

Independent Auditors' Report

To the Shareholders of Northland Power Inc.

We have audited the accompanying consolidated financial statements of Northland Power Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statements income (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Northland Power Inc. and its subsidiaries as at December 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada
February 23, 2015

The logo for Ernst & Young LLP is written in a black, cursive script font.

Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

As at, in thousands
of Canadian dollars

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

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As at, in thousands
of Canadian dollars

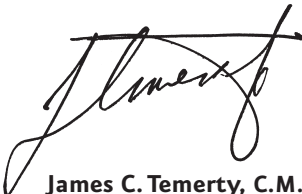
	December 31, 2014	December 31, 2013
Liabilities and equity		
Current		
Trade and other payables	229,523	84,993
Interest-bearing loans and borrowings [Note 15.2]	240,597	59,173
Dividends payable – non-controlling interest [Note 21]	941	3,460
Dividends payable	13,537	11,968
Total current liabilities	484,598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

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As at, in thousands
of Canadian dollars

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

See accompanying notes.



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



Russell Goodman
Director and Chairman
of the Audit Committee

Consolidated Statements of Income (Loss)

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

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

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Consolidated Statements of Income (Loss) continued

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

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

See accompanying notes.

Consolidated Statements of Comprehensive Income (Loss)

As at December 31, in thousands
of Canadian dollars

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

See accompanying notes.

Consolidated Statements of Changes in Equity

Year ended December 31, 2014

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

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Year ended December 31, 2013

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

See accompanying notes.

Consolidated Statements of Cash Flows

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

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

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

	2014	2013
Net change in working capital balances		
related to investing activities	58,579	10,031
Other	750	—
Acquisition of CEEC, net	—	10,865
Cash used in investing activities	(1,808,861)	(444,156)
Financing activities		
Proceeds from borrowings, net of transaction costs	1,034,811	446,248
Corporate term facility proceeds, net [Note 15.1]	247,402	—
Net proceeds from bond offerings [Note 15.2]	228,895	816,001
Repayment of borrowings	(273,596)	(719,552)
Settlement of interest rate swaps [Note 15.2]	(2,118)	(65,409)
Decrease in bank indebtedness	—	(1,071)
Interest paid	(114,217)	(74,857)
Net proceeds from public offerings and private placement [Note 8]	275,729	—
Non-controlling interest equity contribution [Note 21]	263,770	—
Dividends to non-controlling interests [Note 21]	(11,581)	(11,683)
Preferred share dividends [Note 20.1]	(13,876)	(13,876)
Common and Class A Share dividends [Note 23]	(115,322)	(98,908)
Other	4,126	16,790
Cash provided by financing activities	1,524,023	293,683
Effect of exchange rate differences on cash and cash equivalents	(26,799)	140
Net change in cash and cash equivalents during the year	54,952	106,745
Cash and cash equivalents, beginning of year	138,460	31,715
Cash and cash equivalents, end of year	193,412	138,460
Per share		
Dividends declared to shareholders	\$1.08	\$1.08

See accompanying notes.

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1. Description of Business

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

The 2014 audited consolidated financial statements include the results of Northland and its subsidiaries, of which the most significant are listed in the following table:

Entity name	Country of incorporation	Ownership December 31, 2014	Ownership December 31, 2013
Iroquois Falls Power Corp. (“ 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%
DK Windpark Kavelstorf GmbH & Co. KG and DK Burgerwindpark Eckolstädt GmbH & Co. KG (“ the German wind farms ”)	Germany	100%	100%
McLean’s Mountain Wind L.P. (“ McLean’s ”)	Canada	50% ⁽¹⁾	50%
Ground-mounted Solar Partnerships (“ Ground-mounted Solar ”)	Canada	100%	100%

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

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

(2) On April 1, 2013, Northland acquired an ownership interest in CEEC, which has voting control of Kirkland Lake Power Corp. (“**Kirkland Lake**”) and Cochrane Power Corporation (“**Cochrane**”); see Note 21.

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

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

Northland’s financial results also include income earned from a 19% equity interest in Panda Energy Corporation (“**Panda-Brandywine**”), whose PPA was settled and related facility assets transferred to the contract counterparty in May 2014, results from the Northland Power Chips Limited Partnership (“**Chips**”) prior to its sale in April 2014, the rooftop solar partnership in which Northland has a 75% interest, and management fees from Chapais Énergie, Société en Commandite (“**Chapais**”), in which Northland has an indirect equity interest.

2. General Information

Northland is a corporation domiciled in Canada with publicly traded common shares (“**Shares**”), cumulative rate reset preferred shares, series 1 (“**Series 1 Preferred Shares**”), cumulative rate reset preferred shares, series 3 (“**Series 3 Preferred Shares**”), Series B extendible convertible unsecured subordinated debentures (“**2019 Debentures**”) and Series C convertible unsecured subordinated debentures (“**2020 Debentures**”) that are publicly traded. The Series A convertible unsecured subordinated debentures (“**2014 Debentures**”) matured on December 31, 2014. Northland also has issued Class A Shares (as defined below). Northland is the parent company for the operating subsidiaries that carry on Northland’s business. Northland’s registered office is located in Toronto, Ontario.

3. Summary of Significant Accounting Policies

3.1 Basis of Preparation and Statement of Compliance

These consolidated financial statements of Northland and its subsidiaries were prepared in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

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

3.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of Northland and its subsidiaries at December 31, 2014.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Northland obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when Northland is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Northland reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of income (loss) from the date Northland gains control until the date control ceases.

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

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

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

3.3 Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given and equity instruments issued less liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest. The acquired business's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations," are recognized at their fair values at the acquisition date, except for income taxes, which are measured in accordance with IAS 12, "Income Taxes," share-based payments, which are measured in accordance with IFRS 2, "Share-based Payment," and non-current assets that are classified as held for sale, which are measured at fair value less costs to sell in accordance with IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations."

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

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

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

3.4 Foreign Currency Translation

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

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

3.5 Revenue Recognition

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

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

Sale of electricity, steam, natural gas and emission allowances

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

Rendering of services

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

Interest and investment income

Interest and investment income are recognized as they are earned.

3.6 Taxes

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

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

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

Sales taxes

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

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

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

3.7 Financial Instruments

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

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

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

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

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

Assessment of the significance of a particular input to the fair value measurement requires judgment; any changes in assumptions may affect the reported fair value of financial instruments.

Financial assets

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

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

Northland's financial assets include cash and cash equivalents, restricted cash, trade and other receivables and, up until its writedown in May 2014, the investment in Panda-Brandywine.

Loans and receivables

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

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

Financial assets at fair value through profit or loss

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

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

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the income statement. Reassessment occurs only if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. Northland has determined that it does not have any embedded derivatives that are required to be accounted for separately.

Held-to-maturity investments

Financial assets are classified as held to maturity if management has the positive intention and ability to hold to maturity and they have fixed maturity dates with fixed or determinable payments. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, with gains and losses recognized when the asset is derecognized. Northland did not have any held-for-maturity investments as at December 31, 2014, or December 31, 2013.

Available for sale

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

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

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

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

Financial liabilities

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

Northland's financial liabilities include trade and other payables, bank indebtedness, interest-bearing loans and borrowings, dividends payable, convertible unsecured subordinated debentures, derivative financial instruments and Class B Shares prior to being converted into equity on August 22, 2013. Financial liabilities are initially measured at fair value, with subsequent measurement determined based on their classification as described below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes Class B Shares (prior to being converted into common shares on August 22, 2013) and derivative financial instruments entered into by Northland that do not meet hedge accounting criteria as defined by IAS 39. Gains or losses on liabilities held for trading are recognized in the income statement.

Loans and borrowings

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

Amortized cost of financial instruments

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

The carrying values of Northland's financial instruments as at December 31 are as follows:

In thousands of dollars

As at December 31, 2014	Level 1	Level 2	Level 3	Total
Loans and receivables ⁽¹⁾	238,657	249,626	–	488,283
Available for sale ⁽²⁾	–	–	–	–
Financial liabilities at fair value through profit or loss ⁽³⁾	–	334,908	–	334,908
Other financial liabilities ⁽⁴⁾	75,307	3,284,610	–	3,359,917

In thousands of dollars

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

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

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

(3) Derivative financial instruments.

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

The estimated fair value of other financial liabilities as at December 31, 2014, is \$3.1 billion (2013 – \$2.0 billion).

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

For the year ended December 31, in thousands of dollars	2014	2013
Income on financial assets not held for trading	13,656	13,886
Loss (gain) on other financial liabilities	123,448	(83,677)
Loss (gain) on financial liabilities at fair value through profit or loss	296,586	(129,906)

3.8 Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such costs include the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Likewise, when a major maintenance other than as described below is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. See Note 3.17 for further information about the measurement of the decommissioning liabilities.

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

Buildings and foundations	20 to 40 years
Plant and equipment	10 to 30 years
Vehicles and meteorological towers	5 years
Office equipment, furniture and fixtures	5 years
Computers and computer software	2 years
Leasehold improvements	Straight-line over the term of the lease

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

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

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

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

3.9 Leases or Arrangements Containing a Lease

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

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

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

3.10 Borrowing Costs

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

3.11 Intangible Assets

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

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

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

Deferred development costs

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

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

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

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

Contracts

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

3.12 Inventories

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

3.13 Impairment of Non-Financial Assets

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

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

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, Northland estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its estimated recoverable amount or exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

Goodwill

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

3.14 Cash and Cash Equivalents

Cash equivalents comprise only highly liquid investments with remaining maturities of less than 90 days at the date of acquisition. Restricted cash comprises amounts funded against future maintenance, debt service and construction costs at certain Northland subsidiaries.

3.15 Class A Shares

As part of the consideration for the 2009 merger between the privately held Northland Power Inc. and Northland Power Income Fund (**"Merger"**), Class A Units were issued that became Class A Shares upon corporatization of Northland Power Income Fund on January 1, 2011. The Class A Shares are recorded in equity and are included in the calculation of basic net income (loss) per share.

The Class A Shares are entitled to dividends on the same basis as Shares and became convertible into Shares on a one-for-one basis on January 16, 2012.

3.16 Share-Based Payments

As part of Northland's Long-Term Incentive Plan (**LTIP**), Northland provides equity-settled share-based compensation to management and certain employees when projects achieve predetermined milestones or, in the case of one member of management, based upon time served. Northland has the option to settle the LTIP in cash. The fair value of the awards is based on the grant date share price and, to the extent that services are provided in advance of the grant date, Northland's reporting date share price. A forfeiture rate has been estimated to reflect the Shares that will vest upon achieving those milestones. Estimates are subsequently revised if there is any indication that the number of Shares expected to vest differs from previous estimates. For LTIP awards granted based on projects achieving certain milestones, the cost of the LTIP Shares awarded is recognized over the estimated vesting period and is capitalized to the extent that the employees are providing services during the year that are directly involved in the development and construction of a project. The remainder vest approximately one year thereafter, when a project has met performance expectations. For LTIP awards granted based on service time, the cost of LTIP Shares awarded is expensed over the estimated vesting period.

3.17 Provisions

General

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

Decommissioning liabilities

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

3.18 Significant Management Judgments in Applying Accounting Policies and Estimation Uncertainty

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

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

Deferred development costs

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

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

Impairment of non-financial assets

Northland’s impairment tests for goodwill, other intangible assets and property, plant and equipment are based on value-in-use calculations that use a discounted cash flow model. The cash flows are derived from the forecasts over the remaining useful lives of the assets of the CGUs and do not include restructuring activities that Northland is not yet committed to. The estimated recoverable amount is sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows. The key assumptions used to estimate the recoverable amount for the different CGUs are further explained in Note 22.

Income taxes

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

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

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

Fair value of financial assets and financial liabilities

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

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are depreciated over their useful lives, taking into account estimated residual values, where appropriate. Assessments of useful lives and residual values are performed annually after considering factors such as technological innovation, maintenance programs, relevant market information and management considerations. In assessing residual values, Northland considers the remaining life of the asset, its projected disposal value and future market conditions. The carrying amounts are analyzed in Notes 12 and 13.

Long-Term Incentive Plan

Northland's LTIP provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries. During 2011, the terms of the plan providing for the granting of shares under the LTIP were established. The LTIP was further amended in early 2013 to expand the scope to additional development projects. The costs of LTIP awards that are for employees whose activities are directly attributable to the development and construction of certain Northland facilities are included in property, plant and equipment, and the costs of LTIP awards relating to the performance of the facility are expensed during the year. The LTIP cost for a period is based on expected development profits for a project and recognized over the expected vesting period. The calculation of development profit is sensitive to the estimation of future cash inflows for each particular project and the discount rate used to discount those expected cash inflows.

Leases

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

Consolidation of Gemini and Nordsee

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

Decommissioning liabilities

Northland’s decommissioning liabilities relate solely to its wind and solar facilities. Future remediation costs, whether required under contract or by law, are recognized based on best estimates. These estimates are calculated at the end of each period taking into account expected undiscounted outflows for each asset in question. Estimates depend on labour costs, efficiency of site restoration and remediation measures, inflation rates and pre-tax interest rates that reflect current market conditions or the time value of money, as well as risks specific to the liability. Management also estimates the timing of expenses, which may change depending on the type of continuing operations. Expected future costs are inherently uncertain and could materially change over time. Northland expects to use its installed assets at the thermal facilities for an indefinite period due to continuing equipment overhauls and ownership of the lands; as a result, management considers that a reasonable estimate of the fair value of any related decommissioning liabilities cannot be made at this time. See Note 17 for additional details.

3.19 Future Accounting Policies

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

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

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

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

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

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4. Financial Risk Management

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

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

Market Risk

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

(i) Interest rate risk

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

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

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

For the year ended December 31, 2014, if interest rates had been 100 basis points higher or lower with all other variables held constant, the change in income before income taxes, which includes the change in fair value of the interest rate swaps, would have been \$289.3 million higher or lower. However, this change would have had no material impact on Northland's cash flows.

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

(ii) Foreign currency risk

As at December 31, 2014, the majority of Northland's assets and sales were located in Canada. Exceptions include the investments in two offshore wind projects (Gemini and Nordsee) in Europe, income from Panda-Brandywine located in the United States and receivables from the German wind farms. Foreign exchange risk arises because the Canadian equivalent of transactions denominated in foreign currencies may vary due to changes in exchange rates and because euro-denominated consolidated financial statements of Northland's Gemini, Nordsee and German wind farms may vary on consolidation into Canadian dollars.

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

At December 31, 2014, if the Canadian dollar had been 5% higher or lower against the U.S. dollar with all other variables held constant, income before taxes would have been \$2.0 million higher or lower, which includes the fair value change in the U.S.-dollar foreign exchange contracts.

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

At December 31, 2014, if the Canadian dollar had been 5% higher or lower against the euro with all other variables held constant, income before income taxes would have been \$47.3 million higher or lower, which includes the fair value change in the euro-denominated foreign exchange contracts.

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

Counterparty Risk

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

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

As at December 31, 2014, approximately 90% (2013 – 90%) of Northland's consolidated trade and other receivables were owing from government-related entities.

In 2014, approximately 96% (2013 – 97%) of Northland's consolidated revenue was derived indirectly from the sale of electricity to government-related entities. For electricity and other sales, Northland and its subsidiaries have not provided allowance accounts, do not hold collateral from counterparties and have not purchased credit derivatives to mitigate counterparty risk. All significant accounts receivable amounts reported at December 31, 2014, are current.

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

Liquidity Risk

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

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

Northland's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. Northland achieves this by endeavouring over the long term to pay out less than 100% of its free cash flow (a non-IFRS performance indicator) in dividends to shareholders and through the availability of funding from committed credit facilities.

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

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

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

Northland is also subject to internal liquidity risk because it conducts its business activities through separate legal entities (subsidiaries and affiliates) and is dependent on receipts of cash from those entities to defray its corporate expenses and to make dividend payments to shareholders. Certain of those entities have outstanding debt that was incurred to help fund the entities' original investments. Under the credit agreements for such debt, it is conventional for distributions of cash to Northland to be prohibited if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark debt service coverage ratio, which is the ratio of earnings before interest, taxes, depreciation and amortization (**adjusted EBITDA, a non-IFRS performance indicator**) for a specified time period to the scheduled loan principal and interest payments for the same time period. For the year ended December 31, 2014, Northland and its subsidiaries were in compliance with all debt covenants.

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

5. Management of Capital

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

As at December 31, 2014, total managed capital was \$4.0 billion, consisting of shareholders' equity of \$1.1 billion, interest-bearing debt of \$2.8 billion and convertible unsecured subordinated debentures of \$75.3 million.

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

To date, management's strategy with respect to debt has been to leverage primarily within individual project entities (subsidiaries of Northland). Other than the \$250 million term facility (see Note 15 for additional details), the significant majority of Northland's debt is non-recourse beyond the facility or project for which the debt was raised, has a fixed interest rate (or a fixed underlying rate for mini-perm loans) for its term and is fully repaid (amortized) over the life of the associated project's power contracts or supply contracts to ensure that the project is debt-free at that point in its physical life when its economics are least predictable, particularly at the expiration of its original power contracts.

As at December 31, 2014, Northland's ratio of total debt to enterprise value was 55.1%. For purposes of this calculation, management defines debt as the total of all borrowings (amortizing term loans and bank credit facilities) and convertible unsecured subordinated debentures and enterprise value as the summation of debt, as defined previously, plus Northland's equity capitalization at December 31, 2014, calculated by multiplying the number of outstanding Shares and Class A Shares by the closing Share price and adding the number of outstanding preferred shares multiplied by the closing preferred share price.

6. Inventories

Inventories consist of the following:

In thousands of dollars	December 31, 2014	December 31, 2013
Natural gas	2,854	1,468
Spare parts and other inventory	12,877	11,325
	15,731	12,793

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

7. Acquisitions

7.1 Gemini Acquisition

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

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

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

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

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

Consideration transferred

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

Non-controlling interest in Gemini

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

Identifiable net assets

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

Gemini's contribution to Northland's results

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

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

7.2 Nordsee Acquisition

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

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

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

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

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

Consideration transferred

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

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

Non-controlling interest in Nordsee

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

Identifiable net assets

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

Nordsee's contribution to Northland's results

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

8. Equity and Convertible Debentures Public Offering and Private Placement

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

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

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

9. Leases

Northland as Lessor

On October 19, 2011, the Spy Hill facility began commercial operations. For accounting purposes, Northland's Spy Hill long-term PPA is considered to be a finance lease arrangement, whereby Northland is considered to lease the Spy Hill facility to Saskatchewan Power Corporation ("**SaskPower**") for 25 years. For the year ended December 31, 2014, finance lease income of \$13.7 million (2013 – \$13.9 million) was recognized.

The amounts receivable under finance lease accounting are as follows:

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

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

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

Northland as Lessee

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

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

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

In thousands of dollars

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

10. Equity-Accounted Investments

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

In thousands of dollars

January 1, 2013, balance	5,317
Equity investment gain	262
Distributions received	(638)
December 31, 2013, balance	4,941
Equity investment gain	250
Distributions received	(525)
December 31, 2014, balance	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	2014	2013
Revenue	554	575
Expenses	(304)	(313)
Proportionate share of net income	250	262

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

11. Investment in Panda-Brandywine

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

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

12. Property, Plant and Equipment

In thousands of dollars	Land	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
COST									
January 1, 2013	3,252	151,805	1,199,250	4,006	1,057	1,877	35,113	740,080	2,136,440
Foreign exchange	—	—	3,679	—	—	—	—	—	3,679
Additions	1,037	220	1,269	16	—	106	—	356,271	358,919
Acquired	—	502	223,186	1,139	1,142	—	2,431	—	228,400
Transfer from intangible assets	—	—	—	—	—	—	—	77,101	77,101
Transfer from CIP	—	184,763	661,949	135	133	1,371	55,870	(904,221)	—
Disposals and other	(274)	—	2,795	—	—	—	—	(11,338)	(8,817)
December 31, 2013	4,015	337,290	2,092,128	5,296	2,332	3,354	93,414	257,893	2,795,722
Foreign exchange	—	—	(1,515)	—	—	—	—	(49,902)	(51,417)
Additions	—	86	2,094	3	45	20	66	1,812,295	1,814,609
Transfer from intangible assets	—	—	—	—	—	—	—	43,684	43,684
Transfer from CIP	548	56,020	225,803	—	—	2,308	24,422	(309,101)	—
Impairment	—	—	(11,001)	—	—	—	—	—	(11,001)
Disposals and other	—	—	13,442	—	—	—	—	3,736	17,178
December 31, 2014	4,563	393,396	2,320,951	5,299	2,377	5,682	117,902	1,758,605	4,608,775

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

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

In thousands of dollars	Land	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
ACCUMULATED DEPRECIATION									
January 1, 2013	—	70,231	340,456	2,124	821	1,724	3,614	—	418,970
Foreign exchange	—	—	3,289	—	—	—	—	—	3,289
Depreciation	—	9,115	76,099	441	152	1,271	2,801	—	89,879
Acquired	—	383	186,543	908	148	—	1,340	—	189,322
December 31, 2013	—	79,729	606,387	3,473	1,121	2,995	7,755	—	701,460
Foreign exchange	—	—	(1,418)	—	—	—	—	—	(1,418)
Depreciation	—	14,328	99,224	430	68	1,646	4,495	—	120,191
Disposals	—	—	(29)	—	—	—	—	—	(29)
December 31, 2014	—	94,057	704,164	3,903	1,189	4,641	12,250	—	820,204
NET BOOK VALUE									
December 31, 2013	4,015	257,561	1,485,741	1,823	1,211	359	85,659	257,893	2,094,262
December 31, 2014	4,563	299,339	1,616,787	1,396	1,188	1,041	105,652	1,758,605	3,788,571

13. Contracts and Other Intangible Assets

In thousands of dollars	Deferred development costs	Contracts	Total
COST			
January 1, 2013	25,528	292,047	317,575
Additions	84,401	143	84,544
Transfer to property, plant and equipment	(77,101)	—	(77,101)
December 31, 2013	32,828	292,190	325,018
Additions	46,039	—	46,039
Acquired [Note 7]	76,379	137,265	213,644
Transfer to property, plant and equipment	(43,684)	—	(43,684)
Impairments and writedowns [Note 22]	(5,181)	(25,076)	(30,257)
Foreign exchange	(193)	(4,694)	(4,887)
December 31, 2014	106,188	399,685	505,873
AMORTIZATION			
January 1, 2013	—	(117,967)	(117,967)
Amortization	—	(19,930)	(19,930)
December 31, 2013	—	(137,897)	(137,897)
Amortization	—	(19,815)	(19,815)
December 31, 2014	—	(157,712)	(157,712)
NET BOOK VALUE			
December 31, 2013	32,828	154,293	187,121
December 31, 2014	106,188	241,973	348,161

Deferred Development Costs

Deferred development costs include pre-construction costs directly related to the development of new projects. Costs are deferred up to the closing of project financing and/or the start of construction, at which time they are reclassified to the cost of property, plant and equipment. For the year ended December 31, 2014, \$92.1 million included in the deferred development balance relates to the Nordsee project. Should management determine that development of a particular project is no longer highly likely to be pursued to completion, the deferred costs are expensed in the period the determination is made. For the year ended December 31, 2014, Northland expensed \$5.2 million (2013 – \$nil) of previously deferred development costs related to the Kabinakagami hydro project as it no longer qualified for capitalization under Northland's deferred development cost policy.

Contracts

The net book value relates to the fair value of the PPAs, natural gas purchase agreements, steam sales agreements of the operating entities, and management and operations agreements when they were acquired by Northland, net of amortization. For the year ended December 31, 2014, a portion of the contract balance was determined to be impaired. See Note 22 for further detail.

14. Goodwill

Acquired goodwill was allocated to CGUs that were expected to benefit from the synergies of the acquisition. See the goodwill continuity schedule below. For the year ended December 31, 2014, a portion of the goodwill balance was determined to be impaired. See Note 22 for further detail.

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

COST

January 1, 2013	284,626
Additions	—
Disposals	—
December 31, 2013, and December 31, 2014	284,626

.....
continued...

.....
 In thousands of dollars

IMPAIRMENT

January 1, 2013	62,052
Impairment	2,407
December 31, 2013	64,459
Impairment [Note 22]	929
December 31, 2014	65,388

NET BOOK VALUE

December 31, 2013	220,167
December 31, 2014	219,238

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

15.1 Bank Credit Facility

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

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

As at December 31, 2014, letters of credit totalling \$219 million (2013 – \$161 million) and drawings of \$nil (2013 – \$nil) were outstanding under Northland's credit facility.

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

15.2 Interest-Bearing Loans and Borrowings

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

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

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

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

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

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

(4) From future term conversion.

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

- (a) The Thorold senior loan was funded 50% by bank lenders and 50% by institutional lenders. The institutional tranche of the Thorold senior loan, representing \$201 million at financial closing, required the first blended quarterly payment of principal and interest at 6.32% on December 31, 2010, in accordance with a schedule designed to fully amortize the loan over its term until maturity on March 31, 2030. The bank tranche of the Thorold senior loan, representing \$199.1 million at financial closing, was converted on November 30, 2010, to a term loan with payments of principal and interest at the prevailing rate plus an applicable spread over a 20-year amortization period to March 31, 2030, with maturity in September 2015. As required under provisions of the Thorold senior loan, Thorold entered into interest rate swap agreements that effectively fixed the interest rate of the bank tranche to March 2030. For accounting purposes, as part of the Merger, a fair value adjustment was made to Thorold's total debt. In the above table the fair value adjustments are \$21.1 million and \$23.1 million for December 31, 2014, and December 31, 2013, respectively.
- (b) On January 21, 2013, Spy Hill issued \$156.3 million (\$153.6 million net of costs) in 4.14% senior secured amortizing Series A bonds. The bonds are rated A (stable) by DBRS and will be fully amortized by their maturity in March 2036. The proceeds from the bond issuance were used to repay Spy Hill's entire outstanding borrowings of \$110.5 million at January 21, 2013.
- (c) On September 20, 2013, North Battleford issued \$667.3 million (\$662.9 million net of costs) in 4.958% senior secured amortizing Series A bonds. The bonds are rated A (low) by DBRS and will be fully amortized by their maturity in December 2032. The proceeds from the bond issuance were used to repay North Battleford's \$542 million bank credit facility and settle \$61.9 million in associated interest rate swaps.
- (d) On May 2, 2008, Jardin entered into a non-recourse credit facility with a syndicate of institutional lenders for a \$153.0 million senior secured term loan ("**Jardin Senior Loan**"). Conversion to a term loan occurred on May 31, 2012. The Jardin Senior Loan is being repaid through quarterly blended payments of principal and interest at 6.0% until maturity on November 30, 2029, with the principal payments fully amortizing the loan over its term. As part of the Merger, an accounting fair value adjustment similar to the one made at Thorold was made to Jardin's debt. The fair value adjustments are \$6.9 million and \$7.6 million on December 31, 2014, and December 31, 2013, respectively.
- (e) On November 17, 2010, Mont Louis entered into a non-recourse credit facility with a syndicate of institutional lenders for a \$106 million senior secured term loan ("**Mont Louis Senior Loan**"). Conversion to a term loan occurred on January 31, 2012. The Mont Louis Senior Loan is being repaid through quarterly blended payments of principal and interest at 6.6% until maturity on September 16, 2031, with the principal payments fully amortizing the loan over its term. Investissement Québec, a provincial government investment agency, has also lent \$13.9 million to Mont Louis; repayment of the loan is guaranteed by Northland. The Investissement Québec loan is interest-free until April 2015, at which time interest will be charged at the annual rate of 5% until April 2017. After 2017 and until the loan's maturity in March 2032, interest will be charged at the annual rate of 5.5%. The principal balance outstanding is due upon maturity of the loan in March 2032.

- (f) On July 16, 2012, Northland completed \$227 million of non-recourse project financing for six solar projects totalling 60 MW that constitute Ground-mounted Solar Phase I, which are located in Ontario. On October 8, 2014, Northland Power Solar Finance One LP issued \$232 million (\$229 million, net of costs) in 4.397% senior secured amortizing Series A bonds. The bonds are rated BBB (high) by DBRS and will be fully amortized by their maturity in June 2032. The proceeds from the bond issuance were used to repay the existing bank debt, settle associated interest rate swaps and pay transaction costs; the remainder was distributed to Northland for general corporate purposes.
- (g) On September 24, 2013, Northland completed \$84 million of non-recourse project financing and a \$4.5 million letter of credit facility for two of the three solar projects within Ground-mounted Solar Phase II (“**Cluster 3**”) with two commercial banks. After the conversion to a term loan in July 2014, the two projects began making blended payments of principal and interest. The loans will be fully amortized by July 2032. As required under the loan provisions, on October 11, 2013, Northland entered into interest rate swaps to effectively fix the variable interest rate of the non-recourse debt. The all-in rate, including interest rate swaps and credit spreads, is 5.735%.
- (h) On April 24, 2014, Northland completed \$240 million of non-recourse project financing and a \$25 million letter of credit facility for five ground-mounted solar projects (“**Cluster 4**”) with a syndicate of lenders. Cluster 4 comprises one project from the Ground-mounted Solar Phase II projects and all of the Ground-mounted Solar Phase III projects. Once term conversion is achieved, the loan will require blended payments of principal and interest based on an 18-year amortization period. The all-in rate including interest rate swaps and credit spreads is 5.58% during operation, escalating 25 basis points every four years.
- (i) On October 1, 2013, McLean’s entered into a non-recourse credit facility with a syndicate of institutional lenders for a \$135 million senior secured construction and term loan. The senior debt will be repaid through quarterly blended payments of principal and interest starting on March 31, 2017, until maturity on March 31, 2034, with the principal payments fully amortizing the loan over this period. The senior debt was funded at closing and bears interest, paid quarterly (monthly prior to term conversion), at a rate of 6.01%.
- (j) On November 13, 2003, Kirkland Lake entered into a construction and term loan for \$30 million to finance the construction of its natural gas peaking facility. On successful project completion, the construction loan was converted to a term loan bearing interest at 7.07% and is being repaid in 121 blended monthly principal and interest payments until maturity on February 28, 2015. As of December 31, 2014, Cochrane’s \$1.5 million letter of credit facility has been fully drawn.
- (k) On May 14, 2014, the Gemini project completed €2.0 billion of non-recourse project financing with a syndicate of international financial institutions and public financing agencies. The project loans include a three-year construction period and a 14-year amortization period. Should the loan not be fully repaid by December 31, 2022, the credit agreement provides for an acceleration of principal payments, subject to available cash flow and the discontinuance of distributions to the equity partners. The interest rate for the project has been hedged over the full loan amortization period with an effective interest rate of approximately 4.75%. As of December 31, 2014, €485.6 million has been drawn on senior debt including transaction costs adjustments of €25.8 million and another €127.0 million on the third-party portion of the subordinated loan.

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

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

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

16. Convertible Debentures

On October 15, 2009, Northland closed an offering of 6.25% convertible unsecured subordinated debentures due December 31, 2014, at a price of \$1,000 per convertible debenture for gross proceeds of \$92.0 million (\$88.1 million net of underwriters' fees and costs) (**"the 2014 Debentures"**). The 2014 Debentures were convertible into fully paid Shares of Northland at the option of the holder at a conversion price of \$12.42 per Share. During 2014, a total of \$16.0 million (2013 – \$11.4 million) of the 2014 Debentures were converted into 1,292,079 Shares (2013 – 920,434). The 2014 Debentures matured on December 31, 2014, which resulted in a payment of \$0.7 million to the convertible unsecured subordinated debenture holders.

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

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

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

17. Provisions

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

Northland has estimated the fair value of its total decommissioning liabilities to be \$30.5 million, based on an estimated total future liability. A discount rate of 2.54% to 3.93% (2013 – 2.54% to 3.93%) and an inflation rate of 2.0% (2013 – 2.0%) were used to calculate the fair value of the asset retirement obligations. These decommissioning liabilities relate to Northland's wind farms and ground-mounted solar sites because Northland expects to use its other installed assets for an indefinite period. Revisions to Northland's decommissioning liabilities will be made if new information is received.

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

In thousands of dollars

January 1, 2013	12,437
Additions	3,290
Accretion	453
Foreign exchange impact	25
December 31, 2013	16,205
Additions	13,526
Accretion	777
Foreign exchange impact	(35)
December 31, 2014	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 statement	2014	2013
Current		
Based on taxable income of current year	2,378	3,230
Tax on dividend payments	5,550	5,550
Total current taxation expense for the year	7,928	8,780
Deferred		
Deferred tax on origination and reversal of temporary differences	(64,130)	37,447
Deferred tax due to changes in tax rates	-	-
Prior-year (under) over provision	448	(2,480)
Deferred tax due to writedown of tax asset	247	638
Total deferred tax (recovery) expense for the year	(63,435)	35,605
Total income tax (recovery) expense	(55,507)	44,385
Recognized directly in equity		
Deferred		
Deferred taxes related to origination and reversal of temporary differences related to financing fees	1,072	649
Total tax charged to equity	1,072	649

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

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

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

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

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

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

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

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

In thousands of dollars except for tax rate	2014	2013
Deferred tax assets		
Non-capital losses carried forward	873	32
Net capital loss	70	—
Outside basis difference on shares of foreign affiliate	438	50
Total deferred tax assets	1,381	82

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

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

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

Temporary Differences Associated With Northland Investments

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

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

19. Derivative Financial Instruments

The derivative financial instruments consist of the following:

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

20. Equity

20.1 Preferred Shares

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

Series 1 Preferred Shares

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

In thousands of dollars except for preferred shares	Preferred shares	Amount
January 1, 2013	6,000,000	145,361
Deferred income taxes	-	(259)
December 31, 2013	6,000,000	145,102
Deferred income taxes	-	(259)
December 31, 2014	6,000,000	144,843

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

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

Series 3 Preferred Shares

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

In thousands of dollars except for preferred shares	Preferred shares	Amount
January 1, 2013	4,800,000	116,834
Deferred income taxes	–	(199)
December 31, 2013	4,800,000	116,635
Deferred income taxes		(199)
December 31, 2014	4,800,000	116,436

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

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

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

20.2 Shares

Northland is authorized to issue an unlimited number of Shares.

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

In thousands of dollars except for Shares	Shares	Amount
Outstanding as of January 1, 2013	86,041,930	964,311
Conversion of Class A Shares	41,209,399	603,013
Shares issued under LTIP ⁽¹⁾	1,029,481	15,061
Change in deferred taxes	–	(191)
Conversion of 2014 Debentures	920,434	11,432
Shares issued under DRIP ⁽²⁾	2,018,112	32,756
Exercise of Replacement Rights	759,355	11,098
Outstanding as at December 31, 2013	131,978,711	1,637,480
Public offering, net of transaction costs	9,843,750	150,421
Private placement	3,125,000	50,000
Shares issued under LTIP ⁽¹⁾	632,701	9,125
Change in deferred taxes	–	1,327
Conversion of 2014 Debentures	1,292,079	16,048
Shares issued under DRIP ⁽²⁾	2,537,651	40,505
Outstanding as at December 31, 2014	149,409,892	1,904,906

(1) Long-Term Incentive Plan.

(2) Dividend Reinvestment Plan.

Issuance of common shares

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

Dividend Reinvestment Plan

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

Long-Term Incentive Plan

Northland's LTIP provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries. There are two scenarios when LTIP Shares are awarded: when projects achieve predetermined milestones or, in the case of one member of management, based upon time served. The number of Shares awarded at each milestone is determined using the amount of expected development profits at that milestone date. As a result, the amount of LTIP costs recognized depends on the estimated number of Shares to be issued at each milestone date, which in turn is based on management's best estimate of a project's expected development profit. Changes in estimates about the number of Shares to be issued, forfeiture rates and vesting dates and changes in fair value up to the grant date are recognized in the period of the change. For the year ended December 31, 2014, Northland capitalized \$3.1 million (2013 – \$11.5 million) and expensed \$2.2 million (2013 – \$1.2 million) of costs under the LTIP. Forfeitures have been assumed to be \$nil.

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

20.3 Class A Shares

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

21. Non-Controlling Interests

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

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

In thousands of dollars

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

In thousands of dollars

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

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

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

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

In thousands of dollars	CEEC	McLean's	Gemini	Nordsee	Total
Non-controlling interests as at January 1, 2013	–	–	–	–	–
Non-controlling interests acquired	42,507	–	–	–	42,507
Contribution of non-controlling interests	–	24,832	–	–	24,832
Net income attributable to non-controlling interests	15,885	–	–	–	15,885
Dividends declared to non-controlling interests	(9,969)	–	–	–	(9,969)
Non-controlling interests as at December 31, 2013	48,423	24,832	–	–	73,255
Acquisitions	–	–	20,545	16,643	37,188
Contribution of non-controlling interests	–	–	263,770	–	263,770
Net income (loss) attributable to non-controlling interests	30,067	(744)	(100,096)	(111)	(70,884)
Dividends declared to non-controlling interests	(2,974)	(6,087)	–	–	(9,061)
Allocation of other comprehensive income (loss)	–	–	(22,859)	–	(22,859)
Non-controlling interests as at December 31, 2014	75,516	18,001	161,360	16,532	271,409

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

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

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

- **GROWTH RATE OF 2%** – The rate is used to extrapolate CGU cash flow projections in the discounted cash flow approach. The rate is based on readily available published industry research.
- **DISCOUNT RATE** – Pre-tax discount rates reflect the current market assessment of the risks specific to each CGU. The discount rate was estimated based on the weighted average cost of capital for the industry. The rate was further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. The rates are as follows:

Before tax discount rates, in per cent

Applicable to PPA cash flows:

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

Applicable to post-PPA cash flows:

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

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

23. Dividends

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

24. Finance Costs

Finance costs consist of the following:

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

25. Net Income (Loss) per Share

The calculation of basic net income (loss) per Share is based on the consolidated net income (loss) for the year, less preferred share dividends divided by the sum of the weighted average number of Shares outstanding and the weighted average number of contingent/exchangeable Shares and contingent Replacement Rights recognized as equity for accounting purposes. Diluted net income (loss) per Share is calculated by dividing consolidated net income (loss), net of preferred share dividends, plus expenses related to the debt that is being converted by the weighted average number of Shares used in the basic net income (loss) per Share calculation plus the number of Shares that would be issued assuming conversion of the 2019 Debentures into Shares and the weighted average number of contingent/exchangeable shares and contingent Replacement Rights recognized for accounting purposes during the year.

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

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

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

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

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

26. Commitments

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

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

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

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

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

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

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

Capital Commitments

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

27. Operating Segment Information

In accordance with IFRS 8, "Operating Segments," Northland has identified the following operating segments: (i) thermal; (ii) renewable; (iii) managed, management and operations services for Kirkland Lake, Cochrane and CEEC following Northland's April 1, 2013, acquisition of the controlling interest in CEEC; (iv) offshore wind, including Gemini and Nordsee; and (v) other, which includes investment income and

wood-chipping operations, as well as the administration of Northland. The operating segments have been identified based upon the nature of operations and technology used in the generation of electricity. Northland analyzes the performance of its operating segments based on their operating income, which is defined as revenue less operating expenses.

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

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

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

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

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

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

In thousands of dollars						
As at December 31, 2014	Thermal	Renewables	Managed ⁽¹⁾	Offshore wind	Other ⁽²⁾	Total
Property, plant and equipment	1,173,057	839,974	13,663	1,573,358	188,519	3,788,571
Equity-accounted investment	–	–	–	–	4,666	4,666
Contracts and other intangible assets, net	75,081	1,010	32,652	224,660	14,758	348,161
Goodwill	162,908	49,227	–	–	7,103	219,238
Total assets	1,746,389	945,405	87,763	1,883,149	302,926	4,965,632

In thousands of dollars						
As at December 31, 2013	Thermal	Renewables	Managed	Offshore wind	Other ⁽²⁾	Total
Investment in Panda-Brandywine	–	–	–	–	3,100	3,100
Property, plant and equipment	1,232,709	567,029	32,456	–	262,068	2,094,262
Equity-accounted investment	–	–	–	–	4,941	4,941
Contracts and other intangible assets, net	98,896	1,201	52,813	–	34,211	187,121
Goodwill	163,837	38,138	–	–	18,192	220,167
Total assets	1,841,130	649,628	123,061	–	449,407	3,063,226

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

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

Information on operations by geographic area is as follows:

For year ended, in thousands of dollars

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

As at December 31, in thousands of dollars

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

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

28. Litigation, Claims and Contingencies

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

On December 27, 2012, Iroquois Falls, along with several other facilities, filed notices of application and notices of claim against the contract counterparty. The claims relate to decreased PPA revenue escalations as a result of an interpretation of certain provisions between each generator and contract counterparty in relation to the price escalator. A ruling by the courts is expected in early 2015.

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

29. Management and Other Fees and Related-Party Disclosures

Fees earned from entities not consolidated with Northland's results are reported in Northland's consolidated statements of income (loss) and deficit as "other." During 2014, Northland earned fees from related entities that were not consolidated in Northland's financial results in the amount of \$0.5 million (2013 – \$7.7 million). Prior to the acquisition of CEEC, these fees include natural gas management fees, performance incentive fees and lease revenue.

Joint Venture in Which Northland is a Venturer

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

Compensation of Key Management Personnel of Northland

Key management of Northland includes members of the Board of Directors, as well as members of the executive. Key management personnel remuneration expensed during 2014 includes \$3.7 million (2013 – \$3.0 million) of short-term employee benefits. Northland has granted a total of 437,783 Shares totalling \$7.6 million and a cash component totalling \$0.6 million to key management personnel during 2014 tied directly to the success of the development and construction of certain projects. The LTIP Shares relating to these projects will be granted only if certain project milestones are achieved.

Transactions With Shareholders

There were no material transactions during the year with shareholders of Northland other than the private placement described in detail in Note 8.

Entity With Significant Influence Over Northland

As of December 31, 2014, James C. Temerty, Chair of Northland Power Inc., owns or has control or direction over 51,374,368 common shares (representing 34% of the outstanding Shares) and 1,000,000 Class A Shares (representing 100% of the Class A Shares). If all of the Class A Shares were converted into Shares, Mr. Temerty would beneficially own or have control or direction over 35% of the then outstanding Shares.

30. Post-Reporting Date Events

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

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

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

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

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

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

31. Authorization of Consolidated Financial Statements

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

Corporate Information

Directors and Executive Officers of Northland Power Inc.

DIRECTORS

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

EXECUTIVE OFFICERS

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

General Information

REGISTRAR AND TRANSFER AGENT

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

COMMON SHARES, DEBENTURES AND PREFERRED SHARES

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

DIVIDEND REINVESTMENT PLAN (DRIP)

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

TAX CONSIDERATIONS

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

Shareholder Information

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