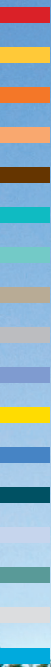


INTELLIGENT **ENERGY** for a GREENER PLANET

2013 Annual Report





Cover: In 2013 Northland reached an important milestone – the addition of ground-mounted solar to the Company’s operating assets. Between June 21 and September 23, six 10 MW ground-mounted solar facilities across Ontario began operations under 20-year contracts with the Ontario Power Authority through the Feed-in Tariff Program. Two additional 10 MW projects were completed shortly after year-end, and another 10 MW project is currently in the late stages of construction. The final four additional 10 MW solar facilities began construction activities in February 2014. All 130 MW of ground-mounted solar facilities are expected to be operational by early 2015.

Above: The North Battleford facility is an example of Northland’s development progress and ability to deliver a complex project on time and on budget. The facility is Northland’s largest construction project completed to date, with a total cost of \$641 million, and commenced commercial operations in June 2013. The facility is now delivering strong cash flows that will be sustained over the next 20 years and beyond. Projects such as North Battleford enable Northland to continue to meet our commitments to deliver reliable dividends to investors.



NORTHLAND POWER INC.

Northland's goal is to be a leader
in the development and operation of sustainable
energy assets in Canada and worldwide.

We will grow by developing, building and owning projects that generate electricity
over the long term using a range of clean-burning natural gas and renewable resources.

We are committed to managing our business ethically and responsibly, to delivering
strong, dependable results to our shareholders and partners, and to working
with governments, First Nations, host communities and all of our stakeholders
to create a more prosperous future for all.

NORTHLAND POWER INC.

17th Annual Report

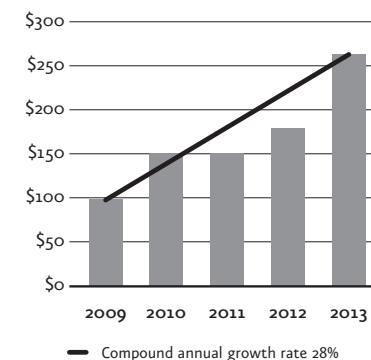
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2013 Highlights

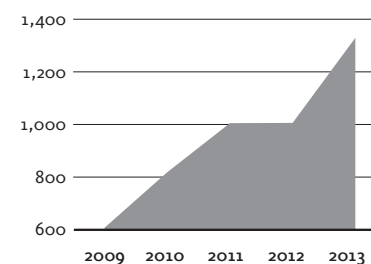
- Completed over **\$900 million in construction projects**, including the 260 MW North Battleford facility and 60 MW of ground-mounted solar facilities.
- Completed four successful debt **financings totalling over \$1 billion**:
 - \$156 million** bond offering for the Spy Hill facility;
 - \$667 million** bond offering for the North Battleford facility;
 - \$135 million** financing for McLean's Mountain; and
 - \$84 million** financing for Ground-mounted Solar Phase II projects.
- Added **360 MW** to the advanced development pipeline, including the right to acquire a 60% majority equity stake (as of January 2014) in Gemini, the 600 MW offshore wind project off the coast of the Netherlands in the North Sea with total project costs of **€2.8 billion**.
- Upgraded credit rating by Standard & Poor's to **BBB Stable** from BBB- in November.
- Increased **adjusted EBITDA of \$263 million** by **47%** from 2012.
- Generated **free cash flow of \$130 million**, more than **double** the amount in 2012.
- Delivered dividends of **\$1.08** per share.
- Appointed **Sean Durfy** as President and Chief Development Officer in January 2014 to lead Northland's development activity in North America and internationally.

Continued Growth

Adjusted EBITDA in millions



Operating capacity¹ in MW



(1) Represents Northland's economic interest.

Northland Power is an independent power producer dedicated to developing, building, owning and operating facilities in Canada and internationally that produce electricity from clean-burning natural gas and renewable resources such as wind, hydro, solar and biomass.

We have been in business since 1987, and our shares have been publicly traded since 1997.

Established over 25 years ago, we were one of Canada's first independent power producers, building the first thermal plant in the country to use unprocessed wood chips as fuel. Since then, we have achieved a remarkable growth trajectory to 1,349 megawatts (**MW**) now in operation across Canada, the U.S. and Europe and more in the growth pipeline. With a team of over 200 people, Northland is recognized for its innovation and expertise from both a financial and technical perspective and has a track record of building projects on time and on budget.

We are continuing to grow, working independently and with our partners on 110 MW of projects currently under construction, another 750 MW (439 MW net interest to Northland) of advanced development projects with power purchase agreements, and a pipeline of earlier-stage, attractive opportunities. Our growth is driven by our promise to deliver reliable returns to shareholders while seizing – and often creating – innovative and timely development opportunities.

Northland's commitment to our investors is to return a reliable, substantial dividend, supported by a sound business model. We have delivered on these commitments since becoming a public entity in 1997 and have consistently outperformed the TSX, while almost tripling our MW in operation since the time of the 2009 merger.

We define our strategy as a commitment to delivering intelligent energy, which means we will:

- Continue to deliver dividends to shareholders;
- Pursue profitable growth projects that produce sustainable results and enhance shareholder values;
- Leverage innovative technological, partnership and financing opportunities;
- Complete projects on time and on budget;
- Maintain our culture of health and safety, community engagement and respect for the environment; and
- Balance a focus on growth with a commitment to excellence.

Northland had a strong and profitable 2013.

2013 Significant Events

We increased our MW in operation by over 20%, to a total of 1,329 as of December 31, 2013. This was a result of successfully delivering on several construction projects, while continuing to advance a number of important initiatives key to the Company's sustained growth. Here are some of the highlights of our 2013 accomplishments:

- Achieved a 104% increase in free cash flow from 2012, primarily reflecting additional cash flows from North Battleford and ground-mounted solar facilities now in operation;
- Increased adjusted earnings before interest, taxes, depreciation and amortization (**adjusted EBITDA**) by 47% from 2012;
- Successfully raised over \$1 billion in project financings, including over \$800 million of bond refinancings for the Spy Hill and North Battleford facilities;
- Had our corporate credit rating upgraded by Standard & Poor's to BBB stable, highlighting Northland's successful completion of growth projects and ability to produce substantial cash flows into the future;
- Completed \$900 million in construction projects, including the 260 MW North Battleford natural gas facility and 60 MW ground-mounted solar facilities while significantly improving the payout ratio;
- Began solar operations in Ontario – as of today, eight 10 MW facilities are operational and all 13 facilities contracted under Ontario's Feed-in Tariff Program are expected to be operational by early 2015;
- Acquired the controlling interest in the Kirkland Lake and Cochrane facilities, allowing for greater control over the future of these projects as their original contracts require extension or renegotiation;
- Progressed on the development of the 100 MW Grand Bend wind project, including entering into partnership with the Aamjiwnaang and Bkejwanong First Nations;
- Secured the rights to a majority equity share in Gemini, a 600 MW offshore wind power generation project that has all permits in place and is expected to reach financial close in the first half of 2014;
- Achieved a level of 95% availability in our operating assets; and
- Continued a strong health and safety record of no lost-time incidents.

2013 Performance

Northland's operating facilities had a safe and productive year, again performing without a lost-time incident and performing largely to expectations. Over the course of the year, Northland's adjusted EBITDA increased by 47%, and free cash flow increased by over 100% largely due to the contribution of North Battleford, which began operations on June 5, 2013, and the six Ground-mounted Solar Phase I facilities, which reached commercial operations from June 21 through September 23. Our two Quebec wind farms, Mont Louis and Jardin, achieved improved results over last year due to strong winds and fewer outage periods.

This growth trend in adjusted EBITDA and free cash flow is expected to continue through 2014 and beyond as additional projects come online and the North Battleford and existing solar facilities experience a full year of operations. Completion of additional development projects, most notably Gemini, also provides additional growth beyond 2014. For additional discussion about our results, please refer to our Management's Discussion and Analysis.

Creating and seizing development opportunities that deliver attractive returns over the long term while containing risk remain a key focus for Northland. While Northland is expanding its development activity in international markets, Canada remains Northland's home market and will continue to be one of our key areas for development in 2014. Through many years of experience and industry leadership, Northland has developed a deep knowledge and understanding of opportunities, drivers and risks in Canada. This knowledge will guide our focus as we execute projects with power purchase agreements, advance existing development projects and identify solid opportunities to expand our development pipeline.

As always, one of Northland's top priorities in 2014 will be to complete projects for which power purchase agreements are already in place. These include the 60 MW McLean's Mountain wind farm located on Manitoulin Island (which is under construction), the 100 MW Grand Bend wind farm (which is currently completing permitting activities) and the 26 MW Kabinakagami hydroelectric project, all three of which are in partnership with various First Nations, and the 24 MW Frampton wind farm being developed in partnership with the local municipality. We are also advancing the remaining 50 MW of our ground-mounted solar projects, for a total of thirteen 10 MW facilities, all scheduled to be operational by 2015.

We understand the variable nature of energy requirements and opportunities in our home territories, such as Ontario, where the political uncertainty of a minority government, coupled with weak economic growth, has slowed the pace of new energy development. We will continue to nurture a number of promising opportunities that we hope to bring to fruition in the short to mid-term.

Concurrently, we have made it a priority to broaden the scope of our development activity, applying our prudent and disciplined development model to focus on strategically selected jurisdictions, including the United States and Europe. This approach positions us well to develop existing and new opportunities that are in alignment with our investment criteria in areas experiencing significant demand and offering attractive long-term returns.

As we continue to expand our development portfolio, our approach remains consistent: maintaining a balance in technological and geographical diversity, developing strong and effective partnerships, prudently managing development costs and pursuing sustainable growth.

Gemini

One such opportunity is Northland's involvement in Gemini. Following due diligence, in August 2013 Northland acquired the rights to a majority equity stake (60% as of January 2014) in the 600 MW offshore wind project, which will be located approximately 85 kilometres off the coast of the Netherlands in the North Sea. While offshore wind is still a new concept to many in North America, it is one that Northland has become very knowledgeable and excited about through our involvement in Gemini.

Northland is joined by a consortium of partners that bring wide-ranging expertise in the offshore wind industry, including Siemens Financial Project Ventures GmbH (20%), Van Oord Dredging and Marine Contractors BV (10%) and N.V. HVC, a joint venture of 48 Dutch municipalities and six water regulatory authorities (10%). All stakes are subject to approval by each party's board. With permits in hand and project financing nearing completion, Gemini is expected to reach commercial operations in 2017.

Gemini will play an important role in helping the Government of the Netherlands achieve renewable energy targets mandated by the European Union's Renewable Energy Directive, which calls for all member states to reach a 20% share of energy from renewable sources by 2020.

The offshore wind industry has matured significantly since its beginning 15 years ago, decreasing costs while increasing efficiencies. The Gemini project is structured to avoid the difficulties faced in earlier projects. First, rather than being dependent on the local transmission company to build the connection between the farm and the grid, which has previously resulted in projects running over schedule, we are building and are in control of our own. Second, projects are often undertaken with what is called a multi-contract structure, where the owner acts like a general contractor, managing several major supply and construction contracts and the various associated issues. Given the logistical complexity of offshore work, a minor problem in one contract can cascade into a major project issue. In contrast, Gemini has a two-contract structure that establishes fixed pricing in addition to a guaranteed schedule and performance. This is a proven concept and reflects the way that we have successfully built all of our recent projects in Canada, including North Battleford.

In addition, an allowance for weather delays is built into our contracts, modern purpose-built equipment and vessels will be used for construction and maintenance, and the turbines will be maintained under a long-term contract.

In summary, Gemini meets our stringent risk/reward criteria. We are confident that projects executed correctly and with the right partners, de-risk the offshore wind industry while continuing to provide robust return expectations.

According to the European Wind Energy Association, it is anticipated that there will be up to 150 gigawatts (**GW**) of installed offshore wind power in the EU by 2030, meeting 14% of the EU’s electricity demand. There is currently 5 GW of installed capacity in 58 operating offshore wind farms in European waters, with another 5.5 GW under construction or advanced development.

Alongside the industry’s continued growth in Europe, other jurisdictions around the world, including North America, are on the cusp of seizing the potential offered by offshore wind. To fulfill growth expectations, governments are increasingly looking to independent power producers; Northland is well positioned for growth in this burgeoning industry, which offers attractive, long-term returns to our investors.

**Gemini by
the Numbers**



Total MW	600
Number of turbines	150
Project cost	€2.8 billion
Relative reduction in CO ₂ emissions created	1,250,000 tons
Number of households powered by Gemini	785,000 per year
Percentage of Netherlands residents Gemini will power	9.2%
Average depth of water at project Gemini	28–36 metres
Distance from shore	85 km

We look forward to completing or advancing our numerous projects currently in various stages of advanced development and construction.

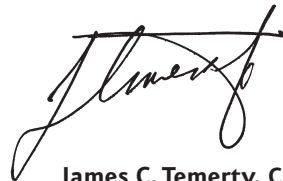
Expanding Our Horizons

Northland continues to view the future with much optimism. We look forward to completing and advancing our numerous projects currently in various stages of development and construction. Notably, we are actively engaged with our consortium partners and are playing a leading role in bringing Gemini to financial close and to the start of construction.

Gemini signals the significant potential for Northland in territories outside of our traditional markets. The addition of Sean Durfy to Northland's management team in the role of President and Chief Development Officer will allow us to further expand the reach of our development program while sustaining focus on traditional markets. Our priority will be to seek out meaningful projects that are consistent with our strict investment criteria and that offer long-term value to our shareholders. As we continue our growth story, we remain steadfast in our commitment to delivering reliable and consistent dividends to our shareholders, and continuing to pay out annual dividends totalling \$1.08 per share remains an ongoing priority.

In closing, we would like to thank Northland's Board of Directors for their guidance, insight and invaluable contribution throughout 2013. We would also like to thank all of Northland's employees for their hard work, loyalty and dedication to Northland's ongoing success. Finally, on behalf of everyone at Northland Power, thank you to each of our shareholders for investing in us and for your continued confidence in our abilities, potential and vision. Creating long-term value for your investment is top of mind in our efforts each and every day.

Sincerely,



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



John W. Brace
Chief Executive Officer

Management's Discussion and Analysis 2013

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, 2013, and the fiscal year then ended. It should be read in conjunction with Northland's 2013 audited consolidated financial statements. Additional information relating to Northland can be found in the Company's 2013 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 thousands of Canadian 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 that were considered reasonable on February 19, 2014; 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 2013 financial results and financial position with those of fiscal 2012 and is organized as follows:

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Section 1: Description of Business

As of December 31, 2013, Northland owns or has a net economic interest in power-producing facilities with a total capacity of approximately 1,329 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**) or similar commercial arrangements to creditworthy customers in order to ensure cash flow stability. Northland has 90 MW (60 MW net interest to Northland) of projects under construction, including 30 MW of ground-mounted solar projects (20 MW went into operations subsequent to year-end) and the 60 MW (30 MW net interest to Northland) McLean's Mountain wind project, which are all scheduled to reach commercial operations in 2014. Northland's advanced development projects encompass wind, solar and run-of-river hydro, including 166 MW (103 MW net interest to Northland) with PPAs awarded under the Ontario Power Authority (**OPA**) Feed-in Tariff Program (**FIT Program**), a 24 MW PPA with Hydro-Québec to construct a wind project near Frampton, Quebec, and the 600 MW (360 MW net interest to Northland) Gemini offshore wind project; Northland expects to construct these projects over the next four 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, together 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, together 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, together herein referred to as "**Thorold**";
- iv. North Battleford Power L.P., which owns a 260 MW natural-gas-fired combined-cycle facility located near Saskatoon in central Saskatchewan, together herein referred to as "**North Battleford**";
- v. Spy Hill Power L.P., which owns an 86 MW natural-gas-fired peaking facility located in eastern Saskatchewan, together herein referred to as "**Spy Hill**";
- vi. Saint-Ulric Saint-Léandre Wind L.P., which owns a 127.5 MW wind farm located in the Gaspésie region of Quebec, together herein referred to as "**Jardin**";
- vii. Mont-Louis Wind L.P., which owns a 100.5 MW wind farm located in the Gaspésie region of Quebec, together herein referred to as "**Mont Louis**";

- viii. 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"**;
- ix. Ground-mounted solar partnerships, which consist of six operating 10 MW solar projects in eastern and central Ontario, together herein referred to as **"Ground-mounted Solar Phase I"**; and three 10 MW solar projects under construction (two projects reached commercial operations after December 31, 2013) in eastern and central Ontario, together herein referred to as **"Ground-mounted Solar Phase II"**; and
- x. McLean's Mountain Wind Limited Partnership, which owns the 60 MW (30 MW net interest to Northland) wind farm under construction on Manitoulin Island in Ontario, which is expected to reach commercial operations in early 2014, together herein referred to as **"McLean's"**.

As a result of obtaining a controlling interest in Canadian Environmental Energy Corporation (**CEEC**) on April 1, 2013, Northland's 2013 consolidated financial statements include the financial results for the Kirkland Lake Power Corp. (**"Kirkland Lake"**) and Cochrane Power Corporation (**"Cochrane"**) facilities that Northland continues to manage on behalf of third-party, non-voting shareholders. Northland also owns a small wood-chipping facility in British Columbia, has a 19% equity interest in the Panda-Brandywine thermal facility in Maryland, has a 75% equity interest in four small rooftop solar projects in Ontario and receives management fees from Chapais Énergie, Société en Commandite (**"Chapais"**) for managing its 28 MW biomass-fired power facility in Chapais, Quebec.

Revenue from wood chipping 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 2013 AIF, dated February 19, 2014, for further details on Northland's facilities.

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 steady 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 18 years. The team operates and manages the Company's 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 by 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 (onshore and offshore), 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 provide reliable baseload and dispatchable power, grid support and backup for renewable generation as needed by the customer, which is generally intermittently. Northland's principal geographical focus for growth initiatives will be Canada, the United States, Europe and potentially other jurisdictions that match Northland's strict risk management criteria.

With respect to capital, Northland 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 fixed or hedged interest rates 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⁾	Gross project capacity	Economic interest	Northland economic interest capacity	Contract counterparty	PPA term	Fuel supply term
THERMAL						
Iroquois Falls	120.0 MW	100%	120.0 MW	OEFC [†]	December 2021 ⁽²⁾	2021 ⁽³⁾
Kingston	110.0 MW	100%	110.0 MW	OEFC	January 2017 ⁽²⁾	2017
Thorold	265.0 MW	100%	265.0 MW	OPA ^{††}	March 2030	N/A ⁽⁴⁾
Spy Hill	86.0 MW	100%	86.0 MW	SaskPower	October 2036	N/A ⁽⁵⁾
North Battleford	260.0 MW	100%	260.0 MW	SaskPower	June 2033	N/A ⁽⁵⁾
RENEWABLE						
Jardin	127.5 MW	100%	127.5 MW	Hydro-Québec	November 2029	N/A ⁽⁶⁾
Mont Louis	100.5 MW	100%	100.5 MW	Hydro-Québec	September 2031	N/A ⁽⁶⁾
German wind farms	21.5 MW	100%	21.5 MW	N/A ⁽⁷⁾	N/A ⁽⁷⁾	N/A ⁽⁶⁾
Ground-mounted Solar Phase I	60.0 MW	100%	60.0 MW	OPA	June–September 2033	N/A ⁽⁶⁾

continued...

Project ⁽¹⁾	Gross project capacity	Economic interest	Northland economic interest capacity	Contract counterparty	PPA term	Fuel supply term
MANAGED/OTHER						
Cochrane	42.0 MW	77% ⁽⁸⁾	32.3 MW	OEFC	January 2015	2016
Kirkland Lake	132.0 MW	77% ⁽⁸⁾	101.6 MW	OEFC	August 2030 ⁽⁹⁾	2015
Panda-Brandywine	230.0 MW	19%	43.7 MW	JP Morgan ^{†††}	May 2014	N/A ⁽¹⁰⁾
Rooftop solar	1.0 MW	75%	0.8 MW	OPA	April–September 2031	N/A ⁽⁶⁾

† 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) Northland has the option to extend the PPA subject to terms and conditions to be negotiated.

(3) On April 10, 2013, Northland entered into a long-term financial gas contract primarily to stabilize the price of future gas purchases from 2017 until the end of the PPA in 2021.

(4) 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.

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

(6) 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.

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

(8) On April 1, 2013, Northland acquired from the Probyn Group a 68% controlling interest in CEEC, which owns the voting shares in Kirkland Lake and Cochrane. As a result of this transaction, Northland now has an effective 77% residual economic interest in these facilities.

(9) The PPA requires that the rates for gas-fuelled capacity and energy payments in years 26 to 40 of the term be negotiated prior to the end of year 25 of the term. Negotiations with OEFC are currently under way.

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

Projects Under Construction

Project	Gross project capacity	Economic interest	Northland economic interest capacity	Region	Contract counterparty	PPA term ⁽¹⁾	Fuel supply term
Ground-mounted Solar Phase II ⁽³⁾	30.0 MW	100%	30.0 MW	Ontario	OPA	20 years	N/A ⁽²⁾
McLean's Mountain	60.0 MW	50%	30.0 MW	Ontario	OPA	20 years	N/A ⁽²⁾

(1) From the commercial operations date.

(2) 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.

(3) Two projects totalling 20 MW reached commercial operations after December 31, 2013.

Projects in Advanced Development

Project	Gross project capacity	Economic interest	Northland economic interest capacity	Region	Contract counterparty	PPA term ⁽¹⁾
Gemini offshore wind	600.0 MW	60% ⁽²⁾	360.0 MW	The Netherlands	Government of the Netherlands	15 years
Grand Bend wind	100.0 MW	50%	50.0 MW	Ontario	OPA	20 years
Ground-mounted Solar Phase III ⁽³⁾	40.0 MW	100%	40.0 MW	Ontario	OPA	20 years
Kabinakagami hydro	26.0 MW	50%	13.0 MW	Ontario	OPA	40 years
Frampton wind	24.0 MW	67%	16.0 MW	Quebec	Hydro-Québec	20 years

(1) From the commercial operations date.

(2) Shares are to be acquired prior to financial close.

(3) Construction activities at all four sites began in February 2014.

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. All gas turbines at Northland's thermal facilities (including Kirkland Lake and Cochrane) 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 thermal facilities, as described above, 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, Thorold and North Battleford, for gas turbine hot gas path and major overhauls. At Iroquois Falls, Kirkland Lake and Cochrane, the length of outages for gas turbine overhauls is reduced by the use of replacement turbines leased from GE, and lost revenue at Iroquois Falls 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. allows it to mitigate lost electricity production during shutdowns through the resale of contracted natural gas. Thorold and North Battleford are unable to directly mitigate lost income during outages; however, their 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.

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Post-Contract Economics

Northland's operating facilities earn revenue under long-term PPAs that generally have initial terms of 20 to 25 years. Northland's two managed plants will have their contracted PPAs expire (Cochrane) or require renegotiation (Kirkland Lake) in 2015. Certain other PPAs (i.e., Kingston and Iroquois Falls) have the option to be extended with the Ontario Electricity Financial Corporation (**OEFC**) upon reaching a mutually agreed pricing level. Negotiations to extend the 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 OEFC and operate largely as baseload facilities.

In addition, 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 and/or the OEFC in pursuit of obtaining new contracts or contract extensions. The timing and outcome of such negotiations cannot be determined at the present time.

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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:

In thousands of dollars except as indicated	2013	2012	2011
Electricity production (MWh*)			
Iroquois Falls	717,845	729,413	727,670
Kingston	812,091	769,149	819,298
Other ⁽¹⁾	1,861,679	1,006,929	1,149,221
	3,391,615	2,505,491	2,696,189
Sales	407,313	313,791	322,420
Cost of sales	153,565	130,817	152,293
Gross profit			
Iroquois Falls	47,065	46,764	47,533
Kingston	58,524	49,143	47,735
Thorold	68,943	69,143	70,983
Spy Hill ⁽²⁾	18,604	17,924	3,876
North Battleford ⁽³⁾	60,612	—	—
	253,748	182,974	170,127

continued...

.....			
In thousands of dollars except as indicated			
	2013	2012	2011
.....			
Plant operating costs			
Iroquois Falls	8,355	8,244	7,538
Kingston	6,266	5,723	5,967
Thorold	10,276	10,471	9,772
Spy Hill	1,438	1,564	293
North Battleford	7,049	—	—
	33,384	26,002	23,570
.....			
Adjusted EBITDA⁽⁴⁾			
Iroquois Falls	38,638	38,403	39,876
Kingston	52,046	43,115	41,277
Thorold	58,585	58,569	61,070
Spy Hill	17,142	16,321	3,580
North Battleford	53,646	—	—
	220,057	156,408	145,803
.....			
Capital expenditures⁽⁵⁾			
Iroquois Falls	37	—	23
Kingston	521	6,287	1,115
Thorold	604	155	—
Spy Hill	—	—	—
North Battleford	—	—	—
	1,162	6,442	1,138
.....			

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

- (1) “Other” includes electricity production at North Battleford, Thorold and Spy Hill, which have contractual structures that effectively provide for a pass-through of variable production costs and are generally not affected by changes in production levels.
- (2) As a result of accounting for the Spy Hill operations as a finance lease, \$7.1 million (2012 – \$4.8 million) is reported as electricity revenue, \$13.9 million (2012 – \$14.1 million) as finance lease income and \$3 million (2012 – \$2.6 million) as receipt of lease receivable for the 12 months ending December 31, 2013.
- (3) North Battleford began commercial operations on June 5, 2013.
- (4) Adjusted earnings before interest, taxes, depreciation and amortization.
- (5) Capital expenditures exclude construction-related capital 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. The North Battleford baseload plant is operated to generate throughout the month and produce at full output during on-peak periods and at reduced output during off-peak periods. Thorold and Spy Hill are dispatchable facilities and operate either when market conditions are economic or as requested by the contract counterparty. These facilities receive contract payments that are largely dependent on their ability to operate according to contract parameters as opposed to maximizing production, and the payments ensure gross profit is generally fixed regardless of changes in production levels.

Electricity production during 2013 was significantly higher than the prior year largely due to the inclusion of results from North Battleford, which began commercial operations on June 5, 2013, and higher production at Kingston, partially offset by lower production at Thorold due to a 16-day scheduled maintenance outage in the second quarter of 2013 and generally lower electricity demand. Production in 2012 was affected by a one-month scheduled major outage at Kingston in October. Gross profit exceeded 2012 primarily due to the inclusion of results from North Battleford and additional production at Kingston, combined with a “true-up” to Iroquois Falls’ three-year rolling average Direct Customer Rate (**DCR**) and lower TransCanada PipeLines (**“TransCanada”**) tolls due to a reduction in fixed and variable rates in July 2013. Plant operating costs exceeded 2012 largely due to the inclusion of North Battleford.

Capital expenditures during 2013 were significantly lower than 2012 and include certain maintenance costs related to Thorold’s 16-day scheduled outage and steam turbine parts at Kingston compared to the cost of Kingston’s one-month planned major maintenance outage in 2012.

Northland’s Iroquois Falls facility (and Kirkland Lake and Cochrane facilities) continue to be negatively affected by the sharp rises in natural gas transportation rates on the TransCanada pipeline over the past several years. Kingston has significant mitigation from these rate increases as its PPA includes a cost pass-through depending on the effective date of the rate increase. During most of 2012, a formal rate hearing was held by the National Energy Board (**NEB**) to look into the 2012–13 TransCanada tolls applications. In late March 2013, the NEB released its decision with respect to TransCanada’s tolls and set tolls for a five-year period ending December 2017. As a result, approved tolls for firm transportation are currently 25% lower as compared to the 2012 levels.

THERMAL OUTLOOK

Iroquois Falls has scheduled a 16-day outage in the second quarter to complete a steam-turbine-related inspection. Costs for the outage will be funded from Iroquois' maintenance reserve account. Northland's other thermal facilities are not expected to have extended outages during 2014. Northland expects the 2014 financial results for its thermal facilities to exceed those of 2013 due to a full 12 months of results at North Battleford compared to seven months in 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 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; the change affected industry participants, including Northland. One component of the DCR is based on the Global Adjustment (**GA**), 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 GA is paid by electricity consumers. As a result of that regulation, OEFC has changed its treatment of the GA 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 affects 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.

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Renewable Facilities

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

In thousands of dollars except as indicated

	2013	2012	2011
Electricity production (MWh)	748,293	633,540	441,359
Electricity production (MWh) – long-term forecast	734,284	698,705	500,262
Gross profit			
Jardin	24,998	22,454	21,649
Mont Louis	22,068	18,207	5,938
German wind farms	3,374	3,748	4,174
Solar ⁽¹⁾	16,583	–	–
	67,023	44,409	31,761
Plant operating costs			
Jardin	5,373	6,151	5,980
Mont Louis	6,015	6,137	1,676
German wind farms	1,332	1,189	1,340
Solar	1,098	–	–
	13,818	13,477	8,996
Adjusted EBITDA			
Jardin	18,820	16,192	15,579
Mont Louis	16,031	12,034	4,261
German wind farms	1,888	2,645	2,529
Solar	15,462	–	–
	52,201	30,871	22,369

continued...

In thousands of dollars except as indicated			
	2013	2012	2011
Capital expenditures⁽²⁾			
Jardin	122	150	26
Mont Louis	8	—	—
German wind farms	—	—	—
Solar	—	—	—
	130	150	26

(1) The Ground-mounted Solar Phase I projects reached commercial operation between June and September 2013.

(2) 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, revenue and adjusted EBITDA during 2013 significantly exceeded the prior year largely due to the inclusion of the six Ground-mounted Solar Phase I projects, which reached commercial operations from June 21 through September 23, combined with improved results at Mont Louis and Jardin due to strong winds and fewer outage periods. Production at the German wind farms was below the prior year and expectations due to a lower wind resource during the first half of 2013. The long-term production forecasts for Northland's wind farms and solar projects were prepared by specialized consulting firms prior to acquisition or the start of construction.

Plant operating expenses were slightly higher than the prior year due to the inclusion of the Ground-mounted Solar Phase I projects and unplanned turbine maintenance at the German wind farms, partially offset by lower maintenance costs at Jardin and Mont Louis due to the expiry of the GE turbine warranty agreements and replacement with lower-cost GE service agreements.

Northland's Quebec wind farms received their remaining substation cost reimbursements from Hydro-Québec in 2013. All cost reimbursements have now been received from Hydro-Québec under the terms of the respective contracts.

RENEWABLES OUTLOOK

Northland expects 2014 electricity production and financial results for its renewable facilities to exceed 2013 due to the inclusion of the McLean's wind project and the three Ground-mounted Solar Phase II projects; two of the solar sites reached commercial operations after December 31, 2013, and the remaining project is expected to begin commercial operations during the first half of 2014.

Other Sales and Income and Management and Administration Costs

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:

In thousands of dollars	2013	2012	2011
Other sales and income			
Managed facilities	19,304	18,630	3,997
Other facilities	1,320	890	166
Other income	1,623	—	900
Adjusted EBITDA	22,247	19,520	5,063

Northland's consolidated financial statements include the results for Kirkland Lake, Cochrane and CEEC following Northland's April 1, 2013, acquisition of the controlling interest in CEEC. Fees and dividends earned by Northland following the acquisition are considered intercompany amounts and eliminate on consolidation. However, in the calculation of adjusted EBITDA and free cash flow, Northland includes the fees and dividends earned rather than all adjusted EBITDA and free cash flow generated by these entities. "Managed facilities" in the above table represents those management and incentive fees earned by Northland from services provided to Cochrane, Kirkland Lake and Chapais. Adjusted EBITDA from the managed facilities for 2013 was higher than the prior year due to additional incentive fees earned from the Cochrane facility, which began in late 2013. The performance incentive fees entitle Northland to share in Kirkland Lake's and Cochrane's cash flows after all operating and financing expenditures.

"Other facilities" in the above table represents adjusted EBITDA from Northland's wood-chipping facility and equity investment in four small rooftop solar projects in partnership with Loblaw Companies Limited, dividends received from Northland's equity interest in Panda-Brandywine and interest earned on the loan receivable from McLean's other equity partner, Mnidoo Mnising Power Limited Partnership, an entity controlled by the members of the United Chiefs and Councils of Mnidoo Mnising First Nations (**UCCMM**).

In 2013, JP Morgan notified Panda-Brandywine L.P. that it would not be extending the PPA beyond May 2014 and, as a result, JP Morgan will be required to pay US\$27.5 million to Panda-Brandywine (Northland's share is expected to be approximately US\$3 million) no later than May 31, 2014, when the facility will be transferred to JP Morgan.

"Other income" of \$1.6 million relates to the 2011 sale of Northland's South Kent wind development project and a cost reimbursement associated with one of Northland's other early-stage development prospects.

.....			
In thousands of dollars	2013	2012	2011
.....			
Management and administration			
Operations ⁽¹⁾	15,620	13,736	12,911
Development ⁽²⁾	17,512	13,714	9,085
.....			
Total management and administration	33,132	27,450	21,996
.....			
Less: Facility management and administration costs	(1,923)	(932)	(1,163)
Writeoff of deferred development costs	—	1,661	1,697
.....			
Corporate management and administration costs	(31,209)	(28,179)	(22,530)
and adjusted EBITDA			
.....			

(1) Includes facility management and administration costs.

(2) Excludes writeoffs of deferred development costs.

Corporate management and administration expenses in 2013 were \$3 million higher than the prior year largely due to additional effort associated with early-stage development activities across a range of technologies and jurisdictions, administrative expenses associated with business acquisitions and non-recurring other expenses associated with the completion of the North Battleford and Ground-mounted Solar Phase I projects.

Northland expenses development-related management and administration costs not directly attributable to a specific development project, including costs to determine the feasibility of prospective projects. If management determines that a development project meets specific criteria that indicate a high probability of completion, Northland capitalizes all pre-construction costs directly related to that project but continues to expense indirect costs such as management salaries and overhead. If management determines that development of a project will be discontinued or that success is no longer highly likely, all deferred costs are expensed in the period the determination is made. In 2012, Northland expensed \$1.7 million of previously deferred development costs for a project that no longer qualifies for capitalization under Northland's deferred development policy. There were no writeoffs of deferred development costs in 2013.

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Section 4: IFRS and Non-IFRS Financial Measures

As a result of implementing IFRS 11, “Joint Arrangements,” on January 1, 2013, Northland’s rooftop solar joint venture with Loblaw Companies Limited is now required to be reported using the equity method of accounting versus the previously accepted method of proportionate consolidation. As a result of this change, Northland’s share of the rooftop solar joint venture’s sales and costs are now reported on one line in Northland’s consolidated statements of income (loss) called “equity investment (gain) loss.” Similarly, Northland’s share of the joint venture’s assets and liabilities are netted together and reported on one line in Northland’s consolidated balance sheets called “equity investment.” Implementation of IFRS 11 required the retroactive restatement of comparative financials. Implementation of IFRS 11 has no impact on Northland’s free cash flow or adjusted EBITDA.

This MD&A includes references to Northland’s adjusted EBITDA and free cash flow, measures not prescribed by IFRS. Adjusted EBITDA and free cash flow, 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 adjusted EBITDA and free cash flow are widely accepted financial indicators used by investors to assess the performance of a company, including its ability to generate cash through operations.

Readers should refer to *Section 5: Consolidated Results* for an explanation of adjusted EBITDA and free cash flow and a reconciliation of Northland’s reported adjusted EBITDA to its consolidated income (loss) before taxes and 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. Readers should note that a significant number of variances from December 31, 2012, are the result of Northland now consolidating the financial results for Kirkland Lake, Cochrane and CEEC.

.....
In thousands of dollars except as indicated

	2013	2012	2011
.....			
Energy volumes			
Electricity (MWh)	4,139,908	3,139,031	3,137,548
Sales	557,238	361,682	356,108
Cost of sales	202,479	131,492	152,920
.....			
Gross profit	354,759	230,190	203,188
.....			
Expenses			
Plant operating costs	64,235	40,438	33,504
Management and administration costs – operations	15,620	13,736	12,911
Management and administration costs – development	17,512	13,714	9,085
Depreciation of property, plant and equipment	89,879	62,307	56,860
Impairment of property, plant and equipment	–	–	164
.....			
	187,246	130,195	112,524

continued...

In thousands of dollars except as indicated			
	2013	2012	2011
Investment income	939	355	223
Finance income – leases	13,886	14,129	3,558
Operating income	182,338	114,479	94,445
Finance costs	84,885	63,966	55,041
Amortization of contracts and other intangible assets	19,930	19,422	20,077
Writeoff of deferred development costs	–	1,661	1,697
Impairments	2,807	23,053	33,155
Foreign exchange (gain)	(3,787)	(55)	(3,625)
Finance (income)	(1,207)	(815)	(744)
Fair value (gain) loss on derivative contracts	(102,072)	(1,955)	129,000
Fair value (gain) loss on convertible shares	(27,834)	14,199	14,308
Lease accounting (gain)	–	(2,964)	(35,003)
Other (income)	(1,526)	–	(900)
Equity investment loss (gain)	(262)	(312)	35
Income (loss) before income taxes	211,404	(1,721)	(118,596)
Current income taxes	8,780	4,990	2,955
Deferred income taxes	35,605	3,202	(58,442)
Provision for (recovery of) income taxes	44,385	8,192	(55,487)
Net income (loss)	167,019	(9,913)	(63,109)
Gain (loss) per share – basic	\$1.08	(\$0.18)	(\$0.61)
Gain (loss) per share – diluted	\$1.03	(\$0.18)	(\$0.61)

Net income for 2013 at \$167 million was \$176.9 million higher than the loss for the previous year. The following section describes significant factors contributing to this change:

- **TOTAL SALES, COST OF SALES AND PLANT OPERATING COSTS** all increased compared to 2012 for the reasons discussed under the facility results and primarily reflect the inclusion of North Battleford, the Ground-mounted Solar Phase I projects and consolidation of results from the Kirkland Lake and Cochrane facilities. Readers should refer to Note 7 of the consolidated financial statements for more details on the financial results contributed by Kirkland Lake, Cochrane and CEEC.
- **OTHER SALES**, as previously discussed on page 25, decreased by \$10.8 million as management and incentive fees earned from services provided to Cochrane and Kirkland Lake are now considered intercompany after the CEEC acquisition on April 1, 2013, and eliminated on consolidation.
- **CORPORATE MANAGEMENT AND ADMINISTRATION**, as previously described on page 26, was \$3 million higher than the prior year largely due to early-stage development activities across a range of technologies and jurisdictions, administrative expenses associated with business acquisitions and non-recurring other expenses associated with the completion of the North Battleford and Ground-mounted Solar Phase I projects.
- **INVESTMENT INCOME** was \$0.6 million higher than 2012 due to increased dividends from Northland's Panda-Brandywine investment and interest earned on the loan receivable from UCCMM, as discussed previously.
- **FINANCE LEASE INCOME** was in line with the same period of 2012. The fixed monthly capacity payments received from SaskPower for Spy Hill are treated as lease income, while the remaining electricity sales are recognized in sales revenue. The accounting treatment of Spy Hill as a finance lease has no impact on Northland's adjusted EBITDA or free cash flow.
- **FINANCE COSTS, NET** (primarily interest expense), increased by \$20.5 million from 2012 due to the inclusion of interest on North Battleford and Ground-mounted Solar Phase I project debt, partially offset by the replacement of Spy Hill's bank debt with project bonds and repayment of Kingston's term loan in January 2013 and by lower convertible debenture interest due to conversions of debentures into common shares.
- **AMORTIZATION OF CONTRACTS AND OTHER INTANGIBLE ASSETS** increased during the year largely as a result of the acquisition of CEEC on April 1, 2013.
- **NON-CASH FAIR VALUE GAINS** of \$133.7 million (compared to a \$12.2 million loss in 2012) comprised (i) a \$102.1 million gain in the fair value of Northland's financial derivative contracts; (ii) a \$27.8 million decrease in the liability associated with the fair value of Northland's Class B Convertible Shares ("**Class B Shares**") prior to their conversion to Shares in the third quarter of 2013; and (iii) \$3.8 million in foreign exchange gains. Northland's policy is to hedge interest rate and foreign exchange exposures, where material. Changes in market rates give rise to non-cash mark-to-market adjustments each quarter as a result of Northland's accounting election to forego the application of hedge accounting. These fair value adjustments are non-cash items that will reverse over time and have no impact on the cash obligations of Northland or its projects.

- **IMPAIRMENTS** were \$20.2 million lower than 2012 and relate to Northland's contracts and other intangible assets, goodwill and Panda-Brandywine equity investment. It is generally anticipated that there will be annual goodwill 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 impairments 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.

- **OTHER INCOME** increased by \$1.6 million and, as described earlier, relates to an additional payment pursuant to the 2011 sale of Northland's South Kent wind development project and a cost reimbursement associated with one of Northland's other early-stage development prospects.
- **CURRENT TAXES** increased by \$3.8 million from 2012 largely due to the consolidation of the Kirkland Lake and Cochrane facilities after the acquisition of CEEC on April 1, 2013, as well as additional taxes associated with a full year of the Series 3 Preferred Share dividends, which were issued May 2012.

The factors described above, combined with a \$35.6 million provision for deferred taxes, resulted in net income for the year of \$167 million, which was \$176.9 million higher than the previous year.

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Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA)

Adjusted EBITDA (previously disclosed as 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. Adjusted 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.

As discussed previously, Northland's consolidated financials include the results for Kirkland Lake, Cochrane and CEEC following Northland's April 1, 2013, acquisition of the controlling interest in CEEC. Fees and dividends earned by Northland from those entities following the acquisition are considered intercompany amounts and eliminate on consolidation. However, in the calculation of adjusted EBITDA and free cash flow, Northland includes the fees and dividends earned rather than all adjusted EBITDA and free cash flow generated by these entities.

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

.....			
In thousands of dollars except as indicated	2013	2012	2011
.....			
Income (loss) before income taxes	211,404	(1,721)	(118,596)
Adjustments:			
Depreciation of property, plant and equipment	89,879	62,307	56,860
Amortization of contracts and other intangible assets	19,930	19,422	20,077
Finance costs, net	83,678	63,151	54,297
Change in fair value of derivative contracts	(102,072)	(1,955)	129,000
Change in fair value of convertible shares and Replacement Rights	(27,834)	14,199	14,308
Unrealized foreign exchange (gain) loss	(3,620)	271	(3,625)
Impairments	2,807	23,053	33,319
Lease accounting (gain)	—	(2,964)	(35,003)
Consolidation of managed facilities	(14,205)	—	—
Finance lease and equity accounting	3,329	2,857	67
.....			
Adjusted EBITDA	263,296	178,620	150,704
.....			

Northland's 2013 consolidated adjusted EBITDA was higher than the prior year largely due to the inclusion of North Battleford and the Ground-mounted Solar Phase I projects, overall favourable results from Northland's operating facilities as discussed previously and higher performance incentive fees earned from Northland's managed facilities, partially offset by increased corporate 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, 2013, Northland had outstanding 131,978,711 Shares (2012 – 86,041,930 Shares), 6,000,000 Series 1 Preferred Shares, 4,800,000 Series 3 Preferred Shares and 1,000,000 Class A Shares. During the year, a total of \$11.4 million of the 2014 Debentures were converted into 920,434 Shares (2012 – \$10.5 million). In 2013, a total of 2,018,112 Shares (2012 – 1,847,445 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 August 22, 2013, Northland announced that its remaining Class C Convertible Shares (**"Class C Shares"**) and all of its Class B Shares were converted to Class A Shares and all of its remaining contingent Replacement Rights were convertible to Shares pursuant to the terms of those securities. A process for determining the convertibility of these securities (**"Determination Process"**) was established as part of the terms of the 2009 merger between Northland Power Inc. and Northland Power Income Fund and is incorporated in Northland's corporate Articles of Arrangement. Pursuant to the Determination Process, a special committee of the independent directors of Northland (**"Special Committee"**) retained BMO Capital Markets as an independent financial adviser (**"Financial Adviser"**) to determine the fair market value and the development profits (as defined in the 2009 merger documents and corporate articles) of certain recently completed Northland projects.

Northland's North Battleford natural gas facility and Ground-mounted Solar Phase I projects recently achieved commercial operations and, as a result, these projects were included in the current Determination Process.

The Class C and B Shares that were converted into Class A Shares were subsequently converted into the equivalent number of 12,357,531 of Shares of Northland. In addition, as a result of this Determination Process, 759,355 contingent Replacement Rights were converted into Shares of Northland.

Previously, during the first quarter of 2013, Northland Power Holdings Inc., a corporation controlled by the Chairman of Northland, James C. Temerty, converted 28,851,868 of its 29,851,868 Class A Shares into Shares.

Northland also has an employee Long-Term Incentive Plan (**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 2013 and 2012, milestones were achieved requiring management to estimate the share-based cost of LTIP awards. For the year ended December 31, 2013, Northland issued 1,029,481 Shares to employees and capitalized \$11.5 million (2012 – \$7.6 million) and expensed \$1.2 million (2012 – \$0.3 million) of costs under the LTIP.

As of the date of this MD&A, Northland has outstanding 132,370,444 Shares, 6,000,000 Series 1 Preferred Shares, 4,800,000 Series 3 Preferred Shares, 1,000,000 Class A Shares and \$16.5 million of the 2014 Debentures.

Liquidity and Capital Resources

In thousands of dollars except as indicated

	2013	2012	2011
Cash and cash equivalents – opening	31,715	48,151	111,546
Cash provided by operating activities	257,078	162,398	126,119
Cash used in investing activities	(444,156)	(374,100)	(336,000)
Cash provided by financing activities	293,683	195,270	146,466
Effect of exchange rate differences	140	(4)	20
Cash and cash equivalents – ending	138,460	31,715	48,151
Total assets	3,040,020	2,518,675	2,252,462
Total long-term liabilities	1,927,688	1,673,178	1,381,279

Cash and cash equivalents at \$138.5 million increased by \$106.7 million since December 31, 2012, because \$257.1 million generated by operations and \$293.7 million from financing activities were partially offset by \$444.2 million used for investing activities.

Operating activities in 2013 provided \$257.1 million in cash. This included net income of \$167 million, \$98 million in non-cash and non-operating items such as foreign exchange, amortization, deferred taxes, writedowns and impairments and the change in fair value of financial instruments and Class B Shares, combined with an \$8.0 million increase in working capital since December 2012 primarily associated with the timing of year-end payables, receivables and deposits. The increase in cash from operating activities in 2013 was largely the result of higher adjusted EBITDA as described earlier.

Cash used for investing activities consumed \$444.2 million during 2013 due to (i) \$335.3 million used for the purchase of property, plant and equipment, mostly representing construction at North Battleford, Ground-mounted Solar Phase I and II projects and the McLean's wind project; (ii) \$84.4 million in deferred development costs, largely representing expenditures on the McLean's wind project and Ground-mounted solar Phase I and Phase II projects prior to commencing major on-site construction activities; and (iii) \$46.5 million in reserve funding, the majority of which relates to McLean's (McLean's project debt was fully funded at financial close and set aside in a reserve account until required to pay future construction-related expenditures). Partially offsetting these amounts was a \$10 million change in working capital related to the timing of construction payables and the receipt of Mont Louis' and Jardin's Hydro-Québec cost reimbursements and a net \$10.9 million contribution from the acquisition of the controlling interest in CEEC (Kirkland Lake, Cochrane and CEEC cash consolidated in Northland's financials at April 1, 2013, less the purchase price paid by Northland). Investing activities also included \$1.2 million of interest received and other miscellaneous items.

Financing activities for 2013 provided \$293.7 million, comprising (i) \$816 million of net proceeds from the Spy Hill and North Battleford bond offerings in January and September, respectively; (ii) \$446.2 million of advances under the North Battleford, Ground-mounted Solar Phase I and II and McLean's loan facilities; (iii) a \$16 million equity contribution from the other McLean's equity partner; and (iv) \$0.8 million on the sale of Capstone Infrastructure Corporation shares owned by CEEC. Partially offsetting these inflows were (i) \$112.8 million of common, Class A and preferred share dividends; (ii) \$684.6 million of debt prepayments, comprising \$541.7 million of bank debt at North Battleford, \$110.5 million in bank debt at Spy Hill and \$32.4 million in term debt and senior secured notes at Kingston; (iii) \$35.9 million in corporate and scheduled loan repayments (including Kirkland Lake); (iv) \$65.4 million to settle Kingston's and North Battleford's interest rate swaps; (v) \$11.7 million of dividends to the non-controlling shareholders of Kirkland Lake and Cochrane; and (vi) \$74.9 million in interest payments.

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 and deferred development:

In thousands of dollars	Cost balance as of December 31, 2012	Acquired	Purchases	Other ⁽¹⁾	Exchange rate differences	Transfers	Cost balance as of December 31, 2013
Operations							
Thermal ⁽²⁾	986,814	—	1,209	—	—	625,380	1,613,403
Renewable	396,261	—	328	(498)	3,679	283,705	683,475
	1,383,075	—	1,537	(498)	3,679	909,085	2,296,878
Construction							
Thermal	514,081	—	124,093	(12,794)	—	(625,380)	—
Renewable	228,145	—	230,840	83,158	—	(283,705)	258,438
	742,226	—	354,933	70,364	—	(909,085)	258,438
Managed⁽³⁾	—	228,400	74	—	—	—	228,474
Corporate⁽⁴⁾	11,139	—	2,375	(1,582)	—	—	11,932
Total	2,136,440	228,400	358,919	68,284	3,679	—	2,795,722
Deferred development⁽⁵⁾	25,528	—	84,401	(77,101)	—	—	32,828

(1) Includes transfers between segments, tax credits and Long-Term Incentive Plan (LTIP) shares granted.

(2) Excludes Spy Hill lease receivable.

(3) Kirkland Lake and Cochrane facilities.

(4) Includes certain costs related to projects in advanced development but excludes the rooftop solar projects as a result of Northland adopting equity accounting as required under IFRS 11.

(5) All deferred development costs associated with Northland's McLean's wind project and Ground-mounted Solar Phase II projects were transferred to construction in progress during 2013.

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

In thousands of dollars	Balance as of December 31, 2012	Acquired	Financings	Repayments	Amortization of fair value adjustments	Transfers	Balance as of December 31, 2013
Operations							
Thermal ⁽¹⁾	504,410	—	816,001	(704,082)	2,138	541,728	1,160,195
Renewable ⁽²⁾	243,320	—	10,800	(10,995)	712	211,120	454,957
	747,730	—	826,801	(715,077)	2,850	752,848	1,615,152
Construction							
Thermal	366,200	—	175,528	—	—	(541,728)	—
Renewable	151,200	—	259,920	—	—	(211,120)	200,000
	517,400	—	435,448	—	—	(752,848)	200,000
Managed⁽³⁾	—	10,893	—	(4,475)	—	—	6,418
Corporate⁽⁴⁾	1,071	—	40,975	(42,046)	—	—	—
Total	1,266,201	10,893	1,303,224	(761,598)	2,850	—	1,821,570

(1) Includes a favourable fair value adjustment to Thorold's debt, the net proceeds of \$816 million related to Spy Hill's and North Battleford's bond issuances and \$684.6 million of debt repayments related to North Battleford's, Spy Hill's and Kingston's bank debt.

(2) Includes a favourable fair value adjustment to Jardin's debt.

(3) Kirkland Lake and Cochrane facilities.

(4) Excludes convertible unsecured subordinated debentures.

On January 21, 2013, Northland announced the closing of a \$156.3 million 4.14% senior secured amortizing Series A bond issued by its wholly owned Spy Hill subsidiary. The bonds were rated A (stable) by DBRS and will be fully amortized by their maturity in March 2036. The net proceeds were used to repay Spy Hill's existing bank debt with the remainder being transferred to Northland for general corporate purposes.

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

On September 20, 2013, Northland announced the closing of a \$667.3 million 4.958% senior secured amortizing Series A bond issued by its wholly owned North Battleford subsidiary. The bonds were rated A (low) by DBRS and will be fully amortized by their maturity in December 2032. The net proceeds were used to repay North Battleford's existing bank debt and settle the associated interest rate swaps with the remainder being transferred to Northland for general corporate purposes.

On September 24, 2013, Northland completed \$84 million of non-recourse project financing and a \$4.5 million letter of credit facility for two of the sites within Ground-mounted Solar Phase II with two commercial banks. Once term conversion is achieved, the loan will require blended payments of principal and interest based on an 18-year amortization period. As required under the loan provisions, on October 11, 2013, Northland entered into interest rate swaps to effectively fix the variable interest rate of the non-recourse debt. The all-in rate including interest rate swaps and credit spreads is 5.735%.

On October 1, 2013, McLean's (a 50/50 partnership with UCCMM) entered into a non-recourse credit facility with a syndicate of institutional lenders for a \$135.2 million senior secured construction and term loan. The senior debt will be repaid through quarterly blended payments of principal and interest starting on March 31, 2017, until maturity on March 31, 2034, with the principal payments fully amortizing the loan over this period. The senior debt was funded at closing and bears interest, paid quarterly (monthly prior to term conversion), at a rate of 6.01%. Concurrent with the financing, Northland issued 50% more units of McLean's to Mnidoo Mnising Power Limited Partnership, an entity controlled by the members of the UCCMM; see Notes 14 and 20.

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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 cash dividends to common, preferred and Class A shareholders. Certain of those entities have outstanding debt arising from incurring non-recourse project finance debt sourced at the subsidiary entity to fund a significant portion of construction costs. Under the credit agreements or trust indentures 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). For the year ended December 31, 2013, Northland and its subsidiaries were not in default with respect to any loan agreements and were in compliance with all debt covenants.

Readers should refer to Northland's 2013 AIF, dated February 19, 2014, for additional details concerning its debt covenants.

Letters of Credit

Northland has a \$250 million credit facility in place until May 2015 that is used for general corporate purposes and as security against letters of credit issued on behalf of Northland. In addition, certain Northland subsidiaries provide letters of credit directly to counterparties to secure certain obligations under PPAs, credit agreements or other project agreements. As of December 31, 2013, Northland and its subsidiaries had \$179.1 million in letters of credit outstanding as follows:

In millions of dollars	Purpose	Amount
Corporate⁽¹⁾		
	Operations	110.1
	Advanced development and construction	50.9
		161.0
Project entity⁽²⁾		
	Operations	18.1
	Construction	—
		18.1
		179.1

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

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

Acquisitions

On April 1, 2013, Northland acquired from the Probyn Group the controlling interest in CEEC and all the shares of Chapais Power Services Inc. CEEC owns the voting shares in Kirkland Lake and Cochrane. CEEC also owns the voting shares of the general partner of Chapais, owner of the 28 MW biomass-fired power facility in Chapais, Quebec. As a result of this transaction, Northland now receives management fees from Chapais and additional dividend income from Kirkland Lake and Cochrane and will include the financial results for CEEC, Kirkland Lake and Cochrane in its consolidated financial statements. The acquisition of Chapais did not meet the definition of control within IFRS 11 and, as a result, Chapais is reported using the equity method of accounting with a \$nil value.

Please see Note 7 to the consolidated financial statements for additional information with respect to the acquisition of CEEC on April 1, 2013, as well as summary financial information for the entities acquired and included in Northland's consolidated financial statements.

Consolidated Balance Sheet

The following sections describe significant changes in Northland's consolidated balance sheet.

Restricted cash increased by \$47.1 million primarily due to McLean's construction loan being fully funded at financial close as described previously. Trade and other receivables of \$124.6 million remained relatively flat, while inventories increased by \$5.3 million mainly due to the inclusion of Kirkland Lake, Cochrane and North Battleford. Property, plant and equipment increased \$376.8 million from December 2012 due to construction-related activities and the acquisition of the controlling interests in CEEC on April 1, 2013. Contracts and other intangible assets decreased by \$12.5 million due to contract amortization and the reclassification of deferred development costs to property, plant and equipment with the start of construction activities at the McLean's and Ground-mounted Solar Phase II projects. A \$2.4 million impairment charge was recorded against goodwill in the fourth quarter of 2013 largely as a result of the passage of time. Northland's consolidated interest-bearing debt balances were affected by the Spy Hill and North Battleford bond issuances (and associated bank debt repayments) and the financial closes of the McLean's and Ground-mounted Solar Phase II projects, less the scheduled debt repayments. Trade and other payables decreased by \$7.9 million largely due to the timing of construction-related payables and the timing of interest payments. Convertible unsecured subordinated debentures decreased by \$10.7 million to \$16 million due to conversions to Northland common shares during 2013. Derivative financial liabilities decreased by \$168.9 million due to non-cash fair value gains on interest rate swaps as a result of an increase in long-term market interest rates, combined with the settlement of North Battleford's interest rate swaps on the closing of its Series A bonds in September 2013, partially offset by \$9 million of fair value, non-cash losses on Iroquois Falls' financial derivative gas contract.

In 2013, Northland recognized a \$251.6 million increase in total shareholders' equity. The increase in Shares was due to the conversion of Replacement Rights, Class B and C shares and 2014 Debentures and the issuance of additional Shares under the LTIP and DRIP programs. As a result of the acquisition of the controlling interests in CEEC and the equity funding of McLean's by its other partner, Northland's

shareholders' equity now includes non-controlling interests, which totals \$73.3 million at December 31, 2013. The \$2.1 million decrease in LTIP reserve was the result of Shares paid out to employees under Northland's LTIP program since certain project milestones were met. During 2013, the deficit decreased by \$4.1 million due to net income attributable to common shareholders of \$151.1 million, offset by preferred, Class A and Share dividends.

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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 \$0.09 per share per month (\$1.08 on an annual basis). 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 November 27, 2013, Standard & Poor's credit rating agency upgraded Northland's corporate rating to BBB Stable from BBB-. Standard & Poor's report credited Northland's consistent cash flow generation, coupled with the completion of its North Battleford project on time and within budget, as the reasons for the upgrade. In addition, an update was made to Northland's preferred share rating and unsecured debt rating. The Series 1 Preferred Shares and Series 3 Preferred Shares ratings were upgraded on Standard & Poor's global scale and Canada scale to BB+ and P-3 (High) from BB and P-3, respectively.

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Free Cash Flow and Dividends to Shareholders

In 2013, Northland declared dividends to shareholders of \$1.08 per share. This was consistent with the prior year.

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

In thousands of dollars except as indicated	2013	2012	2011
Cash provided by operating activities	257,078	162,398	126,119
Northland adjustments			
Net change in non-cash working capital balances			
related to operations	7,950	11,808	16,370
Capital expenditures, net – non-expansionary	(1,339)	(6,281)	(3,100)
Interest paid, net	(73,650)	(59,805)	(42,988)
Scheduled principal repayments on term loans	(30,467)	(34,720)	(28,636)
Funds utilized (set aside) for scheduled principal repayments	(607)	1,669	(1,669)
Restricted cash utilization (funding) for major maintenance	(4,716)	1,986	(1,763)
Writeoff of deferred development costs	–	(1,661)	(1,697)
Consolidation of managed facilities	(10,899)	–	–
Equity accounting	(107)	563	89
Funds utilized (set aside) for asset purchase	750	(750)	–
Preferred share dividends	(13,876)	(11,484)	(7,875)
Free cash flow	130,117	63,723	54,850

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In thousands of dollars except as indicated			
	2013	2012	2011
Cash dividends paid to common and Class A shareholders	98,908	88,734	80,727
Free cash flow payout ratio – net dividends ⁽¹⁾	76%	139%	147%
Total dividends⁽²⁾ to common and Class A shareholders	131,664	120,426	82,959
Free cash flow payout ratio – total dividends ⁽¹⁾	101%	189%	151%
Cumulative – since inception			
Free cash flow payout ratio – total dividends ⁽¹⁾	104%	105%	98%
Average number of shares – basic (000s)⁽³⁾	123,482	115,058	76,863
Average number of shares – diluted (000s)⁽⁴⁾	123,482	115,058	76,863
Per share			
Free cash flow – basic	\$1.05	\$0.55	\$0.71
Free cash flow – diluted	\$1.05	\$0.55	\$0.71

(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 shares 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 represent cash dividends paid plus dividends reinvested in common shares issued as part of Northland's DRIP.

(3) The number of shares and the related per-share numbers for 2013 and 2012 are 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 Convertible Shares or Class C Convertible Shares or contingent Replacement Rights. Class A Shares are excluded from 2011 as they were not eligible to receive dividends.

(4) Average number of shares diluted is the sum of the weighted average number of common shares and Class A shares in the basic calculation plus the number of common shares that would be issued assuming conversion of the convertible unsecured subordinated debentures.

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);
- Scheduled repayments of principal on debt (because these payments must be made before funds are available for distribution to the shareholders of Northland);
- Payment of preferred share dividends;
- Writeoff of deferred development costs (because these costs are not included in the free cash flow calculation when incurred due to their discretionary nature);
- Free cash flow generated by Northland's managed facilities, which are consolidated in Northland's results, net of actual fees and dividends received from those entities;
- Free cash flow generated by subsidiaries that are equity-accounted because cash provided by operating activities includes only distributions received from such entities, not actual free cash flow generated; and
- Funds identified as being set aside or reserved (or utilized) for future maintenance.

Free cash flow of \$130.1 million was \$66.4 million higher than in 2012; significant factors increasing and decreasing free cash flow in 2013 are described below.

Factors increasing free cash flow were:

- \$85 million higher adjusted EBITDA from Northland's operating facilities, as previously discussed;
- A \$2.1 million favourable variance associated with a milestone payment to GE in 2012 related to Kingston's gas turbine maintenance contract;
- A \$1.1 million increase in adjusted EBITDA generated from Northland's managed and other facilities;
- A \$1.6 million increase in other income as discussed previously;
- A \$2 million decrease in scheduled debt repayments as a result of the full repayment of Kingston's debt in January 2013;
- \$5.7 million lower operations-related capital expenditures due to Kingston's planned major outage in 2012; and
- A \$1.5 million positive variance related to funds that were set aside in 2012 pending the closing of the British Columbia wind development assets.

Factors decreasing free cash flow were:

- A \$19.9 million net interest expense increase (which excludes Northland's managed facilities: Kirkland Lake and Cochrane) primarily due to the inclusion of North Battleford and Ground-mounted Solar Phase I;
- A \$6.7 million increase in funds set aside for future major maintenance;
- \$3 million higher net corporate management and administration costs, which included increased development prospecting expenditures; and
- A \$3 million increase in preferred share dividends and related taxes due to a full year of the Series 3 Preferred Share dividends in 2013.

A portion of the Share dividend paid to shareholders during 2013 will not qualify for the enhanced dividend tax credit in Canada. Readers should refer to Northland's website at www.northlandpower.ca for additional information on the taxability of Northland's common and preferred share dividends.

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Payout Ratio

For the 12-month period ended December 31, 2013, Northland's dividend payments were 76% of free cash flow, or 101% on an all-cash dividend basis (if the impact of the DRIP were 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 annually at the \$1.08 level. Dividend payments could continue to exceed free cash flow if new capital is required for new investments such as the Gemini offshore wind development project. Excluding such new capital investments, management continues to expect the 2014 dividend payout ratio to drop below 100% on a total dividend basis based on expected cash flows from those projects currently in operation or expected to achieve commercial operations during 2014.

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

Ground-Mounted Solar Projects

Northland's ground-mounted solar portfolio comprises 13 individual 10 MW projects totalling 130 MW, each project with a 20-year PPA with the OPA under Ontario's renewable energy FIT Program. The projects are grouped into three phases: Phase I includes six projects that began commercial operations in 2013; Phase II comprises three projects, one of which remains under construction and two projects that began commercial operations subsequent to year-end; and Phase III includes the final four projects, which are in the latter stages of advanced development.

The six Ground-mounted Solar Phase I projects are located in eastern and central Ontario. These projects reached commercial operations during the second and third quarters of 2013 and were completed within budget. The commercial start dates for the Phase I projects were later than management expected due to construction delays.

The three Ground-mounted Solar Phase II projects are located in eastern and central Ontario. As discussed above, two of the projects in Phase II reached commercial operations shortly after December 31, 2013. Financing for those two projects was obtained from a group of bank lenders on September 24, 2013. The third project in Phase II is expected to be completed by the end of June 2014. Capital costs for the Phase II projects are expected to be \$155 million.

The first eight projects of Phase I and II have been and are being constructed by Miwel Construction, a wholly owned subsidiary of Aecon Group Inc., while the third project in Phase II is being constructed by H.B. White Canada Corp. The Phase I and II photovoltaic modules (solar panels) and inverter assemblies were and will be supplied by MEMC Singapore PTE Ltd. and SMA Solar Technology Canada, Inc., respectively, with manufacturing completed in Ontario to meet the domestic content requirements of the FIT Program.

McLean's Mountain Wind Project

McLean's Mountain is a 60 MW (30 MW net interest) wind project located on Manitoulin Island, Ontario, that has been developed through a 50/50 partnership with an entity controlled by the members of UCCMM. The project has a 20-year PPA with the OPA under Ontario's renewable energy FIT Program. The project comprises 24 wind turbines supplied by GE and is being constructed by H.B. White Canada Corp. under a fixed-price balance-of-plant contract.

Major construction activities for McLean's began in May 2013. Site access roads, turbine foundations, a 115 kV transmission line and the submarine cable are now complete, and all of the project's 24 wind turbines have been erected. The main substation and switching station equipment is installed and being commissioned while the collection system construction continues and wind turbines are prepared for commissioning activities.

The project is scheduled to achieve commercial operations in early 2014 and is projected to cost \$185 million.

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Projects in Advanced Development

Northland has an expected net economic interest in 479 MW of renewable energy projects with contracted PPAs or electricity off-take agreements that it considers to be in the advanced development stage. These projects have a combined gross capacity of 790 MW and comprise (i) the 600 MW Gemini offshore wind project; (ii) 124 MW of onshore wind; (iii) 40 MW of ground-mounted solar; and (iv) 26 MW of hydro. The following table provides a summary of these projects, Northland's expected respective economic interest, the power off-takers and contract terms.

Project	Gross project capacity	Economic interest	Northland economic interest capacity	Region	Contract counterparty	PPA term ⁽¹⁾
Gemini offshore wind	600.0 MW	60% ⁽²⁾	360.0 MW	The Netherlands	Government of the Netherlands	15 years
Grand Bend wind	100.0 MW	50%	50.0 MW	Ontario	OPA	20 years
Ground-mounted Solar Phase III ⁽³⁾	40.0 MW	100%	40.0 MW	Ontario	OPA	20 years
Kabinakagami hydro	26.0 MW	50%	13.0 MW	Ontario	OPA	40 years
Frampton wind	24.0 MW	66%	16.0 MW	Quebec	Hydro-Québec	20 years

(1) From the commercial operations date.

(2) Shares are to be acquired prior to financial close.

(3) Construction activities at all four sites began in February 2014.

Gemini 600 MW Offshore Wind Project – The Netherlands

Northland entered into agreements in August 2013 for the rights to acquire a 55% equity stake in a consortium that owns Gemini, a 600 MW offshore wind project located 85 kilometres off the coast of the Netherlands in the North Sea. Subsequent to year-end, Northland entered into an agreement for the right to acquire an additional 5% of the project, bringing its total equity interest to 60%. The project was awarded 15-year electricity off-take agreements by the Government of the Netherlands in 2010 through a competitive

tender under the government's Sustainable Energy Production Incentive (**Stimulerend Duurzame Energieproductie, "SDE"**) program. Gemini, once operational, will be one of the largest wind farms in the world, with anticipated electricity production capable of powering more than 785,000 households.

Northland has taken a lead role in completing the remaining outstanding development activities for Gemini and is providing guidance and insight based on its depth of experience in project development and financing. Northland intends to continue its active leadership role during construction and into operations. Development of Gemini is well advanced. Major environmental permits have been received, and contract negotiations for turbine supply with Siemens and balance-of-plant engineering, construction and procurement with Van Oord are well advanced. Financing activities are also well advanced, with commitments having been received for all the expected debt funding required, including junior mezzanine debt and senior debt, subject to normal closing conditions (completion of due diligence, documentation, final approvals, etc.). Management expects the €2.2 billion of senior debt required for Gemini to be fully committed late in the first quarter of 2014 or early in the second quarter of 2014 and construction to start in late 2014 with the project targeted to reach commercial operations in 2017.

Gemini's total capital cost is projected to be approximately €2.8 billion and is expected to be funded from a combination of non-recourse project debt, mezzanine financing and equity from the consortium. Northland and Gemini's other expected equity investors, including Siemens Project Ventures (20%), Van Oord (10%) and N.V. HVC (10%), are working to finalize financing from major international lenders, export credit and other governmental agencies, and pension funds. Subject to financial close, PKA (a Dutch pension fund) will provide €120 million of the required €200 million of mezzanine project funding, with Northland providing the remaining €80 million. Northland's total investment, including its pro rata equity share and mezzanine financing, is expected to be approximately CA\$550 million. Northland's final investment in Gemini is subject to meeting several conditions, including the completion of formal documentation and approval of Northland's Board of Directors. Funding sources include a combination of cash on hand, term loans for parts of the project that will be settled at commercial operations, Northland's corporate line of credit and the potential issuance of preferred shares, convertible debentures and/or Shares. Management's objective is to minimize the amount of dilutive equity raised while prudently maintaining healthy credit metrics. Additional information regarding Northland's investment and the sources of capital is detailed in Northland's September 2013 Investor Day materials, which can be found on Northland's website at www.northlandpower.ca.

Grand Bend 100 MW Wind Project – Ontario

Northland and an entity created by the Aamjiwnaang and Bkejwanong First Nations are jointly developing the 100 MW Grand Bend wind farm project under a 50/50 partnership. The project has a 20-year PPA with the OPA under the FIT Program. Development of the project continues; the Renewable Energy Approval (**REA**) has been deemed complete, Ontario Energy Board “leave to construct” has been received for transmission infrastructure and the contractor for the project has commenced engineering. Capital cost for the project is anticipated to be approximately \$385 million. Commercial operation is largely contingent on the timing of environmental permitting and is currently targeted for 2015.

Ground-Mounted Solar Phase III Projects (40 MW) – Ontario

Northland has four solar projects remaining in advanced development with a total capacity of 40 MW. Environmental permitting is complete for all four projects with final REAs received, and initial site clearing began for one of the sites in December. The total capital cost is projected to be approximately \$245 million with the projects targeting to achieve commercial operations in early 2015.

Kabinakagami Hydro Projects (26 MW) – 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 a 50/50 partnership with Constance Lake First Nation. Permitting work to obtain the project’s environmental assessment (**EA**) approval from the Ministry of Environment is nearing completion.

As acknowledgment of the unique regulatory approval requirements inherent to water-power projects, the Ontario Minister of Energy directed the OPA last June to offer three-year extensions for all existing water-power FIT Program PPAs, including Kabinakagami. The project capital cost estimate of \$180 million and anticipated commercial operations date of late 2017 to 2018 are currently under review.

Frampton 24 MW 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. Environmental permitting for the project is well advanced, and commercial operation is contracted for late 2015 under the PPA with Hydro-Québec. The project is expected to use Enercon wind turbines supplied from a Quebec manufacturing facility and is forecast to have a capital cost of approximately \$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.

During 2013 and through the date of this report, Northland continued to execute its strategy of expanding its earlier-stage development pipeline in its targeted traditional Canadian market, as well as moving into the U.S. and other jurisdictions that meet the Company's investment criteria. A number of opportunities in these jurisdictions have been identified and are in addition to several projects Northland already has under development. Northland's approach continues to be one of ensuring the balance between progressing development opportunities that meet the Company's investment criteria, while prudently managing the Company's cost exposure to earlier-stage projects.

In 2014, management expects Northland to generate adjusted EBITDA of approximately \$345 to \$355 million compared with \$263.3 million in 2013. This estimate primarily reflects the following expected factors:

- \$22 to \$25 million in additional adjusted EBITDA from McLean's and the Ground-mounted Solar Phase II projects once they reach commercial operations;
- \$55 to \$58 million in additional adjusted EBITDA from a full year of North Battleford and the Ground-mounted Solar Phase I projects because they were operational for only part of 2013;
- \$4 to \$6 million lower adjusted EBITDA from Northland's operating facilities primarily due to Kingston's lower PPA prices as a result of the 2013 decrease in TransCanada toll rates and higher natural gas costs and operating expenditures at Iroquois Falls and Thorold, respectively;
- \$3 to \$5 million higher adjusted EBITDA from additional incentive fees earned from Cochrane and the additional one-time payment from Panda-Brandywine offset by lower performance fees from Kirkland Lake, which had lower operating expenses in 2013;
- \$10 million higher adjusted EBITDA from investment income on the Gemini junior debt facility in which Northland intends to invest at the time the project achieves financial close; and
- A net reduction in adjusted EBITDA from management and administration and other sales and income of \$2 million because other sales and income are anticipated to be lower and management expects slightly higher corporate management and administration costs.

Management continues to expect adjusted EBITDA of \$380 to \$400 million in 2015 based on the current completion schedules for Northland's projects with power contracts.

Northland's 2014 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 and interest on capital raised for construction projects for which corresponding

cash flows will not be received until the projects for which the capital is raised are completed. For 2014, management expects the cash dividends to be 75–85% of free cash flow, including the impact of reinvested dividends through the DRIP, and 105–120% of free cash flow excluding the impact of reinvested dividends through the DRIP (compared with 76% and 101%, respectively, in 2013). Prior to its investment in Gemini, management expected the dividend payout ratio to drop below 100% in 2014 on a total dividend basis, based on the successful conclusion of a period of significant growth and capital expenditures for Northland. Due to the significant capital costs for Northland's investment in Gemini, additional corporate capital will be required in 2014 to fund the project, and as a result the payout ratio may exceed 100% until Gemini is completed in 2017. Northland has sufficient liquidity to bridge the payout of the current dividend in excess of free cash flow during this period. Management expects the payout ratio during Gemini's construction to be significantly lower than during the growth period experienced by Northland from 2009 to 2013.

The 2014 payout ratio reflects the higher forecasted adjusted EBITDA as described previously, along with the following expected changes in free cash flows and dividend payments:

- \$10 to \$15 million in additional free cash flow from the McLean's and Ground-mounted Solar Phase II projects;
- \$15 to \$20 million in additional free cash flow from North Battleford and Ground-mounted Solar Phase I projects because they were operational for only part of 2013;
- \$5 to \$10 million lower free cash flow from the current operating facilities due to lower adjusted EBITDA as described previously, combined with higher reserve funding and capital expenditures;
- \$3 to \$5 million higher free cash flow from Cochrane and Panda-Brandywine offset by Kirkland Lake as noted above;
- \$11 to \$12 million lower free cash flow from interest expense on the Gemini term loan facility entered into at the time the project achieves financial close as further disclosed in Northland's Investor Day materials in September 2013;
- An increase in cash and share dividends as a result of the additional equity investment for Gemini and recognizing a full year of all Replacement Rights, Class B and C Shares and LTIPs from North Battleford and the Ground-mounted Solar Phase I projects reaching commercial operations; and
- Other items, including higher corporate and interest costs and renewal fees on the corporate facility, which are expected to negatively affect free cash flow up to approximately \$4 to \$5 million.

Northland's Board and management are committed to maintaining the current monthly dividend of \$0.09 per share (\$1.08 per share on an annual basis). 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 to continue its DRIP 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	2013
Sales	106.1	124.4	152.4	174.3	557.2
Adjusted EBITDA	54.6	50.1	75.7	82.9	263.3
Net income	23.6	80.1	41.3	22.0	167.0
Free cash flow	30.4	22.0	39.7	38.0	130.1
Net income per share – basic	0.17	0.62	0.27	0.08	1.08
Net income per share – diluted	0.16	0.58	0.26	0.08	1.03
Free cash flow per share	0.26	0.19	0.32	0.28	1.05
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	2012
Sales	100.5	85.3	82.7	93.2	361.7
Adjusted 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	0.20	0.16	0.05	0.15	0.55
Dividends declared per share	0.27	0.27	0.27	0.27	1.08

As a result of Northland equity-accounting for its investment in four rooftop solar projects effective January 1, 2013, all comparative quarterly total sales amounts reported in the above table have been restated to be in compliance with IFRS 11.

Northland's financial results are affected by seasonal factors that result in quarterly variations. At the Iroquois Falls and managed facilities, OEFC has contracted for more electricity and pays a higher price in winter than in summer. The financial results from Northland's wind farms follow a similar seasonal pattern because it tends to be windier in winter months compared to summer months. Northland's

solar projects follow a seasonal pattern that is the opposite of Northland's wind farms because the solar projects are expected to generate higher output and revenue during the summer months. Consolidated seasonality is also mitigated by the Kingston, Thorold, Spy Hill and North Battleford facilities because the contract provisions of these projects provide for generally consistent earnings throughout the year.

Northland's quarterly net income also varies due to any non-cash impairments/recoveries and foreign exchange adjustments required to translate U.S.-dollar- and euro-denominated balances to the appropriate quarter-end Canadian-dollar equivalent and by fair value movements of financial derivative contracts.

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Section 10: Fourth-Quarter 2013 Results

Northland's fourth-quarter adjusted EBITDA was \$83.0 million, a \$39.5 million increase from the same quarter in 2012, while free cash flow of \$38 million was \$20.3 million higher than the prior period. Major variances compared with the fourth quarter of 2012 are discussed below:

- **THERMAL FACILITIES:** Electricity production during the fourth quarter of 2013 was higher than the prior year due to the inclusion of North Battleford and higher production from Kingston due to the one-month scheduled maintenance outage in 2012, partially offset by reduced production at Thorold. Gross profit and adjusted EBITDA during the quarter were higher than the same period in 2012 due to the inclusion of results from North Battleford, an additional month of financial results at Kingston, the DCR "true-up" at Iroquois Falls and lower gas transportation tolls. Plant operating costs exceeded 2012 largely due to the inclusion of North Battleford and additional GE maintenance costs at Iroquois Falls, partly offset by lower costs at Thorold due to fewer operating hours and additional maintenance costs in 2012.
- **RENEWABLE FACILITIES:** Electricity production, revenue and adjusted EBITDA during the quarter exceeded the same period in 2012 due to significantly higher output at all three wind projects combined with the inclusion of results from the Ground-mounted Solar Phase I projects. Plant operating expenses for the quarter exceeded the prior year due to the inclusion of the Ground-mounted Solar Phase I projects and higher GE and royalty payments at Jardin, which are tied to production, partially offset by lower costs at Mont Louis due to the expiry of the GE turbine warranty agreements and replacement with a lower-cost GE service agreement.
- **OTHER SALES:** Prior to the CEEC acquisition on April 1, 2013, other sales included management and incentive fees earned from services provided to Cochrane and Kirkland Lake, which decreased \$6.8 million from 2012 due to those fees now being considered intercompany and eliminated on consolidation.
- **CORPORATE MANAGEMENT AND ADMINISTRATION COSTS** were \$1.4 million lower than the same period in 2012. Increased operational costs attributable to increased head count and other administrative functions in 2013 were offset by reduced development expenditures

in 2013 relative to 2012. Development expenditures in the fourth quarter of 2012 included a \$1.7 million writeoff of deferred development costs and significant expenditures toward wind and hydro projects in British Columbia and Quebec.

- INVESTMENT INCOME increased by \$0.3 million due to the inclusion of interest income from the loan to McLean's other equity partner, UCCMM.
- NET FINANCE COSTS, primarily interest expense, increased by \$10 million from 2012 due to the inclusion of interest on North Battleford and Ground-mounted Solar Phase I project debt, partially offset by the replacement of Spy Hill's bank debt with project bonds and repayment of Kingston's term loan in January 2013 and lower convertible debenture interest due to conversions of debentures into common shares.
- NON-CASH FAIR VALUE GAINS of \$0.2 million (compared to a \$14.9 million gain in 2012) consisted of a \$1.7 million loss in the fair value of Northland's financial derivative contracts and \$1.9 million in unrealized foreign exchange gains. Due to the conversion of all Class B Shares in August 2013, there were no fair value changes related to these shares during the quarter.
- NON-CASH IMPAIRMENTS consisted of a \$2.8 million impairment loss that relates to Northland's goodwill and Panda-Brandywine equity investment.
- CURRENT TAXES increased by \$1.5 million from 2012 due to the consolidation of Kirkland Lake and Cochrane after the acquisition of CEEC on April 1, 2013.

The factors described above combined with a \$3.4 million provision for deferred taxes resulted in net income for the quarter of \$22 million, which was \$24.5 million higher than the previous year.

Cash and cash equivalents increased by \$28.5 million during the quarter because \$78.5 million of cash generated from operations and \$103.3 million of cash provided by financing activities were partially offset by \$153.5 million of cash used for investing activities.

Cash used in investing activities included (i) \$13.5 million of deferred development costs; (ii) \$59.9 million of capital expenditures, the majority of which related to construction of the McLean's wind project and the Ground-mounted Solar Phase II projects; (iii) \$51.4 million in reserve funding, the majority of which relates to McLean's (McLean's project debt was fully funded at financial close and set aside in a reserve account until required to pay future construction-related expenditures); and (iv) a \$29.1 million increase in working capital related to construction activities, largely related to the timing of input tax credit receivables and vendor payables. Fourth-quarter investing activities also include \$0.4 million of interest received.

Financing activities for the fourth quarter of 2013 provided \$103.3 million, comprising \$169.5 million of advances under the Ground-mounted Solar Phase I and II and McLean's facilities and a \$16 million equity contribution from the other McLean's equity partner, Mnidoo Mnising Power Limited Partnership, an entity controlled by the members of UCCMM. Partially offsetting these inflows were (i) \$30.9 million of common, Class A and preferred share dividends; (ii) \$25.4 million in corporate and scheduled loan repayments (including Kirkland Lake); (iii) \$1.7 million of dividends to the non-controlling shareholders of Kirkland Lake and Cochrane; and (iv) \$24.2 million in interest and other miscellaneous payments.

Fourth-quarter free cash flow at \$38 million was \$20.3 million higher than the same period last year. The factors affecting the quarter were higher cash flows from all existing facilities, the addition of North Battleford and the Ground-mounted Solar Phase I projects, lower non-expansory capital expenditures, partially offset by lower performance incentive fees from Kirkland Lake, higher net finance costs and increased scheduled debt repayments and restricted cash funding for future major maintenance.

For the three-month period ending December 31, 2013, Share and Class A Share dividends declared for the quarter totalled \$0.27 per share. This is equivalent to a payout ratio of 72% or 94% if all dividends were paid out in cash (i.e., excluding the effect of dividends reinvested through Northland's DRIP).

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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/U.S. dollar exchange rate of \$1.04 and Canadian dollar/euro exchange rate of \$1.35. 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 majority of the construction commitment relates to the construction of the ground-mounted solar projects and McLean's wind farm and commitments under an interim framework agreement for the Gemini project. The cash obligations related to the leases for land and buildings and dismantlement are also included.

In thousands of dollars	2014	2015	2016	2017	2018	>2018
Natural gas transportation, fixed portion	57,481	50,480	37,729	17,483	16,914	38,317
Maintenance agreements	10,686	11,147	10,296	10,537	10,769	68,609
Leases	3,717	3,562	3,635	3,577	3,610	40,662
Management fees	819	887	716	314	283	5,339
Construction, excluding debt, interest and fees	136,852	—	—	—	—	—
Dismantlement funding	—	—	—	—	—	7,600
	209,555	66,076	52,376	31,911	31,576	160,527

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, Spy Hill and North Battleford 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 25 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, LTIP, leases, impairment of non-financial assets, decommissioning liabilities, income taxes, fair value of financial assets and financial liabilities and depreciation of property, plant and equipment and contracts 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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Deferral of Development Expenditures

Northland expenses development-related management and administration costs not directly attributable to a specific development project, including costs to determine the feasibility of prospective projects. If management determines that a development project meets specific criteria that indicate a high probability of completion, Northland capitalizes all pre-construction costs directly related to that project, but continues to expense indirect costs such as management salaries and overhead. If management determines that development of a project will be discontinued or that success is no longer highly likely, all deferred costs are expensed in the period the determination is made.

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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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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 and solar facilities. 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 renewable facilities to be \$16.2 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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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, 2013, 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, 2013, 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, 2013.

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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 2013 AIF, dated February 19, 2014, 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 or future or conditional verbs such as "may," "will," "should," "would" and "could." These statements may include, without limitation, statements regarding future adjusted EBITDA, free cash flows, dividend payments and dividend payout ratios; the construction, completion, attainment of commercial operations, cost, financing and output of development projects; plans for raising capital; and the future operations, business, financial condition, financial results, 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 2013 AIF dated February 19, 2014, 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 19, 2014. 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

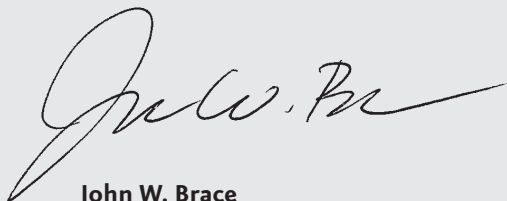
Management is responsible for the preparation of Northland's financial statements and annual report. Management has prepared the accompanying consolidated financial statements in accordance with International Financial Reporting Standards, and the financial information included in the annual report is 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 (consisting 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
Chief Executive Officer
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, 2013, 2012 and January 1, 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012, 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.

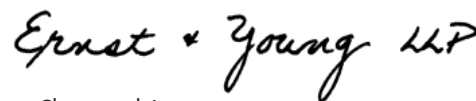
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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, 2013, 2012 and January 1, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

Toronto, Canada
February 19, 2014

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

Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

As at, in thousands
of Canadian dollars

	December 31, 2013	December 31, 2012	January 1, 2012
Assets			
		[Note 3.20]	[Note 3.20]
Current			
Cash and cash equivalents	138,460	31,715	48,151
Restricted cash	74,365	27,285	9,613
Trade and other receivables	124,606	125,816	120,511
Inventories [Note 6]	12,793	7,468	7,249
Prepayments	7,595	11,169	13,850
Investment in Panda-Brandywine [Note 10]	3,100	—	—
Finance lease receivable [Note 8]	2,530	2,989	2,704
Total current assets	363,449	206,442	202,078
Finance lease receivable [Note 8]	161,235	163,764	166,655
Investment in Panda-Brandywine [Note 10]	—	3,500	5,400
Equity-accounted investment [Note 9]	4,941	5,317	5,005
Property, plant and equipment [Note 11]	2,094,262	1,717,470	1,414,186
Contracts and other intangible assets [Note 12]	187,121	199,608	217,295
Other assets [Note 20]	8,845	—	—
Goodwill [Note 13]	220,167	222,574	241,843
Total assets	3,040,020	2,518,675	2,252,462

continued...

As at, in thousands
of Canadian dollars

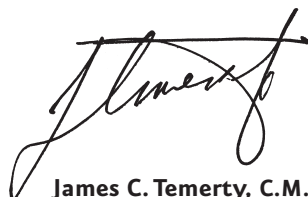
	December 31, 2013	December 31, 2012	January 1, 2012
Liabilities and shareholders' equity			
		[Note 3.20]	[Note 3.20]
Current			
Bank indebtedness	—	1,071	8,257
Trade and other payables	84,993	92,882	99,812
Interest-bearing loans and borrowings [Note 14]	59,173	39,998	76,355
Dividends payable – non-controlling interest [Note 7]	3,460	—	—
Dividends payable	11,968	10,430	7,022
Total current liabilities	159,594	144,381	191,446
Interest-bearing loans and borrowings [Note 14]	1,762,397	1,225,132	938,874
Convertible debentures [Note 15]	15,992	26,668	36,405
Other liabilities	3,050	2,056	2,636
Provisions [Note 16]	16,205	12,437	12,040
Deferred income tax liability [Note 17]	83,422	44,890	42,001
Derivative financial instruments [Note 18]	46,622	215,566	217,093
Liabilities excluding those attributed to shareholders	2,087,282	1,671,130	1,440,495
Convertible shares [Note 19.3]	—	146,429	132,230
Liabilities attributed to shareholders	—	146,429	132,230
Total liabilities	2,087,282	1,817,559	1,572,725

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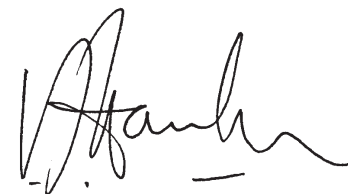
As at, in thousands
of Canadian dollars

	December 31, 2013	December 31, 2012	January 1, 2012
Shareholders' equity			
Preferred shares [Note 19.1]	261,737	262,195	145,638
Common shares [Note 19.2]	1,637,480	964,311	844,360
Long-Term Incentive Plan reserve [Note 19.2]	7,319	9,391	2,485
Convertible shares [Note 19.3]	14,615	499,033	499,033
Replacement Rights [Note 19.3]	—	11,098	88,169
Accumulated other comprehensive income	204	1,018	752
Deficit	(1,041,872)	(1,045,930)	(900,700)
Equity attributable to shareholders	879,483	701,116	679,737
Non-controlling interests [Notes 7 and 20]	73,255	—	—
Total shareholders' equity	952,738	701,116	679,737
Total liabilities and shareholders' equity	3,040,020	2,518,675	2,252,462

See accompanying notes.



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



V. Peter Harder
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

	2013	2012
		[Note 3.20]
Sales		
Electricity	535,206	325,728
Steam and natural gas	12,535	15,673
Other	9,497	20,281
Total sales	557,238	361,682
Cost of sales	202,479	131,492
Gross profit	354,759	230,190
Expenses		
Plant operating costs	64,235	40,438
Management and administration costs – operations	15,620	13,736
Management and administration costs – development	17,512	13,714
Depreciation of property, plant and equipment [Note 11]	89,879	62,307
	187,246	130,195
Investment income [Note 10]	939	355
Finance lease income [Note 8]	13,886	14,129
Operating income	182,338	114,479
Finance costs [Note 23]	84,885	63,966
Equity investment (gain) [Note 9]	(262)	(312)
Amortization of contracts and other intangible assets [Note 12]	19,930	19,422
Writeoff of deferred development costs	–	1,661
Impairment of contracts and other intangible assets [Note 21]	–	1,684
Impairment of goodwill [Note 21]	2,407	19,269
Foreign exchange (gain)	(3,787)	(55)

continued...

Consolidated Statements of Income (Loss) continued

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

	2013	2012
		[Note 3.20]
Finance (income)	(1,207)	(815)
Fair value (gain) on derivative contracts	(102,072)	(1,955)
Fair value (gain) loss on convertible shares [Note 19.3]	(27,834)	14,199
Writedown of Panda-Brandywine equity investments [Note 10]	400	2,100
Lease accounting (gain)	–	(2,964)
Other (income)	(1,526)	–
Income (loss) before income taxes	211,404	(1,721)
Provision for (recovery of) income taxes [Note 17]		
Current	8,780	4,990
Deferred	35,605	3,202
	44,385	8,192
Net income (loss) for the year	167,019	(9,913)
Net income (loss) attributable to:		
Non-controlling interests [Note 20]	15,885	–
Common shareholders	151,134	(9,913)
	167,019	(9,913)
Weighted average number of shares outstanding –		
basic (000s) [Note 24]	126,719	120,538
Weighted average number of shares outstanding –		
diluted (000s) [Note 24]	133,478	120,538
Gain (loss) per share – basic	\$1.08	(\$0.18)
Gain (loss) per share – diluted	\$1.03	(\$0.18)

See accompanying notes.

Consolidated Statements of Comprehensive Income (Loss)

As at December 31, in thousands
of Canadian dollars

	2013	2012
Net income (loss) for the year	167,019	(9,913)
Items that may be reclassified into net income (loss):		
Exchange differences on translation of foreign operations	(814)	66
Balance transfer to net income	—	600
Change in fair value of available-for-sale financial asset	—	(400)
Other comprehensive income (loss)	(814)	266
Total comprehensive income (loss)	166,205	(9,647)
Total comprehensive income (loss) attributable to:		
Non-controlling interest [Note 20]	15,885	—
Common shareholders	150,320	(9,647)
	166,205	(9,647)

See accompanying notes.

Consolidated Statements of Changes in Equity

Year ended December 31, 2013

	Common shares	Replace- ment Rights	Convertible shares	Preferred shares	Long-Term Incentive Plan reserve	Deficit	Foreign currency translation reserve	Equity attribut- able to share- holders	Non- controlling interests	Total share- holders' equity
In thousands of Canadian dollars										
December 31, 2012	964,311	11,098	499,033	262,195	9,391	(1,045,930)	1,018	701,116	—	701,116
Net income for the year	—	—	—	—	—	151,134	—	151,134	15,885	167,019
Conversion of debentures	11,432	—	—	—	—	—	—	11,432	—	11,432
Conversion of shares and Replacement Rights	614,111	(11,098)	(484,418)	—	—	—	—	118,595	—	118,595
Change in translation of net investment in foreign operation	—	—	—	—	—	—	(814)	(814)	—	(814)
LTIP shares	15,061	—	—	—	(2,072)	—	—	12,989	—	12,989
Acquisition of CEEC	—	—	—	—	—	—	—	—	42,507	42,507
Dividends to CEEC non- controlling interest	—	—	—	—	—	—	—	—	(9,969)	(9,969)
McLean's partner's equity contribution	—	—	—	—	—	—	—	—	24,832	24,832
Deferred income taxes	(191)	—	—	(458)	—	—	—	(649)	—	(649)
Common and Class A Share dividends	32,756	—	—	—	—	(133,200)	—	(100,444)	—	(100,444)
Preferred share dividends	—	—	—	—	—	(13,876)	—	(13,876)	—	(13,876)
December 31, 2013	1,637,480	—	14,615	261,737	7,319	(1,041,872)	204	879,483	73,255	952,738

continued...

Year ended December 31, 2012									
	Common	Replacement	Convertible	Preferred	Long-Term Incentive Plan	Deficit	Available- for-sale reserve	Foreign currency translation reserve	Total shareholders' 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) for the year	—	—	—	—	—	(9,913)	—	—	(9,913)
Conversion of debentures	10,492	—	—	—	—	—	—	—	10,492
Conversion 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

See accompanying notes.

Consolidated Statements of Cash Flows

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

	2013	2012
		[Note 3.20]
Operating activities		
Net income (loss) for the year	167,019	(9,913)
Items not involving cash or operations:		
Depreciation of property, plant and equipment	89,879	62,307
Amortization of contracts and other intangible assets	19,930	19,422
Writeoff and impairment of property, plant and equipment, and contracts and other intangible assets and goodwill [Note 21]	2,407	22,614
Writedown of Panda-Brandywine equity investment [Note 10]	400	2,100
Finance costs, net	78,402	64,118
Fair value (gain) on derivative contracts	(102,072)	(1,955)
Fair value (gain) loss on convertible shares [Note 19.3]	(27,834)	14,199
Finance lease [Note 8]	2,988	2,606
Lease accounting (gain)	–	(2,964)
Unrealized foreign exchange (gain) loss	(3,620)	271
Equity loss (gain), net of distributions [Note 9]	376	(312)
Other	1,548	(1,489)
Deferred income taxes [Note 17]	35,605	3,202
	265,028	174,206
Net change in non-cash working capital balances related to operations	(7,950)	(11,808)
Cash provided by operating activities	257,078	162,398
Investing activities		
Purchase of property, plant and equipment	(335,312)	(303,738)
Cash reserves (funding)	(46,546)	(17,672)
Increase in intangible assets	(84,401)	(60,705)

continued...

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

	2013	2012
		[Note 3.20]
Interest received	1,207	815
Acquisition of CEEC, net [Note 7]	10,865	—
Net change in working capital related to investing activities	10,031	7,200
Cash used in investing activities	(444,156)	(374,100)
Financing activities		
Proceeds from borrowings	446,248	327,617
Net proceeds from bond offerings [Note 14]	816,001	—
Repayment of borrowings	(719,552)	(80,360)
Settlement of interest rate swaps [Note 14]	(65,409)	—
Decrease in bank indebtedness	(1,071)	(7,186)
Issuance of preferred shares	—	116,037
Interest paid	(74,857)	(60,620)
Dividends to non-controlling interest [Note 7]	(11,683)	—
Preferred share dividends	(13,876)	(11,484)
Common and Class A Share dividends	(98,908)	(88,734)
Other	16,790	—
Cash provided by financing activities	293,683	195,270
Effect of exchange rate differences on cash and cash equivalents	140	(4)
Net change in cash and cash equivalents during the year	106,745	(16,436)
Cash and cash equivalents, beginning of year	31,715	48,151
Cash and cash equivalents, end of year	138,460	31,715
Per share		
Dividends declared to shareholders	\$1.08	\$1.08

See accompanying notes.

Notes to the Annual Consolidated Financial Statements

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1. Description of Business

Northland Power Inc. (**"Northland"**) 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 for sale under long-term power purchase agreements (**PPAs**) or similar commercial arrangements to assure revenue stability. Northland's operating assets and investments are located in Canada, the United States and Europe.

The 2013 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, 2013	Ownership December 31, 2012
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%
North Battleford Power L.P. ("Battleford")	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%
McLean's Mountain Wind L.P. ("McLean's")	Canada	50% ⁽¹⁾	100%
Ground-mounted Solar Partnerships ("Ground-mounted Solar")	Canada	100%	100%
Canadian Environmental Energy Corporation ("CEEC")	Canada	68% ⁽²⁾	N/A

(1) On October 1, 2013, concurrent with the financing, Northland issued 50% more units of McLean's Mountain Wind Limited Partnership to Mnídoo Mníising Power Limited Partnership, an entity controlled by the members of the United Chiefs and Councils of Mnídoo Mníising First Nations (**UCCMM**); see Note 14.

(2) On April 1, 2013, Northland acquired an ownership interest in CEEC, which has voting control of Kirkland Lake Power Corp. (**"Kirkland Lake"**) and Cochrane Power Corporation (**"Cochrane"**); see Note 7.

Northland's financial results also include income earned from a 19% equity interest in Panda Energy Corporation ("**Panda-Brandywine**"), results from the Northland Power Chips Limited Partnership ("**Chips**"), the rooftop solar partnership in which Northland has a 75% interest and management fees from Chapais Énergie, Société en Commandite ("**Chapais**"), in which Northland has an indirect equity 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 subordinated debentures ("**2014 Debentures**") that are publicly traded. Northland is the parent company for the operating subsidiaries that carry on the Company's business. Northland's registered office is located in Toronto, Ontario.

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**).

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, 2013.

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. Control is achieved when Northland 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. Northland reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of controls. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of income (loss) from the date Northland gains control until the date control ceases.

When Northland has less than a majority of the voting or similar rights of an investee, Northland considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- Northland's voting rights and potential voting rights.

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 consolidated statements of income (loss).

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 the 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 consolidated statement of income (loss). 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 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 consolidated 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), counter-party 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, counter-party risk and volatility are used.
- LEVEL 3 – Valuations at this level are those with inputs that are not based on observable market data.

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 are recognized in income (loss) or in comprehensive income (loss) for the year. 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 or loss are carried on the consolidated balance sheets 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 as at December 31, 2013, or December 31, 2012.

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 prior to being converted into equity on August 22, 2013. 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 (prior to being converted into equity on August 22, 2013) 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 sheets 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 as at December 31 are as follows:

In thousands of dollars

As at December 31, 2013	Level 1	Level 2	Level 3	Total
Loans and receivables ⁽¹⁾	212,825	297,216	—	510,041
Available for sale ⁽²⁾	—	—	3,100	3,100
Financial liabilities at fair value through profit or loss ⁽³⁾	—	46,622	—	46,622
Other financial liabilities ⁽⁴⁾	15,992	1,921,991	—	1,937,983

In thousands of dollars

As at December 31, 2012	Level 1	Level 2	Level 3	Total
Loans and receivables ⁽¹⁾	59,000	292,569	—	351,569
Available for sale ⁽²⁾	—	—	3,500	3,500
Financial liabilities at fair value through profit or loss ⁽³⁾	—	361,995	—	361,995
Other financial liabilities ⁽⁴⁾	26,668	1,369,513	—	1,396,181

(1) Cash and cash equivalents and restricted cash, trade and other receivables, lease receivable and other assets.

(2) Investment in Panda-Brandywine.

(3) Derivative financial instruments and Class B Shares (2012 only).

(4) 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, 2013, is \$2.0 billion (2012 – \$1.4 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	2013	2012
Income on financial assets not held for trading	13,886	14,129
(Loss) on other financial liabilities	(83,677)	(62,809)
Gain (loss) on financial liabilities at fair value through profit or loss	(129,906)	12,244

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	20 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 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 or 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 19.3, “Convertible Shares and Replacement Rights,” for additional details on all conversions and exchanges of convertible shares during 2013.

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 that became Class A Shares upon corporatization of Northland Power Income Fund on January 1, 2011. The Class A Shares are recorded in equity and are included in the calculation of basic net income (loss) per share.

The Class A Shares are 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, Class C Units were also issued, which became Class C Shares (**“Class C Shares”**) upon corporatization on January 1, 2011. The Class C Shares were eligible to be converted to Class A Shares based upon Northland’s “development profits” from qualifying development projects owned by Northland Power Inc. at the date of the Merger. The Class C Shares carried one vote per Class C Share but have no rights to dividends and are not transferable. Class C Shares converted to Class A Shares proportionally as Northland achieved development profits of up to \$100 million on certain qualifying development projects.

All Class C Shares were converted into Class A Shares by August 22, 2013, and no further Class C Shares may be issued.

Class B Shares

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

Prior to August 22, 2013, when all Class B Shares were converted into Class A Shares, there was uncertainty about the number of shares to be converted, the timing of conversion and the conversion price and, as a result, the Class B Shares were classified as financial liabilities for accounting purposes in accordance with IAS 32, “Financial Instruments: Presentation.”

The Class B Shares were remeasured to fair value at each reporting date. The fair value adjustments were recorded in the “Fair value loss on convertible shares” line in the consolidated statements of income (loss) prior to the conversion. No further Class B Shares may be issued.

3.16 Replacement Rights

Coincident with the Merger, Northland issued Replacement Rights in settlement of Northland's obligations under a long-term incentive plan. Each Replacement Right was exercisable to acquire one Share for no additional consideration. Replacement Rights carried no voting rights or rights to receive dividends and were not transferable.

All Replacement Rights were converted into Shares by August 22, 2013, and no Replacement Rights are outstanding.

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 by 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 21.

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 income 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 consolidated 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 11 and 12.

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 LTIP was further amended in early 2013 to expand the scope to additional development projects. 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 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 is a lease or its provisions contain 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.

Consolidation of McLean's

On October 1, 2013, McLean's, a 50/50 partnership with an entity controlled by the members of UCCMM, reached financial close. On financial close, UCCMM made a capital contribution of \$24.8 million and received units representing a 50% ownership. The construction is expected to be completed in 2014.

Based on the contractual terms, Northland assessed that the voting rights in McLean's are not a dominant factor in deciding who controls the entity. Therefore, Northland concluded McLean's is a structured entity under IFRS 10 and that it controls this entity through its power over the relevant activities, exposure to variable returns through its equity investment, and its ability to affect returns. Therefore, McLean's is consolidated in the Northland's consolidated financial statements. UCCMM's 50% ownership has been recorded as non-controlling interest on the consolidated balance sheet. See Note 20 for additional details.

Equity investment in rooftop solar

Northland has a 75% interest in four rooftop solar partnerships with Loblaw (**"Rooftop solar"**). Northland has concluded that they do not control Rooftop solar, as defined under IFRS 10, as the decisions over relevant activities require unanimous consent from both partners. See Note 9 for additional details.

3.20 New Standards Adopted

Northland's audited consolidated financial statements for the year ended December 31, 2013, have adopted the following new accounting policies that became effective January 1, 2013.

IFRS 11, "Joint Arrangements," replaces IAS 31, "Interests in Joint Ventures," and SIC-13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers." IFRS 11 removes the option to account for jointly controlled entities (**JCEs**) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

As a result of implementing IFRS 11, Northland's rooftop solar joint venture with Loblaw Companies Limited (**"Loblaw"**) is now required to be reported using the equity method of accounting, replacing the previously applied proportionate consolidation method. This standard was adopted on a retrospective basis with restatement of comparative periods. The effect of IFRS 11 is described in more detail in Note 9.

IFRS 12, "Disclosure of Interests in Other Entities," sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries; for example, where a subsidiary is controlled with less than a majority of voting rights. While Northland has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities.

IFRS 13, "Fair Value Measurement," establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, Northland reassessed its policies for measuring fair values; in particular,

its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially affected the fair value measurements of Northland. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 3.7.

Beginning January 1, 2013, additional IFRS standards, amendments and interpretations to existing standards came into effect. Adoption of these standards by Northland had no significant impact on the audited consolidated financial statements or notes to the audited consolidated financial statements.

3.21 Future Accounting Policies

As of December 31, 2013, 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.

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.

4. Financial Risk Management

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. Northland is exposed to four types of market 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). The fair values for these interest rate swap contracts were based on calculations using valuation models with observable interest and credit rates.

For the year ended December 31, 2013, if interest rates had been 100 basis points higher or lower with all other variables held constant, the change in income before income taxes, which includes the change in fair value of the interest rate swaps, would have been \$57.1 million higher or lower. However, this change would have had no material impact on Northland's 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, 2013, the majority of Northland's assets and sales were located in Canada. Exceptions include the investments in and income from Panda-Brandywine located in the United States and €16.7 million in receivables from the German wind farms and advances to the developer of the Gemini offshore wind project. 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 U.S.-dollar investment income from Panda-Brandywine, partially offset by U.S.-dollar expenditures at Northland's facilities and euro-denominated income from the German wind farms.

At December 31, 2013, 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 \$2.4 million higher or lower, which includes the fair value change in the U.S.-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, 2013, if the Canadian dollar had been 5% higher or lower against the euro with all other variables held constant, income before income taxes would have been \$1.7 million higher or lower, which includes the fair value change in the euro-denominated 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, financial gas swaps 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, 2013, approximately 90% (2012 – 92%) of Northland's consolidated trade and other receivables were owing from government-related entities.

In 2013, approximately 97% (2012 – 95%) 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, 2013, are current.

Overall, 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, 2013, Northland and its subsidiaries were holding cash and cash equivalents of \$138.5 million and had undrawn lines of credit available of \$89 million.

The contractual maturities of Northland's financial liabilities at December 31, 2013, are as follows:

In thousands of dollars	Currency	2014	2015	2016	2017	2018	>2018
US\$ foreign exchange contracts	US\$	10,600	5,400	10,800	4,800	5,100	9,300
Euro foreign exchange contracts	Euro	6,500	—	—	—	—	—
Amortizing loans, including							
interest rate swaps	CA\$	164,525	353,070	149,177	143,163	145,299	2,009,582
Financial gas contract	CA\$	—	1,858	11,893	25,577	26,314	86,514
Convertible subordinated debentures,							
including interest	CA\$	17,794	—	—	—	—	—

Northland is also subject to internal liquidity risk because 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 year ended December 31, 2013, 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, 2013, total managed capital was \$2.8 billion, consisting of shareholders' equity of \$1.0 billion, interest-bearing debt of \$1.8 billion and convertible unsecured subordinated debentures of \$16.0 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, 2013, Northland's ratio of total debt to enterprise value was 46.5%. 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, 2013, calculated by multiplying the number of outstanding Shares and Class A Shares 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, 2013	December 31, 2012
Natural gas	1,468	982
Spare parts and other inventory	11,325	6,486
	12,793	7,468

During 2013, Northland and its subsidiaries expensed \$2.1 million (2012 – \$1.7 million) of inventory to cost of sales and plant costs.

7. Acquisitions

On April 1, 2013, Northland acquired from the Probyn Group a 68% controlling interest in CEEC and all of the shares of Chapais Power Services Inc. CEEC owns the voting shares in Kirkland Lake and Cochrane which, respectively, own the Kirkland Lake and Cochrane biomass and natural-gas-fired power facilities that were already managed and operated by Northland. CEEC also owns an equity interest in the general partner of Chapais, owner of the biomass-fired power facility in Chapais, Quebec.

The fair value of the total consideration paid for the controlling interest of CEEC and the shares of Chapais Power Services Inc. has been allocated to the net assets acquired as follows:

As at, in thousands of dollars	April 1, 2013
Working capital, including cash of \$20.7 million and accounts receivable of \$13.6 million	25,714
Restricted cash	534
Property, plant and equipment	39,077
Deferred income taxes	(2,278)
Debt	(10,892)
Contracts and other intangible assets	57,132
Non-controlling interests	(42,507)
Total purchase price paid	66,780
Less: Management contracts previously recognized	(56,989)
Less: Cash acquired	(20,656)
Net cash acquired	(10,865)

The restricted cash acquired represents cash set aside for future maintenance. The property, plant and equipment primarily relates to the power-generating equipment at the Kirkland Lake and Cochrane facilities that is amortized over the estimated useful life of the assets using the straight-line method. Deferred income tax liabilities relate primarily to the differences between the tax and accounting values of the contracts and property, plant and equipment acquired. The contracts and other intangible assets primarily relate to the fair value

of PPAs acquired. The non-controlling interests relate to the interest the other shareholders of CEEC, Kirkland Lake and Cochrane have in each of the respective entities' shareholders' equity. Non-controlling interest is initially measured at their proportionate share of the net fair value of the identifiable assets and liabilities recognized.

All costs related to the acquisition have been expensed in the consolidated statements of income (loss).

Northland will continue to manage the Kirkland Lake and Cochrane facilities and began managing the Chapais generating station, through Chapais Power Services, Inc., beginning April 1, 2013. As a result of this transaction, Northland will receive management fees from Chapais and additional dividend income from Kirkland Lake and Cochrane. Northland's consolidated financial results for the year ended December 31, 2013, include total revenue of \$90.5 million and net income of \$17.0 million from the acquired entities. Total assets of the acquired entities as of December 31, 2013, is \$70.7 million.

CEEC has an 11.54% economic interest in Cochrane and an 8.78% economic interest in Kirkland Lake. Northland has a 67.78% economic interest in CEEC.

In accordance with IFRS 10, the Kirkland Lake and Cochrane facilities were determined to meet the definition of control and have been consolidated in Northland's consolidated financial statements. The acquisition of Chapais and related entities did not meet the definition of control within IFRS 10 and has been reported using the equity method of accounting with a \$nil value.

8. 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, 2013, finance lease income of \$13.9 million (2012 – \$14.1 million) was recognized.

The amounts receivable under finance lease accounting are as follows:

	December 31, 2013		December 31, 2012	
	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	16,186	2,530	16,874	2,989
Two to five years	64,749	12,512	64,747	11,513
Long-term	287,134	148,723	303,322	152,251
	368,069	163,765	384,943	166,753
Less: Unearned finance income	(204,304)	—	(218,190)	—
Total finance lease receivable	163,765	163,765	166,753	166,753

	December 31, 2013	December 31, 2012
In thousands of dollars		
Current	2,530	2,989
Long-term	161,235	163,764
Total finance lease receivable	163,765	166,753

The interest rate inherent in the lease is 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, 2013, are as follows:

.....
In thousands of dollars

Within one year	3,717
After one year but not more than five years	14,385
More than five years	40,662
	58,764

9. Equity-Accounted Investments

.....
Northland has a 75% interest in four rooftop solar partnerships with Rooftop solar. Prior to the transition to IFRS 11, Northland's interest in Rooftop solar was classified as a jointly controlled entity, and Northland's share of the assets, liabilities, revenue, income and expenses were proportionately consolidated in the consolidated financial statements. Upon adoption of IFRS 11 effective January 1, 2013, Northland has determined Rooftop solar to be a joint venture and is required to account for its interest using the equity method.

On adoption of IFRS 11, Northland applied the new standard retrospectively. The retrospective application affected the December 31, 2012, and January 1, 2012, balance sheets and December 31, 2012, income statement by reclassifying the assets, liabilities, revenue, income and expenses into one line item, "equity investment," on each statement.

The change in equity-accounted investment is as follows:

In thousands of dollars

January 1, 2012, balance	5,005
Equity income	312
Distributions received	—
December 31, 2012, balance	5,317
Equity income	262
Distributions received	(638)
December 31, 2013, balance	4,941

Summarized information on the results of operations and financial position relating to Northland's pro rata interest in the equity-accounted investment is as follows:

In thousands of dollars

	2013	2012
Revenue	575	621
Expenses	(313)	(309)
Proportionate share of net income	262	312

In thousands of dollars

	2013	2012
Current assets	558	670
Long-term assets	4,392	4,653
Current liabilities	(9)	(6)
Long-term liabilities	—	—
Proportionate share of net assets	4,941	5,317

10. Investment in Panda-Brandywine

Northland has a 19% interest in Panda-Brandywine, which, through its wholly owned subsidiaries, owns the 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 \$0.1 million (2012 – \$0.2 million) using less favourable assumptions and increase the fair value by \$0.1 million (2012 – \$0.2 million) using more favourable assumptions.

For the year ended December 31, 2013, a portion of the Panda-Brandywine asset balance was determined to be impaired because 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) JP Morgan Ventures Energy Corporation (**"JP Morgan"**) notifying Panda-Brandywine L.P. that it would not be extending the PPA beyond May 2014. As a result of the PPA not being extended, JP Morgan will be required to pay US\$27.5 million to the Panda-Brandywine owners no later than May 31, 2014. Upon payment of the US\$27.5 million, the Panda-Brandywine facility will be transferred to JP Morgan. Northland's recorded asset has been reduced by \$0.4 million to its fair value of \$3.1 million, and the loss was recognized in net income.

11. Property, Plant and Equipment

		Buildings and foun- dations	Plant and equipment	Vehicles and meteor- ological towers	Office equipment furniture and fixtures	Computers and computer software	Leasehold improve- ments	Construc- tion in progress (CIP)	Total
In thousands of dollars									
COST [NOTE 3.20]									
January 1, 2012	2,132	151,610	1,198,297	4,006	1,056	1,780	34,810	381,372	1,775,063
Foreign exchange	—	—	(184)	—	—	—	—	—	(184)
Additions	1,120	262	6,596	—	1	97	303	295,359	303,738
Transfer from CIP	—	—	—	—	—	—	—	55,625	55,625
Disposals and other	—	(67)	(5,459)	—	—	—	—	7,724	2,198
December 31, 2012	3,252	151,805	1,199,250	4,006	1,057	1,877	35,113	740,080	2,136,440
Foreign exchange	—	—	3,679	—	—	—	—	—	3,679
Additions	1,037	220	1,269	16	—	106	—	356,271	358,919
Acquired	—	502	223,186	1,139	1,142	—	2,431	—	228,400
Transfer from intangible	—	—	—	—	—	—	—	77,101	77,101
Transfer from CIP	—	184,763	661,949	135	133	1,371	55,870	(904,221)	—
Disposals and other	(274)	—	2,795	—	—	—	—	(11,338)	(8,817)
December 31, 2013	4,015	337,290	2,092,128	5,296	2,332	3,354	93,414	257,893	2,795,722

Included in additions above are \$22.0 million of borrowing costs (interest and commitment fees) that were capitalized during the year ended December 31, 2013 (2012 – \$27.5 million).

		Buildings and foun- dations	Plant and equipment	Vehicles and meteor- ological towers	Office equipment furniture and fixtures	Computers and computer software	Leasehold improve- ments	Construc- tion in progress (CIP)	Total
In thousands of dollars									
ACCUMULATED DEPRECIATION									
January 1, 2012	—	64,811	289,721	1,678	770	1,635	2,262	—	360,877
Foreign exchange	—	—	(138)	—	—	—	—	—	(138)
Depreciation	—	5,420	54,949	446	51	89	1,352	—	62,307
Disposals	—	—	(4,076)	—	—	—	—	—	(4,076)
December 31, 2012	—	70,231	340,456	2,124	821	1,724	3,614	—	418,970
Foreign exchange	—	—	3,289	—	—	—	—	—	3,289
Depreciation	—	9,115	76,099	441	152	1,271	2,801	—	89,879
Acquired	—	383	186,543	908	148	—	1,340	—	189,322
December 31, 2013	—	79,729	606,387	3,473	1,121	2,995	7,755	—	701,460
NET BOOK VALUE									
December 31, 2012	3,252	81,574	858,794	1,882	236	153	31,499	740,080	1,717,470
December 31, 2013	4,015	257,561	1,485,741	1,823	1,211	359	85,659	257,893	2,094,262

12. Contracts and Other Intangible Assets

In thousands of dollars	Deferred development costs	Contracts	Total
COST			
January 1, 2012	22,109	293,731	315,840
Additions	60,705	—	60,705
Transfer to property, plant and equipment	(55,625)	—	(55,625)
Impairment	—	(1,684)	(1,684)
Writeoffs	(1,661)	—	(1,661)
December 31, 2012	25,528	292,047	317,575
Additions	84,401	143	84,544
Transfer to property, plant and equipment	(77,101)	—	(77,101)
December 31, 2013	32,828	292,190	325,018
AMORTIZATION			
January 1, 2012	—	(98,545)	(98,545)
Amortization	—	(19,422)	(19,422)
December 31, 2012	—	(117,967)	(117,967)
Amortization	—	(19,930)	(19,930)
December 31, 2013	—	(137,897)	(137,897)
NET BOOK VALUE			
December 31, 2012	25,528	174,080	199,608
December 31, 2013	32,828	154,293	187,121

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, 2013, \$nil (2012 – \$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, 2013, no impairment charge was recorded.

13. 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, 2013, a portion of the goodwill balance was determined to be impaired. See Note 21 for further detail.

In thousands of dollars

COST

January 1, 2012	284,626
Additions	—
Disposals	—

December 31, 2012 and December 31, 2013	284,626
--	----------------

continued...

.....
 In thousands of dollars

IMPAIRMENT

January 1, 2012	42,783
Impairment	19,269
Disposals	—

.....
 December 31, 2012 62,052

 Impairment [Note 21] 2,407

December 31, 2013 64,459

NET BOOK VALUE

December 31, 2012 222,574

December 31, 2013 220,167

14. 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.

On July 26, 2013, Northland's corporate operating line of credit was amended to allow Northland to reduce applicable pricing and add the ability to issue euro-denominated letters of credit to address any future requirements.

As at December 31, 2013, the interest rate charged on the credit facility is 3.7% (2012 – 3.8%). Standby fees of 0.3% (2012 – 0.4%) per annum are charged on each of the undrawn components of the credit facility.

As at December 31, 2013, letters of credit totalling \$161 million (2012 – \$112 million) and drawings of \$nil (2012 – \$1.1 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, bonds and borrowings include the following:

In thousands of dollars except as indicated	Note	Maturity	Rate ⁽¹⁾	As at	As at
				December 31, 2013 ⁽²⁾	December 31, 2012 ⁽²⁾
Kingston	(a)	n/a	n/a	–	32,431
Thorold	(b)	2015, 2030	6.6%	349,699	361,527
Spy Hill	(c)	2036	4.1%	151,790	110,452
North Battleford	(d)	2032	5.0%	658,706	366,200
Jardin	(e)	2029	6.0%	121,941	126,804
Mont Louis	(f)	2031/2032	6.6%	113,401	116,516
Ground-mounted Solar Phase I	(g)	2030	5.2/5.3%	219,615	151,200
Ground-mounted Solar Phase II	(h)	18 years ⁽³⁾	5.7%	64,800	–
McLean's	(i)	2034	6.0%	135,200	–
Kirkland Lake	(j)	2015	7.1%	6,418	–
Total				1,821,570	1,265,130
Less: Current portion				(59,173)	(39,998)
Non-current				1,762,397	1,225,132

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

(2) Excludes \$18.1 million (2012 – \$69.3 million) of letters of credit secured by facility- or project-level credit agreements.

(3) From term conversion.

- (a) On January 23, 2013, Kingston repaid its term loan and senior secured note in their entirety and settled \$3.5 million associated outstanding interest rate swaps.
- (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, a fair value adjustment was made to Thorold's total debt. In the above table the fair value adjustments are \$23.1 million and \$25.0 million for December 31, 2013, and December 31, 2012, respectively.

- (c) On January 21, 2013, Spy Hill issued \$156.3 million (\$153.6 million net of costs) 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 entire outstanding borrowings of \$110.5 million at January 21, 2013.
- (d) On September 20, 2013, North Battleford issued \$667.3 million (\$662.5 million net of costs) in 4.958% senior secured amortizing Series A bonds. The bonds have been rated A (low) by DBRS and will be fully amortized by their maturity in December 2032. The proceeds from the bond issuance were used to repay North Battleford's \$542 million bank credit facility and settle \$61.9 million in associated interest rate swaps.
- (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 is being 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, an accounting fair value adjustment similar to the one made at Thorold was made to Jardin's debt. The fair value adjustments are \$7.6 million and \$8.3 million on December 31, 2013 and December 31, 2012, 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 is being 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, has also lent \$13.9 million to Mont Louis; 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 the 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 comprising Ground-mounted Solar Phase I, 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.
- (h) On September 24, 2013, Northland completed \$84 million of non-recourse project financing and a \$4.5 million letter of credit facility for two of the three solar projects within Ground-mounted Solar Phase II with two commercial banks. Once term conversion is achieved, the loan will require blended payments of principal and interest based on an 18-year amortization period. As required under the loan provisions, on October 11, 2013, Northland entered into interest rate swaps to effectively fix the variable interest rate of the non-recourse debt. The all-in rate including interest rate swaps and credit spreads is 5.735%.
- (i) On October 1, 2013, McLean’s entered into a non-recourse credit facility with a syndicate of institutional lenders for a \$135.2 million senior secured construction and term loan. The senior debt will be repaid through quarterly blended payments of principal and interest starting on March 31, 2017, until maturity on March 31, 2034, with the principal payments fully amortizing the loan over this period. The senior debt was funded at closing and bears interest, paid quarterly (monthly prior to term conversion), at a rate of 6.01%.
- (j) On November 13, 2003, Kirkland Lake entered into a construction and term loan for \$30 million to finance the construction of its natural gas peaking facility. On successful project completion, the construction loan was converted to a term loan bearing interest at 7.07% and is being repaid in 121 blended monthly principal and interest payments until maturity on February 28, 2015.

As of December 31, 2013, the principal repayments on subsidiary borrowings due within the next five years and thereafter are as follows:

In thousands of dollars ⁽¹⁾	2014	2015	2016	2017	2018	> 2018
Thorold	14,665	208,049	8,156	8,612	8,857	145,605
Spy Hill	2,428	2,743	3,043	3,276	3,651	139,211
North Battleford	16,320	16,999	19,957	18,722	22,069	569,476
Jardin	5,952	6,355	6,129	6,487	6,919	97,678
Mont Louis	3,596	3,998	4,319	4,582	4,784	92,121
Ground-mounted Solar Phase I	10,511	10,866	10,730	11,122	11,550	169,915
Ground-mounted Solar Phase II	1,623	3,578	3,714	3,857	3,830	67,398
McLean's Mountain	—	—	—	5,292	5,493	124,416
Kirkland Lake	3,954	840	—	—	—	—
	59,049	253,428	56,048	61,950	67,153	1,405,820

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

15. Convertible Debentures

On October 15, 2009, Northland closed an offering of 6.25% convertible unsecured subordinated 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, 2013, the book value of 2014 Debentures excluding costs of issuance is \$16.7 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 2013, a total of \$11.4 million (2012 – \$10.5 million) of the 2014 Debentures were converted into 920,434 Shares (2012 – 844,737).

16. Provisions

Northland's wind farms and solar sites 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 and solar panels and equipment dismantled.

Northland has estimated the fair value of its total decommissioning liabilities to be \$16.2 million, based on an estimated total future liability. A discount rate of 2.54% to 3.93% (2012 – 2.54% to 3.93%) and an inflation rate of 2.0% (2012 – 2.0%) were used to calculate the fair value of the asset retirement obligations. These decommissioning liabilities relate to Northland's wind farms and ground-mounted solar sites 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, 2012	12,040
Accretion	402
Foreign exchange impact	(5)
December 31, 2012	12,437
Additions	3,290
Accretion	453
Foreign exchange impact	25
December 31, 2013	16,205

17. 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	2013	2012
Current		
Based on taxable income of current year	3,230	218
Tax on dividend payments	5,550	4,772
Total current taxation expense for the year	8,780	4,990
Deferred		
Deferred tax on origination and reversal of temporary differences	37,447	4,409
Deferred tax due to changes in tax rates	—	(981)
Prior-year (under) provision	(2,480)	(165)
Deferred tax due to writedown of tax asset	638	(61)
Total deferred tax expense for the year	35,605	3,202
Total income tax expense	44,385	8,192
Recognized directly in equity		
Deferred		
Deferred taxes related to origination and reversal of temporary differences related to financing fees	649	(319)
Total tax charged to equity	649	(319)

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	2013	2012
Income (loss) before income taxes	211,404	(1,721)
Combined basic federal and provincial income tax rate	26.50%	26.50%
Income tax recovery based on statutory rate	56,022	(456)
Adjustment for non-deductible (taxable) expenses	(11,784)	5,334
Deferred tax expense (recovery) relating to changes		
in tax rates or change in legal structure	—	—
Remeasurement of deferred tax liability for rate changes	—	(981)
Rate difference related to origination and reversal		
of temporary differences	(2,155)	(271)
Deferred tax expense (recovery) related to		
temporary differences charged to equity	(649)	319
Tax expense associated with payment of preferred		
share dividends	5,550	4,793
Writedown of deferred tax asset	—	—
Adjustment with respect to prior years	(2,480)	(165)
Other	(119)	(62)
Actual tax expense	44,385	8,192

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	2013	2012
Deferred tax assets		
Losses available for carryforward	14,323	13,808
Derivative financial instruments	12,093	54,216
Financing fees	722	1,659
Tax credits – Ontario corporate minimum tax	1,950	1,950
Other	3,019	1,189
Total deferred tax assets	32,107	72,822
Deferred tax liabilities		
Contracts	38,329	42,058
Fair value debt increments	7,696	8,493
Property, plant and equipment	69,504	67,161
Other	–	–
Total deferred tax liabilities	115,529	117,712
Reconciliation of net deferred taxes		
Opening balance – deferred tax liability	44,890	42,001
Tax liability recognized in business combination	2,278	–
Tax expense recognized in income statement	35,605	3,202
Tax expense (recovery) recognized in equity	649	(319)
Other	–	6
Ending deferred tax liability	83,422	44,890

The Company has operating losses available for carryforward in Canada as at December 31, 2013, of \$57.2 million expiring beginning in 2015.

The operating losses will expire as follows:

In thousands of dollars

2015	2
2026	62
2027	22
2028	628
2029	11,327
2030	3,361
2031	26,210
2032	12,173
2033	3,450
Total	57,235

Temporary Differences Associated With Northland Investments

The temporary difference associated with investments in Northland's subsidiaries is \$25.3 million. A deferred tax liability associated with these investments has not been recognized because 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.

18. Derivative Financial Instruments

The derivative financial instruments consist of the following:

As at December 31, in thousands of dollars	2013	2012
Interest rate swaps	(40,260)	(216,745)
Gas purchase swaps ⁽¹⁾	(9,004)	—
US\$ foreign exchange contracts	2,652	42
Euro foreign exchange contracts	(10)	1,137
	(46,622)	(215,566)

(1) On April 10, 2013, Northland entered into long-term energy derivative contracts primarily to stabilize the price of future gas purchases for the Iroquois Falls facility.

19. Equity

19.1 Preferred Shares

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

Series 1 Preferred Shares

On July 28, 2010, Northland issued six 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, 2012	6,000,000	145,638
Deferred income taxes	—	(277)
December 31, 2012	6,000,000	145,361
Deferred income taxes	—	(259)
December 31, 2013	6,000,000	145,102

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
Deferred income taxes		(199)
December 31, 2013	4,800,000	116,635

.....

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, 2013, \$7.9 million of Series 1 Preferred Share dividends were paid, excluding taxes (2012 – \$7.9 million), and \$6.0 million of Series 3 Preferred Share dividends were paid, excluding taxes (2012 – \$3.6 million).

19.2 Shares

Northland is authorized to issue an unlimited number of Shares.

The change in Shares during 2013 and 2012 was as follows:

In thousands of dollars except for Shares	Shares	Amount
Outstanding as of January 1, 2012	78,027,019	844,360
Exercise of Replacement Rights	5,267,372	76,991
Shares issued under LTIP ⁽¹⁾	55,357	974
Change in deferred taxes	—	(198)
Conversion of 2014 debentures	844,737	10,492
Shares issued under DRIP ⁽²⁾	1,847,445	31,692
Outstanding as at December 31, 2012	86,041,930	964,311
Conversion of Class A Shares	41,209,399	603,013
Shares issued under LTIP	1,029,481	15,061
Change in deferred taxes	—	(191)
Conversion of 2014 debentures	920,434	11,432
Shares issued under DRIP	2,018,112	32,756
Exercise of Replacement Rights	759,355	11,098
Outstanding as at December 31, 2013	131,978,711	1,637,480

(1) Long-Term Incentive Plan.

(2) Dividend Reinvestment Plan.

Conversion of Class A Shares

During 2013 the Class A Shareholder, Northland Power Holdings Inc., controlled by the Chairman of Northland, converted 41,209,399 Class A Shares into the equivalent number of Shares of Northland. This included 12,357,531 Class A Shares on August 22, 2013, and 28,851,868 Class A Shares on March 4, 2013.

Dividend Reinvestment Plan

Northland's DRIP provides shareholders and the Class A shareholder the right to reinvest their dividends in Shares at a 5% 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 the Shares on the TSX for the five trading days immediately preceding the dividend payment date less the 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. For the year ended December 31, 2013, Northland capitalized \$11.5 million (2012 – \$7.6 million) and expensed \$1.2 million (2012 – \$0.3 million) of costs under the LTIP. Forfeitures have been assumed to be \$nil.

Pursuant to Northland's LTIP, a total of 1,029,481 Shares were awarded during 2013.

19.3 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 2009 Merger between the privately held Northland and Northland Power Income Fund.

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 North Battleford facility and six ground-mounted solar projects achieved commercial operations in 2013. A special committee of the independent directors of Northland ("**Special Committee**") was appointed by the Board of Directors to oversee the 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 August 2013, as a result of this Determination Process, 4,289,808 Class C Shares and 8,067,723 Class B Shares were converted into Class A Shares on a one-for-one basis. These 12,357,531 Class A Shares were subsequently converted into the equivalent number of Shares of Northland. In addition, as a result of this Determination Process, 759,355 contingent Replacement Rights were converted into Shares of Northland.

Class A Shares

.....		
In thousands of dollars except for Shares	Number	Amount
.....		
Balance as of December 31, 2012	29,851,868	436,331
Converted into Shares – first quarter	(28,851,868)	(421,716)
Conversion of Class C Shares	4,289,808	62,702
Conversion of Class B Shares	8,067,723	118,595
Converted into Shares – third quarter	(12,357,531)	(181,297)
.....		
Balance as of December 31, 2013	1,000,000	14,615
.....		

Class B Shares

As described previously, on August 22, 2013, 8,067,723 Class B Shares were converted into Class A Shares and were reclassified as equity in the financial statements at the August 22, 2013, Share price.

.....	
In thousands of dollars	Amount
.....	
Balance as of January 1, 2012	132,230
Fair value change	14,199
.....	
Balance as of December 31, 2012	146,429
Fair value change	(27,834)
Conversion into Class A Shares	(118,595)
.....	
Balance as of December 31, 2013	–
.....	

Class C Shares

As described previously, on August 22, 2013, 4,289,808 Class C Shares were converted into Class A Shares.

In thousands of dollars except for Shares

	Number	Amount
Balance as of December 31, 2012	4,289,808	62,702
Conversion into Class A Shares	(4,289,808)	(62,702)
Balance as of December 31, 2013	—	—

Replacement Rights

As described previously, on August 22, 2013, 759,355 Replacement Rights were converted into Shares.

In thousands of dollars except for Replacement Rights

	Number	Amount
Balance as of December 31, 2012	759,355	11,098
Conversion into Shares	(759,355)	(11,098)
Balance as of December 31, 2013	—	—

20. Non-Controlling Interests

Non-controlling interests relate to the interests not owned by Northland for McLean's (50%) and CEEC (32%). CEEC has voting control of the Kirkland Lake and Cochrane facilities.

On October 1, 2013, concurrent with the financing, Northland issued 50% more units of McLean's to Mnidoo Mnising Power Limited Partnership, an entity controlled by the members of UCCMM. The McLean's wind farm is under construction, and therefore all transactions are balance-sheet-related. As of December 31, 2013, Northland had an outstanding receivable balance of \$8.8 million with Mnidoo Mnising Power Limited Partnership.

As described in Note 7, on April 1, 2013, Northland acquired an ownership interest in CEEC, which has voting control of the Kirkland Lake and Cochrane facilities. As of December 31, 2013, dividends payable to the non-controlling interest partners of CEEC totalled \$3.5 million.

During 2013, the total net income attributable to the non-controlling interest entities is \$15.9 million.

Summarized financial information on the non-controlling interests in the consolidated balance sheet is as follows:

In thousands of dollars

Year ended December 31, 2013	CEEC	McLean's	Total
Current assets	38,207	57,627	95,834
Long-term assets	32,456	141,290	173,746
Current liabilities	(25,578)	(14,057)	(39,635)
Long-term liabilities	(3,313)	(135,200)	(138,513)

The change in non-controlling interests during 2013 is as follows:

In thousands of dollars

	CEEC	McLean's	Total
Non-controlling interests as of December 31, 2012	—	—	—
Non-controlling interests acquired	42,507	—	42,507
Contribution of non-controlling interests	—	24,832	24,832
Net income attributable to non-controlling interests	15,885	—	15,885
Dividends declared to non-controlling interests	(9,969)	—	(9,969)
Non-controlling interests as of December 31, 2013	48,423	24,832	73,255

21. 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 rates are as follows:

	Thermal and renewable	Managed facilities
Before tax discount rates		
Applicable to PPA cash flows:		
October 1, 2013	8.3%	8.3%
October 1, 2012	7.6–7.8%	7.6%
Applicable to post-PPA cash flows:		
October 1, 2013	10.3%	9.9%
October 1, 2012	9.6–9.9%	9.5–12.5%

During the fourth quarter of 2013, 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 \$2.4 million against thermal goodwill largely a result of the passage of time. Northland expects to record annual goodwill impairments due to the passage of time.

22. Dividends

Dividends totalling \$1.08 per share (2012 – \$1.08), being aggregate dividends of \$133.2 million (2012 – \$123.8 million), were declared for the year ended December 31, 2013. Total dividends declared for 2013 consists of \$100.4 million of cash dividends and \$32.8 million of Share dividends pursuant to Northland's DRIP.

23. Finance Costs

Finance costs consist of the following:

As at December 31, in thousands of dollars	2013	2012
Interest on debts, borrowings and bank fees	83,677	62,809
Discount on provisions for decommissioning liability	453	402
Amortized transaction costs	755	755
	84,885	63,966

24. Net Income (Loss) per Share

The calculation of basic net income (loss) per Share is based on the consolidated net income (loss) for the year, less preferred share dividends divided by the sum of the weighted average number of Shares outstanding and the weighted average number of contingent/exchangeable 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 (loss) 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/exchangeable shares and contingent Replacement Rights recognized for accounting purposes during the year.

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

In thousands of dollars	2013	2012
Net income (loss) for the year	151,134	(9,913)
Less: Preferred share dividends, net	(13,875)	(11,484)
Net income (loss) attributable to ordinary equity holders of Northland for basic earnings	137,259	(21,397)
Add back: Convertible subordinated debentures interest and amortization	880	—
Net income (loss) attributable to ordinary equity holders of Northland for diluted earnings	138,139	(21,397)

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

	2013	2012
Weighted average number of Shares outstanding	117,502,317	85,390,019
Weighted average number of Class A Shares	5,979,912	29,667,987
Weighted average number of Class C Shares	2,750,178	4,473,689
Weighted average number of Replacement Rights	486,819	1,006,758
Weighted average number of Shares outstanding, basic	126,719,226	120,538,453
Effect of dilutive securities:		
Exchangeable securities	5,172,184	—
Convertible unsecured subordinated debentures	1,586,546	—
Weighted average number of Shares outstanding, diluted	133,477,956	120,538,453

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

25. Commitments

The following is a summary of the material commitments that Northland and its subsidiaries have entered into as at December 31, 2013.

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.

On August 1, 2013, Northland announced it had entered into agreements for the rights to acquire a majority equity stake in Gemini, an offshore wind project currently in advanced development. Northland has posted credit support in the amount of approximately \$35.2 million for the project.

Capital Commitments

In the normal course of operations, as at December 31, 2013, Northland has committed to spending approximately \$70 million on capital projects. The majority of the commitment relates to the construction of the ground-mounted solar projects and McLean's wind farm and commitments under an interim framework agreement for the Gemini project.

26. Operating Segment Information

In accordance with IFRS 8, "Operating Segments," Northland has identified the following operating segments: (i) thermal, (ii) renewable, (iii) managed, management and operations services for Kirkland Lake, Cochrane and CEEC following Northland's April 1, 2013, acquisition of the controlling interest in CEEC and (iv) other, the last of which includes investment income and wood-chipping operations, as well as

the administration of Northland. The operating segments 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 2013	Thermal	Renewables	Managed⁽¹⁾	Other⁽²⁾	Eliminations⁽³⁾	Total
External revenue	390,439	67,023	90,488	9,288	–	557,238
Inter-segment revenue	3,716	–	–	27,931	(31,647)	–
Total revenue	394,155	67,023	90,488	37,219	(31,647)	557,238
Depreciation of property, plant and equipment	51,484	31,230	6,692	473	–	89,879
Finance costs (net)	55,340	22,343	224	5,771	–	83,678
Operating income (loss)	165,584	20,807	19,092	(23,145)	–	182,338

Year ended 2012	Thermal	Renewables	Managed	Other⁽²⁾	Eliminations⁽³⁾	Total
External revenue	297,056	44,409	–	20,217	–	361,682
Inter-segment revenue	–	–	–	5,337	(5,337)	–
Total revenue	297,056	44,409	–	25,554	(5,337)	361,682
Depreciation of property, plant and equipment	37,887	23,861	–	559	–	62,307
Finance costs (net)	41,208	17,830	–	4,113	–	63,151
Operating income (loss)	115,914	6,684	–	(8,119)	–	114,479

(1) After the acquisition of CEEC on April 1, 2013 (see Note 7), Kirkland Lake and Cochrane and CEEC's consolidated operating results are included in "managed."

(2) Included in "other" are revenues and operating income from Northland's wood-chipping facility, management and operations fees until April 1, 2013, from operating facilities on behalf of other investors, investment income, and management, administration and development expenditures.

(3) 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, 2013	Thermal	Renewables	Managed ⁽¹⁾	Other ⁽²⁾	Total
Investment in Panda-Brandywine	—	—	—	3,100	3,100
Property, plant and equipment	1,232,709	567,029	32,456	262,068	2,094,262
Equity-accounted investment	—	—	—	4,941	4,941
Contracts and other intangible assets, net	98,896	1,201	52,813	34,211	187,121
Goodwill	163,837	38,138	—	18,192	220,167
Total assets	1,820,324	647,228	123,061	449,407	3,040,020

In thousands of dollars

As at December 31, 2012	Thermal	Renewables	Managed	Other ⁽²⁾	Total
Investment in Panda-Brandywine	—	—	—	3,500	3,500
Property, plant and equipment	658,107	313,829	—	745,534	1,717,470
Equity-accounted investment	—	—	—	5,317	5,317
Contracts and other intangible assets, 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	—	1,038,179	2,518,675

(1) After the acquisition of CEEC on April 1, 2013 (see Note 7), includes Northland's managed facilities: Kirkland Lake, Cochrane and CEEC.

(2) 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	2013	2012
Canada	553,864	357,934
Germany	3,374	3,748
Total sales	557,238	361,682

As at December 31, in thousands of dollars

Property, plant and equipment, net	2013	2012
Canada	2,090,906	1,713,554
Germany	3,356	3,916
Total property, plant and equipment, net	2,094,262	1,717,470

As at December 31, 2013, all of Northland's assets and sales were located in Canada and Europe 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.

27. Litigation, Claims and Contingencies

During the first quarter of 2013, the principal contractor for the Jardin wind farm commenced a legal action against a subcontractor and Jardin for approximately \$7.1 million. There have been no updates as of the date of this report. As the claims continued to be reviewed by Jardin's legal advisers, no provision for any liability has been made in these financial statements.

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 several 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.

28. 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 2013, Northland earned fees that were not consolidated prior to the acquisition of CEEC; this amount totalled \$7.7 million (2012 – \$18.6 million). These fees include natural gas management fees, performance incentive fees and lease revenue.

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 2013 includes \$3.0 million (2012 – \$2.8 million) of short-term employee benefits. Northland has granted a total of 700,183 shares totalling \$11.3 million to key management personnel during 2013 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

James C. Temerty, Chair of Northland Power Inc., owns or has control or direction over 47,533,986 Common Shares (representing 36% of the outstanding Shares) and 1,000,000 Class A Shares (representing 100% of the Class A Shares). If all of the Class A Shares were converted into Shares, Mr. Temerty would beneficially own or have control or direction over 37% of the then outstanding Shares.

29. Authorization of Consolidated Financial Statements

The consolidated financial statements for the year ended December 31, 2013 (including comparatives) were approved by the Board of Directors on February 19, 2014.

Corporate Information

Directors and Officers of Northland Power Inc.

DIRECTORS

Mr. James C. Temerty	Dr. Marie Bountrogianni
The Right Honourable John N. Turner	Mr. V. Peter Harder
Ms. Linda L. Bertoldi	

OFFICERS

Mr. John W. Brace <i>Chief Executive Officer</i>	Ms. Linda L. Bertoldi <i>Secretary</i>
Mr. Sean Durfy <i>President and Chief Development Officer</i>	Mr. Darryl Bergman <i>Corporate Treasurer</i>
Mr. Salvatore Mantenuto <i>Chief Operating Officer and Vice Chair</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's 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

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Manager, Investor Relations
647-288-1438

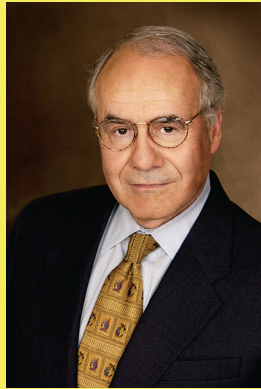
Adam Beaumont
Director of Finance
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Pierre R. Gloutney, a member of the Northland Power Board of Directors, passed away suddenly on September 21, 2013. Mr. Gloutney had served on the Board since the inception of the Northland Power Income Fund in 1997 and was Chair of the Audit Committee. Mr. Gloutney's death was a great loss to Northland from a personal as well as a professional perspective. His wisdom and counsel on Company matters were

of significant value to the Company, and they were always delivered with his unique sense of humour. He is sorely missed by Northland's Board and management.

Shown here is the grand prize winner of Global Wind Day 2013's international photo contest taken at Northland's 100 MW Mont Louis wind farm.

"The winning picture is clearly taken at a crucial moment in the installation of a new wind turbine," says Julian Scola, communication director of the European Wind Energy Association.

Global winner Joan Sullivan was overwhelmed with the selection of her photo, which she says is one of her all-time favourites, and tells us, "In 2005, during a family vacation in Ireland, I photographed my first wind turbine, and something just went off in my head, like a light bulb, that this is my calling... I have dedicated my second 50 years to documenting the rapid expansion of wind and other forms of renewable energy in the context of climate change. I hope that my photographs will contribute positively to the global dialogue about the inevitable transition from fossil fuels to renewable energy."



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northlandpower.ca

Cochrane	31.5 MW	
Kirkland Lake	99 MW	
Iroquois Falls	120 MW	
Kingston	110 MW	
Panda-Brandywine	44 MW	
Germany	21.5 MW	
Jardin d'Éole	127.5 MW	
Thorold	265 MW	
Spy Hill	86 MW	
Mont Louis	100.5 MW	
Ontario Solar	130 MW	
North Battleford	260 MW	
McLean's Mountain	60 MW	
Grand Bend	100 MW	
Kabinakagami	26 MW	
Frampton	24 MW	
Gemini	600 MW	

Megawatts (**MW**) for projects under construction and in advanced development represent the total installed capacity of the project versus Northland's net economic interest for facilities in operation.