

FIRST-QUARTER REPORT



# NORTHLAND POWER INC.

2011

Quarterly Report for the period  
ended March 31, 2011

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OVERVIEW

An overview of Northland Power Inc.'s ("Northland's") results for the quarter ended March 31, 2011



In thousands of dollars except per Share and energy unit amounts

<b>Three months ended March 31, 2011</b>	Three months ended March 31, 2010
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**FINANCIAL**

Sales	<b>96,271</b>	63,045
Income from Operations	<b>30,024</b>	20,007
EBITDA	<b>43,896</b>	30,467
Net Income	<b>55,308</b>	(61,394)
Free Cash Flow	<b>18,664</b>	18,417
Dividends Declared to Shareholders	<b>20,461</b>	19,273

**Per Share**

Free Cash Flow	<b>0.2473</b>	0.2580
Dividends Declared to Shareholders	<b>0.2700</b>	0.2700

**ENERGY VOLUMES**

Electricity (megawatt hours)	<b>883,613</b>	497,229
Steam (thousands of pounds)	<b>612,971</b>	286,387
Fuel Consumption (thousands of gigajoules)	<b>6,553</b>	3,314

## Management's Discussion and Analysis

This Management, Discussion & Analysis ("**MD&A**") contains forward looking statements. These statements are based on certain estimates and assumptions and are subject to risks and uncertainties. Actual results may differ materially. Please see the "Forward Looking Statements" section in this MD&A for additional information.

### Transition to International Financial Reporting Standards

On January 1, 2011, Northland Power Inc. ("**Northland**") adopted International Financial Reporting Standards ("**IFRS**") for Canadian publicly accountable enterprises. Prior to adoption of IFRS, Northland followed Canadian Generally Accepted Accounting Principles ("**GAAP**"). While IFRS has many similarities to Canadian GAAP, some of Northland's accounting policies have changed as a result of the transition to IFRS. The most significant accounting policy changes that have had an impact on the financial results of Northland are discussed in more detail in the section entitled "International Financial Reporting Standards".

This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of Northland as at and for the three months ended March 31, 2011, which have been prepared using IFRS, and should also be read in conjunction with Northland's 2010 Annual Report, which was prepared using Canadian GAAP. All comparative figures have been restated using IFRS, unless otherwise noted.

Northland owns or has an economic interest in nine power projects totalling over 1,050 megawatts ("**MW**") (net 818 MW). Northland's assets comprise facilities that produce electricity from clean natural gas and green renewable sources such as wind and biomass for sale under long-term power purchase agreements ("**PPAs**") with creditworthy customers to ensure revenue stability. Three wholly owned natural-gas-fired plants are located in Ontario: the 120 MW Iroquois Falls facility, the 110 MW Kingston facility and the 265 MW Thorold facility. Through its 19% equity interest in Panda Energy Corporation ("**PEC**"), Northland has an interest in the 230 MW Panda-Brandywine combined-cycle power plant located outside Washington, D.C. For the natural-gas-fired plants, long-term contracts, as appropriate, assure the supply and price of natural gas, which is Northland's largest cost. Northland owns the 127.5 MW Jardin d'Éole wind farm near Matane, Quebec, which began commercial operations in late November 2009 and sells electricity under a long-term PPA to Hydro-Québec. Northland owns two wind farms located in Germany with 21.5 MW of installed capacity, with all electricity generated being supplied to local power utilities under the terms of German renewable energy legislation. Northland manages two natural-gas- and biomass-fired generation facilities in Kirkland Lake and Cochrane, Ontario, on behalf of third-party owners in exchange for management, gas purchase and performance incentive fees. Northland also owns a small wood chipping facility located on Vancouver Island. Northland owns the 86 MW Spy Hill project, the 260 MW North Battleford project, the 100 MW Mont Louis wind farm and four rooftop solar installations, all of which are under construction. In addition, Northland owns 216 MW of wind, solar and run-of-river hydro projects awarded PPAs under the Ontario Power Authority's (**OPA**) Feed-in Tariff Program (**FIT**) and was recently awarded a 20-year PPA by Hydro-Québec to build and operate a 24 MW wind farm near Frampton, Quebec. Northland also has an extensive portfolio of projects under development.

- The consolidated financial statements include the results of Northland and its subsidiaries, of which the most significant are:
- i. Iroquois Falls Power Corp. (“**Iroquois Falls Corp.**”), which owns the Iroquois Falls facility;
  - ii. Kingston CoGen Limited Partnership (“**Kingston LP**”), which owns the Kingston facility;
  - iii. Thorold CoGen L.P. (“**Thorold LP**”), which owns the Thorold facility;
  - iv. Mount Miller Wind Energy Limited Partnership (“**Miller LP**”), which owned the Mont Miller wind farm and was sold on December 16, 2010;
  - v. Saint-Ulric Saint-Léandre Wind LP (“**Jardin LP**”), which owns the Jardin d’Éole wind farm;
  - vi. DK Windpark Kavelstorf GmbH & Co. KG and DK Burgerwindpark Eckolstädt GmbH & Co. KG (“**the German wind farms**”), which own the German wind farms;
  - vii. Spy Hill Power L.P. (“**Spy Hill LP**”), which owns the Spy Hill project, which is under construction;
  - viii. North Battleford Power L.P. (“**Battleford LP**”), which owns the North Battleford project, which is under construction; and
  - ix. Mont-Louis Wind L.P. (“**Mont Louis LP**”), which owns the Mont Louis wind farm, which is under construction.

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### First Quarter Overview

Northland management views the first quarter operating results as well-aligned with the business strategy of stable operations and disciplined growth primarily through project development. The Thorold facility has been fully integrated into Northland’s operating facility portfolio and delivered earnings before interest, taxes, depreciation and amortization (“**EBITDA**”) in excess of plan during the quarter. Northland’s almost \$1 billion of projects under construction all remain within budget and are on or ahead of schedule.

Northland’s 216 MW of awarded FIT projects are in advanced development, with 140 MW expected to move into construction by early 2012. Northland continues to actively manage its development pipeline, pursuing opportunities that offer the prospect of stable, long-term cash flows.

Consolidated sales, income from operations, and EBITDA for the three months ending March 31, 2011 exceeded the first quarter of 2010 largely due to the inclusion of operating results for the Thorold facility, which began commercial operations on April 1, 2010.

Net income was \$116.7 million higher than for the same quarter last year largely due to the contribution from the Thorold facility and recognition of a non-cash \$29.3 million gain in the fair value of Northland’s interest rate swaps, \$20 million of future tax recoveries, partially offset by \$5.4 million of higher finance costs, mostly related to interest on Thorold LP’s non-recourse debt. The current quarter also benefited from a significantly lower non-cash fair value adjustment on Northland convertible shares and Replacement Rights. Readers should refer to the section in this MD&A entitled “International Financial Reporting Standards” for additional discussion on the recognition of Northland convertible shares and Replacement Rights for accounting purposes under IFRS and the requirement to re-measure their fair value at each quarter end while they remain classified as liabilities. Fair value is related to but not the same as share price.

### **Dividends and Free Cash Flow**

Free cash flow (previously, distributable cash) was \$18.7 million for the quarter, \$0.3 million higher than the same period in 2010. Thorold contributed \$5.6 million this quarter (nil in 2010), offset by: (i) \$2.7 million for dividends and related taxes on the preferred shares issued in the third quarter of 2010, (ii) \$0.9 million of higher scheduled principal payments on Kingston LP's project debt, (iii) \$2.5 million less investment income, including principal repayments from PEC as a result of the prepayment in May 2010 of the loan made to a subsidiary of PEC ("**Panda senior loan**") and, (iv) the first quarter of 2010 including \$0.3 million of free cash flow from Miller LP, which was sold on December 16, 2010. Common share ("**Share**") dividends for the quarter totalled \$0.27 per Share, representing a payout ratio of 109% of free cash flow. This payout in excess of free cash flow primarily relates to the time gap between when incremental share capital was raised for construction projects and when those projects complete construction and contribute to operating cash flow.

### **Significant Events during the Quarter**

Northland's conversion from an income trust to a corporation became effective January 1, 2011. Northland's business is now carried on by Northland Power Inc., a Canadian public corporation. In this MD&A henceforth, "Northland" refers to Northland Power Income Fund for events prior to January 1, 2011, and Northland Power Inc. for subsequent events. As a result of the corporatization, Northland trust units ("**Units**") were converted into Shares on a one-for-one basis and trade under the TSX symbol NPI (the previous symbol was NPI.UN). Northland Series 1 Preferred Shares continue to trade under the symbol NPI.PR.A and the two series of Northland convertible unsecured subordinated debentures continue to trade as convertible unsecured subordinated debentures of Northland under the TSX symbols NPI.DB and NPI.DB.A.

On February 11, 2011 Northland entered into a 50/50 partnership with Mnídoo Mnísing Power, a partnership formed by the United Chiefs and Councils of Mnídoo Mnísing First Nations ("**UCCMM**"), to develop the 60 MW McLean's Mountain wind farm project, located on Manitoulin Island in Ontario. Northland and UCCMM will also pursue future potential renewable energy projects on the UCCMM members' traditional territory.

On February 16, 2011, Northland finalized a previously-announced agreement with Investissement Québec under which Investissement Québec will provide \$15 million of debt financing for the Mont-Louis wind farm project.

In early January, Michael Shadbolt joined Northland as Vice President and General Counsel. Prior to Northland, Michael was in private legal practice for 18 years including as a partner at Macleod Dixon LLP and Borden Ladner Gervais LLP focusing on electricity sector legal matters.

**Subsequent Events**

Paul Bradley joined Northland as Chief Financial Officer on April 1, 2011. Prior to Northland, Paul was Managing Director and Head of Power and Utilities (Corporate Finance) at Macquarie Capital Markets Canada Ltd. and has held senior positions at the Ontario Power Authority, Canadian Imperial Bank of Commerce, and Duke Energy Corporation. Tony Anderson, Northland’s Chief Financial Officer from its earliest days and financial architect of much of its growth, will remain a full member of the leadership team as Chief Investment Officer, responsible for directing new investments.

On May 31 Northland renewed and amended its corporate line of credit and increased it to \$250 million from \$130 million for general corporate purposes, including letters of credit. The credit facility was renewed until May 2015.

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## Thermal Facilities

Following is a discussion of the results of operations of Northland's Iroquois Falls, Kingston and Thorold thermal facilities for the three months ended March 31, 2011.

### Iroquois Falls Facility

In thousands of dollars except as indicated

	<b>Three months ended March 31, 2011</b>	Three months ended March 31, 2010
<b>Energy Volumes</b>		
Electricity (MWh)	<b>206,193</b>	207,453
Steam (000 lb.)	<b>292,903</b>	286,387
Fuel consumption (000 GJs)	<b>1,905</b>	1,898
<b>Sales</b>		
Electricity	<b>24,089</b>	22,932
Steam	<b>2,591</b>	2,356
Natural gas	–	1,848
Emission allowances and credits	<b>140</b>	170
	<b>26,820</b>	27,306
<b>Cost of sales</b>		
Gas consumed	<b>11,250</b>	10,600
Gas re-sold	–	1,833
	<b>11,250</b>	12,433
Gross profit	<b>15,570</b>	14,873
Plant operating costs	<b>1,747</b>	1,790
Capital expenditures	<b>5</b>	37

Revenue increased compared to the first quarter of 2010 due to a higher average selling price and a retroactive revenue adjustment (increase) of \$0.3 million related to the 2010 direct customer rate (“DCR”) calculation (the Iroquois Falls facility's pricing escalator for its PPA). Most of the PPA rate components increased by 6.5% from the 2009 price. Steam revenues were up from the same period last year due to increased sales volumes and a higher average selling price, which is tied to the delivered cost of natural gas.

Natural gas consumption was up slightly as increased steam sales volume offset lower electricity production. The cost of natural gas consumed increased largely due to three factors: i) a higher average cost of natural gas; ii) a retroactive price adjustment on a long-term gas contract related to an increase in the 2010 DCR and; iii) a 40% increase in TransCanada Pipelines Limited (“TCPL”) interim transportation tolls as of March 1, 2011.

Natural gas sales and cost of re-sales are associated with the mitigation of unused capacity under the plant’s natural gas transportation agreements and result in recovery of some fixed costs but little or no profit to the Iroquois Falls facility. There were no sales of natural gas during the first quarter of 2011 as gas consumption at the plant left little excess capacity available for resale under the plant’s gas transportation agreement.

Plant operating costs were consistent with the prior year.

### Kingston Facility

In thousands of dollars except as indicated	Three months ended March 31, 2011	Three months ended March 31, 2010
<b>Energy Volumes</b>		
Electricity (MWh)	231,770	170,907
Fuel consumption (000 GJs)	1,908	1,416
<b>Sales</b>		
Electricity	24,857	21,816
Natural gas	2,427	4,410
Emission allowances and credits	70	—
	<b>27,354</b>	26,226
<b>Cost of sales</b>		
Gas consumed	12,229	10,139
Gas re-sold	1,737	2,439
	<b>13,966</b>	12,578
Gross profit	<b>13,388</b>	13,648
Plant operating costs	<b>1,560</b>	1,423
Capital expenditures	<b>35</b>	—

Electricity sales revenue at the Kingston facility was up 14% in the first quarter of 2011 compared to the same period last year. The majority of this increase was due to more off-peak electricity production in 2011 as low market prices for natural gas made it economically advantageous to produce electricity during weekend off-peak periods rather than curtailing production in favour of re-selling contracted natural gas. The remainder of the increase was attributable to the contractual escalation of PPA rates. Natural gas resale volumes and sales were 45% lower than 2010 as a result of no weekend off-peak curtailments and a lower average net selling price in 2011.

The cost of natural gas consumed was higher in the first quarter of 2011 compared to the same quarter last year due to increased consumption related to the higher off-peak electricity production in 2011. A significant increase in TCPL interim transportation tolls as of March 1, 2011 also contributed to the overall increase. The cost of gas resold was lower due to reduced resale volumes as discussed above.

Plant operating costs were higher due to increased General Electric ("GE") maintenance agreement costs associated with additional operating hours in 2011.

### Thorold Facility

In thousands of dollars except as indicated

	Three months ended March 31, 2011	Three months ended March 31, 2010
<b>Energy volumes</b>		
Electricity (MWh)	337,483	—
Steam (000 lb.)	320,068	—
Fuel consumption (000 GJs)	2,740	—
<b>Sales</b>		
Electricity	32,185	—
Steam	1,030	—
	33,215	—
<b>Cost of sales</b>		
Gas consumed	15,320	—
Gross profit	17,895	—
Plant operating costs	2,257	—
Capital expenditures <sup>(1)</sup>	—	—

(1) \$24.5 million of construction-related capital expenditures were made in the first quarter of 2010.

As Thorold entered commercial operations in April 2010, the following comments are made with reference to the facility's annual operating plan.

Electricity sales volume was significantly above expectations during the first quarter due to Ontario electricity market conditions and the facility's relative efficiency. The facility earns revenue under its PPA with the OPA primarily based on the plant's ability to operate within specified market parameters rather than on the quantity of electricity produced. Steam production was up due to higher-than-expected steam demand by AbitibiBowater Inc.

Plant operating costs were below plan as the facility's quarterly operating profile resulted in a favourable cost per fired-hour under the facility's gas turbine Contractual Service Agreement with GE.

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## Wind Facilities

Following is a discussion of the results of operations of Northland's wind facilities for the quarter ended March 31, 2011.

### Jardin d'Éole Wind Farm

In thousands of dollars except as indicated

	Three months ended March 31, 2011	Three months ended March 31, 2010
<b>Energy volumes</b>		
Electricity (MWh)	99,533	82,748
<b>Sales</b>		
Electricity	6,780	5,586
Gross profit	6,780	5,586
Plant operating costs	1,522	837
Capital expenditures	-	-

The Jardin d'Éole wind farm's first quarter electricity production exceeded the prior year first quarter due to stronger winds in February and March; the quarterly capacity factor was 36% versus 31% the prior year first quarter. The turbines achieved equipment reliability of 99%. Plant operating expenses were up due to increased turbine operations and maintenance fees paid to GE.

Hydro-Québec approved a partial release (\$16.4 million) of the outstanding substation cost reimbursement in April 2011 which will be applied against the outstanding bridge loan balance that was drawn under the project's credit facility. Management anticipates receiving the remaining substation cost reimbursement from Hydro-Québec in the third quarter of 2011.

**German Wind Farms**

In thousands of dollars except as indicated

	<b>Three months ended March 31, 2011</b>	Three months ended March 31, 2010
<b>Energy volumes</b>		
Electricity (MWh)	<b>8,634</b>	8,513
<b>Sales</b>		
Electricity	<b>1,065</b>	1,117
Gross profit	<b>1,065</b>	1,117
Plant operating costs	<b>188</b>	251
Capital expenditures	-	-

Electricity production during the first quarter of 2011 approximated the prior year, despite icing conditions and calm winds at Eckolstädt. Electricity sales were negatively affected by the strengthening of the Canadian dollar versus the euro; however, Northland has entered into forward foreign exchange contracts to economically hedge the exchange rate on its net euro cash flows. The impact of this hedge is not reflected in the chart above.

The wind farms achieved a capacity factor of 19% versus 18% the prior year. The turbines performed according to plan, with no major issues during the quarter. Combined turbine reliability was 98%. Operating expenses were lower in 2011 due to the non-recurring cost of a generator repair in 2010 and a strengthening of the Canadian dollar.

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

In thousands of dollars except as indicated

	Three months ended March 31, 2011	Three months ended March 31, 2010
<b>Sales, other</b>	<b>1,037</b>	1,032
Cost of sales, other	<b>188</b>	203
Gross profit	<b>849</b>	829
<b>Management and administration</b>		
Operations	<b>2,726</b>	2,620
Development	<b>1,709</b>	1,560
Total management and administration	<b>4,435</b>	4,180
<b>PEC</b>		
Dividends	<b>14</b>	158
Interest income	<b>–</b>	1,767
	<b>14</b>	1,925

“Sales, other,” represents revenue earned from Northland’s wood chipping facility combined with fees earned from management and engineering services provided to Cochrane Power Corporation and Kirkland Lake Power Corp., which Northland manages on behalf of third party investors. Cost of sales represents the cost of wood waste processed at the chipping facility.

Management and administration expenditures related to operations and development were both slightly higher than the first quarter of 2010 largely due to an increase in wages and benefits commensurate with an increase in employee headcount.

Northland expenses development-related management and administration costs that cannot be directly attributable to a specific development project, including costs related to determining the feasibility of prospective projects. Once management determines that a development project has met certain criteria that indicate a significantly higher probability of completion, Northland defers pre-construction costs directly related to that project, but continues to expense indirect costs such as management salaries and overhead. Should management subsequently determine that development of a project will be discontinued, or where success is subsequently considered not to be highly likely, the deferred costs are expensed in the period when that determination is made.

As a result of the prepayment of the Panda senior loan owing to Northland in May 2010 and the restructuring of Panda-Brandywine’s PPA, investment income generated this quarter was down \$1.9 million from the same period last year.

## Consolidated Results

The following discussion of the consolidated financial condition and results of operations of Northland should be read in conjunction with the unaudited interim consolidated financial statements for the period ended March 31, 2011 and Northland's 2010 Annual Report.

### First Quarter

Sales, cost of sales and operating costs were up for the reasons discussed under the segment disclosure, but primarily reflect the inclusion of the Thorold facility, which began operating in April 2010. Management and administration expenditures were up \$0.3 million compared to the first quarter of 2010 for the reasons discussed previously. Depreciation of property, plant and equipment was \$3.1 million higher than 2010 largely due to the inclusion of the Thorold facility, offset by the exclusion of Miller LP which was sold in December 2010.

Investment income was down \$1.9 million from the first quarter of 2010 due to the prepayment of the Panda senior loan in the second quarter of 2010.

During the quarter, Northland recorded the following non-cash adjustments: (i) a \$29.3 million gain on the change in fair value of Northland's interest rate swaps on its project non-recourse debt partially offset by a \$4.3 million change in fair value of Northland Class B Convertible Shares ("**Class B Shares**"), and (ii) a \$1.6 million foreign exchange loss on Northland's US dollar and euro foreign exchange contracts. Northland's policy is to hedge the majority of the interest rate and foreign exchange exposures related to its projects; changes in market rates gave rise to non-cash mark-to-market adjustments each quarter as a result of Northland's accounting policy choice to not use hedge accounting. These interest rate swap and foreign exchange adjustments are non-cash items, will reverse over time and have no impact on the cash obligations of Northland or its projects. Amortization of contracts increased compared to the same quarter last year as a result of the Thorold LP contracts.

Finance costs (primarily interest expense) increased by \$5.4 million over 2010 due to recognition of the interest costs for the Thorold LP term loans, which had been capitalized during construction (the Thorold facility became operational on April 1, 2010). Finance costs also include the amortization of the effective interest rate treatment to Jardin LP's and Thorold LP's debt.

During the quarter, Northland sold its South Kent wind development project for an initial payment of \$0.3 million, which is included in other income in the consolidated income statements. Northland had ceased development as it determined that it was unlikely to be awarded a PPA. Under the sale agreement Northland may receive additional amounts from the purchaser upon the occurrence of certain events.

The factors described above combined with current taxes of \$0.7 million and \$20 million of future tax recoveries resulted in net income of \$55.3 million.

### Non-IFRS Financial Measures

Included in this MD&A are references to Northland's free cash flow and EBITDA, which are not measures included in IFRS. Free cash flow and EBITDA, as presented, may not be comparable to similar measures presented by other companies. Management believes, however, that these measures are widely accepted financial indicators used by investors to assess the performance of a company and its ability to generate cash through operations.

### Earnings before Interest, Taxes, Depreciation and Amortization

EBITDA represents an indication of Northland's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage and management's estimate of their useful lives. Accordingly, EBITDA comprises revenues less operating costs before interest expense, capital asset and contract amortization, non-cash fair value changes, impairment charges, and income taxes.

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

In thousands of dollars except as indicated

	Three months ended March 31, 2011	Three months ended March 31, 2010
Income (loss) before income taxes	36,007	(64,426)
Adjustments		
Depreciation of property, plant and equipment	13,572	10,486
Amortization of contracts and intangible assets	5,073	4,159
Finance costs, net	12,672	7,397
Fair value gain on interest rate swaps	(29,286)	(187)
Fair value loss on convertible shares and Replacement Rights	4,305	69,650
Unrealized foreign exchange loss	1,553	3,414
Amortized fee income	—	(26)
<b>EBITDA</b>	<b>43,896</b>	<b>30,467</b>

### Liquidity and Capital Resources

Cash and cash equivalents of \$99.6 million at March 31, 2011 decreased by \$12 million from December 31, 2010 as \$38.9 million of cash generated from operations and \$24.6 million from financing activities was offset by \$75.5 million of investing activities.

Cash of \$38.9 million provided by operating activities for the three-month period ended March 31, 2011 consisted of \$43.2 million related to operations less a \$4.3 million change in working capital primarily associated with the timing of payables and deposits related to development projects and the payment of 2010 taxes owing. Under IFRS, interest expense and interest income are no longer included as part of cash flows from operations, but instead are included under investing activities (interest received) and financing activities (interest paid); prior periods have been adjusted to match the 2011 presentation.

Cash used for investing activities included \$92.4 million for the purchase of property, plant and equipment, mostly representing the construction costs for the Spy Hill, North Battleford and Mont Louis projects and \$1.4 million of deferred development costs. Partially funding these uses of cash was a \$9.2 million transfer from cash reserves associated with construction-related activities and an \$8.9 million reduction in working capital mostly related to the timing of construction payables at the North Battleford project. \$58.5 million of the cash reserve balance is held by Northland subsidiaries with facilities that are under construction or that recently began operations and will be used to settle construction-related payables.

Financing activities for the three-month period provided \$24.6 million, comprising \$68.7 million of draws under the Spy Hill and North Battleford loan facilities, offset by \$22.3 million of common and preferred share dividends, long-term scheduled debt repayments of \$10.1 million and interest payments of \$11.7 million.

With reference to Northland's consolidated balance sheet, a \$2.7 million decrease in accounts receivable from December 31, 2010 arose mainly from input tax credit payments received in the first quarter and the receipt of amounts owing to Thorold related to electricity sales. Trade and other payables increased by \$1.5 million from December 2010, as an increase in construction-related payables was partially offset by a decrease in operations-related payables. The balance of convertible unsecured subordinated debentures decreased by \$12.6 million to \$59.6 million due to conversions to Northland Shares during the quarter, while derivative financial instruments decreased to \$64.4 million due to the recording of non-cash foreign exchange and interest rate swap gains.

While IFRS has many similarities to Canadian GAAP, certain of Northland's accounting policies have changed as a result of the transition to IFRS. In most cases the impact of these changes has been relatively minor in relation to Northland's total assets, liabilities and overall operating results. The exceptions are the impact of the accounting for the various classes of exchangeable and convertible units of NPIF Holdings LP ("**Holdings LP**") and related classes of shares of Northland after January 1, 2011, and Northland Replacement Rights, all of which were issued in connection with the merger with Northland Power Inc. ("**NPI**") on July 16, 2009, which have also affected the determination of goodwill.

A significant decrease of \$582.9 million in liabilities attributed to Shareholders (Exchangeable Units, Convertible Shares and Replacement Rights), with an offsetting increase in equity attributable to Shareholders was the result of Northland Class C Convertible Units ("**Class C Units**"), Class A Exchangeable Units ("**Class A Units**") (after January 1, 2011 Northland "**Class C Shares**" and "**Class A Shares**", respectively) and Northland Replacement Rights being reclassified from liabilities to equity upon the conversion

of Northland from an income trust to a corporation on January 1, 2011. Additional details on the accounting for Northland Class A Units, Class B Convertible Units (“**Class B Units**”), Class C Units and Replacement Rights can be found in the section entitled “International Financial Reporting Standards”.

The deferred tax liability decreased by \$20.3 million due to changes in the accounting versus tax balances of Northland and its subsidiaries and the reversal of future taxes recorded at higher rates as required under IFRS while Northland was an income trust.

Northland conducts its businesses indirectly through separate subsidiary legal entities and is dependent on receipt of cash from those entities to defray its corporate expenses and to pay cash dividends to Shareholders. Certain of those entities have outstanding debt that was incurred pursuant to Northland’s typical project finance plan, whereby projects are constructed using a combination of equity and non-recourse project finance debt. 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), if the entity fails to achieve a benchmark “debt service coverage ratio” (“**DSCR**”), which is the ratio of EBITDA for a specified time period to the scheduled loan principal and interest payments for the same time period, or if the debt exceeds a defined multiple of EBITDA. For the period ended March 31, 2011, Northland and its subsidiaries were in compliance with all debt covenants. A summary of the latest debt covenant calculations, and required ratio ranges for the past 12 months for each of the applicable Northland entities is shown below:

	<b>Latest Calculation Period</b>	<b>Latest Calculation Ratio</b>	<b>Required Ratio</b>	<b>Previous Four Quarter Range</b>
Iroquois Falls – DSCR	<b>12 months to March 31, 2011</b>	<b>39.40</b>	> 2.25	21.1 to 39.4
Iroquois Falls – Debt to EBITDA	<b>As at March 31, 2011</b>	<b>2.11</b>	< 3.25	1.10 to 2.17
Northland – Debt to Capitalization	<b>As at March 31, 2011</b>	<b>46.3%</b>	< 65%	46.1% to 48.2%
Kingston – DSCR	<b>12 months to December 31, 2010</b>	<b>2.55</b>	> 1.15	2.51 to 2.62
Thorold – DSCR	<b>12 months to March 31, 2011</b>	<b>1.39</b>	> 1.15	1.31 to 1.39

Readers should refer to Northland's 2010 Annual Report for additional details concerning its debt covenants. While the Jardin facility is operating, once it reaches term conversion under the provisions of its credit facility, it will be subject to similar debt covenants.

Northland and its subsidiary, Iroquois Falls Power Corp., have a credit facility with a syndicate of banks, with Canadian Imperial Bank of Commerce as agent that established a \$130 million credit with sub-limits to assist in the funding of expansionary capital expenditures, acquisitions and investments by Northland, letters of credit and Iroquois Falls Power Corp.'s general corporate purposes. Subsequent to quarter end, Northland renewed and amended its credit facility to \$250 million from \$130 million. The credit facility was renewed until May 2015.

As of March 31, 2011, Northland and its subsidiaries had \$166.2 million of letters of credit outstanding as follows:

In millions of dollars

Credit Facility	Purpose	Amount
<b>Corporate</b>		
	Operations	18.3
	Advanced development and construction	64.0
		82.3
<b>Project Entity</b>		
Kingston LP	Operations	9.2
Jardin LP	Operations	7.2
Thorold LP	Operations	15.7
Spy Hill LP	Construction	15.0
Battleford LP	Construction	36.8
		83.9
<b>Total</b>		166.2

## Cash Dividends to Shareholders and Free Cash Flow

The following calculations of standardized free cash flow and free cash flow are based on the unaudited consolidated financial statements of Northland. The calculation of “free cash flow” is consistent with Northland’s calculation of distributable cash for the periods prior to 2011 and the calculations of cumulative free cash flow and dividends incorporate distributable cash and distributions respectively for prior periods.

In thousands of dollars except as indicated

	Three months ended March 31, 2011	Three months ended March 31, 2010
Cash provided by operating activities	38,929	35,655
Capital expenditures	(92,410)	(34,047)
<b>Standardized free cash flow</b>	<b>(53,481)</b>	1,608
<b>Northland adjustments</b>		
Net change in non-cash working capital balances related to operations	4,297	(4,247)
Expansionary capital expenditures	92,102	33,908
Interest, net	(11,527)	(6,778)
Scheduled receipts of principal on Panda senior loan	–	576
Scheduled principal repayment of Miller term loan	–	(316)
Scheduled principal repayment of Jardin debt	(1,148)	(1,063)
Scheduled principal repayment of Kingston term loans	(5,720)	(4,836)
Scheduled principal repayment of Thorold term loans	(3,226)	–
Preferred share dividends	(1,969)	–
Kingston cash reserve funding	(521)	(413)
Thorold cash reserve funding	(120)	–
Funds set aside for future maintenance	(23)	(22)
<b>Free cash flow</b>	<b>18,664</b>	18,417
<b>Cash Dividends paid to Common Shareholders</b>	<b>20,368</b>	19,270
Free cash flow payout ratio <sup>(1)</sup>	109%	105%

(1) This payout ratio in excess of free cash flow primarily relates to the time gap between when incremental share capital is raised for construction projects and when those projects complete construction and contribute to operating cash flow.

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In thousands of dollars except as indicated	Three months ended March 31, 2011	Three months ended March 31, 2010
<b>Cumulative – since inception</b>		
Free cash flow	716,409	652,345
Cash dividends paid to Common Shareholders	671,755	592,675
Free cash flow payout ratio	94%	91%
<b>Average number of common shares – basic (thousands of shares)<sup>(2)</sup></b>		
	75,484	71,373
<b>Average number of common shares – fully diluted (thousands of shares)<sup>(3)</sup></b>		
	81,100	81,821
<b>Per share (\$/Share)</b>		
Free cash flow – basic	0.25	0.26
Free cash flow – fully diluted	0.24	0.25

(2) The number of Shares and the related per Share numbers are based solely on common shares of Northland and do not include any convertible or exchangeable shares or Replacement Rights.

(3) Average number of Shares diluted is the sum of the weighted average number of Shares in the basic calculation plus the number of Shares that would be issued assuming conversion of the convertible unsecured subordinated debentures.

Standardized free cash flow for the quarter was \$55.1 million lower than the same period of 2010 largely due to increased expansionary capital expenditures associated with constructing the Mont Louis, Spy Hill and North Battleford facilities. Northland's expansionary capital expenditures, primarily construction activities, are generally funded through third-party financing and through the issuance of shares (common and/or preferred) and/or convertible debentures. As a result of Northland's construction activities, standardized free cash flow for the quarter was \$73.8 million lower than cash dividends paid to Shareholders.

"Free Cash Flow" as calculated above is consistent with Northland's former calculation of distributable cash in previous quarters. As a result of net interest expense being excluded from cash flows from operations under IFRS, Northland now includes an adjustment to deduct net interest expense from its standardized free cash flow to arrive at free cash flow. Readers should refer to Northland's 2010 Annual Report for additional information on the entity-specific adjustments to standardized free cash flow.

Free cash flow was \$18.7 million for the quarter, \$0.3 million higher than the same period in 2010. Thorold contributed \$5.6 million this quarter (nil in 2010) but this was offset by: (i) \$2.7 million for dividends and related taxes on the preferred shares (ii) \$0.9 million of higher scheduled principal payments on Kingston's project debt (iii) \$2.5 million lower investment income as a result of prepayment of the Panda senior loan owing to Northland in May 2010 and, (iv) the first quarter of 2010 including \$0.3 million of free cash flow from

Miller LP, while the first quarter for 2011 included \$nil as a result of the sale of Miller LP in December 2010. Dividends to Shareholders for the quarter totalled \$0.27 per Share, representing a payout ratio of 109% of free cash flow. This payout in excess of free cash flow primarily relates to the time gap between when incremental share capital was raised for construction projects and when those projects complete construction and contribute to operating cash flow.

Northland's free cash flow payout ratio since inception to March 31, 2011 is 94%.

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## **Construction and Development Activities**

### **Projects Under Construction**

#### **Spy Hill Project**

Construction is proceeding on schedule and within budget. During the quarter, the remaining balance of plant equipment was delivered to site and the main GE gas turbine equipment packages were installed on their bases. Installation of the new compressor station and the gas lines to the facility also commenced during the quarter. Preparations are also underway for various commissioning activities.

When the Spy Hill project is complete and operational, planned for the fourth quarter of 2011, it will provide approximately 86 MW of electricity upon request to SaskPower under a 25-year PPA.

#### **North Battleford Project**

Construction commenced on the 260 MW North Battleford facility in June 2010. Construction activities remain ahead of schedule and within budget. Engineering activities have continued ahead of schedule, and contracts have been awarded for all major equipment. During the quarter, underground piping and foundations for all major equipment were completed, while buildings were erected at the water treatment plant and administration area with interior work in those areas proceeding as expected.

Site activities will transition to above-ground work during the second quarter and will see the delivery of structural steel and several pieces of major equipment, notably the generator step-up transformers, heat recovery steam generator components, and the GE-supplied gas turbine and ancillary equipment.

Completion of the project is scheduled for June 2013.

#### **Mont Louis Project**

Construction on the Mont Louis wind project is proceeding on schedule and within budget. All 67 turbines were commissioned by March 31, 2011, allowing for full qualification of the project under the federal government's EcoEnergy program. The project is scheduled to achieve full commercial operations during the third quarter of 2011 when the Hydro-Québec interconnection is ready.

The total cost of the 100 MW project is expected to be \$180 million or net \$150 million after reimbursement of substation and collection system costs by Hydro-Québec. Northland had previously announced that Investissement Québec, a provincial government investment agency, had agreed to provide \$15 million of debt financing to assist with the financing of the Mont Louis project; on February 16, 2011 the financing agreement with Investissement Québec was finalized. The loan has a twenty-year term from first advance and is interest free during the first three years. An annual interest rate of 5.0% will be applicable during the fourth and fifth years, increasing to 5.5% for the remainder of the term.

#### Rooftop Solar Projects

On April 12, 2011, the first of the four rooftop solar pilot projects began commercial production. This solar installation, located on the roof of a Loblaw Companies Limited's store in Toronto, has a nameplate capacity of 10 kW and a 20-year fixed-price PPA under the OPA micro FIT program.

Other rooftop solar pilot projects are anticipated to be online before the end of June 2011. Northland and its counterparty are developing these projects in a partnership, with Northland acting as the managing general partner. The total cost of the four projects is expected to be \$6.8 million. Northland is financing its portion of capital expenditures entirely from cash on hand.

#### Projects in Advanced Development

##### 216 MW of Ontario Feed-In Tariff Projects

Northland continues to actively develop its renewable energy projects that have long-term PPAs for a total capacity of 216 MW under Ontario's FIT program. This program represents North America's first comprehensive guaranteed pricing structure for renewable electricity production. Total investment for projects being developed by Northland under the FIT program is approximately \$1 billion over the next four years should the majority of the projects progress as planned.

Over half of Northland's awarded FIT capacity under development is comprised of 130 MW for 13 ground-mounted solar projects that have 20-year PPAs. Development of these projects is progressing as work continues towards selection of a preferred panel supplier, and an engineering, construction, and equipment contractor for all projects. The environmental review process is underway, and construction of the first projects is expected to begin in early 2012.

A further 60 MW, 20 year PPA was awarded for the Manitoulin Island wind farm project being developed under a 50/50 partnership formed with UCCMM as announced in February. The engineering, procurement, and construction contractor has been selected, and the turbine supply agreement is substantially complete. Environmental permitting and financing for the project is targeted for completion later this year with major construction expected to begin in the spring of 2012.

The balance of Northland's FIT contracts include 40-year PPAs for the development of 26 MW from four run-of-river projects on the Kabinakagami River in a 50/50 partnership with Constance Lake First Nation. Preliminary engineering and environmental work for these projects is underway. Construction for these projects is expected to commence following successful completion of detailed engineering and environmental work.

### Frampton Wind Project

Northland's Frampton project was awarded a 20-year PPA in December 2010 to build and operate a 24 MW wind farm near the south shore of the St. Lawrence River. The PPA was awarded by Hydro-Québec under its Community and First Nations program and has a contracted commercial operations date of 2015. Northland has partnered with the municipality of Frampton, which has a 33% interest in the project. The wind turbines are specified to be supplied by Enercon from its Quebec manufacturing facility.

### Development Prospects

Northland is continually pursuing prospects for new power development and acquisition opportunities encompassing a variety of technologies including natural gas, hydro, wind and solar. A description of some of Northland's project opportunities is provided below.

#### Combined Heat and Power

In early April, the OPA announced its Combined Heat and Power ("**CHP**") timeline to procure 300 MW of supply from large CHP facilities following the November, 2010 Ontario Ministry of Energy directive. The November, 2010 Long Term Energy Plan ("**LTEP**") reinforced the strategic importance of natural gas and CHP facilities as clean alternatives to coal that respond quickly to changes in demand and complement the increasing intermittent supply of renewable sources such as wind and solar. CHP facilities, similar to Northland's Thorold plant, simultaneously produce electricity and heat from a single fuel source such as natural gas, benefiting residential, commercial and industrial energy consumers by providing an economic and efficient energy supply. Northland has been working closely with potential industrial hosts to develop CHP facilities that would provide both an economic and efficient steam supply to the host and electricity supply for Ontario electricity consumers in advantageous locations for the electricity system.

#### Hydro Pumped Storage

Northland is developing two potential pumped storage projects in Ontario. These projects store electricity by pumping water into an elevated storage facility using electricity generated during low-demand periods, and then releasing the stored water through the same combination pump-turbines to generate electricity during peak periods. The projects would provide backup for intermittent renewable energy resources, such as wind and solar. These projects will go forward only after Northland has obtained long-term contracts assuring the net revenues of the projects.

#### Other

Northland has been pursuing additional development prospects intended to meet the anticipated need for power in specific geographical areas, or to support an innovative technology. Some of these earlier-stage development initiatives include: 1) Northland's exclusive development rights for certain sites in Canada and the US for an innovative hydrokinetic TREK turbine technology designed to capture and produce energy directly from the flow of river water with virtually no environmental impact; 2) further Ontario FIT developments including 220 MW of projects currently in the economic connection test ("**ECT**") queue and other new FIT opportunities; 3) a gas-fired peaking facility in Cambridge located in an area stipulated by the recent LTEP as needing new power given demand is growing at twice the rate of the rest of the province.

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## Outlook

Northland's management and board are committed to maintaining the current annual dividend of \$1.08 per Share. Cash dividends are expected to exceed free cash flow and thus the payout ratio to exceed 100% from the current quarter until the second half of 2013, when the combined projected cash flows of projects under construction, when added to free cash flow, reduce the projected payout ratio below 100%. Because Northland has a prudent policy of raising the capital required for its projects at the start of construction, it incurs the costs to service that capital before each project begins to generate revenue. Specifically, the interest and distributions on convertible debentures and Units issued in October 2009 and dividends on preferred shares issued in July 2010 will adversely affect free cash flow, free cash flow per Share and/or the payout ratio until projects currently under construction, for which the funds were raised, achieve commercial operations. Over the longer term, Northland expects its facilities' operations will entirely fund its cash dividends.

An essential element of Northland's business strategy of delivering stable and predictable dividends is to have its revenue and costs managed under long-term contracts with creditworthy counterparties. The major terms of Northland's PPAs and fuel supply contracts are aligned for each project such that revenue and cost escalations are substantially linked, providing for long-term profitability for each operating facility to the extent that such facilities are able to perform according to the contracts.

On May 2, 2011, TCPL filed its 2011 Final Tolls Application with the National Energy Board ("**NEB**"). TCPL proposed an approximate 50% increase in both short haul (Thorold) and long haul (Kingston and Iroquois Falls) tolls from 2010 levels. It is expected that a formal hearing on the rate case will not start until August-September and any final decision on tolls would not be made until late 2011. As discussed in the 2010 Annual report, TCPL's current interim toll increase of 40% will add to Iroquois Falls Corp.'s and Kingston LP's gas transportation costs. Under the terms of Kingston LP's PPA, its January 1, 2012 power rates will be adjusted to reflect the TCPL tolls in effect at that time. Due to its location, the Thorold facility has a smaller exposure to TCPL tolls as it purchases natural gas at an Ontario market hub and makes limited use of TCPL services.

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## Equity and Convertible Unsecured Subordinated Debenture Information

As at March 31, 2011, Northland had 76,069,252 Shares outstanding (December 31, 2010 – 75,034,598). During the quarter a total of \$6.2 million of the 2011 convertible debentures were converted into 493,200 Shares and \$6.7 million of the 2014 debentures were converted into 541,454 Shares. As of the date of this report, June 13, 2011 Northland has outstanding 76,775,377 Shares and \$53.8 million of convertible unsecured subordinated debentures.

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## Historical Consolidated Quarterly Results

In millions of dollars except per Share information

	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	2011	2010	2010	2010	2010	2009	2009	2009
Total sales	96.3	92.6	79.0	77.9	63.0	59.8	45.2	44.7
Net income (loss)	55.3	27.2	(134.8)	(36.8)	(61.4)	26.1	(4.6)	(3.1)
Free cash flow	18.7	12.0	10.4	23.0	18.4	20.5	10.3	17.1
Cash dividends declared	20.5	20.1	19.6	19.3	19.3	19.3	17.5	16.8
<b>Per share statistics</b>								
Net income (loss) – basic	0.461	0.338	(1.871)	(0.516)	(0.862)	0.277	(0.058)	(0.050)
Net income (loss) – diluted	0.421	0.208	(1.871)	(0.516)	(0.862)	0.265	(0.058)	(0.050)
<b>Per common share statistics<sup>(1)</sup></b>								
Free cash flow	0.247	0.160	0.144	0.322	0.258	0.292	0.161	0.275
Cash dividends declared	0.270	0.270	0.270	0.270	0.270	0.270	0.270	0.270

(1) The number of Shares and the related per-Share numbers are based solely on common shares and do not include any Class A, B or C shares or Replacement Rights.

As a result of the conversion to IFRS with an effective date of January 1, 2010, all 2010 and 2011 quarterly amounts reported in the above chart are in compliance with IFRS, while all 2009 quarterly amounts are in compliance with Canadian GAAP. Free cash flow amounts per the above chart are consistent with previously disclosed distributable cash for the periods prior to 2011.

Northland's financial results, particularly revenue and free cash flow, are affected by seasonal factors, which result in quarterly variations. At Iroquois Falls, OEFC has contracted for more electricity and pays a higher price in winter than in summer, resulting in more revenue in winter months. In addition, steam sales tend to be higher in winter than summer. Financial results from Northland's wind farms follow a similar seasonal pattern, as it tends to be windier in winter months compared to summer months. Seasonality at the consolidated level is partially mitigated by the Kingston and Thorold results which are less seasonal than other facilities due to their contract provisions.

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

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## Risks and Uncertainties

For information concerning Northland's risks and uncertainties, please refer to Northland's 2010 Annual Report and its Annual Information Form dated March 31, 2011 which are filed electronically at [www.sedar.com](http://www.sedar.com) and on Northland's website [www.northlandpower.ca](http://www.northlandpower.ca).

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## International Financial Reporting Standards

On January 1, 2011, Northland adopted IFRS. Prior to adoption of IFRS, Northland followed Canadian GAAP. For purposes of comparison, the 2010 financial statements and January 1, 2010 opening balance sheet have been restated from Canadian GAAP to be in accordance with IFRS.

While IFRS has many similarities to Canadian GAAP, certain of Northland's accounting policies have changed as a result of the transition to IFRS. In addition, adoption of IFRS provides for certain optional elections; management has highlighted various policies under IFRS where choices were available amongst acceptable alternatives. Management spent a significant amount of time reviewing the available elections and has chosen those that it believes will most fairly present the financial position of the business in the financial statements. In most cases the impact of these changes has been relatively minor in relation to Northland's total assets, liabilities and overall operating results. The exceptions are the impact of the accounting for the various classes of exchangeable and convertible units of Holdings LP and related classes of shares of Northland after January 1, 2011, and Northland Replacement Rights, all of which were issued in connection with the merger with NPI on July 16, 2009, which has also affected the determination of goodwill.

Under Canadian GAAP, Holding LP's Class C Units and Class B Units and a portion of its Class A Units and Northland Replacement Rights were treated as contingent consideration and had no value ascribed for accounting purposes under Canadian GAAP until the contingencies were resolved. Absent adoption of IFRS, under Canadian GAAP the value of that contingent consideration, if any, would have been recognized in equity as the contingencies were resolved. Unlike Canadian GAAP, under IFRS, management is required to estimate the consideration resulting from the likely outcome of the contingencies and record that estimated amount in the financial statements either as equity or a liability, depending on the characteristics of the associated security.

As a result of the transition from Canadian GAAP to IFRS on January 1, 2011 Northland elected to re-open the business combination with NPI on July 16, 2009 in order to ensure that management's estimate of the value of the contingent consideration would be appropriately recognized under its IFRS financial statements.

Note 4 of the interim financial statements contains a detailed description of Northland's conversion to IFRS, including a line-by-line reconciliation of Northland's financial statements previously prepared under Canadian GAAP to those under IFRS for the three months ended March 31, 2010, as at and for the year ended December 31, 2010 and as at January 1, 2010.

Additional discussion on the impact of Northland transitioning to IFRS follows.

### Transaction Costs

Under Canadian GAAP, Northland's transaction costs on financial assets and financial liabilities classified as other than held for trading were expensed as incurred. Under IFRS, expensing of these transaction costs is not permitted. Therefore, the cumulative unamortized balance of these costs at January 1, 2010 has been reinstated into Northland's consolidated balance sheet on January 1, 2010. These costs will be included with/netted against the carrying values of the convertible subordinated debentures and the Panda senior loan.

The impact of this difference was to decrease Northland's deficit by \$4.9 million and \$3.3 million as at January 1, 2010 and December 31, 2010, respectively, on a pre-tax basis.

### Hedging

Under Canadian GAAP, Northland had been using hedge accounting for its euro forward contracts hedging its net investment in its German operations. As a result, gains and losses arising from changes in the fair values of the euro forward contracts were recorded in other comprehensive income to the extent that they were determined to be an effective hedge.

There is a difference in the definition of what constitutes the "net investment" in a foreign operation under IFRS compared to Canadian GAAP. As a result, exchange gains and losses on the hedging derivatives, as well as those on the long-term inter-entity balances related to the acquisition or financing of foreign operations not considered part of the net investment under IFRS have been recognized in net income as opposed to other comprehensive income. Foreign exchange gains or losses on translation of self sustaining foreign operations will continue to be recognized in other comprehensive income, as under Canadian GAAP.

The impact of this difference was to increase Northland's deficit of \$0.4 million and \$1.2 million as at January 1, 2010 and December 31, 2010, respectively, on a pre-tax basis.

### Property, Plant and Equipment

The cost of major scheduled and unscheduled maintenance on the significant components of certain Northland gas and steam turbines that periodically require replacement or overhaul had previously been expensed. Under IFRS, these costs are required to be capitalized and amortized in a systematic manner. The impact of this difference resulted in an increase in the reported values of property, plant and equipment of \$1.7 million at January 1, 2010.

In addition, the book values of property, plant and equipment related to Northland's asset retirement obligations increased by \$5.2 million and \$5.5 million respectively as of January 1, 2010 due to different methodologies of discounting the estimated future obligations. The IFRS adjustment for December 31, 2010 (as compared to January 1, 2010) was smaller by \$3.3 million due to the sale of Miller LP on December 16, 2010.

Further to the above differences and transitional adjustments, IFRS also requires a more prescriptive application of component accounting, which resulted in a decrease in carrying values of property, plant and equipment of \$3.1 million and \$2.9 million as at January 1, 2010 and December 31, 2010, respectively.

### **Investment in PEC**

Under Canadian GAAP, Northland's investment in PEC was carried at cost and was adjusted only for other-than-temporary declines in fair value, distributions of capital and additional investment. Under IFRS, Northland's investment in PEC is required to be reported at fair value. As a result, the reported investment in PEC may change from quarter to quarter. All fair value changes to Northland's investment in PEC after transition to IFRS have been recorded in other comprehensive income. The impact of this change has resulted in a decrease in Northland's investment in PEC by \$0.5 million on January 1, 2010 and \$0.3 million on December 31, 2010.

### **Transition to IFRS**

"First-Time Adoption of International Financial Reporting Standards" ("**IFRS 1**"), generally requires that an entity apply all IFRS policies effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 provides for certain mandatory exceptions and limited optional exemptions from this general requirement. The following are the optional exemptions available under IFRS 1 that Northland applied in preparing its first financial statements under IFRS.

#### **Business Combinations**

IFRS 1 allows for the guidance under IFRS 3R, "Business Combinations," to be applied retrospectively, prospectively or from a selected retrospective date. Retrospective application from a selected retrospective date would require Northland to restate all business combinations occurring from such selected date to the date of transition to IFRS. Management has chosen to apply IFRS 3R retrospectively to January 1, 2009. Accordingly, all business combinations on or after January 1, 2009 have been accounted for in accordance with IFRS 3R.

As a result of this decision, Northland's merger with NPI on July 16, 2009 (the only business combination in 2009) was restated using the applicable IFRS rules. Under Canadian GAAP, Holdings LP's Class C Units, Class B Units and a portion of its Class A Units (after January 1, 2011 Northland Class C Shares, Class B Shares and Class A Shares, respectively) and a portion of Northland Replacement Rights were treated as contingent consideration and had no value ascribed for accounting purposes until the contingencies were resolved. Under IFRS, management is required to estimate the consideration resulting from the likely outcome of the contingencies and record that estimated amount in the financial statements.

The chart below summarizes the July 16, 2009 NPI purchase under Canadian GAAP and the revised purchase equation under IFRS:

In thousands of dollars	Notes	Canadian GAAP	IFRS	Difference
Class A Units	(i)	185,663	155,529	(30,134)
Replacement Rights	(i)	43,960	34,094	(9,866)
Class A Units (Contingent)	(ii)	–	55,705	55,705
Replacement Rights (Contingent)	(ii)	–	15,591	15,591
Class C Units	(ii)	–	69,979	69,979
Class B Units	(ii)	–	66,451	66,451
Cost of acquisition	(iii)	3,399	–	(3,399)
Total purchase price		233,022	397,349	164,327
Original amount of goodwill per Canadian GAAP				115,840
Revised amount of goodwill per IFRS				280,167

- (i) Under Canadian GAAP, the Class A Units and Replacement Rights not subject to reduction (non-contingent) were classified in equity as they were considered economically equivalent to Units. IFRS only allows the Class A Units and Replacement Rights to be classified in equity if they are to be settled in exchange for non-puttable instruments; otherwise they are classified in liabilities. Northland Units are considered to be puttable instruments under IFRS and therefore, the Class A Units and Replacement Rights have been re-classified to financial liabilities on the balance sheet on conversion to IFRS. Furthermore, under Canadian GAAP the value of the Class A Units recognized as part of the NPI purchase equation was based on Northland's Unit price of \$9.83 (representing the average price two days before and after the closing price on July 10, 2009, when the terms of the NPI merger were announced). Under IFRS, a different measurement methodology and date are used for securities transferred as consideration, resulting in a decrease to the value of Class A Units and Replacement Rights of \$40 million on transition to IFRS.
- (ii) Contingent consideration (i.e. Class C Units and B Units and that portion of Class A Units and Replacement Rights that was dependent on Northland continuing to distribute \$1.08 per Unit per year and/or meeting certain development profit thresholds from qualifying NPI development projects) classified in liabilities has been recorded on the adoption of IFRS and as part of the revised July 16, 2009 business combination, representing contingent Class A Units of \$55.7 million, contingent Replacement Rights of \$15.6 million, contingent Class C Units of \$70 million and contingent Class B Units of \$66.5 million.

Under Canadian GAAP, the Class A Units and Replacement Rights that were contingent on Northland continuing to distribute \$1.08 per Unit per year were being recognized for accounting purposes in "distributions in kind" on a monthly basis as Northland declared its monthly distribution of \$0.09 per Trust Unit. This accounting is reversed on the adoption of IFRS as all the contingent consideration is recognized at fair value as part of the July 16, 2009 business combination. All previous distributions in kind have been reversed as well as the corresponding Class A Units and Replacement Rights recorded under Canadian GAAP.

- (iii) Acquisition costs of \$3.4 million previously capitalized as part of the July 16, 2009 business combination under Canadian GAAP are required to be expensed under IFRS. This resulted in a \$3.4 million reduction in Goodwill.

As a result of the value of all Class A, B and C Units and Replacement Rights being recognized in liabilities under IFRS, Northland is required to re-measure their fair value at each reporting period end date. The change in the value of the consideration classified as liabilities from July 16, 2009 to January 1, 2010 of \$83.4 million has been recorded as an addition to the opening deficit at January 1, 2010. A re-measured fair value increase in the Class A, B and C Units of \$69.7 million was recorded in the consolidated income statement for the three months ending March 31, 2010 and was primarily the result of Northland's price increasing from December 31, 2009.

Northland's conversion from an income trust to a corporation became effective January 1, 2011 resulting in all Units held by Unitholders converting to Shares and the Class A, B, C Units of Holdings LP converting to Class A, B and C shares of Northland on a one-for-one basis. As Northland Shares are not considered puttable instruments, Northland's conversion removed the puttable instrument restriction under IFRS, resulting in all Class A Shares and Class C Shares and all Replacement Rights being reclassified from a liability to equity. As the number of Class B Shares that are eligible to be exchanged for Class A Shares is variable, the Class B Shares do not qualify for equity classification under IFRS. As a result of being classified as a liability, the Class B Shares will continue to be re-measured quarterly based on the market price of Northland Shares, with the re-measurement being recorded to Northland's consolidated statement of income and deficit.

The transition to IFRS had no impact on Northland Preferred Shares.

#### Cumulative Translation Differences

International Accounting Standard 21, "The Effects of Changes in Foreign Exchange Rates" ("**IAS 21**"), requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS allows cumulative translation differences for all foreign operations to be deemed "\$nil" at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition of IFRS. On transition (January 1, 2010) Northland deemed all cumulative translation differences to be \$nil on transition, which resulted in a \$0.5 million adjustment to opening deficit.

IFRS 1 allows for certain other optional exemptions; however, such exemptions were not significant to Northland's adoption of IFRS.

## Impairment

On conversion to IFRS, an estimate of the recoverable value of property, plant and equipment, intangibles (i.e., contracts) and goodwill is required, with an impairment charge required for any items where book value exceeds the estimated recoverable amount. The determination of the recoverable amount under IFRS requires the use of discounted cash flows (Canadian GAAP uses a two-step process whereby an undiscounted cash flow can be used initially) and the allocation of head office and administration costs. As a result of the requirement to use discounted cash flows versus an initial undiscounted cash flow assessment to determine fair value and the reduction of forecasted cash flows by the allocation of head office and administration costs, certain property, plant and equipment and goodwill required a writedown on conversion to IFRS (i.e. January 1, 2010).

As discussed previously, reopening the July 2009 business combination between Northland and NPI resulted in additional goodwill of \$164.3 million, however, the impact of the impairment test under IFRS at January 1, 2010, resulted in a \$3 million decrease in property, plant and equipment and a \$35.1 million decrease in goodwill. Impairment tests will continue to be performed on an annual basis. No additional impairments were required during 2010. Unlike Canadian GAAP, IFRS allows impairments recorded for property plant and equipment to be eligible for reversal, but does not allow for goodwill impairments to be reversed.

## Deferred Taxes (Future Income Taxes under Canadian GAAP)

Under Canadian GAAP, Northland's deferred tax balances were calculated using the enacted or substantively enacted tax rates that were expected to apply to the reporting period(s) when the temporary differences were expected to reverse.

Under IFRS, IAS 12 'Income Taxes' requires the application of an "undistributed tax rate" in the calculation of deferred taxes, whereby deferred tax balances are measured at the tax rate applicable to Northland's undistributed profits during the periods when Northland was an income trust. The adjustment on transition to IFRS resulted in an increase to the deferred tax liability of \$51.4 million and \$29.2 million at January 1, 2010 and December 31, 2010, respectively.

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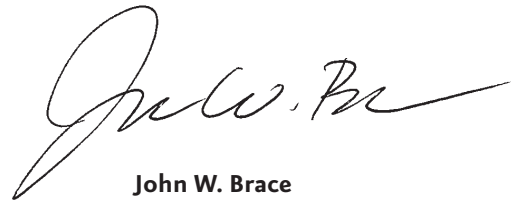
## Management's Responsibility for Financial Information

A rigorous and comprehensive financial governance framework is in place at Northland and its subsidiaries. Northland's 2010 Annual Report contains a statement signed by Northland's Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") outlining management's responsibility for financial information contained in the report. Northland filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators in March 2011 in association with the filing of the 2010 Annual Report and other annual disclosure documents. In those filings, Northland's CEO and CFO certified, as required in Canada by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in Northland's annual filings and the effectiveness of Northland's disclosure controls and procedures. The CEO and current CFO have certified the appropriateness of the financial disclosures in Northland's interim filings for the period ended March 31, 2011 with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements, and that they are responsible for the design of disclosure controls and procedures and internal controls over financial reporting.

There have been no changes in internal controls over financial reporting during the quarter ended March 31, 2011 that have materially affected or are reasonably likely to materially affect Northland's internal controls over financial reporting. Northland's third-party consultants assisted management with ensuring appropriate controls and documentation were in place with respect to the transition to IFRS.

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

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Brace". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

**John W. Brace**

President and Chief Executive Officer

June 13, 2011

## Forward-Looking Statements

Certain statements in this MD&A, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect Northland's and its subsidiaries' current expectations. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future, and readers are cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, priorities, ongoing objectives, strategies and outlook of Northland and its subsidiaries. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects," "anticipates," "plans," "believes," "estimates," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may," "will," "should," "would" and "could." This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Although these forward-looking statements are based upon management's current reasonable expectations and assumptions, they are subject to numerous risks and uncertainties. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described in the "Risks and Uncertainties" section of Northland's 2010 Annual Report and 2010 Annual Information Form, which are both filed electronically at [www.sedar.com](http://www.sedar.com) and Northland's website [www.northlandpower.ca](http://www.northlandpower.ca). Northland's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur or what benefits, including the amount of dividends, Northland and its Shareholders will derive therefrom.

The forward-looking statements contained in this MD&A are based on assumptions that were considered reasonable at the time it was completed on June 13, 2011. The forward-looking statements may not be appropriate for other purposes. Other than as specifically required by law, Northland undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

## Consolidated Balance Sheets (Unaudited)

In thousands of  
Canadian dollars

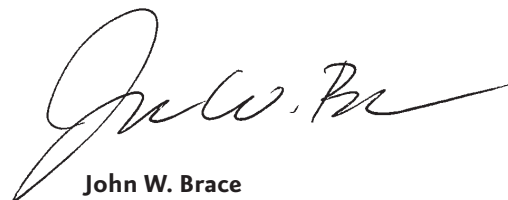
	March 31, 2011	December 31, 2010	January 1, 2010
<b>ASSETS</b>			
<b>Current</b>		[note 4]	[note 4]
Cash and cash equivalents	99,551	111,546	116,851
Cash reserves	62,997	72,151	4,163
Trade and other receivables	75,675	78,339	72,033
Inventories	7,376	7,933	4,912
Prepayments	5,481	5,354	2,719
Panda senior loan	–	–	2,401
<b>Total current assets</b>	<b>251,080</b>	275,323	203,079
Panda senior loan	–	–	62,226
Investment in Panda Energy Corporation [note 5]	5,200	5,500	5,600
Property, plant and equipment [note 6]	1,321,458	1,242,401	1,035,308
Contracts and other intangible assets [note 7]	247,439	251,159	273,160
Goodwill [note 8]	249,532	249,532	245,073
<b>Total Assets</b>	<b>2,074,709</b>	2,023,915	1,824,446
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Trade and other payables	92,623	91,120	56,424
Interest-bearing loans and borrowings	43,783	42,943	42,421
Dividends payable	6,846	6,753	6,423
<b>Total current liabilities</b>	<b>143,252</b>	140,816	105,268
Interest-bearing loans and borrowings	755,965	697,429	596,146
Convertible debentures [note 9]	59,585	72,170	116,508
Other liabilities	2,317	2,051	1,525
Provisions [note 10]	7,009	6,935	11,162
Derivative financial instruments	64,445	91,499	37,019

continued...

In thousands of  
Canadian dollars

	March 31, 2011	December 31, 2010	January 1, 2010
		[note 4]	[note 4]
Deferred tax liability	80,407	100,674	151,681
<b>Liabilities excluding those attributed to Shareholders</b>	<b>1,112,980</b>	1,111,574	1,019,309
Exchangeable Units [note 4]	–	616,955	420,602
Convertible Shares [note 12]	122,227	–	–
Replacement Rights [note 4]	–	88,169	60,108
<b>Liabilities attributed to Shareholders</b>	<b>122,227</b>	705,124	480,710
<b>Total Liabilities</b>	<b>1,235,207</b>	1,816,698	1,500,019
<b>Shareholders' Equity</b>			
Preferred shares [note 12]	145,946	145,946	–
Trust Units [note 12]	–	806,775	761,217
Common Shares [note 12]	819,665	–	–
Convertible Shares [note 12]	499,033	–	–
Replacement Rights [note 12]	88,169	–	–
Accumulated other comprehensive income	299	984	–
Deficit	(713,610)	(746,488)	(458,798)
<b>Equity attributable to Shareholders</b>	<b>839,502</b>	207,217	302,419
Non-controlling interests	–	–	22,008
<b>Total Shareholders' Equity</b>	<b>839,502</b>	207,217	324,427
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,074,709</b>	2,023,915	1,824,446

See accompanying notes.



**John W. Brace**  
President and CEO



**Paul J. Bradley**  
Chief Financial Officer

## Consolidated Income Statements (Unaudited)

For the three month period  
ended March 31, in thousands  
of Canadian dollars, except per  
Share and Share information

	2011	2010
<b>Sales</b>		[note 4]
Electricity	88,976	53,229
Steam	3,621	2,356
Natural gas	2,427	6,258
Other	1,247	1,202
<b>Total sales</b>	<b>96,271</b>	63,045
Cost of sales	40,724	25,214
<b>Gross profit</b>	<b>55,547</b>	37,831
<b>Expenses</b>		
Plant operating costs	7,530	5,083
Management and administration costs – operations	2,726	2,620
Management and administration costs – development	1,709	1,560
Depreciation of property, plant and equipment [note 6]	13,572	10,486
	<b>25,537</b>	19,749
Investment income	14	1,925
<b>Operating Income</b>	<b>30,024</b>	20,007
Foreign exchange loss	1,553	3,414
Amortization of contracts and other intangible assets [note 7]	5,073	4,159
Finance (income) [note 13]	(176)	(25)
Finance costs [note 13]	12,848	7,422
Fair value (gain) on interest rate swaps	(29,286)	(187)
Fair value loss on Convertible Shares & Replacement Rights [note 12]	4,305	69,650
Other (income)	(300)	–
<b>Income (loss) before income taxes</b>	<b>36,007</b>	(64,426)

continued...

For the three month period  
ended March 31, in thousands  
of Canadian dollars, except per  
Share and Share information

	2011	2010
<b>Provision for (recovery of) income taxes (note 11)</b>		[note 4]
Current	737	(732)
Deferred	(20,038)	(2,300)
	<b>(19,301)</b>	<b>(3,032)</b>
<b>Net income (loss) for the period</b>	<b>55,308</b>	<b>(61,394)</b>
<b>Net income (loss) attributed to</b>		
Non-controlling interests	-	151
Common Shareholders	<b>55,308</b>	<b>(61,545)</b>
	<b>55,308</b>	<b>(61,394)</b>
<b>Weighted average number of Shares outstanding – basic (000s) [note 14]</b>	<b>115,658</b>	71,373
<b>Weighted average number of Shares outstanding – diluted (000s) [note 14]</b>	<b>129,342</b>	71,373
<b>Earnings (loss) per Share – basic</b>	<b>0.46</b>	(0.86)
<b>Earnings (loss) per Share – diluted</b>	<b>0.42</b>	(0.86)

See accompanying notes.

## Consolidated Statements of Changes in Equity (Unaudited)

In thousands of dollars

	Common Shares	Trust Units	Replace- ment Rights	Convertible Shares <sup>(1)</sup>	Preferred Shares	Deficit	Available- for-sale Reserve	Foreign Currency Translation Reserve	Equity attribu- table to Share- holders	Non- Controlling Interests	Total Equity
December 31, 2010											
[note 4]	—	806,775	—	—	145,946	(746,488)	(100)	1,084	207,217	—	207,217
Corporatization adjustments											
[note 1]	806,775	(806,775)	88,169	499,033	—	—	—	—	587,202	—	587,202
January 1, 2011	806,775	—	88,169	499,033	145,946	(746,488)	(100)	1,084	794,419	—	794,419
Net income	—	—	—	—	—	55,308	—	—	55,308	—	55,308
Conversion of debentures	12,890	—	—	—	—	—	—	—	12,890	—	12,890
Change in translation of net investment in foreign operation	—	—	—	—	—	—	—	(385)	(385)	—	(385)
Change in fair value of available-for-sale securities	—	—	—	—	—	—	(300)	—	(300)	—	(300)
Common share dividends	—	—	—	—	—	(20,461)	—	—	(20,461)	—	(20,461)
Preferred share dividends	—	—	—	—	—	(1,969)	—	—	(1,969)	—	(1,969)
<b>March 31, 2011</b>	<b>819,665</b>	<b>—</b>	<b>88,169</b>	<b>499,033</b>	<b>145,946</b>	<b>(713,610)</b>	<b>(400)</b>	<b>699</b>	<b>839,502</b>	<b>—</b>	<b>839,502</b>

(1) Convertible Shares converted from Exchangeable Units upon corporatization on January 1, 2011. See Note 1 for more details.

In thousands of dollars

	Trust Units	Replace- ment Rights	Exchange- able Units	Preferred Equity	Deficit	Available- for-sale Reserve	Foreign Currency Translation Reserve	Equity attribu- table to Share- holders	Non- Controlling Interests	Total Equity
As at March 31, 2010	761,448	—	—	—	(539,616)	(100)	727	222,459	—	222,459
Net Income (loss)	—	—	—	—	(144,434)	—	—	(144,434)	—	(144,434)
Conversion of debentures	45,327	—	—	—	—	—	—	45,327	—	45,327
Issuance of preferred shares	—	—	—	150,000	—	—	—	150,000	—	150,000
Costs to issue preferred shares	—	—	—	(5,157)	—	—	—	(5,157)	—	(5,157)
Future income taxes	—	—	—	1,103	—	—	—	1,103	—	1,103
Change in translation of net investment in foreign operation	—	—	—	—	—	—	357	357	—	357
Change in fair value of available-for-sale securities	—	—	—	—	—	—	—	—	—	—
Distributions to Unitholders	—	—	—	—	(59,039)	—	—	(59,039)	—	(59,039)
Preferred share dividends	—	—	—	—	(3,399)	—	—	(3,399)	—	(3,399)
<b>December 31, 2010</b>	<b>806,775</b>	<b>—</b>	<b>—</b>	<b>145,946</b>	<b>(746,488)</b>	<b>(100)</b>	<b>1,084</b>	<b>207,217</b>	<b>—</b>	<b>207,217</b>

.....

In thousands of dollars

	Trust Units	Replace- ment Rights	Exchange- able Units	Preferred Equity	Deficit	Available- for-sale Reserve	Foreign Currency Translation Reserve	Equity attribu- table to Share- holders	Non- Controlling Interests	Total Equity
January 1, 2010 [note 4]	761,217	-	-	-	(458,798)	-	-	302,419	22,008	324,427
Net Income (loss)	-	-	-	-	(61,545)	-	-	(61,545)	151	(61,394)
Conversion of debentures	231	-	-	-	-	-	-	231	-	231
Change in translation of net investment in foreign operation	-	-	-	-	-	-	727	727	-	727
Change in fair value of available-for-sale securities	-	-	-	-	-	(100)	-	(100)	-	(100)
Distributions to Unitholders	-	-	-	-	(19,273)	-	-	(19,273)	-	(19,273)
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	(22,159)	(22,159)
<b>As at March 31, 2010</b>	<b>761,448</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(539,616)</b>	<b>(100)</b>	<b>727</b>	<b>222,459</b>	<b>-</b>	<b>222,459</b>

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## Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

For the three month period  
ended March 31, in thousands  
of Canadian dollars

	2011	2010
		[note 4]
<b>Net income (loss) for the period</b>	<b>55,308</b>	<b>(61,394)</b>
Exchange differences on translation of foreign operations	<b>(385)</b>	727
Change in fair value of available-for-sale financial asset	<b>(300)</b>	(100)
<b>Total other comprehensive income (loss)</b>	<b>(685)</b>	627
<b>Total comprehensive income (loss)</b>	<b>54,623</b>	<b>(60,767)</b>
<b>Total comprehensive income attributable to</b>		
Non-controlling interest	-	151
Common Shareholder	<b>54,623</b>	<b>(60,918)</b>
	<b>54,623</b>	<b>(60,767)</b>

See accompanying notes.

## Consolidated Statements of Cash Flows (Unaudited)

For the three month period  
ended March 31, in thousands  
of Canadian dollars except  
per Share amounts

	2011	2010
<b>Operating activities</b>		[note 4]
Net income (loss) for the period	55,308	(61,394)
Items not involving cash or operations:		
Depreciation of property, plant and equipment [note 6]	13,572	10,486
Amortization of intangible assets [note 7]	5,073	4,159
Finance costs, net	12,672	7,397
Fair value (gain) on interest rate swaps	(29,286)	(187)
Fair value loss on Convertible Shares & Replacement Rights [note 12]	4,305	69,650
Other long-term liabilities	296	183
Foreign exchange loss	1,553	3,414
Other	(229)	–
Deferred income taxes	(20,038)	(2,300)
	43,226	31,408
Net change in non-cash working capital balances related to operations	(4,297)	4,247
<b>Cash flow from operating activities</b>	<b>38,929</b>	<b>35,655</b>
<b>Investing activities</b>		
Cash reserves utilization (funding)	9,154	(14,350)
Receipts of principal on senior loan	–	576
Purchase of non-controlling interests in Jardin LP	–	(21,500)
Increase in intangible assets [note 7]	(1,353)	(3,308)
Purchase of property, plant and equipment [note 6]	(92,410)	(34,047)
Interest received	176	25
Net change in working capital related to investing activities	8,895	2,476
<b>Cash used in investing activities</b>	<b>(75,538)</b>	<b>(70,128)</b>

continued...

For the three month period  
ended March 31, in thousands  
of Canadian dollars except  
per Share amounts

	2011	2010
<b>Financing activities</b>		[note 4]
Proceeds from borrowings	68,700	39,079
Repayment of borrowings	(10,094)	(6,215)
Interest paid	(11,703)	(6,803)
Preferred share dividends	(1,969)	—
Common share dividends	(20,368)	(19,270)
<b>Cash flow from financing activities</b>	<b>24,566</b>	<b>6,791</b>
Effect of exchange rate differences on cash and cash equivalents	48	(148)
<b>Net change in cash and cash equivalents during the year</b>	<b>(11,995)</b>	<b>(27,830)</b>
Cash and cash equivalents, beginning of period	111,546	116,851
<b>Cash and cash equivalents, end of period</b>	<b>99,551</b>	<b>89,021</b>
<b>Per Share</b>		
Dividends declared to Shareholders	\$0.27	\$0.27

See accompanying notes.

## Notes to Consolidated Financial Statements

### 1. Description of Business

Northland Power Inc. (“**Northland**”), a Canadian public corporation (formerly Northland Power Income Fund (**the “Fund”**), a Canadian income trust which corporatized on January 1, 2011) that through its subsidiaries has ownership or economic interests in nine operating power plants totaling over 1,050 megawatts (**MW**) (net 818 MW). Northland’s assets comprise facilities that produce electricity from natural gas and renewable sources such as wind and biomass for sale under long-term power purchase agreements (**PPAs**) with credit-worthy customers to assure revenue stability.

The 2011 consolidated financial statements include the results of Northland and its subsidiaries, of which the most significant are listed in the following table:

<b>Entity Name</b>	<b>Country of Incorporation</b>	<b>% ownership March 31, 2011</b>	<b>% ownership March 31, 2010</b>
NPIF Commercial Trust (“ <b>CT Trust</b> ”)	Canada	<b>N/A<sup>(1)</sup></b>	100
NPIF Holdings LP (“ <b>Holdings LP</b> ”)	Canada	<b>N/A<sup>(1)</sup></b>	74
Northland Power Preferred Equity Inc. (“ <b>Prefco</b> ”)	Canada	<b>N/A<sup>(1)</sup></b>	100
Northland Power Inc. (“ <b>Northland</b> ”)	Canada	<b>100</b>	100
Iroquois Falls Power Corp. (“ <b>Iroquois Falls Corp.</b> ”)	Canada	<b>100</b>	100
Saint-Ulric Saint-Léandre Wind Limited Partnership (“ <b>Jardin LP</b> ”)	Canada	<b>100</b>	100
Thorold CoGen L.P. (“ <b>Thorold LP</b> ”)	Canada	<b>100</b>	100
Mount Miller Wind Energy Limited Partnership (“ <b>Miller LP</b> ”)	Canada	<b>N/A<sup>(2)</sup></b>	97.74
Kingston CoGen Limited Partnership (“ <b>Kingston LP</b> ”)	Canada	<b>100</b>	100
DK Windpark Kavelstorf GmbH & Co. KG and DK Burgerwindpark Eckolstädt GmbH & Co. KG (“ <b>the German wind farms</b> ”)	Germany	<b>100</b>	100

(1) Northland’s conversion from an income trust to a corporation (effective on January 1, 2011), resulted in the indicated entities being merged and/or amalgamated into Northland Power Inc.

(2) Miller LP was sold on December 16, 2010.

continued...

Entity Name	Country of Incorporation	% ownership March 31, 2011	% ownership March 31, 2010
Northland Power Chips Limited Partnership (“Chips LP”)	Canada	100	100
Spy Hill Power L.P. (“Spy Hill LP”)	Canada	100	100
North Battleford Power L.P. (“Battleford LP”)	Canada	100	100
Mont-Louis Wind L.P. (“Mont Louis LP”)	Canada	100	100

Northland Power Holdings Inc., a corporation indirectly owned by the Chairman of the Board of Directors of Northland (Mr. James C. Temerty), owned 34,141,676 Special Voting Units, representing a voting interest of 36% of Northland.

Northland’s conversion from an income trust to a corporation became effective on January 1, 2011. As a result, Northland’s business is now carried on by Northland Power Inc., a Canadian public corporation. The Fund, CT Trust, Holdings LP, Prefco, Northland Power Income Fund Management Inc. (the former manager of the Fund) and the old NPI were effectively merged and/or amalgamated into Northland Power Inc., which holds the interests in Northland’s other significant subsidiaries as described above. In these financial statements henceforth, “Northland” refers to Northland Power Income Fund for events prior to January 1, 2011, and Northland Power Inc. for events subsequent to January 1, 2011.

As a result of the corporatization, the Fund’s trust units (“Units”) have been converted into common shares (“Shares”) of Northland on a one-for-one basis and trade under the TSX symbol NPI (the previous symbol was NPI.UN). Prefco has been amalgamated with Northland with the result that its cumulative rate reset preferred shares, series 1 (“Series 1 Preferred Shares”) are now direct obligations of Northland and continue to trade under the symbol NPI.PR.A. The two series of Northland’s convertible unsecured subordinated debentures continue to trade as convertible unsecured subordinated debentures of Northland under the TSX symbols NPI.DB and NPI.DB.A. The Class A Exchangeable Units (“Class A Units” or “Class A Shares” after January 1, 2011), Class C Convertible Units (“Class C Units” or “Class C Shares” after January 1, 2011) and Class B Convertible Units (“Class B Units” or “Class B Shares” after January 1, 2011) of Holdings LP have been converted into corresponding classes of shares of Northland, which provide the holders with substantially the same rights they had as holders of units in Holdings LP.

## 2. General Information

Northland is a corporation whose Shares are publicly traded and is domiciled in Canada. Northland is the parent company for the operating subsidiaries which carry on the company’s business. Northland’s registered office is located in Toronto, Ontario.

### 3. Summary of Significant Accounting Policies

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#### 3.1 Basis of Preparation

These interim 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”). As these financial statements represent Northland’s initial presentation of its results and financial position under IFRS, they were prepared in accordance with Amended IAS 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. These interim financial statements have been prepared in accordance with the accounting policies Northland expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS guidelines and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations that Northland expects to be applicable at that time. These interim consolidated financial statements should be read in conjunction with Northland’s audited consolidated financial statements and notes thereto for the year ended December 31, 2010. Certain annual disclosures that were not required by Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) but are required by IFRS have been included in these interim consolidated financial statements. The policies set out below were consistently applied to all the periods presented unless otherwise noted below. The disclosures required by IFRS 1 *First-time Adoption of the International Financial Reporting Standards* concerning the transition from Canadian GAAP to IFRS are given in Note 4. The date of transition to IFRS is January 1, 2010.

The interim consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments, available-for-sale financial assets and certain Replacement Rights and Convertible Shares classified as liabilities, all of these have been measured at fair value. The 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 interim consolidated financial statements comprise the financial statements of Northland and its subsidiaries at March 31, 2011.

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

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

Non-controlling interests represent the portion of income or loss and net assets that is not held by Northland and are presented separately in the consolidated income statement and are within equity in the consolidated balance sheet, separately from Northland’s shareholders’ equity. Acquisitions of minority interests are accounted for using Northland’s entity extension method, in which the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

### 3.3 Business Combinations and Goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued less liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

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

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

Where goodwill forms part of a CGU and part of the operation within that unit 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 operation 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 and the currency of the primary economic environment in which Northland operates. 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. Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange prevailing at the balance sheet date. All differences are taken to the income statement. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates in effect at the date when the fair value was determined.

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

### 3.5 Revenue Recognition

Revenue is recognized to the extent that it is probable the economic benefits will flow to Northland and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

#### Sale of electricity, steam and natural gas

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

Revenue from emission allowances is recognized upon the passage of title to the purchaser.

#### Rendering of services

Northland recognizes management fees and operation-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 is recognized as it is earned.

### 3.6 Taxes

#### Current income tax

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

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

#### Deferred income tax

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither the accounting income nor taxable income or loss; and
- in respect of 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, carry forward 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 carry forward 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
- in respect of 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 tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

#### Sales taxes

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

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

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

### 3.7 Financial Instruments and Financial Risk

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

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

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

The fair values of Northland's interest rate swap contracts and foreign exchange forward contracts are provided by the counterparties to these contracts and are reviewed by management for reasonableness based on actual foreign exchange and interest rate movements during the quarter and are then adjusted to take into consideration Northland's own credit risk and counterparty credit risk.

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 in 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, credit risk and volatility are used.
- LEVEL 3 – Valuations in this level are those with inputs that are not based on observable market data.

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

#### Financial assets

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

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

Northland's financial assets include cash and cash equivalents, cash reserves, trade and other receivables and investment in PEC.

### 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, cash reserves, trade 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. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of write down is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables are presented within "management and administration costs – operations".

### 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. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated for accounting purposes as effective hedging instruments. Financial assets at fair value through profit and loss are carried on the balance sheet at fair value with gains or losses recognized in the income statement.

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

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. Northland has assessed 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 they have fixed maturity dates with fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortized cost using the effective interest rate method with gains and losses recognized when the asset is derecognized. Northland did not have any held-for-maturity investments at March 31, 2011, December 31, 2010 or January 1, 2010.

#### 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 PEC has been designated as an available-for-sale financial asset which is measured at fair value.

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

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

#### Financial liabilities

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

Northland's financial liabilities include trade and other payables, interest bearing loans and borrowings, dividends payable, convertible debentures, derivative financial instruments, and Class B Shares. As described in Notes 4 and 12, the Class A Units and Class C Units and Replacement Rights are also recorded as financial liabilities for periods prior to January 1, 2011. 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 includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes Class B Shares and derivative financial instruments entered into by Northland that do not meet hedge accounting criteria as defined by IAS 39. Gains or losses on liabilities held for trading are recognized in the income statement.

#### Loans and borrowings

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

#### Offsetting of financial instruments

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

#### Fair value of financial instruments

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

#### Amortized cost of financial instruments

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

### **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 inspection 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. Refer to Provisions for further information about the measurement of the decommissioning liabilities.

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

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

Assets included in construction in progress 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**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception date.

Northland as a lessee

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Northland as a lessor

Leases where Northland does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

### **3.10 Borrowing Costs**

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

### **3.11 Intangible Assets**

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

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

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

#### Deferred development costs

Development expenditures on an individual project are recognized as an intangible asset when Northland can demonstrate:

- the technical feasibility of completing the project so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the project;
- how 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. All other indirect development costs are expensed as incurred. Deferral begins once it is determined by management that a given project will be pursued through to completion. Costs are deferred up to the closing of project financing and the start of construction, at which time they are reclassified to the cost of property, plant and equipment or recorded as intangible assets, as appropriate. Should Northland determine that development of a particular project will be discontinued, the deferred costs are expensed in the period the determination is made.

#### 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 term 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 recoverable amount is the higher of an asset's or CGU's fair value less costs to sell, and 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 recoverable amount, the asset is considered impaired and is written down to its 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 cash-generating unit'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 recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

#### Goodwill

Goodwill is tested for impairment annually and also when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount for each CGU to which the goodwill relates. Where the 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.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and highly liquid investments as defined above, net of outstanding bank overdrafts.

### 3.15 Convertible Shares (Exchangeable Units pre January 1, 2011)

#### Class A Shares (formerly Class A Units)

As part of the consideration for the merger with NPI, 25,645,598 Class A Units were issued from Holdings LP, a subsidiary of Northland. These Class A Units became Class A Shares upon corporatization on January 1, 2011. As described in Notes 4 and 12, the Class A Units were classified as financial liabilities prior to corporatization on January 1, 2011 as the Class A Units were exchangeable into Units (a puttable financial instrument under IFRS) of Northland.

The number of Class A Shares is subject to reduction if Northland's rate of cash dividends fails to achieve a threshold by January 16, 2012. All Class A Shares that are subject to reduction have been recognized for accounting purposes as Northland's management has estimated that it will achieve the cash dividends threshold.

The value of the Class A Shares not subject to reduction have also been recognized for accounting purposes in the consolidated financial statements of Northland. As a result of Northland's shares not considered to be a puttable instrument, the Class A Shares were reclassified to equity on January 1, 2011 based on December 31, 2010 carrying value.

The Class A Shares will become exchangeable on a one-for-one basis into Shares on January 16, 2012 (**"the Conversion Date"**). The Class A Shares are included in the calculation of basic earnings per Share from the date that they were recognized as equity for accounting purposes.

#### Class C Shares (formerly Class C Units)

As part of the merger with NPI, Holdings LP, a subsidiary of Northland, issued 8,496,078 Class C Units which became Class C Shares upon corporatization on January 1, 2011. As described in Note 4, the Class C Shares are eligible to be converted to Class A Shares based upon Northland's future "Development Profits" from qualifying development projects owned by NPI at the date of the merger. The Class C Shares carry one vote per Class C Share but have no rights to dividends and are not transferable. The number of Class C Shares convertible to Class A Shares is fixed and is proportional to Northland achieving "Development Profits" of up to \$100 million including certain Replacement Rights that are convertible on a similar basis.

As described in Notes 4 and 12, the Class C Units were classified as financial liabilities prior to corporatization on January 1, 2011 as they were ultimately exchangeable into Units of Northland which were considered puttable instruments. Similar to Class A Shares above, as a result of the corporatization on January 1, 2011, Northland's Units were converted to Shares and the Class C Units were converted into Class C Shares. As a result of Northland's Shares not considered to be a puttable financial instrument, the Class C Shares were re-classified to equity on January 1, 2011 based on December 31, 2010 carrying value. The Class C Shares are included in the calculation of basic earnings per Share from the date that they were recognized as equity for accounting purposes.

### Class B Shares (formerly Class B Units)

As part of the merger with NPI, Holdings LP issued 8,067,723 Class B Units which became Class B Shares upon corporatization on January 1, 2011. The Class B Shares are eligible to be converted to Class A Shares based upon Northland's future "Development Profits" from qualifying development projects owned by NPI at the date of the merger. The Class B Shares carry no voting rights and no rights to dividends and are not transferable. The Class B Shares are not convertible into Class A Shares until after all Class C Shares and Replacements Rights have been converted. The Class B Shares are convertible based on a portion of "Development Profits" above \$100 million and the number of Class B Shares to be converted is based on Northland's Share price when specific milestones relating to "Development Profit" thresholds (specifically the date on when associated PPAs were signed) are achieved.

As described in Notes 4 and 12, the Class B Units were classified as financial liabilities prior to corporatization on January 1, 2011 as they were ultimately exchangeable into Units of Northland which were considered puttable instruments. As described in Note 1, as a result of the corporatization, the Class B Units were converted into Class B Shares. As there is uncertainty in the number of shares to be converted, the timing of conversion and the conversion price and therefore in accordance with IAS 32, the Class B Shares continue to be classified as financial liabilities for accounting purposes.

The Class B Shares that have been classified as financial liabilities, will continue to be re-measured to fair value at each reporting date until the shares are issued. The fair value adjustments are recorded in the "Fair value (gain) loss on Convertible Shares & Replacement Rights" line in the consolidated income statement.

### 3.16 Replacement Rights

Coincident with the merger with NPI, Northland issued 6,032,191 Replacement Rights in settlement of NPI's obligations under a long term incentive plan ("LTIP"). Replacement Rights carry no voting rights or rights to receive dividends until they are exercised and are not transferable.

Of the 6,032,191 Replacement Rights originally issued, the conversion of 1,503,922 Replacement Rights to Shares is contingent upon the conversion of the Class C Shares. Consistent with the accounting for the Class C Shares, the 1,503,922 Replacement Rights have been recognized for accounting purposes in Northland's consolidated financial statements.

Furthermore, of the 6,032,191 Replacement Rights originally issued, the conversion of 388,937 Replacement Rights to Shares is contingent upon Northland meeting a cash dividends threshold. These Replacement Rights have also been recognized for accounting purposes.

All Replacement Rights recognized for accounting purposes were classified as financial liabilities prior to the corporatization on January 1, 2011 as they were ultimately exchangeable into Units of Northland which were considered puttable instruments. As described in Note 1, as a result of the corporatization, Northland's Units were converted to Shares and consequently, the Replacement Rights were re-classified to equity on January 1, 2011. Replacement Rights are included in the calculation of basic earnings per Share from the date that they were recognized as equity for accounting purposes.

### 3.17 Provisions

#### General

Provisions are recognized when Northland has a present obligation (legal or constructive) as a result of a past event whereby it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where Northland expects some or all of a provision to be reimbursed, for example under an insurance contract, 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 income statement 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

The following are significant management judgments in applying the accounting policies of Northland that have the most significant effect on the consolidated financial statements.

#### Deferred development costs

Management monitors progress of internal prospecting and of development projects by using a project management system. Significant judgment is required to distinguish prospecting for development opportunities from the development phase. Development costs are recognized as an asset when all the criteria are met, whereas prospecting costs are expensed as incurred.

Determining which projects will be pursued and when the deferral of costs should begin requires judgment. Management reviews on a regular basis the feasibility of each project that is being developed; should management determine that development of a particular project will be discontinued, the deferred costs are expensed in the period the determination is made.

### 3.19 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. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results.

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

#### 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 budget over the remaining useful lives of the assets of the CGUs and do not include restructuring activities that Northland is not yet committed to, or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows. The key assumptions used to determine the recoverable amount for the different CGUs are further explained in Note 4.

#### Decommissioning liabilities

Northland's decommissioning liabilities relate solely to its wind facilities, which are located on leased land. Northland's Thorold cogeneration facility is on leased land, however a decommissioning liability has not been set up for this facility as the lessor has an option to purchase the facility in the future or alternatively, Northland has the option to purchase the leased land in the event that the lessor's mill ceases operations. In either event, there would be no decommissioning liability for Northland; as a result, management believes that a reasonable estimate of the fair value of any decommissioning liability for the Thorold facility cannot be made at this time. Northland expects to use its installed assets at the Iroquois Falls and Kingston 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 for the Iroquois Falls and Kingston facilities cannot be made at this time.

Northland has estimated the fair value of its total decommissioning liabilities for all of its wind farms to be \$7.0 million, based on an estimated total future liability. An average discount rate of 3.93% and an inflation rate of 2.5% were used to calculate the fair value of the decommissioning liabilities. Revisions to Northland's decommissioning liabilities will be made if new information is received. Refer to Note 10 for additional information related to Northland's decommissioning liabilities.

## Income taxes

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

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

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

## Fair value of financial assets and financial liabilities

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

## Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are depreciated over their useful lives taking into account residual values, where appropriate. Assessments of useful lives and residual values are performed annually after considering factors such as technological innovation, maintenance programs, relevant market information and management considerations. In assessing residual values, Northland considers the remaining life of the asset, its projected disposal value and future market conditions. The carrying amounts are analyzed in Notes 6 and 7.

### 3.20 Future Accounting Policies

As of March 31, 2011, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by Northland.

Management anticipates that all of the relevant pronouncements will be adopted for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are currently expected to be relevant to Northland's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on Northland's financial statements.

#### IFRS 9 Financial Instruments (effective from January 1, 2013)

The IASB aims to replace IAS 39 Financial Instruments Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Northland is currently evaluating the impact of this IFRS amendment on its consolidated financial statements.

#### 4. First-time Adoption of IFRS

These are Northland's first consolidated financial statements prepared in accordance with IFRS. The date of transition to IFRS is January 1, 2010.

Northland's IFRS accounting policies presented in Note 3 have been applied in preparing the consolidated financial statements for the period ended March 31, 2011, the comparative information and the opening balance sheet at the date of transition. The first annual financial statements issued by Northland that will comply with IFRS will be those issued for the year ending December 31, 2011.

Northland has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* in preparing these first IFRS consolidated financial statements. IFRS 1 required that the same policies are applied for all periods presented. The effects on transition to IFRS on equity, total comprehensive income and reported cash flows is presented in this section and is further explained in the notes that accompany the tables.

First-time adoption exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. Northland has applied the mandatory exceptions and certain optional exemptions. The optional exemptions adopted by Northland are set out below:

- (a) Northland has elected not to apply IFRS 3R *Business Combinations* retrospectively to business combinations that occurred before January 1, 2009. Accordingly, all business combinations on or after January 1, 2009 have been accounted for in accordance with IFRS 3R. As a result, Northland's merger with NPI on July 16, 2009 (the only business combination in 2009) was re-opened;
- (b) Northland has deemed the cumulative translation differences for the net investment in foreign operations at the date of transition to be \$nil. Adjustments to give effect to this are recorded against opening equity. After the date of transition, translation differences arising on translation of foreign operations are recognized in other comprehensive income and included in a separate 'foreign currency translation reserve' within equity;
- (c) Northland has elected to designate its investment in PEC as an available-for-sale financial asset at the date of transition; and
- (d) Northland has elected not to apply IFRIC 1 *Changes in Decommissioning Liabilities* retrospectively to changes in its decommissioning liabilities that occurred before the date of transition.

The mandatory exceptions adopted by Northland are set out below:

- (a) Northland has applied hedge accounting in the opening balance sheet where all the requirements in IAS 39 were met at the date of transition; and
- (b) Hindsight is not used to create or revise estimates. Northland has used estimates under IFRS that are consistent with those applied under Canadian GAAP (with adjustment for accounting policy differences); and
- (c) Northland has applied prospectively the requirement that total comprehensive income is attributed to Northland's Shareholders and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Reconciliation of balance sheet and equity

Equity at January 1, 2010, March 31, 2010 and December 31, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

In thousands of dollars

	Note	January 1, 2010			March 31, 2010			December 31, 2010		
		Canadian GAAP <sup>(1)</sup>	Effect of transition to IFRS	IFRS	Canadian GAAP <sup>(1)</sup>	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>ASSETS</b>										
<b>Current</b>										
Cash and cash equivalents		116,851	–	<b>116,851</b>	89,021	–	<b>89,021</b>	111,546	–	<b>111,546</b>
Cash reserves		4,163	–	<b>4,163</b>	18,513	–	<b>18,513</b>	72,151	–	<b>72,151</b>
Trade and other receivables		72,033	–	<b>72,033</b>	70,207	–	<b>70,207</b>	78,339	–	<b>78,339</b>
Inventories		4,912	–	<b>4,912</b>	4,993	–	<b>4,993</b>	7,933	–	<b>7,933</b>
Prepayments		2,719	–	<b>2,719</b>	2,588	–	<b>2,588</b>	5,354	–	<b>5,354</b>
Panda senior loan		2,401	–	<b>2,401</b>	2,382	–	<b>2,382</b>	–	–	–
<b>Total current assets</b>		<b>203,079</b>	<b>–</b>	<b>203,079</b>	<b>187,704</b>	<b>–</b>	<b>187,704</b>	<b>275,323</b>	<b>–</b>	<b>275,323</b>
Panda senior loan	4.6	61,879	347	<b>62,226</b>	59,185	325	<b>59,510</b>	–	–	–
Investment in PEC	4.5	6,050	(450)	<b>5,600</b>	6,050	(550)	<b>5,500</b>	5,800	(300)	<b>5,500</b>
Property, plant and equipment	4.3(a), 4.3(b), 4.4, 4.2	1,034,517	791	<b>1,035,308</b>	1,058,042	(108)	<b>1,057,934</b>	1,244,115	(1,714)	<b>1,242,401</b>
Contracts and other intangible assets		273,160	–	<b>273,160</b>	272,309	–	<b>272,309</b>	251,159	–	<b>251,159</b>
Goodwill	4.1(e), 4.2	115,840	129,233	<b>245,073</b>	122,467	129,233	<b>251,700</b>	122,467	127,065	<b>249,532</b>
<b>Total assets</b>		<b>1,694,525</b>	<b>129,921</b>	<b>1,824,446</b>	<b>1,705,757</b>	<b>128,900</b>	<b>1,834,657</b>	<b>1,898,864</b>	<b>125,051</b>	<b>2,023,915</b>

(1) The Canadian GAAP balances include Miller LP. See Note 4.11.

continued...



In thousands of dollars

	Note	January 1, 2010			March 31, 2010			December 31, 2010		
		Canadian GAAP <sup>(1)</sup>	Effect of transition to IFRS	IFRS	Canadian GAAP <sup>(1)</sup>	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>SHAREHOLDERS' EQUITY</b>										
Preferred shares		–	–	–	–	–	–	145,946	–	<b>145,946</b>
Trust Units		761,217	–	<b>761,217</b>	761,448	–	<b>761,448</b>	806,775	–	<b>806,775</b>
Exchangeable Units	4.1(a)	198,821	(198,821)	–	206,865	(206,865)	–	236,491	(236,491)	–
Replacement Rights	4.1(a)	44,716	(44,716)	–	45,180	(45,180)	–	46,883	(46,883)	–
Accumulated other comprehensive income	4.5, 4.8, 4.9	460	(460)	–	327	300	<b>627</b>	381	603	<b>984</b>
Deficit		(299,616)	(159,182)	<b>(458,798)</b>	(317,845)	(221,771)	<b>(539,616)</b>	(419,746)	(326,742)	<b>(746,488)</b>
<b>Equity attributable to Shareholders</b>										
		705,598	(403,179)	<b>302,419</b>	695,975	(473,516)	<b>222,459</b>	816,730	(609,513)	<b>207,217</b>
Non-controlling interests		22,008	–	<b>22,008</b>	–	–	–	–	–	–
<b>Total Shareholders' Equity</b>										
		727,606	(403,179)	<b>324,427</b>	695,975	(473,516)	<b>222,459</b>	816,730	(609,513)	<b>207,217</b>
<b>Total Liabilities and Shareholders' Equity</b>										
		1,694,525	129,921	<b>1,824,446</b>	1,705,757	128,900	<b>1,834,657</b>	1,898,864	125,051	<b>2,023,915</b>

(1) The Canadian GAAP balances include Miller LP. See Note 4.11.

The total effect on deficit is further analyzed as follows:

In thousands of dollars

	Note	January 1, 2010	March 31, 2010	December 31, 2010
Deficit as reported under Canadian GAAP		(299,616)	(317,845)	(419,746)
Reversal of distributions in kind recognized under Canadian GAAP	4.1(b), 4.1(g)	13,915	22,422	53,752
Expensing transaction costs when restating business combination	4.1(d)	(3,399)	(3,399)	(3,399)
Fair value (loss) on contingent consideration	4.1(f), 4.1 (h)	(83,361)	(153,011)	(307,775)
Impairment losses	4.2	(38,083)	(37,981)	(39,842)
Capitalization of major overhaul costs	4.3(a)	1,657	1,513	450
Componentization of property, plant and equipment	4.3(b)	(3,125)	(3,933)	(2,906)
Adjustment to decommissioning liabilities	4.4	(262)	(330)	(198)
Adjustment for available-for-sale financial asset to fair value	4.5	(450)	(450)	(200)
Capitalization of transaction costs related to financial assets and financial liabilities	4.6	4,860	4,533	3,294
Deferred tax liability on IFRS transition adjustments	4.7	(51,394)	(50,735)	(29,215)
Reversing hedge accounting	4.8	–	(860)	(1,163)
Cumulative translation difference	4.9	460	460	460
		(159,182)	(221,771)	(326,742)
<b>Deficit as reported under IFRS</b>		<b>(458,798)</b>	<b>(539,616)</b>	<b>(746,488)</b>

Reconciliation of income (loss) and comprehensive income (loss)

Income (loss) and comprehensive income (loss) for the three-month period ended March 31, 2010 and the year ended December 31, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

In thousands of dollars

	Note	March 31, 2010			December 31, 2010		
		Canadian GAAP <sup>(1)</sup>	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Sales</b>							
Electricity	4.11	53,229	–	<b>53,229</b>	267,852	8,321	<b>276,173</b>
Steam		2,356	–	<b>2,356</b>	9,263	–	<b>9,263</b>
Natural gas		6,258	–	<b>6,258</b>	21,336	–	<b>21,336</b>
Other		1,202	–	<b>1,202</b>	5,719	–	<b>5,719</b>
<b>Total Sales</b>		63,045	–	<b>63,045</b>	304,170	8,321	<b>312,491</b>
Cost of sales		25,214	–	<b>25,214</b>	126,083	–	<b>126,083</b>
<b>Gross profit</b>		37,831	–	<b>37,831</b>	178,087	8,321	<b>186,408</b>
<b>Expenses</b>							
Plant operating expenses	4.11	5,083	–	<b>5,083</b>	28,026	2,135	<b>30,161</b>
Management and administration costs – operations	4.11	2,620	–	<b>2,620</b>	13,377	397	<b>13,774</b>
Management and administration costs – development		1,560	–	<b>1,560</b>	6,688	–	<b>6,688</b>
Depreciation of property, plant and equipment	4.10, 4.11	9,586	900	<b>10,486</b>	46,587	8,408	<b>54,995</b>
Write off of accounts receivable		–	–	<b>–</b>	1,111	–	<b>1,111</b>
		18,849	900	<b>19,749</b>	95,789	10,940	<b>106,729</b>
Investment Income		1,925	–	<b>1,925</b>	12,593	–	<b>12,593</b>
<b>Operating income<sup>(2)</sup></b>		20,907	(900)	<b>20,007</b>	94,891	(2,619)	<b>92,272</b>

(1) The Canadian GAAP balances include Miller LP. See Note 4.11.

(2) As described below, the accretion expense was moved below the operating income line item under “finance costs” as required per IFRS. This resulted in a difference between the Canadian GAAP operating income as presented in the Canadian GAAP financial statements and the reconciliation above.

continued...

In thousands of dollars

	Note	March 31, 2010			December 31, 2010		
		Canadian GAAP <sup>(1)</sup>	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Foreign exchange (gain)/loss	4.8	2,756	658	<b>3,414</b>	(535)	811	<b>276</b>
Amortization of contracts and other intangible assets	4.11	4,159	–	<b>4,159</b>	19,303	311	<b>19,614</b>
Finance (income)		(25)	–	<b>(25)</b>	(387)	–	<b>(387)</b>
Finance costs	4.6, 4.11	7,077	345	<b>7,422</b>	54,753	3,981	<b>58,734</b>
Fair value (gain)/loss on interest rate swaps		(187)	–	<b>(187)</b>	53,761	–	<b>53,761</b>
Fair value loss on contingent consideration	4.1(h)	–	69,650	<b>69,650</b>	–	224,414	<b>224,414</b>
Write-down in PEC investment		–	–	–	250	(250)	–
Write-off of deferred development costs		–	–	–	3,383	–	<b>3,383</b>
Gain on Sale of Miller LP	4.11	–	–	–	–	(7,312)	<b>(7,312)</b>
<b>Income (loss) before income taxes</b>		<b>7,127</b>	<b>(71,553)</b>	<b>(64,426)</b>	<b>(35,637)</b>	<b>(224,574)</b>	<b>(260,211)</b>
Non-controlling interest		151	(151)	–	151	(151)	–
Income tax (recovery)	4.7, 4.8	(2,574)	(458)	<b>(3,032)</b>	(32,556)	(21,827)	<b>(54,383)</b>
<b>Income (loss) for the period – Continued Operations</b>		<b>9,550</b>	<b>(70,944)</b>	<b>(61,394)</b>	<b>(3,232)</b>	<b>(202,596)</b>	<b>(205,828)</b>
<b>Income (loss) for the period – Discontinued Operations</b>	4.11	–	–	–	4,650	(4,650)	–
<b>Net income (loss)</b>		<b>9,550</b>	<b>(70,944)</b>	<b>(61,394)</b>	<b>1,418</b>	<b>(207,246)</b>	<b>(205,828)</b>
<b>Net income (loss) attributed to</b>							
Non-controlling interests		–	151	<b>151</b>	–	151	<b>151</b>
Common Shareholders		9,550	(71,095)	<b>(61,545)</b>	1,418	(207,397)	<b>(205,979)</b>

(1) The Canadian GAAP balances include Miller LP. See Note 4.11.

In thousands of dollars

	March 31, 2010			December 31, 2010			
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Net income (loss) for the period</b>		9,550	(70,944)	<b>(61,394)</b>	1,418	(207,246)	<b>(205,828)</b>
Other comprehensive income (loss):							
Change in translation of net investment in foreign operations		(1,102)	1,829	<b>727</b>	(1,337)	2,421	<b>1,084</b>
Change in fair value of hedged foreign currency contracts	4.8	1,171	(1,171)	–	1,610	(1,610)	–
Change in fair value of available-for-sale financial asset	4.5	–	(100)	<b>(100)</b>	–	(100)	<b>(100)</b>
Future income tax effect	4.8	(202)	202	–	(352)	352	–
Total other comprehensive income (loss)		(133)	760	<b>627</b>	(79)	1,063	<b>984</b>
<b>Total comprehensive income (loss)</b>		9,417	(70,184)	<b>(60,767)</b>	1,339	(206,183)	<b>(204,844)</b>

## Presentation differences

### (a) Balance Sheet and Income Statement

Certain presentation differences between Canadian GAAP and IFRS have no impact on reported net income or total equity.

Some assets and liabilities have been reclassified into another line item under IFRS at the date of transition. A reclassification has been recorded for the non-current deferred income tax liability. Under IFRS, all deferred income tax assets and liabilities are presented as long-term.

Some line items are described differently (renamed) under IFRS compared to Canadian GAAP, although the assets and liabilities included in these line items are unaffected. These line items are as follows (with Canadian GAAP descriptions in brackets):

- Trade and other receivables (“Accounts and other receivables”)
- Contracts and Other Intangible assets (“Contracts”, “Deferred development costs” and “Deferred charges”)
- Trade and other payables (“Accounts payable and accrued liabilities”)
- Interest-bearing loans and borrowings (“Long-term debt”)
- Deferred tax liability (“Future income tax liability”)
- Provisions (“Asset retirement obligations”)
- Finance Income (“Interest income”)
- Finance Costs (“Interest expense” and “Accretion expense”)

Under IFRS, non-controlling interests are classified as a component of equity separate from the equity of Northland and are not included in net earnings, but rather presented as an allocation of net earnings. Under Canadian GAAP, non-controlling interests in the equity of a consolidated affiliate are classified as a separate component between liabilities and equity in the balance sheet and as a component of net earnings within the income statement.

(b) Statement of cash flows

Under Canadian GAAP interest paid and interest received were classified as operating cash flows. Under IFRS interest paid is included in financing activities and interest received is included in investing activities. There are no other material adjustments to the cash flow statement. The components of cash and cash equivalents under Canadian GAAP are similar to those presented under IFRS.

## Notes to the reconciliations

### 4.1 Business combinations and contingent consideration

On July 16, 2009, Northland acquired all of the issued and outstanding shares of NPI for total consideration valued for accounting purposes at \$233.0 million, including acquisition costs of \$3.4 million.

The principal terms of the merger were as follows:

- Issuance of 25,645,598 Class A Units of Holdings LP;
- Issuance of 6,032,191 Replacement Rights by Northland in exchange for the release of rights held by senior management under NPI's long-term incentive plan;
- Issuance of 8,496,078 Class C Units of Holdings LP which can be converted to Class A Shares based on Northland's "Development Profits" up to \$100 million from qualifying NPI development projects; and
- Issuance of 8,067,723 Class B Units of Holdings LP which can be converted to Class A Shares based on a portion of Northland's "Development Profits" in excess of \$100 million from qualifying NPI development projects, provided Class C Shares have been converted to Class A Shares.

#### January 1, 2010 Opening Balance Sheet Adjustments

Under Canadian GAAP, the contingent consideration issued in the business combination with NPI was ascribed no value on the acquisition date as the contingencies had not yet been resolved beyond a reasonable doubt. Under IFRS, Northland is required to recognize the acquisition-date fair value of contingent consideration transferred in the business combination. Under IFRS, Northland is also required to classify the value of contingent consideration as a liability or as equity based on the definitions of an equity instrument and a financial liability in *IAS 32 Financial Instruments – Presentation ("IAS 32")*.

Northland has re-opened the July 16, 2009 business combination with NPI resulting in recording of the contingent consideration at fair value and thus the purchase equation has been revised as follows:

.....				
In thousands of dollars				
		Canadian		
	Notes	GAAP	IFRS	Difference
.....				
Class A Units	(a)	185,663	155,529	(30,134)
Replacement Rights	(a)	43,960	34,094	(9,866)
Class A Units (Contingent)	(c)	–	55,705	55,705
Replacement Rights (Contingent)	(c)	–	15,591	15,591
Class C Units	(c)	–	69,979	69,979
Class B Units	(c)	–	66,451	66,451
Cost of acquisition	(d)	3,399	–	(3,399)
.....				
Total purchase price	(e)	233,022	397,349	164,327
Original amount of goodwill per Canadian GAAP				115,840
.....				
Revised amount of goodwill per IFRS				280,167
.....				

This has resulted in the following adjustments at the IFRS transition date:

- (a) Under Canadian GAAP, the Class A Units and Replacement Rights not subject to reduction (non-contingent) were classified in equity as they are considered economically equivalent to Units. IAS 32 disallows the Class A Units and Replacement Rights to be classified as equity if they are to be settled in exchange for puttable instruments; Northland's Units are considered to be puttable instruments under IFRS. Therefore, the Class A Units and Replacement Rights have been re-classified to a financial liability on the balance sheet on conversion to IFRS. Furthermore, under Canadian GAAP the value of the Class A Units recognized was based on Northland's Unit price of \$9.83 per Unit (representing the average price two days before and after the closing price on July 10, 2009, when the terms of the NPI merger were announced). Under IFRS, a different measurement methodology and date are used for securities transferred as consideration, resulting in a decrease to the value of Class A Units and Replacement Rights of \$40 million on transition to IFRS.
- (b) Under Canadian GAAP, contingent consideration was being recognized through "distributions in kind" as certain of the contingencies were resolved. This accounting is reversed on the adoption of IFRS as the contingent consideration with respect to the Class A Units and Replacement Rights is recognized at fair value as part of the July 16, 2009 business combination. "Distributions in kind" for the period from July 16, 2009 to December 31, 2009 of \$13.9 million have been reversed as well as the value of the corresponding Class A Units of \$13.1 million and Replacement Rights of \$0.8 million recorded under Canadian GAAP.
- (c) Contingent consideration classified as liabilities has been recorded on the adoption of IFRS and as part of the revised July 16, 2009 business combination, representing contingent Class A Units of \$55.7 million, contingent Class C Units of \$70 million, contingent Class B Units of \$66.5 million and contingent Replacement Rights of \$15.6 million.

- (d) Acquisition costs of \$3.4 million previously capitalized as part of the July 16, 2009 business combination under Canadian GAAP are required to be expensed under IFRS. This resulted in a \$3.4 million reduction in goodwill.
- (e) Additional goodwill of \$164.3 million (net of acquisition costs as described above) has been recognized as a result of re-opening the July 16, 2009 business combination under IFRS.
- (f) Contingent consideration classified as a liability is required to be re-measured at fair value (related to Northland's Unit/Share price) at each reporting period end date. The change in the value of the contingent consideration classified as a liability from July 16, 2009 to January 1, 2010 of \$83.4 million has been recorded in the consolidated income statement (\$44.3 million for Class A Units, \$10.4 million for the Replacement Rights, \$14.7 million for the Class C Units and \$14 million for the Class B Units).

The chart below shows a summary of Exchangeable Units and Replacement Rights which have been fair valued related to Northland's Unit price at each reporting date.

In thousands of dollars except Units	Number of Units	January 1, 2010	July 16, 2009
Class A Units	25,645,598	255,550	211,234
Class B Units	8,067,723	80,392	66,451
Class C Units	8,496,078	84,660	69,979
Total Exchangeable Units	42,209,399	420,602	347,664
Replacement Rights	6,032,191	60,108	49,685
Total	48,241,590	480,710	397,349

#### March 31, 2010 and December 31, 2010 Comparative Adjustments

Post January 1, 2010 the following adjustments have been made to account for the contingent consideration:

- g) Under Canadian GAAP, contingent consideration was being recognized in "distributions in kind" as the contingencies were being resolved. This accounting is reversed as the contingent consideration is recognized at fair value as part of the re-opening of the July 16, 2009 business combination under IFRS. For 2010, "distributions in kind" of \$39.8 million have been reversed as well as the reversal of the corresponding value of Class A Units of \$37.7 million and Replacement Rights of \$2.1 million. For the three months ended March 31, 2010, "distributions in kind" of \$8.5 million have been reversed as well as the reversal of the related recognition of value for corresponding Class A Units of \$8.0 million and Replacement Rights of \$0.5 million.
- h) In accordance with IAS 32, the Class A, B and C Units were recorded as financial liabilities and are required to be recorded at fair value based on the Northland's Unit price at each reporting date.

In thousands of dollar except Units	Number of Units	December 31, 2010	March 31, 2010
Class A Units	25,645,598	374,850	292,577
Class B Units	8,067,723	117,922	92,040
Class C Units	8,496,078	124,183	96,927
Total Exchangeable Units	42,209,399	616,955	481,544
Replacement Rights	6,032,191	88,169	68,816
Total	48,241,590	705,124	550,360
<i>Change in fair value from January 1, 2010 to March 31, 2010</i>	\$ 69,650		
<i>Change in fair value from January 1, 2010 to December 31, 2010</i>	\$ 224,414		

January 1, 2011 and thereafter

Upon corporatization on January 1, 2011, the Class A Shares, Class C Shares and the Replacement Rights were re-classified to equity as they are convertible into Northland Shares which, unlike the predecessor Units, are not considered to be puttable instruments. The Class B Shares will continue to be classified as a financial liability until the contingency is resolved and the valuation ratio determined and will be re-measured based on the Northland's Share price on a quarterly basis with the changes recorded in the income statement.

#### 4.2 Impairment of property, plant and equipment and intangible assets

Northland has determined that assets at each facility will be grouped together to form a CGU for purpose of impairment testing. Additional goodwill totaling \$164.3 million (as per 4.1) has been recognized from re-opening the NPI business combination which has been allocated to CGUs based on generation capacity and an employee head count of the respective facility. This additional goodwill and change in methodology for determining the recoverable amount in accordance with IFRS guidelines has resulted in the recording of impairment charges related to certain CGUs on January 1, 2010.

On transition to IFRS on January 1, 2010, the above factors resulted in an impairment of property, plant and equipment of \$3 million for the NP Chips Facility and impairment of goodwill of \$35.1 million across multiple CGU's. The carrying amounts of goodwill allocated to Northland's CGUs post-impairment are as follows:

In thousands of dollars

	January 1, 2010
	Goodwill carrying value
Iroquois Falls	11,250
Kingston	8,400
Thorold	42,441
Mont Miller	2,168
Jardin d'Eole	837
NP Chips	—
German Wind Farms	715
NPI Managed Facilities (Kirkland Lake and Cochrane)	25,103
Spy Hill	9,382
North Battleford	96,320
Mont Louis	19,610
Manitoulin	5,762
Ground Mount Solar FIT projects	23,085
<b>Total</b>	<b>245,073</b>

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 assumption:

**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 estimate of cash flows have not been adjusted. The rate varied by generation type (“Thermal” and “Renewables” that includes wind and solar generating facilities) to account for the different market risks associated with each type as follows:

In per cent			
	Thermal	Renewables	Managed Facilities
Before tax discount rates			
Applicable to PPA cash-flows:			
January 1, 2010	8.2%	8.3%	8.2%
October 1, 2010	7.9%	8.0%	7.9%
Applicable to post-PPA cash-flows:			
January 1, 2010	10.2%	10.4%	13.1%
October 1, 2010	9.5%	9.8%	12.8%

Northland performed another impairment analysis on October 1, 2010 as required to meet the annual test and no additional impairments were noted. The impairment adjustments in the deficit reconciliation for March 31, 2010 and December 31, 2010 are net of the depreciation impact and the December 31, 2010 adjustment included the \$2.2 million disposal of goodwill relating to the Miller LP sale on December 16, 2010.

Northland has applied IAS 36 in determining whether any impairment losses arose at the date of transition to IFRS. No impairment losses (or reversals) were identified other than those related to property, plant and equipment and goodwill as noted previously.

The estimates used for this analysis were consistent with the estimates used under Canadian GAAP at the same date, adjusted for accounting policy differences where necessary.

#### **4.3 Property, plant and equipment**

- (a) Capitalization of major overhauls – IAS 16 Property, Plant and Equipment requires the capitalization of the cost of major overhauls and inspections. The costs of major overhauls not subject to long term maintenance agreements were expensed under Canadian GAAP. Property, plant and equipment was increased by \$1.7 million at January 1, 2010 (March 31, 2010 – \$1.5 million, December 31, 2010 – \$0.5 million) to reflect the capitalization of major overhaul costs not subject to long term maintenance agreements.
- (b) Componentization of property, plant and equipment – IAS 16 Property, Plant and Equipment requires that items of property, plant and equipment be split into significant components which are then depreciated over their separate useful lives. As a result, property, plant and equipment was decreased by \$3.1 million at January 1, 2010 (March 31, 2010 – \$3.9 million, December 31, 2010 – \$2.9 million).

#### **4.4 Provisions**

Under IFRS, the discount rate to be used to calculate liabilities associated with decommissioning costs is a risk-free nominal interest rate compared to a credit-adjusted interest rate used under Canadian GAAP. On adoption of IFRS on January 1, 2010, the decommissioning liabilities were recalculated using a risk-free nominal interest rate which resulted in an increase to property, plant and equipment of \$5.2 million and an increase to the decommissioning liability of \$5.5 million (March 31, 2010 – \$5.2 million and \$5.5 million, December 31, 2010 – \$3.3 million and \$3.5 million).

#### **4.5 Investment in Panda Energy Corporation**

Under IFRS, all equity instruments which have been classified as available-for-sale financial assets (including those that do not trade in an active market) are required to be recorded at fair value. Fair value is determined using discounted cash flow models. Under Canadian GAAP this investment was carried at cost less any impairment charges due to permanent declines in the value of the investment.

#### **4.6 Transaction costs**

Under Canadian GAAP, Northland had been expensing transaction costs relating to financial assets and financial liabilities as incurred. Under IFRS, costs that are directly attributable to the acquisition or the issuance of financial instruments are capitalized (such as loans or debt or equity). Therefore, the cumulative unamortized balance at January 1, 2010 of these costs was reinstated onto Northland's consolidated balance sheet on January 1, 2010. An adjustment to net income for the year ended December 31, 2010 was also recorded as a result.

#### 4.7 Deferred tax

The following table shows the effect of transition adjustments on deferred tax liabilities and movement in deferred tax recognized in income or loss:

In thousands of dollars	December 31, 2010	January 1, 2010
Changes in tax rates	(29,722)	(51,493)
Property, plant and equipment	440	(195)
Financing fees	(879)	(1,188)
Provisions – decommissioning liability	946	1,482
Effect on deferred tax liabilities	(29,215)	(51,394)
Movement in deferred tax liability	(22,179)	
Reclassification from other comprehensive income on discontinuance of hedge accounting [note 4.8]	352	
Movement in deferred tax recognized in income or loss in 2010	(21,827)	

The components of deferred tax assets and liabilities are as follows:

In thousands of dollars	December 31, 2010	January 1, 2010
Loss carryforwards	9,894	8,680
Decommissioning liability	947	2,681
Derivative financial instruments	34,437	9,045
Property, plant and equipment	(100,929)	(86,628)
Goodwill and intangible assets	(49,645)	(88,102)
Other	4,622	2,643
Net deferred tax liabilities	(100,674)	(151,681)

Movement in net deferred tax liabilities:

In thousands of dollars

January 1, 2010 – deferred tax liabilities – net	(151,681)
Recognized in profit/loss	56,504
Other	(5,497)
December 31, 2010 – deferred tax liabilities – net	(100,674)

#### 4.8 Hedge accounting

On transition to IFRS, Northland's net investment in its German wind farms no longer qualified for hedge accounting which resulted in an increase in the deficit of \$0.4 million. For subsequent periods March 31, 2010 and December 31, 2010 the portion of changes in net investment that were previously recorded through accumulated other comprehensive income was re-classified as a loss on the income statement (foreign exchange gain/loss and income tax expense) of \$0.9 million and \$1.2 million respectively.

#### 4.9 Cumulative translation differences

Using the IFRS 1 election, Northland deemed all cumulative translation differences to be \$nil on transition to IFRS which resulted in a reduction in the deficit of \$0.5 million as at January 1, 2010.

#### 4.10 Depreciation expense

As a result of adjustments to property, plant and equipment at the date of transition, depreciation expense for the year ended December 31, 2010 was increased by \$8.4 million and for quarter ended March 31, 2010 by \$0.9 million.

#### 4.11 Discontinued Operations

Under Canadian GAAP, the sale of Miller LP in December 2010 was accounted for as a discontinued operation however; under IFRS, Miller LP was determined not to be a discontinued operation as it did not represent a major line of business. Therefore all income statement account balances grouped previously as "net income for the year – discontinued operations" were re-classified into their respective income statement accounts. For comparative purposes, the Canadian GAAP January 1, 2010 and March 31, 2010 balance sheet accounts include the respective Miller LP results.

### 5. Investment in PEC

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

The fair value of the unquoted ordinary shares of PEC has been estimated using a discounted cash flow model. The valuation requires management to make certain assumptions about the model inputs, including credit risk and volatility. The assumptions used have been determined to be within a range that can be reasonably assessed and are used in management's estimate of the fair value of the equity investment.

## 6. Property, Plant and Equipment

In thousands of dollars

	Land	Buildings and Foun- dations	Plant and Equipment	Vehicles and Mete- orological Towers	Office Equipment Furniture and Fixtures	Computers and Computer Software	Leasehold Improve- ments	Construc- tion in Progress (CIP)	Total
<b>COST</b>									
January 1, 2010	1,066	141,385	686,528	2,388	802	1,483	16,162	465,039	1,314,853
Foreign exchange	—	—	(4,253)	—	—	—	—	—	(4,253)
Additions	825	72	—	431	136	78	82	319,422	321,046
Transfer from CIP	—	—	475,925	97	20	223	13,650	(489,915)	—
Transfer from intangible assets	—	—	—	—	—	—	—	8,847	8,847
Disposals	—	(3,163)	(85,245)	(23)	(18)	(7)	(5,271)	—	(93,727)
December 31, 2010	1,891	138,294	1,072,955	2,893	940	1,777	24,623	303,393	1,546,766
Foreign exchange	—	—	1,044	—	—	—	—	—	1,044
Additions	76	124	1,203	—	7	—	57	90,943	92,410
<b>March 31, 2011</b>	<b>1,967</b>	<b>138,418</b>	<b>1,075,202</b>	<b>2,893</b>	<b>947</b>	<b>1,777</b>	<b>24,680</b>	<b>394,336</b>	<b>1,640,220</b>

continued...

	Office								
	Land	Buildings and Foun- dations	Plant and Equipment	Vehicles and Mete- orological Towers	Equipment Furniture and Fixtures	Computers and Computer Software	Leasehold Improve- ments	Construc- tion in Progress (CIP)	Total
<b>ACCUMULATED DEPRECIATION</b>									
January 1, 2010	–	55,657	219,979	1,056	731	1,333	789	–	279,545
Foreign exchange	–	–	(3,064)	–	–	–	–	–	(3,064)
Depreciation	–	5,028	48,428	308	33	144	1,054	–	54,995
Disposals	–	(799)	(25,528)	(22)	(18)	(8)	(736)	–	(27,111)
December 31, 2010	–	59,886	239,815	1,342	746	1,469	1,107	–	304,365
Foreign exchange	–	–	825	–	–	–	–	–	825
Depreciation	–	1,180	12,005	78	8	42	259	–	13,572
<b>March 31, 2011</b>	<b>–</b>	<b>61,066</b>	<b>252,645</b>	<b>1,420</b>	<b>754</b>	<b>1,511</b>	<b>1,366</b>	<b>–</b>	<b>318,762</b>
<b>NET BOOK VALUE</b>									
January 1, 2010	1,066	85,728	466,549	1,332	71	150	15,373	465,039	1,035,308
December 31, 2010	1,891	78,408	833,140	1,551	194	308	23,516	303,393	1,242,401
<b>March 31, 2011</b>	<b>1,967</b>	<b>77,352</b>	<b>822,557</b>	<b>1,473</b>	<b>193</b>	<b>266</b>	<b>23,314</b>	<b>394,336</b>	<b>1,321,458</b>

An additional \$3.6 million of borrowing costs was capitalized during three month period ended March 31, 2011.

## 7. Contracts and Other Intangible Assets

In thousands of dollars

	Deferred Development Costs	Contracts	Deferred Charges	Total
<b>COST</b>				
January 1, 2010	8,018	323,533	2,203	333,754
Additions	14,642	-	-	14,642
Transfer to property, plant and equipment	(8,847)	-	-	(8,847)
Disposals	(3,383)	(4,336)	(2,203)	(9,922)
December 31, 2010	10,430	319,197	-	329,627
Additions	1,353	-	-	1,353
<b>March 31, 2011</b>	<b>11,783</b>	<b>319,197</b>	<b>-</b>	<b>330,980</b>
<b>AMORTIZATION</b>				
January 1, 2010	-	(60,113)	(481)	(60,594)
Amortization	-	(19,518)	(96)	(19,614)
Disposals	-	1,163	577	1,740
December 31, 2010	-	(78,468)	-	(78,468)
Amortization	-	(5,073)	-	(5,073)
<b>March 31, 2011</b>	<b>-</b>	<b>(83,541)</b>	<b>-</b>	<b>(83,541)</b>
<b>NET BOOK VALUE</b>				
January 1, 2010	8,018	263,420	1,722	273,160
December 31, 2010	10,430	240,729	-	251,159
<b>March 31, 2011</b>	<b>11,783</b>	<b>235,656</b>	<b>-</b>	<b>247,439</b>

## 8. Goodwill

Goodwill acquired through the NPI business combination has been allocated to CGUs that are expected to benefit from the synergies of the acquisition. See the goodwill allocation to CGUs in Note 4.2 and continuity schedule below.

In thousands of dollars

### COST

January 1, 2010	280,167
Additions	6,627
Disposals	(2,168)
December 31, 2010	284,626
Additions	—
Disposals	—
<b>March 31, 2011</b>	<b>284,626</b>

### IMPAIRMENT

January 1, 2010	35,094
Impairment	—
Disposals	—
December 31, 2010	35,094
Impairment	—
Disposals	—
<b>March 31, 2011</b>	<b>35,094</b>

### NET BOOK VALUE

January 1, 2010	245,073
December 31, 2010	249,532
<b>March 31, 2011</b>	<b>249,532</b>

## 9. Convertible Debentures

Since January 1, 2011, a total of \$6.2 million of the 2011 convertible unsecured subordinated debentures and \$6.7 million of the 2014 convertible unsecured subordinated debentures have been converted into Shares. As at March 31, 2011, a total of \$13.9 million of the 2011 convertible unsecured subordinated debentures and \$48.7 million of the 2014 convertible unsecured subordinated debentures were outstanding.

## 10. Provisions

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

Northland has estimated the fair value of its total decommissioning liabilities for its wind farms to be \$7.0 million, based on an estimated total future liability. A discount rate of 3.93% and an inflation rate of 2.5% were used to calculate the fair value of the asset retirement obligations. These decommissioning liabilities relate solely to Northland's wind farms, as 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 for the period ended March 31, 2011:

In thousands of dollars

January 1, 2010	11,162
Accretion	460
Foreign exchange impact	(20)
Disposals	(4,667)
December 31, 2010	6,935
Accretion	70
Foreign exchange impact	4
<b>At March 31, 2011</b>	<b>7,009</b>

## 11. Deferred Income Taxes

The components of income tax expense (recovery) are as follows:

In thousands of dollars	March 31, 2011	March 31, 2010
Current	737	(732)
Deferred	(20,038)	(2,300)
<b>Provision for (recovery of) income taxes</b>	<b>(19,301)</b>	<b>(3,032)</b>

Northland's previous income trust structure required certain temporary differences to be measured at higher deferred tax rates under IFRS. When Northland converted to a corporation on January 1, 2011, Northland re-measured its deferred tax balances in accordance with IFRS Standing Interpretations Committee ("**SIC**") Standards – 25 'Changes in Tax Structure of an Entity' using the tax rates applicable to a corporation. Therefore, for the three months ended March 31, 2011 Northland recorded a \$20 million deferred tax recovery due to the rates applicable to a corporation.

## 12. Equity

### 12.1 Preferred Shares

During the quarter ended March 31, 2011, \$2 million of Series 1 Preferred Share dividends were paid, excluding taxes.

### 12.2 Shares (Units prior to January 1, 2011)

As described in Note 1, Northland's Units were converted to Shares on January 1, 2011 when Northland converted to a corporation. Northland is authorized to issue an unlimited number of Shares.

Northland has a LTIP that provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees, officers and consultants of Northland and its subsidiaries. As at March 31, 2011, no Shares had been granted pursuant to Northland's LTIP.

The change in Units/ Shares during 2011 and 2010 was as follows:

In thousands of dollars except for Units/Shares	Number of Units/Shares	Amount
Outstanding as of January 1, 2010	71,371,130	761,217
Conversion of convertible unsecured subordinated debentures during 2010	3,663,468	45,558
Outstanding as of December 31, 2010	75,034,598	806,775
Conversion of convertible unsecured convertible debentures during 2011	1,034,654	12,890
<b>Outstanding as of March 31, 2011</b>	<b>76,069,252</b>	<b>819,665</b>

### 12.3 Convertible Shares

#### Class A Shares

Northland has recorded the value of the Class A Units/ Shares at the NPI acquisition date and for subsequent periods, January 1, 2010 and at December 31, 2010 at the estimated fair value with reference to Northland's Unit/ Share price at each reporting period end date, as disclosed in Notes 4(f) and 4(h). Upon corporatization, the Class A Shares were re-classified as equity and measured based on Northland's January 1, 2011 Share price.

The Class A Shares/Units have been classified as follows:

In thousands of dollars except for Shares	Issued	March 31, 2011	December 31, 2010	January 1, 2010
<i>Classification</i>		<i>Equity</i>	<i>Liability</i>	<i>Liability</i>
Class A Shares/Units	25,645,598	<b>374,850</b>	374,850	255,550

#### Class C Shares

Northland has recorded the value of the Class C Units/ Shares at the NPI acquisition date and for subsequent periods, January 1, 2010 and at December 31, 2010 at the estimated fair value with reference to Northland's Unit/ Share price at each reporting period end date, as disclosed in Note 4(f) and 4(h). Similar to Class A Shares, upon corporatization the Class C Shares were re-classified as equity and measured based on Northland's January 1, 2011 Share price.

The Class C Shares/Units have been classified as follows:

In thousands of dollars except for Shares	Issued	March 31, 2011	December 31, 2010	January 1, 2010
<i>Classification</i>		<i>Equity</i>	<i>Liability</i>	<i>Liability</i>
Class C Shares/Units	8,496,078	<b>124,183</b>	124,183	84,660

### Class B Shares

Northland has recorded the value of the Class B Units/Shares at the NPI acquisition date and for subsequent periods, at January 1, 2010 and at December 31, 2010 at the estimated fair value with reference to Northland's Unit price as disclosed in Note 4(f) and 4(h).

At March 31, 2011, the Class B Shares continue to be classified as a liability and are re-measured based on Northland's Share price.

The Class B Shares/Units have been classified as follows:

In thousands of dollars except for Shares	Issued	<b>March 31, 2011</b>	December 31, 2010	January 1, 2010
<i>Classification</i>		<i>Liability</i>	<i>Liability</i>	<i>Liability</i>
Class B Shares/Units	8,067,723	<b>122,227</b>	117,922	80,392

### 12.4 Replacement Rights

Northland has recorded the value of the Replacement Rights at the NPI acquisition date and for subsequent periods, January 1, 2010 and at December 31, 2010 at the estimated fair value with reference to Northland's Unit/Share price at each reporting period end date, as disclosed in Note 4(f) and 4(h). Similar to Class A Shares and Class C Shares, upon corporatization, the Replacement Rights were re-classified as equity and measured based on Northland's January 1, 2011 Share price.

The Replacement Rights have been classified as follows:

In thousands of dollars except for Shares	Issued	<b>March 31, 2011</b>	December 31, 2010	January 1, 2010
<i>Classification</i>		<i>Equity</i>	<i>Liability</i>	<i>Liability</i>
Replacement Rights	6,032,191	<b>88,169</b>	88,169	60,108

### 12.5 Special Voting Units

Coincident with the NPI merger, Special Voting Units of Northland were issued pursuant to the Trust Indenture. A total of 25,645,598 Special Voting Units were issued to holders of Class A Units and 8,496,078 to holders of Class C Units. Each Special Voting Unit entitled the holder of record thereof to one vote at all meetings of Shareholders or in respect of any written resolution of Shareholders. Special Voting Units were cancelled upon corporatization effective January 1, 2011. Each Class A Share and each Class C Share now carries one vote per Share at all meetings of Northland Shareholders.

### 13. Finance Income and Finance Costs

In thousands of dollars	Three months ended March 31, 2011	Three months ended March 31, 2010
<b>FINANCE INCOME</b>		
Interest income	176	25

In thousands of dollars	Three months ended March 31, 2011	Three months ended March 31, 2010
<b>FINANCE COSTS</b>		
Interest on debts, borrowings and bank fees	12,473	6,979
Discount on provisions for decommissioning liability	70	117
Amortized transaction costs	305	326
	<b>12,848</b>	<b>7,422</b>

### 14. Earnings (Loss) per Share/Unit

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

The reconciliation of the numerator in calculating diluted net income for the three month period ending March 31 is as follows:

In thousands of dollars	2011	2010
Net income (loss) attributable to ordinary equity holders		
of Northland for basic earnings	53,339	(61,545)
Add back: convertible subordinated debentures interest and amortization	1,101	—
<b>Net income (loss) attributable to ordinary equity holders of Northland adjusted for the effect of dilution</b>	<b>54,440</b>	<b>(61,545)</b>

The reconciliation of the denominator in calculating basic and dilute per Share/Unit amounts for the period ending March 31 is as follows:

In number of Shares	2011	2010
Weighted average number of Shares/Units outstanding	75,484,217	71,373,244
Weighted average number of Class A Shares	25,645,598	—
Weighted average number of Class C Shares	8,496,078	—
Weighted average number of Replacement Rights	6,032,191	—
<b>Weighted average number of Shares/Units outstanding, basic</b>	<b>115,658,084</b>	<b>71,373,244</b>
Effect of dilutive securities:		
Exchangeable securities	8,067,723	—
Convertible unsecured subordinated debentures	5,615,979	—
<b>Weighted average number of Shares/Units outstanding, diluted</b>	<b>129,341,786</b>	<b>71,373,244</b>

The inclusion of the exchangeable securities and the conversion of the convertible unsecured subordinated debentures is anti-dilutive for the three months ended March 31, 2010 and have therefore been excluded from the calculation of the weighted average number of Units, diluted.

## 15. Operating Segment Information

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

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

In thousands of dollars

### Three months ended

March 31, 2011	Thermal	Wind	Other <sup>(1)</sup>	Eliminations <sup>(2)</sup>	Total
External revenue	87,389	7,845	1,037	–	96,271
Inter-segment revenue	–	–	362	(362)	–
<b>Total revenue</b>	<b>87,389</b>	<b>7,845</b>	<b>1,399</b>	<b>(362)</b>	<b>96,271</b>
Depreciation of property, plant and equipment	9,508	3,966	98	–	13,572
Finance costs (net)	8,656	2,606	1,410	–	12,672
<b>Segment operating income</b>	<b>31,666</b>	<b>2,072</b>	<b>(3,714)</b>	<b>–</b>	<b>30,024</b>

(1) Included in "other" are revenues and operating income from Northland's wood chipping facility, management fees from operating third-party facilities, investment income from PEC and management, administration and development expenditures. Also included are projects under construction that will be transferred to the appropriate segment once commercial operations have begun.

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

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In thousands of dollars

Three months ended

March 31, 2010	Thermal	Wind	Other <sup>(1)</sup>	Eliminations <sup>(2)</sup>	Total
External revenue	53,532	8,481	1,032	—	63,045
Inter-segment revenue	—	—	2,014	(2,014)	—
Total revenue	53,532	8,481	3,046	(2,014)	63,045
Depreciation of property, plant and equipment	5,218	5,160	108	—	10,486
Finance costs (net)	1,736	3,254	2,407	—	7,397
Segment operating income	20,319	1,474	(1,786)	—	20,007

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(1) Included in "other" are revenues and operating income from Northland's wood chipping facility, management fees from operating third-party facilities, investment income from PEC and management, administration and development expenditures. Also included are projects under construction that will be transferred to the appropriate segment once commercial operations have begun.

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

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

In thousands of dollars

March 31, 2011	Thermal	Wind	Other <sup>(1)</sup>	Total
Investment in PEC	—	—	5,200	5,200
Property, plant and equipment	716,263	204,266	400,929	1,321,458
Contracts and other intangibles, net	154,567	1,729	91,143	247,439
Goodwill	62,091	8,179	179,262	249,532
<b>Total assets</b>	<b>1,034,300</b>	<b>256,154</b>	<b>784,255</b>	<b>2,074,709</b>

In thousands of dollars

December 31, 2010	Thermal	Wind	Other <sup>(1)</sup>	Total
Investment in PEC	—	—	5,500	5,500
Property, plant and equipment	725,732	208,010	308,659	1,242,401
Contracts and other intangibles, net	158,585	1,777	90,797	251,159
Goodwill	62,091	8,179	179,262	249,532
<b>Total assets</b>	<b>1,043,766</b>	<b>259,093</b>	<b>721,056</b>	<b>2,023,915</b>

In thousands of dollars

January 1, 2010	Thermal	Wind	Other <sup>(1)</sup>	Total
Investment in PEC	—	—	5,600	5,600
Property, plant and equipment	271,259	296,708	467,341	1,035,308
Contracts and other intangibles, net	95,666	7,079	170,415	273,160
Goodwill	19,650	3,720	221,703	245,073
<b>Total assets</b>	<b>457,767</b>	<b>366,977</b>	<b>999,702</b>	<b>1,824,446</b>

(1) Included in "other" are assets from Northland's wood chipping facility, managed facilities, investment income from PEC and deferred development costs. Also included are projects under construction that will be transferred to the appropriate segment once commercial operations have begun.

Information on operations by geographic area is as follows:

<b>In thousands of dollars</b>	<b>Three months ended March 31, 2011</b>	Three months ended March 31, 2010
<b>Sales</b>		
Canada	<b>95,206</b>	61,928
Germany	<b>1,065</b>	1,117
Total sales	<b>96,271</b>	63,045

<b>Property, plant and equipment, net</b>	<b>March 31, 2011</b>	December 31, 2010	January 1, 2010
Canada	<b>1,314,530</b>	1,235,083	1,024,311
Germany	<b>6,928</b>	7,318	10,997
Total property, plant and equipment, net	<b>1,321,458</b>	1,242,401	1,035,308

As at March 31, 2011, all of Northland's assets and sales were located in Canada and Germany with the exception of the investments in, and income from PEC which is in the United States. All of Northland's reported goodwill relates to operating segments located in Canada and Germany.

## 16. Manager's Compensation and Related Party Disclosures

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Fees are earned from entities not consolidated with Northland's results, and as a result are reported in Northland's consolidated statements of income and deficit as "other." During the period ended March 31, 2011, Northland received fees of \$0.7 million (2010 – \$0.5 million). These fees include natural gas management fees, performance incentive fees and lease revenue.

Northland's is entitled to balances receivable from these entities totaling \$2.1 million as of March 31, 2011, \$0.6 million as of December 31, 2010 and \$0.8 million as of January 1, 2010.

Joint venture in which Northland is a venturer

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

Terms and conditions of transactions with related parties

The sales and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the quarter ended March 31, 2011, Northland has not recorded any impairment of receivables relating to amounts owed by related parties (2010 – \$nil). The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Transactions with shareholders

There were no related party transactions during the three month period ending March 31, 2011 with shareholders of Northland.

## 17. Post-reporting Date Events

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No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization other than on May 31, 2011 Northland renewed and amended its corporate line of credit to \$250 million from \$130 million. The credit facility was renewed until May 2015.

## 18. Authorization of Consolidated Financial Statements

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The interim consolidated financial statements for the period ended March 31, 2011 (including comparatives) were approved by the Board of Directors on June 13, 2011.

### Directors and Officers of Northland Power Inc.

#### Directors

Mr. James C. Temerty

The Right Honourable  
John N. Turner

Ms. Linda L. Bertoldi

Dr. Marie Bountrogianni

Mr. Sean Durfy

Mr. Pierre R. Gloutney

Mr. V. Peter Harder

#### Officers

Mr. John W. Brace  
President and Chief Executive Officer

Mr. Paul J. Bradley  
Chief Financial Officer

Mr. Salvatore Mantenuto  
Chief Operating Officer and  
Chief Development Officer

Mr. Anthony F. Anderson  
Chief Investment Officer

Mr. Michael D. Shadbolt  
Vice President and General Counsel

Ms. Linda L. Bertoldi  
Secretary

Mr. Gemi (Jim) Cipolla  
Vice President, Gas and Electricity Marketing

Mr. David Dougall  
Vice President, Operations

Mr. Dino Gliosca  
Vice President, Engineering

## Information

### Registrar and Transfer Agent

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

### Common Shares and Debentures

Northland common shares and convertible debentures are listed on the Toronto Stock Exchange and trade under the symbols NPI, NPI.DB and NPI.DB.A, respectively.

### Preferred Shares

Northland preferred shares are listed on the Toronto Stock Exchange and trade under the symbol NPI.PR.A.

### Tax Consideration

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

### For further information contact

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