 |
| Writedown of deferred tax asset | — | 340 |
| Adjustment with respect to prior years | (165) | 312 |
| Other | (62) | (120) |
| Actual tax expense (recovery) | 8,192 | (55,487) |

The tax rate is computed using the average Canadian tax rate based on provincial allocations.

The following table sets forth the components of the deferred tax liability at December 31:

| In thousands of dollars | 2012 | 2011 |
|---|----------------|----------|
| Deferred tax assets | | |
| Losses available for carryforward | 13,808 | 3,201 |
| Derivative financial instruments | 54,216 | 56,103 |
| Financing fees | 1,659 | 1,930 |
| Tax credits – Ontario corporate minimum tax | 1,950 | 1,950 |
| Other | 1,189 | – |
| Total deferred tax assets | 72,822 | 63,184 |
| Deferred tax liabilities | | |
| Contracts | 42,058 | 54,784 |
| Fair value debt increments | 8,493 | 9,357 |
| Property, plant and equipment | 67,161 | 40,806 |
| Other | 0 | 238 |
| Total deferred tax liabilities | 117,712 | 105,185 |
| Reconciliation of net deferred taxes | | |
| Opening balance – deferred tax liability | 42,001 | 100,674 |
| Tax expense (recovery) recognized in income statement | 3,202 | (58,442) |
| Tax expense (recovery) recognized in equity | (319) | 526 |
| Other | 6 | (757) |
| Ending deferred tax liability | 44,890 | 42,001 |

The Company has operating losses available for carryforward in Canada as at December 31, 2012 of \$55 million expiring beginning in 2028.

The operating losses will expire as follows:

In thousands of dollars

| | |
|--------------|---------------|
| 2028 | 617 |
| 2029 | 83 |
| 2030 | 11,927 |
| 2031 | 26,177 |
| 2032 | 16,196 |
| Total | 55,000 |

Temporary Differences Associated with Northland Investments

The temporary difference associated with investments in Northland's subsidiaries is \$27.7 million. A deferred tax liability associated with these investments has not been recognized, as Northland controls the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

Northland periodically assesses its liabilities and contingencies for all tax years open to audit based upon the latest information available. For those matters where it is probable that an adjustment will be made, Northland has recorded its best estimate of these liabilities, including related interest charges. Inherent uncertainties exist in estimates of tax contingencies due to changes in tax laws. Although management believes they have adequately provided for the probable outcome of these matters, future results may include favourable adjustments to these estimated tax liabilities in the period the assessments are made or resolved or when the statute of limitation lapses. The final outcome of tax examinations may result in a materially different outcome than assumed in the tax liabilities.

16. Derivative Financial Instruments

The derivative financial instruments consist of the following:

| As at December 31, in thousands of dollars | 2012 | 2011 |
|--|-----------|-----------|
| Unrealized (loss) on interest rate swaps | (216,745) | (218,700) |
| Unrealized gain on US\$ foreign exchange contracts | 42 | 513 |
| Unrealized gain on euro foreign exchange contracts | 1,137 | 1,094 |
| | (215,566) | (217,093) |

17. Equity

17.1 Preferred Shares

Northland's Preferred Shares balance contains Series 1 and newly issued Series 3 Preferred Shares. See summary for each class below:

Series 1 Preferred Shares

On July 28, 2010, Northland issued 6 million Series 1 Preferred Shares, at a price of \$25.00 per share, for aggregate gross proceeds of \$150 million, as summarized below:

| In thousands of dollars except for Preferred Shares | Preferred Shares | Amount |
|---|------------------|----------------|
| January 1, 2011 | 6,000,000 | 145,946 |
| Deferred income taxes | — | (308) |
| December 31, 2011 | 6,000,000 | 145,638 |
| Deferred income taxes | — | (277) |
| December 31, 2012 | 6,000,000 | 145,361 |

The holders of Series 1 Preferred Shares are entitled to receive fixed cumulative preferential dividends at an annual rate of \$1.3125 per share, payable quarterly, as and when declared by Northland's Board of Directors. The Series 1 Preferred Shares yield 5.25% annually for the initial five-year period ending September 30, 2015, with the first dividend payment having occurred on September 30, 2010. The dividend rate will reset on September 30, 2015, and every five years thereafter at a rate equal to the then five-year Government of Canada bond yield plus 2.80%. The Series 1 Preferred Shares are redeemable on September 30, 2015, and on September 30 of every fifth year thereafter.

The holders of Series 1 Preferred Shares have the right to convert their shares into cumulative floating rate preferred shares, series 2 (**“Series 2 Preferred Shares”**), subject to certain conditions, on September 30, 2015, and on September 30 of every fifth year thereafter. The Series 2 Preferred Shares are obligations of Northland and carry the same features as the Series 1 Preferred Shares, except that holders will be entitled to receive quarterly floating-rate cumulative dividends, as and when declared by the Board of Directors, at a rate equal to the then 90-day Government of Canada treasury bill yield plus 2.80%. The holders of Series 2 Preferred Shares will have the right to convert their shares back into Series 1 Preferred Shares on September 30, 2020, and on September 30 of every fifth year thereafter.

Series 3 Preferred Shares

On May 24, 2012, Northland issued 4.8 million Series 3 Preferred Shares at a price of \$25.00 per share, for gross proceeds of \$120 million, as summarized below:

| In thousands of dollars except for Preferred Shares | Preferred Shares | Amount |
|---|------------------|----------------|
| Series 3 Preferred Shares issued | 4,800,000 | 120,000 |
| Cost of issue | — | (3,963) |
| Deferred income taxes | — | 797 |
| December 31, 2012 | 4,800,000 | 116,834 |

The holders of the Series 3 Preferred Shares are entitled to fixed cumulative dividends at an annual rate of \$1.25 per share, payable quarterly, as and when declared by the Board of Directors of Northland. The Series 3 Preferred Shares yield 5% annually for the initial five-year period ending December 31, 2017. The dividend rate will reset on December 31, 2017 and every five years thereafter at a rate equal to the then five-year Government of Canada Bond yield plus 3.46%. The Series 3 Preferred Shares are redeemable on December 31, 2017 and on December 31 of every fifth year thereafter.

The holders of the Series 3 Preferred Shares have the right to convert their shares into cumulative floating rate preferred shares, series 4 (**“Series 4 Preferred Shares”**), subject to certain conditions, on December 31, 2017 and on December 31 of every fifth year thereafter. The Series 4 Preferred Shares carry the same features as the Series 3 Preferred Shares, except that holders will be entitled to receive quarterly floating rate cumulative dividends, as and when declared by the Board of Directors at a rate equal to the then 90-day Government of Canada Treasury Bill yield plus 3.46%. The holders of the Series 4 Preferred Shares have the right to convert their shares into Series 3 Preferred Shares on December 31, 2022 and on December 31 of every fifth year thereafter.

During the year ending December 31, 2012, \$7.9 million of Series 1 Preferred Share dividends were paid, excluding taxes (2011 – \$7.9 million) and \$3.6 million of Series 3 Preferred Share dividends were paid, excluding taxes (2011 – \$nil).

17.2 Shares

Northland is authorized to issue an unlimited number of Shares.

The change in Shares during 2012 and 2011 was as follows:

| In thousands of dollars except for Shares | Shares | Amount |
|---|-------------------|----------------|
| Outstanding as of January 1, 2011 | 75,034,598 | 806,775 |
| Change in deferred taxes | | (218) |
| Conversion of 2011 convertible unsecured convertible debentures | 1,505,680 | 18,821 |
| Conversion of 2014 convertible unsecured convertible debentures | 1,348,603 | 16,750 |
| Shares issued under DRIP ⁽¹⁾ | 138,138 | 2,232 |
| Outstanding as of December 31, 2011 | 78,027,019 | 844,360 |
| Change in deferred taxes | — | (198) |
| Exercise of Replacement Rights | 5,267,372 | 76,991 |
| Shares issued under LTIP ⁽²⁾ | 55,357 | 974 |
| Conversion of 2014 Debentures | 844,737 | 10,492 |
| Shares issued under DRIP ⁽¹⁾ | 1,847,445 | 31,692 |
| Outstanding as of December 31, 2012 | 86,041,930 | 964,311 |

(1) Dividend Reinvestment Plan

(2) Long-Term Incentive Plan

Exercise of Replacement Rights

On January 16, 2012, 4,528,269 Replacement Rights held by Northland senior management related to the terms of the Merger, became exercisable and were subsequently exchanged for Shares. An additional 739,103 contingent Replacement Rights were exchanged for Shares based on certain facilities achieving commercial operations. See Note 17.3 for further detail.

Dividend Reinvestment Plan

Northland's DRIP provides shareholders and the Class A shareholder the right to reinvest their dividends in Shares at a discount to the market price as defined in the Plan. Shares issued through the DRIP are currently from Northland's treasury at the election of Northland's Board of Directors. The issue price for the reinvested Shares on each dividend payment date is the volume-weighted average trading price of Shares on the TSX for the five trading days immediately preceding the dividend payment date less a 5% discount. Northland's Board of Directors has the discretion to alter or eliminate the 5% discount or to revert to market purchases of Shares at any time.

Long-Term Incentive Plan

Northland's LTIP provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries. The number of Shares awarded at each milestone is determined using the amount of expected development profits at that milestone date. As a result, the amount of LTIP costs recognized depends on the estimated number of Shares to be issued at each milestone date, which in turn is based on management's best estimate of a project's expected development profit. Changes in estimates about the number of Shares to be issued, forfeiture rates and vesting dates and changes in fair value up to the grant date are recognized in the period of the change. During 2011, milestones were achieved requiring management to estimate the share-based cost of LTIP awards. For the year ending December 31, 2012, Northland capitalized \$7.6 million (2011 – \$2.5 million), and expensed \$0.3 million (2011 – \$nil), of costs under the LTIP. A total of \$10.1 million of LTIP costs have been capitalized and included in property, plant and equipment since the Plan's inception. Forfeitures have been assumed to be \$nil.

17.3 Convertible Shares and Replacement Rights

The terms and conditions of Northland's Class A Shares, Class B Shares and Class C Shares are defined in Northland's Articles (Replacement Rights are defined in separate agreements) and are related to the Merger.

On the Conversion Date, January 16, 2012, all of Northland's Class A Shares became exchangeable on a one-for-one basis into Shares and became entitled to dividends on the same date as the Shares. Included in the original 25,645,598 Class A Shares were 6,763,062 Class A Shares that were previously subject to a reduction if Northland failed to declare annual dividends of at least \$1.08 per Share prior to the Conversion Date. As of the date of this report, no Class A Shares have been converted into Shares. Additionally, 4,528,269 Replacement Rights held by senior management of Northland became exercisable and were subsequently exchanged for Shares.

The terms of Northland's Class B Shares and Class C Shares provide that these securities are to be converted into Class A Shares at defined milestones related to the development profits attributable to certain of Northland's electricity generation projects as they achieve commercial operations. In addition, contingent Replacement Rights become exchangeable for Shares in proportion to the remaining Class C Shares that convert into Class A Shares.

A process for determining the convertibility of these securities (“**Determination Process**”) was established under the terms of the Merger and restated in Northland’s Articles. Northland’s 100.5 MW Mont Louis wind farm, 86 MW Spy Hill facility and four rooftop solar projects achieved commercial operations in 2011. These projects, along with the South Kent development project that was sold in 2011, were included in the first Determination Process. A special committee of the independent directors of Northland (“**Special Committee**”) was appointed by the Board to oversee the first Determination Process and the Special Committee retained BMO Nesbitt Burns Inc. as its independent financial adviser to determine the fair market value and the development profits of these projects as required by Northland’s Articles.

In January 2012, as a result of the first Determination Process, 4,206,270 Class C Shares were converted into Class A Shares on a one-for-one basis, 739,103 contingent Replacement Rights were exchanged for Shares and 5,464 contingent Replacement Rights were cancelled.

Subsequent to the first Determination Process, 4,289,808 Class C Shares and 8,067,723 Class B Shares remain outstanding and may be converted into Class A Shares in further Determination Processes. In addition, up to an additional 759,355 contingent Replacement Rights may become exchangeable for Shares in proportion to the remaining Class C Convertible Shares that convert into Class A Shares.

Class A Shares

| In thousands of dollars except for Shares | Number | Amount |
|---|-------------------|----------------|
| January 1, 2011 and December 31, 2011 | 25,645,598 | 374,850 |
| Conversion of Class C Shares | 4,206,270 | 61,481 |
| December 31, 2012 | 29,851,868 | 436,331 |

Class C Shares

| In thousands of dollars except for Shares | Number | Amount |
|---|------------------|---------------|
| January 1, 2011 and December 31, 2011 | 8,496,078 | 124,183 |
| Converted into Class A Shares | (4,206,270) | (61,481) |
| December 31, 2012 | 4,289,808 | 62,702 |

Class B Shares

At December 31, 2012, the 8,067,723 Class B Shares continue to be classified as financial liabilities and are remeasured based on Northland's Share price as follows:

| In thousands of dollars | Amount |
|--------------------------|----------------|
| January 1, 2011 | 117,922 |
| Fair value change | 14,308 |
| December 31, 2011 | 132,230 |
| Fair value change | 14,199 |
| December 31, 2012 | 146,429 |

Replacement Rights

| In thousands of dollars except for Replacement Rights | Number | Amount |
|---|----------------|---------------|
| January 1, 2011 and December 31, 2011 | 6,032,191 | 88,169 |
| Exchanged into Shares | (5,267,372) | (76,991) |
| Cancelled Replacement Rights | (5,464) | (80) |
| December 31, 2012 | 759,355 | 11,098 |

18. Finance Costs

Finance costs consist of the following:

| Years ended December 31, in thousands of dollars | 2012 | 2011 |
|--|---------------|---------------|
| Interest on debt, borrowings and bank fees | 62,809 | 53,700 |
| Discount on provisions for decommissioning liability | 402 | 315 |
| Amortized transaction costs | 755 | 1,026 |
| | 63,966 | 55,041 |

19. Impairment of Property, Plant and Equipment, Intangible Assets and Goodwill

Northland has determined that assets at each facility will be grouped together to form a CGU for purposes of impairment testing. Property, plant and equipment, contracts and goodwill have been allocated to CGUs for this purpose to determine the carrying amount.

The recoverable amount of the CGUs was determined using the value-in-use method, whereby the net cash flows are determined on the basis of business plans and budgets approved by senior management. The calculation of value in use for all of the above CGUs is most sensitive to the following assumptions:

- **GROWTH RATE OF 2%** – The rate is used to extrapolate CGU cash flow projections in the discounted cash flow approach. The rate is based on readily available published industry research.
- **DISCOUNT RATE** – Pre-tax discount rates reflect the current market assessment of the risks specific to each CGU. The discount rate was estimated based on the weighted average cost of capital for the industry. The rate was further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. The rate varied by generation type (“thermal” and “renewables,” which includes wind and solar generating facilities) to account for the different market risks associated with each type as follows:

| | Thermal | Renewables | Managed facilities |
|-----------------------------------|---------|------------|--------------------|
| Before tax discount rates | | | |
| Applicable to PPA cashflows: | | | |
| October 1, 2012 | 7.6% | 7.8% | 7.6% |
| October 1, 2011 | 7.9% | 8.1% | 7.9% |
| Applicable to post-PPA cashflows: | | | |
| October 1, 2012 | 9.6% | 9.9% | 9.5–12.5% |
| October 1, 2011 | 9.9% | 10.1% | 10.3–12.8% |

During the fourth quarter of 2012, Northland completed its annual comprehensive impairment assessment based on fair value estimates derived from the long-range forecasts and market values evidenced in the marketplace. As a result, Northland recorded an impairment charge of \$19.3 million against goodwill and \$8.6 million against contracts currently included in “other intangibles and contracts.” The \$8.6 million impairment to contracts was partially offset by a \$6.9 million contract recovery at Northland’s managed facilities due to favourable changes in market estimates. The impairments were largely a result of changes in cash flow forecasts for certain assets and unfavourable changes in other market estimates; in addition, absent any changes to assumptions around growth rate or discount rate, Northland expects to record annual goodwill impairments due to the passage of time.

20. Dividends

Dividends totalling \$1.08 per share (2011 – \$1.08), being aggregate dividends of \$123.8 million (2011 – \$83.2 million), were declared for the year ended December 31, 2012. Total dividends declared for 2012 consists of \$92.1 million of cash dividends and \$31.7 million of share dividends pursuant to Northland's DRIP.

21. Loss per Share

The calculation of basic net loss per share is based on the consolidated net (loss) for the period, less preferred share dividends divided by the sum of the weighted average number of shares outstanding and the weighted average number of contingent/convertible shares and contingent Replacement Rights recognized as equity for accounting purposes. Diluted net income (loss) per share is calculated by dividing consolidated net income (loss), net of preferred share dividends, plus expenses related to the debt that is being converted by the weighted average number of shares used in the basic net income per share calculation plus the number of Shares that would be issued assuming conversion of the 2014 Debentures into Shares and the weighted average number of contingent/convertible shares and contingent Replacement Rights recognized for accounting purposes during the period.

The reconciliation of the numerator in calculating diluted net income for the years ended December 31 is as follows:

| In thousands of dollars | 2012 | 2011 |
|--|----------|----------|
| Net (loss) for the year | (9,913) | (63,109) |
| Less: Preferred share dividends, net | (11,484) | (7,875) |
| Net (loss) attributable to ordinary equity holders of Northland for basic earnings | (21,397) | (70,984) |
| Net (loss) attributable to ordinary equity holders of Northland adjusted for the effect of dilution | (21,397) | (70,984) |

The reconciliation of the denominator in calculating basic and diluted per-share amounts for the years ended December 31 is as follows:

| | 2012 | 2011 |
|---|-------------|-------------|
| Weighted average number of Shares outstanding | 85,390,019 | 76,863,084 |
| Weighted average number of Class A Shares | 29,667,987 | 25,645,598 |
| Weighted average number of Class C Shares | 4,473,689 | 8,496,078 |
| Weighted average number of Replacement Rights | 1,006,758 | 6,032,191 |
| Weighted average number of shares outstanding, basic and diluted | 120,538,453 | 117,036,951 |

The inclusion of the convertible securities (Class B Shares) and the conversion of the convertible unsecured subordinated debentures are anti-dilutive for the years ended 2012 and 2011 and have therefore been excluded from the calculation of the diluted weighted average number of Shares.

22. Commitments

The following is a summary of the material commitments that Northland and its subsidiaries have entered into as at December 31, 2012.

The majority of Northland's revenues are earned under long-term PPAs with government-related entities such as the Ontario Electricity Financial Corporation (**OEFC**), Ontario Power Authority, SaskPower and Hydro-Québec. Northland and its facilities are not obligated to deliver electricity under these contracts; however, in certain circumstances if a facility fails to meet the performance requirements under its respective PPA, liquidating damages may apply or the contract may be terminated after a specified period of time.

Certain Northland facilities provide steam to customers under long-term contracts. There are no penalties for failure to provide the specified maximum quantities, but the contract may be terminated for failure to perform after a specified period of time.

Certain Northland gas-fired facilities have entered into agreements for the purchase of natural gas for various terms. These agreements were entered into in the normal course of business to purchase natural gas for electricity production and steam generation on terms that would protect the profitability of sales under the PPAs and the steam sales agreements. There are no penalties for failure to purchase natural gas under these contracts; however, failure to purchase the specified minimum quantities could reduce the suppliers' delivery obligations.

Certain Northland gas-fired facilities have entered into agreements for natural gas transportation that incorporate standard industry terms, including the approval of tariffs by applicable regulatory authorities. The natural gas transportation agreements include substantial demand charges, which are incurred whether or not gas is shipped.

Northland's natural-gas-fired turbines and wind turbines are maintained under long-term contracts with the original equipment suppliers. In certain circumstances, if Northland were to terminate any of the agreements, the termination payment would be material.

Capital Commitments

In the normal course of operations, as at December 31, 2012, Northland has committed to spending approximately \$197 million on capital projects. The majority of the commitment relates to the construction of the North Battleford facility, the ground-mount solar projects and commitment to purchase turbines for the McLean's Mountain wind farm.

23. Operating Segment Information

In accordance with IFRS 8, "Operating Segments," Northland has identified the following operating segments: i) thermal; ii) wind; and iii) other, the last of which includes management and operations services, rooftop solar facilities, investment income from Panda-Brandywine, wood chipping and engineering services, as well as the administration of Northland. These have been identified based upon the nature of operations and technology used in the generation of electricity. Northland analyzes the performance of its operating segments based on their operating income, which is defined as revenue less operating expenses.

Significant information for each segment for the income statement is as follows:

In thousands of dollars

| Year ended 2012 | Thermal | Wind | Other | Eliminations ⁽¹⁾ | Total |
|--|---------|--------|---------|-----------------------------|---------|
| External revenue | 297,056 | 44,409 | 20,838 | – | 362,303 |
| Inter-segment revenue | – | – | 5,337 | (5,337) | – |
| Total revenue | 297,056 | 44,409 | 26,175 | (5,337) | 362,303 |
| Depreciation of property, plant and equipment | 37,887 | 23,861 | 810 | – | 62,558 |
| Finance costs (net) | 41,208 | 17,830 | 4,113 | – | 63,151 |
| Segment operating income (loss) | 115,914 | 6,684 | (7,807) | – | 114,791 |

In thousands of dollars

| Year ended 2011 | Thermal | Wind | Other | Eliminations ⁽¹⁾ | Total |
|--|---------|--------|----------|-----------------------------|---------|
| External revenue | 318,921 | 31,761 | 5,539 | – | 356,221 |
| Inter-segment revenue | – | – | 3,793 | (3,793) | – |
| Total revenue | 318,921 | 31,761 | 9,332 | (3,793) | 356,221 |
| Depreciation of property, plant and equipment | 37,777 | 18,724 | 485 | – | 56,986 |
| Finance costs (net) | 35,711 | 12,709 | 5,877 | – | 54,297 |
| Segment operating income (loss) | 108,084 | 3,644 | (17,318) | – | 94,410 |

(1) Inter-segment revenues are eliminated on consolidation.

Significant information for each segment for the balance sheet is as follows:

In thousands of dollars

| As at December 31, 2012 | Thermal | Wind | Other ⁽¹⁾ | Total |
|--------------------------------------|-----------|---------|----------------------|-----------|
| Investment in Panda-Brandywine | — | — | 3,500 | 3,500 |
| Property, plant and equipment | 658,107 | 313,829 | 750,187 | 1,722,123 |
| Contracts and other intangibles, net | 115,063 | 1,393 | 83,152 | 199,608 |
| Goodwill | 46,895 | 26,610 | 149,069 | 222,574 |
| Total assets | 1,068,013 | 412,483 | 1,038,185 | 2,518,681 |

In thousands of dollars

| As at December 31, 2011 | Thermal | Wind | Other ⁽¹⁾ | Total |
|--------------------------------------|-----------|---------|----------------------|-----------|
| Investment in Panda-Brandywine | — | — | 5,400 | 5,400 |
| Property, plant and equipment | 689,560 | 338,773 | 390,762 | 1,419,095 |
| Contracts and other intangibles, net | 141,110 | 1,585 | 74,600 | 217,295 |
| Goodwill | 66,164 | 26,610 | 149,069 | 241,843 |
| Total assets | 1,156,980 | 451,629 | 645,419 | 2,254,028 |

(1) Included in "other" are projects under construction that will be transferred to the appropriate segment once commercial operations have begun.

Information on operations by geographic area is as follows:

For year ended, in thousands of dollars

| Sales | 2012 | 2011 |
|--------------------|----------------|-------------|
| Canada | 358,555 | 352,047 |
| Germany | 3,748 | 4,174 |
| Total sales | 362,303 | 356,221 |

As at December 31, in thousands of dollars

| Property, plant and equipment, net | 2012 | 2011 |
|---|------------------|-------------|
| Canada | 1,718,207 | 1,414,240 |
| Germany | 3,916 | 4,855 |
| Total property, plant and equipment, net | 1,722,123 | 1,419,095 |

As at December 31, 2012, all of Northland's assets and sales were located in Canada and Germany with the exception of the investments in and income from Panda-Brandywine, which is in the United States. All of Northland's reported goodwill relates to operating segments located in Canada and Germany.

24. Litigation, Claims and Contingencies

Iroquois Falls has an outstanding claim against the engineering, procurement and construction contractor for the Iroquois Falls facility related to a possible reduction in the expected life of part of one of the plant's major components, resulting in a warranty breach. The contractor has counterclaimed for its costs related to this action, which would be payable only if Iroquois Falls' claim is unsuccessful. It is currently estimated that should Iroquois Falls be unsuccessful in its claim, costs payable by Iroquois Falls would be between several hundred thousand and one million dollars.

On December 27, 2012, Iroquois Falls, along with a few other facilities, filed Notices of Application and Notices of Claim against OEFC. The claims relate to decreased PPA revenue escalations as a result of OEFC's interpretation of certain provisions of the Non-Utility Generator contracts between each generator and OEFC in relation to the use of the Global Adjustment as a price escalator. The claims are in their initial proceedings and the outcome at this time is unknown.

25. Management and Other Fees and Related-Party Disclosures

Fees earned from entities not consolidated with Northland's results are reported in Northland's consolidated statements of income (loss) and deficit as "other." During 2012, Northland earned fees of \$18.6 million (2011 – \$3.9 million). These fees include natural gas management fees, performance incentive fees and lease revenue.

Northland is entitled to balances receivable from these entities totalling \$10.4 million as of December 31, 2012 (2011 – \$4.9 million).

Joint Venture in which Northland is a Venturer

Northland has an interest in four solar rooftop projects in partnership with Loblaw Companies Limited.

Compensation of Key Management Personnel of Northland

Key management of Northland includes members of the Board of Directors, as well as members of the executive. Key management personnel remuneration expensed during 2012 includes \$2.8 million (2011 – \$2.5 million) of short-term employee benefits. An additional \$6.3 million of LTIP costs have been capitalized for the executive compensation tied directly to the success of the development and construction of certain projects. The LTIP shares relating to these projects will be granted only if certain project milestones are achieved.

Transactions with Shareholders

There were no material transactions during the year with shareholders of Northland.

Entity with Significant Influence Over Northland

Northland Power Holdings Incorporated, a corporation indirectly owned by James C. Temerty, owns 34,141,676 Class A and Class C Shares, representing a voting interest of 29% of Northland. Mr. Temerty also beneficially owns or has control or direction over Northland Shares, representing an additional voting interest of 5%, for a total of 34%.

26. Post-Reporting Date Events

The following events have occurred between the reporting date and the date of authorization.

On January 21, 2013, Spy Hill issued \$156.3 million in 4.14% senior secured amortizing Series A bonds. The bonds have been rated A (stable) by DBRS and will be fully amortized by their maturity in March 2036. The proceeds from the bond issuance were used to repay Spy Hill's existing borrowings in their entirety.

On January 23, 2013, Kingston repaid its outstanding borrowings in their entirety and settled associated interest rate swaps.

27. Authorization of Consolidated Financial Statements

The consolidated financial statements for the year ended December 31, 2012 (including comparatives) were approved by the Board of Directors on February 21, 2013.

Corporate Information

Directors and Officers of Northland Power Inc.

DIRECTORS

| | |
|--|------------------------|
| Mr. James C. Temerty | Mr. Sean Durfy |
| The Right Honourable John N. Turner | Mr. Pierre R. Gloutney |
| Ms. Linda L. Bertoldi | Mr. V. Peter Harder |
| Dr. Marie Bountrogianni | |

OFFICERS

| | |
|---|--|
| Mr. John W. Brace <i>President and Chief Executive Officer</i> | Ms. Linda L. Bertoldi <i>Secretary</i> |
| Mr. Salvatore Mantenuto <i>Chief Operating Officer and Chief Development Officer</i> | Mr. Gemi (Jim) Cipolla <i>Vice President, Gas and Electricity Marketing</i> |
| Mr. Paul J. Bradley <i>Chief Financial Officer</i> | Mr. David Dougall <i>Vice President, Operations</i> |
| Mr. Anthony F. Anderson <i>Chief Investment Officer</i> | Mr. Dino Gliosca <i>Vice President, Engineering</i> |
| Mr. Michael D. Shadbolt <i>Vice President and General Counsel</i> | |

General Information

REGISTRAR AND TRANSFER AGENT

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

COMMON SHARES, DEBENTURES AND PREFERRED SHARES

Northland common shares, convertible unsecured subordinated debentures and Series 1 and Series 3 preferred shares are listed on the Toronto Stock Exchange and trade under the symbols NPI, NPI.DB.A, NPI.PR.A and NPI.PR.C, respectively.

DIVIDEND REINVESTMENT PLAN (DRIP)

Northland's DRIP provides common shareholders and the Class A shareholder the opportunity to elect to reinvest their dividends in common shares of Northland at a 5% discount to the market price.

TAX CONSIDERATIONS

Northland's common shares, preferred shares and convertible unsecured subordinated debentures are qualified investments for RRSPs and DPSPs under the Canadian Income Tax Act.

Shareholder Information

CONTACT

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416-962-6262

Facsimile
416-962-6266

E-Mail
investorrelations@northlandpower.ca

WEBSITE
www.northlandpower.ca

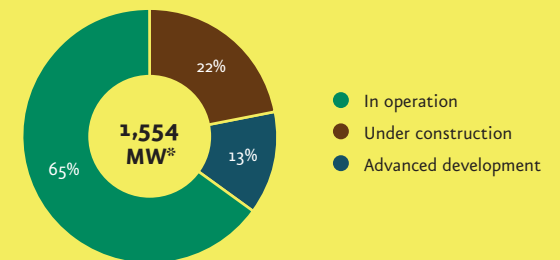
ADDRESS
30 St. Clair Avenue West
17th Floor
Toronto, Ontario, Canada
M4V 3A1



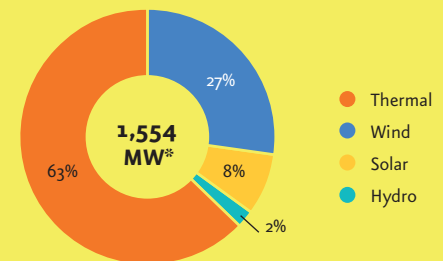
Diversified by Geography and Technology

Northland's operating assets and construction and development pipeline are powering steady returns and significant growth. We have experience and expertise across a broad spectrum of technologies, including natural gas (simple-cycle, combined-cycle and cogeneration), biomass, hydro, wind and solar power. Our proficiency in each of these technologies enables us to work ahead of the curve to operate and pursue a diverse mix of clean and renewable projects that will ensure Northland remains stable and profitable for many years to come.

By Phase



By Technology



* Northland's net economic interest



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Toronto, Ontario, Canada
M4V 3A1

northlandpower.ca

| | |
|-------------------|--|
| Cochrane | |
| Kirkland Lake | |
| Iroquois Falls | |
| Kingston | |
| Panda-Brandywine | |
| Germany | |
| Jardin d'Éole | |
| Thorold | |
| Spy Hill | |
| Mont Louis | |
| Ontario Solar | |
| North Battleford | |
| McLean's Mountain | |
| Grand Bend | |
| Kabinakagami | |
| Frampton | |