

**NORTHLAND POWER INC.  
(formerly Northland Power Income Fund)**

**ANNUAL INFORMATION FORM**

For the year ended December 31, 2010

**March 31, 2011**

**NORTHLAND POWER INC.  
(formerly Northland Power Income Fund)**

**ANNUAL INFORMATION FORM**

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All capitalized terms used in this Annual Information Form have the meanings assigned to them under the heading “Glossary of Terms”, unless otherwise defined. All currency amounts in this Annual Information Form are in Canadian dollars unless otherwise indicated.

**In this Annual Information Form, “Northland” means, prior to January 1, 2011, Northland Power Income Fund, and, after January 1, 2011, Northland Power Inc., the corporation resulting from the corporate conversion of the Fund pursuant to the terms of the Arrangement.**

## **FORWARD LOOKING STATEMENTS**

*Certain statements in this Annual Information Form 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 for 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 “Management’s Discussion and Analysis” of Northland Power Income Fund’s 2010 Annual Report and under “Risk Factors” of this Annual Information Form. 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 Annual Information Form are based on assumptions that were considered reasonable at the time it was completed on March 31, 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 statement 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.*

## **CORPORATE STRUCTURE**

### **THE FUND**

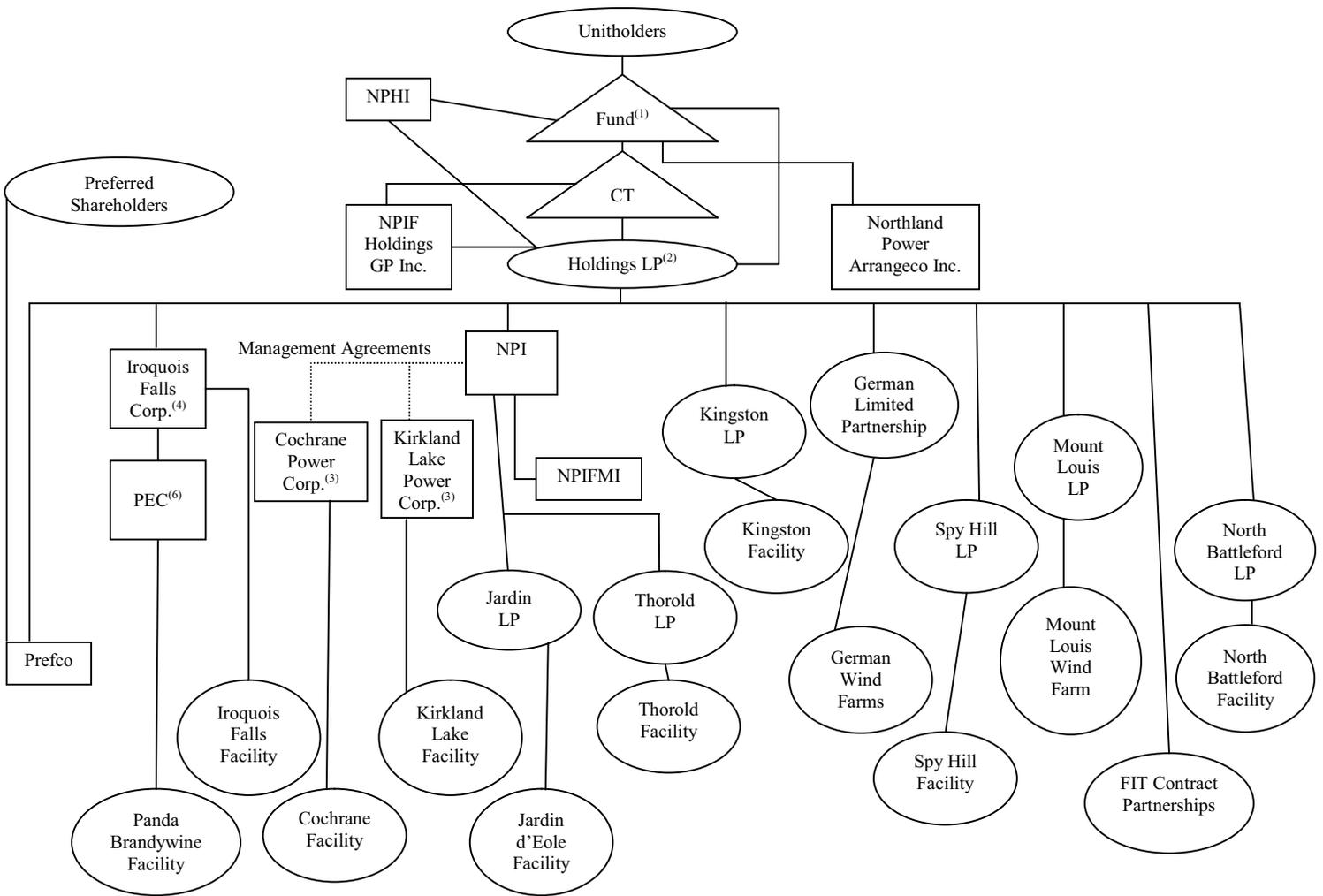
The Fund was an unincorporated open-ended trust, established under the laws of the Province of Ontario pursuant to the Original Fund Trust Indenture. The Fund Trust Indenture amended, restated and replaced the Original Fund Trust Indenture, effective as of July 16, 2009. The head and principal office of Northland is located at 30 St. Clair Avenue West, 17th Floor, Toronto, Ontario, M4V 3A1.

On January 1, 2011, Northland converted from an income trust to a corporation pursuant to the Arrangement. Under the Arrangement, the Fund’s trust units (the “Units”) were exchanged for

common shares (the “**Common Shares**”) of Northland Power Inc. on a one-for-one basis and trade under the TSX symbol NPI (the previous symbol was NPI.UN). As a corporation, management intends to maintain an annual dividend of \$1.08 per Common Share, which is the same as the previous annual rate of distributions on the Units.

**ORGANIZATION**

The following chart illustrates the organizational structure of the Fund and its principal subsidiaries as of December 31, 2010 (ownership interest is 100% except as indicated in the footnotes). The organizational chart excludes a number of development projects and certain general partners and holding companies which were all wholly-owned directly or indirectly by the Fund.



Notes:

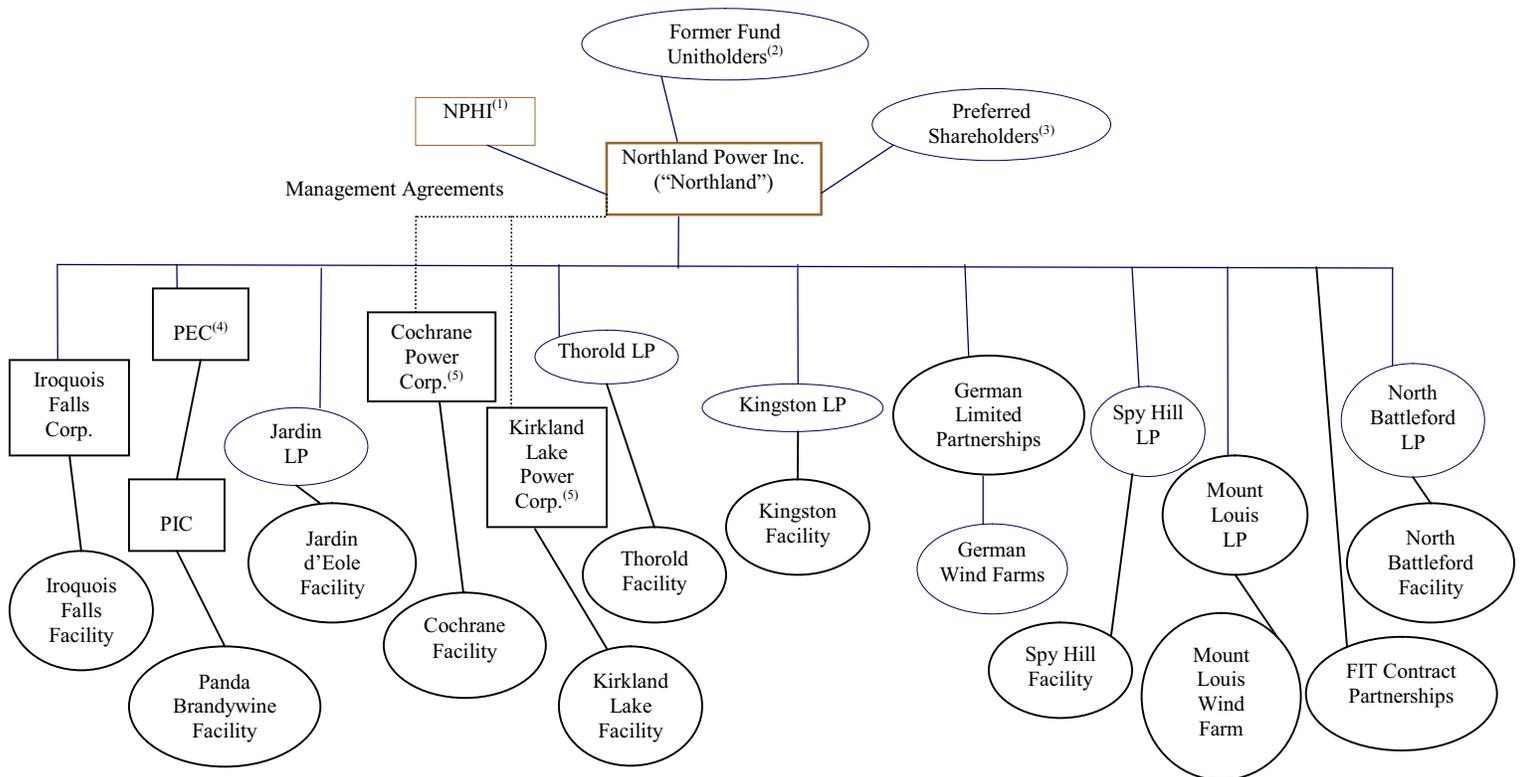
1. NPHI, a corporation indirectly owned by James C. Temerty, owned 34,141,676 Special Voting Units, representing a voting interest of 32.3% in the Fund. Mr. Temerty also beneficially owned or had control or direction over Fund Units, representing an additional voting interest of 4.9%, for a total of 37.2%.
2. CT owned the general partnership interest and, with the Fund, owned 71,496,153 Ordinary Units representing a 74% ownership interest in Holdings LP, although the Ordinary Units entitled CT to 100% of the distributions from Holdings LP until January 16,

2012. NPHI owned 25,645,598 Class Units, representing a 26% ownership interest and, after January 16, 2012, entitlement to distributions. NPHI also owned 8,067,723 Class B Units and 8,496,078 Class C Units which were convertible into Class A Units on a one-for-one basis upon the satisfaction of certain conditions related to the development activities of the Fund.

3. Cochrane Power Corp. and Kirkland Lake Power Corp. are owned by arm's length institutional investors. NPI, as manager, received lease and base management payments and expects in the future to receive a performance incentive fee equal to 75% of cash flow of the applicable corporation.
4. Iroquois Falls Corp. owns a 19% interest in PEC. The balance is owned by an arm's length third party.

The Fund and CT were trusts established under the laws of the Province of Ontario. Holdings LP, Kingston LP, Thorold LP, Spy Hill LP and Northland Battleford LP are limited partnerships established under the laws of the Province of Ontario. Jardin LP and Mount Louis LP are limited partnerships established under the laws of the Province of Quebec. The German Limited Partnerships are limited partnerships established under the laws of Germany. Iroquois Falls Power Corp., Cochrane Power Corp., Kirkland Lake Power Corp. and NPI are corporations incorporated under the laws of the Province of Ontario. PEC is a corporation incorporated under the laws of Texas.

Pursuant to the Arrangement, a number of entities wound-up or amalgamated. The following diagram illustrates the organizational structure of Northland as of January 1, 2011 following the Arrangement and its principal subsidiaries (ownership interest is 100% except as indicated in the footnotes).



Notes:

1. NPHI, a corporation indirectly owned by James C. Temerty, owns 25,645,598 Class A Shares, 8,067,723 Class B Convertible Shares and 8,496,078 Class C Convertible Shares, representing a voting interest of 32.3% in Northland. Mr. Temerty also beneficially owns or has control or direction over Common Shares, representing an additional voting interest of 4.9%, for a total of 37.2%.

2. Former holders of outstanding Units of the Fund own the Common Shares of Northland.
3. Former holders of outstanding Series 1 Preferred Shares of Prefco own the Series 1 Preferred Shares of Northland.
4. Northland owns a 19% interest. The balance is owned by an arm's length third party.
5. Cochrane Power Corp. and Kirkland Lake Power Corporation are owned by arm's length institutional investors. Northland, as manager, receives lease and base management payments and expects in the future to receive a performance incentive fee equal to 75% of cash flow of the applicable corporation.

## GENERAL DEVELOPMENT OF THE BUSINESS

### **Corporatization and Internal Reorganization of Northland Power Inc.**

On January 1, 2011, Northland converted from an income trust to a corporation. Northland's business is now carried on by Northland Power Inc., a corporation amalgamated under the *Business Corporations Act* (Ontario). Pursuant to the Arrangement, the Units of the Fund were exchanged for Common Shares of Northland on a one-for-one basis and trade under the TSX symbol NPI (the previous symbol was NPI.UN). Prefco was amalgamated with Northland, with the result that its Series 1 Preferred Shares are now Series 1 Preferred Shares of Northland and continue to trade under the symbol NPI.PR.A. The two series of the Fund'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 Arrangement is described in detail in the Fund's Notice of Annual and Special Meeting and Management Information Circular dated May 20, 2010, which has been posted on SEDAR, at [www.sedar.com](http://www.sedar.com), and on Northland's website, [www.northlandpower.ca](http://www.northlandpower.ca).

### **Sale of Miller LP**

On December 16, 2010, Northland sold 100% of its investment in Miller LP to NextEra Energy Canada.

### **Development of the Fund's Projects**

The development of the Fund's projects over the last three completed financial years includes the following:

- Construction of the Thorold Facility was completed following completion of all permitting and financing and the Thorold Facility attained COD in 2010. Thorold LP repaid the subordinated debt used in part to fund the construction of the Thorold Facility in late 2010.
- Construction of the Jardin d'Eole Facility was completed and COD attained in 2009.
- Spy Hill LP was awarded a PPA to build the Spy Hill Facility in 2009. Financing was completed and construction of the Spy Hill Facility commenced in 2010.
- North Battleford LP was awarded a PPA to build the North Battleford Facility in 2010. Financing was completed and construction of the North Battleford Facility commenced later in 2010.
- Financing was completed and construction of the Mount Louis Wind Farm commenced in 2010.

- Northland and Loblaw are working together to install photovoltaic solar panels on the roofs of four Loblaw's stores as a pilot project. The projects have PPAs under the OPA's FIT Program. Construction on two of the four Loblaw's stores commenced in 2010.
- In 2010, Northland executed PPAs to build 216 MW of renewable green energy projects under the OPA's FIT program.
- Northland was awarded a PPA in 2010 to build and operate a 24 MW wind farm near Frampton, Quebec.

See "Narrative Description of the Business – The Fund's Facilities".

### **Issuance of Preferred Shares**

In July 2010, Prefco, a wholly-owned subsidiary of the Fund, raised \$150 million through the sale of 6,000,000 Cumulative Rate Reset Preferred Shares, Series 1 (the "**Series 1 Preferred Shares**") at \$25.00 per share for gross proceeds of \$150 million (net \$144.8 million). Dividends on the Series 1 Preferred Shares were guaranteed by the Fund.

Pursuant to the Arrangement, the Series 1 Preferred Shares of Prefco were converted on January 1, 2011 into Series 1 Preferred Shares of Northland on a one-for-one basis having the same rights, privileges, restrictions and conditions.

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

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

### **Public Offering**

On October 15, 2009, the Fund raised an aggregate of \$161.4 million through the issuance of 6.7 million Units and \$92 million principal amount of 6.25% unsecured subordinated debentures convertible into Units at \$12.42 per Unit until December 31, 2014 and redeemable by the Fund under certain circumstances.

### **Acquisition of NPI**

On July 16, 2009, the Merger occurred whereby the Fund indirectly acquired NPI. The Merger was approved by the requisite majorities of the Fund's Unitholders on July 16, 2009. The Merger was paid for largely with securities of Holdings LP that were exchangeable or convertible into Units of the Fund on or after January 16, 2012, and did not receive cash distributions until that date. The conversion of some of those securities was contingent on the Fund recognizing value for the development portfolio NPI brought to the Merger.

The Merger internalized management and created significant positive alignment through management's voting ownership of approximately 38% of the Fund, potentially increasing to as much as 45% if all exchangeable and convertible securities were converted to Units. As a result of the Arrangement, these exchangeable and convertible securities of Holdings LP have become Class A Shares, Class B Convertible Shares and Class C Convertible Shares of Northland.

### **Trust Indenture Amendments**

Coincident with the Merger, amendments were made to the Fund Trust Indenture to provide for, among other things:

- (a) the creation, issuance, redemption and cancellation of Special Voting Units;
- (b) the replacement of Computershare as Fund Trustee so that individual trustees would serve at both the Fund and CT levels;
- (c) the change to the number of trustees of the Fund so that there were a minimum of five and a maximum of seven, as determined by the Fund Trustees (with an initial number of six trustees) and allowing for the Fund Trustees to also serve as CT Trustees;
- (d) the provision of special governance rights to NPHI so that it was entitled to appoint (i) so long as NPHI is controlled by James C. Temerty, (A) up to 3 out of 7, or 2 out of 5 or 6, as applicable, of the Fund Trustees if it and James C. Temerty collectively held not less than 15% of the aggregate number of Units and Class A Units, taken together, and (B) up to 2 out of 5, 6 or 7 of the Fund Trustees if it and James C. Temerty collectively held not less than 10% of the aggregate number of Units and Class A Units, taken together, and (ii) so long as NPHI was controlled by Temerty Parties (A) up to 3 out of 7 or 2 out of 5 or 6, as applicable, of the Fund Trustees so long as NPHI and the Temerty Parties collectively held not less than 20% of the aggregate number of Units and Class A Units, taken together and (B) up to 2 out of 5, 6 or 7 of the Fund Trustees if it and the Temerty Parties collectively held not less than 15% of the aggregate number of Units and Class A Units, taken together;
- (e) the provision of pre-emptive rights to NPHI with respect to the Fund as long as James C. Temerty and/or Temerty Parties controlled NPHI, and NPHI, James C. Temerty and/or Temerty Parties collectively held, directly or indirectly, not less than 20% of the aggregate number of Units and Class A Units, taken together;
- (f) the internalization of the management of the Fund and the consequent transfer of certain powers from the Manager to the Fund Trustees and officers of the Fund under the Fund Trust Indenture; and

- (g) authorization to establish a new long-term incentive plan for officers, consultants and employees of the Fund.

Amendments to the CT Supplemental Trust Indenture were also made to provide for, among other things:

- (a) the change of the number of CT Trustees to a minimum of five and a maximum of seven, as determined by the CT Trustees (with an initial number of six) and allowing for the CT Trustees to serve as Fund Trustees;
- (b) that the CT Trustees would be appointed by the Fund; and
- (c) the internalization of the management of CT and the consequent transfer of certain powers from the Manager to the CT Trustees and officers of CT under the CT Supplemental Trust Indenture.

#### **Investment in PEC**

In September 2008, the Fund received, after withholding tax, a one-time dividend of US\$6.9 million (\$7.3 million) from PEC largely associated with transactions that were entered into among Panda-Brandywine, L.P., PEPCO and Sempra whereby the PEPCO PPA was replaced by a new PPA with Sempra. In addition, Sempra acquired the existing Panda-Brandywine Facility capital lease as part of the transaction.

The Fund also received a restructuring fee of US\$1.3 million (\$1.4 million) related to the senior loan to PIC. The restructuring fee was netted against the senior loan balance and will be recognized in income over the life of the loan. A debt service reserve account of US\$2.5 million was established by PIC exclusively for the Fund's senior loan. The other terms of the existing senior loan to PIC, including the interest rate of 10.9% and repayment by 2021, were unchanged.

On May 27, 2010, the outstanding loan balance on the PIC senior loan was repaid in full. The prepayment arose as a result of Panda-Brandywine, L.P. receiving a payment from Sempra in consideration for changes to the Panda-Brandywine, L.P. PPA. In addition to the outstanding principal, Northland received a prepayment fee of US\$4.9 million (\$5.2 million) and a special one-time dividend in the amount of US\$2.4 million (\$2.5 million) that was indirectly related to changes to the PPA. The remaining balance of the September 2008 restructuring fee (\$1.2 million) was recognized into income commensurate with the loan repayment. As at December 31, 2010, Northland retains a 19% interest in PEC.

Due to the change in the PPA at the Panda-Brandywine Facility, Northland considered its equity investment in PEC to have an other-than-temporary decline in value. This resulted in an impairment charge of \$0.3 million to reflect management's best estimate of the fair value of the investment at \$5.8 million.

Northland received from PIC a loan administration fee of US\$0.1 million and a manager's fee of US\$75,000 per annum, adjusted annually since 2004 to reflect changes in the U.S. consumer price index. During the year ended December 31, 2010, Northland received \$0.1 million (2009 – \$0.3 million) related to the PIC loan administration and manager's fees. As a result of the

prepayment of the outstanding PIC senior loan balance in May 2010, Northland no longer receives a loan administration fee from PIC.

### **\$130 million Bank Credit Facility**

The Fund and Iroquois Falls Corp. entered into a credit facility with Canadian Imperial Bank of Commerce as agent for a syndicate of banks on May 24, 2002. The facility was subsequently amended and restated several times and most recently in April 2010. The credit facility provides a \$130 million line of credit facility (increased from \$95 million on November 26, 2009) with sub-limits, to assist in the funding of capital expenditures, acquisitions and investments by the Fund; letters of credit; and for Iroquois Falls Corp.'s general corporate purposes. The credit agreement expires on May 20, 2012, but is subject to an annual renewal at the discretion of the Fund. As at December 31, 2010, outstanding letters of credit totalled \$82.8 million (2009- \$25.7 million) and drawings of \$nil (2009 - \$nil) were outstanding.

The credit facility remains in effect for the benefit of Northland following completion of the Arrangement.

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

### **Ontario Industry Overview**

The Ontario electricity industry has seen considerable change and refinement since the opening of the electricity market in 2002. These changes have included the imposition of price caps, rebates, regulated price plans, the establishment of prices for OPG generating assets and the creation of the OPA. The OPA was established in 2005 to undertake long-term planning and procure new generation if the market could not provide the required capacity across various sources of generation.

The OPA has conducted a number of procurement processes for natural gas-fired generation to which NPI has responded. Thorold LP was awarded the long-term PPA for the Thorold Facility in the OPA's RFP for 1,000 MW of combined heat and power projects. The OPA will continue procurements for natural gas projects and other technologies either through an RFP process or direct negotiation as directed by the Minister of Energy and Infrastructure ("**Minister**")

In 2009, the *Green Energy and Green Economy Act, 2009* ("**GEA**") was passed into law and the OPA was directed by the Minister of Energy and Infrastructure to launch the FIT Program. The FIT Program is North America's first comprehensive guaranteed pricing structure for renewable electricity production. It offers stable prices under long-term contracts for energy generated from renewable sources, including biomass, wind, solar photovoltaic ("**PV**") and waterpower. Domestic content requirements for the program have also been established. FIT payments range from 10.3 cents/kWh for landfill gas projects larger than 10 MW to 80.2 cents/kWh for solar rooftop projects 10 kW or smaller. The OPA began accepting FIT applications in October, 2009.

In March and April of 2010 the OPA announced the awarding of 510 contracts for mid-scale FIT projects (10 kW to 500 kW) and a further 184 contracts for large FIT projects (greater than 500 kW). In the large FIT project category Northland was awarded contracts with a total capacity of 216 MWs, 130 MW from 13 ground-mounted solar projects located across the province, the 60 MW Manitoulin Island wind farm in partnership with the entities associated with the United

Chiefs and Councils of Mnídoo Mnising (“UCCMM”) and 26 MW from four run-of-river hydro projects on the Kabinakagami River in partnership with Constance Lake First Nation.

In November 2010, the Minister of Energy released the draft Supply Mix Directive and LTEP. Key features of the LTEP include eliminating coal-fired generation from the supply mix by 2014; commitments to refurbish various nuclear facilities along with building new nuclear facilities at Darlington; continuing to grow hydroelectric capacity; commitments towards a combined heat and power program and setting a target of 10,700 MW of wind, solar and bioenergy by 2018. As part of the release of the draft Supply Mix Directive and LTEP, the Minister of Energy issued a number of Directives to the OPA including negotiating new contracts with Non-Utility Generators (upon expiry of such contracts with OEFC); procuring combined heat and power projects through a standard offer program for projects less than 20 MW and individually negotiating CHP Contracts with projects over 20 MW. In late 2010 the Minister of Energy requested that Hydro One advance work and expedite three of the five transmission projects identified in the draft Supply Mix Directive. Management will continue to monitor the various directives, RFPs and programs issued by the OPA for potential opportunities for Northland.

Late in 2010 the Ministry of Environment proposed amendments to the REA process to take effect in 2011 which included among other things changes relating to noise receptors and setback requirements for wind facilities. Other changes proposed included changes relating to greater public notifications and clarifying municipal consultation requirements.

### **Quebec Industry Overview**

The electricity industry in Quebec is structured around Hydro-Québec, a corporation incorporated through provincial statute and the Régie de l'énergie (“**Régie**”) as the regulator.

The Régie is responsible for reconciling the public interest, consumer protection and the fair treatment of electricity carriers and distributors. The Régie is also responsible for approving the supply plan of the distribution arm of Hydro-Québec. The supply plan includes a forecast of the needs of the Quebec market over the next ten (10) year period recognizing the heritage electricity pool of generation (165 TWh) provided by Hydro-Québec Production, a division of Hydro-Québec, the generating arm of Hydro-Québec. To meet demand in excess of the heritage electricity pool, the distribution arm of Hydro-Québec must enter into supply contracts by conducting public calls for tenders.

Under its governing statute Hydro-Québec, one of the largest electric utilities in North America, has broad powers to generate, supply and deliver electricity in Quebec. In 2005, Hydro-Québec signed contracts with independent power producers for almost 1,000 MW of wind power. In 2008, Hydro-Québec signed 15 contracts for a total of 2004.5 MW of wind power for deliveries commencing between 2011 and 2015, although one of those contracts was subsequently cancelled. The Fund's Jardin d'Éole Facility and Mont-Louis project received long term contracts with Hydro-Québec Distribution, a division of Hydro-Québec, in 2005.

Late in 2010, Northland announced that it had been awarded a 20-year PPA to build and operate a 24 MW wind farm near Frampton, Quebec, near the south shore of the St. Lawrence. The contract was awarded by Hydro-Québec under its call for tenders issued April 2009 for the purchase of wind power from aboriginal and community projects.

### **Saskatchewan Industry Overview**

Most of the Saskatchewan electricity market is served by SaskPower, a Crown corporation, which is a vertically-integrated utility which operates under the authority of the *Power Corporation Act* (Saskatchewan).

Coal-fired generation is the primary component in Saskatchewan's supply mix. With an ageing infrastructure and evolving regulation regarding climate change and environmental issues, SaskPower has assessed alternative forms of generation and its approach in partnering with independent power producers, which would enable it to move towards meeting its new load requirements and environmental goals.

SaskPower's electrical load forecast is growing above long-term averages due to increased economic activity in the province. With a significant percentage of SaskPower's generation assets needing refurbishment or replacement from 2013, the corporation is assessing and implementing many future supply options including the private ownership of generation facilities. To that end, in 2009 SaskPower conducted an RFP for between 200 MW and 400 MW of new intermediate to baseload generation and another RFP for up to 100 MW of peaking generation. The Spy Hill Facility and the North Battleford Facility were awarded PPAs in those processes.

SaskPower is currently undertaking a number of other projects with independent power developers including a RFP for up to 175 MW of wind generation and hydroelectric projects under its Green Options Plan. Management will continue to monitor these RFPs, plans and other developments in Saskatchewan for any opportunities that they may create for Northland.

### **THE FUND'S FACILITIES**

Northland owns or has an economic interest in nine power projects totalling over 1,050 MW (net 815 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 PPAs with creditworthy customers to assure 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 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 is entitled to receive a fee for services provided relating to the operation and management of the Kirkland Lake Facility pursuant to a management agreement expiring in 2041. Under the terms of the agreement, fees are adjusted annually on March 1 for changes in the Ontario consumer price index. Northland also acts as Kirkland Lake Corp.'s agent to facilitate natural gas purchases and sales and receives a fee for such services. For the year ending

December 31, 2010, Northland earned \$0.9 million (2009 – \$0.5 million) in management fees and \$0.2 million (2009 – \$0.1 million) in natural gas management fees. Northland also leases the land and existing buildings where the Kirkland Lake Facility is situated under a lease agreement that expires in 2041. During the year Northland earned lease revenue of \$60,000 (2009 – \$30,000).

Northland is entitled to receive a fee for services provided relating to the operation and management of the Cochrane Facility pursuant to a management agreement expiring in 2016 with automatic annual renewals. The management agreement may be extended beyond the initial term at the option of Cochrane Power Corp. Under the terms of the agreement, fees are adjusted annually on March 1 for changes in the Ontario consumer price index. Northland also acts as Cochrane Power Corp.'s agent to facilitate natural gas purchases and sales and receives a fee for such services. For the year ending December 31, 2010, Northland earned \$0.4 million (2009 – \$0.2 million) in management fees and \$0.2 million (2009 – \$0.1 million) in natural gas management fees. Northland also leases the land and existing buildings where the Cochrane Facility is situated under a lease agreement that expires in 2016 with automatic annual renewals. The lease agreement may be extended beyond the initial term at the option of Cochrane Power Corp. Under the terms of the lease agreement, lease payments are adjusted annually on March 1 for changes in the Ontario consumer price index. During 2010, Northland earned lease revenue of \$0.4 million (2009 – \$0.2 million).

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 OPA's FIT program 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. Once Northland's Saskatchewan projects are operational, Northland's cash flows will be diversified over five geographically separate regions and regulatory regimes.

Northland also owns a small wood chipping facility located on Vancouver Island and an engineering services business.

The following table summarizes the principal characteristics of each of the operating facilities in which Northland had a direct or indirect interest as at December 31, 2010:

### Operating Facilities

Facility	Productive Capacity	Ownership	Power off-taker & rating	PPA term	% of EBITDA <sup>(3)</sup>
Iroquois Falls	120 MW	100%	OEFC (AA low)*	2021	29%
Kingston	110 MW	100%	OEFC (AA low)*	2017	33%
Thorold	265 MW	100%	OPA (A high)*	2030	30%
Panda-Brandywine	230 MW	19%	Sempra <sup>(1)</sup> (BBB+)**	2021	9%
Jardin d'Éole	127.5 MW	100%	Hydro-Québec (A high)*	2029	12%
German Wind Farms	21.5 MW	100%	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	1%
Corporate <sup>(4)</sup>					(14%)

\* Ratings by Dominion Bond Rating Services

\*\* Ratings by S&P

#### Notes:

- (1) Sempra provides all required gas to operate the Panda Brandywine Facility under a tolling arrangement.
- (2) German electricity production is purchased by local power utilities as required by German legislation at predetermined prices.
- (3) Represents the approximate earnings before interest, taxes, depreciation and amortization (EBITDA), a non GAAP measure, that was generated by each facility in 2010.
- (4) Included in corporate are revenues and operating income from Chips LP, management fees from operating the Cochrane Facility and the Kirkland Lake Facility and management, administration and development expenditures.

### Projects Under Construction

Project <sup>(1)</sup>	Productive Capacity	Ownership	Power off-taker & rating*	PPA term	Fuel-supply term
Spy Hill	86 MW	100%	SaskPower (AA) *	25 years from CODΦ	N/A <sup>(2)</sup>
North Battleford	260 MW	100%	SaskPower (AA) *	20 years from CODΦ	N/A <sup>(2)</sup>
Mont Louis	100 MW	100%	Hydro-Québec (A high) *	20 years from CODΦ	N/A

\* Ratings by Dominion Bond Rating Services

Φ Commercial operation date

#### Notes:

- (1) Northland also has an interest in four rooftop solar projects with Loblaw Companies Limited with an aggregate capacity of 1,163 kilowatts.
- (2) The power off-taker provides all required fuel to operate the facilities or effectively takes gas price risk under a tolling agreement.

## Advanced Development Projects

Project	Productive Capacity	Ownership	Power off-taker & rating*	PPA term	Fuel-supply term
Ground-Mounted Solar Projects	130 MW	100%	OPA (A high)*	20 years from CODΦ	N/A
Manitoulin Island Wind Farm	60 MW	50%	OPA (A high)*	20 years from CODΦ	N/A
Kabinakagami Run-of-River Hydro Projects	26MW	50%	OPA (A high)*	40 years from CODΦ	N/A
Frampton	24MW	67%	Hydro-Québec (A high)*	20 years from CODΦ	N/A

\* Ratings by Dominion Bond Rating Services

Φ Commercial operation date

### Thermal Facilities – Natural-gas-fired and Cogeneration

By using natural gas to fuel the gas turbines at each of the Iroquois Falls Facility, the Kingston Facility, the Thorold Facility and the Panda-Brandywine Facility, the Fund is using the cleanest burning fossil fuel. Natural-gas combustion results in virtually no atmospheric emissions of sulfur dioxide (“SO<sub>2</sub>”) or small particulate matter, and far lower emissions of carbon monoxide (“CO”), nitrogen oxides (“NO<sub>x</sub>”), and greenhouse gases such as reactive hydrocarbons and carbon dioxide (“CO<sub>2</sub>”), than the combustion of other fossil fuels.

Cogeneration is the simultaneous production of electric and thermal energy, such as steam or heat, from one fuel source, such as natural gas. The steam produced is normally supplied to a nearby industrial or commercial facility, which would otherwise consume fuel to produce steam. Cogeneration provides greater efficiency than conventional generation methods to off-takers that require continuous thermal and electric power.

### Wind Facilities

Wind is used to generate electricity utilizing wind turbines to transform the kinetic energy of wind into electrical energy. Wind power projects are relatively simple to erect and can be constructed within a much shorter time frame than traditional electricity generation projects. Because wind power projects do not have fuel costs, operating expenses are lower than for power projects using fossil fuels.

## THE IROQUOIS FALLS FACILITY

### General Background

The Iroquois Falls Facility is a natural gas-fired, combined-cycle cogeneration plant situated in Iroquois Falls, Ontario, approximately 650 kilometres north of Toronto. The Iroquois Falls Facility is located on the Abitibi River approximately 500 metres from the AbitibiBowater Iroquois Falls Mill. Construction of the Iroquois Falls Facility was completed, and the plant commenced operations, in 1996.

### **The Iroquois Falls Facility's Sales, Supply, and Maintenance Contracts**

The Iroquois Falls Facility has a net rated capacity of 120 MW and generates and sells electricity to OEFC under the 25-year Iroquois Falls Power Purchase Agreement expiring in 2021. OEFC's obligation to purchase electricity under the Iroquois Falls Power Purchase Agreement is limited to stipulated monthly averages of between 75 MW and 96 MW, with the weighted monthly average being 85 MW.

The Iroquois Falls Facility sells up to 300,000 pounds of steam per hour to the neighbouring AbitibiBowater Iroquois Falls Mill under a 20-year steam sales agreement that expires at the end of 2016. Steam is sold at a price set annually that varies directly with the cost of gas purchased by Iroquois Falls Corp. Steam sales are generally higher in Winter than in Summer. Iroquois Falls Corp. is protected from the economic impact of adverse changes at the AbitibiBowater Iroquois Falls Mill until 2016 through provisions of the Iroquois Falls Power Purchase Agreement that increase OEFC's electricity purchase obligation to mitigate any material loss in steam sales revenue. On average, revenue generated from the sale of steam is expected to represent approximately 5 to 10% of the Fund's total revenues. For the year ended December 31, 2010, sales to AbitibiBowater represented approximately 8% (2009 – 9%) of Iroquois Falls Corp.'s total revenue from the Iroquois Falls Facility.

Other revenue is earned by selling natural gas to mitigate the cost of unused capacity under the transportation contract with TransCanada PipeLines Limited during lower production summer months and plant shutdowns. Such revenue represented approximately 7% of the total revenue in fiscal 2010 (2009 – 5%) for the Iroquois Falls Facility.

The Iroquois Falls Facility is fuelled by natural gas provided by Cenovus and Shell Canada Limited. The natural gas from these suppliers is contracted pursuant to 20-year gas supply agreements expiring in 2015 and 2016 which relate the fuel price escalation, in part, to the electricity selling price. The Iroquois Falls Facility uses TransCanada PipeLines Limited and Union Gas Limited to transport its gas pursuant to 20-year firm-service agreements that expire in 2016 but are readily renewable and remain subject to the same tariff rates.

The gas turbines at the Iroquois Falls Facility were replaced in 2003 with the latest version of GE's LM6000 PD machine. The maintenance of the Iroquois Falls Facility's gas turbines is contracted to GE under a maintenance agreement that, based upon the expected usage of the turbines, will continue until 2015.

### **Operations**

The Iroquois Falls Facility has the capacity to produce an annual average of 15% more electricity than the amount contracted to OEFC under the Iroquois Falls Power Purchase Agreement. The Iroquois Falls Facility has been successful in bidding into the wholesale market and sold incremental electricity beyond the volumes in the Iroquois Falls Power Purchase Agreement. In 2010, a total of 6,486 MWh of electricity was sold to the wholesale market (2009 – 2,829 MWh) in addition to ancillary services including operating reserves.

The Iroquois Falls Facility is intended to operate 24 hours a day, 365 days a year except for planned and unplanned downtime. Under the Iroquois Falls Power Purchase Agreement, OEFC has the right to curtail the Iroquois Falls Facility's electricity output by up to 20% of the contracted capacity during Summer off-peak hours without payment. The Iroquois Falls Facility

was curtailed 38,000 MWh by OEFC under the Iroquois Falls Power Purchase Agreement in 2010 (2009 – 38,560 MWh).

The Iroquois Falls Facility is generally shut down once a year for scheduled maintenance. As purchase rates under the Iroquois Falls Power Purchase Agreement are higher for on-peak hours, planned down time is scheduled for off-peak hours to the extent possible to minimize the impact on revenue. The Iroquois Falls Facility has averaged an availability of approximately 97% since start-up in 1996.

Production from the Iroquois Falls Facility is higher in Winter than in Summer, and rates received from OEFC are also higher during the Winter. As a result, approximately 65% of the Iroquois Falls Facility's cash flow is earned in the Winter, and approximately 35% is earned during the Summer. On average, approximately 80 to 90% of the Iroquois Falls Facility's revenues are expected to be derived from electricity sales to OEFC. For the year ended December 31, 2010, sales of electricity represented approximately 84% (2009 – 87%) of Iroquois Falls Corp.'s total revenue from the Iroquois Falls Facility.

### **Employees**

For the fiscal year ended December 31, 2010, the Iroquois Falls Facility was operated by a staff of 22 employees that was augmented as required with outside contractors, and engineering services from Cogeneration Associates. Thirteen employees at the facility are members of the International Union of Operating Engineers. The collective agreement with employees at the Iroquois Falls Facility expires on June 30, 2013.

### **Environmental Matters and Permits**

The Iroquois Falls Facility holds all necessary permits and approvals required for operations and has an environmental monitoring and reporting system in place. In particular, current generating equipment at the Iroquois Falls Facility is designed to produce NO<sub>x</sub> emissions below the levels set out in its permits and, because its NO<sub>x</sub> emissions are low, Iroquois Falls Corp. has surplus NO<sub>x</sub> allowances for sale. In 2010, the Iroquois Falls Facility sold approximately 850 tonnes (2009 – 400 tonnes) of emission allowances and credits for \$0.1 million (2009 – \$0.1 million).

## **THE KINGSTON FACILITY**

### **General Background**

Kingston LP owns a 110 MW natural gas-fired, combined-cycle cogeneration plant located west of Kingston, Ontario in Loyalist Township. The Kingston Facility is situated on approximately 11 acres of land near Lake Ontario. The plant started commercial operations on February 1, 1997.

### **Power Purchase Agreement**

Kingston LP is a party to the long-term Kingston Power Purchase Agreement with OEFC for the sale and delivery of monthly quantities of 93 MW to 109 MW of electricity (approximately 100 MW on average) through to January 31, 2017. The Kingston Power Purchase Agreement can be extended for a further 5 years with the consent of both parties at rates agreed upon at that time.

Revenue under the Kingston Power Purchase Agreement is earned according to a number of tariff rates that escalate according to different criteria. Escalation of certain of these tariffs is tied specifically to increases in tariff rates under the contracts with TransCanada PipeLines Limited and Union Gas Limited for natural gas transportation capacity and commodity rates with the result that natural gas transportation cost increases are directly reflected in higher revenues under the Kingston Power Purchase Agreement. Similarly, certain tariffs escalate using the same formula that applies to natural gas purchased under the contract with Cenovus (formerly EnCana Corporation), so that gas supply cost increases are directly reflected in higher revenue under the Kingston Power Purchase Agreement. Certain tariffs are related to the Consumer Price Index (as defined in the Kingston Power Purchase Agreement) to provide an offset to higher operations and maintenance costs resulting from general inflation. One of the tariff categories has its rate pre-determined for each year of the term of the Kingston Power Purchase Agreement to provide revenue to match debt service costs and equity returns. The revenue is heavily weighted towards on-peak hours, which provides a significant incentive to maximizing production of electricity during on-peak hours. Revenue escalators under the Kingston Power Purchase Agreement were not affected by Ontario electricity sector restructuring.

The Kingston Power Purchase Agreement provides certain rights to OEFC to curtail output during the Summer. OEFC has generally not availed itself of those rights.

For the year ended December 31, 2010, sales of electricity represented approximately 86% (2009 – 80%) of Kingston LP's total revenue from the Kingston Facility.

Kingston LP entered into a general term sheet with OEFC in 2006 that addresses the sharing of profits from incremental production from the Kingston Facility along with the sale of operating reserves and ancillary services to the IESO under the IESO Market Rules.

### **Energy Services Agreement and Water-Related Contracts**

Kingston LP had been providing steam to the adjacent Millhaven facility owned by INVISTA under an energy services agreement that was to expire in 2017. In October 2009, INVISTA permanently shut down its Millhaven facility. The INVISTA agreement provides Kingston LP with “step-in-rights” to operate and maintain certain INVISTA infrastructure, with Kingston LP manpower and at Kingston LP's cost. At present, Kingston LP is operating INVISTA's pumphouse for the supply of its process water and has obtained government approval for the discharge of its process waste water through INVISTA's existing outfall.

### **Natural Gas Supply**

Kingston LP is party to a natural gas purchase agreement with Cenovus for the supply of natural gas to the Kingston Facility to January 31, 2017. The natural gas cost escalates with transportation costs on the NOVA system (NOVA Gas Transmission Ltd. is a wholly-owned subsidiary of TransCanada PipeLines Limited) and a predetermined amount over the Consumer Price Index (as defined in the natural gas purchase agreement). TransCanada PipeLines Limited and Union Gas Limited transport gas under separate long term firm transportation agreements.

In 2007, the natural gas purchase agreement between Kingston LP and Cenovus was amended to provide that any reduction in the quantities of natural gas purchased by Kingston LP under the gas purchase agreement could be sold by Cenovus to third parties in return for a sharing of the profits between Kingston LP and Cenovus. As part of that amendment, Kingston LP and

Cenovus terminated their Amended and Restated Gas Management Services Agreement and replaced it with a new Gas Management Services and Profit Sharing Agreement. Under the new Gas Management Services and Profit Sharing Agreement, Cenovus continues to be responsible for the management of all aspects of the gas supply under the agreement between Cenovus and Kingston LP until January 31, 2017, including sale of gas to third parties. For the year ended December 31, 2010, sales of natural gas represented approximately 14% (2009 – 19%) of Kingston LP’s total revenue from the Kingston Facility.

### **Operations and Maintenance**

Operations and maintenance of the Kingston Facility are undertaken by a staff of 18 employees located at the Kingston Facility. Kingston LP has a multi-year agreement with GE for the long-term supply of parts and specified repair services for the GE 6FA gas turbine and GE has assumed additional responsibilities and risks associated with scheduled and unscheduled maintenance on the gas turbine in return for a monthly fee and periodic payments. This agreement expires after 68,000 hours of operations (estimated to be in 2017).

### **Environmental Matters and Permits**

The Kingston Facility holds all necessary permits and approvals required for operations and has an environmental monitoring and reporting system in place. All current generating equipment at the Kingston Facility is designed to produce NO<sub>x</sub> emissions below the levels set out in its permits and because its NO<sub>x</sub> emissions are low, Kingston LP has surplus NO<sub>x</sub> allowances for sale. There were no sales of emission allowances in either 2010 or 2009 due to the continuation of low, unattractive market prices.

### **Capital Structure of Kingston LP**

Kingston LP has in place long-term non-recourse project financing with a syndicate of banks. The interest rate has been fixed through interest rate hedges on the outstanding loan balance. The bank financing is fully amortized over the term of the Kingston Power Purchase Agreement. Security under the credit agreement is limited to the assets of Kingston LP and an assignment of Northland’s ownership interests in Kingston LP.

## **THE THOROLD FACILITY**

### **General Background**

Thorold LP was a successful bidder under the OPA’s request for proposals for combined heat and power projects, and entered into a long-term agreement concerning electricity sales (the “**CHP Contract**”) with the OPA on October 16, 2006. The CHP Contract obliges the OPA to pay Thorold LP for capacity based on a specified contract capacity for the Thorold Facility of 236.4 MW and a specified heat rate (a measure of plant efficiency). The term of the CHP Contract is 20 years from the commercial operation date (“**COD**”) and can be extended by mutual agreement. After a successful construction period, the Thorold Facility began commercial operations on April 1, 2010.

The Thorold Facility will sell up to 350,000 lbs per hour of steam to the AbitibiBowater Thorold Mill under the terms of a 20-year energy supply agreement with AbitibiBowater. The energy supply agreement also provides for the facility to supply the AbitibiBowater Thorold Mill’s 43 MW electricity demand at market prices to take advantage of inside-the-fence transmission

and market-uplift cost savings that are shared between the AbitibiBowater Thorold Mill and the Thorold Facility.

### **Facility Design and Equipment**

The Thorold Facility is a natural gas-fired, combined-cycle cogeneration facility that produces both electricity and steam from a GE 170 MW industrial gas turbine and associated 95 MW steam turbine. Electricity is supplied under the CHP Contract, which will provide revenue assurance and stability to the project, and steam and electricity are sold to the AbitibiBowater Thorold Mill under the 20-year energy supply agreement. During 2009, AbitibiBowater and its subsidiaries filed for court protection in the United States and Canada, to implement restructuring for the long term and to allow AbitibiBowater to continue normal business operations. AbitibiBowater emerged from the court restructuring in December 2010.

Construction of the approximately \$520 million Thorold Facility began in the third quarter of 2007, following the completion of all permitting and financing. The Thorold Facility completed all tests required to achieve commercial operations under the CHP Contract on March 28, 2010, with commercial operations beginning on April 1, 2010.

### **Operations**

The Thorold Facility is configured around a GE industrial gas turbine that, when combined with the large steam demand from the AbitibiBowater Thorold Mill, makes the plant one of the most efficient power generators in Canada. The Thorold Facility was constructed by V.K. Mason Construction Co., a subsidiary of Kiewit Construction Co. of Omaha, Nebraska, under a construction contract that fixed the price and completion date, and guarantees the plant's output and efficiency.

The contractual structure of the Thorold Facility is designed to insulate Thorold LP from exposure to electricity price and dispatch risk, natural gas price volatility and delivery uncertainty, changes in steam demand, and performance-related issues.

### **Operations and Maintenance**

Operations and maintenance of the Thorold Facility are undertaken by the Fund's 22 employees located at the Thorold Facility. Thorold LP has a 20-year agreement with GE to cover all planned and unplanned maintenance and repairs on the combustion turbine, generator, control system and auxiliaries supplied by GE.

In 2010, the Thorold Facility produced 582,441 MWh of electricity and revenue of \$75 million.

### **Environmental Matters and Permits**

The Thorold Facility holds all necessary permits and approvals required for operations and has an environmental monitoring and reporting system in place. All current generating equipment at the Thorold Facility is designed to produce NOx emissions below the levels set out in its permits.

### **Capital Structure of Thorold LP**

Construction of the Thorold Facility was funded in part by \$455 million of non-recourse project financing, including \$415 million of senior secured debt from a syndicate of banks and institutional lenders and \$40 million of subordinated financing from two institutional lenders. In December 2010, Thorold LP repaid its subordinated debt.

The institutional portion of the Thorold senior debt was funded under a fixed advance schedule during construction. The first blended quarterly payment of principal and interest was on December 31, 2010, in accordance with a schedule designed to fully amortize the loan over its term until maturity on March 31, 2030.

The bank portion of the Thorold senior debt was funded under a variable advance schedule during construction. As a result of term conversion being achieved on November 30, 2010, the bank portion will be repaid based on a 20-year amortization period to March 31, 2030, with maturity on November 30, 2015. Thorold LP has entered into interest rate swap agreements that effectively fix the interest rate of the senior bank loan credit facility to March 2030.

### **THE PANDA-BRANDYWINE FACILITY**

The Panda-Brandywine Facility is a natural gas-fired combined-cycle facility located in Brandywine, Maryland, near Washington, D.C., with a total electrical generating capacity of 230 MW. The Panda-Brandywine Facility sells electrical capacity and energy to Sempra. The facility commenced commercial operations on October 31, 1996. The Panda-Brandywine Facility has two General Electric industrial gas turbines with heat recovery steam generators and a steam turbine.

The Panda-Brandywine Facility is currently leased by Panda-Brandywine, L.P. The lease, which expires on October 31, 2021, was entered into in connection with a sale leaseback transaction with General Electric Capital Corporation and other financing parties. Sempra acquired the lease as part of the Sempra Transaction. At the end of the current lease term, it may be renewed for an additional 5-year term. Alternatively, the facility may be purchased at fair market value at the end of the lease term or the renewal term.

### **The Panda-Brandywine Facility's Sales, Supply, Management and Maintenance Contracts**

The Panda-Brandywine Facility sells electrical capacity and energy to Sempra pursuant to a PPA that expires on October 31, 2021, and may be extended by mutual agreement of the parties. The PPA for the Panda-Brandywine Facility which was originally with PEPCO was replaced by a new PPA with Sempra in September 2008 (the "**Sempra Transaction**"). The Sempra PPA retains the characteristics of the PEPCO PPA, including predefined fixed capacity payments, variable operating payments designed to match variable operating costs, including fuel, with the exception that Sempra will provide all natural gas needed for operations. The Sempra fixed capacity payments are similar to those under the PEPCO PPA until 2016, but somewhat lower thereafter. Under the Sempra PPA, the Panda-Brandywine Facility will generally be dispatched at full output (230 MW) or not at all. Under the previous PEPCO PPA, the facility was often part-loaded (i.e., not at full output), which is less efficient and harder on the machinery.

As part of the Sempra Transaction, Sempra now provides all natural gas needed for operations as part of the Sempra PPA. The Panda-Brandywine Facility also maintains a supply of No. 2 fuel oil as backup fuel. The backup fuel allows the facility to produce electricity when dispatched during gas delivery interruptions. The facility is capable of switching from natural gas to fuel oil without disrupting production.

The distilled water plant owned indirectly by PEC was shut down after the Sempra Transaction was completed.

In May 2010, Panda-Brandywine, L.P. entered into a restructuring agreement with Sempra whereby Panda-Brandywine, L.P. agreed to shorten its PPA from October 2021 to May 2014 and to reduce the fixed capacity payments that are received under its PPA, in exchange for an upfront fee.

## **THE JARDIN D'ÉOLE FACILITY**

### **General Background**

The Jardin d'Éole Facility is a 127.5 MW wind power facility located primarily on leased agricultural land on the south shore of the St. Lawrence River, near Matane. Construction of the facility began in May 2008, and was completed on November 20, 2009, when commercial operations commenced.

The facility is owned by Jardin LP which, as a result of the Merger with NPI, and the acquisition of the 66.5% non-controlling interests on January 29, 2010 is now 100% indirectly owned by Northland.

### **Facility Design and Equipment**

The Jardin d'Éole Facility generates power from 85 GE 1.5sle wind turbines with a capacity of 1.5 MW each. The Jardin d'Éole Facility is constructed on lands leased from private and municipal landowners under terms that expire 23 years from the start of commercial operations. A long term wind resource assessment was conducted by an internationally recognized consulting firm, specializing in wind resource assessments, that predicted P50 average annual production of 371,600 MWh over a 10-year period and P90 average annual production of 324,700 MWh over 10 years. The predicted P50 capacity factor was 33.3%.

The wind farm was built by Borea Construction ULC, a Quebec-based joint venture between Montreal's Pomerleau Construction and DH Blattner and Sons of Minnesota. The wind turbine towers and nacelles were supplied by GE from the Marmen facility in Matane.

### **Sales and Maintenance Contracts and Operations**

All the power produced by the Jardin d'Éole Facility is sold to Hydro-Québec under a 20-year PPA. The price for the power escalates each year based on a formula that is tied to the Consumer Price Index for the term of the PPA. Hydro-Québec purchases all the electricity produced by the Jardin d'Éole Facility, and there is no maximum production or delivery requirement. Under the Jardin LP PPA, failure to achieve a minimum production level set by Northland could result in a penalty payable to Hydro-Québec. In 2010, the Jardin d'Éole Facility produced 301,662 MWh (2009 - 40,672 MWh) of electricity and revenue of \$20.4 million (2009 - \$2.7 million).

Jardin LP also receives a subsidy for power produced under the Federal Government's ecoEnergy Initiative program. The incentive is \$10 per MWh, of which Hydro-Québec receives 75% and the Fund retains 25%, and will be paid for 10 years from the commencement of commercial operations.

Jardin LP has also entered into a 2-year warranty, maintenance and operations services agreement with GE. Under the terms of this agreement, GE provides all scheduled and unscheduled maintenance required for the wind turbines, including all ongoing maintenance and

service on the wind turbines and related equipment for a quarterly fee, escalated annually based on certain labour and material indices.

### **Operations**

Operations of the Jardin d'Éole Facility are managed by Northland. In addition to overseeing GE's obligations under the warranty, maintenance and operations services agreement, the operators are responsible for the working relationship with Hydro-Québec and the maintenance and service of the substation and collection system.

## **THE GERMAN WIND FARMS**

### **General Background**

The German Wind Farms consist of the 7.2 MW Kavelstorf wind farm, located on level agricultural land south of Rostock in northern Germany and the 14.3 MW Eckolstädt wind farm, located on flat land in the Thuringen region in central Germany. The Kavelstorf wind farm has been operating since April 2001, and the Eckolstädt wind farm has been operating since January 2000.

### **Facility Design and Equipment**

The Kavelstorf wind farm consists of 4 Nordex N60 turbines (1.3 MW) and 2 Nordex N54 (1.0 MW) turbines for a total of 7.2 MW. The Eckolstädt wind farm consists of 11 Bonus 1.3 MW turbines for a total of 14.3 MW. Nordex and Bonus (owned by Siemens AG) are established turbine manufacturers; the Nordex N60 and N54 and Bonus 1.3 wind turbines are proven and reliable with expected useful lives of 20 to 25 years.

### **Sales and Maintenance Contracts and Operations**

The German Wind Farms are projected to supply 33,800 MWh of electricity to local power utilities and receive a fixed tariff for all energy delivered of Euro 9.1¢/kWh for a term of 20 years under the provisions of German renewable energy legislation. Terms of all land lease agreements are for 30 years.

Management and day-to-day operations are provided by enXco GmbH, a German entity with considerable wind power experience, which is affiliated with Électricité de France, one of the largest power utilities in the world. Oversight of the German Wind Farms is provided by Northland management. In 2010, the German Wind Farms produced 26,782 MWh (2009 – 29,879 MWh) of electricity and revenue of \$3.5 million (2009 - \$4.4 million).

## **THE BEAVER COVE FACILITY**

### **General Background**

Chips LP owns the Beaver Cove Facility at Beaver Cove, near Port Hardy on the north end of Vancouver Island, British Columbia. The Beaver Cove Facility takes waste wood from major logging companies' dry land sorts and salvage logs and other debris from their inactive and active logging sites and turns these waste materials into saleable wood chips and hog fuel for use in the production of pulp and paper. The Beaver Cove Facility is located on land leased from Canfor.

### **Sales Contract and Operations**

The Beaver Cove Facility is underpinned by a 10-year contract with Western Forest Products (“**Western**”), the largest coastal British Columbia woodland operator and lumber producer, for a significant portion of the fibre supply. The contract, which was assigned to Western by Canfor, provides Western with exclusive rights to purchase all of the wood chips and hog produced at the facility, and the obligation to do so as long as the products meet specifications. The contract terminates in 2013.

## **PROJECTS UNDER CONSTRUCTION**

### **THE SPY HILL FACILITY**

In September 2009 Spy Hill LP executed a PPA with SaskPower for an 86 MW natural gas-fired peaking plant to be built near Spy Hill, Saskatchewan. Under the PPA, the project will receive monthly payments that are designed to cover all fixed costs and investment returns. The PPA also provides protection against changes in the market price of natural gas, as fuel costs are passed through to SaskPower. Northland will be responsible for operating the plant to achieve specified efficiency and reliability levels. The contractual structure of the project is designed to ensure predictable, stable and sustainable cash flows over the entire 25 year term of the PPA.

The Spy Hill Facility will be situated on land leased from SaskPower under a long term lease. The facility will be comprised of two GE LM 6000 gas turbines with associated electrical equipment and interconnections. A consortium of Aecon Group Inc. and Black & Veatch Corporation has been selected to engineer and construct the plant under a fixed-price and fixed-schedule turnkey contract and to guarantee performance. The COD under the PPA is December 1, 2011. The total cost of the project is approximately \$141 million.

The purchase price for the gas turbines is payable in US dollars. To address potential fluctuations in the Canada-US dollar exchange rates, Northland entered into a series of forward foreign exchange contracts that total as of December 31, 2010 US\$7 million at an exchange rate of \$1.08 to US\$1.00. Spy Hill LP has also posted security in the form of a \$15 million letter of credit against potential liquidated damages that could be imposed for delays in achieving commercial operations.

On April 14, 2010, Spy Hill LP entered into a non-recourse credit facility with a syndicate of banks led by the Canadian Imperial Bank of Commerce and Bank of Montreal for a \$111 million senior secured construction and term loan and a \$15 million letter of credit facility to provide funding during construction under a variable advance schedule. Once term conversion is achieved subsequent to the commencement of commercial operations, the loan requires blended payments of principal and interest over a 25-year amortization period, with maturity five years from term conversion. As required under the loan provisions, Spy Hill LP entered into an interest rate swap agreement to effectively fix the variable interest rate of the non-recourse debt (which is based primarily on 90-day banker’s acceptance rates) at 4.8% plus the credit spread, with a term from June 30, 2010 to September 30, 2036, to cover both loan advances during construction and debt repayments during the commercial operations period.

## **THE NORTH BATTLEFORD FACILITY**

In February 2010, North Battleford LP executed a 20 year PPA with SaskPower to provide baseload power to the Saskatchewan energy system. The 260 MW natural gas-fired combined cycle plant will be built near North Battleford, Saskatchewan, about 150 km north west of Saskatoon. All power produced by the plant will be sold under the PPA to SaskPower. The plant will use a GE 7FA gas turbine with associated heat recovery and a steam turbine to produce the electricity. The plant is scheduled to begin commercial operations in 2013.

Under the PPA, the project will receive monthly payments that are designed to cover all fixed costs and investment returns. The PPA also provides protection against changes in the market price of natural gas, as the price of gas is passed through to SaskPower. Northland will be responsible for operating the plant to achieve specified efficiency and reliability levels. The contractual structure of the project is designed to ensure predictable, stable and sustainable cash flows over the entire 20 year term of the PPA.

The budgeted capital cost of \$700 million is being partially funded with \$580 million in non-recourse project debt provided by an international syndicate of 15 banks led by the Canadian Imperial Bank of Commerce, Bank of Montreal and Union Bank. The financing, which closed on August 30, 2010, comprises a \$542 million construction loan that will convert to a 20-year amortizing term loan with maturity seven years after the start of commercial operations and a \$38 million letter of credit facility to support the project's other obligations. As required under the loan provision, North Battleford LP entered into an interest rate swap agreement to effectively fix the variable interest rate of the non-recourse debt (which is based primarily on 90-day banker's acceptance rates) at 4.6% plus the credit spread, with a term from November 30, 2010 to June 30, 2033, to cover both loan advances during construction and debt repayments during the commercial operations period.

To protect itself against fluctuations in foreign exchange rates, North Battleford LP has entered into a series of foreign exchange contracts. As at December 31, 2010, North Battleford LP had US\$17.3 million in foreign exchange contracts outstanding at an average rate of \$1.03 to US\$1.00. Subsequent to December 31, 2010, North Battleford LP entered into an additional US\$55.7 million of foreign exchange contracts that mature at various times between 2012 and 2020 at an average rate of \$1.02 to US\$1.00. Northland and North Battleford LP have also posted security in the form of \$43.7 million in letters of credit.

## **THE MONT LOUIS WIND PROJECT**

The Mont Louis wind project is a 100 MW wind farm located near the town of Mont Louis in the Gaspésie region of Quebec. It has a 20-year PPA with Hydro-Québec. The project is located on public land secured under leases. The total cost of the project is expected to be \$180 million or net \$150 million after reimbursement of substation and collection system costs by Hydro-Québec.

On November 17, 2010, Mont Louis LP entered into a non-recourse credit facility with a syndicate of institutional lenders led by Manufacturers Life Insurance Company for a \$106 million senior secured construction and term loan, a \$30 million bridge loan and a \$4.5 million letter of credit guarantee facility to provide funding during construction.

The credit facility provides for funding of the Mont Louis senior debt during the construction period and conversion to a term loan following commencement of commercial operations and completion of deliverables, as described in the credit agreement. The Mont Louis senior debt will be repaid through quarterly blended payments of principal and interest until maturity on September 30, 2031. The bridge loan will be used to help fund the cost of the substation and electrical collection system pending receipt of a cost reimbursement payment from Hydro-Québec Distribution.

Investissement Québec has committed to lending \$15 million for the Mont Louis wind project.

To protect itself against fluctuations in foreign exchange rates on the wind turbines, Northland entered into a series of forward foreign exchange contracts. As at December 31, 2010 Northland had US\$60.6 million in foreign exchange contracts outstanding at an average rate of \$1.03 to US\$1.00. Northland has posted security of \$47.1 million in letters of credit to Hydro-Québec under the terms of the PPA, to GE under the turbine supply agreement, and to secure Northland's equity commitment.

### **THE LOBLAW ROOFTOP SOLAR**

The Loblaw Rooftop Solar pilot projects are a group of four rooftop solar installations in various municipalities in Ontario: Ottawa (494 kilowatts (“kW”)), Whitby (433 kW), Ajax (226 kW) and Toronto (10 kW). Each project is located on the roof of a Loblaw's store. The projects have 20-year guaranteed price PPAs under the OPA's FIT Program in the case of the three larger projects and the OPA's microFIT Program in the case of the Toronto project. Loblaw and Northland are developing these projects in a partnership with Northland acting as the managing general partner. The total cost of the project is expected to be \$6.5 million.

### **PROJECTS IN ADVANCED DEVELOPMENT**

Northland considers projects that have executed PPAs but are not yet under construction to be in the advanced stage of development.

### **216 MW OF ONTARIO FEED-IN-TARIFF PROJECTS**

Northland continues to actively develop its green renewable energy projects that have been awarded long-term PPAs under Ontario's FIT Program – North America's first comprehensive guaranteed pricing structure for renewable electricity production. Northland's FIT PPAs provide for a total of 216 MW of capacity comprising 130 MW from 13 ground-mounted solar projects located across the province, the 60 MW Manitoulin Island wind farm in partnership with UCCMM and 26 MW from four run-of-river hydro projects on the Kabinakagami River in partnership with Constance Lake First Nation. Total investment for projects developed by Northland under the FIT Program could reach \$1 billion over the next four years.

Development of Northland's ground-mounted solar projects is ongoing. The environmental review process is underway, and permitting for initial projects is expected to be complete in 2011. Northland has been in discussions with and has received significant interest from many international and Canadian banks to provide debt financing over the 20-year PPA life of the projects. A number of potential panel suppliers have been identified, and work continues to

select a preferred supplier. Construction of initial projects is forecast to commence later in 2011 or early 2012.

On February 10, 2011, Northland and the UCCMM announced they have formed a partnership for the Manitoulin wind farm project whereby each party will own a 50% interest. The Manitoulin wind farm is a well-defined project that Northland has been developing for a number of years. All environmental permitting and financing for the project are expected to be completed, and construction is expected to commence in 2011 or early 2012.

Preliminary engineering assessment work was completed for all four of the Kabinakagami run-of-river projects, and applications were submitted to initiate the environmental approval process in 2010. Construction for these projects is expected to commence following successful completion of more detailed engineering and environmental assessment work planned over the next two years and once financing has been secured. The FIT PPAs awarded for these projects are for a 40-year term commencing at commercial operations, currently forecast for 2014.

The OPA has also recently announced milestone extensions for the FIT Program that may benefit certain of Northland's projects.

#### **THE FRAMPTON WIND PROJECT**

On December 21, 2010, Northland announced that it had been awarded a 20-year PPA to build and operate a 24 MW wind farm near Frampton, Quebec, near the south shore of the St. Lawrence. The contract was awarded by Hydro-Québec under its request for community and First Nations wind farm proposals. Northland has partnered with the municipality of Frampton, which has a 33% interest in the project. The wind turbines will be supplied by Enercon from its Quebec manufacturing facility. Under the terms of the PPA, commercial operations are expected by 2015.

#### **DEVELOPMENT PROSPECTS**

Prospects in earlier stages of development represent roughly 1,800 MW of Northland's current 2,500 MW development pipeline capacity. This potential capacity encompasses projects that are expected to use various technologies, including natural gas, hydro, wind and solar.

##### **Combined Heat and Power**

On November 23, 2010, the Ontario government issued a directive, in parallel with the release of its Long-Term Energy Plan ("LTEP"), for the OPA to procure the balance of a previous directive for 1,000 MW of combined heat and power ("CHP") cogeneration projects. Approximately half of this capacity has been contracted under previous directives, including, notably, Northland's Thorold Facility, leaving roughly 500 MW for future procurements.

The recent LTEP reinforces the strategic importance of natural gas and CHP facilities as part of Ontario's supply mix. Natural gas plants are highlighted as clean alternatives to coal that provide a flexible electricity supply necessary to respond quickly to changes in demand and complement the intermittent supply of renewable sources such as wind and solar, which is increasing as a result of various OPA initiatives. CHP facilities such as the Thorold Facility,

which simultaneously produce electricity and heat from a single fuel source such as natural gas, can benefit residential, commercial and industrial energy consumers by providing an economic and efficient energy supply.

Under the November 2010 CHP directive, the OPA is to negotiate PPAs for CHP projects greater than 20 MW on an individual basis. Northland is working closely with several potential industrial hosts and the OPA to develop cogeneration facilities that would provide both an economic and efficient steam supply for the host and electricity supply for Ontario in locations advantageous for the grid.

### **Hydro Pumped Storage**

Northland continues development on two potential pumped storage projects in Ontario, one in the south on privately owned land that Northland has optioned and one in the north on Crown land. These are longer-term development projects that would provide instantaneous backup for intermittent renewable energy resources, such as wind and solar, and act essentially as large batteries, allowing the system operator to shift electricity generated from low-demand periods to peak periods. These projects will go forward only once Northland has obtained long-term PPAs with the OPA.

### **Other**

Northland has been pursuing many other development prospects intended to meet the anticipated need for power in specific geographical areas or to support an innovative technology. The following is a list and brief description of some of these earlier-stage development initiatives:

- **TREK:** Northland holds certain exclusive development rights in North America to an innovative hydrokinetic TREK turbine technology and is pursuing opportunities for development in the U.S. and Canada. This technology is designed to capture and produce energy directly from the flow of river water. Since there is no dam required, there is virtually no environmental impact. The first TREK prototype is currently installed in the St. Lawrence River near Montreal for testing purposes and is supplying power to the Quebec grid.
- **Ontario FIT:** In addition to the 216 MW of FIT PPA capacity awarded to Northland in early 2010, Northland has a further 220 MW of capacity in the FIT economic connection test (“ECT”) queue for future development consideration. Over the next few years, the economic viability of expanding the transmission system to accommodate projects in the ECT queue is to be evaluated by the OPA, Hydro One and the Ontario Energy Board. In December 2010 the OPA ranked the order of these projects in terms of their shovel-readiness. Only 125 MW of such projects were ranked ahead of Northland’s 100 MW Grand Bend wind farm project in the Bruce Peninsula area, which already has a large transmission line under construction. Once completed, this transmission line will allow for an additional capacity of approximately 1,500 MW for the region, of which roughly 700 MW is expected to be available for FIT ECT projects.
- **Cambridge:** Northland has a gas-fired peaking facility near Cambridge, Ontario, under development. The 2010 LTEP supports the need for a natural gas-fired peaking facility

in the Kitchener-Waterloo-Cambridge area, declaring that demand for power in this region is growing at twice the rate of the rest of the province.

- Quebec wind: In 2010 Northland participated in a RFP from Hydro-Québec for wind farms in partnership with communities or First Nations. One of Northland's proposals, Frampton, was selected in the competition; consequently, Northland has written off \$3.4 million of previously deferred development costs that were associated with the unsuccessful bids. Nevertheless, Northland is confident that some of these projects would be competitive in future RFPs that management anticipates Hydro-Québec will initiate, although none have been announced at this time.

## **DISTRIBUTIONS AND DIVIDENDS**

### **Sustainability of Dividends**

As an income fund, the Fund's investment objective was to produce stable and sustainable levels of cash available for distribution to Unitholders from assets, businesses and investments related to the production, conversion, transmission, distribution, purchase and sale of electricity and other forms of energy, energy-related projects and fuels.

As a corporation, Northland intends to continue to produce stable and sustainable levels of free cash flow to support a consistently strong dividend payout on its Common Shares.

Northland is committed to maintaining an annual dividend of \$1.08 per Common Share payable monthly, which is more favourable to taxable Common Shareholders on an after-tax basis than the Fund's former distribution of \$1.08 per Unit. Northland expects that the amount of dividends will exceed free cash flow until the second half of 2013, when the North Battleford project is scheduled to achieve commercial operation. Nonetheless, management is committed to the \$1.08 per Common Share dividend in the expectation that over the longer term free cash flow from Northland's facilities' operations will entirely fund dividends.

An essential element of Northland's strategy of stable free cash flow and sustainable dividends is to continue the Fund's policy of having the majority of revenues and costs determined under long-term contracts with creditworthy counterparties. The major terms of Northland's long-term power purchase agreements and fuel-supply contracts are aligned for each project such that revenues and cost escalations are linked, assuring long-term profitability for each project.

The Merger with NPI in July 2009 provided Northland with the opportunity to grow its assets from internally generated development projects in order to increase its cash flow and continue to support a high payout. NPI's Thorold and Jardin d'Éole projects contributed to cash flow in 2010; the Spy Hill, North Battleford and Mont Louis projects are expected to increase cash flow further as they come on stream between 2011 and 2013. Notwithstanding conversion to a taxable corporation, Northland does not expect to pay any material amount of income tax until late in this decade as a result of the large capital cost allowance tax pools generated from its capital investments.

The Fund distributed a total of \$1.08 in cash per Unit to Unitholders for the year ended December 31, 2010 (2009 – \$1.08 per Unit; 2008 – \$1.12 per Unit). The \$1.12 per unit in 2008

represented regular distributions of \$1.08 per Unit and a one-time special distribution of \$0.04 per unit. The purpose of the special distribution was to ensure that cash distributions for the year at least equaled the taxable income allocated to Unitholders in 2008. For Canadian tax purposes, the fiscal 2010 distributions of \$1.08 per Unit are treated as 100% taxable.

To allow Common Shareholders of Northland who are residents of Canada to conveniently acquire additional Common Shares by reinvesting their cash dividends, Northland has established a dividend-reinvestment plan.

### History of Distributions

The following table shows per Unit cash distributions declared monthly for the past 3 years.

<u>Month</u>	<b>Distributions Declared per Unit (\$)</b>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
January	0.0900	0.0900	0.0900
February	0.0900	0.0900	0.0900
March	0.0900	0.0900	0.0900
April	0.0900	0.0900	0.0900
May	0.0900	0.0900	0.0900
June	0.0900	0.0900	0.0900
July	0.0900	0.0900	0.0900
August	0.0900	0.0900	0.0900
September	0.0900	0.0900	0.0900
October	0.0900	0.0900	0.0900
November	0.0900	0.0900	0.0900
December	0.0900	0.0900	0.1300
	<u>1.0800</u>	<u>1.0800</u>	<u>1.1200</u>

The following table shows per Series 1 Preferred Share dividends declared quarterly for the past 3 years.

<u>Month</u>	<b>Distributions Declared per Series 1 Preferred Share (\$)</b>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
March	0.0000	0.0000	0.0000
June	0.0000	0.0000	0.0000
September	0.2301	0.0000	0.0000
December	0.3281	0.0000	0.0000
	<u>0.5582</u>	<u>0.0000</u>	<u>0.0000</u>

## MANAGEMENT AND ADMINISTRATION OF THE FUND

### Administration of the Fund and Role of Board Trustees

Prior to January 1, 2011, the Trustees were the central governing body of the Fund with overall responsibility for the supervision of management of the Fund. Subsequent to January 1, 2011, Northland's Board of Directors assumed the obligations of the Fund's Board of Trustees. The roles of the Chair and Chief Executive Officer of Northland are separated.

### **THIRD-PARTY MANAGERS**

#### **Management of the Panda-Brandywine Facility**

Panda Global Services Inc., an affiliate of Panda Energy International, Inc., provides operation and maintenance services for the Panda-Brandywine Facility pursuant to operation and maintenance agreements. Panda Global Services Inc. manages Panda-Brandywine, L.P. and is responsible for the management of PEC and PIC including financial statement preparation, reporting and cash management.

#### **Management of the German Wind Farms**

Management and day-to-day operations of the German Wind Farms are provided by enXco GmbH, a German entity with considerable wind power experience, which is affiliated with Électricité de France, one of the largest power utilities in the world. Oversight of the German Wind Farms is provided by Northland management.

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Reference is made to the information under the heading "Management's Discussion and Analysis" on pages 4 through 73 of Northland's Annual Report, which is incorporated herein by reference. The Annual Report is posted on SEDAR, at [www.sedar.com](http://www.sedar.com), and on Northland's website, [www.northlandpower.ca](http://www.northlandpower.ca).

### **CAPITAL STRUCTURE**

As at December 31, 2010, the Fund's capital consisted of the Units, the Special Voting Units and the Convertible Debentures and the Series 1 Preferred Shares of the Fund's subsidiary, Prefco. Pursuant to the Arrangement, on January 1, 2011, the Fund's Units were exchanged for Common Shares of Northland on a one-for-one basis, and the Series 1 Preferred Shares of Prefco are now Series 1 Preferred Shares of Northland. The Class A Units, Class B Units and Class C Units of Holdings LP were exchanged for Class A Shares, Class B Convertible Shares and Class C Convertible Shares of Northland, which provide the holders with materially the same rights as they had as holders of the units in Holdings LP.

#### **TRUST UNITS**

The Units each represented an equal undivided beneficial interest in the Fund. Units were transferable and shared equally in all distributions from the Fund whether of net income, return of capital, return of principal, interest, dividends or net realized capital gains or other amounts in the net assets of the Fund in the event of termination or winding up of the Fund. All Units carried one vote at meetings of Unitholders. The Units had no conversion or pre-emptive rights. Unitholders did not have statutory rights normally associated with the ownership of shares of a corporation.

Unitholders of record on the last business day of each month were entitled to receive distributions from the Fund's Cash Available for Distribution (as defined in the Fund Trust Indenture) and allocations of net income in respect of that month. Such distributions were made by the 15<sup>th</sup> day of the following month.

Units were redeemable at any time on demand by the holders thereof upon delivery to the Fund of a duly completed and properly executed notice requesting redemption. See note 27 to the audited consolidated financial statements, entitled “Equity” on pages 122 to 126 of the Annual Report which is incorporated by reference herein and available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Northland’s website, [www.northlandpower.ca](http://www.northlandpower.ca).

Pursuant to the Arrangement, the Units of the Fund were exchanged on January 1, 2011 into Common Shares of Northland on a one-for-one basis.

### **Replacement Rights**

Coincident with the Merger, the Fund issued 6,032,191 Replacement Rights in settlement of NPI’s obligations under the NPI LTIP. The Fund also entered into a rights exchange agreement with each NPI LTIP Participant (the “**Rights Exchange Agreements**”). Pursuant to the Rights Exchange Agreements, each NPI LTIP Participant relinquished his LTIP Rights in exchange for Replacement Rights which were rights to acquire Units on a one-for-one basis for no additional consideration on or after the Conversion Date (or earlier in order to tender to any take-over bid made for the Fund). Replacement Rights carry no voting rights or rights to receive distributions until they are exercised and are not transferable.

On and after January 1, 2011, by virtue of the anti-dilution provisions of the Rights Exchange Agreements, the holders of the Replacement Right are entitled to receive, upon the exercise of the Replacement Rights, Common Shares rather than Units, on the basis of one Common Share in lieu of each Unit which they were previously entitled to receive. The conversion of 1,672,061 Replacement Rights to Common Shares is contingent upon the conversion of the Class C Convertible Shares and future dividends up to the Conversion Date.

### **Special Voting Units**

Coincident with the Merger, Special Voting Units of the Fund were issued pursuant to the Fund Trust Indenture. 25,645,598 Special Voting Units were issued to holders of Class A Units and 8,496,078 Special Voting Units were issued to holders of Class C Units. Each Special Voting Unit entitled the holder of record thereof to one vote at all meetings of Unitholders or in respect of any written resolution of Unitholders. Prior to January 1, 2011, the Special Voting Units were to automatically be redeemed and cancelled by the Fund at the time of issuance of Units in exchange for their related Class A Units or Class C Units. If the Class C Units were cancelled, the related Special Voting Units were also to be cancelled.

Pursuant to the Arrangement, on January 1, 2011, (i) the Class A Units (and related Special Voting Units) were exchanged on a one-for one basis for Class A Shares of Northland, and (ii) the Class C Units (and related Special Voting Units) were exchanged on a one-for one basis for Class C Convertible Shares of Northland.

### **CONVERTIBLE DEBENTURES**

In 2004, the Fund issued \$65,000,000 principal amount of 6.5% convertible unsecured subordinated debentures due June 30, 2011 (the “**2011 Debentures**”), for gross proceeds of \$65 million and net proceeds of approximately \$61.8 million. Interest is paid semi-annually in arrears on June 30 and December 31 in each year. As at December 31, 2010, \$20,042,000 principal amount of the 2011 Debentures remained outstanding, with a book-value of \$20.1 million.

On October 15, 2009, the Fund issued \$92,000,000 principal amount of 6.25% convertible unsecured subordinated debentures, Series A due December 31, 2014 (the “**2014 Debentures**”), for gross proceeds of \$92.0 million (\$88.3 million net of underwriters’ fees). The Fund determined that the fair value of the embedded holder option at the time of issue was nominal and as a result the entire amount of the convertible debentures was classified as a long-term liability. As at December 31, 2010, \$55,421,000 principal amount of the 2014 Debentures remained outstanding, with a book-value of \$55.4 million.

The payment of principal and interest on the Convertible Debentures is subordinated in right of payment to the prior payment of all senior indebtedness of Northland.

The Convertible Debentures are direct obligations of Northland and are not secured by any mortgage, pledge, hypothec or other charge and are subordinated to all senior indebtedness of Northland.

During 2010, a total of \$9 million (2009 – \$14,000) of the 2011 Debentures were converted into 718,320 Units (2009 – 1,120 Units) and a total of \$36.6 million (2009 - \$nil) of the 2014 Debentures were converted into 2,945,148 Units (2009 – nil).

#### **Conversion Privilege**

Prior to January 1, 2011, the 2011 Debentures were convertible at the holder’s option into fully-paid, non-assessable and freely-tradeable Units at any time prior to 5:00 p.m. (Toronto time) on the earlier of June 30, 2011 and the business day immediately preceding the date specified by the Fund for redemption of the 2011 Debentures, at a conversion price of \$12.50 per Unit being a ratio of 80 Units per \$1,000 principal amount of 2011 Debentures.

On January 1, 2011, the 2011 Debentures of the Fund became 2011 Debentures of Northland having all of the rights and entitlements of the 2011 Debentures of the Fund, except that Northland’s 2011 Debentures are convertible into Common Shares (instead of Units) at a conversion price of \$12.50, each \$1,000 principal amount being convertible into 80 Common Shares.

Prior to January 1, 2011, the 2014 Debentures were convertible at the holder’s option into fully-paid, non-assessable and freely-tradeable Units at any time prior to 5:00 p.m. (Toronto time) on the earlier of December 31, 2014 and the business day immediately preceding the date specified by the Fund for redemption of the 2014 Debentures, at a conversion price of \$12.42 per Unit being a ratio of 80.5 Units per \$1,000 principal amount of 2014 Debentures.

On January 1, 2011, the 2014 Debentures of the Fund became 2014 Debentures of Northland having all of the rights and entitlements of the 2014 Debentures of the Fund, except that Northland’s 2014 Debentures are convertible into Common Shares (instead of Units) at a conversion price of \$12.42, each \$1,000 principal amount being convertible into 80.5 Common Shares.

#### **Redemption and Purchase**

The 2011 Debentures may be redeemed by Northland, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not

more than 60 days' and not less than 30 days' prior written notice. No 2011 Debentures have been redeemed by Northland.

The 2014 Debentures may not be redeemed by Northland on or before December 31, 2012. Thereafter, but prior to December 31, 2013, the 2014 Debentures may be redeemed by Northland, in whole at any time or in part from time to time, on not more than 60 days' and not less than 30 days' prior written notice at a price equal to the principal amount thereof plus accrued and unpaid interest provided that the Current Market Price on the date on which the notice of redemption is given is at least 125% of \$12.42. On or after December 31, 2013 and prior to December 31, 2014, the 2014 Debentures may be redeemed by Northland, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days' and not less than 30 days' prior written notice. No 2014 Debentures have been redeemed by Northland.

#### **Payment upon Redemption or Maturity**

On redemption or on June 30, 2011 or December 31, 2014, as applicable, Northland will repay the indebtedness represented by the Convertible Debentures by paying to the Debenture Trustee an amount equal to the principal amount of the outstanding Convertible Debentures, together with accrued and unpaid interest thereon. Northland may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to any required regulatory approvals, unless an Event of Default (as defined in the CD Indenture) has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the Convertible Debentures which are to be redeemed or which have matured by issuing Common Shares, in whole or in part, to the holders of the Convertible Debentures.

The term "Current Market Price" is defined in the CD Indenture to mean the weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event.

#### **Common Share Interest Payment Election**

Unless an Event of Default (as defined in the CD Indenture) has occurred and is continuing, Northland may elect, from time to time, subject to applicable regulatory approval, to issue and deliver freely-tradeable Common Shares to the Debenture Trustee in order to raise funds to satisfy all or any part of Northland's obligations to pay interest on the Convertible Debentures in accordance with the CD Indenture.

#### **MERGER WITH NPI**

As discussed under "General Development of the Business – Acquisition of NPI" above, on July 16, 2009, the Fund indirectly acquired all of the issued and outstanding shares of NPI for total consideration valued for accounting purposes at \$233 million.

#### **HOLDINGS LP SECURITIES**

The capital of Holdings LP consisted of Ordinary Units, all of which were held by CT and the Fund, and Class A Units, Class B Units and Class C Units all of which were held by NPHI.

### **Ordinary Units of Holdings LP**

Ordinary Units were intended to be the economic and voting equivalent of Units, representing a limited partner's proportionate ownership interest in Holdings LP, conferring the right to one vote per Ordinary Unit at any meeting of limited partners and participate pro rata in any distributions to such limited partners by Holdings LP. Ordinary Units were fully paid and non assessable and were transferable but had no conversion, redemption or pre-emptive rights and may be subdivided or consolidated. CT and the Fund, as the holders of all of the Ordinary Units prior to January 1, 2011, were entitled to receive all distributions of cash available for distribution under the LP Agreement until the Conversion Date. After the Conversion Date, the holders of Ordinary Units were to be entitled to receive an amount sufficient to cover the administration and debt service requirements of the Fund and CT and thereafter to participate pro rata with the holders of the Class A Units in all cash distributions by Holdings LP. In the event of a liquidation of Holdings LP, the holders of the Ordinary Units were entitled to receive a priority distribution in an amount equal to the then outstanding indebtedness and amounts owing by the Fund and CT. Thereafter the holders of the Ordinary Units would receive that portion of the remaining assets equal to the proportion of the outstanding Ordinary Units to the outstanding Class A Units.

As of December 31, 2010, there were 72,722,231 Ordinary Units outstanding, all of which were cancelled on January 1, 2011 pursuant to the Arrangement.

### **Class A Units of Holdings LP**

As part of the purchase consideration for the Merger with NPI, the Fund issued 25,645,598 Class A Units. Class A Units were exchangeable on a one-for-one basis into Units on the Conversion Date. Class A Units were not transferable and did not participate in cash distributions prior to the Conversion Date. As at December 31, 2010, of the 25,645,598 Class A Units issued, 6,763,062 were subject to reduction if cash distributions declared by the Fund fell short of \$1.08 per Unit per annum prior to the Conversion Date. If cash distributions declared by the Fund exceeded \$1.08 per Unit per annum, the Class A Units would receive a cash payment on the Conversion Date equal to the amount of such excess. As of December 31, 2010, there were 25,645,598 Class A Units outstanding.

Pursuant to the Arrangement, the Class A Units of Holdings LP were converted on January 1, 2011 into Class A Shares of Northland on a one-for-one basis having the same rights, privileges, restrictions and conditions.

### **Class C Units**

As part of the purchase consideration for the Merger with NPI, the Fund issued 8,496,078 Class C Units. The Class C Units were eligible to be converted to Class A Units based upon the Fund's "development profits" from qualifying development projects owned by NPI at the date of the Merger. The Class C Units carried no voting rights, no rights to distributions and were not transferable.

The "development profit" is the difference between the fair market value of a particular NPI qualifying development project and the cost of that project measured at the commercial operations date (the "**Valuation Date**") as determined by an independent third party appointed by the Fund's trustees. To "qualify", the NPI qualifying development project must have met

specified conditions, notably having reached agreement to execute a PPA prior to July 16, 2014 in the case of Class C Units and July 16, 2015 in the case of Class B Units.

The first \$100 million of development profit from qualifying NPI development projects would be allocated to Class C Units and contingent Replacement Rights that were to be converted into Class A Units in proportion to the development profit recognized from qualifying NPI development projects. Once every qualifying NPI development project had either achieved commercial operations or had its PPA terminated in accordance with its terms for failure to have reached its commercial operations then any remaining Class C Units and contingent Replacement Rights would be cancelled.

As of December 31, 2010, there were 8,496,078 Class C Units outstanding. For accounting purposes, these Units were treated as contingent consideration, and since the contingency has not yet been resolved beyond a reasonable doubt, no value was ascribed.

Pursuant to the Arrangement, the Class C Units of Holdings LP were converted on January 1, 2011 into Class C Convertible Shares of Northland on a one-for-one basis having the same rights, privileges, restrictions and conditions, except that the Class C Convertible Shares of Northland are convertible into Class A Shares (instead of Class A Units).

#### **Class B Units**

As part of the purchase consideration for the Merger with NPI, the Fund issued 8,067,723 Class B Units that were eligible to be converted to Class A Units based upon the Fund's development profits from qualifying development projects owned by NPI at the date of the Merger. The Class B Units carried no voting rights, no rights to distributions and are not transferable.

After \$100 million of development profits were allocated to the Class C Units and Replacement Rights (as described above,) a portion of further development profits on qualifying NPI development projects would be allocated to the Class B Units. The allocation of development profits from qualifying NPI development projects for purposes of the conversion of Class B Units would be based upon the order and time periods in which the PPA for each project is attained. Based on the order in which PPAs were attained, the last qualifying NPI development project that resulted in the realization of an aggregate \$100 million of development profit is the "**Threshold Project**". For all qualifying NPI development projects (including that portion of the Threshold Project, if any, beyond \$100 million) whose PPAs were attained within twelve months after the PPA for the Threshold Project was attained, then 40% of their development profits would have been used to determine the number of Class B Units which were converted. For projects whose PPAs were attained after this twelve month period, then 20% of their development profit would have been used to determine the number of Class B Units which were converted. To the extent that the projects do not achieve COD in the order in which their respective PPAs were attained, adjustments would have been made to ensure the proper allocation of development profits. Class B Units were to be converted into Class A Units based on (i) the relevant portion of development profit (40% or 20% as applicable) and (ii) the greater of the Announcement Date Market Price and the volume weighted average trading price of the Fund Units for the 20 trading days immediately prior to the date of the announcement of the PPA for the relevant qualifying NPI development project. No Class B Units were to be converted

(i) until all Class C Units were converted into Class A Units, or (ii) if any Class C Units were cancelled. The Fund Trustees had the right to suspend conversion of Class B Units if the Fund was not able to maintain distributions to Unitholders of \$1.08 per annum.

As of December 31, 2010, there were 8,067,723 Class B Units outstanding. For accounting purposes, these Units were treated as contingent consideration, and since the contingency has not yet been resolved beyond a reasonable doubt, no value was ascribed.

Pursuant to the Arrangement, the Class B Units of Holdings LP were converted on January 1, 2011 into Class B Convertible Shares of Northland on a one-for-one basis having the same rights, privileges, restrictions and conditions, except that the Class B Convertible Shares of Northland are convertible into Class A Shares (instead of Class A Units).

### **PREFERRED SHARES**

For a summary of the terms relating to the Series 1 Preferred Shares, see “General Development of the Business – Issuance of Preferred Shares”.

### **MATERIAL CONTRACTS**

The Fund or its affiliates entered into a number of material contracts in 2010 or prior to 2010 which are still in effect. These contracts are as follows:

- (a) the CD Indenture;
- (b) the share purchase agreement dated April 23, 2009 between NPHI, JCT Management Inc., the Fund, CT and Holdings LP, as amended;
- (c) the Rights Exchange Agreements each dated April 23, 2009 between the Fund, NPI and each of the NPI LTIP Participants, as amended; and
- (d) the Arrangement Agreement dated as of May 13, 2010 among the Fund, CT, Holdings LP, NPIF Holdings GP Inc., NPI, NPIFMI, Iroquois Falls Corp., Prefco and Northland Power Arrangeco Inc., as amended.

**MARKET FOR SECURITIES**

Until January 1, 2011, the outstanding Units of the Fund were listed for trading on the TSX under the symbol NPI.UN. Pursuant to the Arrangement, the Fund's Units were exchanged on January 1, 2011 for Common Shares on a one-for-one basis and trade under the TSX symbol NPI. The table below sets forth the reported high and low trading prices and trading volumes of the Units as reported by the TSX during 2010:

<b><u>Month</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Volume</u></b>
<b><u>2010</u></b>			
January	\$12.67	\$11.70	4,006,300
February	13.25	11.93	3,452,700
March	14.00	12.96	4,322,100
April	14.12	13.16	2,727,400
May	14.09	12.25	3,869,800
June	14.23	12.95	2,653,600
July	14.49	13.31	2,805,500
August	15.06	14.25	7,989,500
September	15.62	14.70	2,564,600
October	16.43	15.21	2,416,200
November	16.05	14.11	2,923,900
December	15.99	15.41	2,437,800

The outstanding 2011 Debentures are listed for trading on the TSX under the symbol NPI.DB. The table below sets forth the reported high and low trading prices and trading volumes of the 2011 Debentures as reported by the TSX during 2010:

<b><u>Month</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Volume</u></b>
<b><u>2010</u></b>			
January	\$109.99	\$103.04	410
February	105.00	103.00	4,790
March	111.00	104.08	12,310
April	112.35	106.00	20,710
May	112.25	101.00	10,440
June	112.00	102.03	14,310
July	115.00	108.02	8,390
August	119.50	113.00	20,390
September	124.00	116.59	11,300
October	130.00	121.82	12,590
November	128.00	119.02	10,000
December	127.05	120.01	5,590

The outstanding 2014 Debentures are listed for trading on the TSX under the symbol NPI.DB.A. The table below sets forth the reported high and low trading prices and trading volumes of the 2014 Debentures as reported by the TSX during 2010:

<b><u>Month</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Volume</u></b>
<b><u>2010</u></b>			
January	107.50	104.75	9,100
February	108.50	105.51	8,660
March	111.50	106.10	28,290
April	112.50	107.00	68,050
May	112.50	102.25	65,760
June	113.50	105.00	50,510
July	116.00	108.50	30,580
August	120.90	110.02	52,370
September	125.00	118.00	73,110
October	131.25	122.00	64,990
November	128.61	117.71	37,300
December	128.00	124.00	15,650

The outstanding Series 1 Preferred Shares are listed for trading on the TSX under the symbol NPI.PR.A. The table below sets forth the reported high and low trading prices and trading volumes of the Series 1 Preferred Shares as reported by the TSX in 2010:

<b><u>Month</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Volume</u></b>
<b><u>2010</u></b>			
July	25.30	25.00	582,882
August	25.80	25.25	385,743
September	25.98	25.42	169,363
October	26.24	25.50	158,410
November	26.87	25.57	117,751
December	26.09	25.15	103,001

### **RISK FACTORS**

The Fund's overall risk management program seeks to mitigate the financial risks to which it is exposed to maintain stable and sustainable levels of cash for distribution to Unitholders. The Fund does not seek to mitigate fair-value risk.

The following are certain risk factors affecting the business of the Fund. The following information is a summary only of such risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form and the documents referred to herein.

### **Contracts and Counterparties**

The amount of free cash flow generated by Northland is dependent upon the parties to Northland's long-term contracts continuing to fulfill their contractual obligations. In particular, as electricity sales represent a majority of Iroquois Falls Corp.'s and Thorold LP's revenues and all of Kingston LP's and Jardin LP's revenues, failure of OEFC, OPA or Hydro-Québec to meet their contractual obligations would have an adverse effect on free cash flow. A portion of Northland's free cash flow originates from dividends from PEC that are dependent, in part, upon the parties to PEC's subsidiaries' long-term contracts continuing to fulfill their contractual obligations. In particular, failure of Sempra to meet its obligations could have an adverse effect on free cash flow.

Both the Iroquois Falls Corp. PPA and the Kingston LP PPA provide for certain rights to OEFC to curtail off-peak electricity output during the Summer. OEFC has generally availed itself of those rights at the Iroquois Falls facility but not at the Kingston facility. Should OEFC exercise its curtailment rights at Kingston LP, Northland's free cash flow would not be materially affected because off-peak margins are not material.

The German wind farms receive revenue in accordance with German renewable energy legislation, which has rates above market. There is no guarantee that this legislation will not be changed such that the amount of revenue generated would be less than currently received.

The Ontario government enacted the *Electricity Restructuring Act, 2004*, in December 2004, which introduced structural changes to the Ontario electricity market. OEFC confirmed that the Iroquois Falls Corp. agreement-in-principle respecting certain amendments to the Iroquois Falls Corp. PPA reached in 2002 was not affected by this measure. The agreement-in-principle contemplated that a formal agreement to amend or replace the Iroquois Falls Corp. PPA would subsequently be entered into. No such amendment or replacement PPA has been entered into by OEFC with Iroquois Falls Corp. or with other parties that held similar PPAs. OEFC has stated that, with respect to all financial obligations under the Iroquois Falls Corp. PPA as modified by the agreement-in-principle, including those provisions relating to the index used to adjust revenues from electricity, the Iroquois Falls Corp. PPA is in full force and effect.

Steam sales at the Iroquois Falls and Thorold facilities constitute a secondary source of revenue for Northland. AbitibiBowater's demand for steam is determined by operations at its pulp and paper mills, including the level of its own steam production at Iroquois Falls. The Iroquois Falls and Thorold facilities are obliged to respond to fluctuations in AbitibiBowater's steam needs. Demand for steam has an impact on gas consumption, and unexpectedly large short-term fluctuations in steam demand increase natural gas consumption at the Iroquois Falls facility without a proportionate increase in steam revenue. This is partially mitigated at the Thorold facility due to the presence of auxiliary steam production equipment sized to meet AbitibiBowater's peak steam demand even when the Thorold facility is not dispatched. Since May 2003, AbitibiBowater's Iroquois Falls mill has not been obligated to pay for a minimum quantity of steam; however, since January 1, 2002, Northland has been protected through provisions of the Iroquois Falls PPA that increase OEFC's electricity purchase obligations to make up for shortfalls in steam revenue. Northland is protected by contractual take-or-pay provisions in Thorold LP's energy supply agreement if AbitibiBowater's demand falls below certain minimums. During 2009, the predecessor to AbitibiBowater filed for court protection in

the United States and Canada to implement restructuring for the long term, and in December 2010 AbitibiBowater emerged from bankruptcy protection.

Northland and its subsidiaries contract with many third-party suppliers for equipment and services used during the construction of its projects. The failure of any supplier to meet its obligations under its contract could cause Northland to experience construction delays or cost overruns and could, in turn, prevent the project from meeting its obligations under its PPA and lending agreements.

### **Operational Risk**

Northland's facilities, comprising the Iroquois Falls, Kingston, Thorold and Panda-Brandywine plants and the German and Jardin d'Éole wind farms, are subject to operational risks that could have an adverse effect on free cash flow, including premature wear or failure of major equipment due to defects in design, material or workmanship. The risks associated with Northland's thermal facilities are partially mitigated by the proven nature of the technology and design of the facilities, the availability of critical spares on site, the gas turbine maintenance agreement in respect of the Iroquois Falls, Kingston and Thorold facilities with GE and participation by Iroquois Falls Corp. in the GE gas turbine lease pool that guarantees the availability of replacement gas turbines on short notice. The risks associated with the operations of the German and Jardin d'Éole wind farms are partially mitigated by the maintenance and service agreements with the original equipment suppliers and the proven nature of the technology and design of the facilities.

Under the Iroquois Falls Corp. PPA, if the Iroquois Falls facility delivers less than 80% of the on-peak target quantities in a month, the monthly capacity payment (which is the largest component of the monthly payment) will be reduced by 6.66% for each 1% less than 80%. No capacity payment will be paid for a month in which the Iroquois Falls facility delivers less than 65% of the on-peak target quantities.

The Kingston LP PPA states that if the Kingston facility delivers less than 80% of the on-peak target quantities, no capacity payment will be paid; however, if there is an event of force majeure at the Kingston facility (which is defined to include equipment failure that lasts longer than four days), the number of on-peak hours used to calculate the target generation will be reduced by the number of on-peak hours in the period of force majeure during that month.

Unlike the Iroquois Falls Facility and the Kingston Facility, which are both baseload generators, the Thorold Facility is a non-baseload dispatchable plant and will generally be dispatched to operate only during peak demand periods. As such, the Thorold PPA provides a monthly capacity payment that is intended to cover all fixed fuel and operating costs, debt service and equity returns. However, the monthly capacity payment is reduced by the expected dispatch profit the facility should earn during peak demand periods. This profit is determined to occur when spot market electricity and gas prices applied at contractual power and efficiency levels exceed break-even. While there is no explicit penalty as such, the Thorold Facility has an economic incentive to operate in a manner that maximizes dispatch profit.

The Panda-Brandywine facility is dependent on capacity payments due from Sempra. Capacity payments payable by Sempra would be reduced if the Panda-Brandywine facility cannot sustain 88% equivalent availability.

Under the Jardin LP PPA, failure to achieve a minimum production level set by Northland could result in a penalty payable to Hydro-Québec. German legislation governing payments to qualifying wind farms, such as Northland's German wind farms, contains no such obligations.

Northland's facilities are dependent for the export of their power on the electrical grids to which they are interconnected. While the grids operate at a high level of reliability, on occasion they may be taken down by unusual weather conditions or for maintenance; the Fund has no ability to mitigate the economic impact or to recover the economic loss from the grid operators.

### **Natural Gas Supply, Transportation and Price**

The gas-fired facilities and the biomass facilities owned or managed by Northland may be affected by the availability, or lack of availability, of a stable supply of fuel at reasonable or predictable prices. To the extent possible, such facilities attempt to match fuel cost-setting mechanisms in supply agreements to PPA energy payment formulas. To the extent that fuel costs are not matched well to PPA energy payments, increases in fuel costs may adversely affect the profitability of the facilities. To the extent there is insufficient fuel supply, the profitability of the facilities may be adversely affected.

The amount of energy to be generated at the facilities is highly dependent on suppliers under certain natural gas fuel supply agreements fulfilling their contractual obligations. The loss of significant fuel supply agreements or an inability or failure by any supplier to meet its contractual commitments could have an adverse impact on the facilities' ability to produce electricity and steam, which would, in turn, reduce the revenues and profitability. In addition, any failure by the entities that transport the natural gas to the facilities to deliver natural gas to the respective facilities will have an adverse impact on free cash flow.

Upon the expiry or termination of existing fuel supply agreements, Northland will have to renegotiate these agreements or may need to source fuel from other suppliers. There can be no assurance that Northland will be able to renegotiate these agreements or enter into new agreements on similar terms. Furthermore, there can be no assurance as to availability of the supply or pricing of fuel under new arrangements, and it can be very difficult to accurately predict the future prices of fuel.

A portion of Kingston LP's revenue is earned through the resale of contracted natural gas, which is contingent on market prices. A prolonged deterioration of gas market prices may affect Northland's free cash flow; however, increases in electricity production and sales would reduce the impact of reduced gas resale revenues.

### **Environment, Health and Safety**

Northland's facilities are subject to numerous and significant laws, including statutes, regulations, bylaws, guidelines, policies, directives and other requirements governing or relating to, among other things, air emissions; discharges into water; the storage, handling, use, transportation and distribution of dangerous goods and hazardous and residual materials, such as chemicals; the prevention of releases of hazardous materials into the environment; the prevention, presence and remediation of hazardous materials in soil and groundwater, both on- and off-site; land use and zoning matters; and workers' health and safety matters. As such, the operation of the facilities carries an inherent risk of environmental, health and safety liabilities (including potential civil actions, compliance or remediation orders, fines and other penalties)

and may result in the facilities being involved from time to time in administrative and judicial proceedings relating to such matters, which could have a materially adverse effect on Northland's business, financial condition and results of operations.

All current generating equipment at Iroquois Falls Corp., Kingston LP and Thorold LP is designed to produce NOx emissions below the current applicable standards. Ontario legislation that came into effect in 2004 introduced a cap and trade system with respect to NOx emissions. Installation of the new gas turbines at the Iroquois Falls facility in 2003 reduced NOx emissions well below the levels specified by the new legislation. NOx emissions from Kingston LP's and Thorold LP's existing generating equipment fall well below those levels.

In response to concerns about climate change, in 2006 the federal government introduced its Clean Air Plan, which included long-range objectives for the reduction of carbon dioxide and other greenhouse gas ("GHG") emissions. The government indicated that total emissions of GHGs were expected to be restricted through intensity limits (usually specified in terms of allowable tonnes released/MWh). As of yet, the federal government has not introduced any legislation or regulations detailing the exact mechanisms it plans to use to limit emissions, nor has it established any firm timelines. More recently the Canadian federal government has taken the position that it does not plan to take action in this area until the U.S. federal government indicates how it will be proceeding on the issue. During 2010 the U.S. Congress considered draft legislation that might have introduced a GHG cap and trade system to the U.S. However, the mid term elections in the fall of 2010 resulted in a significant realignment of political interests in Congress, particularly in the House of Representatives. As a result of those changes it would appear extremely unlikely that any national U.S. GHG cap and trade system will be legislated until 2012 at the earliest.

Several Canadian provinces have indicated that they intend to regulate the production of carbon dioxide and other GHGs, possibly in association with several regional initiatives led by various American states. Ontario has signaled it would like to have its GHG program in place for the 2012 compliance period. At this point in time it remains to be seen how these provincial and regional initiatives will proceed and the impacts they might have on Northland. The Kyoto Accord's first compliance period commenced January 2008 (and ends in 2012), and the federal government does not have any programs or legislation in place to impose any specific restrictions on Northland's facilities aside from certain reporting requirements.

The U.S. federal administration continues to have difficulty advancing its climate change initiatives. In the absence of legislative progress, the U.S. Environmental Protection Agency ("U.S. EPA") has indicated that it will create regulations in this area, and U.S.-based regional GHG programs (most notably the Regional Greenhouse Gas Initiative and the Western Climate Initiative) are being promoted and may establish regulatory compliance requirements (in conjunction with participating provincial and state governments). This may become relevant to Northland as certain provincial governments (possibly Ontario, Quebec, British Columbia or Manitoba) could continue efforts to harmonize elements of their domestic GHG regulatory requirements with those developed by the U.S. EPA or the regional programs in the U.S. described above. It should be noted that in addition to the legislative and policy uncertainty in this area, there is additional uncertainty related to litigation that has been brought in various U.S.

jurisdictions that could impact the ability of governments or the U.S. EPA to regulate in this area.

Management continues to monitor the actions of the federal governments in Canada and the U.S., along with relevant state, provincial and regional initiatives related to GHG regulation.

Although management believes the operation of each of the facilities is currently in material compliance with applicable environmental laws, licences, permits and other authorizations required for the operation of the facilities and although there are environmental monitoring and reporting systems in place with respect to all facilities, there is no guarantee that more stringent laws or regulations will not be imposed, that there will not be more stringent enforcement of applicable laws or that such systems will not fail, which may result in material expenditures. Failure by the facilities to comply with any environmental, health or safety requirements or increases in the cost of such compliance, which could be a result of unanticipated liabilities or expenditures for investigation, assessment, remediation or prevention, could possibly result in additional expense, capital expenditures, restrictions and delays in the facilities' activities, the extent of which cannot be predicted.

### **Labour Relations**

Employees at the Iroquois Falls Facility and the Kirkland Lake Facility are unionized. In the event of a strike or lock-out, the ability of Iroquois Falls Corp. and Kirkland Lake Corp., respectively, to operate may be limited and its ability to generate cash available for distribution may be impaired. Employees at the Cochrane Facility, Kingston Facility, Jardin d'Éole Facility, Thorold Facility and the Panda-Brandywine Facility are not unionized.

### **Reliance on Third Parties**

Northland is reliant on Panda Global Services Inc. with respect to the management of the Panda-Brandywine Facility and enXco GmbH with respect to the management of the German Wind Farms.

### **Insurance**

There can be no assurance that insurance obtained in respect of Northland's facilities including business interruption insurance, among others, will be sufficient or will continue to be offered on commercially reasonable terms, or that events that could give rise to a loss or liability are insured or reasonably insurable.

### **Variability of Wind-Based Revenue**

The wind resources at Northland's wind farms will vary. Although management believes that the wind survey and historical data that have been collected demonstrate that the sites are economically viable, weather patterns could change or the historical data and technical predictions could prove not to reflect accurately the strength and consistency of the wind in the future. If there is insufficient wind, the underlying financial projections regarding the amount of electricity to be generated by the wind farms may not be met, and free cash flow and the ability to meet debt service obligations could be materially adversely affected.

### **Construction Risk**

There is a risk that delays and/or material cost over-runs will be incurred in the course of the construction of Northland's current and future development projects. There is further risk that

the projects, once constructed, will not immediately perform as intended. Any significant delays in construction and/or any performance measures that cannot be corrected may have an adverse impact on Northland's operations and financial performance.

### **Interest Rate Risk**

Interest rate fluctuations are of particular concern to a capital-intensive industry such as the electric power business. Northland faces interest rate and debt refinancing risk in respect of floating-rate bank credit facilities used for construction financing. Northland's ability to refinance debt when due is dependent on debt capital market conditions that can change from time to time. To minimize this risk, Northland will, if possible, enter into interest rate swap agreements to effectively fix the interest rate on floating rate debt.

### **Currency Fluctuations**

Northland has payment obligations in U.S. dollars, primarily related to the service agreements for the gas turbines at Iroquois Falls, Kingston and Thorold. Exchange rate fluctuations between the U.S. and Canadian dollars may affect free cash flow. Northland enters into foreign exchange forward contracts where applicable to minimize the risk associated with currency fluctuations.

Northland also receives cash flows in euros from its investment in Germany. Exchange rate fluctuations between the euro and the Canadian dollar may affect the cash flow of Northland. To partially mitigate its exposure to exchange rate fluctuations between the euro and the Canadian dollar, Northland entered into foreign exchange forward contracts in respect of its net investment in the German wind farms that fix the exchange rate for a substantial portion of the interest and principal payments to be received from its German subsidiaries to 2014.

Northland is obligated to make delivery of euros at the stated amounts on a semi-annual basis on each of the forward contracts even if the euro loan repayments are not made. This would require Northland to purchase euros on the open market at the relevant time. To the extent that Northland has engaged in risk-management activities related to the euro and Canadian dollar exchange rates, Northland may not benefit from favourable exchange rate movements and could become subject to credit risks associated with the counterparties with which it contracts.

The projects Northland is developing and/or constructing may utilize equipment purchased from foreign suppliers. Fluctuations in exchange rates relative to the Canadian dollar could have a material impact on the cost of this equipment and thus have a negative impact on the feasibility of one or more of the projects. Again, Northland enters into foreign exchange forward contracts where applicable to minimize the risk associated with currency fluctuations. In addition, certain PPAs have foreign exchange mitigation built in prior to operations beginning.

### **Credit Risk**

Credit risk arises from cash and cash equivalents held with banks and financial institutions, counterparty exposure arising from derivative financial instruments, loan advances, receivables due from customers and loan commitments from financial institutions for the construction of the Spy Hill, North Battleford and Mont Louis projects. The maximum exposure to credit risk, other than for the loan commitments, is equal to the carrying value of the financial assets.

The objective of managing counterparty risk is to prevent losses in financial assets. To meet this objective and assure the predictability of distributions, a majority of Northland's revenues are

under long-term contracts with creditworthy counterparties, such as government-related entities, and Northland's foreign exchange and interest rate swap contracts are with creditworthy financial institutions. Kingston LP and Iroquois Falls Corp.'s electricity sales are to OEFC, Thorold LP's are to the OPA and the Independent Electricity System Operator ("IESO") and Jardin LP's sales are to Hydro-Québec, all government-related entities.

As at December 31, 2010, approximately 39% of Northland's consolidated accounts receivable were associated with electricity sales to government-related entities. While this excludes the German wind farm receivables, as the counterparties are local power distribution companies, those electricity power rates are legislated. In addition, due to the current construction of the Spy Hill, North Battleford and Mont Louis projects, approximately 55% of Northland's consolidated accounts receivable were associated with input tax credits and cost reimbursements owing from provincial and federal governments and Hydro-Québec. Northland and its subsidiaries have not provided allowance accounts and do not hold collateral from their counterparties, other than a \$4.7 million letter of credit from AbitibiBowater related to electricity sales at the Thorold Facility. All reported accounts receivable amounts at December 31, 2010, are current. During 2010 Northland wrote off a \$1.1 million receivable from the Iroquois Falls facility's steam off-taker (see Note 7 of Northland's 2010 Annual Report for additional information).

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

### **Financing Risk**

Although Northland expects to finance its current and future projects using cash from operations and non-recourse project financing, there can be no assurance that sufficient capital will be available on acceptable terms to fund acquisitions, investments, capital expenditures or expansion projects. In addition, any particular loan provided to Northland or a subsidiary may go into default, and this may cause Northland to lose its investment in the project. Most of Northland's facilities and projects currently have term loan or other financing arrangements in place with various lenders. These financing arrangements are typically secured by all of the project assets and contracts, as well as the equity interests in the project operating entities. The terms of these financing arrangements generally impose many covenants and obligations on the part of the project operating entity and other borrowers and guarantors. In many cases, a default by any party under a project operating agreement (such as a PPA) will also constitute a default under the project's term loan or other financing arrangement. Failure to comply with the terms of these term loans or other financing arrangements, or events of default thereunder, may prevent cash distributions by the project or the project operating entity and may entitle the lenders to demand repayment and enforce their security against project assets. In addition, if an event of default should occur, the lenders are entitled to take possession of the equity interests in project operating entities that have been pledged to such lenders by the owners.

### **Development Prospects**

Northland expends funds on prospective development projects before it can determine that such prospective projects are technically and financially feasible. The nature of some of these expenditures is somewhat speculative. Northland is, in some cases, required to advance funds

and post letters of credit in the course of development of these projects. Some of the factors that could cause a prospective development project to fail are the following:

1. **Ability to Secure Favourable Sites.** The ability to demonstrate site control in respect of favourable sites for potential projects is a key factor in the evaluation of a proposal submitted pursuant to a competitive RFP or other power sales process, in applications for project financing, and ultimately in the successful development and operation of a generation project. There is significant competition and costs associated with locating and securing favourable sites.
2. **Ability to Secure PPAs.** The ability to secure new PPAs is a key factor that will impact on Northland's ability to successfully develop and operate new generation projects. Many potential PPAs are awarded through competitive RFP processes that require significant expenditure of resources and have an uncertain outcome.
3. **Permitting.** There is a risk that Northland will be unable to obtain all necessary permits, consents, licences and approvals. Failure to obtain all such permits or the experiencing of material delays in the permit process can impact project viability and ultimately cause the Fund to have to abandon the project.
4. **Equipment and Turbine Supply.** Northland's ability to successfully develop projects will be affected by the availability and the cost of equipment and turbines charged by manufacturers and suppliers. There is a risk that increases in the cost of equipment and turbines could adversely affect a prospective project's profitability. Furthermore, there is a risk that a supplier will be unable to meet its obligations under the supply agreement which could in turn cause Northland to be in breach of its obligations under a PPA or to incur significant additional costs
5. **Increasing Competition.** The power generation industry is characterized by intense competition, and Northland faces competition from utilities, industrial companies and other independent power producers, in particular with respect to uncontracted output. In recent years, there has been increasing competition among generators in an effort to obtain PPAs and this competition has contributed to a reduction in electricity prices for PPAs in certain markets.

If certain of the development prospects are not completed, this could negatively affect Northland's financial results. This exposure is reduced by performing a detailed analysis of project economics throughout the various stages of development and by maintaining a prudent level of development-related expenditures in relation to the financial resources of Northland.

### **Liquidity Risk**

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

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

- Northland may be unable to settle or recover a financial asset at all.

Northland's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. Northland achieves this by endeavouring to pay out less than 100% of its distributable cash in distributions to Unitholders and through the availability of funding from committed credit facilities.

Northland is also subject to internal liquidity risk as it conducts its business activities through separate legal entities (subsidiaries and affiliates) and is dependent on receipts of cash from those entities to defray its corporate expenses and to make distributions to Unitholders. Certain of those entities have outstanding debt that was incurred to help fund the entities' original investments.

Under the credit agreements for such debt, it is conventional for distributions of cash to Northland to be prohibited if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark debt service coverage ratio. For the period ended December 31, 2010, Northland and its subsidiaries were in compliance with all debt covenants.

### **Regulatory and Political Changes**

The regulatory environment in the markets in which Northland operates is complex and always evolving. Generation facilities are subject to extensive regulation by multiple agencies that cover all levels of government. There is ongoing risk of particular policies or regulatory changes which may be adopted that negatively impact Northland's ability to develop and manage projects as it has in the past. Given the long development cycle of generation, there is also a risk that an unforeseen political or regulatory change could adversely impact the viability of a potential project which could ultimately lead Northland to abandon the project.

### **Legal Contingencies**

Northland and its subsidiaries may be named as defendants in various claims and legal actions. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management. Management does not expect the outcome of claims or potential claims to have a material adverse effect on Northland. Details of Northland's litigation, claims and contingencies are outlined in note 33 of Northland's audited consolidated financial statements on page 133 of the Annual Report.

### **Variability of Dividends**

The actual amount of cash dividends to Common Shareholders will depend on numerous factors, including the financial performance of Northland's operations, ability to meet debt covenants and obligations, working capital requirements, future capital requirements and tax related matters. The market value of the Common Shares may deteriorate if Northland is unable to maintain its cash dividend levels in the future, and that deterioration may be material.

### **Tax Related Risks**

There can be no assurance that Canadian, United States or German income tax laws will not be changed in a manner that adversely affects Northland and its Shareholders.

Northland is subject to various uncertainties concerning the interpretation and application of Canadian and U.S. tax laws that could affect Northland's profitability and cash flows. On at least a quarterly basis, management reviews its estimates of current and future tax liabilities and regularly reviews its tax filing positions with external tax experts. Revisions to Northland's tax liabilities, which could be material, may be required if new information is received that affects management's estimates and/or tax filing positions.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

To the knowledge of Northland, there are no legal proceedings or regulatory actions, potential or outstanding, involving Northland that will have a material adverse effect on it. See note 33 to the audited consolidated financial statements, entitled "Litigation, Claims and Contingencies" on page 133 of the Annual Report for additional information.

### **INTERESTS OF EXPERTS**

To the best knowledge of Northland, the "designated professionals" (as defined in Form 51-102F2 to National Instrument 51-102 – *Continuous Disclosure Obligations*) of Crosbie & Company Inc., which firm provided a fairness opinion included in the Management Information Circular dated May 20, 2010 in connection with the Arrangement, beneficially owned, directly or indirectly, less than 1% of the outstanding Units.

## BOARD OF TRUSTEES AND OFFICERS OF THE FUND

The table below shows the names and province and country of residence of the members of the Fund's Board of Trustees, their principal occupations during the five preceding years and the year they first became Trustees. Each Trustee is appointed to serve until the next annual meeting of Unitholders or until his or her successor is elected or appointed.

Pursuant to the Arrangement, on January 1, 2011, each Trustee became a director of Northland.

<b>Name and Province of Residence</b>	<b>Positions held with the Fund</b>	<b>Year Became Trustee<sup>(1)(2)</sup></b>	<b>Principal Occupation(s) during five-year period ending December 31, 2010</b>
<b>James C. Temerty C.M.</b> <sup>(8)</sup> Ontario, Canada	Chair and Trustee	2003	Previously Chair of NPI
<b>Linda L. Bertoldi</b> <sup>(9)</sup> Ontario, Canada	Trustee	2010	Partner, Borden Ladner Gervais LLP (law firm)
<b>Dr. Marie Bountrogianni</b> <sup>(6)(8)</sup> Ontario, Canada	Trustee	2009	President and Executive Director, ROM Governors from 2007 to 2011; previously the Minister of Intergovernmental Affairs for Ontario and Minister, Democratic; previously the Minister of Children and Youth Services and Minister of Citizenship and Immigration for Ontario
<b>Pierre R. Gloutney</b> <sup>(4)(9)</sup> Quebec, Canada	Trustee	2003	Previously Chair, MF Global Canada Co. and Chair and Chief Executive Officer, MAN Financial Canada Co. (formerly, Refco Canada Co.), previously President, Refco Futures (Canada) Ltd. (investment dealer)
<b>V. Peter Harder</b> <sup>(3)(6)(7)</sup> Ontario, Canada	Trustee	2010	Senior Policy Advisor, Fraser Milner Casgrain LLP (law firm)
<b>The Right Honourable John N. Turner, Q.C.</b> <sup>(3)(5)(6)</sup> Ontario, Canada	Lead Trustee	2003	Partner, Miller Thomson LLP (law firm)

Notes:

- (1) Prior to the reorganization that took place as of July 1, 2003, each of the Trustees, except Dr. Bountrogianni, Ms. Bertoldi and Mr. Harder, had been a director of Iroquois Falls Corp. since 1997.
- (2) Prior to the reorganization that took place as of July 16, 2009, each of the Trustees, except Dr. Bountrogianni, Ms. Bertoldi and Mr. Harder, had been a Trustee of CT since 2003.
- (3) Member of the Audit Committee.
- (4) Chair of the Audit Committee.
- (5) Chair of the Governance and Nominating Committee and Lead Trustee (and, after January 1, 2011, Lead Director).
- (6) Independent Trustee.
- (7) Chair of Compensation Committee.
- (8) Member of Compensation Committee.
- (9) Member of Governance and Nominating Committee

The table below shows the names and province and country of residence of the executive officers of the Fund, their positions held with the Fund and their principal occupations during the five preceding years.

<b>Name and Province of Residence</b>	<b>Positions held with Northland</b>	<b>Principal Occupation(s) during five-year period ending December 31, 2010</b>
<b>John W. Brace</b> Ontario, Canada	President and Chief Executive Officer	President and Chief Executive Officer of the Fund since 2009; also President and Chief Operating Officer of CT since 2004 and Chief Executive Officer of CT since 2007; also President and Chief Executive Officer of NPI since 2003; previously also Chief Operating Officer of the Fund
<b>Sam Mantenuto</b> Ontario, Canada	Chief Operating Officer and Chief Development Officer	Chief Development Officer of the Fund since 2010; Chief Operating Officer of the Fund since 2009; previously Chief Operating Officer of NPI; previously Vice-President of NPI
<b>Anthony F. Anderson</b> Ontario, Canada	Chief Financial Officer	Chief Financial Officer of the Fund since 2009; also Chief Financial Officer of CT and NPI since 2003 and 2001, respectively

Pursuant to the Arrangement, on January 1, 2011, the following individuals are officers of Northland Power Inc., in addition to individuals listed in the previous chart:

<b>Name and Province of Residence</b>	<b>Positions held with Northland</b>	<b>Principal Occupation(s) during five-year period ending December 31, 2010</b>
<b>Gemi (Jim) Cipolla</b> Ontario, Canada	Vice President, Gas and Electricity Marketing	Vice President, Gas and Electricity Marketing since 2003
<b>David Dougall</b> Ontario, Canada	Vice President, Operations	Vice President, Operations since 2010; previously General Manager, Operations; previously General Manager, Engineering
<b>Dino Gliosca</b> Ontario, Canada	Vice President, Engineering	Vice President, Engineering since 2010; previously General Manager, Engineering
<b>Michael D. Shadbolt</b> Ontario, Canada	Vice President and General Counsel	Partner, Macleod Dixon LLP (law firm) from 2007 to 2010, previously Partner, Borden Ladner Gervais LLP (law firm)

## UNIT OWNERSHIP

As of December 31, 2010, 5,188,146 Units, representing 7% (2009 – 8%) of the total outstanding Units, were beneficially owned, directly or indirectly, or controlled by the Trustees and executive officers of the Fund. Including 34,141,676 Special Voting Units, 36% (2009 – 38%) of all voting rights of the Fund were owned, directly or indirectly, or controlled by Trustees and executive officers of the Fund.

## AUDIT COMMITTEE

Northland's Board has established an Audit Committee composed of Messrs. Gloutney, Harder and Turner, all of whom are independent, as defined in National Instrument 52-110 *Audit Committees* (the "**Audit Committee Rule**"). The Audit Committee of Northland meets with representatives of management to discuss internal controls, financial reporting issues and auditing matters related to Northland. Northland's Board has adopted an Audit Committee Charter which sets out terms of reference for the Audit Committee consistent with the Audit Committee Rule. The Audit Committee Charter, as revised following the Arrangement, is attached as Schedule "A" to this Annual Information Form.

All of the members of the Audit Committee are financially literate and Northland's Board has determined that all members of the Audit Committee are independent – in each case as required by the Audit Committee Rule.

The relevant experience of each of the Audit Committee members is as follows:

**Pierre Gloutney (Chair)** – Mr. Gloutney was previously the Chair and CEO of MF Global Canada Co. and has over 35 years of experience in the securities business. Mr. Gloutney is the former chair of the Derivatives Committee of the Investment Dealers Association. Mr. Gloutney was previously vice-chair, governor and member of the executive committee of the Montreal Exchange and previously a member of the executive committee and governor of the Canadian Derivatives Clearing Corp.

**V. Peter Harder** – Mr. Harder is a Senior Policy Advisor for Fraser Milner Casgrain LLP. Prior to joining Fraser Milner Casgrain LLP, Mr. Harder was a long serving Deputy Minister in the Government of Canada. Mr. Harder is the former Secretary of the Treasury Board of Canada and Comptroller General of Canada. Mr. Harder was previously a member of the executive committee and board of governors of the Canadian Comprehensive Audit Foundation. Since 2008, Mr. Harder serves as an independent advisor to the Auditor General of Canada.

**The Right Honourable John N. Turner** – Mr. Turner is a partner at the law firm of Miller Thomson LLP. Prior to joining Miller Thomson LLP, Mr. Turner served in the House of Commons for almost 25 years. Mr. Turner is a former prime minister of Canada and former federal Minister of Finance, among a number of other government positions he has held.

The Audit Committee is required to approve all audit and pre-approve all non-audit services provided to Northland by Northland's external auditor.

Please see below for disclosure regarding fees paid by Northland to its external auditors, Ernst & Young LLP.

A copy of the Audit Committee Charter is included as Schedule "A" to this Annual Information Form and is filed on SEDAR and can be reviewed and obtained from the website, [www.sedar.com](http://www.sedar.com).

#### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as disclosed in this Annual Information Form, none of the Trustees, directors or executive officers of Northland, or any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of Northland's outstanding voting securities, or any associate or affiliate of any of the foregoing persons or companies, has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect Northland.

James C. Temerty, previously a CT Trustee and Fund Trustee and the Chair of CT and the Fund, is indirectly the sole shareholder of NPHI, JCT Management Inc. and the Jardin Vendors. Upon completion of the Merger, NPHI acquired 25,914,650 Class A Units, 8,067,723 Class B Units

and 8,496,078 Class C Units of Holdings LP and 35,623,732 Special Voting Units of the Fund in exchange for all of the shares of NPI. NPHI was also repaid an amount of up to \$35 million, which was used to repay a loan in an equal amount from CIBC. JCT Management Inc. received Units as consideration for the purchase of a loan of \$24,557,333 owing by NPI. On January 31, 2010, the Jardin Vendors received \$21.5 million in cash for the transfer of 66.5% of Jardin LP to a subsidiary of the Fund.

After completion of the Merger, Mr. Temerty owned beneficially, directly or indirectly, or had control or direction over, approximately 39% of the voting rights in the Fund.

### AUDITORS

Ernst & Young LLP, Chartered Accountants, Ernst & Young Tower, 222 Bay Street, Toronto-Dominion Centre, Toronto, Ontario are the auditors of Northland.

#### Audit and Other Fees

For the years ended December 31, 2010 and 2009, Ernst & Young LLP were paid approximately \$871,392 and \$871,392 respectively, as detailed below, for services to the Fund and its wholly-owned subsidiaries.

	<b>Year-ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Ernst & Young LLP		
Audit fees	\$1,243,978	\$833,392
Other audit related services	\$ 25,000	\$ -
Non-audit services – tax	\$17,655	\$ -
All other fees	\$60,773	\$38,000
<b>Total</b>	<b>\$1,347,406</b>	<b>\$871,392</b>

Included in the 2010 audit fees are amounts paid to Ernst & Young LLP related to Northland's July 2010 prospectus. "Other audit related services" are related to the issuance of Northland's 2010 management information circular, while "non-audit services – tax" relate to Northland's corporatization.

In 2010 and 2009, "All other fees" include translation services.

### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Units (and, after January 1, 2011, Common Shares), Convertible Debentures and Series 1 Preferred Shares of Northland is Computershare Trust Company of Canada, 100 University Avenue, Toronto, Ontario.

### ADDITIONAL INFORMATION

Additional information relating to Northland may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, and principal holders of Common Shares, will be contained in Northland's Management Information

Circular to be filed in connection with the Annual Meeting of Common Shareholders to be held on May 26, 2011.

Additional financial information, including the consolidated financial statements of Northland and Management's Discussion and Analysis, is provided in the Annual Report.

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## GLOSSARY OF TERMS

The following is a glossary of certain terms used in this Annual Information Form.

“**2011 Debentures**” means the 6.50% convertible unsecured subordinated debentures of Northland due June 30, 2011.

“**2014 Debentures**” means the 6.25% convertible unsecured subordinated debentures, Series A of Northland due December 31, 2014.

“**AbitibiBowater**” means AbitibiBowater Inc.

“**AbitibiBowater Iroquois Falls Mill**” means the pulp and paper manufacturing facility owned by AbitibiBowater situated approximately 500 metres from the Iroquois Falls Facility in Iroquois Falls, Ontario.

“**AbitibiBowater Thorold Mill**” means the recycled newsprint mill owned by AbitibiBowater located in Thorold, Ontario 120 kilometres southwest of Toronto near the U.S. border.

“**Annual Report**” means the Fund’s annual report for the year ended December 31, 2010.

“**Arrangement**” means the arrangement under the provisions of section 182 of the *Business Corporations Act* (Ontario) pursuant to which the Fund converted from an income trust to a corporation called Northland Power Inc., which owns all of the assets and is subject to all of the liabilities (other than intercompany assets and liabilities) of the Fund, and continues the business of the Fund and its subsidiaries of developing, constructing, financing, owning, managing and operating power projects.

“**Audit Committee Rule**” means National Instrument 52-110 Audit Committees.

“**Beaver Cove Facility**” means the wood waste processing plant built in 2003 at Beaver Cove, near Port Hardy on the north end of Vancouver Island, British Columbia.

“**Board of Directors**” means the board of directors of Northland.

“**Canfor**” means Canadian Forest Products Ltd.

“**CD Indenture**” means the trust indenture made as of August 26, 2004 between the Fund and Computershare, as amended and restated by the amended and restated trust indenture dated as of October 14, 2009, and as supplemented by the first supplemental indenture dated as of October 15, 2009, and as supplemented by the second supplemental indenture dated as of January 1, 2011.

“**Cenovus**” means Cenovus Energy Inc., formerly EnCana Corporation.

“**Chips LP**” means Northland Power Chips LP, a wholly-owned subsidiary of NPI.

“**CHP**” means combined heat and power.

“**CHP Contract**” means the CHP agreement dated October 16, 2006 between Thorold LP and the OPA in connection with the sale of electricity from the Thorold Facility.

“**Class A Units**” means the Class A exchangeable limited partnership units of Holdings LP.

“**Class A Shares**” means the Class A shares in the capital of Northland.

“**Class B Units**” means the Class B convertible limited partnership units of Holdings LP.

“**Class B Convertible Shares**” means the Class B convertible shares in the capital of Northland.

“**Class C Units**” means the Class C convertible limited partnership units of Holdings LP.

“**Class C Convertible Shares**” means the Class C convertible shares in the capital of Northland.

“**CO**” means carbon monoxide.

“**CO<sub>2</sub>**” means carbon dioxide.

“**Cochrane Facility**” means the 42 MW biomass and natural gas-fired combined cycle facility owned by Cochrane Power Corp. located in Cochrane, Ontario and all ancillary assets.

“**Cochrane Power Corp.**” means Cochrane Power Corporation.

“**COD**” means the commercial operations date.

“**Cogeneration**” means the simultaneous production of electricity and thermal energy in the form of heat or steam from a single fuel source.

“**Cogeneration Associates**” means Cogeneration Associates Limited, a wholly-owned subsidiary of NPI.

“**Computershare**” means Computershare Trust Company of Canada.

“**Common Shares**” means the common shares in the capital of Northland.

“**Common Shareholders**” means the holders of the Common Shares.

“**Convertible Debentures**” means the 2011 Debentures and 2014 Debentures.

“**Conversion Date**” means January 16, 2012.

“**CRA**” means Canada Revenue Agency.

“**CT**” or “**Trust**” means NPIF Commercial Trust, a trust established pursuant to the laws of Ontario, all of the units of which were owned by the Fund.

“**CT Supplemental Trust Indenture**” means the supplemental and restated trust indenture dated as of July 16, 2009 which governed CT.

“**CT Trustees**” means the board of trustees of CT.

“**Debenture Trustee**” means Computershare Trust Company of Canada, as trustee pursuant to the CD Indenture.

“**ECT**” means economic connection test.

“**FIT**” means the Feed-in Tariff established pursuant to the GEA.

“**FIT Program**” means the program established by the OPA with respect to renewable energy generation projects pursuant to the GEA.

“**Fund**” means Northland Power Income Fund, an unincorporated open-ended trust established pursuant to the laws of Ontario.

“**Fund Board**” or “**Fund Trustees**” means the board of trustees for the Fund.

“**Fund Trust Indenture**” means the supplemental and restated trust indenture dated as of July 16, 2009, which governed the Fund.

“**GEA**” means the *Ontario Green Energy and Green Economy Act, 2009*.

“**General Electric**” or “**GE**” means one or more of the General Electric Company and its affiliates.

“**German Wind Farms**” mean the two wind farms located in Eckolstädt and Kavelstorf, Germany with a total installed capacity of 21.5 MW that the Fund acquired on April 25, 2006.

“**GHG**” means greenhouse gas.

“**Holdings LP**” means NPIF Holdings L.P., an Ontario limited partnership.

“**Hydro-Québec**” means Hydro-Québec, a Quebec Crown Corporation.

“**IESO**” means the Independent Electricity System Operator for Ontario.

“**Independent Trustee**” means a Trustee who is independent for the purposes of National Instrument 58-101, Disclosure of Corporate Governance Practices.

“**INVISTA**” means INVISTA (Canada) Company.

“**Iroquois Falls Corp.**” means Iroquois Falls Power Corp., a wholly-owned subsidiary of CT continued under the laws of Ontario.

“**Iroquois Falls Facility**” means the 120 MW electricity and steam generating facility located in Iroquois Falls, Ontario, and all ancillary assets.

“**Iroquois Falls Power Purchase Agreement**” means the agreement dated February 11, 1994, as amended, which provides for the sale of electricity by Iroquois Falls Corp. to OEFC.

“**Jardin d’Éole Facility**” means the 127.5 MW wind farm located near the municipalities of Saint-Ulric, Saint-Léandre and Matane, Quebec.

“**Jardin LP**” means Saint-Ulric Saint-Leandre Wind L.P., a Quebec limited partnership which owns the Jardin d’Éole Facility.

“**Jardin Vendors**” means, collectively, 978355 Ontario Limited and 1424898 Ontario Inc.

“**Kingston Facility**” means the 110 MW electricity and steam generating facility and all ancillary assets located near Kingston, Ontario and owned by Kingston LP.

“**Kingston LP**” means Kingston CoGen Limited Partnership, a limited partnership established pursuant to the laws of Ontario.

“**Kingston Power Purchase Agreement**” means the agreement dated May 6, 1994, as amended, which provides for the sale of electricity by Kingston LP to OEFC.

“**Kirkland Lake Corp.**” means Kirkland Lake Power Corp.

“**Kirkland Lake Facility**” means the 102 MW baseload power plant that came on line in 1991 and a 30 MW peaking facility built in 2004 near Kirkland Lake, Ontario owned by Kirkland Lake Corp.

“**Loblaw**” means Loblaw Companies Limited.

“**LP Agreement**” means the limited partnership agreement made as of March 13, 2009, as amended and restated on July 16, 2009 which governed Holdings LP.

“**LTIP Rights**” means the 190 stakeholder participation units issued to the NPI LTIP Participants under the NPI LTIP, which in the aggregate entitled the NPI LTIP Participants to approximately an 18% equity interest in NPI as a result of the Merger with the Fund.

“**LTEP**” means Long-Term Energy Plan.

“**Manager**” means NPIFMI.

“**Manulife**” means The Manufacturers Life Insurance Company.

“**Megawatt**” or “**MW**” means 1,000 kilowatts of electrical energy.

“**Merger**” means the indirect acquisition by the Fund, on July 16, 2009, of all of the issued and outstanding shares of NPI from NPHI and the completion of related transactions, on the terms and conditions set forth in the share purchase agreement dated April 23, 2009, as amended.

“**Miller LP**” means Mount Miller Wind Energy Limited Partnership/Énergie Éolienne du Mont Miller Société en commandite, a limited partnership formed and existing pursuant to the *Legal Publicity Act* (Quebec).

“**Minister**” means the Minister of Energy and Infrastructure of Ontario.

“**Mount Louis LP**” means the limited partnership which owns the Mount Louis Wind Farm.

“**Mount Louis Wind Farm**” means the 100 MW wind farm located near the town of Mont Louis in the Gaspé region of Quebec.

“**MWh**” means 1,000 kilowatt hours of electrical energy.

“**Northland**” means, prior to January 1, 2011, the Fund, and after January 1, 2011, the corporation resulting from the amalgamation of the Fund and certain subsidiaries of the Fund pursuant to the terms of the Arrangement, called Northland Power Inc.

“**North Battleford Facility**” means the 260 MW electricity generating facility and all ancillary assets to be constructed and located near North Battleford, Saskatchewan and owned by North Battleford LP.

“**North Battleford LP**” means North Battleford Power L.P., a limited partnership established pursuant to the laws of Ontario.

“**NO<sub>x</sub>**” means nitrogen oxides, a by-product of fossil fuel electricity generation.

“**NPHI**” means Northland Power Holdings Inc., an Ontario corporation and parent of NPI until July 15, 2009.

“**NPI**” means Northland Power Inc., a corporation amalgamated under the laws of Ontario, which was the former parent company of the Manager.

“**NPI LTIP**” means the long-term incentive plan for senior management of NPI under which participants had the right to acquire shares of NPI in certain circumstances.

“**NPI LTIP Participants**” means John W. Brace, Anthony F. Anderson, Salvatore Mantenuto, Dino Gliosca, Frederick G. Brown, David Dougall and Jim Cipolla.

“**NPIFMI**” means Northland Power Income Fund Management Inc., a corporation incorporated under the laws of Ontario pursuant to the *Business Corporations Act* (Ontario).

“**OEFC**” means Ontario Electricity Financial Corporation, the successor to Ontario Hydro as continued by the *Electricity Act, 1998* (Ontario) that holds all rights, obligations and liabilities related to the Iroquois Falls Power Purchase Agreement and the Kingston Power Purchase Agreement.

“**off-peak**” means times that are not on-peak, and includes the hours between 11:00 p.m. and 7:00 a.m. local time at the Iroquois Falls Facility and the Kingston Facility on non-holiday weekdays and all hours on weekends and public holidays as designated by OEFC.

“**on-peak**” means 7:00 a.m. to 11:00 p.m. local time at the Iroquois Falls Facility and the Kingston Facility on weekdays, excluding public holidays designated by OEFC.

“**OPA**” means the Ontario Power Authority.

“**OPG**” means Ontario Power Generation Inc., a corporation formed under the laws of Ontario.

“**Ordinary Units**” means the ordinary limited partnership units of Holdings LP.

“**Original Fund Trust Indenture**” means the trust indenture dated February 17, 1997, which established the Fund, as replaced by the amended and restated trust indenture dated as of April 15, 1997 and further amended as at July 1, 2003. The Original Trust Indenture was replaced by the Fund Trust Indenture.

“**Panda-Brandywine Facility**” means the 230 MW natural gas-fired combined-cycle facility, located near Brandywine, Maryland, U.S.A.

“**Panda-Brandywine, L.P.**” means the limited partnership which owns the Panda-Brandywine Facility.

“**PEC**” means Panda Energy Corporation, a corporation existing under the laws of Texas, U.S.A.

“**PEPCO**” means Potomac Electric Power Company, a District of Columbia and Virginia, U.S.A., corporation.

“**PIC**” means Panda Interfunding Company LLC, a limited liability company existing under the laws of Delaware, U.S.A.

“**PPA**” means a power purchase agreement.

“**Prefco**” means Northland Power Preferred Equity Inc., a corporation incorporated under the laws of the Province of Ontario, which, as at December 31, 2010, was wholly-owned by Holdings LP.

“**PV**” means solar photovoltaic.

“**Régie**” means the Régie de l'énergie.

“**Replacement Rights**” means the rights of NPI LTIP Participants to acquire Units (or after January 1, 2011, Common Shares) for no additional payment, on or after the Conversion Date.

“**RFP**” means a Request for Proposals.

“**Rights Exchange Agreements**” means the rights exchange agreements entered into by the Fund, NPI and NPI LTIP Participants as of April 23, 2009, as amended, pursuant to which the NPI LTIP Participants were granted Replacement Rights.

“**S&P**” means Standard & Poor's Ratings Services, a division of The McGraw Hill Companies (Canada) Corporation.

“**SaskPower**” means Saskatchewan Power Corporation.

“**Sempra**” means Sempra Energy Trading LLC.

“**Sempra Transaction**” has the meaning attributed thereto under the heading “Narrative Description of the Business – The Fund’s Facilities – The Panda-Brandywine Facility - The Panda-Brandywine Facility’s Sales, Supply, Management and Maintenance Contracts”.

“**Series 1 Preferred Shares**” means, prior to January 1, 2011, the Cumulative Rate Reset Preferred Shares, Series 1 in the capital of Prefco, and after January 1, 2011, the Cumulative Rate Reset Preferred Shares, Series 1 in the capital of Northland.

“**Series 2 Preferred Shares**” means, prior to January 1, 2011, the Cumulative Floating Rate Preferred Shares, Series 2 in the capital of Prefco, and after January 1, 2011, the Cumulative Floating Rate Preferred Shares, Series 2 in the capital of Northland.

“**SO<sub>2</sub>**” means sulfur dioxide.

“**Special Voting Units**” means the units of the Fund designated as “Special Voting Units” under the Fund Trust Indenture.

“**Spy Hill Facility**” means the 86 MW electricity generating facility and all ancillary assets to be constructed and located near Spy Hill, Saskatchewan and owned by Spy Hill LP.

“**Spy Hill LP**” means Spy Hill Power L.P., a limited partnership established pursuant to the laws of Ontario.

“**Summer**” means April through September inclusive.

“**Sun Life**” means the Sun Life Assurance Company of Canada.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder.

“**Thorold LP**” means Thorold CoGen LP, an Ontario limited partnership which owns the Thorold Facility.

“**Thorold Facility**” means the 265 MW cogeneration facility owned by Thorold LP located in Thorold, Ontario, 120 kilometres southwest of Toronto near the US border.

“**TSX**” means the Toronto Stock Exchange.

“**UCCMM**” means the United Chiefs and Councils of Mnidoo Mnising.

“**Unitholder**” means a unitholder of the Fund.

“**Units**” means the trust units of the Fund, each unit representing an equal undivided beneficial interest in the Fund.

“**U.S. EPA**” means the U.S. Environmental Protection Agency.

“**Valuation Date**” means the COD.

“**Western**” means Western Forest Products.

“**Winter**” means October through March inclusive.

Words importing the singular include the plural and vice versa and words importing any gender include all genders.

## SCHEDULE “A”

### NORTHLAND POWER INC.

### AUDIT COMMITTEE CHARTER

#### Purpose of the Audit Committee

The Audit Committee (the “**Committee**”) is appointed by the Board of Directors (the “**Board**”) to assist the Board in fulfilling its oversight responsibilities for Northland Power Inc. (the “**Corporation**”) with respect to the accounting and financial reporting requirements, the system of internal controls and management information system, risks and risk management policies, the external audit process, and monitoring compliance with laws and regulations applicable to the Corporation, any other corporations, trusts, partnerships or other entities which may be owned or controlled by the Corporation (the “**Entities**”).

The Audit Committee shall report the results of its activities and associated recommendations to the Board with respect to the financial statements of the Corporation.

#### Meetings and Procedures

The Audit Committee shall meet at least four times a year or more frequently if necessary.

Meetings of the Audit Committee may be held at the call of the Chair or upon request by two members on two days’ prior notice to all members or, by agreement of all members of the Committee, without notice and may be held at the offices of the Corporation or at such other location as the Chair may determine. Meetings may also be held by conference telephone call where all members of the Committee can hear each other. A quorum for all meetings of the Audit Committee shall be two members. The Chair shall be responsible for agendas for the Committee and agendas and briefing materials shall be prepared and circulated in advance of the meeting.

The Audit Committee may determine its own procedures and shall keep minutes of its proceedings and report on its activities at each meeting of the Board.

#### Audit Committee Responsibilities

- (i) *Annual Review of Audit Committee Charter*

The Audit Committee shall maintain this Audit Committee Charter which sets out the Committee’s mandate and responsibilities, and review at least annually this Charter to ensure that it conforms to the requirements of National Instrument 52-110 (the “**Audit Committee Rule**”) and the requirements of any other relevant securities regulations.

(ii) *The External Auditor*

Management is responsible for the preparation of the financial statements of the Corporation and, as applicable, the Entities. The external auditor is responsible for auditing those financial statements.

The Audit Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report, or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting. The Audit Committee must recommend to the Board:

- (A) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation and the Entities; and
- (B) the compensation of the external auditor.

The Audit Committee shall require the external auditor to report directly to the Audit Committee and shall monitor the independence and performance of the external auditor of the Corporation. The Audit Committee shall monitor the integrity of the financial statements of the Corporation, the financial reporting processes and systems of internal controls.

The Audit Committee must review and approve the hiring policies, as applicable, of the Corporation and the Entities regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation.

(iii) *Pre-Approval of All Audit and Non-Audit Services*

The Audit Committee shall approve all audit and pre-approve all non-audit services to be provided to the Corporation and, as applicable, the Entities by the Corporation's external auditor. The Audit Committee may delegate to one or more of its members the authority to pre-approve all non-audit services, provided that: (i) the Audit Committee establishes pre-approval policies that are detailed as to the particular service; and (ii) any such pre-approval of non-audit services by any member to whom such authority has been delegated must be presented to the Audit Committee at its first scheduled meeting following such pre-approval.

The Audit Committee satisfies the pre-approval requirement if: (i) the aggregate amount of non-audit services that were not pre-approved is reasonably expected to be no more than 5 per cent of total fees paid to the external auditor during the fiscal year in which the services are provided; (ii) the services were not recognized as non-audit services by the Corporation at the time of the engagement; and (iii) the services are immediately brought to the attention of the Audit Committee and approved, prior to the completion of the audit.

(iv) *Financial Statement Review*

The Audit Committee shall review the Corporation's financial statements, management's discussion and analysis, and annual and interim earnings press releases and shall determine whether to recommend approval thereof to the Board before such documents are publicly disclosed on behalf of the Corporation.

The Audit Committee shall be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, and must assess the adequacy of such procedures on an annual basis.

(v) *Compliance with Laws and Regulations*

The Audit Committee shall receive regular reports with respect to compliance with laws and regulations having a material impact on the financial statements including tax matters.

(vi) *Complaints and "Whistle Blowers"*

The Audit Committee shall establish procedures for:

- (A) the receipt, retention and treatment of complaints received by the Corporation and the Entities regarding accounting, internal accounting controls, or auditing matters; and
- (B) the confidential, anonymous submission by employees of the Corporation or of the Entities of concerns regarding questionable financial reporting, accounting or auditing matters.

**Composition of the Audit Committee**

(i) *Number of Members*

The Audit Committee shall be composed of at least three directors of the Corporation, appointed by the Board from time to time. Each member of the Audit Committee shall continue to be a member until a successor is appointed unless the member resigns, ceases to be qualified to serve or ceases to be a director. The Chair of the Audit Committee shall be appointed by the Board.

(ii) *Financial Literacy*

Every member of the Audit Committee must be financially literate. An Audit Committee member who is not financially literate may be appointed to the Audit Committee, provided that such a member becomes financially literate within a reasonable period of time following his or her appointment.

“Financially literate” means having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.

(iii) *Independence*

Each member of the Audit Committee must be a director who is independent for the purpose of the Audit Committee Rule, that is a director who has no direct or indirect material relationship with the Corporation or the Entities, as applicable, other than interests and relationships arising from the holding of shares of the Corporation. A material relationship means a relationship which could, in the view of the Board, reasonably interfere with the exercise of a member’s independent judgment. Appendix I to this Charter describes in greater detail the requirements under the Audit Committee Rule and other applicable securities laws in effect as at the date of this Charter concerning the circumstances in which an individual is considered to have a material relationship with an issuer.

(iv) *Position Description - Audit Committee Chair*

The fundamental responsibility of the Chair of the Audit Committee is to effectively manage the duties of the Audit Committee with respect to the Corporation:

Key Responsibilities of the Chair

- ensures that the Audit Committee is properly organized, functions effectively and meets its obligations and responsibilities
- establishes the frequency of Audit Committee meetings and reviews such frequency from time to time, as considered appropriate, or as requested by the Board or the Audit Committee
- presides at Audit Committee meetings
- establishes the agenda and related matters for committee meetings
- liaises and communicates with the Chair of the Board as necessary to co-ordinate input from the Audit Committee for Board meetings
- liaises and communicates with the Corporation’s external auditors as necessary
- on behalf of the Audit Committee, reports to the Board on committee meetings
- serves as a person to whom confidential disclosures may be made under the Corporation’s Financial Integrity Policy

### **Authority and Resources of the Audit Committee**

The Audit Committee has the authority to:

- (a) engage independent counsel and other advisors as it determines necessary to carry out its duties. For greater certainty the Audit Committee has the authority to retain, at the Corporation's expense, special legal, accounting or such other advisors, consultants or experts it deems necessary in the performance of its duties;
- (b) set and pay the compensation for any advisors employed by the Committee. The Corporation or the Entities shall at all times make adequate provisions for the payment of all fees and other compensation, approved by the Committee, to the external auditor in connection with the issuance of its audit report, or to any consultants or experts employed by the Committee;
- (c) communicate directly with the internal and external auditors; and
- (d) conduct any investigation which it considers appropriate, and to communicate directly with and have direct access to the internal and external auditor as well as officers and employees of the Corporation and the Entities, as applicable.

### **Risk Management and Insurance**

The Audit Committee shall review at least annually significant risk management strategies for the Corporation and the Entities and exposure in the following areas and such other areas as the Committee may deem appropriate from time to time:

- (i) foreign currency, interest rate and commodity hedging strategies; and
- (ii) insurance coverage.

Approved by the Board as of January 1, 2011.

## APPENDIX I

### MEANING OF INDEPENDENCE

#### Part A: Meaning of Independence

1. An audit committee member is independent if he or she has no direct or indirect material relationship with the issuer.
2. For the purposes of subsection (1), a “**material relationship**” is a relationship which could, in the view of the issuer’s board of directors, be reasonably expected to interfere with the exercise of a member’s independent judgement.
3. Despite subsection (2), the following individuals are considered to have a material relationship with an issuer:
  - (a) an individual who is, or has been within the last three years, an employee or executive officer of the issuer;
  - (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the issuer;
  - (c) an individual who:
    - (i) is a partner of a firm that is the issuer’s internal or external auditor,
    - (ii) is an employee of that firm, or
    - (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer’s audit within that time;
  - (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual;
    - (i) is a partner of a firm that is the issuer’s internal or external auditor,
    - (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or
    - (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer’s audit within that time;
  - (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the issuer’s current executive officers serves or served at that same time on the entity’s compensation committee; and

- (f) an individual who received, or whose immediate family member who is employed as an executive officer of the issuer received, more than \$75,000 in direct compensation from the issuer during any 12 month period within the last three years.
- 4. For the purposes of clauses (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
- 5. For the purposes of clause (3)(f), direct compensation does not include:
  - (a) remuneration for acting as a member of the board of directors or of any board committee of the issuer, and
  - (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.
- 6. Despite subsection (3), an individual will not be considered to have a material relationship with the issuer solely because the individual or his or her immediate family member
  - (a) has previously acted as an interim chief executive officer of the issuer, or
  - (b) acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the issuer on a part-time basis.
- 7. For the purpose of Part A, an issuer includes a subsidiary entity of the issuer and a parent of the issuer.

**Part B: Additional Independence Requirements**

- 1. Despite any determination made under Part A, an individual who
  - (a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or
  - (b) is an affiliated entity of the issuer or any of its subsidiary entities,is considered to have a material relationship with the issuer.
- 2. For the purposes of subsection (1), the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by

- (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or
  - (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary entity of the issuer.
3. For the purposes of subsection (1), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.