



MD&A

NOTES

INTELLIGENT ENERGY for a GREENER PLANET

2015 Annual Report





MD&A

NOTES

Our Future

In 2017, when our current construction portfolio is complete, Northland will generate enough electricity to power over 2.6 million homes. Our commitment to sustainability will continue to drive every decision we make, ensuring we develop, finance, build and operate facilities that produce strong returns while respecting our employees, communities and the environment. Northland is well-positioned to continue its growth trajectory throughout 2016 and well into the future.



Grand Bend COD 2016
Onshore wind | 50.0 MW*



Gemini COD 2017
Offshore wind | 360.0 MW*

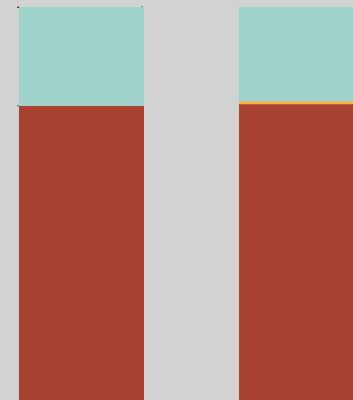


Nordsee One COD 2017
Offshore wind | 282 MW*

Our Past & Present

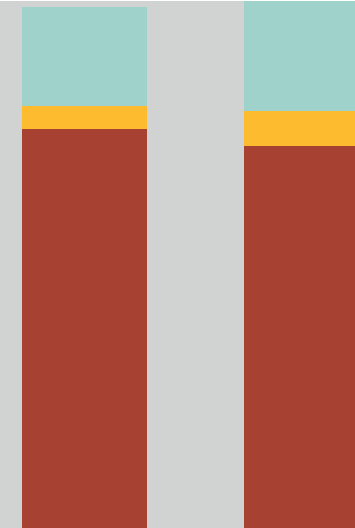
Founded in 1987 to develop one of Canada's early independent power projects, Northland built a team with technical and business expertise – and a strong commitment to sustainability. Since listing on the Toronto Stock Exchange in 1997, Northland has consistently paid dividends achieved through strategic, organic growth – by developing, owning and operating high-quality clean and green energy projects with long-term power contracts and creditworthy counterparties.

Northland has built a team of more than 300 talented and dedicated team members, has a net economic interest in 1,338 MW of operating generating capacity and a market capitalization of more than \$3 billion.



2011
1,005 MW*

2012
1,006 MW*



2013
1,329 MW*

2014
1,345 MW*



2015
1,338 MW*



2016 F
1,388 MW*



2017 F
2,029 MW*

The Evolution of
Northland since
the 2010 Merger



Spy Hill COD 2011
Cogeneration | 86.0 MW



Mont Louis COD 2011
Onshore wind | 100.5 MW



North Battleford COD 2013
Combined cycle | 260.0 MW



Ontario Solar COD 2013–2015
Solar | 115.0 MW*



McLean's COD 2014
Onshore wind | 30.0 MW*



Northland Power is an independent power producer. We develop, finance, build, own and operate facilities in Canada and internationally that produce clean and green energy using natural gas, biomass, wind and solar technology. Our goal is to create long-term shareholder value by investing in sustainable power projects that generate stable cash flows.

NORTHLAND POWER INC.

19th Annual Report

2	<u>2015 Highlights</u>	79	<u>Consolidated Statements of Income (Loss)</u>
4	<u>Letter to Shareholders</u>	81	<u>Consolidated Statements of Comprehensive Income (Loss)</u>
9	<u>Management's Discussion and Analysis</u>	82	<u>Consolidated Statements of Changes in Equity</u>
74	<u>Management's Responsibility</u>	84	<u>Consolidated Statements of Cash Flows</u>
75	<u>Independent Auditors' Report</u>	86	<u>Notes to the Annual Consolidated Financial Statements</u>
76	<u>Consolidated Balance Sheets</u>	152	<u>Corporate Information</u>

On all fronts, 2015 was a successful year for Northland with many important developments; 2016 is off to a strong start.

Significant advancements on our \$6 billion construction portfolio

- **Gemini**

600 MW offshore wind farm – progressing on schedule and within budget

- Installed the first two turbines
- Completed installation of all 150 turbine foundations
- Completed installation and successful testing of the critical electrical infrastructure

- **Nordsee One**

332 MW offshore wind farm – progressing on schedule and within budget

- Closed €1.2 billion debt and equity financing and commenced construction
- Completed installation of 18 turbine foundations
- Advanced construction and production of key equipment

- **Grand Bend**

100 MW wind farm – progressing on schedule and within budget

- Closed \$400 million debt and equity financing and commenced construction
- Completed major construction activities, including installation of 28 of the 40 wind turbines
- Completed full energization of the switching station

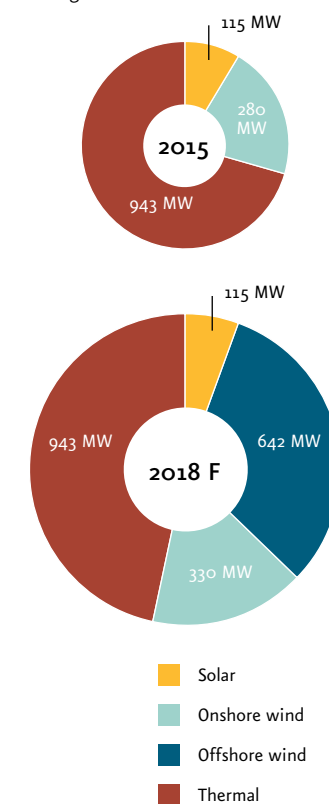
- **Ground-Mounted Solar**

130 MW portfolio – all facilities now operational

- Completed final four 10 MW ground-mounted solar facilities
- Generally met or exceeded management's operational performance expectations of all 13 facilities

Distribution by technology

In megawatts





Robust Operating and Financial Performance

- Operating Income of \$274 million, a 10% increase over 2014
- Adjusted EBITDA of \$402 million, an 11% increase over 2014
- Free cash flow of \$182 million, a 10% increase over 2014
- Total shareholder returns of approximately 30% since 2014
- Dividends of \$1.08 per share

Financing Completed

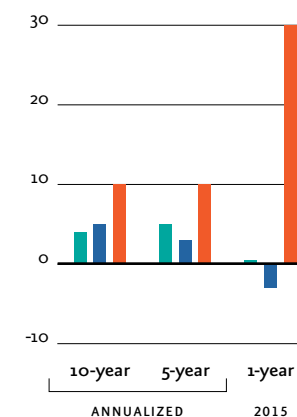
- Refinanced Thorold (265 MW cogeneration facility) bank debt
- Increased size of corporate credit facility
- Raised approximately \$440 million of common equity and convertible debentures to fund investments in Nordsee One and Grand Bend

Power Purchase Agreement Extended

- Successfully secured the Kirkland Lake power purchase agreement for another 15 years

Total Shareholder Return

In per cent



- Peer Group*
- S&P/TSX Capped Utilities Index
- Northland Power

* Includes Algonquin Power, Boralex, Brookfield, Capstone, Capital Power, Innergex, TransAlta

Note: Total return includes dividend plus appreciation over the specified period.
Source: Bloomberg, December 31, 2015

Northland Power's vision is to be a top clean and green power producer, inspiring our people to achieve a sustainable and prosperous future for all of our stakeholders.

.....

For us, success means delivering measured growth and strong financial results. It also means a commitment to excellence and sustainability by all definitions – environmental, financial and operational. For over 25 years, we have delivered on our promises, and 2015 was no exception.

2015

Our past investments into growth, along with our operational excellence, drove robust financial results for our shareholders in 2015. The numbers speak for themselves – an increase in free cash flow of 10% and adjusted EBITDA of 11% during the year. And, true to our promise, we continued to pay dividends of \$1.08 per share.

Operational Excellence

This has been a pivotal year for Northland. We once again delivered on our promise of superior returns with a total shareholder return of 30%. Our strong financial results tell only a small part of our story. Over the course of 2015, we made many great strides toward achieving our vision to become a top clean and green power producer.

We made significant progress on our construction portfolio of approximately \$6 billion. We increased our total net generating capacity to 1,338 megawatts (**MW**). Overall, our operating assets – comprising 26 facilities located across Canada and in Europe – met or exceeded management's expectations. We continued to expand our team and expertise as we evolve into a successful manager of multiple international and large-scale projects. We grew our internal capabilities and continued to build an organization of increasing scale.

It goes without saying that our success is the result of our people. We would like to thank the Northland team for bringing their best efforts and enthusiasm each and every day.

Financial Results

For Northland, 2015 proved to be a financially solid year. Total adjusted EBITDA grew by over 11% to \$402 million, as a result of additions from the ground-mounted solar facilities and court decision on the Global Adjustment case. We generated \$182 million in free cash flow and maintained a payout ratio below 100% despite raising a significant amount of capital to fund our current construction portfolio. Throughout the year, five debt and equity financings, totalling \$1.9 billion, were completed.

Operations

Northland's portfolio of operating assets comprises a diverse, sustainable technology mix, with 70% thermal, 21% wind and 9% solar. We are proud to report that our operating facilities, the backbone of our enterprise, ran safely and efficiently in 2015, with no lost-time incidents.

With overall availability of 96% across our 26 operating facilities, we met or exceeded industry averages. Availability is a key measure for Northland; it represents the percentage of time that a facility is able to produce power. Our strong results indicate that each facility is reaching its fullest potential, which, in turn, maximizes shareholder value.



GRAND BEND Turbine blades en route to be installed on the Grand Bend wind farm.

Long-term contracts contribute to lasting returns. In 2015, we successfully finalized an amendment to the power purchase agreement (**PPA**) for the baseload gas-fuelled portion of our Kirkland Lake facility. All three components of Kirkland Lake (biomass, peaking and baseload) are now contracted through 2030 and, in the case of the peaking facility, to 2035.

Unfortunately, after 25 years of generating electricity from a combination of natural gas and wood waste sourced from local forestry operations, in May we were forced to shut down our Cochrane, Ontario, facility. We are very grateful for the outpouring of support from the community and local industries and are disappointed for our employees, suppliers, investors and the people of Cochrane.



NORDSEE ONE Northland CEO John Brace inspects the offshore substation for Nordsee One.

Northland defines itself by two core commitments:
building a more sustainable future through the delivery of clean and
green energy while creating long-term value for our shareholders.

Growth

While keeping our feet firmly planted in the present, we also continued to build for our future. Northland's 100 MW Grand Bend wind project in Ontario, Canada, a 50/50 partnership with two First Nations, is progressing on schedule and is expected to be completed in 2016.

Farther away in the North Sea, the 600 MW Gemini offshore wind project in the Netherlands is proceeding according to plan. We are very pleased to report the first two wind turbines were erected in February 2016. All foundations, consisting of a steel monopile and a transition piece each, have been installed. Other critical infrastructures such as cables and offshore and on-land high voltage stations have already been completed and tested, which derisks the project significantly. Construction will continue throughout 2016 in anticipation of full commercial operation in 2017.

Not far from Gemini, the 332 MW Nordsee One offshore wind project in Germany is also progressing well, with the first of 54 wind turbine foundations installed in December 2015 and the production of other major equipment well under way. Construction will continue throughout 2016, and we expect to achieve full commercial operation in 2017.



Once all three projects are completed, they will add a net capacity of 692 MW to our operating portfolio, representing an increase of approximately 50% over 2015. Like the rest of our operating facilities, these projects are expected to deliver stable cash flows through the duration of their power purchase agreements.

With our business growing at a vigorous pace, we invested in our people and our company, adding top talent who will support key business functions. In July, we welcomed Mike Crawley to our executive management team. A highly accomplished executive who has played a prominent role in the development of the Canadian independent renewable power sector, Mike has already made great strides in advancing Northland's global business development activities.

We have significantly increased our level of activity in Europe and Mexico, positioning ourselves for strategic growth in these priority markets. Concurrently, we are making investments in technology that will automate, streamline and integrate several core business processes, empowering our people to effectively manage an increasingly international business and establish a more robust platform to make informed decisions in support of our growth targets. These initiatives will ensure that we remain agile and effective in a time of rapid growth.

2016 and Beyond

Our approach to identifying and executing new projects has not changed. We will continue to focus on increasing shareholder value by developing high-quality projects supported by long-term revenue contracts, while carefully managing and mitigating risks. Of course, the world is changing around us, and we are aware that we need to change with it. As such, an important facet of our strategy is to continue to seek out technologies and jurisdictions where we can apply an early-mover advantage. We balance this agility with a keen emphasis on effectively managing risk.

With the Paris Agreement coming out of COP21, there is an increased likelihood for further renewable energy development opportunities in additional markets. In Canada, with a national focus on decarbonization, we are seeing some encouraging signals for new generation procurements. In Ontario, where there is already a significant amount of wind and solar generation, we are seeing increased momentum for energy storage projects that help optimize the value of these renewable assets. With these dynamics in play, we continue to see the potential for development opportunities over the next few years in the Canadian renewable energy sector.

Looking abroad, we continue to see attractive opportunities for large-scale offshore wind in Europe as a result of European Union targets for renewable energy. Mexico and parts of Latin America also provide opportunities, stemming from load growth resulting from economic and demographic shifts. We are also monitoring other jurisdictions that meet Northland's investment criteria that may offer opportunities resulting from increased government focus on energy independence, sustainability and security.

The year 2015 has been pivotal for Northland. We delivered on our promise of superior returns this year – and on average over the last five years – with a total shareholder return of 30% and 10%, respectively.

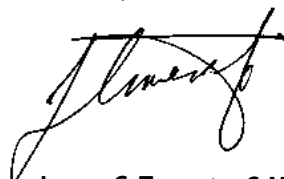
Summary

Our success is the direct result of our winning formula – an entrepreneurial spirit tempered by disciplined management with a long-term focus. We will continue to make prudent investments in target markets in order to grow the Company, while creating shareholder value by delivering the same level of high-quality, stable and sustainable cash flows we have returned for over 25 years.

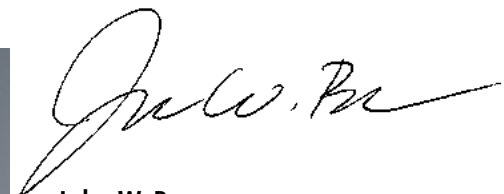
As we continue to evolve and pursue new opportunities, we will remain true to our core values. Achieving excellence in all that we do remains a top priority, as does challenging ourselves to find new ways to enhance the efficiency and quality of our businesses.

We are committed to delivering exceptional results for our shareholders, guided by our Board of Directors, and working collaboratively with our partners, suppliers and stakeholders. We look forward to lighting up Europe in 2016 with the first electricity generated from our offshore wind farms, to keeping you informed on our progress and to continuing to build a Northland that creates value for you while delivering intelligent energy for a greener planet.

Sincerely,

A handwritten signature in black ink, appearing to read 'James C. Temerty'.

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

A handwritten signature in black ink, appearing to read 'John W. Brace'.

John W. Brace
Chief Executive Officer

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, 2015, and for the fiscal year then ended. This management’s discussion and analysis (**MD&A**) should be read in conjunction with Northland’s 2015 audited consolidated financial statements and accompanying notes. Additional information relating to Northland can be found in the Company’s 2015 Annual Information Form (**AIF**), which is filed electronically at www.sedar.com under Northland’s profile and posted on Northland’s website at www.northlandpower.ca. Northland’s audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**), and amounts in this 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 earnings before interest, taxes, depreciation and amortization (**EBITDA, a non IFRS performance indicator**), 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* and *Section 6: Equity, Liquidity and Capital Resources* for reconciliations to the nearest IFRS measures.

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 29, 2016; actual results may differ materially. Readers should refer to *Section 17: Forward-Looking Statements* in this MD&A for additional information regarding forward-looking statements.

This MD&A dated February 29, 2016, compares Northland’s fiscal 2015 financial results and financial position with those of fiscal 2014 and is organized as follows:

Section 1	Description of Business	10	Section 10	Fourth-Quarter 2015 Results	57
Section 2	Strategy and Key Factors Supporting Sustainability	12	Section 11	Commitments/Contractual Obligations	59
Section 3	Facility Results	17	Section 12	Litigation, Claims and Contingencies	60
Section 4	Non-IFRS Financial Measures	28	Section 13	Critical Accounting Estimates	62
Section 5	Consolidated Results	29	Section 14	Future Accounting Policies	65
Section 6	Equity, Liquidity and Capital Resources	35	Section 15	Management’s Responsibility for Financial Information	67
Section 7	Construction and Development Activities	51	Section 16	Risks and Uncertainties	68
Section 8	Outlook	53	Section 17	Forward-Looking Statements	73
Section 9	Historical Consolidated Quarterly Results	55			



Section 1: Description of Business

As of December 31, 2015, Northland owns or has a net economic interest in operating power-producing facilities with a total capacity of approximately 1,338 megawatts (**MW**). Northland's operating assets comprise facilities that produce electricity from renewable resources and natural gas for sale primarily under long-term power purchase agreements (**PPAs**) with creditworthy customers in order to ensure cash flow stability. As of December 31, 2015, Northland had the following projects under construction: the 600 MW (360 MW net interest to Northland) Gemini offshore wind project, 332 MW (282 MW net interest to Northland) Nordsee One offshore wind project and 100 MW (50 MW net interest to Northland) Grand Bend wind project. In addition, Northland has an extensive portfolio of projects in earlier stages of 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 13 operating 10 MW solar projects (**collectively, "the GMS Projects"**) in Eastern and Central Ontario and the final four projects totalling 40 MW (25 MW net interest to Northland) located in Northern Ontario and together herein referred to as **"Cochrane Solar"**;
- 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, 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”**;
- xii. Nordsee One GmbH, which owns the 332 MW (282 MW net interest to Northland) offshore wind project in construction off the German coast of the North Sea **“Nordsee One”**; and
- xiii. Grand Bend Wind Limited Partnership, which owns the 100 MW (50 MW net interest to Northland) wind farm project under construction in southern Ontario, together herein referred to as **“Grand Bend.”**

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 Canadian Environmental Energy Corporation (**CEEC**). 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.

Readers should refer to Northland’s 2015 AIF, dated February 29, 2016, for further details on Northland’s facilities.

As a result of acquiring a controlling interest in 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 \$1.9 million;
- Restricted cash of \$153.4 million;
- Current assets (excluding cash and cash equivalents and restricted cash) of \$13.4 million;
- Property, plant and equipment of \$3.4 billion;
- Contracts and other intangibles of \$167.1 million;
- Current liabilities of \$130.2 million;
- Interest-bearing loans and borrowings, net of costs (excluding intercompany amounts) of \$2.3 billion; and
- Unrealized fair value loss on the long-term derivative contracts of \$246.3 million.

Northland’s common shares (**“Shares”**), cumulative rate reset preferred shares, series 1 (**“Series 1 Preferred Shares”**), cumulative rate reset preferred shares, series 2 (**“Series 2 Preferred Shares”**), cumulative rate reset preferred shares, series 3 (**“Series 3 Preferred Shares”**), Series B convertible unsecured subordinated debentures (**“2019 Debentures”**) and Series C convertible unsecured subordinated debentures (**“2020 Debentures”**) qualify as investments for RRSPs and DPSPs under the Canadian Income Tax Act.

..... •



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, delivery and sale of electricity-related products. Northland defines stability as producing steady and sustainable levels of free cash flow to support a consistent dividend payout on its Shares over the long term. Northland derives growth primarily from developing, financing, constructing, owning, operating and managing power generation facilities that sell electricity and related products pursuant to long-term agreements.

.....

Strategy

Northland aims to increase shareholder value by developing high-quality projects supported by long-term revenue contracts, while optimizing the performance of our operating facilities. Northland employs strategic approaches in all aspects of developing, financing, constructing and operating its clean and green power projects. Northland's on-time, on-budget project execution record and consistent investor returns result from these strategic objectives.

In pursuing growth, Northland seeks out technologies and jurisdictions where an early-mover advantage can be applied. Northland utilizes its long-term experience to identify and execute development opportunities that are expected to produce stable cash flows. The Company develops projects utilizing technologies such as thermal (natural gas and biomass), wind (onshore and offshore) and solar. 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, as well as grid support and backup for renewable generation as needed by the customer. Northland's current geographical focus for growth initiatives is Canada, Europe and Mexico; however, the Company always remains sufficiently agile to quickly react to emerging opportunities in new markets that match Northland's strict risk management criteria. Northland manages its development processes prudently by constantly balancing costs against the probability of success.

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 would not affect Northland's other facilities. By owning and operating high-quality assets and applying its extensive experience, Northland expects to continue to enjoy a competitive cost of capital, which maximizes returns from growth initiatives.



Northland's management team collectively has more than 250 years of power industry experience and an average tenure at Northland of over 14 years. This team helps manage the Company's operating assets to optimize efficiency, deliver long-term profitability and ensure best-in-class health, safety and environmental performance while respecting our host communities. Consistent with our focus on continuous improvement, Northland's lessons learned from project execution are shared with its development, engineering and construction groups on an ongoing basis to ensure this knowledge is factored into the development and construction of all new projects the Company undertakes.

.....

Long-Term Contracts

A key focus of Northland's strategy is ensuring 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 investment-grade as appraised by one or more rating agencies.

.....

**Operating and Managed Facilities**

Project ⁽¹⁾	Gross project capacity	Economic interest	Northland	Contract counterparty	PPA term	Fuel
			economic interest capacity			supply term
.....						
THERMAL						
Iroquois Falls	120.0 MW	100%	120.0 MW	OEFC [†]	December 2021 ⁽²⁾	2021 ⁽³⁾
.....						
Kingston	110.0 MW	100%	110.0 MW	OEFC	January 2017 ⁽²⁾	2017
.....						
Thorold	265.0 MW	100%	265.0 MW	IESO ^{††}	March 2030	N/A ⁽⁴⁾
.....						
Spy Hill	86.0 MW	100%	86.0 MW	SaskPower	October 2036	N/A ⁽⁵⁾
.....						
North Battleford	260.0 MW	100%	260.0 MW	SaskPower	June 2033	N/A ⁽⁵⁾
.....						
RENEWABLE						
Jardin	127.5 MW	100%	127.5 MW	Hydro-Québec	November 2029	N/A ⁽⁶⁾
.....						
Mont Louis	100.5 MW	100%	100.5 MW	Hydro-Québec	September 2031	N/A ⁽⁶⁾
.....						
German wind farms	21.5 MW	100%	21.5 MW	N/A ⁽⁷⁾	N/A ⁽⁷⁾	N/A ⁽⁶⁾
.....						
Ground-mounted Solar	130.0 MW	88% ⁽⁸⁾	115.0 MW	IESO	2033–2035	N/A ⁽⁶⁾
.....						
McLean's	60.0 MW	50%	30.0 MW	IESO	2034	N/A ⁽⁶⁾
.....						

continued...



Project ⁽¹⁾	Gross project capacity	Economic interest	Northland		PPA term	Fuel supply term
			economic interest capacity	Contract counterparty		
MANAGED/OTHER						
Kirkland Lake	132.0 MW	77% ⁽⁹⁾	101.6 MW	OEFC	August 2030/2035	2030
Rooftop solar	1.0 MW	75%	0.8 MW	IESO	April– September 2031	N/A ⁽⁶⁾

† Ontario Electricity Financial Corporation.

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

(1) Northland sold its small wood-chipping facility in April 2014.

(2) Northland has the option to extend the PPA subject to economic terms and conditions being negotiated with the OEFC.

(3) Northland entered into a long-term financial natural gas contract primarily to stabilize the price of future natural 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) In June 2015, Northland completed the sale of its 37.5% equity interest in the four projects located in Northern Ontario to Taykwa Tagamou Nation and Wahgoshig First Nation; Northland retains full ownership of the first nine projects. The 88% reference in the above table represents Northland's net economic interest in all of the ground-mounted solar projects.

(9) Northland has a 68% controlling interest in CEEC, which owns the voting shares in Kirkland Lake, resulting in Northland having a 77% residual economic interest in the facility.



Projects Under Construction

Project	Gross project capacity	Economic interest	Northland economic interest capacity	Region	Contract counterparty	PPA term ⁽¹⁾
Gemini offshore wind	600.0 MW	60%	360.0 MW	The Netherlands	Government of the Netherlands ⁽²⁾	15 years
Grand Bend wind	100.0 MW	50%	50.0 MW	Ontario	IESO	20 years
Nordsee One offshore wind	332.0 MW	85%	282.0 MW	Germany	Government of Germany ⁽²⁾	Approximately 10 years

(1) From the commercial operations date.

(2) The main source of revenue is ultimately an obligation of the contract counterparty.

Post-Contract Economics

Northland's facilities earn revenue under long-term PPAs that generally have initial terms of 10 to 25 years. Northland's managed plants' PPAs expired (Cochrane) or required price renegotiation (Kirkland Lake) in 2015. Kirkland Lake finalized the amendment to the PPA for the 40-year baseload gas-fuelled portion of the facility and secured future pricing terms until 2030. Cochrane was unable to extend its PPA past its expiration date of May 11, 2015, which led to the shutdown of the facility. 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. Full negotiations to extend the PPAs at Northland's wholly owned facilities will begin with Kingston in 2016, followed by Iroquois Falls prior to 2021.



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

	2015	2014	2013
Electricity production (MWh*)			
Iroquois Falls	723,712	690,747	717,845
Kingston	773,691	761,449	812,091
Other ⁽¹⁾	2,740,685	2,726,963	1,861,679
	4,238,088	4,179,159	3,391,615
Sales			
Iroquois Falls	107,758	91,049	84,122
Kingston	111,727	113,220	108,197
Thorold	89,441	115,440	101,909
Spy Hill ⁽²⁾	21,916	24,444	23,966
North Battleford	160,952	182,565	89,119
	491,794	526,718	407,313
Less finance lease adjustment	(16,188)	(16,186)	(16,874)
Sales as reported	475,606	510,532	390,439
Cost of sales			
	173,364	219,706	153,565

continued...



.....			
In thousands of dollars except as indicated	2015	2014	2013
.....			
Gross profit			
Iroquois Falls	69,066	48,044	47,065
Kingston	58,319	61,400	58,524
Thorold	62,645	69,044	68,943
Spy Hill ⁽²⁾	18,516	18,391	18,604
North Battleford	109,884	110,133	60,612
.....			
	318,430	307,012	253,748
Less finance lease adjustment	(16,188)	(16,186)	(16,874)
.....			
Gross profit as reported	302,242	290,826	236,874
.....			
Plant operating costs			
Iroquois Falls	9,356	8,686	8,355
Kingston	5,650	6,239	6,266
Thorold	9,305	9,867	10,276
Spy Hill	1,666	1,750	1,438
North Battleford	13,464	13,034	7,049
.....			
	39,441	39,576	33,384
.....			
Operating income	214,169	203,241	165,584
.....			

continued...



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

Adjusted EBITDA⁽³⁾

	2015	2014	2013
Iroquois Falls	58,440	39,274	38,638
Kingston	52,433	54,930	52,046
Thorold	53,248	59,081	58,585
Spy Hill	16,828	16,614	17,142
North Battleford	96,395	97,059	53,646
	277,344	266,958	220,057

.....

Capital expenditures⁽⁴⁾

	803	1,497	1,162
--	-----	-------	-------

.....

* 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 financially by changes in production levels.

(2) Northland accounts for its Spy Hill operations as a finance lease.

(3) A non-IFRS measure.

(4) 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 statement of income based on the terms of those contracts.

Northland’s thermal assets comprise both baseload and dispatchable facilities. The Iroquois Falls, Kingston and North Battleford baseload plants are operated at full output with the objective of generating 100% of contracted on-peak and off-peak production volumes and receive a fixed price on all electricity sold. 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.



Electricity production during 2015 was 1.4% (58,929 MWh) higher than the prior year primarily due to an increase in production at Iroquois Falls, Thorold and North Battleford due to additional economic production periods and dispatch requests, largely offset by lower production at Kingston resulting from high natural gas prices in early 2014 that made it economically favourable to curtail electricity production and resell natural gas.

Sales during 2015 at \$475.6 million were \$34.9 million or 7% lower than the prior year largely due to lower flow-through natural gas costs and electricity prices at Thorold (\$26 million) and North Battleford (\$21.6 million) partially offset by increased electricity prices at the Iroquois Falls facility (\$16.7 million). Beginning in the third quarter of 2015, the OEFC calculated and made payments as of February 2015 to Iroquois Falls based on the Ontario Superior Court of Justice decision in relation to the interpretation of past and future price escalator provisions in the PPA. The reader should refer to *Section 12: Litigation, Claims and Contingencies* for further information.

Gross profit during 2015 at \$302.2 million was \$11.4 million or 4% higher than the prior year primarily due to Iroquois Falls' revenue contribution (\$21 million) as described above, combined with lower cost of sales due to the replacement of contracted natural gas with lower-cost spot market purchases. These increases were partially offset by several unfavourable changes, including a one-time charge at Thorold in March 2015 related to a settlement under an Independent Electricity System Operator (**IESO**) generator cost-recovery program that was later deemed to be ineligible by the IESO (\$6.4 million) and non-recurring gas resale margins at Kingston (\$3.1 million).

Plant operating costs of \$39.4 million were consistent with 2014.

Operating income of \$214.2 million was \$10.9 million higher than 2014 for the same reasons as the gross profit variance described above.

THERMAL FACILITIES OUTLOOK

Management expects all of Northland's thermal facilities in 2016 to operate in line with 2015; none are anticipated to have extended outages.

Electricity revenues are expected to reflect the 2015 court decision related to the Iroquois Falls facility; the court's decision was in relation to the interpretation of past and future price escalator provisions in certain of the producers' respective PPAs with the OEFC. The decision has been appealed by the OEFC. The hearing of the appeal has concluded, and a decision is pending. Northland continues to believe the OEFC's appeal will be unsuccessful. Northland expects to receive additional payments from the OEFC relating to the pre-2015 price escalation change at the conclusion of the appeal process. However, if the final appeal overturns the decision and the court rules in favour of the OEFC, Northland will be required to repay the difference between revised payments received on the basis of the court's decision and the lower payments that would have been received based on the OEFC's original calculation, plus interest.

.....



Northland's Renewable Facilities

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

In thousands of dollars except as indicated

	2015	2014	2013
Electricity production (MWh)	1,006,742	884,562	748,293
Electricity production (MWh) – long-term forecast	1,036,080	928,622	734,284
Sales⁽¹⁾			
Jardin	25,246	24,044	24,998
Mont Louis	23,007	20,967	22,068
German wind farms	4,066	3,407	3,374
McLean's	24,313	13,323	—
Ground-mounted solar ⁽²⁾	67,096	52,107	16,583
	143,728	113,848	67,023
Plant operating costs			
Jardin	6,057	5,810	5,373
Mont Louis	5,374	4,915	6,015
German wind farms	1,555	1,162	1,332
McLean's	4,036	2,439	—
Ground-mounted solar	3,715	2,797	1,098
	20,737	17,123	13,818
Operating income	59,903	45,101	20,807

continued...



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

2015

2014

2013
**Adjusted EBITDA⁽³⁾**

Jardin	19,159	18,086	18,820
Mont Louis	17,608	15,938	16,031
German wind farms	2,719	1,808	1,888
McLean's ⁽⁴⁾	10,312	5,561	—
Ground-mounted solar ⁽⁴⁾	61,277	49,198	15,462
	111,075	90,591	52,201

.....

Capital expenditures⁽⁵⁾

64

563

130

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

(2) The four remaining GMS Projects began commercial operations in the second half of 2015.

(3) A non-IFRS measure.

(4) Adjusted EBITDA represents Northland's share of adjusted EBITDA generated by the facilities.

(5) 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 statement of income based on the terms of those contracts.

Renewable Facility Performance

Electricity production during 2015 exceeded the prior year by 122,180 MWh or 14% primarily due to an additional 43,680 MWh from McLean's, which operated for all of 2015 compared to eight months in 2014; an increase of 33,425 MWh from the ground-mounted solar sites due to an improved solar resource and the start of commercial operation of the remaining sites in the second half of 2015; and an increase of 27,041 MWh at Mont Louis and 13,897 MWh at Jardin caused by stronger wind speeds. McLean's was curtailed approximately 27,000 MWh of electricity production at the request of the Ontario electricity system operator during 2015 but earned PPA revenue under the terms of its feed-in tariff (**FIT**) agreement for the curtailed production.

Wind production met the long-term production forecast largely due to a higher wind resource at Mont Louis offset by a lower resource at McLean's and an outage during the second quarter of 2015 for electrical cable repairs. Solar production was 11% below the long-term production forecast largely due to several prolonged outages imposed by the electrical transmission provider offset by an improved solar



resource during the summer. 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 during 2015 were \$143.7 million or 26% higher than the prior year primarily due to the incremental contribution from ground-mounted solar, which received a higher energy price than the wind projects (\$15 million); higher revenue at McLean's due to a full year of operations in 2015 compared to eight months of operations in 2014 along with 27,000 MWh of foregone electricity production for which revenue is received (\$11 million); and higher revenue at the Quebec wind farms due to increased production and electricity price escalation (\$3.2 million).

Plant operating expenses at \$20.7 million were \$3.6 million higher than the prior year primarily due to the inclusion of results from the newly commissioned ground-mounted solar projects and a full year of McLean's operations.

Operating income of \$59.9 million was \$14.8 million higher than 2014 for the same reasons as described above.

RENEWABLE FACILITIES OUTLOOK

Northland expects 2016 electricity production and financial results for its renewable facilities to exceed 2015 due to the inclusion of a full year of results for the last four Ontario solar projects that achieved commercial operations during 2015, along with the addition of the Grand Bend project in 2016.

.....

**Northland's Managed Facilities**

In thousands of dollars	2015	2014	2013 ⁽¹⁾
Sales	107,956	135,176	90,488
Cost of sales	52,328	71,040	48,200
Gross profit	55,628	64,136	42,288
Plant operating costs	17,212	21,715	16,078
Operating income	35,385	33,701	19,092
Adjusted EBITDA⁽²⁾	33,100	31,844	19,304

(1) Includes financial results only for Kirkland Lake, Cochrane and CEEC (post acquisition of CEEC on April 1, 2013).

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

The Kirkland Lake and Cochrane (prior to its PPA expiry) 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.

Sales and gross profit in 2015 were lower than the prior year (\$27.2 million and \$8.5 million, respectively) due to the expiration of the Cochrane PPA on May 11, 2015, and non-recurring gas sale margins in the first quarter of 2014, partially offset by higher electricity revenue earned at the Kirkland Lake facility during the last half of 2015 due to the increase in PPA rates pursuant to the court decision related to the OEFC escalation rates. Operating income was higher than the prior year largely because the reduction in gross profit was offset by lower plant operating costs due to the expiration of Cochrane's PPA.

Adjusted EBITDA, consisting of management and incentive fees, was higher in 2015 primarily due to increased management fees generated from Kirkland Lake as a result of the increased revenues resulting from the court decision related to increased PPA rates and the repayment of its long-term debt in February 2015, partially offset by non-recurring natural gas resale margins earned in the first quarter of 2014 and the shutdown of the Cochrane facility in 2015.



MANAGED FACILITIES OUTLOOK

Northland's 2016 financial results for its managed facilities will be lower than 2015 due to the shutdown of the Cochrane facility as well as lower economics from the change in rates for the baseload gas-fired portion of the Kirkland Lake PPA.

Northland's Offshore Wind Projects

Northland's offshore wind facilities consist of the 600 MW Gemini wind farm, located off the coast of the Netherlands, and the 332 MW Nordsee One wind farm, located off the coast of Germany. Both Gemini and Nordsee One are currently under construction. For additional details on each of these facilities, please see *Section 7: Construction and Development Activities*.

In thousands of dollars

	2015	2014	2013
Management and administration costs	2,535	2,099	—
Less: Non-controlling interests portion	(795)	(656)	—
Northland's share of management and administration costs	1,740	1,443	—
Adjusted EBITDA ⁽¹⁾	(1,740)	(1,443)	—

(1) A non-IFRS measure.

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

OFFSHORE WIND OUTLOOK

Gemini is expected to start producing pre-completion revenues during 2016, which will be included in Northland's consolidated financial results. Northland will record its share of the project's EBITDA (in euros) converted at the average foreign exchange rate for the period in consolidated adjusted EBITDA. For additional details, please see *Section 7: Construction and Development Activities*.



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	2015	2014	2013
Sales ⁽¹⁾	851	515	9,288

(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 in 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	2015	2014	2013
Gemini interest	15,775	10,836	—
Other facilities	3,640	6,198	1,320
Other income	—	675	1,623
Adjusted EBITDA ⁽¹⁾	19,415	17,709	2,943

(1) A non-IFRS measure.

"Gemini interest" represents interest earned on the subordinated debt that Northland has loaned to Gemini. Due to Northland acquiring the controlling interest in Gemini in May 2014, Northland consolidates the financial results of Gemini. Therefore, the subordinated debt receivable and related investment income eliminate on consolidation but are still included in Northland's consolidated adjusted EBITDA.

"Other facilities" in the above table represents adjusted EBITDA from Northland's wood-chipping facility (which was sold in April 2014), an equity investment in four small rooftop solar projects in partnership with Loblaw Companies Limited, dividends received from Northland's equity interest in Panda-Brandywine whose PPA was settled and its related facility assets transferred to the contract counterparty in May 2014 and interest earned on the loan receivable from McLean's equity partner, Mnidoo Mnising Power Limited Partnership, an entity controlled by the members of the United Chiefs and Councils of Mnidoo Mnising First Nations (**UCCMM**) and Grand Bend's equity partner, the Aamjiwnaang First Nation and Bkejwanong Territory. Adjusted EBITDA from the "other facilities" is lower than 2014 primarily due to dividends received in 2014 from Panda-Brandywine.



In thousands of dollars

	2015	2014	2013
Management and administration costs			
Operations ⁽¹⁾	25,496	20,275	15,620
Development ⁽²⁾	16,345	21,024	17,512
Total management and administration costs	41,841	41,299	33,132
Less: Facility management and administration costs	(5,435)	(4,318)	(1,923)
	36,406	36,981	31,209
Writeoff of deferred development costs	—	5,181	—
Corporate management and administration costs	36,406	42,162	31,209
Corporate adjusted EBITDA⁽³⁾⁽⁴⁾	(37,087)	(42,162)	(31,209)

(1) Includes facility management and administration costs.

(2) Excludes writeoffs of deferred development costs.

(3) A non-IFRS measure.

(4) 2015 adjusted EBITDA includes legal costs associated with sale of Cochrane Solar projects.

Total management and administration costs of \$41.8 million were \$0.5 million higher than the prior year because increased operations costs associated with increased head count and other personnel costs were only partially offset by reduced project development costs.

Corporate management and administration expenses in 2015 were \$5.8 million lower than the prior year largely due to the 2014 writeoff of 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.

CORPORATE OUTLOOK

Northland expects corporate expenditures in 2016 to be generally consistent with 2015. However, due to the expanded scope of Northland's international development activities, development expenditures may increase in 2016.

.....



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.

.....



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 Gemini, Nordsee One, Kirkland Lake, Cochrane and CEEC. Consolidation of 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 in the project in September 2014.

In thousands of dollars except as indicated

	2015	2014	2013
Energy volumes			
Electricity (MWh)	5,244,830	5,063,721	4,139,908
Sales	728,141	760,071	557,238
Cost of sales	225,692	290,692	202,479
Gross profit	502,449	469,379	354,759
Expenses			
Plant operating costs	77,390	78,662	64,235
Management and administration costs – operations	25,496	20,275	15,620
Management and administration costs – development	16,345	21,024	17,512
Depreciation of property, plant and equipment	125,661	120,191	89,879
	244,892	240,152	187,246

continued...



In thousands of dollars except as indicated			
	2015	2014	2013
Investment income	3,100	5,898	939
Finance lease income	13,437	13,656	13,886
Operating income	274,094	248,781	182,338
Finance costs	140,233	124,980	84,885
Amortization of contracts and other intangible assets	18,624	19,815	19,930
Impairments	20,808	45,287	2,807
Foreign exchange (gain) loss	2,403	(622)	(3,787)
Finance income	(2,445)	(2,831)	(1,207)
Fair value (gain) loss on derivative contracts	80,424	296,586	(102,072)
Fair value gain on convertible shares	—	—	(27,834)
Other income	(731)	(1,222)	(1,526)
Equity investment gain	(288)	(250)	(262)
Income (loss) before income taxes	15,066	(232,962)	211,404
Current income taxes	5,424	7,928	8,780
Deferred income taxes	(17,889)	(63,435)	35,605
Provision for (recovery of) income taxes	(12,465)	(55,507)	44,385
Net income (loss)	27,531	(177,455)	167,019
Net income (loss) per share – basic	\$(0.07)	\$(0.82)	\$1.08
Net income (loss) per share – diluted	\$(0.07)	\$(0.82)	\$1.03



Net income for 2015 was \$27.5 million versus a loss of \$177.5 million in 2014. The change was primarily due to the large 2014 non-cash fair value losses associated with Northland's derivative contracts (\$80.4 million loss in 2015 versus a \$296.6 million loss in 2014), a decrease in non-cash impairments and an increase in operating income, partially offset by an increase in finance costs. A large portion of the non-cash fair value change represents the fair value accounting treatment of Gemini and Nordsee One's interest rate swaps and foreign exchange contracts that are marked-to-market and consolidated within Northland's operating results.

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

- **TOTAL SALES, COST OF SALES AND PLANT OPERATING COSTS** all decreased (sales – \$31.9 million, cost of sales – \$65 million and plant operating costs – \$1.3 million) compared to 2014 for the reasons discussed in *Section 3: Facility Results* and largely due to the pass-through of lower natural gas costs to customers at Thorold and non-recurring natural gas resale margins earned during the first quarter of 2014, partially offset by higher contributions from Iroquois Falls and the renewable facilities. Plant operating costs decreased slightly from 2014 due to the Cochrane facility shutdown partially offset by new ground-mounted solar facilities coming online and a full year of operations from McLean's in 2015.
- **MANAGEMENT AND ADMINISTRATION**, as previously described, was \$0.5 million higher than the prior year primarily due to increased operations costs associated with increased head count and other personnel costs, partially offset by reduced project development costs.
- **INVESTMENT INCOME** was \$2.8 million lower than 2014 primarily due to dividends received from Northland's equity interest in Panda Energy Corporation, whose PPA was settled and its related facility assets transferred to the contract counterparty in May 2014. Investment income also includes interest earned on the loan receivable from McLean's and Grand Bend's equity partners, as discussed previously.
- **FINANCE COSTS, NET** (primarily interest expense), increased by \$15.6 million from 2014 due to the inclusion of a full year of interest on McLean's debt, interest on project debt drawn to construct the new GMS Projects and additional interest from the issuance of the 2020 Debentures in January 2015.
- **AMORTIZATION OF CONTRACTS AND OTHER INTANGIBLE ASSETS** at \$18.6 million was \$1.2 million lower than the prior year due to the shutdown of the Cochrane facility.
- **IMPAIRMENTS AND WRITEDOWNS** were \$24.5 million lower than 2014 and relate to Northland's contracts and other intangible assets, goodwill, property, plant and equipment and other equity investments. The 2015 amount of \$20.8 million comprises impairments on contracts and other intangible assets for \$16.6 million, on property, plant and equipment for \$14.1 million and on goodwill for \$12.7 million, largely as a result of changes in cash flow forecasts and the shutdown of the Cochrane facility. These impairments were partially offset by reversals of impairment on contracts and other intangible assets of \$16.1 million and on property, plant and equipment of \$6.5 million related to Kirkland Lake. Since the Kirkland Lake baseload PPA was successfully amended and a new peaking contract was signed in 2015, the corresponding 2014 impairments related to contracts and other intangible assets and property, plant and equipment have been 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. The 2014 amount was largely associated with impairments relating to the managed facilities and the writedowns of deferred development costs. Readers should refer to Note 22 of the consolidated financial statements for more details on impairment of property, plant and equipment, contracts and other intangible assets and goodwill.

- **NON-CASH FAIR VALUE LOSS** of \$80.4 million (compared to a \$296.6 million loss in 2014) is the fair value of Northland's financial derivative contracts, which 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 primarily associated with Gemini and Nordsee One. Northland's policy is to economically hedge material interest rate and foreign exchange exposures where feasible. 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 factors described above, combined with a \$5.4 million provision for current income taxes and a \$17.9 million recovery of deferred income taxes, resulted in net income for the year of \$27.5 million, compared to a net loss of \$177.5 million in the previous year.

.....

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 the 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), gain on sale of development assets, impairments, elimination of non-controlling interests and finance lease and equity accounting.

Northland loaned €80 million of subordinated debt to Gemini. The loan balance increases through accrued interest until the start of commercial operations, which is anticipated to be in 2017, after which it will be repaid with semi-annual blended principal and interest payments. Northland consolidates the financial results of 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.



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

In thousands of dollars	2015	2014	2013
Net income (loss)	27,531	(177,455)	167,019
Adjustments:			
Provision for (recovery of) income taxes	(12,465)	(55,507)	44,385
Depreciation of property, plant and equipment	125,661	120,191	89,879
Amortization of contracts and other intangible assets	18,624	19,815	19,930
Finance costs, net	137,788	122,149	83,678
Gemini subordinated debt interest	15,775	10,836	—
Change in fair value of derivative contracts	80,424	296,586	(102,072)
Change in fair value of convertible shares and replacement rights	—	—	(27,834)
Unrealized foreign exchange losses (gains)	2,525	(686)	(3,620)
Gain on sale of development assets	(7,554)	—	—
Net impairments	20,808	40,106	2,807
Elimination of non-controlling interests	(10,554)	(14,778)	(14,205)
Other	542	(547)	—
Finance lease and equity accounting	3,002	2,787	3,329
Adjusted EBITDA	402,107	363,497	263,296



Northland's 2015 consolidated adjusted EBITDA was higher than the prior year primarily due to:

- \$20.4 million increase in operating results from Northland's renewable facilities largely due to generation from new facilities;
- \$19.2 million increase primarily from an interim payment at the Iroquois Falls facility associated with the court decision requiring the OEFC to revise the price escalator of the PPA;
- \$5.2 million increase related to the writeoff of deferred developments costs in 2014;
- \$3.9 million higher investment income earned on Northland's portion of the Gemini subordinated debt; and
- \$1.3 million higher management fees earned from Kirkland Lake.

These favourable results were partially offset by:

- \$5.8 million lower contributions from Thorold largely due to the one-time charge associated with a settlement under the IESO generator cost-recovery program;
- \$2.8 million lower investment income largely due to dividends received in 2014; and
- \$2.5 million lower contribution from Kingston due to non-recurring gas resale margins in 2014.

.....



Section 6: Equity, Liquidity and Capital Resources

Equity and Convertible Unsecured Subordinated Debenture Information

As at December 31, 2015, Northland had outstanding 169,645,251 Shares (2014 – 149,409,892 Shares), 4,501,565 Series 1 Preferred Shares, 1,498,435 Series 2 Preferred Shares, 4,800,000 Series 3 Preferred Shares and 1,000,000 Class A Shares. During the year, a total of 2,557,561 Shares (2014 – 2,537,651 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.

In September 2015, Northland announced that 1,498,435 of its 6,000,000 Series 1 Preferred Shares converted on a one-for-one basis into Series 2 Preferred Shares. Consequently, Northland now has 4,501,565 Series 1 Preferred Shares outstanding with fixed quarterly dividends payable at an annual rate of 3.51% (\$0.22 per share per quarter) until September 29, 2020, and 1,498,435 Series 2 Preferred Shares outstanding with a floating quarterly dividend payable at an annual rate of 2.80% over the annual yield on 90-day Government of Canada treasury bills (as determined on the relevant quarterly dividend determination date). The actual quarterly dividend rate with respect to the September 30, 2015, to December 30, 2015, dividend period for the Series 2 Preferred Shares was 0.80% (3.18% on an annualized basis), representing \$0.20 per share, paid on December 31, 2015. The Series 1 Preferred Shares are listed on the Toronto Stock Exchange under the symbol "NPI.PR.A," and the Series 2 Preferred Shares are listed under the symbol "NPI.PR.B."

In January 2015, Northland announced the closing of a \$157.5 million offering of 4.75% convertible unsecured subordinated debentures. In March 2015, Northland closed a \$231 million offering of 14,437,500 common shares. Northland also issued, on a private placement basis, 3,125,000 common shares to a subsidiary of Northland Power Holdings Inc., a company controlled by the Chairman of Northland, James C. Temerty. The aggregate gross proceeds from the offering and placement were \$281 million (\$271.3 million after costs and underwriters' fees). Northland used the net proceeds of the offerings primarily to fund a portion of Northland's equity investment in Nordsee One and Grand Bend, to replenish working capital and for general corporate purposes.

On March 5, 2014, Northland announced the closing of a \$157.5 million offering of 9,843,750 common shares and \$78.8 million 2019 Debentures. Northland also issued, on a private placement basis, 3,125,000 common shares to a subsidiary of Northland Power Holdings Inc., a company controlled by the Chairman of Northland, James C. Temerty. The aggregate gross proceeds from the offering and placement were \$286.3 million (\$275.7 million after costs and underwriters' fees). Northland used the net proceeds of the offerings primarily to fund a portion of Northland's equity investment and subordinated loan to Gemini.



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. Certain executives receive LTIP awards annually pursuant to employment agreements. 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 2015 and 2014, milestones were achieved requiring management to estimate the share-based cost of LTIP awards. For the year ended December 31, 2015, Northland issued 115,298 Shares (2014 – 632,701 Shares) to employees and capitalized \$4.6 million (2014 – \$3.1 million) and expensed \$1.2 million (2014 – \$2.2 million) of costs under the LTIP.

During 2015, Northland recognized a \$304.8 million increase in total equity. The increase in Shares was primarily due to the public offering and private placement in March 2015 and the issuance of additional Shares under Northland's LTIP and DRIP programs and deferred rights. As a result of the acquisition of the controlling interests in CEEC, Gemini and Nordsee and the equity funding of McLean's, Grand Bend, Gemini and Nordsee by their non-controlling partners, Northland's shareholders' equity includes non-controlling interests, which totals \$413.9 million at December 31, 2015. Readers should refer to Note 21 to the consolidated financial statements for additional details related to Northland's non-controlling interests. Shareholders' equity also includes \$14.6 million in accumulated other comprehensive income, which arises as the Canadian dollar/euro exchange rate fluctuates and Gemini and Nordsee results are translated into Canadian dollars.

As of the date of this MD&A, Northland has outstanding 170,007,882 Shares, 4,501,565 Series 1 Preferred Shares, 1,498,435 Series 2 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.

.....



Liquidity and Capital Resources

In thousands of dollars	2015	2014	2013
Cash and cash equivalents – opening	193,412	138,460	31,715
Cash provided by operating activities	398,743	366,589	257,078
Cash used in investing activities	(2,237,717)	(1,808,861)	(444,156)
Cash provided by financing activities	1,793,427	1,524,023	293,683
Effect of exchange rate differences	4,062	(26,799)	140
Cash and cash equivalents – ending	151,927	193,412	138,460
Total assets	7,366,395	4,999,094	3,063,226
Total long-term liabilities	5,542,986	3,374,729	1,950,894

Cash and cash equivalents for the year ended December 31, 2015, were \$151.9 million, which decreased by \$41.5 million from December 31, 2014, primarily due to \$2.2 billion in cash used in investing activities being partially offset by \$398.7 million in cash provided by operating activities and \$1.8 billion in cash provided by financing activities.

Cash provided by operating activities for the year ended December 31, 2015, was \$398.7 million, comprising net income of \$27.5 million, \$360.9 million in non-cash and non-operating items such as depreciation and amortization, unrealized foreign exchange loss, the impairment of property, plant and equipment, contracts and other intangibles, goodwill and changes in fair value financial instruments, combined with a \$10.4 million decrease in working capital since December 31, 2014, due to the timing of year-end payables, receivables and deposits. The increase in cash from operating activities in 2015 was largely the result of higher adjusted EBITDA, as described earlier.

Cash used for investing activities consumed \$2.2 billion for the year ended December 31, 2015, primarily due to: (i) \$1.9 billion used for the purchase of property, plant and equipment, mostly for the construction of the Gemini, Nordsee One, Grand Bend and Cochrane Solar projects; (ii) a net reserve increase of \$229.9 million primarily associated with the transfer of funds related to construction expenditures (\$148.2 million is associated with construction activities at Nordsee One and \$94.3 million associated with the construction activities at Grand Bend); (iii) an \$84.2 million investment in the shares of Nordsee One; and (iv) \$73.3 million in deferred development costs, largely related to Nordsee One. Partially offsetting these uses were: (i) an \$73.5 million change in working capital related to the timing of construction payables (\$41.6 million is associated with construction payables at Gemini and Nordsee); (ii) \$10.8 million in net proceeds primarily related to the sale of Frampton; and (iii) \$2.4 million of interest received.



Cash provided by financing activities for the year ended December 31, 2015, was \$1.8 billion, comprising: (i) \$1.7 billion of proceeds from Gemini and Nordsee One's third-party senior debt and Grand Bend's project financing; (ii) \$421.9 million of net proceeds from the offerings of convertible debentures and of common shares; (iii) \$179.6 million of net proceeds from the refinancing of the Thorold senior bank debt; (iv) \$9.9 million in non-controlling interest equity contributions; and (v) a \$2.2 million repayment receipt on the loan made to the McLean's equity partner. Partially offsetting these proceeds were: (i) a \$179.3 million debt repayment associated with the Thorold refinancing; (ii) \$151 million of common, Class A and preferred share dividends; (iii) \$131.7 million in interest payments; (iv) \$64.9 million in scheduled loan repayments (including Kirkland Lake); and (v) \$12.8 million of dividends to the non-controlling shareholders of McLean's and CEEC.

Due to the weakening of the Canadian dollar versus the euro, Northland's December 31, 2015, consolidated cash and cash equivalents was positively affected by \$4.1 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 Gemini and Nordsee for expenditures and the purchase of euro-denominated property, plant and equipment.

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 increased by \$238.6 million primarily due to funds set aside for construction at Grand Bend and the Nordsee One offshore wind farm.
- Trade and other receivables increased by \$34.4 million mainly due to the timing of receipts for electricity sales and input tax credits related to construction activities.
- Property, plant and equipment increased \$2.2 billion from 2014 primarily due to construction-related activities at Grand Bend, Gemini, Nordsee One and Cochrane Solar and reclassification of deferred development costs to property, plant and equipment (Nordsee One and Grand Bend).
- Contracts and other intangible assets decreased by \$90.8 million mainly due to contract amortization, impairments, the reclassification of deferred development costs to property, plant and equipment, and the sale of Frampton, including its deferred development costs.
- Other assets increased by \$44.9 million primarily due to increased loan receivables from the Grand Bend and Cochrane Solar equity partners.
- Goodwill decreased by \$12.7 million primarily due to the impairment charge taken in 2015. 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 \$7.5 million largely due to the timing of construction-related payables, including amounts owing at Gemini, Nordsee One, Cochrane Solar and Grand Bend.
- Interest-bearing loans and borrowings increased by \$1.8 billion mainly due to Gemini and Nordsee One debt and Grand Bend's project financing, partially offset by scheduled loan repayments.
- Convertible unsecured subordinated debentures increased by \$152.4 million due to the issuance of the 2020 Debentures.
- Provisions increased by \$6 million primarily due to the decommissioning provisions related to Northland's wind farms and solar sites, which are generally located on leased lands.
- Net deferred tax liabilities (deferred tax liabilities less deferred tax assets) of \$29.1 million decreased by \$17.2 million from 2014 due to movements in accounting versus tax amounts; in particular, fair value losses on derivative contracts.
- Net derivative financial liabilities of \$431.7 million increased by \$96.8 million primarily 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 (\$3.2 million relates to Gemini's interest rate swap contracts).



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

In thousands of dollars	Cost balance as of December 31, 2014	Additions	Recovery (Writeoffs)	Other ⁽¹⁾	Foreign exchange	Transfers	Cost balance as of December 31, 2015
Operations							
Thermal ⁽²⁾	1,614,941	327	(14,103)	—	—	—	1,601,165
Renewable	1,006,118	65	—	2,213	2,433	383,785	1,394,614
	2,621,059	392	(14,103)	2,213	2,433	383,785	2,995,779
Construction							
Renewable	184,842	459,667	—	1,483	—	(361,240)	284,752
Gemini	1,572,625	1,231,110	—	2,954	183,882	—	2,990,571
Nordsee	733	242,693	—	2,264	25,336	129,395	400,421
	1,758,200	1,933,470	—	6,701	209,218	(231,845)	3,675,744
Managed⁽³⁾	217,587	—	6,465	—	—	—	224,052
Corporate⁽⁴⁾	11,929	2,573	—	(33)	—	2,517	16,986
Total	4,608,775	1,936,435	(7,638)	8,881	211,651	154,457	6,912,561
Deferred development⁽⁵⁾							
Corporate	14,098	14,219	—	(3,254)	—	(25,063)	—
Nordsee	92,090	59,033	—	(17,464)	(4,265)	(129,394)	—
Total	106,188	73,252	—	(20,718)	(4,265)	(154,457)	—

(1) Includes the accrual for asset retirement obligations for accounting purposes, tax credits, LTIP shares granted and writeoffs of deferred development costs and accounting impairments.

(2) Excludes Spy Hill lease receivable accounting treatment.

(3) Kirkland Lake and Cochrane facilities.

(4) Includes certain costs related to projects in construction.

(5) All deferred development costs associated with Grand Bend and Nordsee One were transferred to construction-in-progress in the first quarter of 2015.



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

	Balance as of December 31, 2014	Financings	Repayments	Amortization of costs/ fair value	Transfers	Exchange rate differences	Balance as of December 31, 2015
In thousands of dollars							
Operations							
Thermal ⁽¹⁾	1,129,096	179,589	(214,551)	2,389	—	—	1,096,523
Renewable ⁽²⁾	708,707	64,705	(27,320)	869	130,570	—	877,531
	1,837,803	244,294	(241,871)	3,258	130,570	—	1,974,054
Construction							
Renewable	130,570	325,645	—	—	(130,570)	—	325,645
Gemini ⁽³⁾	823,848	1,229,879	—	—	—	131,336	2,185,063
Nordsee	—	99,387	—	—	—	2,418	101,805
	954,418	1,654,911	—	—	(130,570)	133,754	2,612,513
Managed⁽⁴⁾	2,340	—	(2,340)	—	—	—	—
Corporate⁽⁵⁾	246,048	—	—	528	—	3,488	250,064
Total	3,040,609	1,899,205	(244,211)	3,786	—	137,242	4,836,631

(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 debt, which eliminates on consolidation.

(4) Kirkland Lake and Cochrane facilities.

(5) Excludes convertible unsecured subordinated debentures.



Long-Term Project Debt

In March 2015, Northland completed the refinancing of Thorold's credit facility. The facility is non-recourse to Northland and comprises a \$183 million bank term loan and \$16 million letter of credit facility, along with an existing institutional term debt of \$179 million. The bank term loan matures in March 2030, coincident with the maturity of the existing institutional debt. The average all-in interest rate on the new loan is 7.05%.

In March 2015, the Nordsee One project completed €903 million of non-recourse project financing with a syndicate of financial institutions, including a €63 million contingent debt facility. The project loans include a three-year construction period and an approximately 10-year amortization period. The majority of the interest rate exposure for the project has been hedged over the full loan amortization period with an effective interest rate of approximately 3.29%.

In March 2015, Northland completed \$326 million of non-recourse project financing and a \$16 million letter of credit facility for the Grand Bend wind farm. The loan is interest-only during construction and for 3.5 years after commercial operations is achieved, after which blended principal and interest payments at a rate of 4.25% will fully amortize the loan by its maturity in December 2035. At the time of financing, Northland also provided a loan to its First Nations partner for \$28.7 million for a portion of their equity contribution.

In October 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.

In May 2014, the Gemini project closed on approximately €2 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%.

In April 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.



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, Class A and preferred shareholders. Certain of those entities have outstanding debt arising from non-recourse project financing at the subsidiary entity. Under the credit agreements or trust indentures for such debt, distributions of cash to Northland are typically prohibited if the coverage ratios or other covenants are not met and/or the loan is in default (notably for non-payment of principal or interest or if certain debt service coverage ratios are not met). Northland and its subsidiaries were in compliance with all debt covenants for the year ended December 31, 2015.

Readers should refer to Northland's 2015 AIF, dated February 29, 2016, for additional details concerning its debt covenants.

Corporate Facility and Letters of Credit

Northland's corporate credit facilities total \$800 million as of December 31, 2015. The facilities are available for general corporate purposes, to support operational, construction and development opportunities and as security against letters of credit issued on behalf of Northland.

The corporate credit facility includes the following:

- A \$450 million revolving facility in place until March 2020 with successive annual renewals at Northland's option, subject to lender approval;
- A \$250 million term facility that matures in March 2018 with a one-year renewal at Northland's option, subject to lender approval; and
- A \$100 million corporate letter of credit facility in place until March 2018 with successive annual renewals at Northland's option, subject to lender approval.

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 of the \$250 million term facility remains unchanged at March 2018 and includes a one-year renewal option.



As of December 31, 2015, Northland and its subsidiaries had \$371.2 million of letters of credit outstanding, of which \$338.6 million were issued as security under Northland's corporate credit facilities for certain projects in operation, advanced development and construction, and \$32.6 million was issued under specific subsidiaries' non-recourse credit facilities.

In millions of dollars	Purpose	Amount
Corporate⁽¹⁾	Operations	147.1
	Advanced development and construction	191.5
		338.6
Project entity⁽²⁾	Operations	28.1
	Construction	4.5
		32.6
		371.2

(1) Secured by Northland's \$450 million corporate revolver and \$100 million corporate letter of credit facility.

(2) Secured by project-level credit agreements.

Acquisitions

In September 2014, Northland acquired an 85% equity stake in three offshore wind projects (**collectively, "Nordsee"**) located in the North Sea, 40 kilometres north of Juist Island in German territorial waters, from RWE Innogy GmbH (**"RWE"**). The acquired projects include Nordsee One, a 332 MW project then 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.

Subsequent to the acquisition, Nordsee One reached financial close of the non-recourse project funding in March 2015, and the consortium owners contributed their required equity, totalling €143.5 million (CA\$195.3 million at the time).

In May 2014, Northland acquired an interest in Gemini, located 85 kilometres off the coast of the Netherlands in the North Sea. Gemini is owned by a consortium consisting of affiliates.



Subsequent to the acquisition, Gemini reached financial close in May 2014, 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. The loans currently earn interest at a rate of 13%.

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.

Sustainability of Cash Flows and Dividends

Northland continues to execute 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 and generate stable cash flow streams over their asset lives, while ensuring ongoing environmental sustainability and the health and safety of its employees and its host communities. Management believes that cash flows generated by operations and available through other sources are sufficient to maintain plant capacities over their asset lives. For current and future development projects, Northland intends to maintain its current approach, 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.

Northland's corporate rating as rated by Standard & Poor's credit rating agency is currently BBB Stable. In addition, Northland's preferred share rating and unsecured debt ratings on Standard & Poor's global scale and Canada scale are BB+ and P-3 (high), respectively.

**Free Cash Flow and Dividends to Shareholders**

In 2015, 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 consolidated financial statements of Northland:

In thousands of dollars except as indicated	2015	2014	2013
Cash provided by operating activities	398,743	366,589	257,078
Northland adjustments			
Net change in non-cash working capital balances related to operations	(10,362)	(5,607)	7,950
Capital expenditures, net non-expansionary	(1,164)	(2,200)	(1,339)
Interest paid, net	(129,281)	(111,386)	(73,650)
Scheduled principal repayments on term loans	(62,613)	(52,706)	(30,467)
Funds utilized (set aside) for quarterly scheduled principal repayments	(689)	(79)	(607)
Restricted cash utilization (funding) for major maintenance/debt service	(6,342)	1,036	(4,716)
Writeoff of deferred development costs	—	(5,181)	—
Consolidation of non-controlling interests	(2,136)	(9,851)	(10,899)
Equity accounting	540	(25)	(107)
Net proceeds from the sale of development assets ⁽¹⁾	7,529	—	—
Corporate credit facility renewal costs	—	(2,598)	—
Other	1,128	750	750
Preferred share dividends	(13,195)	(13,876)	(13,876)
Free cash flow⁽²⁾	182,158	164,866	130,117

continued...



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

	2015	2014	2013
Cash dividends paid to common and Class A shareholders	137,852	115,322	98,908
Free cash flow payout ratio – net dividends ⁽²⁾⁽³⁾	76%	70%	76%
Total dividends⁽⁴⁾ to common and Class A shareholders	177,766	155,827	131,664
Free cash flow payout ratio – total dividends ⁽²⁾⁽³⁾	98%	95%	101%
Free cash flow payout ratio – total dividends since initial public offering ⁽²⁾⁽³⁾	102%	103%	104%
Weighted average number of shares – basic (thousands of shares)⁽⁵⁾	167,555	146,765	123,482
Weighted average number of shares – fully diluted (thousands of shares)⁽⁶⁾	183,713	153,307	123,482
Per share (\$/share)			
Free cash flow – basic ⁽²⁾	\$1.09	\$1.12	\$1.05
Free cash flow – fully diluted ⁽²⁾	\$0.99	\$1.10	\$1.05

.....

(1) Amount is net of deferred development costs.

(2) A non-IFRS measure.

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

(4) Total dividends to common and Class A shareholders represent dividends declared irrespective of whether the dividend is received in cash or in shares as part of the DRIP program.

(5) The number of shares and the related per share numbers 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 common shares that may be issuable with respect to the conversion of Northland's outstanding convertible debentures.

(6) 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 and 2020 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 because 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) because 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. 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) within 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 \$182.2 million was \$17.3 million higher (10%) than in 2014; significant factors increasing and decreasing free cash flow in 2015 are described below.



Factors increasing free cash flow were:

- A \$38.6 million increase in adjusted EBITDA reduced by the \$4.9 million of investment income from Gemini, which will be included in free cash flow only when cash is received;
- \$6.8 million net proceeds from the sale of Frampton and land leases and options associated with early-stage development projects;
- \$2.6 million of fees related to the renewal and expansion of Northland's corporate credit facility in 2014; and
- A \$2.3 million increase in other liabilities associated with North Battleford's maintenance contract compared to a milestone payment in 2014.

Factors decreasing free cash flow were:

- A \$14.5 million net interest expense increase related to the inclusion of McLean's and additional GMS Projects debt and interest on the 2020 Debentures;
- A \$9.1 million increase in scheduled debt repayments largely due to the inclusion of the GMS Projects; and
- A \$7.4 million increase of funds set aside for future major maintenance.

All dividends paid by Northland during 2015 will qualify for the enhanced dividend tax credit. Readers should refer to Northland's website at www.northlandpower.ca for additional information on the taxability of Northland's common and preferred share dividends.

.....

**Payout Ratio**

For the 12-month period ended December 31, 2015, Northland's dividend payments were 76% of free cash flow or 98% on an all-cash dividend basis (if the impact of the DRIP were excluded). A free cash flow payout that approximates 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'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 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.

.....



Section 7: Construction and Development Activities

Projects Under Construction

Gemini 600 MW Offshore Wind Project – Netherlands

In May 2014, Northland acquired a 60% interest in Gemini, which is located 85 kilometres off the coast of the Netherlands in the North Sea. Gemini is owned by a consortium consisting of affiliates. The project has a 15-year electricity subsidy agreement with 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.

Significant milestones in the construction of Gemini were achieved throughout 2015. As of the date of this report, the 150 wind turbine foundations (monopiles and transition pieces), the two offshore high-voltage substations (**OHVS**) and OHVS foundations (jackets) were all completed. Installation of both OHVS was completed in August 2015. In addition, 100% of the 209 kilometres of the underwater electrical cable connecting the wind farm to the Dutch grid have been laid in the seabed, tested and energized. The first two wind turbines were installed in February 2016, with the remainder expected to be installed and commissioned throughout 2016 and 2017.

Gemini's total capital cost is approximately €2.8 billion (CA\$4.2 billion as at December 31, 2015). Full commercial operations are expected in 2017. As at December 31, 2015, Gemini had incurred €2 billion (CA\$3 billion) of construction costs. The project remains on time and on budget.

Nordsee One 332 MW Offshore Wind Farm – Germany

In September 2014, Northland acquired an 85% equity stake from RWE in Project Nordsee One, a 332 MW, €1.2 billion offshore wind development located in the North Sea, 40 kilometres north of Juist Island in German territorial waters. RWE holds the remaining 15% equity interest in the wind farms. Nordsee One is entitled to a subsidy for approximately 10 years under the German Renewable Energy Act, which is added to the market power price, effectively generating a fixed unit price for energy sold.

In March 2015, Northland and RWE announced that the Nordsee One project had reached financial close, with all of the equity contributed to the project and all debt required for the project fully committed by the project lenders. Approximately 70% of the project's total costs will be provided from an €840 million non-recourse secured construction and term loan and related loan facilities from 10 international commercial lenders.

Subsequent to financial close, all major supply and construction contracts were made effective, and all contractors have since commenced their respective contract works. Construction of Nordsee One continues to progress as expected. Production of the major balance of plant components, such as the offshore substation platform and its foundation, foundation (monopiles and transition pieces) and infield cables, are proceeding as planned. Fabrication and electrical equipment outfitting of the offshore platform and jackets continue on schedule in support of installation expected in the fall of 2016. All 54 monopile foundations have commenced production with more than 50% complete.



In December 2015, the first foundation was successfully installed. A total of 18 of the 54 foundations have been installed in the water. Production of all in-field cables is nearly complete, and production of the turbines is anticipated to commence in 2016.

Nordsee's total capital cost is approximately €1.2 billion (CA\$1.8 billion as at December 31, 2015). Full commercial operations continue to be expected in the second half of 2017. As at December 31, 2015, Nordsee had incurred €0.3 billion (CA\$0.4 billion) of construction and development costs. The project remains on time and on budget.

Grand Bend 100 MW Wind Project – Ontario

In March 2015, Northland issued a 50% interest of the 100 MW Grand Bend Wind Limited Partnership to Giiwedini Noodin FN Energy Corporation (**"Giiwedini FN"**), which was created to hold the equity interest of the Aamjiwnaang First Nation and Bkejwanong Territory (Walpole Island First Nation) in the project. The project has a 20-year PPA with the IESO under the FIT Program.

Subsequent to the issuance of the partnership interest, as of March 31, 2015, project financing for the Grand Bend wind farm was completed by the partners with all of the equity contributed to the project and all \$326 million debt required for the project fully committed by the project lenders.

The project construction continues to progress well, with 28 of the 40 wind turbines fully erected. Turbine commissioning is also well under way with interim revenue being earned on several turbines. In January 2016, the project reached a significant milestone with the achievement of the full energization of the switching station, the 32-kilometre-long transmission line and main transformer and reactor station. The operations and maintenance building renovations are complete.

Capital cost of the project is estimated to be approximately \$384 million. As at December 31, 2015, Grand Bend has incurred \$301.2 million of development and construction costs. The project remains on budget and completion is expected by the end of the third quarter of 2016.

Ground-Mounted Solar Projects

In 2010, Northland secured 20-year PPAs for the GMS Projects qualifying under the Green Energy Act, 2009. The 130 MW GMS Projects were built in phases and have all been financed and are substantially complete.

In June 2015, Northland completed the sale of a 37.5% equity interest in Northland's Cochrane Solar projects located in Northern Ontario to Taykwa Tagamou Nation and Wahgoshig First Nation. The total consideration for the equity interest is approximately \$45.7 million, of which approximately \$17.5 million is expected to be a Northland vendor loan repayable from the partner's net proceeds of the project. The remaining \$28.2 million is subject to the Taykwa Tagamou Nation and Wahgoshig First Nation successfully closing financing arrangements. The sale resulted in a non-cash loss of \$13.8 million (including \$0.7 million of transaction costs), recorded to shareholders' equity, because Northland continues to retain control over these Cochrane Solar projects.

As of the date of this report, all 13 projects totalling 130 MW are operating and, in the absence of outages from the transmission provider, are performing according to and in some cases better than Northland's expectations.

.....



Other Projects

Frampton 24 MW Wind Project – Quebec

In February 2015, Northland sold its 66.7% interest in the advanced-development 24 MW Frampton wind project to Boralex Inc. for net proceeds of \$10.8 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.

.....

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 2016, management expects adjusted EBITDA to be \$500 to \$530 million, an increase of approximately 28% over 2015. This adjusted EBITDA guidance includes Northland's share of pre-completion revenues from Gemini (€80 to €90 million at an assumed average rate of CA\$1.47/euro) but excludes any lump-sum retroactive payments to Northland from past amounts owed by the OEFC pursuant to the Global Adjustment settlement, which is currently under appeal. In its original application, Northland estimated that its potential lost revenue over the life of the relevant agreements was approximately \$200 million.

The 2016 adjusted EBITDA is expected to increase from \$402 million in 2015 due to the following factors:

- €80 to €90 million in additional adjusted EBITDA from Northland's share of net pre-completion revenue from Gemini at an assumed average rate of CA\$1.47/euro;
- \$15 to \$18 million higher adjusted EBITDA from a full year of the Cochrane Solar projects because they were operational for part of 2015;
- \$11 to \$14 million higher adjusted EBITDA from the Grand Bend wind farm, which is expected to be operational for part of 2016;
- \$25 to \$31 million lower adjusted EBITDA from Northland's operating facilities primarily due to lower management fees in 2016 related to the lower rates for the new baseload gas-fired portion of the Kirkland Lake PPA and a one-time additional management fee from Kirkland Lake in 2015; and
- \$11 to \$15 million lower adjusted EBITDA due to potentially higher development expenditures related to the expanded scope of Northland's international development activities.

In 2018, once the construction of both offshore wind projects are completed and fully operational, excluding investment income from the subordinated debt, management expects Gemini and Nordsee One to generate adjusted EBITDA of €170–190 million and €160–180 million, respectively, reflecting Northland's equity interest of 60% and 85%, respectively.



In 2016, management expects the free cash flow per share to be in the range of \$0.93 to \$1.08 per share. This free cash flow per share guidance does not include lump-sum retroactive payments Northland may receive from the March 2015 court decision against the OEFC related to the price escalation in certain PPAs, which is currently under appeal. It includes \$28 million of expected proceeds from the sale of 37.5% of four ground-mounted solar projects that is subject to meeting certain conditions.

The 2016 free cash flow per share guidance reflects the higher adjusted EBITDA forecast as described previously, along with the following expected changes in free cash flows and weighted average number of shares outstanding:

- \$21 million higher free cash flow expected from the sale of the 37.5% equity interest in Cochrane Solar partly offset by proceeds received from sale of the Frampton wind project in 2015;
- \$7 to \$10 million higher free cash flow from the Grand Bend wind farm, which is expected to be operational at the beginning of the third quarter of 2016 as described previously;
- \$3 to \$6 million higher free cash flow from a full year of GMS Projects that commenced operations partway through 2015 as described previously;
- \$24 to \$36 million lower free cash flow from the existing operating facilities due to lower adjusted EBITDA as described previously combined with lower reserve funding, higher debt service and capital expenditures;
- \$11 to \$15 million lower free cash flow due to potentially higher development expenditures as described previously; and
- An increase in the weighted average number of shares outstanding as a result of the additional equity investment for Nordsee and Grand Bend at the end of the first quarter of 2015.

Gemini's net pre-completion revenue is excluded from the free cash flow calculation because the cash generated is primarily used to fund construction costs pursuant to the credit agreement.

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 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.

.....



Section 9: Historical Consolidated Quarterly Results

In millions of dollars except per-share amounts	December 31,				
	Q1	Q2	Q3	Q4	2015
Sales	201.6	167.3	187.7	171.5	728.1
Operating income	74.3	59.5	79.7	60.6	274.1
Net income (loss)	(30.6)	140.3	(91.1)	8.9	27.5
Adjusted EBITDA⁽¹⁾	97.1	91.4	119.2	94.4	402.1
Cash provided by operating activities	119.6	88.2	118.0	72.9	398.7
Free cash flow⁽¹⁾	50.2	34.6	63.1	34.3	182.2
Net income (loss) per Share – basic	(0.12)	0.53	(0.51)	0.01	(0.07)
Net income (loss) per Share – diluted	(0.12)	0.48	(0.51)	0.02	(0.07)
Free cash flow per Share⁽¹⁾	0.33	0.20	0.37	0.20	1.09
Dividends declared per Share	0.27	0.27	0.27	0.27	1.08

In millions of dollars except per-share amounts	December 31,				
	Q1	Q2	Q3	Q4	2014
Sales	229.4	170.0	172.5	188.2	760.1
Operating income	84.0	50.4	54.3	60.1	248.8
Net income	28.6	(91.8)	(43.8)	(70.5)	(177.5)
Adjusted EBITDA ⁽¹⁾	102.1	81.4	86.8	93.2	363.5
Cash provided by operating activities	51.4	166.1	74.5	74.6	366.6
Free cash flow ⁽¹⁾	56.8	31.4	35.6	41.2	165.0
Net income per Share – basic	0.08	(0.44)	(0.11)	(0.34)	(0.82)
Net income per Share – diluted	0.08	(0.44)	(0.11)	(0.34)	(0.82)
Free cash flow per Share ⁽¹⁾	0.41	0.21	0.24	0.28	1.12
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 prior to the expiry of the PPA), 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.

.....



Section 10: Fourth-Quarter 2015 Results

Northland's fourth-quarter adjusted EBITDA was \$94.4 million, a \$1.2 million increase from the same quarter in 2014, while free cash flow of \$34.3 million was \$6.9 million lower than the same quarter last year. Major variances compared with the fourth quarter of 2014 are discussed below:

- **THERMAL FACILITIES:** Electricity production during the fourth quarter of 2015 was approximately 3% lower than the prior year due to fewer economic production periods at Spy Hill and a five-day maintenance outage and off-peak curtailments at Kingston. However, gross profit was higher than the same period last year because an increase in PPA rates at the Iroquois Falls facility offset lower revenue at Thorold associated with the pass-through of lower natural gas costs and electricity prices, as discussed previously. Operating expenses were minimally higher than 2014 due to increased General Electric (**GE**) maintenance contract costs at North Battleford and Iroquois Falls and to Kingston's maintenance outage partially offset by Thorold's 2014 maintenance outage. As a result of the above factors, operating income and adjusted EBITDA were \$4.2 million and \$4 million higher, respectively, than the prior year.
- **RENEWABLE FACILITIES:** Electricity production was in line with the previous year because higher production at the German wind farms combined with the inclusion of 13 ground-mounted solar sites offset lower production at McLean's, Jardin and Mont Louis due to calmer winds in comparison to 2014. Electricity revenue during the fourth quarter of 2015 was \$5.3 million higher than the prior year largely due to the inclusion of additional ground-mounted solar facilities (\$4.5 million), curtailment revenue at McLean's (\$0.7 million) and higher production at the German wind farms (\$0.3 million). This positive variance offset lower production and revenue at Jardin (\$0.2 million). Operating expenses were approximately \$0.4 million higher than the prior year due to the additional operating solar farms. Higher revenue, partially offset by increased operating expenses, resulted in operating income and adjusted EBITDA both exceeding the prior quarter by \$0.2 million and \$4.5 million, respectively.
- **MANAGEMENT AND ADMINISTRATION COSTS** were \$0.3 million higher than the same period in 2014 due to additional costs attributable to increased head count and related personnel costs, partially offset by reduced development prospecting costs.
- **NET FINANCE COSTS**, primarily interest expense, increased by \$5 million from 2014 due to the inclusion of interest on the GMS Projects debt and higher convertible debenture interest due to the issuance of the 2020 Debentures.
- **IMPAIRMENTS** were \$28.8 million lower than 2014 and relate to Northland's contracts and other intangible assets, goodwill, property, plant and equipment and other equity investments as described previously. Readers should refer to Note 22 of the consolidated financial statements for more details on impairment of property, plant and equipment, intangible assets and goodwill.
- **NON-CASH FAIR VALUE LOSSES** of \$1 million (compared to a \$98.7 million loss in 2014) primarily consisted of a \$1 million loss in the fair value of Northland's financial derivative contracts.



The factors described above combined with a provision for \$0.3 million of current income taxes and \$0.7 million of deferred income taxes resulted in net income for the quarter of \$9 million and adjusted EBITDA of \$94.4 million.

Cash and cash equivalents decreased by \$45 million during the quarter because \$72.9 million of cash generated from operations and \$217.4 million of cash provided by financing activities were more than offset by \$354.4 million of cash used for investing activities.

Cash provided by operating activities for the fourth quarter of 2015 was \$72.9 million, comprising net income of \$9 million, \$80.6 million in non-cash and non-operating items such as depreciation and amortization, unrealized foreign exchange gains, the impairment of contracts and other intangibles and changes in fair value financial instruments, combined with a \$16.6 million increase in working capital due to the timing of year-end payables, receivables and deposits.

Cash used in investing activities for the fourth quarter of 2015 included: (i) \$304.3 million used for the purchase of property, plant and equipment, the majority of which related to construction of the Gemini project, Nordsee One, Grand Bend and Cochrane Solar projects; and (ii) \$249.2 million in reserve funding, which mainly related to the Gemini, Nordsee One, Grand Bend and Cochrane Solar projects. Partially offsetting these usages was a \$299.7 million increase in working capital related to the timing of construction activities.

Cash provided by financing activities for the fourth quarter of 2015 was \$217.4 million, comprising \$314.3 million of proceeds from Gemini's third-party senior debt and Grand Bend's project financing, partially offset by: (i) \$31.7 million in interest payments; (ii) \$39.7 million of common, Class A and preferred share dividends, (iii) \$23.6 million in scheduled loan repayments (including Kirkland Lake); and (iv) \$4.9 million of dividends to non-controlling shareholders.

Fourth-quarter free cash flow at \$34.3 million was \$6.9 million lower than the same period last year. Favourable changes from the same period for 2014 included: (i) \$2.1 million positive variance related to North Battleford's maintenance contract; (ii) \$1.2 million increase in adjusted EBITDA; and (iii) \$0.7 million reduction in preferred share dividends due to the rate reset and conversion to the variable rate Series 2 Preferred Shares. Offsetting these favourable variances were: (i) \$4.8 million increase in scheduled debt repayment as a result of constructing additional GMS Projects; (ii) \$4.6 million net interest increase, related to additional GMS Projects debt and interest on the 2020 Debentures; and (iii) \$3.7 million increase in funds set aside for future major maintenance.

For the three-month period ending December 31, 2015, Share and Class A Share dividends declared for the quarter totalled \$0.27 per share. This is equivalent to a payout ratio of 108%, or 134% if all dividends were paid out in cash (i.e., excluding the effect of dividends reinvested through Northland's DRIP).

.....



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, 2015. The amounts are based on the assumptions of a 2% annual consumer price index increase, a Canadian dollar/U.S. dollar exchange rate of \$1.33 and Canadian dollar/euro exchange rate of \$1.43. The table includes natural gas transportation demand charges for which Northland is liable whether or not natural gas is shipped; forecast 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 and Nordsee One projects. The cash obligations related to the leases for land and buildings and dismantlement are also included.

In thousands of dollars	2016	2017	2018	2019	2020	>2020
Natural gas supply and transportation,						
fixed portion	46,924	27,396	20,326	17,457	14,132	34,930
Maintenance agreements	38,018	97,284	131,733	130,364	118,979	2,385,130
Leases	5,890	4,949	4,527	4,562	4,622	45,245
Management fees	704	303	6,309	6,314	6,320	40,569
Construction, excluding debt,						
interest and fees	1,660,787	364,671	—	—	—	—
Dismantlement funding	2,325	—	—	—	425	91,693

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.

**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, 2015, are as follows:

In thousands of dollars	Currency	2016	2017	2018	2019	2020	>2020
U.S. dollar foreign exchange contracts	US\$	16,084	4,800	5,100	5,200	4,100	—
Euro foreign exchange contracts	Euro	3,141	2,316	104,556	104,505	119,058	919,267
Danish krone foreign exchange contract	DKK	26,145	—	—	—	—	—
Amortizing loans, including							
interest rate swaps	CA\$	346,787	367,008	852,712	635,133	746,352	5,592,135
Financial natural gas contract	CA\$	13,053	25,165	26,240	27,045	28,657	33,451
Convertible subordinated debentures,							
including interest	CA\$	11,419	11,419	11,419	88,200	161,241	—

.....

Section 12: Litigation, Claims and Contingencies

Northland and its subsidiaries have been named in various claims and legal actions. The material claims as of the date of this report have been noted below.

(i) Cochrane Solar Projects

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 Cochrane Solar projects.

Under the terms of the EPC contract, the Cochrane Solar subsidiaries commenced a claim in arbitration for approximately \$159 million against White and White Construction, Inc. (**"White US"**), guarantor under the White EPC contract, for costs, losses and damages for breaches of the EPC contract. White and White US have counterclaimed in this arbitration proceeding for approximately \$74 million. White registered a lien and filed a claim for approximately \$32 million against the Cochrane Solar entities relating to the termination of the EPC contract. As a result of duplication in the White lien claim, Northland removed the lien from title by posting a letter of credit for approximately \$16.6 million. Northland's claim and White's counterclaim are proceeding through the arbitration process and the outcome at this time is unknown.



In addition to the claim by White, a number of White's subcontractors involved in the construction of the Cochrane Solar projects registered liens and filed claims against White and Northland's Cochrane Solar subsidiaries. Northland has arranged for the subcontractors' liens to be removed from title by posting letters of credit for approximately \$28.5 million. Northland has retained a holdback of \$7.4 million in accordance with the Ontario Construction Lien Act. Northland contends that its liability to the subcontractors is limited to this holdback amount. The proceedings in relation to these claims are ongoing, and the outcome at this time is unknown.

As of the date of this report, Northland has posted approximately \$45.1 million of letters of credit to remove liens from these projects, which Northland expects will be returned in their entirety once the claims of the subcontractors have been resolved.

(ii) Burks Falls West Solar Project

In September 2015, White registered liens for approximately \$22 million against the Burks Falls West solar project. Northland disputes White's claim, which is ongoing, and the outcome at this time is unknown. As of the date of this report, Northland has posted approximately \$22 million of letters of credit to remove liens from title to the Burks Falls West solar project.

(iii) Global Adjustment

Starting in the third quarter of 2015, the OEFC has calculated and made payments based on the Ontario Superior Court of Justice decision in favour of Northland and a number of other power producers in Ontario in relation to the interpretation of past and future price escalator provisions in their respective PPAs with the OEFC. The decision was appealed by the OEFC and, if the decision is overturned on appeal, Northland will be required to repay the difference between the payments now being made on the basis of the court's decision and the lower payments that would have been made on the basis of OEFC's original calculation, plus interest. The hearing of the appeal occurred in December 2015, and Northland continues to believe the appeal will be unsuccessful. As of December 31, 2015, Iroquois Falls and Kirkland Lake had received and recorded a total of \$22.2 million from the OEFC in revenue; this amount could be subject to reversal plus interest if the appeal overturns the decision. Northland has recorded the amount received in revenue.

.....



Section 13: Critical Accounting Estimates

Preparing the consolidated 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 creditworthy 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.

.....

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.

.....



Long-Term Incentive Plan

Northland's LTIP provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries. The 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.

.....

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.

.....

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.

.....



Fair Value of Financial Assets and Financial Liabilities

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

.....

Property, Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets are depreciated over their useful lives, taking into account 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.

.....

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.

.....

Decommissioning Liabilities

Northland's decommissioning liabilities relate to the future remediation costs required under contract or by law and 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 until it is known that the thermal facilities are to be closed.

Northland has estimated the fair value of its total decommissioning liabilities for all of its renewable facilities to be \$34.1 million, based on an estimated total future liability. An average discount rate of 2.20–3.93% and an inflation rate of 2% were used to calculate the fair value of the decommissioning liabilities.

.....

Section 14: Future Accounting Policies

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2015, and have not yet been applied in preparing the consolidated financial statements. Northland will assess each standard to determine if it has an impact on its consolidated financial statements. Management anticipates that all of the relevant standards will be adopted for the first period beginning on their respective effective dates.

The International Accounting Standards Board (**IASB**) published amendments to IAS 1, “Presentation of Financial Statements” (**IAS 1**), to clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. Management expects these amendments will have no material impact on Northland’s consolidated financial statements.



IASB also issued amendments addressing the conflict between IFRS 10, “Consolidated Financial Statements,” and IAS 28, “Investments in Associates and Joint Ventures,” in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, “Business Combination,” between an investor and its associate or joint venture is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors’ interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. Management expects these amendments will have no material impact on Northland’s consolidated financial statements.

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. Management expects these amendments will have no material impact on its consolidated financial statements as Northland has not used a revenue-based method to depreciate its non-current assets.

The IASB and the Financial Accounting Standards Board 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, 2018. 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. Management is currently evaluating the impact of IFRS 15 on Northland’s consolidated financial statements.

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.

IFRS 16, “Leases,” was issued by the IASB on January 13, 2016. IFRS 16 brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting remains largely unchanged, and the distinction between operating and finance leases is retained. Under IFRS 16, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly, and the liability accrues interest. The lease liability is



initially measured at the present value of the lease payments payable over the lease term, then discounted at the rate implicit in the lease. Lessees are permitted to make an accounting policy election, by class of underlying asset, to apply a method such as IAS 17's operating lease accounting and not recognize lease assets and lease liabilities for leases with a lease term of 12 months or less, and, on a lease-by-lease basis, to apply a method similar to current operating lease accounting to leases for which the underlying asset is of low value. IFRS 16 supersedes IAS 17, "Leases," related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied. Management is currently evaluating the impact of IFRS 16 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.

.....

Section 15: 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, 2015, 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.

.....

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, 2015, 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, 2015.

.....

Review and Approval of Financial Information

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

.....

Section 16: Risks and Uncertainties

Northland's activities expose it to a variety of risks. Readers should refer to Northland's 2015 AIF, dated February 29, 2016, which can be found at www.sedar.com under Northland's profile and on www.northlandpower.ca, for a summary of the more important and relevant factors that could significantly affect the operations and financial results of Northland and its subsidiaries.

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 and 2020 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	2015	2014	2013
Income on financial assets not held for trading	13,437	13,656	13,886
(Gain) loss on other financial liabilities	137,017	123,448	(83,677)
(Gain) loss on net financial liabilities at fair value through profit or loss	80,424	296,586	(129,906)

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.

.....



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, counterparty risk and liquidity 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.

.....

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 rates. In order to manage this risk, Northland enters into fixed-rate debt or interest rate swap agreements that effectively convert floating interest exposures to a fixed rate.

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 and valuation models using observable market rates.

During 2015, the closing of Nordsee One's €903 million of project financing significantly increased Northland's exposure to interest rate risk because the interest rates within the credit facility were 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.

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.

.....

Currency Risk

Currency risk arises because the Canadian equivalent of transactions, assets or liabilities denominated in foreign currencies may vary due to changes in exchange rates. Northland was largely exposed to changes in the U.S. dollar and euro, notably the euro-denominated consolidated financial statements of Gemini, Nordsee and the German wind farms.

It is Northland's objective to hedge material net foreign currency cash flows to the extent practical and economical in order to protect Northland from material cash flow fluctuations.



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 Gemini and Nordsee One. For Gemini, the foreign exchange hedge was for approximately 15 years following the completion of construction at a weighted average conversion rate of approximately 1.67 Canadian dollars per euro. For Nordsee One, the foreign exchange hedge was for approximately 10 years following the completion of construction at a weighted average conversion rate of approximately 1.51 Canadian dollars per euro.

Northland's foreign exchange derivative contracts rely on counterparties, usually financial institutions with strong credit ratings.

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 unfunded 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 commodity contracts and interest rate swap contracts and loan commitments are with creditworthy financial institutions. Electricity sales are generally to government-related entities with investment-grade credit ratings.

As at December 31, 2015, approximately 89% (2014 – 90%) of Northland's consolidated trade and other receivables, excluding loan receivable from the equity partner, were owed from government-related entities.

In 2015, approximately 97% (2014 – 96%) 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, 2015, 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 cash or readily available funding in order to meet its expected liquidity requirements. Northland achieves this by: (i) maintaining prudent cash balances, availability under committed credit facilities and access to capital markets; and (ii) selecting derivatives and hedging strategies to minimize the risk of material cash flow impacts.

As at December 31, 2015, Northland and its subsidiaries were holding cash and cash equivalents of \$151.9 million (\$70 million held corporately) and had an undrawn corporate line of credit available of \$211.5 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 EBITDA for a specified time period to the scheduled loan principal and interest payments for the same time period. For the year ended December 31, 2015, 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.

.....



Section 17: 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," "results of litigation and arbitration proceedings," "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 2015 Annual Information Form dated February 29, 2016, which can be found at www.sedar.com under Northland's profile and on Northland's website at www.northlandpower.ca. Northland's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will occur. The forward-looking statements contained in this MD&A are based on assumptions that were considered reasonable on February 24, 2016. 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.

.....

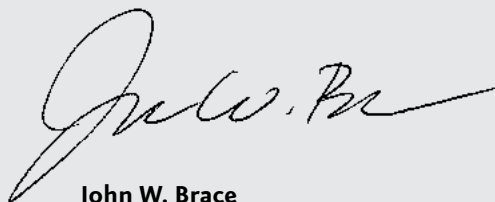
Management is responsible for the preparation of Northland's consolidated financial statements and annual report. Management has prepared the accompanying consolidated financial statements in accordance with International Financial Reporting Standards, and the financial information included in the annual 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 75.

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.



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, 2015 and 2014, and the consolidated statements of 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, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada
February 29, 2016

Chartered Professional Accountants
Licensed Public Accountants

Consolidated Balance Sheets


[MD&A](#)
[NOTES](#)

As at, in thousands
of Canadian dollars

	December 31, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents [Note 4]	151,927	193,412
Restricted cash [Note 21]	283,820	45,245
Trade and other receivables [Note 4]	118,807	84,371
Inventories [Note 6]	14,438	15,731
Prepayments	16,743	12,002
Finance lease receivable [Note 10]	2,987	2,750
Derivative asset [Note 19]	4,567	890
Total current assets	593,289	354,401
Finance lease receivable [Note 10]	155,498	158,485
Equity-accounted investment [Note 11]	4,445	4,666
Property, plant and equipment [Note 12]	5,964,438	3,788,571
Contracts and other intangible assets [Note 13]	257,406	348,161
Derivative asset [Note 19]	24,796	32,572
Deferred tax asset [Note 18]	111,070	88,980
Other assets [Note 21]	48,923	4,020
Goodwill [Note 14]	206,530	219,238
Total assets	7,366,395	4,999,094

continued...



As at, in thousands
of Canadian dollars

	December 31, 2015	December 31, 2014
Liabilities and equity		
Current liabilities		
Trade and other payables	237,030	229,523
Interest-bearing loans and borrowings [Note 15.2]	78,592	240,597
Dividends payable – non-controlling interest [Note 21]	602	941
Dividends payable	15,358	13,537
Derivative liability [Note 19]	84,759	37,547
Total current liabilities	416,341	522,145
Interest-bearing loans and borrowings [Note 15.2]	4,507,975	2,553,964
Corporate term loan facility [Note 15.1]	250,064	246,048
Convertible debentures [Note 16]	227,695	75,307
Other liabilities	4,306	2,836
Provisions [Note 17]	36,452	30,473
Derivative liability [Note 19]	376,308	330,823
Deferred tax liability [Note 18]	140,186	135,278
Total liabilities	5,959,327	3,896,874

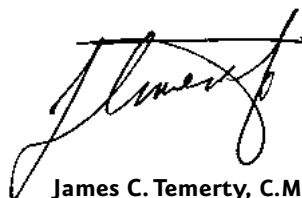
continued...



As at, in thousands
of Canadian dollars

	December 31, 2015	December 31, 2014
Equity		
Preferred shares [Note 20.1]	261,080	261,279
Common shares [Note 20.2]	2,219,259	1,904,906
Long-Term Incentive Plan reserve [Note 20.2]	6,539	2,137
Contributed surplus	241	1,328
Convertible shares [Note 20.3]	14,615	14,615
Accumulated other comprehensive income (loss)	16,070	(33,741)
Deficit	(1,524,636)	(1,319,713)
Equity attributable to shareholders	993,168	830,811
Non-controlling interests [Note 21]	413,900	271,409
Total equity	1,407,068	1,102,220
Total liabilities and equity	7,366,395	4,999,094

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)


[MD&A](#)
[NOTES](#)

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

	2015	2014
Sales		
Electricity [Note 28.2]	714,298	719,140
Steam and natural gas	12,922	40,326
Other	921	605
Total sales	728,141	760,071
Cost of sales	225,692	290,692
Gross profit	502,449	469,379
Expenses		
Plant operating costs	77,390	78,662
Management and administration costs – operations	25,496	20,275
Management and administration costs – development	16,345	21,024
Depreciation of property, plant and equipment [Note 12]	125,661	120,191
	244,892	240,152
Investment income	3,100	5,898
Finance lease income [Note 10]	13,437	13,656
Operating income	274,094	248,781
Finance costs [Note 24]	140,233	124,980
Equity investment (gain) [Note 11]	(288)	(250)
Amortization of contracts and other intangible assets [Note 13]	18,624	19,815
Impairment of property, plant and equipment [Note 22]	7,638	11,001
Impairment of contracts and other intangible assets [Note 22]	462	30,257
Impairment of goodwill [Note 22]	12,708	929
Foreign exchange (gain) loss	2,403	(622)

continued...



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

	2015	2014
Finance income	(2,445)	(2,831)
Fair value loss on derivative contracts [Note 19]	80,424	296,586
Writedown of equity investments	–	3,100
Other income	(731)	(1,222)
Income (loss) before income taxes	15,066	(232,962)
Provision for (recovery of) income taxes [Note 18]		
Current	5,424	7,928
Deferred	(17,889)	(63,435)
	(12,465)	(55,507)
Net income (loss) for the year	27,531	(177,455)
Net income (loss) attributable to:		
Non-controlling interest [Note 21]	26,388	(70,884)
Common shareholders	1,143	(106,571)
	27,531	(177,455)
Weighted average number of Shares outstanding –		
basic and diluted (000s) [Note 25]	167,555	146,765
Net income (loss) per Share – basic and diluted	\$(0.07)	\$(0.82)

See accompanying notes.

Consolidated Statements of Comprehensive Income (Loss)


[MD&A](#)
[NOTES](#)

Years ended December 31,
in thousands of Canadian dollars

	2015	2014
Net income (loss) for the year	27,531	(177,455)
Items that may be reclassified into net income (loss):		
Exchange differences on translation of foreign operations	77,920	(56,804)
Deferred taxes	3,018	—
Other comprehensive income (loss)	80,938	(56,804)
Total comprehensive income (loss)	108,469	(234,259)
Total comprehensive income (loss) attributable to:		
Non-controlling interests [Note 21]	57,515	(93,743)
Common shareholders	50,954	(140,516)
	108,469	(234,259)

See accompanying notes.

Consolidated Statements of Changes in Equity


[MD&A](#)
[NOTES](#)

Year ended December 31, 2015

	Common	Convertible	Preferred	Long-Term Incentive Plan	Deficit	Contributed	Foreign currency translation	Equity attribut- able to share- holders	Non- controlling interests	Total equity
In thousands of Canadian dollars	shares	shares	shares	reserve		surplus	reserve			
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
Net income for the year	–	–	–	–	1,143	–	–	1,143	26,388	27,531
Public offering and private placement [Note 20]	271,304	–	–	–	–	–	–	271,304	–	271,304
Deferred income taxes	1,497	–	(199)	–	239	–	3,018	4,555	–	4,555
Change in translation of net investment in foreign operation	–	–	–	–	–	–	46,793	46,793	31,127	77,920
LTIP shares and deferred rights	1,638	–	–	4,402	646	(1,087)	–	5,599	–	5,599
Non-controlling interest contributions [Note 21]	–	–	–	–	(13,158)	–	–	(13,158)	97,453	84,295
Dividends to non-controlling interest	–	–	–	–	–	–	–	–	(12,477)	(12,477)
Common and Class A share dividends	39,914	–	–	–	(179,916)	–	–	(140,002)	–	(140,002)
Preferred share dividends	–	–	–	–	(13,195)	–	–	(13,195)	–	(13,195)
Other	–	–	–	–	(682)	–	–	(682)	–	(682)
December 31, 2015	2,219,259	14,615	261,080	6,539	(1,524,636)	241	16,070	993,168	413,900	1,407,068

continued...



Year ended December 31, 2014

	Common shares	Convertible shares	Preferred shares	Long-Term Incentive Plan reserve	Deficit	Contributed surplus	Foreign currency translation reserve	Equity attribut- able to share- holders	Non- controlling interests	Total equity
In thousands of Canadian dollars										
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)
Offshore wind acquisitions and equity contribution	—	—	—	—	—	—	—	—	300,958	300,958
LTIP shares and deferred rights	9,125	—	—	(5,182)	—	1,328	—	5,271	—	5,271
Dividends to non-controlling interest	—	—	—	—	—	—	—	—	(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

See accompanying notes.

Consolidated Statements of Cash Flows



MD&A

NOTES

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

	2015	2014
Operating activities		
Net income (loss) for the year	27,531	(177,455)
Items not involving cash or operations:		
Depreciation of property, plant and equipment [Note 12]	125,661	120,191
Amortization of contracts and other intangibles	18,624	19,815
Writeoff and impairment of property, plant and equipment, contracts and other intangible assets and goodwill [Note 22]	20,808	42,187
Writedown of Panda-Brandywine equity investment	—	3,100
Finance costs, net	133,217	117,161
Fair value loss on derivative contracts	80,424	296,586
Finance lease [Note 10]	2,750	2,530
Unrealized foreign exchange loss (gain)	2,525	(686)
Other	(5,270)	988
Deferred income tax recovery [Note 18]	(17,889)	(63,435)
	388,381	360,982
Net change in non-cash working capital balances related to operations	10,362	5,607
Cash provided by operating activities	398,743	366,589
Investing activities		
Purchase of property, plant and equipment [Note 12]	(1,936,435)	(1,814,609)
Cash reserves utilization (funding)	(229,856)	27,390
Increase in intangible assets [Note 13]	(73,252)	(46,039)
Interest received	2,445	2,831
Nordsee acquisition, net [Note 7.2]	(84,231)	(6,952)
Gemini acquisition, net [Note 7.1]	—	(30,811)
Net change in working capital related to investing activities	73,512	58,579

continued...



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

	2015	2014
Net proceeds from the sale of development assets [Note 8.2]	10,782	—
Other	(682)	750
Cash used in investing activities	(2,237,717)	(1,808,861)
Financing activities		
Proceeds from borrowings, net of transaction costs	1,719,616	1,034,811
Proceeds from bank refinancing, net	179,589	—
Net proceeds from common offerings and private placement [Note 9]	271,304	275,729
Corporate term facility proceeds, net [Note 15.1]	—	247,402
Net proceeds from bond offerings [Note 15.2]	—	228,895
Repayment of borrowings	(244,211)	(273,596)
Settlement of interest rate swaps	—	(2,118)
Interest paid	(131,726)	(114,217)
Non-controlling interest equity contribution [Note 21]	9,892	263,770
Dividends to non-controlling interests [Note 21]	(12,816)	(11,581)
Net proceeds from convertible debenture offerings [Note 16]	150,643	—
Preferred share dividends [Note 20.1]	(13,195)	(13,876)
Common and Class A share dividends [Note 23]	(137,852)	(115,322)
Other	2,183	4,126
Cash provided by financing activities	1,793,427	1,524,023
Effect of exchange rate differences on cash and cash equivalents	4,062	(26,799)
Net change in cash and cash equivalents during the year	(41,485)	54,952
Cash and cash equivalents, beginning of year	193,412	138,460
Cash and cash equivalents, end of year	151,927	193,412
Per share		
Dividends declared to shareholders	\$1.08	\$1.08

See accompanying notes.



1	Description of Business	87	12	Property, Plant and Equipment	118
2	General Information	88	13	Contracts and Other Intangible Assets	120
3	Summary of Significant Accounting Policies	89	14	Goodwill	122
3.1	Basis of Preparation and Statement of Compliance	89	15	Corporate Term Loan Facility, Interest-Bearing Loans and Borrowings	123
3.2	Basis of Consolidation	89	15.1	Corporate Term Loan Facility	123
3.3	Business Combinations and Goodwill	89	15.2	Interest-Bearing Loans and Borrowings	124
3.4	Foreign Currency Translation	90	16	Convertible Debentures	128
3.5	Revenue Recognition	91	17	Provisions	129
3.6	Taxes	91	18	Deferred Income Taxes	130
3.7	Financial Instruments	93	19	Derivative Financial Instruments	135
3.8	Property, Plant and Equipment	98	20	Equity	137
3.9	Leases or Arrangements Containing a Lease	99	20.1	Preferred Shares	137
3.10	Borrowing Costs	99	20.2	Shares	139
3.11	Intangible Assets	99	20.3	Convertible Shares	140
3.12	Inventories	100	21	Non-Controlling Interests	141
3.13	Impairment of Non-Financial Assets	101	22	Impairment of Property, Plant and Equipment, Intangible Assets and Goodwill	143
3.14	Cash and Cash Equivalents	101	23	Dividends	144
3.15	Class A Shares	102	24	Finance Costs	144
3.16	Share-Based Payments	102	25	Net Income (Loss) per Share	144
3.17	Provisions	102	26	Commitments	146
3.18	Significant Management Judgments in Applying Accounting Policies and Estimation Uncertainty	103	27	Operating Segment Information	146
3.19	Future Accounting Policies	106	28	Litigation, Claims and Contingencies	150
4	Financial Risk Management	108	28.1	Ground-Mounted Solar Project Litigation	150
5	Management of Capital	111	28.2	Global Adjustment	150
6	Inventories	112	29	Management and Related-Party Disclosures	151
7	Acquisitions	112	30	Comparative Figures	151
7.1	Gemini Acquisition	112	31	Authorization of Audited Consolidated Financial Statements	151
7.2	Nordsee Acquisition	113			
8	Sale of Assets	114			
8.1	Sale of 37.5% Interest in Cochrane Solar Projects	114			
8.2	Sale of Development Assets	114			
9	Equity and Convertible Debentures	114			
	Public Offering and Private Placement				
10	Leases	115			
11	Equity-Accounted Investments	116			



December 31, 2015

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 renewable sources and natural gas 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 are located in Canada, Germany and the Netherlands.

The 2015 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, 2015	Ownership December 31, 2014
Iroquois Falls Power Corp. (“Iroquois Falls”)	Canada	100%	100%
Kingston CoGen Limited Partnership (“Kingston”)	Canada	100%	100%
Thorold CoGen L.P. (“Thorold”)	Canada	100%	100%
Spy Hill Power L.P. (“Spy Hill”)	Canada	100%	100%
North Battleford Power L.P. (“North Battleford”)	Canada	100%	100%
Saint-Ulric Saint-Léandre Wind L.P. (“Jardin”)	Canada	100%	100%
Mont-Louis Wind L.P. (“Mont Louis”)	Canada	100%	100%
McLean’s Mountain Wind L.P. (“McLean’s”)	Canada	50%	50%
Ground-mounted Solar Partnerships (“Ground-mounted Solar”)	Canada	100%/62.5% ⁽¹⁾	100%
Canadian Environmental Energy Corporation (“CEEC”)	Canada	68% ⁽²⁾	68% ⁽²⁾
Grand Bend Wind L.P. (“Grand Bend”)	Canada	50% ⁽³⁾	100%

continued...



Entity name	Country of incorporation	Ownership December 31, 2015	Ownership December 31, 2014
Buitengaats C.V. and ZeeEnergie C.V. ("Gemini")	Netherlands	60% ⁽⁴⁾	60% ⁽⁴⁾
DK Windpark Kavelstorf GmbH & Co. KG and DK Burgerwindpark Eckolstädt GmbH & Co. KG ("the German wind farms")	Germany	100%	100%
Nordsee One GmbH ("Nordsee")	Germany	85% ⁽⁵⁾	85% ⁽⁵⁾

(1) In June 2015, Northland completed the sale of a 37.5% equity interest in Northland's four solar projects located in Northern Ontario (**"Cochrane Solar"**) to Taykwa Tagamou Nation and Wahgoshig First Nation; see Note 8.1. Northland continues to retain full ownership of the first nine projects.

(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 March 2015, Northland issued a 50% interest in Grand Bend Wind Limited Partnership to Giiwedini Noodin FN Energy Corporation (**"Giiwedini FN"**).

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

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

Northland's financial results also include income earned from the rooftop solar projects, in which Northland has a 75% interest, as well as management fees from Chapais Énergie, Société en Commandite (**"Chapais"**) for managing its 28 MW biomass-fired power facility in Chapais, Quebec.

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 floating-rate preferred shares, series 2 (**"Series 2 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

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, 2015.

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.” Northland did not designate any assets as held for sale in 2015.

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 significant 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 dates. 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 dates, 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 consolidated statements of income (loss).



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 and natural gas

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.

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 consolidated statements of income (loss).

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 consolidated statements of income (loss).

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

Revenue, 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
- Where receivables and payables 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 sheets.

3.7 Financial Instruments

Northland's activities expose it to a variety of financial risks, including market risk (primarily 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.

Financial risk is managed by the corporate treasury 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, finance lease receivable and derivative asset.

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 and other receivables, finance lease receivable and other assets 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 consolidated statements of income (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 consolidated statements of income (loss). 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, 2015, or December 31, 2014.

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 consolidated statements of income (loss).

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 consolidated statements of income (loss) – is removed from equity and recognized in the consolidated statements of income (loss). Impairment losses on equity investments are not reversed through the consolidated statements of income (loss); increases in their fair value after impairment are recognized directly in the consolidated statements of changes 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, interest-bearing loans and borrowings, dividends payable, convertible debentures, corporate term loan facility and derivative liability. 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 derivative financial instruments entered into by Northland that do not meet hedge accounting criteria as defined by IAS 39. Gains or losses on this type of liabilities are recognized in the consolidated statements of income (loss).

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 consolidated statements of income (loss) 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, interest-bearing loans and borrowings, dividends payable, corporate term loan facility 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.

The individual derivative financial instrument each subsidiary enters into will not be realized or settled simultaneously and, therefore, derivative asset and derivative liability are not offset on the consolidated balance sheets.

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, 2015	Level 1	Level 2	Level 3	Total
Loans and receivables ⁽¹⁾	435,747	326,215	–	761,962
Financial assets at fair value through profit or loss ⁽²⁾	–	29,363	–	29,363
Financial liabilities at fair value through profit or loss ⁽²⁾	–	461,067	–	461,067
Other financial liabilities ⁽³⁾	227,695	5,089,621	–	5,317,316

In thousands of dollars

As at December 31, 2014	Level 1	Level 2	Level 3	Total
Loans and receivables ⁽¹⁾	238,657	249,626	–	488,283
Financial assets at fair value through profit or loss ⁽²⁾	–	33,462	–	33,462
Financial liabilities at fair value through profit or loss ⁽²⁾	–	368,370	–	368,370
Other financial liabilities ⁽³⁾	75,307	3,284,610	–	3,359,917

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

(2) Derivative financial instruments.

(3) Trade and other payables, dividends payable, interest-bearing loans and borrowings, corporate term loan facility and convertible debentures.

The estimated fair value of other financial liabilities as at December 31, 2015, is \$5.4 billion (2014 – \$3.1 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	2015	2014
Income on financial assets not held for trading	13,437	13,656
Loss on other financial liabilities	137,017	123,448
Loss on net financial liabilities at fair value through profit or loss	80,424	296,586



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 consolidated statements of income (loss) 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 consolidated statements of income (loss) 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 consolidated statements of income (loss) in the year the asset is derecognized.

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



3.9 Leases or Arrangements Containing a Lease

Northland enters into power contracts to provide electricity and electricity-related products 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 consolidated statements of income (loss) 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 consolidated 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 consolidated statements of income (loss) 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 consolidated statements of income (loss) 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;
- That 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 consolidated statements of income (loss) 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 consolidated statements of income (loss).

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 then 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 are convertible into Shares on a one-for-one basis.

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 some cases, 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 consolidated statements of income (loss) 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 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 sheets 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. 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 Northland’s consolidated financial statements. The partners’ interest in each project has been recorded as non-controlling interest on the consolidated balance sheets. See Note 21 for additional details.

Decommissioning liabilities

Northland’s decommissioning liabilities relate primarily to wind and solar facilities and closed thermal 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. Subject to plant closures, 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 until it is known that the thermal facilities are to be closed. See Note 17 for additional details.



3.19 Future Accounting Policies

A number of new standards, amendments and interpretations issued are not yet effective for the year ended December 31, 2015, and therefore have not yet been applied in preparing the consolidated financial statements. Northland will assess each standard to determine if it has an impact on its consolidated financial statements. Management anticipates that all of the relevant standards will be adopted for the first period beginning on their respective effective dates.

The IASB published amendments to IAS 1, “Presentation of Financial Statements” (**IAS 1**), to clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and other comprehensive income (**OCI**) and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. Management expects these amendments will have no material impact on Northland’s consolidated financial statements.

There are amendments addressing the conflict between IFRS 10 and IAS 28, “Investments in Associates and Joint Ventures,” in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors’ interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. Management expects these amendments will have no material impact on Northland’s consolidated financial statements.

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 prospectively 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. Management expects these amendments will have no material impact on Northland's consolidated financial statements as Northland does not use revenue-based methods to depreciate its non-current assets.

The IASB and the Financial Accounting Standards Board 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, 2018. 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. Management is currently evaluating the impact of IFRS 15 on Northland's consolidated financial statements.

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. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Management is currently evaluating the impact of IFRS 9 on Northland's consolidated financial statements.

IFRS 16, "Leases," was issued by the IASB on January 13, 2016. IFRS 16 brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting remains largely unchanged, and the distinction between operating and finance leases is retained. Under IFRS 16, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly, and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, then discounted at the rate implicit in the lease. Lessees are permitted to make an accounting policy election, by class of underlying asset, to apply a method such as IAS 17's operating lease accounting and not recognize lease assets and lease liabilities for leases with a lease term of 12 months or less, and, on a lease-by-lease basis, to apply a method similar to current operating lease accounting to leases for which the underlying asset is of low value. IFRS 16 supersedes IAS 17, "Leases," related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied. Management is currently evaluating the impact of IFRS 16 on the consolidated financial statements.

Other than the above, there have been no additional accounting standards issued by the IASB that would have a material impact on Northland's consolidated financial statements.



4. Financial Risk Management

Northland's overall financial 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 three types of market risk: interest rate risk, currency risk and commodity price risk. Financial instruments affected by market risk include 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 rates. In order to manage this risk, Northland enters into fixed-rate debt or interest rate swap agreements that effectively convert floating interest exposures to a fixed rate.

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 and valuation models using observable market rates.

For the year ended December 31, 2015, 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 \$392 million higher or lower. However, this change would have had no impact on Northland's cash flows.

The counterparties to Northland's interest rate derivative contracts are well-capitalized financial institutions with strong credit ratings. See "Counterparty Risk" below.

(ii) Currency risk

Currency risk arises because the Canadian equivalent of transactions, assets or liabilities denominated in foreign currencies may vary due to changes in foreign exchange rates. Northland was largely exposed to changes in the U.S. dollar and euro, notably the euro-denominated consolidated financial statements of Gemini, Nordsee and the German wind farms.

It is Northland's objective to hedge material net foreign currency cash flows to the extent practical and economical in order to protect Northland from material cash flow fluctuations.



Exchange gains and losses on the currency 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.

At December 31, 2015, 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 \$79 million lower or higher, which includes the fair value change in euro-denominated foreign exchange contracts.

At December 31, 2015, 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 million higher or lower, which includes the fair value change in the U.S. dollar foreign exchange contracts.

The counterparties to Northland's interest rate derivative contracts are well-capitalized financial institutions with strong credit ratings. See "Counterparty Risk" below.

(iii) Commodity price risk

Commodity price risk arises where PPA revenues are fixed or not linked to natural gas prices or the cost of natural gas is not substantively passed through to the off-taker, which may cause fluctuations in cash flows or where the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in commodity prices.

The objective of Northland's commodity price risk management activities is to minimize the volatility of cash flows otherwise subject to fluctuating commodity prices. In order to manage this risk, Northland enters into financial hedges for its expected natural gas volumes, fixed-price gas supply contracts or PPAs in which prices are linked to changes in commodity prices or there is a substantial pass-through of commodity costs to the off-taker.

For the year ended December 31, 2015, if commodity prices had been \$1/gigajoule 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 financial commodity contracts, would have been \$31 million higher or lower. However, this change would have had no impact on Northland's cash flows.

The counterparties to Northland's interest rate derivative contracts are well-capitalized financial institutions with strong credit ratings. See "Counterparty Risk" below.

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 unfunded 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 commodity contracts and interest rate swap contracts and loan commitments are with credit-worthy financial institutions. Electricity sales are generally to government-related entities with investment-grade credit ratings.

As at December 31, 2015, approximately 89% (2014 – 90%) of Northland's consolidated trade and other receivables, excluding loan receivable from the equity partner, were owing from government-related entities.

In 2015, approximately 97% (2014 – 96%) 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, 2015, are current.

The nature of Northland's business and contractual arrangements generally serves to minimize counterparty risk.

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's 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 cash or readily available funding in order to meet its expected liquidity requirements. Northland achieves this by maintaining prudent cash balances, availability under committed credit facilities and access to capital markets and by selecting derivatives and hedging strategies to minimize the risk of material cash flow impacts.

As at December 31, 2015, Northland and its subsidiaries were holding cash and cash equivalents of \$151.9 million (\$70 million held corporately) and had an undrawn corporate line of credit available of \$211.5 million.

The contractual maturities of Northland's financial liabilities at December 31, 2015, are as follows:

In thousands of dollars	Currency	2016	2017	2018	2019	2020	>2020
U.S. dollar foreign exchange contracts	US\$	16,084	4,800	5,100	5,200	4,100	–
Euro foreign exchange contracts	Euro	3,141	2,316	104,556	104,505	119,058	919,267
Danish krone foreign exchange contract	DKK	26,145	–	–	–	–	–
Amortizing loans, including							
interest rate swaps	CA\$	346,787	367,008	852,712	635,133	746,352	5,592,135
Financial gas contract	CA\$	13,053	25,165	26,240	27,045	28,657	33,451
Convertible subordinated debentures,							
including interest	CA\$	11,419	11,419	11,419	88,200	161,241	–



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 financing 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, 2015, Northland and its subsidiaries were in compliance with all debt covenants.

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

5. Management of Capital

Northland defines capital that it manages as the aggregate of its equity and interest-bearing loans and borrowings, including convertible unsecured subordinated debentures. Northland's objectives when managing capital are to ensure the stability and sustainability of dividends to shareholders for the long term and to finance assets with amortizing debt, primarily non-recourse debt, in line with the rate at which assets depreciate and PPAs and other contracts change or expire.

As at December 31, 2015, total managed capital was \$6.2 billion, consisting of equity of \$1.4 billion, interest-bearing debt of \$4.6 billion and convertible unsecured subordinated debentures of \$227.7 million.

In order to maintain or adjust the capital structure, Northland may exercise discretion in the amount of dividends declared to shareholders, the management of 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 assets of the facility or project for which the debt was raised. Northland's debt generally 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. This ensures that the project is debt-free at that point in its physical life when its economics are less predictable, particularly at the expiration of its original power contracts.

As at December 31, 2015, Northland's ratio of total debt to enterprise value was 60.1%. 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, 2015, 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:

As at December 31, in thousands of dollars	2015	2014
Natural gas	569	2,854
Spare parts and other inventory	13,869	12,877
	14,438	15,731

During 2015, Northland and its subsidiaries expensed \$4.3 million (2014 – \$2.7 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 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. The total cash consideration of this acquisition was \$30.8 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.



Gemini is in a stage of advanced construction, and the costs that are directly attributable to the project are 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 statements of income (loss) line item affected in Northland's consolidated statements of income (loss) 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, 2015, unrealized gains of CA\$13.1 million (2014 – loss 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 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, 2015, an unrealized loss of \$14.9 million (2014 – gain of CA\$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 reside with RWE Innogy GmbH.

Northland's investment in Nordsee included a \$7 million initial cash payment for the share purchase and partial funding of ongoing development costs. In March 2015, the project reached financial close, and the remaining \$84.2 million share purchase price was paid.

Nordsee One has commenced construction, and the costs that are directly attributable to the project have been capitalized. Except as described below, the amount of revenue and profit or loss of Nordsee since the acquisition date has been nominal and has minimal impact on revenues and profit or loss of the combined entity. The fair value movement of the interest rate swaps on the project's long-term debt and administrative costs are the only items affected in the consolidated statements of income (loss) until commercial operations of the first string of wind turbines. For the year ended December 31, 2015, an unrealized loss of \$0.6 million was recognized on the Nordsee One interest rate swaps in the consolidated statement of income (loss). Subsequent to closing the financing for Nordsee One, Northland entered into additional foreign exchange contracts with 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 Nordsee One during the contracted revenue period. The weighted average conversion rate over the term of the foreign exchange contracts is approximately 1.51 Canadian dollars per euro. For the year ended December 31, 2015, an unrealized loss of \$44 million was recognized in the consolidated statement of income (loss).

During the year ended December 31, 2015, the purchase price allocations for the acquisitions completed during 2014 were finalized. No material changes were made to the purchase price allocations disclosed in the December 31, 2014, audited consolidated financial statements with respect to the acquisitions.



8. Sale of Assets

8.1 Sale of 37.5% Interest in Cochrane Solar Projects

In June 2015, Northland completed the sale of a 37.5% equity interest in Northland's Cochrane Solar projects located in Northern Ontario to Taykwa Tagamou Nation and Wahgoshig First Nation. The total consideration for the equity interest is approximately \$45.7 million, of which approximately \$17.5 million is expected to be a Northland vendor loan repayable from the partner's net proceeds of the project. The remaining \$28.2 million is subject to the Taykwa Tagamou Nation and Wahgoshig First Nation successfully closing financing arrangements. The sale resulted in a non-cash loss of \$13.8 million (including \$0.7 million of transaction costs), recorded to shareholders' equity, because Northland continues to retain control over these Cochrane Solar projects.

8.2 Sale of Development Assets

In February 2015, Northland sold its 66.7% interest in an advanced-stage development wind project and certain Quebec development rights and options. Net proceeds from these sales were \$10.8 million, resulting in an accounting gain of \$7.6 million.

9. Equity and Convertible Debentures Public Offering and Private Placement

In March 2015, Northland completed a public offering of 14,437,500 Shares (including Shares issued under the over-allotment option) at a price of \$16 per Share, representing gross proceeds of \$231 million (\$221.3 million after costs and underwriters' fees). Concurrently with the public offering of Shares, Northland completed a \$50 million 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 terms and conditions and price per Share as the public offering. The proceeds from the public offering and private placement totalled \$281 million (\$271.3 million after costs and underwriters' fees) and were used by Northland to fund a portion of its equity contribution in Nordsee One and the Grand Bend wind farm project.

In March 2014, Northland completed two public offerings and a private placement, representing gross proceeds of \$286.3 million (\$275.7 million after costs and underwriters' fees). This included a common share offering and an offering of 5% convertible unsecured subordinated 2019 Debentures (including debentures issued under the over-allotment option) providing gross proceeds of \$157.5 million (\$150.4 million after costs and underwriters' fees) and \$78.8 million (\$75.3 million after costs and underwriters' fees), respectively. The 2019 Debentures have a maturity of June 30, 2019. The private placement providing gross proceeds of \$50 million was made to a subsidiary of Northland Power Holdings Inc., a company controlled by Mr. James C. Temerty. The aggregate proceeds were used by Northland to fund a portion of its equity contribution and subordinated loan to Gemini.



10. Leases

Northland as Lessor

For accounting purposes, Northland's Spy Hill long-term PPA qualified as 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, 2015, finance lease income of \$13.4 million (2014 – \$13.7 million) was recognized.

The amounts receivable under finance lease accounting are as follows:

	December 31, 2015		December 31, 2014	
		Present value		Present value
	Minimum lease	of minimum	Minimum lease	of minimum
In thousands of dollars	payments	lease payments	payments	lease payments
Within one year	16,187	2,987	16,188	2,750
Two to five years	64,751	14,774	64,750	13,596
Long-term	254,758	140,724	270,945	144,889
	335,696	158,485	351,883	161,235
Less: Unearned finance income	(177,211)	—	(190,648)	—
Total finance lease receivable	158,485	158,485	161,235	161,235
As at December 31, in thousands of dollars	2015		2014	
Current	2,987		2,750	
Long-term	155,498		158,485	
Total finance lease receivable	158,485		161,235	

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

**Northland as Lessee**

Northland and several of its facilities have entered into land and building leases with private landowners and public municipalities.

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, 2015, are as follows:

In thousands of dollars

Within one year	5,890
After one year but not more than five years	18,660
More than five years	45,245
	69,795

11. 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	2015	2014
Balance, beginning of year	4,666	4,941
Equity income	288	250
Distributions received	(509)	(525)
Balance, end of year	4,445	4,666



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	2015	2014
Revenue	590	554
Expenses	(302)	(304)
Proportionate share of net income	288	250

In thousands of dollars	2015	2014
Current assets	565	537
Long-term assets	3,890	4,141
Current liabilities	(10)	(12)
Proportionate share of net assets	4,445	4,666



12. Property, Plant and Equipment

		Buildings and foun- dations	Plant and equipment	Vehicles and meteor- ological towers	Office equipment, furniture and fixtures	Computers and computer software	Leasehold improve- ments	CIP	Total
In thousands of dollars									
COST									
January 1, 2014	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
Foreign exchange	—	—	2,433	—	—	—	—	209,218	211,651
Additions	—	19	181	—	—	812	366	1,935,057	1,936,435
Transfer from intangible assets	—	—	—	—	—	—	—	154,457	154,457
Transfer from CIP	828	106,868	222,678	—	—	906	52,505	(383,785)	—
Impairment	—	—	(7,638)	—	—	—	—	—	(7,638)
Disposals and other	—	—	2,698	(33)	—	—	—	6,216	8,881
December 31, 2015	5,391	500,283	2,541,303	5,266	2,377	7,400	170,773	3,679,768	6,912,561

Included in "Additions" above are \$165.3 million (2014 – \$55.6 million) of borrowing costs (interest and commitment fees) and \$6.4 million (2014 – \$3.1 million) of LTIP awards that were capitalized during the year ended December 31, 2015.



.....									
		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								
.....									
ACCUMULATED DEPRECIATION									
January 1, 2014	—	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)
.....									
December 31, 2014	—	94,057	704,164	3,903	1,189	4,641	12,250	—	820,204
.....									
Foreign exchange	—	—	2,258	—	—	—	—	—	2,258
Depreciation	—	19,925	97,642	350	61	1,983	5,700	—	125,661
.....									
December 31, 2015	—	113,982	804,064	4,253	1,250	6,624	17,950	—	948,123
.....									
NET BOOK VALUE									
December 31, 2014	4,563	299,339	1,616,787	1,396	1,188	1,041	105,652	1,758,605	3,788,571
December 31, 2015	5,391	386,301	1,737,239	1,013	1,127	776	152,823	3,679,768	5,964,438
.....									



13. Contracts and Other Intangible Assets

	Deferred development costs	Contracts	Total
In thousands of dollars			
COST			
January 1, 2014	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)
December 31, 2014	106,188	399,685	505,873
Additions	73,252	—	73,252
Transfer to contracts	(17,464)	17,464	—
Transfer to property, plant and equipment	(154,457)	—	(154,457)
Impairments and writedowns [Note 22]	(3,254)	(16,562)	(19,816)
Reversal of prior-year impairments	—	16,100	16,100
Foreign exchange	(4,265)	17,055	12,790
December 31, 2015	—	433,742	433,742

continued...



.....			
	Deferred development costs	Contracts	Total
In thousands of dollars			
.....			
AMORTIZATION			
January 1, 2014	—	(137,897)	(137,897)
Amortization	—	(19,815)	(19,815)
.....			
December 31, 2014	—	(157,712)	(157,712)
.....			
Amortization	—	(18,624)	(18,624)
.....			
December 31, 2015	—	(176,336)	(176,336)
.....			
NET BOOK VALUE			
December 31, 2014	106,188	241,973	348,161
December 31, 2015	—	257,406	257,406
.....			

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. 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, 2015, Northland wrote off \$3.3 million (2014 – \$5.2 million) of previously deferred development costs.

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, 2015, 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, 2015, a portion of the goodwill balance was determined to be impaired. See Note 22 for further detail.

In thousands of dollars

COST

January 1, 2014, and January 1, 2015	284,626
Additions	—
Disposals	—

December 31, 2015	284,626
--------------------------	----------------

continued...



.....

In thousands of dollars

.....

IMPAIRMENT

January 1, 2014	64,459
Impairment [Note 22]	929
December 31, 2014	65,388
Impairment [Note 22]	12,708
December 31, 2015	78,096

NET BOOK VALUE

December 31, 2014	219,238
December 31, 2015	206,530

15. Corporate Term Loan Facility, Interest-Bearing Loans and Borrowings

15.1 Corporate Term Loan Facility

Northland has a credit facility with a syndicate of banks establishing: (i) a \$450 million revolving line of credit to assist in the funding of development activities, acquisitions and investments in projects, as well as for general corporate purposes and working capital, including letters of credit; and (ii) a \$250 million term facility. The term facility was fully drawn on April 22, 2014, to assist in funding Northland's investment in Gemini. On February 18, 2015, Northland completed an amendment to its corporate credit facility to: (i) obtain 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) obtain an extension of the revolving facility maturity from March 2019 to March 2020; and (iii) make changes to certain financial ratios and sublimits in order to provide liquidity and support Northland's ongoing development activities. The maturity of the \$250 million term facility remains unchanged at March 2018 and includes a one-year renewal option.

On September 30, 2015, Northland closed financing on an additional \$100 million corporate letter of credit facility with two members of its corporate syndicate. The facility is used to issue letters of credit Northland provides as security and in support of its operating, construction and development activities.

As at December 31, 2015, Northland had: (i) \$100 million of letters of credit outstanding under the corporate letter of credit facility; (ii) \$238.6 million of letters of credit outstanding under the revolving facility; (iii) \$nil of borrowings under the revolving facility; and (iv) \$250 million drawn under the term facility.



In July 2014, Northland converted a portion (\$51.3 million) of its term loan from Canadian dollars to euros and hedged the underlying interest cost on the term facility borrowings through 2018 at an average rate of approximately 1.5% plus applicable credit spread.

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

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 ⁽¹⁾	As at	As at
				December 31, 2015 ⁽²⁾	December 31, 2014
Thorold ⁽³⁾	(a)	2030	7.1%	323,778	336,979
Spy Hill ⁽³⁾	(b)	2036	4.1%	146,849	149,477
North Battleford ⁽³⁾	(c)	2032	5.0%	625,896	642,640
Jardin ⁽³⁾	(d)	2029	6.0%	111,032	116,694
Mont Louis	(e)	2031/2032	6.6%	106,711	109,804
Ground-mounted Solar Phase I ⁽³⁾	(f)	2030	4.4%	218,339	228,702
Ground-mounted Solar Phase II	(g)	2032	5.7%	78,799	82,377
Ground-mounted Solar Phase III	(h)	18 years ⁽⁴⁾	5.6%	227,450	166,500
McLean's	(i)	2034	6.0%	135,200	135,200
Kirkland Lake	(j)	2015	7.1%	—	2,340
Gemini ⁽³⁾⁽⁵⁾	(k)	2031	4.8%	2,185,063	823,848
Nordsee	(l)	2029	3.3%	101,805	—
Grand Bend	(m)	2035	4.2%	325,645	—
Total				4,586,567	2,794,561
Less: Current portion				(78,592)	(240,597)
Non-current				4,507,975	2,553,964



- (1) The weighted average interest rates of the subsidiary borrowings.
 - (2) Excludes \$32.6 million (2014 – \$17.3 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, 2015, and the third-party portion of the subordinated debt at Gemini.
- (a) The Thorold LP senior loan was funded 50% by bank lenders and 50% by institutional lenders. The institutional tranche of the Thorold LP 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 LP 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. In March 2015, the bank term loan was refinanced to a non-recourse bank term loan of \$183 million and a letter of credit facility of \$16 million, along with an existing institutional debt of \$179 million. The bank term loan matures in March 2030, coincident with the maturity of the existing institutional debt. The average all-in interest rate on the new loan is 7.05%. As required under provisions of the Thorold LP senior loan, Thorold LP entered into interest rate swap agreements that effectively fixed the interest rate of the bank tranche to March 2030. In the above table, certain fair value adjustments are \$19.2 million and \$21.1 million in December 31, 2015 and December 31, 2014, respectively.
- (b) On January 21, 2013, Spy Hill LP issued \$156.3 million 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 LP issued \$667.3 million 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 Battleford's \$542 million bank credit facility and settle \$61.9 million in associated interest rate swaps.
- (d) On May 2, 2008, Jardin LP entered into a non-recourse credit facility with a syndicate of institutional lenders for a \$153 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% until maturity on November 30, 2029, with the principal payments fully amortizing the loan over its term. Certain fair value adjustments to the Jardin Senior Loan are \$6.2 million and \$6.9 million on December 31, 2015 and December 31, 2014, respectively.
- (e) On November 17, 2010, Mont Louis LP 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, also loaned \$13.9 million to Mont Louis; repayment of the loan is guaranteed by Northland. The Investissement Québec loan was interest-free until April 2015; interest has been 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. Northland had an additional \$0.9 million drawn from this loan in 2015.
- (f) On October 8, 2014, the Ground-mounted Solar Phase I Projects' term loan and interest rate swaps were repaid with the proceeds from \$232 million of 4.397% senior secured amortizing Series A bonds. The bonds issued by Northland Power Solar Finance One LP require blended payments of principal and interest and will be amortized until maturity in June 2032. The bonds are rated BBB (high) by DBRS.
 - (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 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 the last five ground-mounted solar projects with a syndicate of lenders. The last five projects comprise 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 LP 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 Corp. 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, 2015, Kirkland Lake's term loan has been fully repaid.
 - (k) On May 14, 2014, the Gemini project completed €2 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%.

- (l) On March 19, 2015, the Nordsee One project completed €903 million of non-recourse project financing with a syndicate of international financial institutions, including a €63 million facility of contingent debt. The project loans include a three-year construction period and an approximately 10-year amortization period. The majority of the interest rate exposure for the project has been hedged over the full loan amortization period with an effective interest rate of approximately 3.3%.
- (m) On March 31, 2015, Northland completed \$326 million of non-recourse project financing and a \$16 million letter of credit facility for the Grand Bend wind farm. The loan is interest-only during construction and for 3.5 years after commercial operations is achieved, after which blended principal and interest payments at a rate of 4.25% will fully amortize the loan by its maturity in December 2035. At the time of financing, Northland also provided a loan to its First Nations partner for \$28.7 million for their equity contribution.

As of December 31, 2015, 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 ⁽¹⁾	2016	2017	2018	2019	2020	>2020
Thorold	16,582	16,344	18,017	18,264	19,449	257,552
Spy Hill	3,043	3,276	3,651	4,010	4,331	130,870
North Battleford	19,957	18,722	22,069	22,907	27,110	519,459
Jardin	6,129	6,487	6,919	7,329	7,079	83,270
Mont Louis	4,319	4,582	4,784	4,736	4,778	83,512
Ground-mounted Solar Phase I	10,808	11,088	11,337	11,589	11,902	164,503
Ground-mounted Solar Phase II	3,714	3,857	3,830	3,989	4,157	59,252
Ground-mounted Solar Phase III	14,813	10,519	10,910	10,822	11,256	178,200
McLean's	—	5,292	5,493	5,708	5,937	112,770
Gemini	—	35,241	167,799	176,289	184,461	1,601,182
Nordsee	—	—	84,027	123,184	136,406	851,339
Grand Bend	—	—	—	—	12,580	313,065
	79,365	115,408	338,836	388,827	429,446	4,354,974

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



16. Convertible Debentures

In January 2015, Northland completed a public offering of 4.75% convertible unsecured subordinated 2020 Debentures providing gross proceeds of \$157.5 million (\$150.6 million after costs and underwriters' fees). The 2020 Debentures have a maturity date of June 30, 2020. As at December 31, 2015, approximately \$157.5 million of the 2020 Debentures were outstanding, which if converted in their entirety would result in an additional 7.3 million Shares.

As described in Note 9, 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, 2015, 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.

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 million (\$88.1 million net of underwriters' fees and costs). The 2014 Debentures matured on December 31, 2014, which resulted in a payment of \$0.7 million to the convertible unsecured subordinated debenture holders.

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 debentures was classified as a long-term liability.

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 \$36.5 million, based on an estimated total future liability. A discount rate of 2.20% to 3.93% (2014 – 2.54% to 3.93%) and an inflation rate of 2% (2014 – 2%) were used to calculate the fair value of the asset retirement obligations. These decommissioning liabilities relate primarily to Northland's wind farms, ground-mounted solar sites and closed thermal facility because Northland expects to use its installed assets for an indefinite period. Revisions to Northland's decommissioning liabilities will be made if new information is received.

In May 2015, the Cochrane facility ceased generating electricity for Ontario's power grid due to the expiry of the facility's PPA. To date, the facility has not been able to secure a further contract extension or replacement contract. In the second quarter of 2015, given the uncertainty of the future economic benefit of the facility, management recorded a provision of \$2.3 million relating to decommissioning and an impairment of \$12.6 million relating to contracts and other intangible assets; and property, plant and equipment was fully amortized to a net book value of nil.

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

In thousands of dollars	2015	2014
Balance, beginning of year	30,473	16,205
Additions	5,042	13,526
Accretion	944	777
Foreign exchange impact	(7)	(35)
Balance, end of year	36,452	30,473

**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

Consolidated income statements	2015	2014
Current		
Based on taxable income of current year	146	2,378
Tax on dividend payments	5,278	5,550
Total current taxation expense for the year	5,424	7,928
Deferred		
Deferred tax on origination and reversal of temporary differences	(17,719)	(64,130)
Prior-year (under) over provision	(702)	448
Deferred tax due to writedown of tax asset	532	247
Total deferred tax (recovery) expense for the year	(17,889)	(63,435)
Total income tax (recovery) expense	(12,465)	(55,507)
Recognized directly in equity		
Deferred		
Deferred taxes related to origination and reversal of temporary differences related to financing fees	1,398	1,072
Total tax charged to equity	1,398	1,072



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	2015	2014
Income (loss) before income taxes	15,066	(232,962)
Combined basic federal and provincial income tax rate	26.50%	26.50%
Income tax expense (recovery) based on statutory rate	3,992	(61,735)
Adjustment for non-deductible (taxable) expenses	(20,010)	(30,127)
Rate difference related to origination and reversal of temporary differences in foreign jurisdictions	(341)	4,458
Manufacturing and processing rate reduction	125	(186)
Deferred tax expense (recovery) related to temporary differences charged to equity	(1,093)	(789)
Tax expense associated with payment of preferred share dividends	5,278	5,550
Benefit not recognized	532	798
Minority Interest	(492)	25,278
Adjustment with respect to prior years	(702)	448
Other	246	798
Actual tax expense	(12,465)	(55,507)

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% – 2014), Germany 30.2% (28.1% – 2014), Netherlands 25% (25% – 2014) and Luxembourg 29.2% (28.1% – 2014).



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

In thousands of dollars	2015	2014
Deductible temporary differences		
Losses available for carryforward	47,180	50,392
Derivative financial instruments	81,458	62,100
Financing fees	4,051	2,919
Tax credits – Ontario corporate minimum tax	1,950	1,950
Other	30,062	14,339
	164,701	131,700
Taxable temporary differences		
Contracts	57,223	53,772
Fair value debt increments	7,696	7,696
Property, plant and equipment	128,898	116,531
	193,817	177,999
Reconciliation of net deferred taxes		
Opening balance – deferred tax liability	46,299	83,422
Tax liability recognized in business combination	5,331	26,938
Tax expense (recovery) recognized in income statement	(17,889)	(63,436)
Tax expense recognized in equity	1,398	1,072
Effect of foreign exchange	(5,592)	(1,080)
Other	(431)	(617)
Ending net, deferred tax asset and liability	29,116	46,299

Northland has recognized a future tax asset of \$79.5 million and \$8.1 million for unused losses and other tax attributes available for carryforward with respect to Gemini and Nordsee, respectively. 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	2015	2014
Deferred tax assets		
Non-capital losses carried forward	138	873
Net capital loss	—	70
Outside basis difference on shares of foreign affiliate	438	438
Total deferred tax assets	576	1,381

Northland has operating losses available for carryforward in Canada, Germany and the Netherlands of \$74.8 million, \$18.7 million and \$85.2 million, respectively, that expire beginning in 2015. The operating losses will expire as follows:

In thousands of dollars	Canada	Germany	Netherlands
2023	—	—	84,235
2024	—	—	986
2025	—	18,662	—
2026	62	—	—
2027	21	—	—
2028	11	—	—
2029	83	—	—
2030	1,750	—	—
2031	24,491	—	—
2032	3,299	—	—
2033	2,159	—	—
2034	42,944	—	—
2035	13	—	—
Total	74,833	18,662	85,221

**Temporary Differences Associated With Northland Investments**

The temporary difference associated with investments in Northland's subsidiaries is \$7 million. A deferred tax liability associated with these investments has not been recognized because Northland controls the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

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



19. Derivative Financial Instruments

The derivative financial instruments consist of the following:

December 31, 2015					
In thousands of dollars	Current assets	Current liabilities	Long-term assets	Long-term liabilities	Net
Canadian dollar interest rate swaps	–	(21,853)	–	(89,939)	(111,792)
Euro interest rate swaps	–	(57,566)	3,748	(192,508)	(246,326)
Gas purchase swaps	–	(5,338)	–	(25,335)	(30,673)
U.S. dollar foreign exchange contracts	4,291	–	6,365	–	10,656
Euro foreign exchange contracts	276	(2)	14,683	(68,526)	(53,569)
	4,567	(84,759)	24,796	(376,308)	(431,704)

December 31, 2014					
In thousands of dollars	Current assets	Current liabilities	Long-term assets	Long-term liabilities	Net
Canadian dollar interest rate swaps	–	(16,570)	–	(75,110)	(91,680)
Euro interest rate swaps	–	(19,934)	–	(222,480)	(242,414)
Gas purchase swaps	–	(272)	–	(11,162)	(11,434)
U.S. dollar foreign exchange contracts	769	–	4,242	–	5,011
Euro foreign exchange contracts	121	(771)	28,330	(22,071)	5,609
	890	(37,547)	32,572	(330,823)	(334,908)



The change in derivative financial instruments during 2015 and 2014 is as follows:

As at December 31, in thousands of dollars	2015	2014
Derivative financial instruments, beginning of year	334,908	46,622
Canadian dollar interest rate swaps	20,106	51,419
Euro interest rate swaps	(12,459)	248,665
Gas purchase swaps	19,238	2,430
U.S. dollar foreign exchange contracts	(5,350)	(2,358)
Euro foreign exchange contracts	58,889	(5,619)
Foreign exchange	16,372	(6,251)
Derivative financial instruments, end of year	431,704	334,908



20. Equity

20.1 Preferred Shares

Northland's preferred shares balance contains Series 1, Series 2 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 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, 2014	6,000,000	145,102
Deferred income taxes	—	(259)
December 31, 2014	6,000,000	144,843
Conversion to Series 2 Preferred Shares	(1,498,435)	(37,461)
December 31, 2015	4,501,565	107,382

Prior to September 30, 2015, the holders of Series 1 Preferred Shares were 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 yielded 5.25% annually for the initial five-year period ended September 30, 2015. The dividend rate reset on September 30, 2015, and will reset 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 were redeemable on September 30, 2015, and are redeemable on September 30 of every fifth year thereafter.

The holders of Series 1 Preferred Shares have the right to convert their shares into Series 2 Preferred Shares, subject to certain conditions, on September 30, 2015, and on September 30 of every fifth year thereafter. On September 30, 2015, Northland announced that 1,498,435 of its 6,000,000 Series 1 Preferred Shares converted on a one-for-one basis into Series 2 Preferred Shares. Consequently, Northland now has 4,501,565 Series 1 Preferred Shares outstanding with fixed quarterly dividends payable at an annual rate of 3.51% until September 29, 2020. 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 2 Preferred Shares

As described above, on September 30, 2015, Northland announced that 1,498,435 Series 1 Preferred Shares converted into Series 2 Preferred Shares with floating quarterly dividends payable at an annual rate of 2.80% over the annual yield on 90-day Government of Canada treasury bills (as determined on the relevant quarterly dividend determination date). The actual quarterly dividend rate with respect to the September 30, 2015, to December 30, 2015, dividend period for the Series 2 Preferred Shares was 0.80% (3.18% on an annualized basis), representing \$0.20 per share, payable on December 31, 2015. The conversion is summarized below:

In thousands of dollars except for preferred shares	Preferred shares	Amount
January 1, 2015	—	—
Conversion from Series 1 Preferred Shares	1,498,435	37,461
December 31, 2015	1,498,435	37,461

Series 3 Preferred Shares

On May 24, 2012, Northland issued 4.8 million Series 3 Preferred Shares at a price of \$25 per share for gross proceeds of \$120 million, as summarized below:

In thousands of dollars except for preferred shares	Preferred shares	Amount
January 1, 2014	4,800,000	116,635
Deferred income taxes	—	(199)
December 31, 2014	4,800,000	116,436
Deferred income taxes	—	(199)
December 31, 2015	4,800,000	116,237

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 an annual 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, 2015, a total of \$13.2 million of preferred share dividends were paid, excluding taxes (2014 – \$13.9 million).

20.2 Shares

Northland is authorized to issue an unlimited number of Shares. The change in Shares during 2015 and 2014 was as follows:

In thousands of dollars except for Shares

	Shares	Amount
Outstanding as of January 1, 2014	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	632,701	9,125
Change in deferred taxes	—	1,327
Conversion of 2014 Debentures	1,292,079	16,048
Shares issued under DRIP	2,537,651	40,505
Outstanding as of December 31, 2014	149,409,892	1,904,906
Public offering, net of transaction costs	14,437,500	221,304
Private placement	3,125,000	50,000
Change in deferred taxes	—	1,497
Shares issued under LTIP	115,298	1,638
Shares issued under DRIP	2,557,561	39,914
Outstanding as at December 31, 2015	169,645,251	2,219,259



Issuance of common shares

As described in Note 9, in March 2015, a total of 17,562,500 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 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, 2015, Northland capitalized \$4.6 million (2014 – \$3.1 million) and expensed \$1.2 million (2014 – \$2.2 million) of costs under the LTIP and deferred rights. Forfeitures have been assumed to be \$nil.

Pursuant to Northland's LTIP, a total of 115,298 Shares were awarded during 2015 (2014 – 632,701 Shares).

20.3 Convertible Shares

The terms and conditions of Northland's Class A Shares are defined in Northland's Articles. As at December 31, 2015, a total of 1,000,000 Class A Shares remain outstanding totalling \$14.6 million. The Class A Shares are convertible into Shares on a one-for-one basis.



21. Non-Controlling Interests

Non-controlling interests relate to the interests not owned by Northland for McLean's (50%), Grand Bend (50%), Cochrane Solar (37.5%), Gemini (40%), Nordsee One (15%) and CEEC (32%). 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 sheets is as follows:

In thousands of dollars	Current ⁽¹⁾	Long-term	Current	Long-term
As at December 31, 2015	assets	assets	liabilities	liabilities
CEEC	32,127	18,133	(10,528)	–
McLean's	13,530	164,032	(6,200)	(147,616)
Grand Bend	118,024	283,245	(17,651)	(325,645)
Cochrane Solar	23,008	379,115	(31,776)	(219,443)
Gemini	13,998	2,981,758	(30,419)	(2,430,718)
Nordsee	154,677	399,913	(99,755)	(102,475)
Total	355,364	4,226,196	(196,329)	(3,225,897)

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

(1) Included in current assets are restricted cash of \$247.6 million for Gemini, Nordsee and Grand Bend where the availability of funds is intended for the construction.

As at December 31, 2015, dividends payable to the non-controlling interest shareholders of CEEC totalled \$0.6 million.

As at December 31, 2015, Northland had outstanding receivable balances of \$2.3 million with McLean's, \$32.3 million with Grand Bend and \$45.9 million with Cochrane Solar First Nations partners, respectively.



The change in non-controlling interests during 2015 and 2014 is as follows:

In thousands of dollars	CEEC	McLean's	Grand Bend	Cochrane Solar	Gemini	Nordsee	Total
As at January 1, 2014	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	30,067	(744)	—	—	(100,096)	(111)	(70,884)
Dividends and distributions declared	(2,974)	(6,087)	—	—	—	—	(9,061)
Allocation of other comprehensive (loss)	—	—	—	—	(22,859)	—	(22,859)
As at December 31, 2014	75,516	18,001	—	—	161,360	16,532	271,409
Contribution of non-controlling interests	—	—	28,733	45,670	—	9,892	84,295
Equity adjustment	—	—	—	13,158	—	—	13,158
Net income (loss) attributable	24,258	856	—	(3,224)	4,652	(154)	26,388
Dividends and distributions declared	(8,120)	(4,357)	—	—	—	—	(12,477)
Allocation of other comprehensive income	—	—	—	—	31,019	108	31,127
As at December 31, 2015	91,654	14,500	28,733	55,604	197,031	26,378	413,900



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

Managed facilities

Applicable to PPA cash flows:

October 1, 2015	6.8%
October 1, 2014	7.8%

Applicable to post-PPA cash flows:

October 1, 2015	8.8%
October 1, 2014	9.8%

During the fourth quarter of 2015, Northland completed its annual comprehensive impairment assessment based on value-in-use estimates derived from the long-range forecasts and market values observed in the marketplace. As a result, Northland recorded an impairment charge of \$16.6 million against contracts and other intangibles assets, \$12.7 million against goodwill and \$14.1 million against property, plant and equipment. The impairments were largely a result of changes in cash flow forecasts and shutdown of the Cochrane facility, as described in Note 17. In addition, Northland reversed \$16.1 million of prior-year impairments on contracts and other intangibles and \$6.5 million on property, plant and equipment due to finalization of the amended future PPA pricing terms.

In 2014, Northland recorded an impairment charge of \$25.1 million against contracts and other intangibles, \$0.9 million against goodwill and \$11 million against property, plant and equipment. Absent any changes to assumptions relating to 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 (2014 – \$1.08), being aggregate dividends of \$179.9 million (2014 – 157.4 million), were declared for the year ended December 31, 2015. Total dividends declared for 2015 consists of \$140 million of cash dividends (2014 – \$116.9 million) and \$39.9 million of Share dividends (2014 – \$40.5 million) pursuant to Northland's DRIP.

24. Finance Costs

Finance costs consist of the following:

As at December 31, in thousands of dollars	2015	2014
Interest on debts, borrowings and bank fees	139,289	124,203
Discount on provisions for decommissioning liability	944	777
	140,233	124,980

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 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 convertible unsecured subordinated debentures 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 and 2020 Debentures into Shares and the weighted average number of contingent/exchangeable shares recognized for accounting purposes during the year.



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

In thousands of dollars	2015	2014
Net income (loss) attributable to common shareholders for the year	1,143	(106,571)
Less: Preferred share dividends, net	(13,195)	(13,876)
Net loss attributable to ordinary equity holders of Northland for basic and diluted earnings	(12,052)	(120,447)
Add back: Convertible subordinated debentures interest and amortization	—	—
Net loss attributable to ordinary equity holders of Northland for diluted earnings	(12,052)	(120,447)

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

	2015	2014
Weighted average number of Shares outstanding	166,554,763	145,764,621
Weighted average number of Class A Shares	1,000,000	1,000,000
Weighted average number of Shares outstanding, basic and diluted	167,554,763	146,764,621

The conversions of the convertible unsecured subordinated debentures are anti-dilutive for the years ended 2015 and 2014 and have, therefore, been excluded from the calculation of the diluted weighted average number of Shares.



26. Commitments

The following is a summary of the material commitments that Northland and its subsidiaries have entered into as at December 31, 2015.

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.

Capital Commitments

In the normal course of operations, as at December 31, 2015, Northland has committed to spending approximately \$2 billion on capital projects. The majority of the commitment relates to the construction of the Gemini, Nordsee, Grand Bend and GMS Projects.

27. Operating Segment Information

In accordance with IFRS 8, "Operating Segments," Northland has identified the following operating segments: (i) thermal; (ii) renewable; (iii) managed (management and operations services for Kirkland Lake, Cochrane and CEEC); (iv) offshore wind, including Gemini and Nordsee; and (v) other, which includes investment income and 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 consolidated statements of income is as follows:

In thousands of dollars

Year ended 2015	External revenue	Inter- segment revenue	Total revenue	Depreciation of property, plant and equipment	Finance costs, net	Operating income (loss)
Thermal	475,606	4,171	479,777	60,408	65,270	214,169
Renewables	143,728	—	143,728	62,207	45,153	59,903
Managed ⁽¹⁾	107,956	—	107,956	2,594	(311)	35,385
Gemini	—	—	—	—	—	(1,658)
Nordsee	—	—	—	—	(95)	(877)
Other ⁽²⁾	851	38,575	39,426	452	27,771	(32,828)
Eliminations ⁽³⁾	—	(42,746)	(42,746)	—	—	—
	728,141	—	728,141	125,661	137,788	274,094

In thousands of dollars

Year ended 2014	External revenue	Inter- segment revenue	Total revenue	Depreciation of property, plant and equipment	Finance costs, net	Operating income (loss)
Thermal	510,532	1,760	512,292	61,189	66,691	203,241
Renewables	113,848	—	113,848	50,698	38,393	45,101
Managed ⁽¹⁾	135,176	—	135,176	7,902	24	33,701
Gemini	—	—	—	—	(23)	(2,099)
Other ⁽²⁾	515	41,594	42,109	402	17,064	(31,163)
Eliminations ⁽³⁾	—	(43,354)	(43,354)	—	—	—
	760,071	—	760,071	120,191	122,149	248,781

(1) Includes Kirkland Lake, Cochrane and CEEC's consolidated operations.

(2) Includes management and operations fees, investment income, and management, administration and development expenditures.

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



Significant information for each segment for the consolidated balance sheets is as follows:

In thousands of dollars

	Property, plant and equipment	Equity- accounted investment	Contracts and other intangibles, net	Goodwill	Total assets
As at December 31, 2015					
Thermal	1,098,920	—	55,562	150,201	1,653,572
Renewables	1,164,283	—	818	56,329	1,296,980
Managed⁽¹⁾	17,529	—	33,996	—	88,004
Gemini	2,988,144	—	59,479	—	3,141,105
Nordsee	402,848	—	107,611	—	668,884
Other⁽²⁾	292,714	4,445	(60)	—	517,850
	5,964,438	4,445	257,406	206,530	7,366,395

In thousands of dollars

	Property, plant and equipment	Equity- accounted investment	Contracts and other intangibles, net	Goodwill	Total assets
As at December 31, 2014					
Thermal	1,173,057	—	75,081	162,908	1,751,400
Renewables	839,974	—	1,010	49,227	945,405
Managed⁽¹⁾	13,663	—	32,652	—	87,763
Gemini	1,573,358	—	55,557	—	1,705,855
Nordsee	—	—	169,103	—	177,294
Other⁽²⁾	188,519	4,666	14,758	7,103	331,377
	3,788,571	4,666	348,161	219,238	4,999,094

(1) Includes Kirkland Lake, Cochrane and CEEC.

(2) Includes projects under construction that will be transferred to the appropriate segment once commercial operations have begun.



Information on operations by region is as follows:

For years ended, in thousands of dollars

Sales	2015	2014
Canada	724,075	756,665
Europe	4,066	3,406
Total sales	728,141	760,071

As at December 31, in thousands of dollars

Property, plant and equipment, net	2015	2014
Canada	2,572,094	2,212,974
Europe	3,392,344	1,575,597
Total property, plant and equipment, net	5,964,438	3,788,571

As at December 31, 2015, 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

28.1 Ground-Mounted Solar Project Litigation

Cochrane Solar Projects

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 Cochrane Solar projects. Under the terms of the EPC contract, the Cochrane Solar subsidiaries commenced a claim in arbitration for approximately \$159 million against White and White Construction, Inc. (**"White US"**), guarantor under the White EPC contract, for costs, losses and damages for breaches of the EPC contract. White and White US have counter-claimed in this arbitration proceeding for approximately \$74 million. White registered a lien and filed a claim for approximately \$32 million against the Cochrane Solar entities relating to the termination of the EPC contract. As a result of duplication in the White lien claim, Northland removed the lien from title by posting a letter of credit for approximately \$16.6 million. Northland's claim and White's counter-claim are proceeding through the arbitration process, and the outcome at this time is unknown.

In addition to the claim by White, a number of White's subcontractors involved in the construction of the Cochrane Solar projects registered liens and filed claims against White and Northland's Cochrane Solar subsidiaries. Northland has arranged for the subcontractor liens to be removed from title by posting letters of credit of approximately \$28.5 million. Northland has retained a holdback of \$7.4 million in accordance with the Ontario Construction Lien Act. Northland contends that its liability to the subcontractors is limited to this holdback amount. The proceedings in relation to these claims are ongoing, and the outcome at this time is unknown.

As of the date of this report, Northland has posted approximately \$45.1 million of letters of credit to remove liens from these projects, which Northland expects will be returned in their entirety once the claims of the subcontractors have been resolved.

Burks Falls West Solar Project

In September 2015, White registered liens for approximately \$22 million against the Burks Falls West solar project. Northland disputes White's claim, which is ongoing, and the outcome at this time is unknown. As of the date of this report, Northland has posted approximately \$22 million of letters of credit to remove liens from title to the Burks Falls West solar project.

28.2 Global Adjustment

Starting in the third quarter of 2015, the Ontario Electricity Financial Corporation (**OEFC**) has calculated and made payments based on the Ontario Superior Court of Justice decision in favour of Northland and a number of other power producers in Ontario in relation to the interpretation of past and future price escalator provisions in their respective PPAs with the OEFC. The decision was appealed by the OEFC, and if the decision is overturned on appeal, Northland will be required to repay the difference between the payments now being made on the basis of the court's decision and the lower payments that would have been made on the basis of OEFC's original calculation, plus interest. The hearing of the appeal occurred in December 2015, and Northland continues to believe the appeal will be unsuccessful. As of December 31, 2015, Iroquois Falls and Kirkland Lake had received a total of \$22.2 million from the OEFC. Northland has recorded the amount received in revenue.



29. Management and Related-Party Disclosures

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 2015 includes \$6.5 million (2014 – \$3.7 million) of short-term employee benefits. Northland has granted a total of 115,298 Shares totalling \$1.6 million and a cash component totalling \$0.6 million to key management personnel during 2015 tied directly to executive time served and the success of the development and construction of certain projects.

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 9.

Entity With Significant Influence Over Northland

As of December 31, 2015, James C. Temerty, Chair of Northland Power Inc., owns or has control or direction over 55,803,752 common shares (representing 33% 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 33% of the then outstanding Shares.

30. Comparative Figures

The comparative audited consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2015 consolidated financial statements.

31. Authorization of Audited Consolidated Financial Statements

The audited consolidated financial statements for the year ended December 31, 2015 (including comparatives) were approved by the Board of Directors on February 29, 2016.



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. Mike Crawley <i>Executive Vice President Development</i>
Mr. Salvatore Mantenuto <i>Chief Operating Officer and Vice Chair</i>	Mr. Michael D. Shadbolt <i>Vice President and General Counsel</i>
Mr. Paul J. Bradley <i>Chief Financial Officer</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, Series 2 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, NPI.PR.B and NPI.PR.C, respectively.

DIVIDEND REINVESTMENT PLAN (DRIP)

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

TAX CONSIDERATIONS

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

Shareholder Information

CONTACT

Barbara Bokla
Manager, Investor Relations
647-288-1438

Adam Beaumont
Director of Finance
647-288-1929

TELEPHONE

416-962-6262

FACSIMILE

416-962-6266

EMAIL

investorrelations@northlandpower.ca

WEBSITE

www.northlandpower.ca

ADDRESS

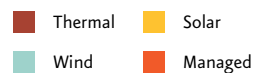
30 St. Clair Avenue West
12th Floor
Toronto, Ontario, Canada
M4V 3A1



As we continue to evolve and pursue new opportunities,
we will remain true to our core values.

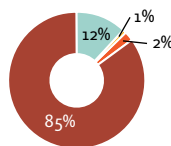
Year-Over-Year Growth

Since 2011, Northland's adjusted EBITDA has increased by 167% with steady growth each year. Our diverse power generation mix provides versatility and enables us to seize new opportunities, while each project's long-term revenue contract provides stability.



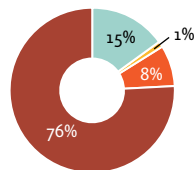
Adjusted EBITDA

by per cent breakdown



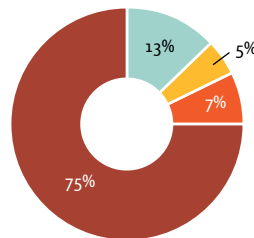
2011

\$151 million*



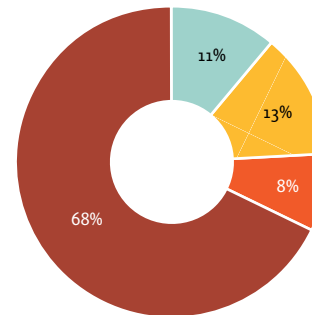
2012

\$179 million*



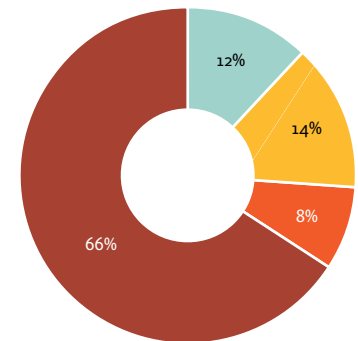
2013

\$263 million*



2014

\$363 million*



2015

\$402 million*

* Represents Northland's total consolidated adjusted EBITDA



▲
In February 2016, Northland's 600 MW Gemini offshore wind project reached two important milestones – the installation of the first wind turbine and the first production of power. Construction will continue throughout 2016; the project is expected to achieve full commercial operation in 2017.

30 St. Clair Avenue West
12th Floor
Toronto, Ontario, Canada
M4V 3A1
northlandpower.ca