

# INTELLIGENT ENERGY for a GREENER PLANET

2014 Annual Report





# NORTHLAND POWER INC.

## **Our vision:**

To be a top clean and green power producer,  
inspiring our employees to achieve a sustainable and  
prosperous future for all of our stakeholders.

## **We will:**

- Be one of the top-performing companies on the S&P/TSX Capped Utilities Index
- Establish a meaningful presence in all our target markets
- Have engaged and dedicated employees
- Be an operationally excellent organization
- Be safe, reliable and environmentally conscious
- Be one of the most respected brands in our sector and in the communities in which we work

# NORTHLAND POWER INC.

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## Northland Overview

### North America

Canada  
Ontario  
Quebec  
Saskatchewan  
United States  
California  
Illinois  
Kansas  
New York  
Oklahoma  
Texas  
Mexico

### Priority Markets

### Europe (North Sea)

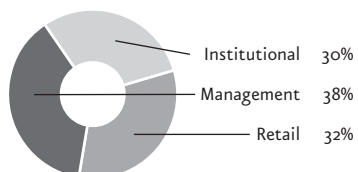
France  
Germany  
Netherlands  
United Kingdom

### Latin America

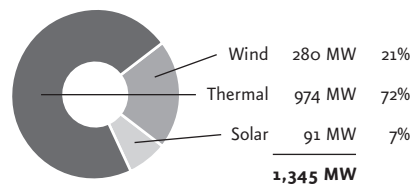
Chile

At a Glance as of February 23, 2015

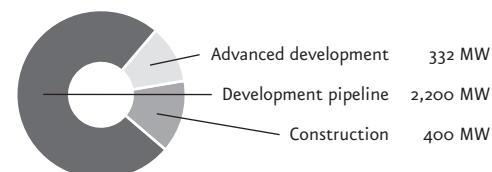
#### Share distribution



#### Operations



#### Development pipeline



## Our Story

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

We have a long track record of over 27 years in business.

**Early Days** Northland Power was founded in 1987 to develop one of Canada's early independent power projects, a biomass and natural gas plant in Cochrane, Ontario. Our founders built a team with technical and business expertise as well as a commitment to sustainability. In 1997, Northland was first listed on the Toronto Stock Exchange (**TSX**) and since then has consistently paid dividends, achieved by a strategy of organic growth – developing, owning and operating high-quality thermal, wind and solar projects with long-term power contracts and creditworthy counterparties.

**Today** Northland comprises more than 300 talented and dedicated team members, has a net economic interest in 1,345 megawatts (**MW**) of operating generating capacity and has a market capitalization of approximately \$2.5 billion. Our well-maintained facilities can power approximately one million homes, and they operate safely and reliably to deliver stable cash flows. We have won international recognition for successfully co-developing and closing the largest project-based financing for an offshore wind project in the world. Most recently, Northland's Gemini project received three prestigious awards: the Project Finance International Europe Power Deal of the Year, the Infrastructure Journal Global's Wind Deal of the Year for Europe as well as the Overall Europe and Africa Developer of the Year. Since the 1997 initial public offering, Northland shares have outperformed the TSX, delivering a compounded annual return to shareholders of 11%.

**Tomorrow** Executing our strategy of sustainable growth, we apply our competitive strengths to opportunities in targeted jurisdictions in North America, Latin America and Europe. We have more than 700 MW of projects in construction and advanced development and another 2,200 MW in our development pipeline. Our commitment to sustainability will drive every decision we make, ensuring we continue to develop, build and operate facilities that produce strong returns while respecting our employees, communities and the environment. Our 2014 results demonstrate our ability to manage significant growth while delivering stable returns. The continued expansion of our European offshore wind portfolio demonstrates further progress to our stated goal. Northland Power is well positioned to continue its growth trajectory throughout 2015 and well into the future.

**Together we have every reason to feel proud  
of Northland's success in 2014. We are poised to continue  
this track record of excellence well into the future.**

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## **OUR VISION**

To be a top clean and green power producer,  
inspiring our employees to achieve a sustainable and  
prosperous future for all of our stakeholders.

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As we continue to grow, our proven strategies are being applied on a larger scale. We continue to focus on natural gas, wind and large-scale solar opportunities. We set our sights on best-in-sector performance in development, engineering, construction and operations. Last but not least, entrepreneurial growth and sustainability define Northland's strategy.

### **Strong Financial Results for Shareholders**

Our past investments into growth, along with our operational excellence, drove robust financial results for our shareholders in 2014. The numbers speak for themselves – an increase in free cash flow of 27% and adjusted EBITDA of 38% during the year. And, true to our promise, we continued to pay dividends of \$1.08 per share.

### **Operational Excellence**

The backbone of these financial results is continuing to deliver on our commitments with solid operations. Our facilities ran safely and efficiently, with no lost-time incidents. Operating availability at Northland's 21 facilities was consistent, running steadily at 97%.

While we were ensuring existing operations were reliable, we capably completed \$300 million in construction projects. The solar portfolio grew to 90 megawatts (**MW**) by adding three 10 MW ground-mounted projects. The 60 MW McLean's Mountain wind project in Ontario was completed on time and on budget.

We are very proud of the fact that our interest in total generating capacity is now up to 1,345 MW (net), an increase of 33% compared with 1,005 MW just three years ago. Equally important, our portfolio is sustainable and diverse, with 72% thermal, 21% wind and 7% solar.



**Vigorous Growth: Financing in Place**

Delivering financial results and solid operations did not stop us from building for the future, particularly as we homed in on priority markets using proven technology.

Offshore wind projects in Europe are especially attractive right now. To this end, the growth pipeline was replenished with four exciting projects. The first was the acquisition of a 60% controlling interest in Gemini, a 600 MW offshore wind project located off the coast of the Netherlands in the North Sea. In addition, Northland acquired an 85% stake in Nordsee One, Nordsee Two and Nordsee Three, three offshore wind development projects in Germany.

Financing activities for Northland’s portfolio continued to add shareholder value, with four successful debt and equity financings completed during the year, totalling approximately \$4 billion. As a matter of fact, the \$3.2 billion project financing for Gemini was the largest-ever project financing for an offshore wind project.

While development slowed in North America due to lower demand for new supply and more competition, there are still some home-market opportunities. In Canada regional or niche power needs may lead to power purchase agreements in the short to mid-term, and in the United States our focus has turned to selected regions. Opportunities in other markets, including Europe, Latin America and Mexico, are being explored for future growth.

**McLean’s Mountain  
Wind Farm**



Location	Manitoulin Island, Ontario, Canada
Energy source	Wind
Type of facility	Onshore wind farm
Stage	Operational
Opened	2014
Capacity	60 MW
First Nation partner	United Chiefs and Councils of Mnidoo Mnising
Percentage owned/operated	50/100

We have continued to deliver financial results  
and solid operations – and build for the future – by homing  
in on priority markets using proven technologies.

### **2015 Priorities Well on Their Way to Being Achieved**

A lot has already happened in 2015 and the pace does not appear to be slowing any time soon.

The Grand Bend Wind Farm (100 MW), a 50/50 partnership with two First Nations, advances, with permitting complete and financing to be secured in the first half of 2015. Construction is expected to begin shortly thereafter, and operations are anticipated to begin in 2016.

There are also four ground-mounted solar projects (40 MW) under construction. Consistent with our commitment to invest in our host communities, Northland will co-own these projects with two First Nations, retaining 62.5% ownership. While construction of these four projects has been challenging due to the need to terminate our contractor, we acted quickly and, as a result, these projects remain on track. When completed this year, we will have 13 solar projects generating a total of 130 MW. On an overall basis, our solar portfolio has delivered and is expected to continue delivering robust returns.

The new projects, Gemini and Nordsee One, will also see significant progress in 2015.

The Gemini project continues on schedule overall, with the majority of the foundations manufactured, most of the cable fabricated and construction of the offshore and onshore substations well under way. An important milestone in 2015 will be the start of full-scale in-water construction. A year from now, we expect foundations to be installed, construction to be completed on the offshore and onshore substations, cables to be in place and the grid ready for energization. The turbine installations will commence in 2016, with commercial operations beginning in 2017.

We anticipate completing the financing of the Nordsee One offshore wind project (332 MW) in the first half of 2015, with construction starting later in the year. Commercial operations are scheduled for 2017.

While Northland plans on constructing \$6.4 billion in projects over the next three years, we will continue to operate existing facilities safely and effectively. Our goal is to continue running at best-in-class availability with no lost-time safety incidents. A commitment to operational excellence translates into stable cash flows.



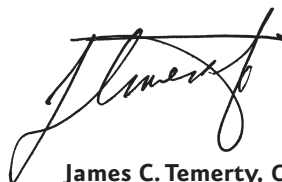
Beginning in 1987, Northland was a pioneer in the independent power sector in Canada. Thirty years later, when advanced development projects are complete in 2017, Northland will generate electricity to power over 1.8 million homes.

**We Would Not Be Here Without You**


The winning formula behind Northland's progress is the combination of our entrepreneurial growth, financial stability and disciplined management. It is the result of the efforts of many people: our Board of Directors that guides us toward success, our partners and suppliers who share our desire to follow through on commitments, our employees who consistently bring their expertise, dedication and enthusiasm to work and you, our shareholders, who invest in Northland, believing that we will create for you sustainable and long-term value.

The year 2014 was positive on all fronts – from financial, operational and growth perspectives. We anticipate that 2015 will again exceed all of our expectations.

Sincerely,



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



**John W. Brace**  
Chief Executive Officer

## Management's Discussion and Analysis 2014

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, 2014, and the fiscal year then ended. It should be read in conjunction with Northland's 2014 audited consolidated financial statements. Additional information relating to Northland can be found in the Company's 2014 Annual Information Form (**AIF**), which is filed electronically at [www.sedar.com](http://www.sedar.com) under Northland's profile and posted on Northland's website at [www.northlandpower.ca](http://www.northlandpower.ca). Northland's audited consolidated 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.

Throughout this MD&A, management makes use of non-IFRS measures such as adjusted EBITDA, free cash flow, free cash flow payout ratio (or payout ratio) and free cash flow per share to help explain and assess Northland's financial results. These measures as presented may not be comparable to similar measures presented by other companies and 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. Please see *Section 4: Non-IFRS Financial Measures* for an explanation of these non-IFRS measures and *Section 5: Consolidated Results* for reconciliation to the nearest IFRS measure.

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 23, 2015; actual results may differ materially. Readers should refer to *Section 16: Forward-Looking Statements* in this MD&A for additional information regarding forward-looking statements.

This MD&A dated February 23, 2015, compares Northland's fiscal 2014 financial results and financial position with those of fiscal 2013 and is organized as follows:

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## Section 1: Description of Business

As of December 31, 2014, Northland owns or has a net economic interest in operating power-producing facilities with a total capacity of approximately 1,345 megawatts (**MW**). Northland's operating assets comprise facilities that produce electricity from natural gas and renewable resources for sale primarily under long-term power purchase agreements (**PPAs**) with creditworthy customers in order to ensure cash flow stability. As of December 31, 2014, Northland had 40 MW of ground-mounted solar projects and the 600 MW (360 MW net interest to Northland) Gemini offshore wind project under construction. In January 2015, Northland announced an agreement to sell a 37.5% equity interest in the ground-mounted solar sites under construction to Taykwa Tagamou Nation and Wahgoshig First Nation (**"Taykwa and Wahgoshig"**). Closing of the sale is contingent on the achievement of certain conditions and receipt of third-party approvals. Northland's advanced development projects as of December 31, 2014, include the 332 MW (282 MW net interest to Northland) Nordsee One offshore wind project and the 100 MW (50 MW net interest to Northland) Grand Bend wind project. Northland expects to begin construction on both of these projects in the first half of 2015. In addition, Northland has an extensive portfolio of projects in earlier stages of development. On February 20, 2015, Northland also announced that it had sold its interest in the 24 MW (16 MW net interest to Northland) Frampton wind project that was in advanced development.

Northland's audited 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 nine operating 10 MW solar projects in eastern and central Ontario, the first six of which are together herein referred to as **“Ground-mounted Solar Phase I”**; the remaining three projects in operation are together herein referred to as **“Ground-mounted Solar Phase II”**; four other projects, which are under construction and located in Northern Ontario, are together herein referred to as **“Ground-mounted Solar Phase III”**;
- x. McLean’s Mountain Wind Limited Partnership, which owns the 60 MW (30 MW net interest to Northland) wind farm on Manitoulin Island in Ontario, which began commercial operations on May 1, 2014, together herein referred to as **“McLean’s”**;
- xi. ZeeEnergie C.V. and Buitengaats C.V., which collectively own the 600 MW (360 MW net interest to Northland) offshore wind project under construction off the coast of the Netherlands in the North Sea, together herein referred to as **“Gemini” or “Project Gemini”**; and
- xii. Nordsee One GmbH, which owns the 332 MW (282 MW net interest to Northland) offshore wind project in the advanced development stage in the North Sea off the coast of Germany (**“Nordsee One”**), as well as two offshore wind sites in the early stages of development (Nordsee Two and Nordsee Three), together herein referred to as **“Nordsee”**.

As a result of obtaining a controlling interest in Canadian Environmental Energy Corporation (**CEEC**) on April 1, 2013, Northland’s financial results consolidate the financial results for the Kirkland Lake and Cochrane facilities that Northland continues to manage on behalf of third-party, non-voting shareholders and CEEC. Northland also had a 19% equity interest in the Panda-Brandywine thermal facility. In May 2014 Panda-Brandywine’s contract counterparty exercised its option to end the PPA and take ownership of the related facility assets. Northland also 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.

As a result of acquiring a controlling interest in Project Gemini in May 2014 and in Nordsee in September 2014, Northland’s audited consolidated financial statements also include Gemini’s and Nordsee’s financial results. Significant Gemini and Nordsee items included in Northland’s audited consolidated financial statements are as follows:

- Cash and cash equivalents of \$5 million;
- Restricted cash of \$9.6 million;
- Current assets (excluding cash and cash equivalents and restricted cash) of \$5.7 million;
- Property, plant and equipment of \$1.6 billion;
- Contracts and other intangibles of \$224.7 million;
- Current liabilities of \$148.2 million;
- Interest-bearing loans and borrowings, net of costs (excludes intercompany amounts) of \$823.8 million; and
- Fair value loss on derivative contracts of \$248.7 million.

Readers should refer to Northland’s 2014 AIF, dated February 23, 2015, 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 Series B convertible unsecured subordinated debentures (**“2019 Debentures”**) qualify as investments for RRSPs and DPSPs under the Canadian Income Tax Act. Northland’s Series A convertible unsecured subordinated debentures (**“2014 Debentures”**) matured on December 31, 2014.

Subsequent to year-end, in January 2015, Northland announced the issuance of \$157.5 million of Series C 4.75% convertible unsecured subordinated debentures (**“2020 Debentures”**).

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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 and Class A shares over the long term. Northland derives growth primarily from developing, financing, constructing, owning, operating and managing power generation facilities that have strong long-term agreements and that provide stable, long-term cash flows.

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## 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 13 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 performance, compliance with our permits 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. Northland manages its development processes prudently by constantly balancing costs against the probability of success. The Company develops projects utilizing different technologies, such as thermal (natural-gas-fired and biomass), wind (onshore and offshore), solar and pumped storage. Renewable energy from wind 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, Latin America, Mexico 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 ensure 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 (where applicable) are aligned for each project such that revenues and cost escalations are substantially linked, providing long-term predictability for each project's operating income.

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.

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### Operating and Managed Facilities

Project <sup>(1)</sup>	Gross project capacity	Economic interest	Northland economic interest capacity	Contract counterparty	PPA term	Fuel supply term
<b>THERMAL</b>						
Iroquois Falls	120.0 MW	100%	120.0 MW	OEFC <sup>†</sup>	December 2021 <sup>(2)</sup>	2021 <sup>(3)</sup>
Kingston	110.0 MW	100%	110.0 MW	OEFC	January 2017 <sup>(2)</sup>	2017
Thorold	265.0 MW	100%	265.0 MW	OPA <sup>††</sup>	March 2030	N/A <sup>(4)</sup>
Spy Hill	86.0 MW	100%	86.0 MW	SaskPower	October 2036	N/A <sup>(5)</sup>
North Battleford	260.0 MW	100%	260.0 MW	SaskPower	June 2033	N/A <sup>(5)</sup>
<b>RENEWABLE</b>						
Jardin	127.5 MW	100%	127.5 MW	Hydro-Québec	November 2029	N/A <sup>(6)</sup>
Mont Louis	100.5 MW	100%	100.5 MW	Hydro-Québec	September 2031	N/A <sup>(6)</sup>
German wind farms	21.5 MW	100%	21.5 MW	N/A <sup>(7)</sup>	N/A <sup>(7)</sup>	N/A <sup>(6)</sup>
Ground-mounted Solar Phase I	60.0 MW	100%	60.0 MW	OPA	June–September 2033	N/A <sup>(6)</sup>
Ground-mounted Solar Phase II	30.0 MW	100%	30.0 MW	OPA	January–October 2034	N/A <sup>(6)</sup>

continued...

Project <sup>(1)</sup>	Gross project capacity	Economic interest	Northland economic interest capacity	Contract counterparty	PPA term	Fuel supply term
<b>MANAGED/OTHER</b>						
Cochrane	42.0 MW	77% <sup>(8)</sup>	32.3 MW	OEFC	May 2015 <sup>(9)</sup>	2016
Kirkland Lake	132.0 MW	77% <sup>(8)</sup>	101.6 MW	OEFC	August 2030 <sup>(10)</sup>	2015
Rooftop solar	1.0 MW	75%	0.8 MW	OPA	April–September 2031	N/A <sup>(6)</sup>

† Ontario Electricity Financial Corporation.

†† Ontario Power Authority, which effective January 1, 2015, merged with the Independent Electricity System Operator (**IESO**) to continue as the IESO.

(1) Northland sold its small wood-chipping facility located on Vancouver Island in April 2014.

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

(3) 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.

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

(8) On April 1, 2013, Northland acquired 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 current PPA has been extended to May 2015. A four-month extension was provided to allow Cochrane and the OPA more time to negotiate a new contract.

(10) The Kirkland Lake PPA for the biomass and the base natural-gas-fired portion of the facility terminates in 2030. However, under the terms of the PPA, new natural-gas-fired rates are to be negotiated between the OEFC and Kirkland Lake prior to the end of August 2015. Kirkland Lake is in the process of renegotiating such new rates with OEFC. In January 2015, Kirkland Lake signed a new 20-year contract with the OPA for the 30 MW natural gas peaking portion of the facility.

## Projects Under Construction

Project	Gross project capacity	Economic interest	Northland economic interest capacity	Region	Contract counterparty	PPA term <sup>(1)</sup>
Ground-mounted Solar Phase III	40.0 MW	100% <sup>(2)</sup>	40.0 MW	Ontario	OPA	20 years
Gemini offshore wind	600.0 MW	60%	360.0 MW	The Netherlands	Government of the Netherlands	15 years

(1) From the commercial operations date.

(2) In January 2015, Northland announced an agreement to sell a 37.5% equity interest in these four ground-mounted solar sites to Taykwa and Wahgoshig. Closing of the sale is contingent on the achievement of certain conditions and receipt of third-party approvals.

## Projects in Advanced Development

Project	Gross project capacity	Economic interest	Northland economic interest capacity	Region	Contract counterparty	PPA term <sup>(1)</sup>
Grand Bend wind	100.0 MW	50%	50.0 MW	Ontario	OPA	20 years
Frampton wind <sup>(2)</sup>	24.0 MW	67%	16.0 MW	Quebec	Hydro-Québec	20 years
Nordsee One offshore wind	332.0 MW	85%	282.0 MW	Germany	TenneT TSO GmbH <sup>(3)</sup>	Approximately 10 years

(1) From the commercial operations date.

(2) On February 20, 2015, Northland sold its interest in the Frampton wind project.

(3) The State of the Netherlands is the ultimate parent of TenneT TSO GmbH.

### 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' PPAs expire (Cochrane) or require price 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 mutually agreed-pricing levels. Negotiations to extend the PPAs at Northland's wholly owned facilities will begin with Kingston prior to 2017, followed by Iroquois Falls prior to 2021. These four facilities are contracted with the OEFC and operate largely as baseload facilities.

On November 23, 2010, the Minister of Energy directed the Ontario Power Authority (**OPA**), now merged with the Independent Electricity System Operator (**IESO**), to renegotiate the OEFC contracts in advance of their expiry. The OEFC agreed to extend Cochrane's existing revenue contract to May 2015 from its current expiry in January 2015. The extension provides additional time to negotiate a new long-term contract. However, negotiations for all long-term renewal of PPAs across the industry have been temporarily postponed. Kirkland Lake Power Corp., a subsidiary of Northland, signed a new 20-year contract with the OPA for the 30 MW gas peaking portion of the Kirkland Lake facility. The existing peaking contract expires in August 2015. The new contract provides stable revenues until August 2035. Negotiations are continuing on the baseload, gas-fuelled portion of the Kirkland Lake facility, which has pricing provisions expiring August 2015.

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## Section 3: Facility Results

### Northland's 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

	2014	2013	2012
<b>Electricity production (MWh*)</b>			
Iroquois Falls	690,747	717,845	729,413
Kingston	761,449	812,091	769,149
Other <sup>(1)</sup>	2,726,963	1,861,679	1,006,929
	4,179,159	3,391,615	2,505,491
<b>Sales</b>			
Iroquois Falls	91,049	84,122	88,592
Kingston	113,220	108,197	98,026
Thorold	115,440	101,909	105,620
Spy Hill <sup>(2)</sup>	24,444	23,966	21,553
North Battleford <sup>(3)</sup>	182,565	89,119	—
	526,718	407,313	313,791
Less finance lease adjustment	(16,186)	(16,874)	(16,735)
<b>Sales as reported</b>	<b>510,532</b>	<b>390,439</b>	<b>297,056</b>
<b>Cost of sales</b>			
	219,706	153,565	130,817

continued...

In thousands of dollars except as indicated			
	2014	2013	2012
<b>Gross profit</b>			
Iroquois Falls	48,044	47,065	46,764
Kingston	61,400	58,524	49,143
Thorold	69,044	68,943	69,143
Spy Hill <sup>(2)</sup>	18,391	18,604	17,924
North Battleford <sup>(3)</sup>	110,133	60,612	—
	307,012	253,748	182,974
Less finance lease adjustment	(16,186)	(16,874)	(16,735)
<b>Gross profit as reported</b>	<b>290,826</b>	<b>236,874</b>	<b>166,239</b>
<b>Plant operating costs</b>			
Iroquois Falls	8,686	8,355	8,244
Kingston	6,239	6,266	5,723
Thorold	9,867	10,276	10,471
Spy Hill	1,750	1,438	1,564
North Battleford	13,034	7,049	—
	39,576	33,384	26,002
<b>Operating income</b>	<b>203,241</b>	<b>165,584</b>	<b>115,914</b>

continued...



In thousands of dollars except as indicated			
	2014	2013	2012
<b>Adjusted EBITDA<sup>(4)</sup></b>			
Iroquois Falls	39,274	38,638	38,403
Kingston	54,930	52,046	43,115
Thorold	59,081	58,585	58,569
Spy Hill	16,614	17,142	16,321
North Battleford	97,059	53,646	—
	<b>266,958</b>	<b>220,057</b>	<b>156,408</b>
<b>Capital expenditures<sup>(5)</sup></b>			
	<b>1,497</b>	<b>1,162</b>	<b>6,442</b>

\* Megawatt hour, 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) Northland accounts for its Spy Hill operations as a finance lease.

(3) North Battleford began commercial operations on June 5, 2013.

(4) A non-IFRS measure.

(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 on 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 PPA 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.

North Battleford achieved commercial operations on June 5, 2013, and operated for approximately seven months in 2013 compared to 12 months in 2014, resulting in higher year-over-year results in the categories of electricity production, consolidated sales, cost of sales, adjusted EBITDA, interest and financing costs, principal repayments and free cash flow. In each of these categories, the variance due to the difference in operating periods in 2013 and 2014 is referred to herein as the “North Battleford contribution.”

Electricity production during 2014 was significantly higher than the prior year primarily due to the North Battleford contribution, although this was partially offset by lower production at Iroquois Falls (by 27,098 MWh) and Kingston (by 50,642 MWh) due to periods of high natural gas prices in the first quarter, when it was economically favourable to curtail electricity production at the plants and resell natural gas, and at Thorold and Spy Hill due to fewer economic/dispatch production periods.

Sales during 2014 at \$510.5 million exceeded the prior year by \$120.1 million largely due to the North Battleford contribution (an incremental \$93.4 million), combined with increased PPA rates at Iroquois Falls and Kingston and higher electricity prices at Thorold during the first quarter.

Excluding the Spy Hill lease adjustment, gross profit was \$307 million and exceeded 2013 by \$53.3 million primarily due to the North Battleford contribution (\$49.5 million).

Plant operating costs exceeded 2013 by \$6.2 million, and operating income was \$37.7 million higher than 2013 due to the North Battleford contribution (\$6 million in additional plant operating costs and \$34.1 million in additional operating income).

Capital expenditures during 2014 were in line with 2013, comprising scheduled maintenance costs at Iroquois Falls and Thorold in 2014 and expenditures resulting from a scheduled maintenance outage at Thorold in the prior year.

Northland’s Iroquois Falls, Kirkland Lake and Cochrane facilities continue to be negatively affected by the rise in TransCanada PipeLines (“**TransCanada**”) natural gas transportation rates 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 2014, TransCanada filed an application with the National Energy Board (**NEB**) for approval of 2015–20 tolls and a new regulatory framework for the 2021–30 period. In December of 2014, TransCanada also filed another application with the NEB to recover pipeline abandonment charges from shippers. The NEB approved the tolls application, as well as the pipeline abandonment application; both increases will be in effect for the start of 2015.

Northland’s Saskatchewan facilities are not affected by natural gas transportation toll increases due to their contractual structure.

## THERMAL FACILITIES OUTLOOK

Management expects all of Northland's thermal facilities in 2015 to operate in line with 2014 except as noted herein. On December 5, 2014, Resolute Forest Products Inc. (RFP), the owner of the Iroquois Falls newsprint paper mill located at Iroquois Falls, Ontario, and the steam off-taker of the Iroquois Falls facility, announced the permanent shutdown of its newsprint production as of December 22, 2014. The shutdown will have an impact on steam sales made by Iroquois Falls to the RFP mill; however, Iroquois Falls is able to produce additional electricity when steam production is curtailed. The PPA between OEFC and Iroquois Falls allows for increased electricity sales, largely mitigating the impact of the mill closure. OEFC is currently validating the magnitude of the steam revenue replacement.

The Iroquois Falls and Kingston facilities earned significant natural gas resale margins in the first quarter of 2014 due to extreme weather conditions. Northland does not expect significant natural gas resale margins in 2015.

Kingston has a five-day outage scheduled in the fourth quarter of 2015 to complete a gas turbine inspection. Northland's other thermal facilities are not expected to have extended outages during 2015.

Escalations under the Iroquois Falls and managed facility PPAs are expected to be consistent with prior increases. Northland continues to pursue legal action against the OEFC related to a dispute over the manner in which OEFC administered PPA escalation indices over the past three years. OEFC's prior actions have had a negative impact on Iroquois Falls' PPA escalation and Northland's managed facilities (Cochrane and Kirkland Lake). A ruling by the courts is now expected in 2015. Should Northland be successful with its claim, it is anticipated that future revenues will be positively affected and past revenue shortfalls may be recovered.

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## Northland's 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

	2014	2013	2012
<b>Electricity production (MWh)</b>	<b>884,562</b>	748,293	633,540
<b>Electricity production (MWh) – long-term forecast</b>	<b>928,622</b>	734,284	698,705
<b>Sales<sup>(1)</sup></b>			
Jardin	<b>24,044</b>	24,998	22,454
Mont Louis	<b>20,967</b>	22,068	18,207
German wind farms	<b>3,407</b>	3,374	3,748
McLean's <sup>(2)</sup>	<b>13,323</b>	—	—
Ground-mounted solar <sup>(3)</sup>	<b>52,107</b>	16,583	—
	<b>113,848</b>	67,023	44,409
<b>Plant operating costs</b>			
Jardin	<b>5,810</b>	5,373	6,151
Mont Louis	<b>4,915</b>	6,015	6,137
German wind farms	<b>1,162</b>	1,332	1,189
McLean's	<b>2,439</b>	—	—
Ground-mounted solar	<b>2,797</b>	1,098	—
	<b>17,123</b>	13,818	13,477
<b>Operating income</b>	<b>45,101</b>	20,807	6,684

continued...

.....			
In thousands of dollars except as indicated	2014	2013	2012
.....			
<b>Adjusted EBITDA<sup>(4)</sup></b>			
Jardin	<b>18,086</b>	18,820	16,192
Mont Louis	<b>15,938</b>	16,031	12,034
German wind farms	<b>1,808</b>	1,888	2,645
McLean's <sup>(5)</sup>	<b>5,561</b>	—	—
Ground-mounted solar	<b>49,198</b>	15,462	—
.....			
	<b>90,591</b>	52,201	30,871
.....			

Capital expenditures <sup>(6)</sup>	<b>563</b>	130	150
.....			

(1) Renewable facilities do not have cost of sales, and as a result the reported sales amounts are equivalent to gross profit.

(2) The McLean's wind farm began commercial operations on May 1, 2014.

(3) The six Ground-mounted Solar Phase I projects began commercial operations between June and September 2013. The three Ground-mounted Solar Phase II projects began commercial operations between January and October 2014.

(4) A non-IFRS measure.

(5) McLean's adjusted EBITDA represents Northland's share of adjusted EBITDA generated by the facility.

(6) 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.

### General Update – Ontario Ground-Mounted Solar Projects

In 2010, Northland was awarded 20-year PPAs for 13 individual 10 MW ground-mounted solar projects qualifying under the Green Energy Act, 2009 (**collectively, “the GMS Projects”**). The 130 MW of the GMS Projects were built or are being built in phases and have all been financed. As of December 31, 2014, nine projects totalling 90 MW are completed and operating, and four projects totalling 40 MW remain under construction. These four projects, also known as the Ground-mounted Solar Phase III projects, are all expected to be completed in 2015. The nine completed GMS Projects are all operating according to Northland's expectations.

In late December 2014, Northland terminated its engineering, procurement and construction (**EPC**) contract with H.B. White Canada Corp. (**“White”**) for default of White's obligations to construct the Ground-mounted Solar Phase III projects. Northland subsequently retained Ganotec Inc., a subsidiary of Peter Kiewit Sons Co. Ltd., to assist with the completion of the projects. Northland and Ganotec are in the process of estimating the costs to complete the projects. Northland does not expect the final GMS Projects costs to exceed \$775 million, which is approximately 12% higher than the \$690 million originally estimated. This difference is largely attributable to potential increases

in the Ground-mounted Solar Phase III projects from the \$246 million previously disclosed, prior to cost recovery through legal claims against White and its U.S. parent, the potential benefit of *force majeure* claims in the related PPAs and being able to fully explore cost mitigation strategies while completing the projects. The capital costs to complete the projects are expected to be funded through cash and credit resources on hand. Although the final returns for the Ground-mounted Solar Phase III projects cannot be estimated at this time, the GMS Projects are expected to meet Northland's project return requirements.

#### Renewable Facility Performance

Electricity production during 2014 exceeded the prior year primarily due to the inclusion of an additional 84,310 MWh from the McLean's wind farm, which began commercial operations in May 2014, and 80,211 MWh from the ground-mounted solar sites, six of which operated for a full 12 months in 2014 compared to approximately six months in 2013 and three additional sites that began commercial operations between January and October 2014. These results were partially offset by 27,874 MWh of lower production at Jardin and Mont Louis combined due to calmer winds. Solar production met the long-term production forecast, while wind farm production was approximately 5% lower primarily due to weaker than anticipated wind resources at McLean's and Jardin. McLean's production was also affected by the approximately three-week unplanned maintenance outage during the second quarter to repair a defective underground cable. 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.

Sales were \$46.8 million or 70% higher than the prior year primarily due to the incremental contribution from the ground-mounted solar sites and inclusion of McLean's (\$35.5 million and \$13.3 million, respectively), partially offset by lower production and therefore revenue at the Quebec wind farms (a decrease in revenue of \$2.1 million).

Plant operating expenses were \$3.3 million or 24% higher than the prior year largely due to the inclusion of costs for McLean's and the ground-mounted solar projects (\$2.4 million and \$1.7 million, respectively), partly offset by lower turbine warranty and maintenance fees at Mont Louis.

Commensurate with McLean's and additional ground-mounted solar sites reaching operations during 2014, operating income was \$24.3 million higher than the prior year.

#### RENEWABLE FACILITIES OUTLOOK

Northland expects 2015 electricity production and financial results for its renewable facilities to exceed 2014 due to the inclusion of a full year of results for the McLean's wind farm and three Ground-mounted Solar Phase II projects that achieved commercial operations during 2014, along with the addition of the Ground-mounted Solar Phase III projects.

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**Northland's Managed Facilities**

In thousands of dollars	2014	2013 <sup>(1)</sup>	2012
<b>Sales</b>	<b>135,176</b>	90,488	—
<b>Cost of sales</b>	<b>71,040</b>	48,200	—
<b>Gross profit</b>	<b>64,136</b>	42,288	—
<b>Plant operating costs</b>	<b>21,715</b>	16,078	—
<b>Operating income</b>	<b>33,701</b>	19,092	—
<b>Adjusted EBITDA<sup>(2)</sup></b>	<b>31,844</b>	19,304	18,630

(1) Includes financial results only for Kirkland Lake, Cochrane and CEEC post April 1, 2013, as described in more detail below.

(2) Adjusted EBITDA, a non-IFRS measure, represents management and incentive fees earned by Northland from services provided to Kirkland Lake, Cochrane and Chapais.

The Kirkland Lake and Cochrane baseload facilities are operated with the objective of generating 100% of contracted on-peak and off-peak production volumes and receive fixed prices for all electricity sold depending on the time of day and season.

Northland's 2014 audited 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. Prior to the acquisition on April 1, 2013, the financial results from Northland's managed facilities were not included in Northland's consolidated results. Fees and dividends earned by Northland following the acquisition are considered intercompany amounts and eliminate on consolidation. Prior to April 1, 2013, fees and dividends earned by Northland were included in Northland's "other" segment as part of other revenue. 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.

As a result of Northland acquiring the controlling interest in CEEC on April 1, 2013, the financial results for 2013 include only nine months of financial results (sales, costs of sales, gross profit, plant operating costs and operating income) for Kirkland Lake, Cochrane and CEEC.

Sales and gross profit in 2014 were higher than the prior year (\$44.7 million and \$21.8 million, respectively) due to a full 12 months compared to nine months in 2013 and because 2014 includes the benefit of first-quarter natural gas resales when it was economically favourable to curtail the Cochrane and Kirkland Lake facilities and resell natural gas. Plant operating costs exceeded the prior year by \$5.6 million as a result of inclusion of a full 12 months.

Adjusted EBITDA (i.e., management and incentive fees) was higher in 2014 due to Northland not being entitled to receive incentive fees from Cochrane until December 2013 and favourable operating results at both facilities.

## MANAGED FACILITIES OUTLOOK

Northland expects the 2015 financial results for its managed facilities to be lower than 2014 due to non-recurring gas resale margins from the first quarter of 2014 combined with lower economics following the negotiations related to the Cochrane and Kirkland Lake PPAs. The Cochrane PPA has been extended to May 2015; however, negotiations for all new long-term PPAs across the industry have been temporarily suspended. Management is currently addressing this issue with the stakeholders. Negotiations continue on the Kirkland Lake baseload, gas-fired portion of the PPA, which has pricing provisions that expire in August 2015.

### Northland's Offshore Wind Projects

Northland's offshore wind projects include the 600 MW Gemini wind project under construction off the coast of the Netherlands and the 332 MW Nordsee One wind project in advanced development that will be located off the coast of Germany. For additional details on these projects, please see *Section 7: Construction and Development Activities*.

In thousands of dollars	2014	2013	2012
Management and administration costs	2,099	—	—
Less: Non-controlling interests portion	(656)	—	—
Northland's share of management and administration costs	1,443	—	—
Adjusted EBITDA <sup>(1)</sup>	(1,443)	—	—

(1) A non-IFRS measure.

The above adjusted EBITDA represents Northland's share of the Gemini and Nordsee overhead costs (management and administration) that do not qualify for capitalization or deferral under IFRS.

### Corporate, Including Other Income

The following is a discussion of financial results related to Northland's other services, including investment income for the years ended December 31:

In thousands of dollars	2014	2013	2012
Sales <sup>(1)</sup>	515	9,288	20,217

(1) Includes management fees from Chapais, wood-chipping revenue from Northland's chipping facility until its sale in April 2014 and fees and dividends earned from Kirkland Lake and Cochrane prior to Northland acquiring controlling interest of CEEC in April 2013.

As described previously, prior to acquiring the controlling interest in CEEC on April 1, 2013, Northland's consolidated sales included management and incentive fees earned from managing the Kirkland Lake and Cochrane facilities on behalf of third-party owners.

In thousands of dollars	2014	2013	2012
<b>Other sales and income</b>			
Other facilities	6,198	1,320	890
Other income	675	1,623	—
Gemini interest	10,836	—	—
Adjusted EBITDA <sup>(1)</sup>	17,709	2,943	890

(1) A non-IFRS measure.

"Other facilities" in the above table represents adjusted EBITDA from Northland's wood-chipping facility (divested in April 2014), an equity investment in four small rooftop solar projects, dividends received from Northland's equity interest in Panda-Brandywine and interest earned on the loan receivable from McLean's equity partner. Adjusted EBITDA from the "other facilities" is up from prior years largely due to higher one-time dividends from Panda-Brandywine associated with non-renewal payments from the electricity off-taker as previously described.

"Other income" of \$0.7 million relates to the 2011 sale of Northland's South Kent wind development project.

"Gemini interest" represents interest earned on the subordinated debt that Northland has loaned to Project Gemini. Northland acquired a controlling interest in Project Gemini in May 2014 and now consolidates the financial results of Project Gemini so the subordinated debt receivable and related investment income eliminates on consolidation but is still included in Northland's consolidated adjusted EBITDA.

.....			
In thousands of dollars	<b>2014</b>	2013	2012
.....			
<b>Management and administration costs</b>			
Operations <sup>(1)</sup>	<b>20,275</b>	15,620	13,736
Development <sup>(2)</sup>	<b>21,024</b>	17,512	13,714
.....			
<b>Total management and administration costs</b>	<b>41,299</b>	33,132	27,450
Less: Facility management and administration costs	<b>(4,318)</b>	(1,923)	(932)
.....			
<b>Corporate management and administration costs</b>	<b>36,981</b>	31,209	26,518
Writeoff of deferred development costs	<b>5,181</b>	—	1,661
.....			
	<b>42,162</b>	31,209	28,179
.....			
<b>Corporate adjusted EBITDA<sup>(3)</sup></b>	<b>(42,162)</b>	(31,209)	(28,179)
.....			

(1) Includes facility management and administration costs.

(2) Excludes writeoffs of deferred development costs.

(3) A non-IFRS measure.

Corporate management and administration expenses in 2014 were \$5.8 million higher than the prior year largely due to increased personnel and administrative costs.

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 base salaries and short-term incentives 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. During 2014, Northland expensed \$5.2 million of previously deferred development costs related to the Kabinakagami hydro project because it no longer qualified for capitalization under Northland's deferred development policy due to uncertainties related to overall project costs (please see *Section 7: Construction and Development Activities* for additional details).

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**Section 4: Non-IFRS Financial Measures**

This MD&A includes references to Northland’s adjusted EBITDA, free cash flow, free cash flow payout ratio, payout ratio and free cash flow per share, measures not prescribed by IFRS. Adjusted EBITDA, free cash flow, free cash flow payout ratio, payout ratio and free cash flow per share as presented do not have any standardized meaning under IFRS and 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, free cash flow, free cash flow payout ratio, payout ratio and free cash flow per share are widely accepted financial indicators used by investors and securities analysts 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 a reconciliation of Northland’s reported adjusted EBITDA to its consolidated net income (loss). Please see *Section 6: Equity, Liquidity and Capital Resources* for an explanation of free cash flow 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, 2013, are the result of Northland now consolidating the financial results for Project Gemini, Nordsee One, Kirkland Lake, Cochrane and CEEC, as well as the North Battleford contribution. Consolidation of Project Gemini began in the second quarter of 2014, while consolidation of Kirkland Lake, Cochrane and CEEC began in the second quarter of 2013. Nordsee's financial results are also consolidated as a result of Northland acquiring a controlling interest on September 4, 2014.

In thousands of dollars except as indicated

	2014	2013	2012
<b>Energy volumes</b>			
Electricity (MWh)	5,063,721	4,139,908	3,139,031
<b>Sales</b>	<b>760,071</b>	557,238	361,682
<b>Cost of sales</b>	<b>290,692</b>	202,479	131,492
<b>Gross profit</b>	<b>469,379</b>	354,759	230,190
<b>Expenses</b>			
Plant operating costs	78,662	64,235	40,438
Management and administration costs – operations	20,275	15,620	13,736
Management and administration costs – development	21,024	17,512	13,714
Depreciation of property, plant and equipment	120,191	89,879	62,307
	<b>240,152</b>	187,246	130,195

continued...



.....			
In thousands of dollars except as indicated	2014	2013	2012
.....			
<b>Investment income</b>	<b>5,898</b>	939	355
<b>Finance income – leases</b>	<b>13,656</b>	13,886	14,129
.....			
<b>Operating income</b>	<b>248,781</b>	182,338	114,479
Finance costs	<b>124,980</b>	84,885	63,966
Amortization of contracts and other intangible assets	<b>19,815</b>	19,930	19,422
Writeoff of deferred development costs	<b>5,181</b>	–	1,661
Impairments	<b>40,106</b>	2,807	23,053
Foreign exchange (gain)	<b>(622)</b>	(3,787)	(55)
Finance (income)	<b>(2,831)</b>	(1,207)	(815)
Fair value (gain) loss on derivative contracts	<b>296,586</b>	(102,072)	(1,955)
Fair value (gain) loss on convertible shares	–	(27,834)	14,199
Lease accounting (gain)	–	–	(2,964)
Other (income)	<b>(1,222)</b>	(1,526)	–
Equity investment (gain)	<b>(250)</b>	(262)	(312)
.....			
<b>Income (loss) before income taxes</b>	<b>(232,962)</b>	211,404	(1,721)
.....			
Current income taxes	<b>7,928</b>	8,780	4,990
Deferred income taxes	<b>(63,435)</b>	35,605	3,202
.....			
Provision for (recovery of) income taxes	<b>(55,507)</b>	44,385	8,192
.....			
<b>Net income (loss)</b>	<b>(177,455)</b>	167,019	(9,913)
.....			
Net income (loss) per share – basic	<b>(\$0.82)</b>	\$1.08	(\$0.18)
Net income (loss) per share – diluted	<b>(\$0.82)</b>	\$1.03	(\$0.18)

The net loss for 2014 of \$177.5 million was largely due to non-cash fair value losses associated with Northland's derivative contracts (\$296.6 million loss in 2014 versus a \$102.1 million gain in 2013) and an increase in non-cash impairments. Of the 2014 non-cash fair value loss on the derivative contracts, \$248.7 million was associated with Gemini's interest rate swap contracts.

The following section describes significant factors contributing to the change in net income (loss):

- **TOTAL SALES (EXCLUDING OTHER SALES), COST OF SALES AND PLANT OPERATING COSTS** all increased (sales – \$202.8 million, cost of sales – \$88.2 million and plant operating costs – \$14.4 million) compared to 2013 for the reasons discussed in *Section 3: Facility Results* and largely due to contributions from North Battleford, McLean's, the ground-mounted solar projects and Kirkland Lake and Cochrane. Readers should refer to Note 21 of the audited consolidated financial statements for more details on the financial results contributed by Kirkland Lake, Cochrane, CEEC, McLean's, Gemini and Nordsee.
- **OTHER SALES** decreased by \$8.9 million from 2013 due to the sale of Northland's wood-chipping facility in April 2014 and because management and incentive fees earned from Kirkland Lake and Cochrane, which had previously been included in Northland's consolidated sales, are now considered intercompany after the CEEC acquisition on April 1, 2013, and are eliminated on consolidation.
- **MANAGEMENT AND ADMINISTRATION**, as previously described on page 29, was \$8.2 million higher than the prior year largely due to the inclusion of Kirkland, Cochrane, CEEC, North Battleford, McLean's, Gemini, Nordsee and the ground-mounted solar projects, as well as higher corporate costs, as discussed previously.
- **INVESTMENT INCOME** was \$5 million higher than 2013 primarily due to increased dividends from Northland's Panda-Brandywine investment associated with the non-extension of its PPA in May 2014 and interest earned on the loan receivable from McLean's equity partner, as discussed previously.
- **FINANCE LEASE INCOME** at \$13.7 million was in line with the same period last year. 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 \$38.5 million from 2013 due to the inclusion of interest on North Battleford, McLean's and the ground-mounted solar projects debt; higher convertible debenture interest due to the issuance of the 2019 Debentures in March 2014; and interest on the \$250 million term facility utilized for the Gemini project.
- **AMORTIZATION OF CONTRACTS AND OTHER INTANGIBLE ASSETS** at \$19.8 million approximated last year.
- **WRITEOFFS OF DEFERRED DEVELOPMENT COSTS** were \$5.2 million higher than 2013 and are associated with the Kabinakagami hydro project that no longer qualified for capitalization under Northland's deferred development policy.

- **IMPAIRMENTS AND WRITEDOWNS** were \$37.3 million higher than 2013 and relate to Northland's contracts and other intangible assets, goodwill, property, plant and equipment and Panda-Brandywine equity investment. The increase in 2014 was largely associated with the Kirkland Lake and Cochrane PPAs that expire or require renegotiation in 2015. Should these PPAs be successfully amended or extended in 2015, the related 2014 impairments may be reversed. 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. Please see the "Post-Contract Economics" discussion on page 17 and "Managed Facilities Outlook" on page 27 for additional information with respect to impairments.

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.

- **NON-CASH FAIR VALUE LOSSES** of \$296 million (compared to a \$133.7 million gain in 2013) comprise a \$296.6 million loss in the fair value of Northland's financial derivative contracts that include interest rate swaps on the facilities' non-recourse project debt, the long-term financial hedge related to future natural gas prices at Iroquois Falls and foreign exchange contracts, combined with a \$0.6 million unrealized foreign exchange gain. A significant portion (\$248.7 million) of the 2014 non-cash fair value loss represents the consolidated marked-to-market adjustment on interest rate swaps entered into by Project Gemini. Northland's policy is to economically hedge interest rate and foreign exchange exposures where material. Changes in market rates give rise to non-cash marked-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.

The 2013 consolidated statement of income also included a \$27.8 million decrease in the liability associated with the fair value of Northland's Class B Convertible Shares ("**Class B Shares**"). In August 2013, all of Northland's Class B Convertible Shares were converted into Class A Shares and, subsequently, common shares of Northland.

- **OTHER INCOME** decreased by \$0.3 million and, as described earlier, relates to an additional payment pursuant to the 2011 sale of Northland's South Kent wind development project and the accounting gain on the sale of Northland's wood-chipping facility in April 2014.

The factors described above, combined with a \$7.9 million provision for current taxes and a \$63.4 million recovery of deferred taxes, resulted in a net loss for the year of \$177.5 million, compared to net income of \$167 million in the previous year.

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### **Adjusted EBITDA**

Adjusted EBITDA (a non-IFRS measure) is calculated as net income (loss) adjusted for income taxes, depreciation of property, plant and equipment, amortization of contracts and other intangible assets, net finance costs, investment income earned on Gemini subordinated debt (Northland's portion), fair value losses (gains) on derivative contracts, fair value losses (gains) on convertible shares, unrealized foreign exchange losses (gains), gains on the sale of the chipping facility, accounting impairments, elimination of non-controlling interests and finance lease and equity accounting.

Northland loaned €80 million of subordinated debt to Project Gemini. The loan balance increases through accrued interest until the start of commercial operations, which is anticipated to be June 2017, after which it will be repaid with semi-annual blended principal and interest payments. Northland consolidates the financial results of Project Gemini, and as a result Northland's loan receivable and investment income earned are eliminated upon consolidation. However, the investment income is included in Northland's adjusted EBITDA as "Gemini interest" but will be included in free cash flow only once cash payments are received, which is anticipated to be in the second half of 2017.

Northland's audited consolidated financial statements also 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 only its portion of the fees and dividends earned rather than the full consolidated adjusted EBITDA and free cash flow generated by these entities. The adjustment to recognize Northland's portion of the fees and dividends earned and remove the adjusted EBITDA generated by Kirkland Lake, Cochrane and CEEC is included in the "elimination of non-controlling interests" adjustment. "Elimination of non-controlling interests" also includes the removal of the adjusted EBITDA generated by McLean's, Gemini and Nordsee that belong to their other equity partners.

Included in the "finance lease and equity accounting" adjustment is the receipt of finance lease principal amounts as a result of Northland accounting for its Spy Hill operations as a finance lease (i.e., the adjustment is made to recognize Spy Hill's adjusted EBITDA in a manner consistent with Northland's other wholly owned operating facilities). The equity accounting adjustment represents depreciation of property, plant and equipment included in "equity-accounted investment loss (gain)."

The following table reconciles Northland's net income (loss) to its adjusted EBITDA:

.....			
In thousands of dollars except as indicated	2014	2013	2012
.....			
<b>Net income (loss)</b>	<b>(177,455)</b>	167,019	(9,913)
Adjustments:			
Provision for (recovery of) income taxes	<b>(55,507)</b>	44,385	8,192
Depreciation of property, plant and equipment	<b>120,191</b>	89,879	62,307
Amortization of contracts and other intangible assets	<b>19,815</b>	19,930	19,422
Finance costs, net	<b>122,149</b>	83,678	63,151
Gemini subordinated debt interest	<b>10,836</b>	—	—
Change in fair value of derivative contracts	<b>296,586</b>	(102,072)	(1,955)
Change in fair value of convertible shares and Replacement Rights	—	(27,834)	14,199
Unrealized foreign exchange (gain) loss	<b>(686)</b>	(3,620)	271
Gain on sale of wood-chipping facility	<b>(547)</b>	—	—
Impairments	<b>40,106</b>	2,807	23,053
Lease accounting (gain)	—	—	(2,964)
Elimination of non-controlling interests	<b>(14,778)</b>	(14,205)	—
Finance lease and equity accounting	<b>2,787</b>	3,329	2,857
.....			
<b>Adjusted EBITDA</b>	<b>363,497</b>	263,296	178,620
.....			

Northland's 2014 consolidated adjusted EBITDA was higher than the prior year and reflects a full year of contributions from North Battleford (\$43.4 million) and the operations of McLean's (\$5.6 million) and the ground-mounted solar projects (\$33.7 million), overall favourable results from Northland's other operating facilities (\$2.6 million) largely due to natural gas resales, higher investment income of \$5 million (Panda-Brandywine dividends and interest on the McLean's equity partner loan), interest on the subordinated loan to Project Gemini (\$10.8 million) and performance incentive fees earned from Cochrane and Kirkland Lake (\$12.5 million). These favourable results were partially offset by increased corporate management and administration costs (\$5.8 million), Gemini and Nordsee overhead costs of \$1.4 million, the writeoff of deferred development costs (\$5.2 million) in the first quarter of 2014 and other miscellaneous items (\$1 million).

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## Section 6: Equity, Liquidity and Capital Resources

### Equity and Convertible Unsecured Subordinated Debenture Information

As at December 31, 2014, Northland had outstanding 149,409,892 Shares (2013 – 131,978,711 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 \$16 million of the 2014 Debentures were converted into 1,292,079 Shares (2013 – \$11.4 million). In 2014, a total of 2,537,651 Shares (2013 – 2,018,112 Shares) were issued under Northland's Dividend Reinvestment Plan (**DRIP**), under which 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 December 31, 2014, a total of \$699,000 of the 2014 Debentures not previously converted matured and were repaid by Northland.

On March 5, 2014, Northland announced the closing of a \$157.5 million offering of 9,843,750 Shares and \$78.8 million of 2019 Debentures. Northland also issued, on a private placement basis, 3,125,000 Shares to a subsidiary of Northland Power Holdings Inc., a company controlled by the Chairman of Northland, James C. Temerty. After this transaction, Mr. Temerty indirectly beneficially owned or had control or direction over 1,000,000 Class A Shares and 50,777,454 Shares of Northland, representing an approximately 35% interest in the Company. The aggregate gross proceeds from the offering and placement were \$286.3 million (\$275.7 million after costs and underwriters' fees). The \$275.7 million of net proceeds was consistent with the expected net proceeds disclosed in the prospectus dated February 26, 2014. Northland used the net proceeds of the offerings primarily to fund a portion of Northland's equity investment in and subordinated loan to Project Gemini.

Subsequent to year-end, in January 2015, Northland announced the closing of a \$157.5 million offering of the 2020 Debentures (including over-allotment). Northland intends to use the net proceeds from the offering to fund a portion of its investments in the 332 MW (282 MW net to Northland) Nordsee development project and the Grand Bend wind farm, to replenish working capital and for general corporate purposes.

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 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.

The Class C and B Shares that were converted into Class A Shares were subsequently converted into 12,357,531 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 majority of executives and certain management and staff receive LTIP awards based on project milestones. One executive receives LTIP awards annually pursuant to an employment agreement. For milestone-related LTIP awards, 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 2014 and 2013, milestones were achieved requiring management to estimate the share-based cost of LTIP awards. For the year ended December 31, 2014, Northland issued 632,701 Shares to employees and capitalized \$3.1 million (2013 – \$11.5 million) and expensed \$2.2 million (2013 – \$1.2 million) of costs under the LTIP.

During 2014, Northland recognized a \$149.5 million increase in total shareholders' equity. The increase in Shares was due to the public offering and private placement in the first quarter of 2014, the conversion of 2014 Debentures, the issuance of additional Shares under Northland's LTIP and DRIP programs and the \$1.3 million accrual for executive deferred rights. As a result of the acquisition of the controlling interests in CEEC, Gemini and Nordsee and the equity funding of McLean's and Project Gemini by their non-controlling partners, Northland's shareholders' equity includes non-controlling interests, which totals \$271.4 million at December 31, 2014. Readers should refer to Note 21 to the audited consolidated financial statements for additional details related to Northland's non-controlling interests. Shareholders' equity also includes \$33.7 million in accumulated other comprehensive losses, which arise as the Canadian dollar/euro exchange rate fluctuates and the German wind farms, Gemini and Nordsee are translated into Canadian dollars and \$177.5 million of net losses for the year. The \$5.2 million decrease in LTIP reserve since December 2013 was the result of LTIP awards to Northland employees.

As of the date of this MD&A, Northland has outstanding 149,959,567 Shares, 6,000,000 Series 1 Preferred Shares, 4,800,000 Series 3 Preferred Shares, 1,000,000 Class A Shares, \$78.8 million of 2019 Debentures and \$157.5 million of 2020 Debentures. If the 2019 Debentures and 2020 Debentures converted in their entirety, an additional 10.9 million Shares would result.

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## Liquidity and Capital Resources

In thousands of dollars except as indicated

	2014	2013	2012
<b>Cash and cash equivalents – opening</b>	<b>138,460</b>	31,715	48,151
Cash provided by operating activities	<b>366,589</b>	257,078	162,398
Cash used in investing activities	<b>(1,808,861)</b>	(444,156)	(374,100)
Cash provided by financing activities	<b>1,524,023</b>	293,683	195,270
Effect of exchange rate differences	<b>(26,799)</b>	140	(4)
<b>Cash and cash equivalents – ending</b>	<b>193,412</b>	138,460	31,715
<b>Total assets</b>	<b>4,965,632</b>	3,063,226	2,518,675
<b>Total long-term liabilities</b>	<b>3,378,814</b>	1,950,894	1,673,178

Cash and cash equivalents at \$193.4 million increased by \$55 million since December 31, 2013, because \$366.6 million generated by operating activities and \$1.5 billion from financing activities were partially offset by \$1.8 billion used for investing activities.

Operating activities in 2014 provided \$366.6 million in cash, comprising a net loss of \$177.5 million, \$538.4 million in non-cash and non-operating items such as depreciation and amortization, unrealized foreign exchange gains, and change in fair value financial instruments, combined with a \$5.6 million decrease in working capital since December 2013 primarily associated with the investment in Project Gemini and the timing of year-end payables, receivables and deposits. The increase in cash from operating activities in 2014 was largely the result of higher adjusted EBITDA, as described earlier.

Cash used for investing activities consumed \$1.8 billion during 2014 due to (i) \$1.8 billion used for the purchase of property, plant and equipment, mostly representing construction activities at McLean's, Gemini and Ground-mounted Solar Phase II and III projects; (ii) \$46 million in deferred development costs, representing expenditures on the Ground-mounted Solar Phase III projects prior to commencing full construction activities and the Nordsee project; (iii) \$30.8 million to acquire a 60% interest in the Gemini project; and (iv) \$7 million to acquire an 85% interest in the Nordsee project. Partially offsetting these uses were (i) a net reserve drawdown of \$27.4 million largely associated with the release of funds related to construction expenditures and (ii) a \$58.6 million change in working capital related to the timing of construction payables.

Investing activities also included \$2.8 million of interest received and \$0.8 million of proceeds from the sale of the British Columbia wood-chipping facility.



Financing activities for 2014 provided \$1.5 billion, comprising (i) \$228.9 million of net proceeds from the Ground-mounted Solar Phase I bond offering in October; (ii) \$275.7 million net proceeds from the equity and convertible debenture public offering combined with the private placement in March; (iii) \$190.8 million of advances under the Ground-mounted Solar Phase I, II and III loan facilities; (iv) \$250 million (\$247.4 million net of costs) of borrowings under Northland's term facility to fund a portion of Northland's investment in the Gemini project; (v) \$263.8 million in contributions from the non-controlling interest partners in the Gemini project; and (vi) \$884 million in net proceeds from Gemini's third-party senior and subordinated debt. Partially offsetting these proceeds were (i) \$129.2 million of Share, Class A and preferred share dividends; (ii) \$218.9 million of bank debt and associated interest rate swap prepayments at the Ground-mounted Solar Phase I projects; (iii) \$56.8 million in scheduled loan repayments (including Kirkland Lake); (iv) \$11.6 million of dividends to the non-controlling shareholders; and (v) \$114.2 million in interest payments.

Financing activities also included \$0.7 million of principal repayment on the 2014 Debentures that matured on December 31, 2014, and a \$4.8 million repayment of the loan to the McLean's equity partner.

Due to the strengthening of the Canadian dollar versus the euro, Northland's December 31, 2014, consolidated cash and cash equivalents was negatively affected by \$26.8 million as a result of translating euro-denominated cash and cash equivalents held by Gemini and Nordsee into Canadian dollars. The effect of exchange rate differences on cash and cash equivalents for Northland's Europe projects will fluctuate from quarter to quarter as the Canadian dollar/euro exchange rate fluctuates. However, euro-denominated cash will be utilized by Project Gemini and Nordsee for expenditures and the purchase of euro-denominated property, plant and equipment.

Subsequent to closing the financing for Gemini, Northland entered into additional foreign exchange contracts with several members of its corporate banking syndicate to effectively fix the foreign exchange conversion rate on substantially all Northland's projected euro-denominated cash inflows from Project Gemini. The weighted average conversion rate over the term of the foreign exchange contracts is approximately 1.67 Canadian dollars per euro.

#### 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.

## Consolidated Balance Sheet

- Restricted cash decreased \$29.1 million primarily due to utilization of construction funds previously set aside at the McLean's wind farm and the ground-mounted solar projects.
- Trade and other receivables decreased by \$40.2 million mainly due to the timing of receipts for electricity sales and investment tax credits related to construction activities.
- Northland's investment in Panda-Brandywine was written off (\$3.1 million) due to the facility's electricity off-taker not exercising its option to extend the Panda-Brandywine's PPA in May, as discussed previously.
- Property, plant and equipment increased \$1.7 billion from December 2013 due to construction-related activities at the Gemini, McLean's and ground-mounted solar projects and the transfer of Ground-mounted Solar Phase III deferred development costs to property, plant and equipment, partially offset by impairments of \$11 million.
- Contracts and other intangible assets increased by \$161 million due to the acquisition of Gemini (contracts) and Nordsee (contracts and deferred development costs) partially offset by contract amortization and impairments, the reclassification of deferred development costs to property, plant and equipment and the writeoff of deferred development costs, as described previously.
- Goodwill decreased by \$0.9 million as a result of an impairment charge in 2014. As described previously, 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.
- Trade and other payables increased by \$144.5 million largely due to the timing of construction-related payables, including amounts owing at Project Gemini.
- Northland's consolidated interest-bearing debt balances increased by \$1.2 billion due to advances under Northland's corporate credit facility, Gemini's subordinated and senior debt and the ground-mounted solar facilities, partially offset by scheduled loan repayments.
- Convertible unsecured subordinated debentures increased by \$59.3 million due to the issuance of the 2019 Debentures, partially offset by conversions of the 2014 Debentures into Northland Shares during 2014 and the December 31 maturity.
- Derivative financial liabilities increased by \$288.3 million due to non-cash fair value marked-to-market adjustments on foreign exchange contracts and Iroquois Falls' natural gas financial derivative contract and interest rate swaps (\$248.7 million relates to Gemini's interest rate swap contracts).
- The \$14.3 million increase in decommissioning provisions is related to Northland's wind farms and solar sites, which are generally located on leased lands. 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. Future decommissioning liabilities will be partially mitigated by the scrap value of the related assets.

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

	Cost balance as of December 31, 2013	Acquired	Purchases	Other <sup>(1)</sup>	Exchange rate differences	Transfers	Cost balance as of December 31, 2014
In thousands of dollars							
<b>Operations</b>							
Thermal <sup>(2)</sup>	1,613,403	—	1,497	41	—	—	<b>1,614,941</b>
Renewable	683,475	—	563	(58)	(1,515)	323,653	<b>1,006,118</b>
	2,296,878	—	2,060	(17)	(1,515)	323,653	<b>2,621,059</b>
<b>Construction</b>							
Thermal	—	—	—	—	—	—	—
Renewable <sup>(3)</sup>	258,438	—	193,621	15,334	—	(282,551)	<b>184,842</b>
Gemini	—	—	1,615,866	1,227	(49,902)	5,434	<b>1,572,625</b>
	258,438	—	1,809,487	16,561	(49,902)	(277,117)	<b>1,757,467</b>
<b>Managed<sup>(4)</sup></b>	228,474	—	114	(11,001)	—	—	<b>217,587</b>
<b>Nordsee</b>	—	—	—	733	—	—	<b>733</b>
<b>Corporate<sup>(5)</sup></b>	11,932	—	2,948	(99)	—	(2,852)	<b>11,929</b>
<b>Total</b>	2,795,722	—	1,814,609	6,177	(51,417)	43,684	<b>4,608,775</b>
<b>Deferred development</b>							
Corporate <sup>(3)</sup>	32,828	—	30,135	(5,181)	—	(43,684)	<b>14,098</b>
Nordsee	—	76,379	15,904	—	(193)	—	<b>92,090</b>
<b>Total</b>	32,828	76,379	46,039	(5,181)	(193)	(43,684)	<b>106,188</b>

(1) Includes the accrual for decommissioning provisions for accounting purposes, tax credits and LTIP Shares granted, writeoffs of deferred development costs and accounting impairments.

(2) Excludes Spy Hill lease receivable accounting treatment.

(3) All deferred development costs associated with Northland's Ground-mounted Solar Phase III projects were transferred to construction in progress in the first quarter of 2014.

(4) Kirkland Lake and Cochrane facilities.

(5) 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.

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

In thousands of dollars	Balance as of December 31, 2013	Financings	Repayments	Amortization of costs/ fair value adjustments	Transfers	Exchange rate differences	Balance as of December 31, 2014
<b>Operations</b>							
Thermal <sup>(1)</sup>	1,160,195	—	(33,416)	2,317	—	—	<b>1,129,096</b>
Renewable <sup>(2)</sup>	454,957	238,355	(236,102)	747	250,750	—	<b>708,707</b>
	1,615,152	238,355	(269,518)	3,064	250,750	—	<b>1,837,803</b>
<b>Construction</b>							
Thermal	—	—	—	—	—	—	—
Renewable	200,000	181,320	—	—	(250,750)	—	<b>130,570</b>
Gemini <sup>(3)</sup>	—	844,031	—	—	—	(20,183)	<b>823,848</b>
	200,000	1,025,351	—	—	(250,750)	(20,183)	<b>954,418</b>
<b>Managed<sup>(4)</sup></b>	6,418	—	(4,078)	—	—	—	<b>2,340</b>
<b>Corporate<sup>(5)</sup></b>	—	247,402	—	488	—	(1,842)	<b>246,048</b>
<b>Total</b>	<b>1,821,570</b>	<b>1,511,108</b>	<b>(273,596)</b>	<b>3,552</b>	<b>—</b>	<b>(22,025)</b>	<b>3,040,609</b>

(1) Includes a favourable fair value adjustment to Thorold's debt.

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

(3) Excludes Northland's subordinated loan, which eliminates on consolidation.

(4) Kirkland Lake and Cochrane facilities.

(5) Excludes convertible unsecured subordinated debentures.

On March 7, 2014, Northland announced the completion of an amendment to its corporate credit facility with a syndicate of financial institutions. The credit facility was increased from \$250 million to \$600 million, comprising a \$350 million revolving facility and a \$250 million term facility. The revolving facility is available for general corporate purposes and working capital to accommodate letters of credit and support growth and development opportunities. The revolving facility matures in March 2018 and has an annual one-year renewal option applicable on the anniversary date of the credit agreement in any given year. The revolving facility also incorporates a \$100 million accordion

feature that provides Northland with access to additional revolving credit, at the Company's option, if required, conditional upon pro-forma compliance with the financial covenants and there being no default or event of default. Any existing lender requested to provide any additional commitments with respect to the revolving facility shall be entitled to agree or decline to participate in its sole discretion. If the amount of requested additional revolving commitment is not provided in full by the existing lenders, the balance of such request may be provided by other financial institutions subject to the satisfaction of requirements under Northland's corporate credit facility. Northland accessed its term facility for the full \$250 million, net of costs, to fund a portion of its investment in Project Gemini. The term facility matures in March 2018 and has a one-year renewal option. The underlying borrowings have been hedged through the first quarter of 2018 at an average interest rate of 1.48% plus the applicable credit spread. Subsequently, a portion of Northland's term facility that was utilized to assist with the investment in Gemini was converted into euros.

On April 24, 2014, Northland completed \$240 million of non-recourse project financing for five ground-mounted solar projects with a syndicate of lenders. Once term conversion is achieved, the loan will require blended payments of principal and interest based on an 18-year amortization period. The all-in rate, including interest rate swaps and credit spreads, is 5.58% during operation escalating 25 basis points every four years.

In May 2014, the Gemini project closed on approximately €2.0 billion (approximately CA\$3 billion at that time) of non-recourse project financing with a syndicate of international financial institutions and public financing agencies. The project loans include a three-year construction period and a 14-year amortization period. Should the loans not be fully repaid by December 31, 2022, the credit agreement provides for an acceleration of principal payments, subject to available cash flow and the discontinuance of distributions to the equity partners. The interest rate for the project has been hedged over the full loan amortization period with an effective interest rate of approximately 4.75%.

On October 8, 2014, Northland announced the closing of a \$232 million 4.397% senior secured amortizing Series A bond issuance by its wholly owned subsidiary, Northland Power Solar Finance One LP. The bonds are non-recourse to Northland but are secured by Northland's six Ground-mounted Solar Phase I projects located across Ontario. The bonds were rated BBB (high) by DBRS and will be fully amortized by their maturity in June 2032. The proceeds from the bond issuance were used to repay existing bank debt, settle the associated interest rate swaps and pay transaction costs and a one-time distribution to Northland.

On February 18, 2015, Northland completed an additional amendment to its corporate credit facility. The primary components of the amendment include (i) the receipt of lender commitments for the \$100 million accordion feature of the revolving credit facility, which increased the revolving facility from \$350 million to \$450 million; (ii) an extension of the revolving facility maturity date to March 2020; and (iii) changes to certain financial ratios and sublimits in order to provide liquidity and support Northland's ongoing development activities. The maturity date of the \$250 million term facility remains unchanged at March 2018 and includes a one-year renewal option.

## 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 at the subsidiary level 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, 2014, 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 2014 AIF, dated February 18, 2015, for additional details concerning its debt covenants.

## Letters of Credit

Northland has a \$350 million revolving credit facility in place until March 2018 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, 2014, Northland and its subsidiaries had \$239.3 million in letters of credit outstanding as follows:

In millions of dollars	Purpose	Amount
<b>Corporate<sup>(1)</sup></b>		
	Operations	77.6
	Advanced development and construction	141.4
		219.0
<b>Project entity<sup>(2)</sup></b>		
	Operations	17.3
	Construction	3.0
		20.3
		239.3

(1) Secured by Northland's \$350 million corporate revolving line of credit.

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

### Acquisitions

In May 2014, Northland acquired an interest in Project Gemini, located 85 kilometres off the coast of the Netherlands in the North Sea. Gemini is owned by a consortium consisting of affiliates of Northland Power (60%), Siemens Financial Services and Affiliates (**"Siemens"**) (20%), Van Oord Dredging and Marine Contractors BV (**"Van Oord"**) (10%) and N.V. HVC (10%). The project was awarded 15-year electricity off-take agreements by the Government of the Netherlands.

Subsequent to the acquisition, Project Gemini reached financial close, and all consortium owners contributed their required equity, totalling €441.5 million (CA\$662.7 million at the time). In addition, Northland and a pension fund have provided subordinated loans totalling €200 million (CA\$280.8 million as of December 31, 2014). The loans currently earn interest at a rate of 13%.

In September 2014, Northland announced that it had signed an agreement with RWE Innogy GmbH (**"RWE"**) to acquire an 85% equity stake in three offshore wind projects located in the North Sea, 40 kilometres north of Juist Island in German territorial waters. The acquired projects include Nordsee One, a 332 MW project in advanced development, and two early-stage development projects totalling approximately 670 MW – Nordsee Two and Nordsee Three, which are anticipated to be developed over the next decade as offshore wind tariffs are extended and the grid infrastructure is made available. RWE, a global leader in renewable energy with an interest in more than 8,000 MW of offshore wind assets under construction, in operation and in development, will retain a 15% equity interest in the wind farms.

Please see Note 7 to the audited consolidated financial statements for additional information with respect to the 2014 acquisitions discussed above, as well as summary financial information for the entities acquired and included in Northland's audited consolidated financial statements.

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### Sustainability of Cash Flows and Dividends

Northland continues to pursue its 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 and the health and safety of its employees and its host communities. Management believes that cash flows generated by operations and available through credit facilities are sufficient to maintain plant capacities over their asset lives. 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) 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.

During 2014, Standard & Poor's credit rating agency reaffirmed Northland's corporate rating of BBB Stable. In addition, Northland's preferred share rating and unsecured debt ratings were reaffirmed on Standard & Poor's global scale and Canada scale of BB+ and P-3 (high), respectively.

### Free Cash Flow and Dividends to Shareholders

In 2014, Northland declared dividends to shareholders of \$1.08 per share. This was consistent with the prior year.

The following reconciliation of free cash flow, free cash flow payout ratio and free cash flow per share (all non-IFRS measures) is based on the audited consolidated financial statements of Northland:

In thousands of dollars except as indicated	2014	2013	2012
<b>Cash provided by operating activities</b>	<b>366,589</b>	257,078	162,398
<b>Northland adjustments</b>			
Net change in non-cash working capital balances			
related to operations	(5,607)	7,950	11,808
Capital expenditures, net – non-expansionary	(2,200)	(1,339)	(6,281)
Interest paid, net	(111,386)	(73,650)	(59,805)
Scheduled principal repayments on term loans	(52,706)	(30,467)	(34,720)
Funds utilized (set aside) for scheduled principal repayments	(79)	(607)	1,669
Restricted cash utilization (funding) for major maintenance/debt service	1,036	(4,716)	1,986
Writeoff of deferred development costs	(5,181)	–	(1,661)
Consolidation of non-controlling interests	(9,851)	(10,899)	–
Corporate credit facility renewal costs	(2,598)	–	–
Equity accounting	(25)	(107)	563
Proceeds from sale of chipping facility	750	–	–
Funds utilized (set aside) for asset purchase	–	750	(750)
Preferred share dividends	(13,876)	(13,876)	(11,484)
<b>Free cash flow</b>	<b>164,866</b>	130,117	63,723

continued...



.....			
In thousands of dollars except as indicated	2014	2013	2012
.....			
<b>Cash dividends paid to common and Class A shareholders</b>	<b>115,322</b>	98,908	88,734
Free cash flow payout ratio – net dividends <sup>(1)</sup>	<b>70%</b>	76%	139%
.....			
<b>Total dividends<sup>(2)</sup> to common and Class A shareholders</b>	<b>155,827</b>	131,664	120,426
Free cash flow payout ratio – total dividends <sup>(1)</sup>	<b>95%</b>	101%	189%
.....			
<b>Cumulative – since inception</b>			
Free cash flow payout ratio – total dividends <sup>(1)</sup>	<b>103%</b>	104%	105%
<b>Average number of Shares – basic (000s)<sup>(3)</sup></b>	<b>146,765</b>	123,482	115,058
<b>Average number of Shares – diluted (000s)<sup>(4)</sup></b>	<b>153,307</b>	123,482	115,058
.....			
<b>Per share</b>			
Free cash flow – basic	<b>\$1.12</b>	\$1.05	\$0.55
Free cash flow – diluted	<b>\$1.10</b>	\$1.05	\$0.55
.....			

(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 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 dividends paid irrespective of whether the dividend is received in cash or in Shares as part of the DRIP program.

(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.

(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 2019 Debentures.

Free cash flow represents 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 common shareholders while preserving the long-term value of the business. Free cash flow is calculated as cash provided by operating activities, adjusted for:

- Short-term changes in operating working capital that are expected to be largely reversed in succeeding periods (or represent reversals from previous periods);
- Capital expenditures related to the maintenance requirements of the existing business;
- Interest paid on outstanding debt as it is excluded from cash provided by operating activities under IFRS;
- Scheduled repayments of principal on debt (because these payments must be made before funds are available for dividends to the shareholders of Northland);
- Funds set aside for quarterly scheduled principal repayments (or reversals from previous periods) as these amounts would have been included in scheduled repayments of principal on debt if not for the timing of holidays and weekends;
- Funds identified as being set aside or reserved (or utilized) for future maintenance;
- The writeoff of deferred development costs (because these costs are not included in the free cash flow calculation when incurred);
- Consolidation of non-controlling interests (see below for additional details);
- The timing of distributions received from equity-accounted investments;
- Proceeds from the sale of assets;
- Disbursements related to the cost of renewing credit facilities; and
- Preferred share dividends.

Northland's audited 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 from those entities following the acquisition are considered intercompany amounts and eliminate on consolidation. However, in the calculation of free cash flow, Northland includes its portion of the fees and dividends earned rather than the full consolidated free cash flow generated by these entities. The adjustments are to recognize the fees and dividends earned and remove the free cash flow generated by Kirkland Lake, Cochrane and CEEC that are included in Northland's consolidated statements of income (loss) are included in the "consolidation of non-controlling interests" adjustment. "Consolidation of non-controlling interests" also includes the removal of free cash flow generated by McLean's, Gemini and Nordsee that belongs to their other equity partners.

Free cash flow of \$164.9 million was \$34.7 million higher (27%) than in 2013; significant factors increasing and decreasing free cash flow in 2014 are described below.

Factors increasing free cash flow were:

- \$84.9 million higher adjusted EBITDA from Northland's operating facilities, as previously discussed;
- \$5.3 million increase in adjusted EBITDA generated from one-time Panda-Brandywine dividends and interest earned on the loan to the equity partner at McLean's;
- \$12.5 million increase in management fees from Kirkland Lake and Cochrane substantially due to achieving certain conditions, which entitles Northland to share in Cochrane cash flows after all operating and financing expenses; and
- \$5.8 million reduction of funds previously set aside for future major maintenance that were either no longer required (Thorold) or were utilized to fund the steam turbine inspection and overhaul at Iroquois Falls.

Factors decreasing free cash flow were:

- \$34.9 million net interest expense increase related to the inclusion of North Battleford (operational in June 2013), McLean's (not operational in 2013) and Ground-mounted Solar Phase I and II debt (six ground-mounted solar projects operational in 2013) and funds raised related to Northland's Project Gemini investment (Northland's term facility and the March 5, 2014, issuance of convertible unsecured subordinated debentures);
- \$21.7 million increase in scheduled debt repayments as a result of including North Battleford and Ground-mounted Solar Phase I and II projects (no scheduled payments until December 2013);
- \$5.8 million increase in corporate general and administration costs;
- \$5.2 million writeoff of deferred development costs;
- \$1.3 million variance associated with milestone payments to General Electric and its subsidiaries (**collectively, GE**) related to Kingston's gas turbine maintenance contract;
- \$1.4 million (Northland's share) of overhead costs incurred at the Gemini and Nordsee projects;
- \$0.9 million increase in operations-related capital expenditures largely related to a steam turbine inspection/overhaul at Iroquois Falls (funds were drawn from the reserve account to cover this expenditure); and
- \$2.6 million of fees related to the renewal and expansion of Northland's corporate credit facility.

All dividends paid by Northland during 2014 will qualify for the enhanced dividend tax credit; however, a portion of the Share dividend paid to shareholders during 2013 will not qualify. Readers should refer to Northland's website at [www.northlandpower.ca](http://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, 2014, Northland's dividend payments were 70% of free cash flow or 95% on an all-cash dividend basis (if the impact of the DRIP were excluded). A free cash flow 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. Future dividend payments could exceed free cash flow due to the funding for new investments such as Gemini, Nordsee and Grand Bend.

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 are 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

As described in *Section 3: Facility Results*, in 2010 Northland was awarded 20-year PPAs for the GMS Projects – 13 individual 10 MW ground-mounted solar projects qualifying under the Green Energy Act, 2009. The 130 MW of GMS Projects were built or are being built in phases and have all been financed. As of December 31, 2014, nine projects totalling 90 MW are completed and operating, and four projects totalling 40 MW remain under construction. These four projects, also known as the Ground-mounted Solar Phase III projects, are all expected to be completed in 2015. The nine completed GMS Projects are all operating according to Northland's expectations.

All photovoltaic modules, inverter assemblies, racking and most substation equipment have been procured and received for the Ground-mounted Solar Phase III projects. Foundations for three of the four sites have also been received/installed.

In late December 2014, Northland terminated its EPC contract with White for default of White's obligations to construct the Ground-mounted Solar Phase III projects. Northland subsequently retained Ganotec Inc., a subsidiary of Peter Kiewit Sons Co. Ltd., to assist with the completion of the projects. Northland previously used Peter Kiewit Sons Co. Ltd. to construct the Thorold and North Battleford facilities. Northland and Ganotec are in the process of estimating the costs to complete the projects. Northland does not expect the final GMS Project costs to exceed \$775 million, which is approximately 12% higher than the \$690 million originally estimated. This difference is largely attributable to potential increases in the Ground-mounted Solar Phase III projects from the \$246 million previously disclosed, prior to cost recovery through legal claims against White and its U.S. parent, the potential benefit of *force majeure* claims in the related PPAs and being able to fully explore cost mitigation strategies while completing the projects. The capital costs to complete the projects are expected be funded through cash and credit resources on hand. Although the final returns for the Ground-mounted Solar Phase III projects cannot be estimated at this time, the GMS Projects are expected to meet Northland's project return requirements.

As at December 31, 2014, Northland had incurred \$184.8 million in construction costs related to its Ground-mounted Solar Phase III projects.

#### Gemini 600 MW Offshore Wind Project – Netherlands

In May 2014, Northland acquired a 60% interest in Project Gemini, located 85 kilometres off the coast of the Netherlands in the North Sea. Gemini is owned by a consortium consisting of affiliates of Northland Power (60%), Siemens (20%), Van Oord (10%) and N.V. HVC (10%). The project was awarded 15-year electricity off-take agreements by the Government of the Netherlands.

Under a two-contract project structure, Siemens will supply and erect the turbines, and Van Oord will construct the balance of the wind farm.

Engineering at Gemini is ongoing and will continue in support of procurement and construction activities. Fabrication of steel structures – monopiles, transition pieces, offshore high-voltage substations (**OHVS**) and OHVS jackets – is progressing well and is on schedule for delivery in 2015. The 220 kV export, infield and land cables are expected to be delivered according to the project's schedule. High- and medium-voltage equipment production is under way. Foundation concrete work for the land high-voltage substation is under way. The first in-water activities began in August 2014 with horizontal directional drilling for the underwater cable crossing.

Project Gemini's total capital cost is approximately €2.8 billion (CA\$3.9 billion as of December 31, 2014). Full commercial operations are expected in 2017.

As at December 31, 2014, Gemini had incurred \$1.6 billion of construction costs. The project is on time and within budget as of the date hereof.

### Projects in Advanced Development

Northland is in the advanced stages of developing 432 MW (332 MW net to Northland) of renewable wind energy projects with contracted PPAs or electricity off-take arrangements, including the 332 MW Nordsee One German offshore wind farm and the 100 MW Grand Bend project. The table below provides the respective project capacity, Northland's economic interest, the power off-take counterparties and contract terms for the Nordsee and Grand Bend projects.

Project	Gross project capacity	Economic interest	Northland economic interest capacity	Region	Contract counterparty	PPA term <sup>(1)</sup>
Nordsee One offshore wind	332.0 MW	85%	282.0 MW	Germany	TenneT TSO GmbH <sup>(2)</sup>	Approximately 10 years
Grand Bend wind	100.0 MW	50%	50.0 MW	Ontario	OPA	20 years

(1) From the commercial operations date.

(2) The State of the Netherlands is the ultimate parent of TenneT TSO GmbH.

#### Nordsee One 332 MW Offshore Wind Farm – Germany

Nordsee One is located in an attractive location with respect to distance from shore and the quality of its wind resource. Once operational, the 332 MW wind farm is expected to generate enough electricity to supply the needs of 400,000 German households. The project is entitled to a feed-in tariff (**FIT**) subsidy for approximately 10 years under the German Renewable Energy Sources Act, which is added to the market power price, effectively generating a fixed unit price for energy sold. The project's estimated €1.2 billion (approximately CA\$1.7 billion) capital cost is expected to be recovered within the FIT subsidy period. Offshore wind development is a key feature of Germany's Energiewende program, which has a stated goal of achieving 6,500 MW of installed offshore wind capacity by 2020 and 15 gigawatts by 2030.

Development of the Nordsee One project is well advanced. The required permits for the wind farm have been received, and the project is advancing toward achieving all related permit milestones. Major supply and construction contracts have been completed, and financing for the project is expected to be completed in the first half of 2015. In-water construction is planned to commence in 2016, and commercial operation is scheduled for the end of 2017.

Subsequent to year-end, on January 27, 2015, Nordsee entered into an agreement with European commercial banks providing an option for Nordsee (swaption) that effectively establishes a cap on Euribor of 1.145% on the project's underlying interest rate (prior to lender margins and other charges) on the projected senior debt amortization schedule from November 2015 through December 2026. The hedge was executed to protect the project economics from unfavourable movements between the agreement date and the expected date of financial close. If the underlying Euribor interest rate is lower at financial close than 1.145%, the project will select the lower interest rate and not exercise the swaption.

#### 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 (50 MW net to Northland) 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 is well advanced. The appeal of the project's Renewable Energy Approval was dismissed by the Environmental Review Tribunal in December 2014. Equipment supply and construction contracts are nearing completion, and construction activities are planned to commence in early 2015, with financial close expected in the first half of 2015 and commercial operations scheduled for spring 2016. Capital cost of the project is estimated to be approximately \$385 million.

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## Other Projects

### Frampton 24 MW Wind Project – Quebec

On February 20, 2015, Northland announced that it had sold its 66.7% interest in the advanced-development 24 MW Frampton wind project to Boralex Inc. for a total consideration of approximately \$11.5 million. The sale will enable Northland to realize the project's economic returns at an earlier stage and focus its resources on other large-scale development and construction projects.

### Kabinakagami Hydro Projects – Ontario

Northland owns development rights to 26 MW (13 MW net to Northland) of four run-of-river hydro projects on the Kabinakagami River near Hearst, Ontario, that it has developed in a 50/50 partnership with Constance Lake First Nation. Earlier this year Northland wrote off \$5.2 million of previously deferred Kabinakagami development costs as it was determined that the projects no longer met Northland's policy requiring that they be "highly certain" of being developed and constructed.

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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.

In 2015, management continues to expect adjusted EBITDA of approximately \$380 to \$400 million based on the current completion schedules for Northland's projects with power contracts. Adjusted EBITDA was \$363.5 million in 2014. The 2015 adjusted EBITDA expectation reflects the following changes over 2014:

- \$14 to \$18 million in additional adjusted EBITDA from a full year of McLean's and the Ground-mounted Solar Phase II projects because they were operational for only part of 2014;
- \$3 to \$11 million lower adjusted EBITDA from Northland's operating facilities primarily due to strong performance in 2014 at the thermal facilities from high natural gas prices in the first quarter of 2014 which is not expected for 2015 and better performance at the North Battleford facility;
- \$8 to \$10 million higher adjusted EBITDA from a full year of investment income on the Gemini junior debt facility which existed for only part of 2014;
- \$5 to \$9 million in additional adjusted EBITDA from the remaining four Ground-mounted Solar Phase III facilities once they reach commercial operations in 2015;
- \$6 million lower adjusted EBITDA due to a one-time payment from Panda-Brandywine in 2014;
- \$5 million higher adjusted EBITDA from a write-off of deferred development costs in 2014; and
- \$2 to \$4 million increase of adjusted EBITDA due to lower expected corporate management and administration costs.

Northland's 2015 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 2015, management expects the cash dividends to be 75–85% of free cash flow, including the impact of dividends reinvested through the DRIP, and 100–115% of free cash flow excluding the impact of dividends reinvested through the DRIP (compared with 70% and 95%, respectively, in 2014). Free cash flow for 2015, includes \$35.8 million of proceeds from the sale of 37.5% of four ground-mounted solar projects and the Frampton wind project which are expected to occur in 2015 upon meeting certain sale conditions. Prior to its expected capital raise for its investments in Nordsee and Grand Bend, management expected the dividend payout ratio to continue to be below 100% 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 Nordsee and Grand Bend, additional corporate capital will be required in 2015 to fund the project, and as a result the payout ratio may

exceed 100% until Gemini and Nordsee are 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 and Nordsee's construction to be significantly lower than during the growth period experienced by Northland from 2009 to 2014.

The 2015 payout ratio reflects the higher forecasted adjusted EBITDA as described previously, along with the following expected changes in free cash flows and dividend payments:

- \$36 million in additional free cash flow expected from the sale of 37.5% equity interest in the remaining four Ground-mounted Phase III projects and the Frampton wind project;
- \$20 to \$30 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;
- \$2 to \$5 million in additional free cash flow from the McLean's and Ground-mounted Solar Phase II projects because they were operational for only part of 2014 as described previously;
- \$6 million lower free cash flow from a one-time payment from Panda-Brandywine in 2014 as described previously;
- \$5 million higher free cash flow from a write-off of deferred development costs in 2014 as described previously;
- \$7 to \$11 million lower free cash flow from other items, primarily higher corporate interest costs on recently issued convertible debentures and the Gemini term loan facility which was drawn for only part of 2014; and
- An increase in cash and share dividends as a result of the additional equity investment for Nordsee and Grand Bend.

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	2014
<b>Sales</b>	<b>229.4</b>	<b>170.0</b>	<b>172.5</b>	<b>188.2</b>	<b>760.1</b>
<b>Operating income</b>	<b>84.0</b>	<b>50.4</b>	<b>54.3</b>	<b>60.1</b>	<b>248.8</b>
<b>Net income (loss)</b>	<b>28.6</b>	<b>(91.8)</b>	<b>(43.8)</b>	<b>(70.5)</b>	<b>(177.5)</b>
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>102.1</b>	<b>81.4</b>	<b>86.8</b>	<b>93.2</b>	<b>363.5</b>
<b>Cash provided by operating activities</b>	<b>51.4</b>	<b>166.1</b>	<b>74.5</b>	<b>74.6</b>	<b>366.6</b>
<b>Free cash flow<sup>(1)</sup></b>	<b>56.8</b>	<b>31.4</b>	<b>35.6</b>	<b>41.2</b>	<b>165.0</b>
<b>Net income (loss) per Share – basic</b>	<b>0.08</b>	<b>(0.44)</b>	<b>(0.11)</b>	<b>(0.34)</b>	<b>(0.82)</b>
<b>Net income (loss) per Share – diluted</b>	<b>0.08</b>	<b>(0.44)</b>	<b>(0.11)</b>	<b>(0.34)</b>	<b>(0.82)</b>
<b>Free cash flow per Share<sup>(1)</sup></b>	<b>0.41</b>	<b>0.21</b>	<b>0.24</b>	<b>0.28</b>	<b>1.12</b>
<b>Dividends declared per Share</b>	<b>0.27</b>	<b>0.27</b>	<b>0.27</b>	<b>0.27</b>	<b>1.08</b>

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
Operating income	37.4	32.8	51.2	60.9	182.3
Net income	23.6	80.1	41.3	22.0	167.0
Adjusted EBITDA <sup>(1)</sup>	54.6	50.1	75.7	82.9	263.3
Cash provided by operating activities	51.6	51.0	76.0	78.5	257.1
Free cash flow <sup>(1)</sup>	30.4	22.0	39.7	38.0	130.1
Net income per Share – basic	0.17	0.59	0.27	0.08	1.08
Net income per Share – diluted	0.16	0.55	0.26	0.08	1.03
Free cash flow per Share <sup>(1)</sup>	0.26	0.19	0.32	0.28	1.05
Dividends declared per Share	0.27	0.27	0.27	0.27	1.08

(1) A non-IFRS measure.

Northland's financial results are affected by seasonal factors that result in quarterly variations. At the Iroquois Falls and managed facilities (Kirkland Lake and Cochrane), 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 at 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 (loss) 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 due to fair value movements of financial derivative contracts. Quarterly variations in financial results are also affected by facilities completing construction activities and entering into commercial operations.

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## Section 10: Fourth-Quarter 2014 Results

Northland's fourth-quarter adjusted EBITDA was \$93.2 million, a \$10.2 million increase from the same quarter in 2013, while free cash flow of \$41.2 million was \$3.1 million higher than the same quarter last year. Major variances compared with the fourth quarter of 2013 are discussed below:

- **THERMAL FACILITIES:** Electricity production during the fourth quarter of 2014 was approximately 5% lower than the prior year due to fewer economic production periods and a 17-day planned outage at Thorold. Excluding the Spy Hill lease adjustment, revenue and gross profit were consistent with the prior year as increases at North Battleford due to higher production and improved gas turbine performance offset Thorold's results as discussed above. Operating expenses were higher than 2013 due to Thorold's 2014 maintenance outage and increased GE maintenance contract costs at North Battleford, which is tied to the facility's availability. As a result of the above factors, operating income and adjusted EBITDA were \$1.6 million and \$1.3 million lower, respectively, than the prior year.
- **RENEWABLE FACILITIES:** Electricity production and revenue during the fourth quarter of 2014 were higher than the prior year largely due to the inclusion of McLean's (\$6.9 million) and three additional ground-mounted solar facilities (\$2.3 million), which offset lower production and revenue at Mont Louis (\$0.4 million) and the German wind farms (\$0.3 million). Operating expenses were approximately \$2 million higher than the prior year due to the inclusion of McLean's and the receipt of insurance proceeds by Mont Louis during 2013. Higher revenue, partially offset by increased operating expenses, resulted in operating income and adjusted EBITDA during the quarter both exceeding the prior year by \$2.8 million and \$3.7 million, respectively.

- **OTHER SALES** were down in 2014 largely due to the sale of Northland's wood-chipping facility. Prior to the CEEC acquisition on April 1, 2013, other sales also included management and incentive fees earned from services provided to Cochrane and Kirkland Lake, which decreased \$0.1 million from 2013 due to those fees now being considered intercompany and being eliminated on consolidation.
- **CORPORATE MANAGEMENT AND ADMINISTRATION COSTS** were \$1.6 million higher than the same period in 2013 due to additional costs attributable to increased head count and related personnel costs, as well as increased development prospecting costs.
- **INVESTMENT INCOME** decreased by \$0.4 million largely due to the termination of the PPA at the Panda-Brandywine facility during 2014.
- **NET FINANCE COSTS**, primarily interest expense, increased by \$6.7 million from 2013 due to the inclusion of interest on McLean's and the Ground-mounted Solar Phase I and II project debt, higher convertible debenture interest due to the issuance of the 2019 Debentures and interest on the \$250 million term facility utilized for the Gemini project.
- **NON-CASH IMPAIRMENTS** consisted of a \$37 million impairment loss for accounting purposes that relates to Northland's goodwill, contracts and property, plant and equipment.
- **NON-CASH FAIR VALUE LOSSES** of \$99.3 million (compared to a \$0.2 million gain in 2013) consisted of a \$98.7 million loss in the fair value of Northland's financial derivative contracts and \$0.6 million in unrealized foreign exchange losses. Of the fair value loss on the financial derivative contracts, \$81.5 million is associated with the interest rate swap contracts at Project Gemini.

The factors described above combined with a provision for \$1.6 million of current taxes and a recovery of \$43.9 million of deferred taxes resulted in net loss for the quarter of \$70.4 million and adjusted EBITDA of \$93.2 million.

Cash and cash equivalents increased by \$31.3 million during the quarter because \$74.6 million of cash generated from operations and \$457.1 million of cash provided by financing activities were only partially offset by \$500.9 million of cash used for investing activities.

Cash used in investing activities included (i) \$17.8 million of deferred development costs largely associated with the Nordsee project; (ii) \$446.2 million of capital expenditures, the majority of which related to construction of the Gemini project; (iii) \$135.6 million in reserve funding, which mainly related to Gemini and 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 \$174.8 million increase in working capital related to construction activities largely related to the timing of Gemini vendor payables. Fourth-quarter investing activities also include \$0.9 million of interest received.

Financing activities for the fourth quarter of 2014 provided \$457.1 million, comprising (i) \$516.4 million in net senior debt proceeds related to the Gemini project, (ii) \$19.3 million of advances under the Ground-mounted Solar Phase III projects facility, (iii) \$228.9 million net proceeds from the Ground-mounted Solar Phase I bond offering and (iv) a \$4.8 million repayment receipt on the loan made to the McLean's equity partner. Partially offsetting these inflows were (i) \$32.7 million of common, Class A and preferred share dividends, (ii) \$16.4 million in scheduled loan repayments (including Kirkland Lake), (iii) a \$218.9 million payment to settle the Ground-mounted Solar Phase I's bank debt and interest rate swap contracts, (iv) \$6.1 million of dividends to non-controlling shareholders, (v) \$37.5 million in interest payments and (vi) a \$0.7 million principal repayment on the maturing 2014 Debentures.

Fourth-quarter free cash flow at \$41.1 million was \$3.1 million higher than the same period last year. Favourable changes from the same period for 2013 included (i) the \$10.2 million increase in adjusted EBITDA reduced by the \$5.3 million of investment income from Gemini that will be included in free cash flow as received, (ii) a \$5.1 million reduction in funds previously set aside for future major maintenance and (iii) \$0.7 million of miscellaneous items, including lower non-expansory capital expenditures and funds set aside/scheduled debt repayments. Partially offsetting these favourable variances were (i) a \$5.4 million net interest expense increase related to the inclusion of McLean's and Ground-mounted Solar Phase II projects (McLean's was not operational in 2013, while only Ground-mounted Solar Phase I entities were operational in 2013) and funds raised related to Northland's Project Gemini investment (Northland's term facility and the March 5, 2014, issuance of convertible unsecured debentures) and (ii) a \$2.2 million unfavourable change in other liabilities associated with a milestone payment on North Battleford's GE service agreement.

For the three-month period ending December 31, 2014, 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 98% 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

### Non-Financial Commitments/Contractual Obligations

The following table includes all fixed contractual obligations of Northland and its subsidiaries as at December 31, 2014. The amounts are based on the assumptions of a 2% annual consumer price index increase, a Canadian dollar/U.S. dollar exchange rate of \$1.13 and Canadian dollar/euro exchange rate of \$1.44. 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 Gemini project and the Ground-mounted Solar Phase III projects. The cash obligations related to the leases for land and buildings and dismantlement are also included.

In thousands of dollars	2015	2016	2017	2018	2019	>2019
Natural gas supply and transportation, fixed portion	79,196	47,373	36,587	26,722	17,963	37,559
Maintenance agreements	15,977	27,124	60,785	59,582	59,209	948,270
Leases	4,446	3,796	3,844	3,891	3,717	38,011
Management fees	882	703	303	271	276	4,621
Construction, excluding debt, interest and fees	1,199,236	878,651	28,964	—	—	—
Dismantlement funding	—	—	—	—	—	7,600

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.

In the event that the Nordsee project is terminated, as at the date of this MD&A, Northland was exposed to €25.1 million (CA\$36.134 million) payable to major contractors, which is secured with corporate letters of credit and parental guarantees for Nordsee.

### Financial Commitments/Contractual Obligations

In addition to the previously discussed non-financial commitments and contractual obligations, Northland has entered into financial and derivative contracts. The contractual maturities of Northland's financial liabilities at December 31, 2014, are as follows:

In thousands of dollars	Currency	2015	2016	2017	2018	2019	>2019
US\$ foreign exchange contracts	US\$	5,400	10,800	4,800	5,100	5,200	4,100
Euro foreign exchange contracts	Euro	5,220	7,053	2,316	59,565	59,582	706,174
Amortizing loans, including							
interest rate swaps	CA\$	426,048	226,861	239,252	631,078	383,015	2,923,481
Financial natural gas contract	CA\$	2,560	14,146	25,254	26,314	27,302	59,211
Convertible debentures,							
including interest	CA\$	3,938	3,938	3,938	3,938	82,688	—

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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, impairment of non-financial assets, income taxes, fair value of financial assets and financial liabilities, depreciation of property, plant and equipment and contracts, accounting for non-wholly-owned subsidiaries and decommissioning liabilities are based on estimates and management judgment. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the audited consolidated financial statements of future periods. Estimates and accounting judgments are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances.



In making these estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with that in the prior year, and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in this annual report.

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 base salaries and short-term incentives 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. The deferral of development expenditures is sensitive to governmental requirements and procedures, the estimation of future development and construction costs and interest/financing rates.

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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, with a further amendment in 2013. 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. For LTIP awards granted based on certain service-level commitments, the cost of LTIP Shares awarded is expensed over the estimated vesting period.

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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. The expected future cash inflows are sensitive to future electricity prices, expected long-term average electricity generation and estimated natural gas commodity and transportation costs where applicable.

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### **Income Taxes**

Preparation of the audited 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. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply during the year when the assets are realized or the liabilities settled, using the tax rates and laws enacted at the consolidated balance sheet dates.

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. Management judgment is also required when Northland acquires entities (for example, Gemini and Nordsee) and must allocate the purchase price to the fair value of the assets and liabilities acquired, which includes property, plant and equipment and intangible assets.

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**Accounting for Investments in Non-Wholly-Owned Subsidiaries**

Management exercises judgment in determining that certain subsidiaries are controlled by Northland even though the subsidiaries are less than wholly owned. Non-wholly-owned subsidiaries that required management judgment to determine if Northland controlled the entities and therefore should be consolidated with Northland's financial statements include Kirkland Lake, Cochrane, CEEC, Gemini, Nordsee and McLean's. Management judgment and estimation included the determination of (i) how the relevant activities of the subsidiary are directed (either through voting rights or contracts), (ii) whether Northland's rights are substantive or protective in nature and (iii) Northland's ability to influence the returns of the subsidiary.

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**Decommissioning Liabilities**

Northland's decommissioning liabilities relate solely to its wind and solar facilities. Future remediation costs, whether required under contract or by law, are recognized based on management's best estimates. These estimates are calculated at the end of each period, taking into account expected undiscounted outflows for each asset in question. Estimates depend on labour costs, efficiency of site restoration and remediation measures, inflation rates and pre-tax interest rates that reflect current market conditions or the time value of money, as well as risks specific to the liability. Management also estimates the timing of expenses, which may change depending on the type of continuing operations. Expected future costs are inherently uncertain and could materially change over time. 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 \$30.5 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.

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## Section 13: Future Accounting Policies

The accounting pronouncements outlined below were issued in 2014. Northland will assess each pronouncement to determine if it has an impact on its consolidated financial statements. Management anticipates that all of the relevant pronouncements will be adopted for the first period beginning on their respective effective dates.

The International Accounting Standards Board (**IASB**) published amendments to IAS 16, “Property, Plant and Equipment,” and IAS 38, “Intangible Assets,” clarifying the acceptable methods of depreciation and amortization, applicable to annual reporting periods beginning on or after January 1, 2016. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

The IASB and the FASB jointly issued one converged accounting standard on the recognition of revenue from contracts with customers (IFRS 15, “Revenue from Contracts with Customers”) effective for annual reporting periods beginning on or after January 1, 2017. The core principle of IFRS 15 is to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard provides a single, principles-based five-step model to be applied to all contracts with customers.

In July 2014, the IASB issued the final version of IFRS 9, “Financial Instruments,” which reflects all phases of the financial instruments project and replaces IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. Management is currently evaluating the impact of IFRS 9 on the consolidated financial statements.

Other than the above, there have been no additional accounting pronouncements issued by the IASB that would have an impact on Northland’s consolidated financial statements.

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## Section 14: 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 Chief Executive Officer (**CEO**) and Chief Financial Officer (**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, 2014, 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 audited 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 audited 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 audited 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, 2014, 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 the audited consolidated 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, 2014.

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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 15: Risks and Uncertainties**

Northland's activities expose it to a variety of risks. Readers should refer to Northland's 2014 AIF, dated February 23, 2015, which can be found at [www.sedar.com](http://www.sedar.com) under Northland's profile and on [www.northlandpower.ca](http://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.

Northland uses derivative financial instruments to mitigate certain risk exposures. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. 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's financial assets include cash and cash equivalents, restricted cash, trade and other receivables and, up until its writedown in May 2014, the investment in Panda-Brandywine. Financial liabilities are classified as financial liabilities at fair value through profit or loss, and loans and borrowings or derivatives designated as hedging instruments. Northland's financial liabilities include trade and other payables, bank indebtedness, interest-bearing loans and borrowings, dividends payable, convertible unsecured subordinated debentures and derivative 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. 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 2019 Debentures was classified as a long-term liability.

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	2014	2013	2012
Income on financial assets not held for trading	13,656	13,886	14,129
Gain (loss) on other financial liabilities	123,448	(83,677)	(62,809)
Gain (loss) on financial liabilities at fair value through profit or loss	296,586	(129,906)	12,244

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 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. 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. The fair values of Northland’s financial derivatives are included in the consolidated balance sheets as “derivative financial instruments,” and the changes in the fair value of Northland financial derivatives are included in the consolidated statements of income (loss) as “fair value (gain) loss on derivative contracts.” The fair value represents a point-in-time estimate that may not be relevant in predicting Northland’s future earnings or cash flows.

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.

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## 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 loans and borrowings 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.

During 2014, the non-recourse project financing for the remaining ground-mounted solar projects, along with the May 2014 partial funding of the Gemini investment through Northland's corporate term facility and the closing of Gemini's €2 billion of project financing, significantly increased Northland's exposure to interest rate risk because the interest rates within each of these credit facilities are tied to market rates. Northland mitigated this additional risk by entering into interest rate swap agreements that have converted these floating interest rates into fixed interest rates.

Subsequent to year-end, on January 27, 2015, Nordsee entered into a swaption that effectively establishes a cap of 1.145% on the fixed interest rate on the projected senior debt amortization schedule from November 2015 through December 2026. The hedge was executed to protect the project economics from unfavourable movements between now and the expected date of financial close.

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, 2014, the majority of Northland's assets and sales were located in Canada. Exceptions include the investments in and/or euro amounts owing from the German wind farms, Gemini and Nordsee. In addition, certain of Northland's facilities incur U.S. dollar expenditures. Foreign exchange risk arises because the Canadian equivalent of transactions denominated in foreign currencies may vary due to changes in exchange rates and/or because euro-denominated consolidated financial statements of Northland's German wind farms, Gemini and Nordsee 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 and will include euro-denominated income from the German wind farms, Gemini and Nordsee and, to a lesser extent, U.S.-dollar-denominated expenditures at certain of Northland's facilities.

The May 2014 acquisition of Gemini has significantly increased Northland's exposure to the euro. To mitigate this exposure, Northland entered into foreign exchange contracts with several members of its corporate banking syndicate to effectively fix the foreign exchange conversion rate on substantially all projected euro-denominated cash inflows from Project Gemini for approximately 15 years following the completion of construction at a weighted average conversion rate of approximately 1.67 Canadian dollars per euro. It is anticipated that Northland will enter into similar contracts with respect to Nordsee once financial close occurs.

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.

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## 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 when 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, 2014, approximately 90% (2013 – 90%) of Northland's consolidated trade and other receivables is owed from government-related entities.

In 2014, approximately 96% (2013 – 97%) 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 significant accounts receivable amounts at December 31, 2014, 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.

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**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 (a non-IFRS measure) in dividends to shareholders and through the availability of funding from committed credit facilities. As at December 31, 2014, Northland and its subsidiaries were holding cash and cash equivalents of \$193.4 million and had an undrawn corporate line of credit available of \$131 million.

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, 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, 2014, 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.

Readers should refer to Notes 4 and 26 to the audited consolidated financial statements for additional information related to Northland’s financial liabilities, commitments and obligations.

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## Section 16: 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 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, natural events, construction risks, counterparty risks, operational risks, risks relating to co-ownership, the variability of revenues from generating facilities powered by intermittent renewable resources, power market risks and possible inflation risks and the other factors described in Northland's 2014 Annual Information Form dated February 23, 2015, which can be found at [www.sedar.com](http://www.sedar.com) under Northland's profile and on Northland's website at [www.northlandpower.ca](http://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 occur. The forward-looking statements contained in this MD&A are based on assumptions that were considered reasonable on February 23, 2015. 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

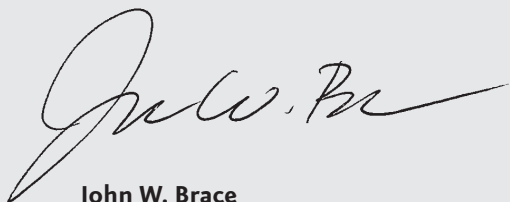
Management is responsible for the preparation of Northland's consolidated financial statements and annual report. Management has prepared the accompanying consolidated financial statements in accordance with International Financial Reporting Standards, and the financial information included in the annual 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 77.

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. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statements income (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended, 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. and its subsidiaries as at December 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
February 23, 2015

## Consolidated Balance Sheets

As at, in thousands  
of Canadian dollars

	December 31, 2014	December 31, 2013
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents [Note 4]	193,412	138,460
Restricted cash	45,245	74,365
Trade and other receivables [Note 4]	84,371	124,606
Inventories [Note 6]	15,731	12,793
Prepayments	12,002	7,595
Investment in Panda-Brandywine [Note 11]	–	3,100
Finance lease receivable [Note 9]	2,750	2,530
<b>Total current assets</b>	<b>353,511</b>	<b>363,449</b>
Finance lease receivable [Note 9]	158,485	161,235
Equity-accounted investment [Note 10]	4,666	4,941
Property, plant and equipment [Note 12]	3,788,571	2,094,262
Contracts and other intangible assets [Note 13]	348,161	187,121
Deferred tax asset [Note 18]	88,980	23,206
Other assets [Note 21]	4,020	8,845
Goodwill [Note 14]	219,238	220,167
<b>Total assets</b>	<b>4,965,632</b>	<b>3,063,226</b>

*continued...*

As at, in thousands  
of Canadian dollars

	December 31, 2014	December 31, 2013
<b>Liabilities and equity</b>		
<b>Current</b>		
Trade and other payables	229,523	84,993
Interest-bearing loans and borrowings [Note 15.2]	240,597	59,173
Dividends payable – non-controlling interest [Note 21]	941	3,460
Dividends payable	13,537	11,968
<b>Total current liabilities</b>	<b>484,598</b>	159,594
Interest-bearing loans and borrowings [Note 15.2]	2,553,964	1,762,397
Corporate term loan facility [Note 15.1]	246,048	–
Convertible debentures [Note 16]	75,307	15,992
Other liabilities	2,836	3,050
Provisions [Note 17]	30,473	16,205
Derivative financial instruments [Note 19]	334,908	46,622
Deferred tax liability [Note 18]	135,278	106,628
<b>Total liabilities</b>	<b>3,863,412</b>	2,110,488

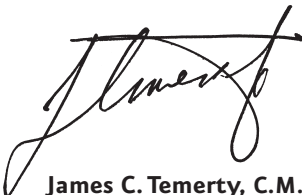
*continued...*



As at, in thousands  
of Canadian dollars

	December 31, 2014	December 31, 2013
<b>Equity</b>		
Preferred shares [Note 20.1]	261,279	261,737
Common shares [Note 20.2]	1,904,906	1,637,480
Long-Term Incentive Plan reserve [Note 20.2]	2,137	7,319
Contributed surplus	1,328	—
Convertible shares [Note 20.3]	14,615	14,615
Accumulated other comprehensive income (loss)	(33,741)	204
Deficit	(1,319,713)	(1,041,872)
<b>Equity attributable to shareholders</b>	<b>830,811</b>	<b>879,483</b>
Non-controlling interests [Note 21]	271,409	73,255
<b>Total equity</b>	<b>1,102,220</b>	<b>952,738</b>
<b>Total liabilities and equity</b>	<b>4,965,632</b>	<b>3,063,226</b>

See accompanying notes.



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



**Russell Goodman**  
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

	2014	2013
<b>Sales</b>		
Electricity	719,140	535,206
Steam and natural gas	40,326	12,535
Other	605	9,497
<b>Total sales</b>	<b>760,071</b>	<b>557,238</b>
Cost of sales	290,692	202,479
<b>Gross profit</b>	<b>469,379</b>	<b>354,759</b>
<b>Expenses</b>		
Plant operating costs	78,662	64,235
Management and administration costs – operations	20,275	15,620
Management and administration costs – development	21,024	17,512
Depreciation of property, plant and equipment [Note 12]	120,191	89,879
	<b>240,152</b>	<b>187,246</b>
Investment income [Note 11]	5,898	939
Finance lease income [Note 9]	13,656	13,886
<b>Operating income</b>	<b>248,781</b>	<b>182,338</b>
Finance costs [Note 24]	124,980	84,885
Equity investment (gain) [Note 10]	(250)	(262)
Amortization of contracts and other intangible assets [Note 13]	19,815	19,930
Writeoff of deferred development costs	5,181	–
Impairment of property, plant and equipment [Note 22]	11,001	–
Impairment of contracts and other intangible assets [Note 22]	25,076	–
Impairment of goodwill [Note 22]	929	2,407
Foreign exchange (gain)	(622)	(3,787)

continued...

## Consolidated Statements of Income (Loss) continued

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

	2014	2013
Finance (income)	(2,831)	(1,207)
Fair value loss (gain) on derivative contracts [Note 19]	296,586	(102,072)
Fair value (gain) on convertible shares	–	(27,834)
Writedown of Panda-Brandywine equity investments [Note 11]	3,100	400
Other (income)	(1,222)	(1,526)
<b>Income (loss) before income taxes</b>	<b>(232,962)</b>	<b>211,404</b>
<b>Provision for (recovery of) income taxes [Note 18]</b>		
Current	7,928	8,780
Deferred	(63,435)	35,605
	<b>(55,507)</b>	<b>44,385</b>
<b>Net income (loss) for the year</b>	<b>(177,455)</b>	<b>167,019</b>
<b>Net income (loss) attributable to:</b>		
Non-controlling interests [Note 21]	(70,884)	15,885
Common shareholders	(106,571)	151,134
	<b>(177,455)</b>	<b>167,019</b>
<b>Weighted average number of Shares outstanding –     basic (000s) [Note 25]</b>	<b>146,765</b>	<b>126,719</b>
<b>Weighted average number of Shares outstanding –     diluted (000s) [Note 25]</b>	<b>146,765</b>	<b>133,478</b>
<b>Net income (loss) per Share – basic</b>	<b>(\$0.82)</b>	<b>\$1.08</b>
<b>Net income (loss) per Share – diluted</b>	<b>(\$0.82)</b>	<b>\$1.03</b>

See accompanying notes.

## Consolidated Statements of Comprehensive Income (Loss)

As at December 31, in thousands  
of Canadian dollars

	2014	2013
<b>Net income (loss) for the year</b>	<b>(177,455)</b>	167,019
Items that may be reclassified into net income (loss):		
Exchange differences on translation of foreign operations	(56,804)	(814)
Other comprehensive (loss)	(56,804)	(814)
<b>Total comprehensive income (loss)</b>	<b>(234,259)</b>	166,205
<b>Total comprehensive income (loss) attributable to:</b>		
Non-controlling interests [Note 21]	(22,859)	15,885
Common shareholders	(211,400)	150,320
	<b>(234,259)</b>	166,205

See accompanying notes.

## Consolidated Statements of Changes in Equity

Year ended December 31, 2014

In thousands of Canadian dollars	Common shares	Convertible shares	Preferred shares	Long-Term Incentive Plan reserve	Deficit	Contrib- uted surplus	Foreign currency translation reserve	Equity	Non- controlling interests	Total equity
								attribut- able to share- holders		
December 31, 2013	1,637,480	14,615	261,737	7,319	(1,041,872)	—	204	879,483	73,255	952,738
Net (loss) for the year	—	—	—	—	(106,571)	—	—	(106,571)	(70,884)	(177,455)
Conversion of debentures	16,048	—	—	—	—	—	—	16,048	—	16,048
Public offering and private placement	200,421	—	—	—	—	—	—	200,421	—	200,421
Deferred income taxes	1,327	—	(458)	—	—	—	—	869	—	869
Change in translation of net investment in foreign operation	—	—	—	—	—	—	(33,945)	(33,945)	(22,859)	(56,804)
LTIP Shares and deferred rights	9,125	—	—	(5,182)	—	1,328	—	5,271	—	5,271
Offshore wind acquisitions and equity contribution	—	—	—	—	—	—	—	—	300,958	300,958
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(9,061)	(9,061)
Common and Class A share dividends	40,505	—	—	—	(157,394)	—	—	(116,889)	—	(116,889)
Preferred share dividends	—	—	—	—	(13,876)	—	—	(13,876)	—	(13,876)
December 31, 2014	1,904,906	14,615	261,279	2,137	(1,319,713)	1,328	(33,741)	830,811	271,409	1,102,220

continued...

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 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 non-controlling interests	—	—	—	—	—	—	—	—	(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

See accompanying notes.

## Consolidated Statements of Cash Flows

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

	2014	2013
<b>Operating activities</b>		
Net income (loss) for the year	(177,455)	167,019
Items not involving cash or operations:		
Depreciation of property, plant and equipment [Note 12]	120,191	89,879
Amortization of contracts and other intangible assets	19,815	19,930
Writeoff and impairment of property, plant and equipment, contracts and other intangible assets and goodwill [Note 22]	42,187	2,407
Writedown of Panda-Brandywine equity investment [Note 11]	3,100	400
Finance costs, net	117,161	78,402
Fair value loss (gain) on derivative contracts	296,586	(102,072)
Fair value (gain) on convertible shares	—	(27,834)
Finance lease [Note 9]	2,530	2,988
Unrealized foreign exchange (gain)	(686)	(3,620)
Equity loss, net of distributions [Note 10]	276	376
Other	712	1,548
Deferred income tax expense (recovery) [Note 18]	(63,435)	35,605
	360,982	265,028
Net change in non-cash working capital balances related to operations	5,607	(7,950)
<b>Cash provided by operating activities</b>	<b>366,589</b>	<b>257,078</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment [Note 12]	(1,814,609)	(335,312)
Cash reserves utilization (funding)	27,390	(46,546)
Increase in intangible assets [Note 13]	(46,039)	(84,401)
Interest received	2,831	1,207
Gemini acquisition, net [Note 7.1]	(30,811)	—
Nordsee acquisition, net [Note 7.2]	(6,952)	—

continued...

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

	2014	2013
Net change in working capital balances		
related to investing activities	58,579	10,031
Other	750	—
Acquisition of CEEC, net	—	10,865
<b>Cash used in investing activities</b>	<b>(1,808,861)</b>	<b>(444,156)</b>
<b>Financing activities</b>		
Proceeds from borrowings, net of transaction costs	1,034,811	446,248
Corporate term facility proceeds, net [Note 15.1]	247,402	—
Net proceeds from bond offerings [Note 15.2]	228,895	816,001
Repayment of borrowings	(273,596)	(719,552)
Settlement of interest rate swaps [Note 15.2]	(2,118)	(65,409)
Decrease in bank indebtedness	—	(1,071)
Interest paid	(114,217)	(74,857)
Net proceeds from public offerings and private placement [Note 8]	275,729	—
Non-controlling interest equity contribution [Note 21]	263,770	—
Dividends to non-controlling interests [Note 21]	(11,581)	(11,683)
Preferred share dividends [Note 20.1]	(13,876)	(13,876)
Common and Class A Share dividends [Note 23]	(115,322)	(98,908)
Other	4,126	16,790
<b>Cash provided by financing activities</b>	<b>1,524,023</b>	<b>293,683</b>
Effect of exchange rate differences on cash and cash equivalents	(26,799)	140
<b>Net change in cash and cash equivalents during the year</b>	<b>54,952</b>	<b>106,745</b>
Cash and cash equivalents, beginning of year	138,460	31,715
<b>Cash and cash equivalents, end of year</b>	<b>193,412</b>	<b>138,460</b>
<b>Per share</b>		
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 in projects under construction and development phases. Northland's operating assets comprise facilities that produce electricity from natural gas and renewable sources for sale primarily under long-term power purchase agreements (**PPAs**) to provide revenue stability. Northland's operating assets and investments are located in Canada and Germany. Northland's significant assets under construction and in development are located in Canada, Germany and the Netherlands.

The 2014 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, 2014	Ownership December 31, 2013
Iroquois Falls Power Corp. ( <b>“Iroquois Falls”</b> )	Canada	100%	100%
Kingston CoGen Limited Partnership ( <b>“Kingston”</b> )	Canada	100%	100%
Thorold CoGen L.P. ( <b>“Thorold”</b> )	Canada	100%	100%
Spy Hill Power L.P. ( <b>“Spy Hill”</b> )	Canada	100%	100%
North Battleford Power L.P. ( <b>“North Battleford”</b> )	Canada	100%	100%
Saint-Ulric Saint-Léandre Wind L.P. ( <b>“Jardin”</b> )	Canada	100%	100%
Mont-Louis Wind L.P. ( <b>“Mont Louis”</b> )	Canada	100%	100%
DK Windpark Kavelstorf GmbH & Co. KG and DK Burgerwindpark Eckolstädt GmbH & Co. KG ( <b>“the German wind farms”</b> )	Germany	100%	100%
McLean's Mountain Wind L.P. ( <b>“McLean's”</b> )	Canada	50% <sup>(1)</sup>	50%
Ground-mounted Solar Partnerships ( <b>“Ground-mounted Solar”</b> )	Canada	100%	100%

continued...

Entity name	Country of incorporation	Ownership December 31, 2014	Ownership December 31, 2013
Canadian Environmental Energy Corporation (“CEEC”)	Canada	68% <sup>(2)</sup>	68% <sup>(2)</sup>
Buitengaats C.V. and ZeeEnergie C.V. (“Gemini”)	Netherlands	60% <sup>(3)</sup>	N/A
Nordsee One GmbH (“Nordsee”)	Germany	85% <sup>(4)</sup>	N/A

(1) On October 1, 2013, concurrent with the financing, Northland issued a 50% interest in McLean's to Mnidoo Mnising Power Limited Partnership (**MMPLP**), an entity controlled by the members of the United Chiefs and Councils of Mnidoo Mnising First Nations; see Note 21.

(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 21.

(3) In May 2014, Northland acquired a controlling ownership interest in Gemini; see Note 7.1.

(4) In September 2014, Northland acquired a controlling ownership interest in Nordsee; see Note 7.2.

Northland's financial results also include income earned from a 19% equity interest in Panda Energy Corporation (“**Panda-Brandywine**”), whose PPA was settled and related facility assets transferred to the contract counterparty in May 2014, results from the Northland Power Chips Limited Partnership (“**Chips**”) prior to its sale in April 2014, 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 publicly traded 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**”), Series B extendible convertible unsecured subordinated debentures (“**2019 Debentures**”) and Series C convertible unsecured subordinated debentures (“**2020 Debentures**”) that are publicly traded. The Series A convertible unsecured subordinated debentures (“**2014 Debentures**”) matured on December 31, 2014. Northland also has issued Class A Shares (as defined below). Northland is the parent company for the operating subsidiaries that carry on Northland's business. Northland's registered office is located in Toronto, Ontario.

### **3. Summary of Significant Accounting Policies**

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#### **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, 2014.

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 control. 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. The acquired business's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations," are recognized at their fair values at the acquisition date, except for income taxes, which are measured in accordance with IAS 12, "Income Taxes," share-based payments, which are measured in accordance with IFRS 2, "Share-based Payment," and non-current assets that are classified as held for sale, which are measured at fair value less costs to sell in accordance with IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations."

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 Northland's subsidiaries report in Canadian dollars with the exception of Gemini, Nordsee and 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 statements 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 consolidated statements of income (loss) 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 emission 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 determined 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, including market risk (including foreign exchange risk and interest rate risk), counterparty risk and liquidity risk. Northland's overall risk management activities address the unpredictability of financial markets and seek to minimize potential adverse effects on Northland's financial performance. Northland's lenders may impose obligations on Northland to minimize exposure to financial risks, particularly under non-recourse project financing arrangements. Northland uses derivative financial instruments to mitigate certain risk exposures. Northland does not trade in 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 financial risks are monitored and are regularly discussed with the Audit Committee of the Board of Directors.

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

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

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

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, up until its writedown in May 2014, the 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, 2014, or December 31, 2013.

#### 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 was designated as an available-for-sale financial asset that was measured at fair value. The Panda-Brandywine PPA was settled and related facility assets transferred to the contract counterparty in May 2014.

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, as 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 common shares 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, 2014	Level 1	Level 2	Level 3	Total
Loans and receivables <sup>(1)</sup>	238,657	249,626	–	488,283
Available for sale <sup>(2)</sup>	–	–	–	–
Financial liabilities at fair value through profit or loss <sup>(3)</sup>	–	334,908	–	334,908
Other financial liabilities <sup>(4)</sup>	75,307	3,284,610	–	3,359,917

In thousands of dollars

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

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

(2) Investment in Panda-Brandywine, settled and related facility assets transferred to the contract counterparty in May 2014.

(3) Derivative financial instruments.

(4) Accounts payable and accrued liabilities, dividends payable, interest-bearing loans and borrowings, corporate credit facility and convertible unsecured subordinated debentures.

The estimated fair value of other financial liabilities as at December 31, 2014, is \$3.1 billion (2013 – \$2.0 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	2014	2013
Income on financial assets not held for trading	13,656	13,886
Loss (gain) on other financial liabilities	123,448	(83,677)
Loss (gain) on financial liabilities at fair value through profit or loss	296,586	(129,906)

### 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 3.17 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 a qualifying asset that necessarily takes a substantial period of time to prepare for its intended use or sale are capitalized as part of the cost of the 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 lives 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/or 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. Restricted cash comprises amounts funded against future maintenance, debt service and construction costs at certain Northland subsidiaries.



### 3.15 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 on the same basis as Shares and became convertible into Shares on a one-for-one basis on January 16, 2012.

### 3.16 Share-Based Payments

As part of Northland's Long-Term Incentive Plan (**LTIP**), Northland provides equity-settled share-based compensation to management and certain employees when projects achieve predetermined milestones or, in the case of one member of management, based upon time served. Northland has the option to settle the LTIP in cash. 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. For LTIP awards granted based on projects achieving certain milestones, 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 remainder vest approximately one year thereafter, when a project has met performance expectations. For LTIP awards granted based on service time, the cost of LTIP Shares awarded is expensed over the estimated vesting period.

### 3.17 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.

### **3.18 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.

The significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are 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 22.

#### 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 12 and 13.

#### 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 and finance lease income is sensitive to the estimation of future cash inflows and the discount rate used to discount those expected cash inflows.

## Consolidation of Gemini and Nordsee

During 2014, Northland acquired interests in two offshore wind farms (Gemini and Nordsee). See more detail in Note 7. Northland assessed the voting rights in Gemini and Nordsee and, based on the contractual terms, concluded they are structured entities under IFRS 10, “Consolidated Financial Statements,” and that Northland controls both entities through its power over their respective activities, exposure to variable returns through its equity investments, and its ability to affect returns. Therefore, Gemini and Nordsee are consolidated in the Northland’s consolidated financial statements. The partners’ interest in each project has been recorded as non-controlling interest on the consolidated balance sheet. See Note 21 for additional details.

## Decommissioning liabilities

Northland’s decommissioning liabilities relate solely to its wind and solar facilities. Future remediation costs, whether required under contract or by law, are recognized based on best estimates. These estimates are calculated at the end of each period taking into account expected undiscounted outflows for each asset in question. Estimates depend on labour costs, efficiency of site restoration and remediation measures, inflation rates and pre-tax interest rates that reflect current market conditions or the time value of money, as well as risks specific to the liability. Management also estimates the timing of expenses, which may change depending on the type of continuing operations. Expected future costs are inherently uncertain and could materially change over time. 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. See Note 17 for additional details.

**3.19 Future Accounting Policies**

The accounting pronouncements outlined below were issued in 2014. Northland will assess each pronouncement to determine if it has an impact on its consolidated financial statements. Management anticipates that all of the relevant pronouncements will be adopted for the first period beginning on their respective effective dates.

The IASB published amendments to IAS 16, “Property, Plant and Equipment,” and IAS 38, “Intangible Assets,” clarifying the acceptable methods of depreciation and amortization, applicable to annual reporting periods beginning on or after January 1, 2016. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

The IASB and the FASB jointly issued one converged accounting standard on the recognition of revenue from contracts with customers (IFRS 15, “Revenue from Contracts with Customers”) effective for annual reporting periods beginning on or after January 1, 2017. The core principle of IFRS 15 is to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard provides a single, principles-based five-step model to be applied to all contracts with customers.

In July 2014, the IASB issued the final version of IFRS 9, “Financial Instruments,” which reflects all phases of the financial instruments project and replaces IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. Management is currently evaluating the impact of IFRS 9 on the consolidated financial statements.

Other than the above, there have been no additional accounting pronouncements issued by the IASB that would have an impact on Northland’s consolidated financial statements.

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## 4. Financial Risk Management

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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 borrowings, 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, 2014, 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 \$289.3 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, 2014, the majority of Northland's assets and sales were located in Canada. Exceptions include the investments in two offshore wind projects (Gemini and Nordsee) in Europe, income from Panda-Brandywine located in the United States and receivables from the German wind farms. 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 Gemini, Nordsee and 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.

At December 31, 2014, 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 \$2.0 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, 2014, 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 \$47.3 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 in 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, 2014, approximately 90% (2013 – 90%) of Northland's consolidated trade and other receivables were owing from government-related entities.

In 2014, approximately 96% (2013 – 97%) 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 significant accounts receivable amounts reported at December 31, 2014, 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 (a non-IFRS performance indicator) in dividends to shareholders and through the availability of funding from committed credit facilities.

As at December 31, 2014, Northland and its subsidiaries were holding cash and cash equivalents of \$193.4 million (\$110.5 million held corporately) and had an undrawn corporate line of credit available of \$131 million.



The contractual maturities of Northland's financial liabilities at December 31, 2014, are as follows:

In thousands of dollars	Currency	2015	2016	2017	2018	2019	>2019
US\$ foreign exchange contracts	US\$	5,400	10,800	4,800	5,100	5,200	4,100
Euro foreign exchange contracts	Euro	5,220	7,053	2,316	59,565	59,585	706,174
Amortizing loans, including							
interest rate swaps and fees	CA\$	426,048	226,861	239,252	631,078	383,015	2,923,481
Financial gas contract	CA\$	2,560	14,146	25,254	26,314	27,302	59,211
Convertible subordinated debentures,							
including interest	CA\$	3,938	3,938	3,938	3,938	82,688	—

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, which is the ratio of earnings before interest, taxes, depreciation and amortization (**adjusted 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, 2014, 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

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Northland defines capital that it manages as the aggregate of its 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, 2014, total managed capital was \$4.0 billion, consisting of shareholders' equity of \$1.1 billion, interest-bearing debt of \$2.8 billion and convertible unsecured subordinated debentures of \$75.3 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). Other than the \$250 million term facility (see Note 15 for additional details), 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, 2014, Northland's ratio of total debt to enterprise value was 55.1%. 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, 2014, 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, 2014	December 31, 2013
Natural gas	2,854	1,468
Spare parts and other inventory	12,877	11,325
	15,731	12,793

During 2014, Northland and its subsidiaries expensed \$2.7 million (2013 – \$2.1 million) of inventory to cost of sales and plant costs.

## 7. Acquisitions

### 7.1 Gemini Acquisition

In May 2014, Northland acquired an indirect 60% controlling interest in Project Gemini, an offshore wind project located off the coast of the Netherlands in the North Sea, from Typhoon Offshore B.V., a private company in the Netherlands. Northland indirectly acquired 60% of the issued capital and voting rights of two Dutch limited partnerships (**CVs**), named Buitengaats C.V. and ZeeEnergie C.V., and 60% of the issued capital and voting rights of the corresponding Dutch general partner Corporations (**BVs**) Buitengaats Management B.V. and ZeeEnergie Management B.V. (**together, “the partnerships”**), which held the respective rights in Gemini. The remaining ownership interests in the CVs and issued capital and voting rights of the BVs were acquired by affiliates of Siemens Financial Services, Van Oord Dredging and Marine Contractors BV and N.V. HVC.

Northland’s investment in Gemini included a net \$30.8 million cash payment for the share purchase of Gemini from Typhoon Offshore B.V. Simultaneous with the share acquisition, Gemini closed its non-recourse project financing, which required Northland to fund its remaining equity investment and subordinated loan to the project. Northland’s total investment in Gemini, including the share purchase, equity investment and subordinated loan totalled approximately \$557 million. Northland has also provided additional contingent equity support to the project in the form of letters of credit totalling €94.8 million.

In accordance with IFRS 10, Northland was determined to have met the definition of control, and Gemini has been consolidated in Northland’s audited consolidated financial statements.

The total consideration paid for the controlling interest of Gemini has been preliminarily allocated to the fair value of the net assets acquired and liabilities assumed as follows:

As at, in thousands of dollars	May 2014
Working capital, including cash of \$7	57
Contracts and other intangibles	60,232
Deferred taxes	(8,926)
<b>Total net identifiable assets</b>	<b>51,363</b>
Non-controlling interests	(20,545)
<b>Cash consideration</b>	<b>30,818</b>

#### Consideration transferred

The acquisition was settled by transferring \$30.8 million of cash at or prior to the acquisition of the interest. Additional consideration may be due to the vendor if certain cost savings are achieved at the completion of project construction. Management believes that the payout of the contingent consideration is highly uncertain and, accordingly, has not included it in the above description of Northland's total investment.

#### Non-controlling interest in Gemini

The non-controlling interest in Gemini is measured at the fair value at the acquisition date.

#### Identifiable net assets

The determination of the fair value of assets acquired and liabilities assumed has been based upon management's preliminary estimates and certain assumptions with respect to the fair values of the assets acquired and liabilities assumed except for deferred taxes, which are based on the full amount required under IAS 12 and are expected to be finalized within one year of acquisition.

#### Gemini's contribution to Northland's results

Gemini has commenced construction, and the costs that are directly attributable to the project will be capitalized. Except as described below, the amount of revenue and profit or loss from Gemini since the acquisition date has been nominal and has minimal impact on revenues and profit or loss of the combined entity had the acquisition of Gemini occurred as of January 1, 2014. The consolidated statement of income (loss) line item affected in Northland's consolidated income statements until commercial operations is the fair value movement of the interest rate swaps on the project's long-term debt. For the year ended December 31, 2014, unrealized losses of CA\$248.7 million were recognized on the Gemini interest rate swaps in the consolidated statement of income (loss).

Subsequent to closing the financing for Gemini, Northland entered into additional foreign exchange contracts with several members of its corporate banking syndicate to effectively fix the foreign exchange conversion rate on substantially all Northland's projected euro-denominated cash inflows from Project Gemini during the contract period. The weighted average conversion rate over the term of the foreign exchange contracts is approximately 1.67 Canadian dollars per euro. For the year ended December 31, 2014, an unrealized gain of \$5.3 million was recognized in the consolidated statement of income (loss).

## 7.2 Nordsee Acquisition

In September 2014, Northland acquired an 85% controlling interest in three offshore wind projects (**collectively, "Nordsee"**) from RWE Innogy GmbH, a subsidiary of a utility in Germany. This included 85% of the issued capital and voting rights of an advanced-development project, Nordsee One, as well as development rights for two additional early-stage development projects, Nordsee Two and Nordsee Three. The Nordsee projects are located off the coast of Germany in the North Sea. The remaining issued capital and voting rights of Nordsee remain with RWE Innogy GmbH.

Northland's investment in Nordsee included a net €5 million (CA\$7 million) cash payment for the share purchase and partial funding of ongoing development costs. The final equity investment and remaining payment for the share purchase are expected to occur at the time the project reaches financial close.

In accordance with IFRS 10, Northland was determined to have met the definition of control, and Nordsee has been consolidated in Northland's audited consolidated financial statements.

The total consideration paid for the controlling interest of Nordsee has been preliminarily allocated to the fair value of the net assets acquired and liabilities assumed as follows:

As at, in thousands of dollars	September 2014
Working capital, including cash of \$nil	(70)
Contracts and other intangibles	153,413
Long-term liabilities	(24,376)
Deferred taxes	(18,015)
<b>Total net identifiable assets</b>	<b>110,952</b>
Non-controlling interests	(16,643)
<b>Purchase consideration</b>	<b>94,309</b>
Cash consideration paid	6,952
Contingent consideration	87,357
<b>Purchase consideration</b>	<b>94,309</b>

#### Consideration transferred

The acquisition was settled by transferring \$7 million of cash, net of working capital balances. Additional consideration will be due once financing is obtained for the project. In accordance with IFRS 3, management has recognized contingent consideration at its fair value of \$87.4 million as part of the purchase consideration, and it has been recorded in trade and other payables due to its short-term nature.

Should Northland and RWE Innogy GmbH achieve certain development thresholds for Nordsee Two and Nordsee Three, additional amounts may be owed to RWE Innogy GmbH. Northland believes that the payout of this contingent consideration is highly uncertain at this time and, accordingly, it has not been included in the above purchase equation.

#### Non-controlling interest in Nordsee

The non-controlling interest in Nordsee is measured at the fair value at the acquisition date.

#### Identifiable net assets

The determination of the fair value of assets acquired and liabilities assumed has been based upon management's preliminary estimates and certain assumptions with respect to the fair values of the assets acquired and liabilities assumed except for deferred taxes, which are based on the full amount required under IAS 12 and are expected to be finalized within one year of acquisition.

#### Nordsee's contribution to Northland's results

Once Nordsee commences construction, the majority of the costs will be capitalized to the project. No material amounts of revenue or expenses have been recorded in the statements of income (loss) since the acquisition date.

### **8. Equity and Convertible Debentures Public Offering and Private Placement**

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On March 5, 2014, Northland completed a public offering of 9,843,750 Shares (including Shares issued under the over-allotment option) at a price of \$16.00 per Share, representing gross proceeds of \$157.5 million (\$150.4 million after costs and underwriters' fees). Northland also concurrently completed a public offering of 5.00% convertible unsecured subordinated 2019 Debentures (including debentures issued under the over-allotment option) providing gross proceeds of \$78.8 million (\$75.3 million after costs and underwriters' fees). The 2019 Debentures had an initial maturity of June 30, 2014, and as a result of the financial closing of Gemini, the maturity was automatically extended to June 30, 2019.

Concurrently with the public offering of Shares and 2019 Debentures, Northland completed a private placement of 3,125,000 Shares to a subsidiary of Northland Power Holdings Inc., a company controlled by Mr. James C. Temerty, at the same price per Share as the Shares issued pursuant to the public offering.

The aggregate proceeds from the public offerings and private placement totalled \$286.3 million (\$275.7 million after costs and underwriters' fees) and were used by Northland to fund a portion of its equity contribution and subordinated loan to Project Gemini.

## 9. 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 Saskatchewan Power Corporation ("**SaskPower**") for 25 years. For the year ended December 31, 2014, finance lease income of \$13.7 million (2013 – \$13.9 million) was recognized.

The amounts receivable under finance lease accounting are as follows:

	December 31, 2014		December 31, 2013	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
In thousands of dollars				
Within one year	16,188	2,750	16,186	2,530
Two to five years	64,750	13,596	64,749	12,512
Long-term	270,945	144,889	287,134	148,723
	351,883	161,235	368,069	163,765
Less: Unearned finance income	(190,648)	–	(204,304)	–
<b>Total finance lease receivable</b>	<b>161,235</b>	<b>161,235</b>	<b>163,765</b>	<b>163,765</b>

	December 31, 2014	December 31, 2013
In thousands of dollars		
Current	2,750	2,530
Long-term	158,485	161,235
<b>Total finance lease receivable</b>	<b>161,235</b>	<b>163,765</b>

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.

The original terms of the leases range from three to 20 years.

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2014, are as follows:

.....  
In thousands of dollars

Within one year	4,446
After one year but not more than five years	15,247
More than five years	38,011
	57,704

**10. Equity-Accounted Investments**

.....  
Northland has a 75% interest in four rooftop solar partnerships with Loblaw Companies Limited. Northland accounts for its interest in the partnerships using the equity method.

.....  
In thousands of dollars

January 1, 2013, balance	5,317
Equity investment gain	262
Distributions received	(638)
December 31, 2013, balance	4,941
Equity investment gain	250
Distributions received	(525)
<b>December 31, 2014, balance</b>	<b>4,666</b>

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	<b>2014</b>	2013
Revenue	<b>554</b>	575
Expenses	<b>(304)</b>	(313)
<b>Proportionate share of net income</b>	<b>250</b>	262

In thousands of dollars	<b>2014</b>	2013
Current assets	<b>537</b>	558
Long-term assets	<b>4,141</b>	4,392
Current liabilities	<b>(12)</b>	(9)
Long-term liabilities	—	—
<b>Proportionate share of net assets</b>	<b>4,666</b>	4,941

## 11. Investment in Panda-Brandywine

Northland had a 19% interest in Panda-Brandywine, which, through its wholly owned subsidiaries, owned the Panda-Brandywine facility located just outside Washington, D.C.

In May 2014, the Panda-Brandywine contract counterparty exercised its option to end the PPA and take ownership of the related facility assets. As a result of the PPA not being extended, the counterparty paid US\$27.5 million to Panda-Brandywine. Northland received its portion of the payment (\$4.1 million) and removed the recorded asset from the consolidated balance sheet, resulting in a \$3.1 million writeoff during 2014.

## 12. Property, Plant and Equipment

				Vehicles and meteor- ological towers	Office equipment, furniture and fixtures	Computers and computer software	Leasehold improve- ments		
In thousands of dollars	Land	Buildings and foun- dations	Plant and equipment					CIP	Total
COST									
January 1, 2013	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 assets	—	—	—	—	—	—	—	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
Foreign exchange	—	—	(1,515)	—	—	—	—	(49,902)	(51,417)
Additions	—	86	2,094	3	45	20	66	1,812,295	1,814,609
Transfer from intangible assets	—	—	—	—	—	—	—	43,684	43,684
Transfer from CIP	548	56,020	225,803	—	—	2,308	24,422	(309,101)	—
Impairment	—	—	(11,001)	—	—	—	—	—	(11,001)
Disposals and other	—	—	13,442	—	—	—	—	3,736	17,178
December 31, 2014	4,563	393,396	2,320,951	5,299	2,377	5,682	117,902	1,758,605	4,608,775

Included in additions above are \$55.6 million of borrowing costs (interest and commitment fees) that were capitalized during the year ended December 31, 2014 (2013 – \$22.0 million).

Included in disposals and other above are additions to the asset retirement obligations and long-term incentive payments.

.....									
		Buildings and foun- dations	Plant and equipment	Vehicles and meteor- ological towers	Office equipment, furniture and fixtures	Computers and computer software	Leasehold improve- ments	CIP	Total
.....									
In thousands of dollars	Land								
.....									
<b>ACCUMULATED DEPRECIATION</b>									
January 1, 2013	—	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
.....									
Foreign exchange	—	—	(1,418)	—	—	—	—	—	(1,418)
Depreciation	—	14,328	99,224	430	68	1,646	4,495	—	120,191
Disposals	—	—	(29)	—	—	—	—	—	(29)
.....									
<b>December 31, 2014</b>	<b>—</b>	<b>94,057</b>	<b>704,164</b>	<b>3,903</b>	<b>1,189</b>	<b>4,641</b>	<b>12,250</b>	<b>—</b>	<b>820,204</b>
.....									
<b>NET BOOK VALUE</b>									
December 31, 2013	4,015	257,561	1,485,741	1,823	1,211	359	85,659	257,893	2,094,262
<b>December 31, 2014</b>	<b>4,563</b>	<b>299,339</b>	<b>1,616,787</b>	<b>1,396</b>	<b>1,188</b>	<b>1,041</b>	<b>105,652</b>	<b>1,758,605</b>	<b>3,788,571</b>
.....									

### 13. Contracts and Other Intangible Assets

In thousands of dollars	Deferred development costs	Contracts	Total
<b>COST</b>			
January 1, 2013	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
Additions	46,039	—	46,039
Acquired [Note 7]	76,379	137,265	213,644
Transfer to property, plant and equipment	(43,684)	—	(43,684)
Impairments and writedowns [Note 22]	(5,181)	(25,076)	(30,257)
Foreign exchange	(193)	(4,694)	(4,887)
<b>December 31, 2014</b>	<b>106,188</b>	<b>399,685</b>	<b>505,873</b>
<b>AMORTIZATION</b>			
January 1, 2013	—	(117,967)	(117,967)
Amortization	—	(19,930)	(19,930)
December 31, 2013	—	(137,897)	(137,897)
Amortization	—	(19,815)	(19,815)
<b>December 31, 2014</b>	<b>—</b>	<b>(157,712)</b>	<b>(157, 712)</b>
<b>NET BOOK VALUE</b>			
December 31, 2013	32,828	154,293	187,121
<b>December 31, 2014</b>	<b>106,188</b>	<b>241,973</b>	<b>348,161</b>

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/or the start of construction, at which time they are reclassified to the cost of property, plant and equipment. For the year ended December 31, 2014, \$92.1 million included in the deferred development balance relates to the Nordsee project. 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, 2014, Northland expensed \$5.2 million (2013 – \$nil) of previously deferred development costs related to the Kabinakagami hydro project as it no longer qualified for capitalization under Northland’s deferred development cost policy.

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, 2014, a portion of the contract balance was determined to be impaired. See Note 22 for further detail.

14. 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, 2014, a portion of the goodwill balance was determined to be impaired. See Note 22 for further detail.

In thousands of dollars

COST

January 1, 2013	284,626
Additions	—
Disposals	—

December 31, 2013, and December 31, 2014	284,626
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continued...

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

# **IMPAIRMENT**

January 1, 2013	62,052
Impairment	2,407

December 31, 2013	64,459
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Impairment [Note 22]	929
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<b>December 31, 2014</b>	<b>65,388</b>
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# **NET BOOK VALUE**

December 31, 2013	220,167
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<b>December 31, 2014</b>	<b>219,238</b>
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## **15. Bank Credit Facility and Interest-Bearing Loans and Borrowings**

### **15.1 Bank Credit Facility**

Northland has a credit facility with a syndicate of banks establishing a 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 March 7, 2014, Northland completed an amendment to its corporate credit facility with a syndicate of financial institutions. The credit facility was increased from \$250 million to \$600 million and consists of a \$350 million revolving facility and a \$250 million term facility. The revolving facility also provides for an accordion feature that permits increases of up to \$100 million upon obtaining commitments for such increase. The revolving facility is available for general corporate purposes and working capital. The maturity of the revolving facility has been extended from May 2015 to March 2019, with further annual renewal options. The full \$250 million term facility was drawn on April 22, 2014, to assist in funding Northland's investment in Project Gemini (as described in Note 7.1). The underlying interest rate on the term facility borrowings was hedged through 2018 at an average rate of 1.48% plus applicable credit spread. The term facility matures in March 2018 and has a one-year renewal option. In July 2014, Northland converted a portion (\$51.3 million) of its term facility from Canadian dollars to euros.

As at December 31, 2014, the interest rate charged on the credit facility is 3.5% (2013 – 3.7%). Standby fees of 0.3% (2013 – 0.3%) per annum are charged on each of the undrawn components of the credit facility.

As at December 31, 2014, letters of credit totalling \$219 million (2013 – \$161 million) and drawings of \$nil (2013 – \$nil) 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 Kingston and all of the present and future property and assets of Iroquois Falls, Kingston and Northland.

## 15.2 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 <sup>(1)</sup>	As at	As at
				December 31, 2014 <sup>(2)</sup>	December 31, 2013
Thorold <sup>(3)</sup>	(a)	2015, 2030	6.6%	336,979	349,699
Spy Hill <sup>(3)</sup>	(b)	2036	4.1%	149,477	151,790
North Battleford <sup>(3)</sup>	(c)	2032	5.0%	642,640	658,706
Jardin <sup>(3)</sup>	(d)	2029	6.0%	116,694	121,941
Mont Louis	(e)	2031/2032	6.6%	109,804	113,401
Ground-mounted Solar Phase I <sup>(3)</sup>	(f)	2032	4.4%	228,702	219,615
Ground-mounted Solar Phase II	(g)	2032	5.7%	82,377	64,800
Ground-mounted Solar Phase III	(h)	18 years <sup>(4)</sup>	5.6%	166,500	—
McLean's	(i)	2034	6.0%	135,200	135,200
Kirkland Lake/Cochrane	(j)	2015	7.1%/4.25%	2,340	6,418
Gemini <sup>(3) (5)</sup>	(k)	2031	4.7%	823,848	—
<b>Total</b>				<b>2,794,561</b>	<b>1,821,570</b>
Less: Current portion				<b>(240,597)</b>	<b>(59,173)</b>
<b>Non-current</b>				<b>2,553,964</b>	<b>1,762,397</b>

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

(2) Excludes \$17.3 million (2013 – \$18.1 million) of letters of credit secured by facility- or project-level credit agreements.

(3) Net of transaction costs and/or fair value adjustments.

(4) From future term conversion.

(5) Includes amount drawn on senior debt as of December 31, 2014, and the third-party portion of the subordinated debt at Gemini.



- (a) 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 financial closing, required 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 financial closing, 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 \$21.1 million and \$23.1 million for December 31, 2014, and December 31, 2013, respectively.
- (b) 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 are 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.
- (c) On September 20, 2013, North Battleford issued \$667.3 million (\$662.9 million net of costs) in 4.958% senior secured amortizing Series A bonds. The bonds are 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.
- (d) 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**"). 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. 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 \$6.9 million and \$7.6 million on December 31, 2014, and December 31, 2013, respectively.
- (e) 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**"). 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.

- (f) On July 16, 2012, Northland completed \$227 million of non-recourse project financing for six solar projects totalling 60 MW that constitute Ground-mounted Solar Phase I, which are located in Ontario. On October 8, 2014, Northland Power Solar Finance One LP issued \$232 million (\$229 million, net of costs) in 4.397% senior secured amortizing Series A bonds. The bonds are rated BBB (high) by DBRS and will be fully amortized by their maturity in June 2032. The proceeds from the bond issuance were used to repay the existing bank debt, settle associated interest rate swaps and pay transaction costs; the remainder was distributed to Northland for general corporate purposes.
- (g) 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 ("**Cluster 3**") with two commercial banks. After the conversion to a term loan in July 2014, the two projects began making blended payments of principal and interest. The loans will be fully amortized by July 2032. 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%.
- (h) On April 24, 2014, Northland completed \$240 million of non-recourse project financing and a \$25 million letter of credit facility for five ground-mounted solar projects ("**Cluster 4**") with a syndicate of lenders. Cluster 4 comprises one project from the Ground-mounted Solar Phase II projects and all of the Ground-mounted Solar Phase III projects. Once term conversion is achieved, the loan will require blended payments of principal and interest based on an 18-year amortization period. The all-in rate including interest rate swaps and credit spreads is 5.58% during operation, escalating 25 basis points every four years.
- (i) On October 1, 2013, McLean's entered into a non-recourse credit facility with a syndicate of institutional lenders for a \$135 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, 2014, Cochrane's \$1.5 million letter of credit facility has been fully drawn.
- (k) On May 14, 2014, the Gemini project completed €2.0 billion of non-recourse project financing with a syndicate of international financial institutions and public financing agencies. The project loans include a three-year construction period and a 14-year amortization period. Should the loan not be fully repaid by December 31, 2022, the credit agreement provides for an acceleration of principal payments, subject to available cash flow and the discontinuance of distributions to the equity partners. The interest rate for the project has been hedged over the full loan amortization period with an effective interest rate of approximately 4.75%. As of December 31, 2014, €485.6 million has been drawn on senior debt including transaction costs adjustments of €25.8 million and another €127.0 million on the third-party portion of the subordinated loan.

As of December 31, 2014, the principal repayments on subsidiary borrowings due within the next five years and thereafter, based on the current amounts borrowed, are as follows:

In thousands of dollars <sup>(1)</sup>	2015	2016	2017	2018	2019	>2019
Thorold	226,726	8,156	8,612	8,857	9,682	135,923
Spy Hill	2,743	3,043	3,276	3,651	4,010	135,201
North Battleford	16,999	19,957	18,722	22,069	22,907	546,568
Jardin	6,355	6,129	6,487	6,919	7,329	90,349
Mont Louis	3,998	4,319	4,582	4,784	4,736	87,385
Ground-mounted Solar Phase I	10,539	10,808	11,088	11,337	11,589	176,404
Ground-mounted Solar Phase II	3,578	3,714	3,857	3,830	3,989	63,409
Ground-mounted Solar Phase III	7,156	10,147	10,519	10,910	10,822	116,945
McLean's Mountain	—	—	5,292	5,493	5,708	118,708
Kirkland Lake/Cochrane	2,340	—	—	—	—	—
Gemini	—	—	35,487	169,046	177,522	628,536
	280,434	66,273	107,922	246,896	258,294	2,099,428

(1) The table excludes the transaction costs and fair value adjustments referred to in the notes above.

## 16. Convertible Debentures

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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"**). The 2014 Debentures were convertible into fully paid Shares of Northland at the option of the holder at a conversion price of \$12.42 per Share. During 2014, a total of \$16.0 million (2013 – \$11.4 million) of the 2014 Debentures were converted into 1,292,079 Shares (2013 – 920,434). The 2014 Debentures matured on December 31, 2014, which resulted in a payment of \$0.7 million to the convertible unsecured subordinated debenture holders.

As described in Note 8, in March 2014, a total of \$78.8 million (\$75.3 million after costs and underwriters' fees) of 2019 Debentures were issued by way of a public offering. As at December 31, 2014, approximately \$78.8 million of the 2019 Debentures were outstanding, which if converted in their entirety would result in an additional 3.6 million Shares. 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 2019 Debentures was classified as a long-term liability.

An additional series of 2020 Debentures were issued subsequent to the balance sheet date in January 2015. See more detail in Note 30.

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.

## 17. 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 \$30.5 million, based on an estimated total future liability. A discount rate of 2.54% to 3.93% (2013 – 2.54% to 3.93%) and an inflation rate of 2.0% (2013 – 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, 2013	12,437
Additions	3,290
Accretion	453
Foreign exchange impact	25
December 31, 2013	16,205
Additions	13,526
Accretion	777
Foreign exchange impact	(35)
<b>December 31, 2014</b>	<b>30,473</b>

## 18. Deferred Income Taxes

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

In thousands of dollars

<b>Consolidated income statement</b>	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Based on taxable income of current year	<b>2,378</b>	3,230
Tax on dividend payments	<b>5,550</b>	5,550
Total current taxation expense for the year	<b>7,928</b>	8,780
<b>Deferred</b>		
Deferred tax on origination and reversal of temporary differences	<b>(64,130)</b>	37,447
Deferred tax due to changes in tax rates	—	—
Prior-year (under) over provision	<b>448</b>	(2,480)
Deferred tax due to writedown of tax asset	<b>247</b>	638
Total deferred tax (recovery) expense for the year	<b>(63,435)</b>	35,605
<b>Total income tax (recovery) expense</b>	<b>(55,507)</b>	44,385
<b>Recognized directly in equity</b>		
<b>Deferred</b>		
Deferred taxes related to origination and reversal of temporary differences related to financing fees	<b>1,072</b>	649
<b>Total tax charged to equity</b>	<b>1,072</b>	649

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	2014	2013
Income (loss) before income taxes	(232,962)	211,404
Combined basic federal and provincial income tax rate	26.50%	26.50%
Income tax recovery based on statutory rate	(61,735)	56,022
Adjustment for non-deductible (taxable) expenses	(30,127)	(11,784)
Rate difference related to origination and reversal of temporary differences in foreign jurisdictions	4,458	—
Manufacturing and processing rate reduction	(186)	(2,155)
Deferred tax expense (recovery) related to temporary differences charged to equity	(789)	(649)
Tax expense associated with payment of preferred share dividends	5,550	5,550
Benefit not recognized	798	—
Minority Interest	25,278	—
Adjustment with respect to prior years	448	(2,480)
Other	798	(119)
<b>Actual tax expense</b>	<b>(55,507)</b>	44,385

The tax rate is computed using the average Canadian tax rate based on provincial allocations. Northland, although resident in Canada, operates in a number of foreign jurisdictions. The enacted blended tax rates relevant to the computation of tax expense (recovery) are: Canada 26.5% (26.5% – 2013), Germany 28.1% (26.84% – 2013), Netherlands 25% and Luxembourg 28.14%.

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

In thousands of dollars	2014	2013
<b>Deductible temporary differences</b>		
Losses available for carryforward	50,392	14,323
Derivative financial instruments	62,100	12,093
Financing fees	2,919	722
Tax credits – Ontario corporate minimum tax	1,950	1,950
Other	14,339	3,019
	<b>131,700</b>	<b>32,107</b>
<b>Taxable temporary differences</b>		
Contracts	53,772	38,329
Fair value debt increments	7,696	7,696
Property, plant and equipment	116,531	69,504
Other	–	–
	<b>177,999</b>	<b>115,529</b>
<b>Reconciliation of net deferred taxes</b>		
Opening balance – deferred tax liability	83,422	44,890
Tax liability recognized in business combination	26,938	2,278
Tax expense (recovery) recognized in income statement	(63,436)	35,605
Tax expense recognized in equity	1,072	649
Effect of foreign exchange	(1,080)	–
Other	(617)	–
Ending net, deferred tax asset and liability	<b>46,299</b>	<b>83,422</b>

The comparative audited consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2014 consolidated financial statements.

Northland has recognized a future tax asset of \$64.7 million for unused losses and other tax attributes available for carryforward with respect to Gemini. Management has assessed the probability of future taxable income arising within the available carryforward period of these tax benefits and has concluded that it is probable that the benefit will be realized based on its estimate of future cash flows.



The following temporary differences have not been recognized in Northland's consolidated financial statements for the following years ended December 31:

In thousands of dollars except for tax rate

	2014	2013
<b>Deferred tax assets</b>		
Non-capital losses carried forward	873	32
Net capital loss	70	—
Outside basis difference on shares of foreign affiliate	438	50
<b>Total deferred tax assets</b>	<b>1,381</b>	<b>82</b>

Northland has operating losses available for carryforward in Canada and the Netherlands of \$118.4 million and \$83.4 million that expire beginning in 2015. The operating losses will expire as follows:

In thousands of dollars

	Canada	Netherlands
2015	2	—
2023	—	83,362
2026	62	—
2027	22	—
2028	628	—
2029	11,327	—
2030	3,361	—
2031	26,210	—
2032	9,976	—
2033	41,011	—
2034	25,788	—
<b>Total</b>	<b>118,387</b>	<b>83,362</b>

At December 31, 2014, \$nil (2013 – \$nil) was recognized as a deferred tax liability for taxes that would be payable on the unremitted earnings of certain of Northland's subsidiaries as Northland has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

### Temporary Differences Associated With Northland Investments

The temporary difference associated with investments in Northland's subsidiaries is \$18 million. A deferred tax liability associated with these investments has not been recognized as Northland controls the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

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

## 19. Derivative Financial Instruments

The derivative financial instruments consist of the following:

As at December 31, in thousands of dollars	2014	2013
Canadian dollar interest rate swaps	(91,686)	(40,260)
Euro interest rate swaps	(242,413)	—
Gas purchase swaps	(11,435)	(9,004)
US\$ foreign exchange contracts	5,306	2,652
Euro foreign exchange contracts	5,320	(10)
	(334,908)	(46,622)

## 20. Equity

### 20.1 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, 2013	6,000,000	145,361
Deferred income taxes	—	(259)
December 31, 2013	6,000,000	145,102
Deferred income taxes	—	(259)
<b>December 31, 2014</b>	<b>6,000,000</b>	<b>144,843</b>

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
January 1, 2013	4,800,000	116,834
Deferred income taxes	—	(199)
December 31, 2013	4,800,000	116,635
Deferred income taxes		(199)
<b>December 31, 2014</b>	<b>4,800,000</b>	<b>116,436</b>

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 ended December 31, 2014, \$7.9 million of Series 1 Preferred Share dividends were paid, excluding taxes (2013 – \$7.9 million), and \$6.0 million of Series 3 Preferred Share dividends were paid, excluding taxes (2013 – \$6.0 million).

## 20.2 Shares

Northland is authorized to issue an unlimited number of Shares.

The change in Shares during 2014 and 2013 was as follows:

In thousands of dollars except for Shares	Shares	Amount
Outstanding as of January 1, 2013	86,041,930	964,311
Conversion of Class A Shares	41,209,399	603,013
Shares issued under LTIP <sup>(1)</sup>	1,029,481	15,061
Change in deferred taxes	—	(191)
Conversion of 2014 Debentures	920,434	11,432
Shares issued under DRIP <sup>(2)</sup>	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
Public offering, net of transaction costs	9,843,750	150,421
Private placement	3,125,000	50,000
Shares issued under LTIP <sup>(1)</sup>	632,701	9,125
Change in deferred taxes	—	1,327
Conversion of 2014 Debentures	1,292,079	16,048
Shares issued under DRIP <sup>(2)</sup>	2,537,651	40,505
<b>Outstanding as at December 31, 2014</b>	<b>149,409,892</b>	<b>1,904,906</b>

(1) Long-Term Incentive Plan.

(2) Dividend Reinvestment Plan.

#### Issuance of common shares

As described in Note 8, in March 2014, a total of 12,968,750 Shares were issued pursuant to the public offering and private placement.

#### 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 Toronto Stock Exchange 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. There are two scenarios when LTIP Shares are awarded: when projects achieve predetermined milestones or, in the case of one member of management, based upon time served. 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, 2014, Northland capitalized \$3.1 million (2013 – \$11.5 million) and expensed \$2.2 million (2013 – \$1.2 million) of costs under the LTIP. Forfeitures have been assumed to be \$nil.

Pursuant to Northland's LTIP, a total of 632,701 Shares were awarded during 2014.

### **20.3 Class A Shares**

The terms and conditions of Northland's Class A Shares are defined in Northland's Articles. As at December 31, 2014, a total of 1,000,000 Class A Shares remain outstanding totalling \$14.6 million.

## 21. Non-Controlling Interests

Non-controlling interests relate to the interests not owned by Northland for CEEC (32%), McLean's (50%), Gemini (40%) and Nordsee (15%). CEEC has voting control of the Kirkland Lake and Cochrane facilities and has an 8.78% economic interest in Kirkland Lake and an 11.54% economic interest in Cochrane.

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

In thousands of dollars

As at December 31, 2014	CEEC	McLean's	Gemini	Nordsee	Total
<b>Current assets</b>	<b>41,447</b>	<b>12,471</b>	<b>12,938</b>	<b>7,458</b>	<b>74,314</b>
<b>Long-term assets</b>	<b>23,531</b>	<b>177,994</b>	<b>1,569,193</b>	<b>92,091</b>	<b>1,862,809</b>
<b>Current liabilities</b>	<b>(24,643)</b>	<b>(7,389)</b>	<b>(27,973)</b>	<b>(120,254)</b>	<b>(180,259)</b>
<b>Long-term liabilities</b>	<b>(694)</b>	<b>(147,282)</b>	<b>(1,038,132)</b>	<b>(18,010)</b>	<b>(1,204,118)</b>

In thousands of dollars

As at December 31, 2013	CEEC	McLean's	Gemini	Nordsee	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)

As at December 31, 2014, dividends payable to the non-controlling interest shareholders of CEEC totalled \$0.9 million.

As at December 31, 2014, Northland had an outstanding receivable balance of \$4.0 million with MMPLP.

The change in non-controlling interests during 2014 and 2013 is as follows:

In thousands of dollars	CEEC	McLean's	Gemini	Nordsee	Total
Non-controlling interests as at January 1, 2013	—	—	—	—	—
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 at December 31, 2013	48,423	24,832	—	—	73,255
Acquisitions	—	—	20,545	16,643	37,188
Contribution of non-controlling interests	—	—	263,770	—	263,770
Net income (loss) attributable to non-controlling interests	30,067	(744)	(100,096)	(111)	(70,884)
Dividends declared to non-controlling interests	(2,974)	(6,087)	—	—	(9,061)
Allocation of other comprehensive income (loss)	—	—	(22,859)	—	(22,859)
<b>Non-controlling interests as at December 31, 2014</b>	<b>75,516</b>	<b>18,001</b>	<b>161,360</b>	<b>16,532</b>	<b>271,409</b>



22. 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:

Before tax discount rates, in per cent

Applicable to PPA cash flows:

October 1, 2014	7.8%
October 1, 2013	8.3%

Applicable to post-PPA cash flows:

October 1, 2014	9.8%
October 1, 2013	10.3%

During the fourth quarter of 2014, Northland completed its annual comprehensive impairment assessment based on value-in-use estimates derived from the long-range forecasts and market values evidenced in the marketplace. As a result, Northland recorded an impairment charge of \$0.9 million against goodwill, \$11.0 million against property, plant and equipment and \$25.1 million against contracts currently included in “other intangibles and contracts.” The impairments were largely a result of changes in cash flow forecasts for a certain asset and unfavourable changes in other market estimates; in addition, absent any changes to assumptions about growth rate or discount rate, Northland expects to record annual goodwill impairments due to the passage of time.

## 23. Dividends

Dividends totalling \$1.08 per share (2013 – \$1.08), being aggregate dividends of \$157.4 million (2013 – \$133.2 million), were declared for the year ended December 31, 2014. Total dividends declared for 2014 consists of \$116.9 million of cash dividends (2013 - \$100.4 million) and \$40.5 million of Share dividends (2013- \$32.8 million) pursuant to Northland's DRIP.

## 24. Finance Costs

Finance costs consist of the following:

As at December 31, in thousands of dollars	2014	2013
Expensed interest on debts, borrowings and bank fees	119,898	80,826
Amortization of fair value	2,649	2,651
Amortization of transaction costs	1,656	955
Discount on provisions for decommissioning liability	777	453
	124,980	84,885

## 25. 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 2019 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	2014	2013
Net income (loss) for the year	(106,571)	151,134
Less: Preferred share dividends, net	(13,876)	(13,876)
Net income (loss) attributable to ordinary equity holders of Northland for basic earnings	(120,447)	137,258
Add back: Convertible subordinated debentures interest and amortization	—	880
Net income (loss) attributable to ordinary equity holders of Northland for diluted earnings	(120,447)	138,138

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

	2014	2013
Weighted average number of Shares outstanding	145,764,621	117,502,317
Weighted average number of Class A Shares	1,000,000	5,979,912
Weighted average number of Class C Shares	—	2,750,178
Weighted average number of Replacement Rights	—	486,819
<b>Weighted average number of Shares outstanding, basic</b>	<b>146,764,621</b>	<b>126,719,226</b>
Effect of dilutive securities:		
Exchangeable securities	—	5,172,184
Convertible unsecured subordinated debentures	—	1,586,546
<b>Weighted average number of Shares outstanding, diluted</b>	<b>146,764,621</b>	<b>133,477,956</b>

The conversions of the convertible unsecured subordinated debentures are anti-dilutive for the year ended 2014 and have therefore been excluded from the calculation of the diluted weighted average number of Shares.

## 26. Commitments

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The following is a summary of the material commitments that Northland and its subsidiaries have entered into as at December 31, 2014.

The majority of Northland's revenues are earned under long-term PPAs with government-related entities such as the Ontario Electricity Financial Corporation, the Independent Electricity System Operator, 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.

In the event that the Nordsee project is terminated, Northland will be exposed to €25.1 million (CA\$36.1 million) payable to major contractors, which is secured with corporate letters of credit and parental guarantees for Nordsee.

### Capital Commitments

In the normal course of operations, as at December 31, 2014, Northland has committed to spending approximately \$2.1 billion on capital projects. The majority of the commitment relates to the construction of the Gemini and ground-mounted solar projects and commitments for the Nordsee project and Grand Bend wind farm.

## 27. Operating Segment Information

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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; (iv) offshore wind, including Gemini and Nordsee; and (v) other, 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				Offshore			
Year ended 2014	Thermal	Renewables	Managed <sup>(1)</sup>	wind	Other	Eliminations <sup>(2)</sup>	Total
External revenue	510,532	113,848	135,176	—	515	—	760,071
Inter-segment revenue	1,760	—	—	—	41,594	(43,354)	—
Total revenue	512,292	113,848	135,176	—	42,109	(43,354)	760,071
Depreciation of property, plant and equipment	61,189	50,698	7,902	—	402	—	120,191
Finance costs (net)	66,691	38,393	24	(23)	17,064	—	122,149
Operating income (loss)	203,241	45,101	33,701	(2,099)	(31,163)	—	248,781

In thousands of dollars				Offshore			
Year ended 2013	Thermal	Renewables	Managed <sup>(1)</sup>	wind	Other	Eliminations <sup>(2)</sup>	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

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

(2) 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, 2014	Thermal	Renewables	Managed <sup>(1)</sup>	Offshore wind	Other <sup>(2)</sup>	Total
Property, plant and equipment	1,173,057	839,974	13,663	1,573,358	188,519	3,788,571
Equity-accounted investment	—	—	—	—	4,666	4,666
Contracts and other intangible assets, net	75,081	1,010	32,652	224,660	14,758	348,161
Goodwill	162,908	49,227	—	—	7,103	219,238
<b>Total assets</b>	<b>1,746,389</b>	<b>945,405</b>	<b>87,763</b>	<b>1,883,149</b>	<b>302,926</b>	<b>4,965,632</b>

In thousands of dollars						
As at December 31, 2013	Thermal	Renewables	Managed	Offshore wind	Other <sup>(2)</sup>	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
<b>Total assets</b>	<b>1,841,130</b>	<b>649,628</b>	<b>123,061</b>	<b>—</b>	<b>449,407</b>	<b>3,063,226</b>

(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 certain 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

<b>Sales</b>	<b>2014</b>	<b>2013</b>
Canada	<b>756,665</b>	553,864
Europe	<b>3,406</b>	3,374
<b>Total sales</b>	<b>760,071</b>	557,238

As at December 31, in thousands of dollars

<b>Property, plant and equipment, net</b>	<b>2014</b>	<b>2013</b>
Canada	<b>2,212,974</b>	2,090,906
Europe	<b>1,575,597</b>	3,356
<b>Total property, plant and equipment, net</b>	<b>3,788,571</b>	2,094,262

As at December 31, 2014, all of Northland's assets and sales were located in Canada and Europe. All of Northland's reported goodwill relates to operating segments located in Canada and Europe.

## 28. Litigation, Claims and Contingencies

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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 the contract counterparty. The claims relate to decreased PPA revenue escalations as a result of an interpretation of certain provisions between each generator and contract counterparty in relation to the price escalator. A ruling by the courts is expected in early 2015.

In late December 2014, Northland terminated its engineering, procurement and construction (**EPC**) contract with H.B. White Canada Corporation (**"White"**) related to the construction of the four 10 MW Phase III solar projects. The parties continue to negotiate final settlement of payments under the terminated EPC contract. The negotiations are ongoing, and the outcome at this time is unknown.

## 29. Management and Other Fees and Related-Party Disclosures

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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 2014, Northland earned fees from related entities that were not consolidated in Northland's financial results in the amount of \$0.5 million (2013 – \$7.7 million). Prior to the acquisition of CEEC, 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 2014 includes \$3.7 million (2013 – \$3.0 million) of short-term employee benefits. Northland has granted a total of 437,783 Shares totalling \$7.6 million and a cash component totalling \$0.6 million to key management personnel during 2014 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 other than the private placement described in detail in Note 8.

### **Entity With Significant Influence Over Northland**

As of December 31, 2014, James C. Temerty, Chair of Northland Power Inc., owns or has control or direction over 51,374,368 common shares (representing 34% 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 35% of the then outstanding Shares.

## **30. Post-Reporting Date Events**

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In January 2015, pursuant to Northland's LTIP, 96,291 Shares were awarded to employees. See more details on Northland's LTIP in Note 20.2.

On January 12, 2015, Northland announced it has signed a purchase and sale agreement with Taykwa Tagamou Nation and Wahgoshig First Nation which, once closed, will provide the First Nations with a combined 37.5% equity interest in Northland's four Phase III solar projects located in Northern Ontario. The total consideration for the equity interest is approximately \$45.6 million, approximately a third of which will be a vendor take-back loan. Closing of the sale is contingent on the achievement of certain conditions and receipt of third-party approvals.

In January 2015, Northland completed a public offering of 4.75% convertible unsecured subordinated 2020 Debentures, providing gross proceeds of \$157.5 million. The 2020 Debentures will mature on June 30, 2020. Interest is payable semi-annually on the last day of June and December commencing on June 30, 2015.

Subsequent to year-end, on January 27, 2015, Nordsee purchased an interest rate swaption from several European commercial banks to effectively establish a maximum rate of 1.145% on the project's underlying interest rate (excluding lender margins and other charges), based on the projected senior debt amortization schedule from November 2015 through December 2026. The swaption gives Nordsee the right, but not the obligation, to enter into an interest rate swap with a fixed rate of 1.145% and was executed to protect the project economics against increases in the underlying interest rate, Euribor, through June 30, 2015.

On February 20, 2015, Northland sold its 66.7% interest in the advanced-stage development project located in Frampton, Quebec, to Boralex Inc. Total consideration for the interest is approximately \$11.5 million.

On February 18, 2015, Northland completed an additional amendment to its corporate credit facility. The primary components of the amendment include (i) the receipt of lender commitments for the \$100 million accordion feature of the revolving credit facility, which increased the revolving facility from \$350 million to \$450 million, (ii) an extension of the revolving facility maturity date to March 2020 and (iii) changes to certain financial ratios and sublimits in order to provide liquidity and support Northland's ongoing development activities. The maturity date of the \$250 million term facility remains unchanged at March 2018 and includes a one-year renewal option.

### **31. Authorization of Consolidated Financial Statements**

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The consolidated financial statements for the year ended December 31, 2014 (including comparatives) were approved by the Board of Directors on February 18, 2015.

## Corporate Information

### Directors and Executive Officers of Northland Power Inc.

#### DIRECTORS

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

#### EXECUTIVE OFFICERS

Mr. John W. Brace <i>Chief Executive Officer</i>	Mr. Paul J. Bradley <i>Chief Financial Officer</i>
Mr. Sean Durfy <i>President and Chief Development Officer</i>	Mr. Michael D. Shadbolt <i>Vice President and General Counsel</i>
Mr. Salvatore Mantenuto <i>Chief Operating Officer and Vice Chair</i>	Ms. Linda L. Bertoldi <i>Secretary</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, Series B and Series C 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.B, NPI.DB.C, 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

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