NORTHLAND POWER INC.

NPI.TO

AUGUST 2014

PORTLAND INVESTMENT COUNSEL®

Business Description:

Northland Power Inc. is an independent power producer (IPP) with a focus on developing, owning and operating power generation facilities in thermal, wind and solar energy areas. As of June 30, 2013, the company had 20 facilities in operation, totaling 1,335 megawatts (MW) of installed capacity, of which 974MW is thermal generation (natural gas or combined cycle natural gas), 280MW is wind generation and 81MW is solar generation. Most significant operations are: North Battleford (Saskatchewan), Thorold, Iroquois Falls and Kingston (Ontario) for thermal, Jardin d'Eole and Mont Louis in Gaspesie (Quebec) and McLean's Mountain (Ontario) for wind. The company is active in Canada, Europe and the US. The company was founded in 1987, was publicly listed in 1997 as an income trust, in 2009 acquired Northland Power Inc., a privately owned project development company, and in 2011 converted into a publicly listed corporation. The company is headquartered in Toronto and, as of December 31, 2013, had 290 employees.

Investment Thesis:

Northland Power has over 25 years of experience in developing, building and owning projects that generate electricity over the long term using a range of clean-burning natural gas and renewable energy sources. The company has a long standing record of project execution delivering its project under budget and on time as well as full lifecycle ownership and operation of the completed projects.

Long dated power purchase agreements (PPA). Northland's weighted average PPA life was 13.9 years as of July 2014. In addition, some of the current PPAs have extension options. The relatively long remaining duration of existing PPA provides the company increased certainty of returns and of cashflows, which, in turn, allows Northland to finance a portion of ongoing capital expansion programs and continue to pursue greenfield developments.

Fuel risk is mitigated either through hedging or passed-through to the offtaking counterparty in the PPA contracts. The PPAs and fuel supply contracts are aligned for each project such that revenues and cost escalations are substantially linked.

Diversification. Northland Power has diversified its generating portfolio both geographically, from Northern Ontario to the rest of the province and, thereupon, to Quebec, Saskatchewan and Europe, as well as resource-wise, with thermal generation giving way to wind and solar power.

Northland Power has experienced fast growth as an independent power producer. Northland Power's installed capacity has increased from 608MW in 2009 to 1329MW in 2013. Meanwhile, the company's adjusted earnings before interest, tax, depreciation and amortization (AEBITDA) grew from $98 million to $263 million, which represents a 28% compound annual growth rate (CAGR).

Significant upside potential through successful execution of the Gemini project. Northland Power has a 60% equity interest in Gemini, a 600MW offshore wind project off the coast of the Netherlands in the North Sea. Upon completion, Gemini will be the largest wind farm in the North Sea and 2nd largest offshore wind farm in the world. The project has all permits in place and reached financial closing in May of 2014. Expected commercial operation date (COD) is in 2017.

Deep project development pipeline. Northland Power's development pipeline amounts to more than 2,500MW capacity, about double the current operating capacity. While the company has traditionally operated in more mature markets such as Canada, US and Europe, it is presently dedicating particular attention to fast growing emerging markets, such as Latin America and the nascent de-regulated Mexican market.

Northland's management is heavily invested in the company. The senior management of Northland owns 39% of the company's outstanding shares, providing for direct and substantial alignment of the management and shareholders' interests. Direct ownership of a large stake in the company also ensures management is focused on sustainable long-term returns, rather than quarterly performance.

Capital discipline. Northland Power only deploys capital in projects delivering, at a minimum, mid-teen internal rates of return, backed by long-term power contracts and exhibiting predictable economics. The portion of the debt financing associated with each project is fully amortizing with a term matching the duration of the project's PPA. The company hedges the interest rate and foreign exchange risks associated with each project's borrowings. The company's credit rating was upgraded to BBB by Standard & Poor's in November of 2013.

The company finances each project on a non-recourse basis. Northland Power uses project financing to add to its generating base. The company's ability to undertake new projects is less driven by the size of the corporate balance sheet, but rather by the economic feasibility and attractiveness of each individual project. Conversely, to the extent to which a project is not delivered on budget and on time, the company's risk exposure is limited to the amount of equity participation in each project.

Stable, predictable dividend payout. The company is committed to dividend sustainability, as proven by paying out a steady dividend through financially demanding build-up period. Northland Power's business model, as described above, pertains to long-term stable cash flow generation, with little association with risks characteristic to the public equity markets.

Industry Growth Drivers/Trends: (Industry: Independent Power Producers/Renewable Energy)

The abundant and relatively inexpensive natural gas, made possible by technological improvements which allowed access to non-conventional hydrocarbon reserves, is likely to spur acceleration in industrial production in North America. As a long standing independent developer, builder, owner and operator of clean-burning natural gas fired plants, Northland Power stands to benefit from providing thermal generated electricity to the expanding industry. Moreover, as countries all over the globe, developed or emerging, are taking steps in changing their carbon footprint, a shift towards cleaner, renewable electricity generation is a keystone to achieving such objectives and many nations have embedded pathways to a lighter carbon footprint in national policies. For example, the US Energy Information Administration (EIA) estimates that natural gas will surpass coal as the country's main source of energy for electricity generation by 2035.

Natural gas has been the marginal source of energy for electricity generation and as such has been driving wholesale price of electricity. Given the recent pull-back in the price of natural gas, in particular in North America, wholesale electricity prices have been trending lower in the North American markets. Northland Power's exposure to wholesale markets is minimal though, as the company secures its sales through long-term PPAs.

Energy policy shifts in developed markets, in particular in Northern Europe, which emphasize increased use of renewable power for electricity generation, have led to a number of closures or mothballing of coal and nuclear based power plants, with similar trends gaining ground in Canada and the US. In 2012, coal-fired and nuclear power plants together provided 56% of the electricity generated in the United States. Of the total installed 310 gigawatts (GW) of coal-fired generating capacity available at the end of 2012, 50 GW, or 16%, is projected to be retired by 2020, as per the US Energy Information Administration (EIA). Should coal-fired and nuclear power plants be retired, the electricity prices are expected to rise, as the relatively higher cost alternative and, to some extent, natural gas powered capacity is needed to fill in the supply gap. To meet the increased electricity demands, developing of alternative/renewable based electricity generation has been prioritized. Returns from renewable plants power projects are attractive and provide higher yielding alternative recurring income of to institutional investors, compared to government bonds.

Globally, 70% of the new power generation capacity added by 2030 will be from renewable sources, as projected by the International Energy Agency (IEA). Of the $10 trillion of investments needed by 2035, $6 trillion is expected to be allocated to renewable energy, as reported by the same agency in its most recent World Energy Outlook. Replacing power plants which are due to retire generates 60% of the need for investment in electricity generation in developed markets. Europe alone requires $2 trillion of investments by 2025, with much of the projects targeted being low-carbon, supplemented by thermal capacity.

The European Wind Energy Association estimates that there will be up to 150 gigawatts (GW) of installed offshore wind power in the EU by 2030, the equivalent of 14% of the European Union's electricity demand. There is currently 5GW of installed capacity in 58 operating offshore wind farms in European waters, with another 5.5 GW under construction or in advanced development. The balance of roughly 140GW that is likely to be built out to satisfy the requirements of European Union's Renewable Energy Directive, which calls for all member states to reach a 20% share of energy from renewable sources by 2020, provides ample scope for companies such as Northland Power, with a solid track record of delivering challenging renewable power projects on time and on budget.

Relatively lower returns in many mature de-regulated markets in developed countries, due to intense competitions, have driven utilities to look for investment opportunities in markets which have recently or are about to undergo deregulation processes, in particular Latin America and Eastern Europe, but also Asia and Africa.

Lower demand growth and flattened returns in mature markets have provided an impetus for consolidation, with larger utility operators looking to expand their operations by gathering assets from regional utilities and power producers.

Competitive Advantages:

- Experience: Strong track record as developer, builder (on time and on budget), owner and operator of power plants.
- Stable financial situation: Long term PPA contracts provide for stable cash-flow, which in turn allow the company to undertake new projects.

Competitors:

- **Canada IPP:** Algonquin Power & Utilities Corp, Atlantic Power Corp, Capital Power Corporation, TransAlta Corp
- **United States IPP:** AES Corp, Calpine Corp, Dynergy Inc, NRG Energy Inc.
- **Worldwide IPP:** Colbun SA (Chile), Endesa (Chile)
- **Utilities:** Emera, Fortis, American Electric Power, Duke Energy, EDF, Enersis, Exelon, Fortum, Iberdrola, NextEra Energy, E.ON, RWE

Customers:

- 97% of the company's revenues is contracted with government-related (Canada, Germany) entities through long-term power purchase agreements

Barriers to Entry:

- **Technical Expertise/Competitive bidding:** Less experienced developers, builders or operators of power projects are more likely to misprice their services in relation to the scope of each project and fail.
- **Large capital outlays:** Traditional utilities, which use on-balance-sheet financing are having a hard time funding large scale projects and keeping up with the growth requirements. Smaller players, without ample access to debt financing, are restricted to local projects.

Officers and Directors:

- **Leadership team:** Chairman of the Board, James (Jim) Temerty; Chief Executive Officer, John Brace; President, Chief Development Officer, Sean Durfy; Chief Financial Officer, Paul Bradley; Vice Chairman of the Board, Chief Operating Officer, Sam Mantenuto; Chief Investment Officer, Anthony (Tony) Anderson.

Corporate Governance:

- **7 member board** – of which 5 are independent directors.
- Chair of the Governance and Nominating Committee, Lead Director, The Right Honorable John Turner, QC; Chair of Audit Committee and Compensation Committee, Peter Harder.
- For 2013, the company reported the continuation of a strong healthy and safety record of no lost-time incidents.
- As part of Northland's Long-Term Incentive Plan (LTIP), Northland provides equity-settled share-based compensation to employees when projects achieve certain milestones.
- Northland Power's key management personnel remuneration is equivalent to 1.9% of the company's operating income.

Ownership:

- Insiders own 39% of outstanding shares. Institutions own 18.3% of outstanding shares. Notable holders include: James Temerty 34.6%, Aston Hill Asset Management 2.8%, BMO Asset Management 2.1%, CI Investments 2.0%, Guardian Capital 1.7%.

Capital Allocation/Uses:

- Northland Power generated $257 million of cash from operations in 2013, a 59% increase over 2012, driven by the addition of North Battleford (Saskatchewan) gas fired power plant, which commenced operations in June of 2013, as well as the addition of the ground-mounted solar facilities.
- The company used $444 million to fund its expansion, in particular the build-out of the North Battleford, ground-mounted solar facilities, as well as the McLean's Mountain wind project in Northern Ontario. The 2013 capital expenditures were 19% higher than prior year's investing activities related cash-flows. For 2014, capital expenditures are expected to increase to roughly $1 billion, as the project has reached financial closing and construction commenced.
- Generally, Northland Power targets internal rates of return (IRR) of roughly 15% for each of the projects undertaken.
- Project Gemini requires €2.8 billion, with equity financing of €0.4 billion, senior debt of €2.0 billion, subordinated debt of €0.2 billion and pre-completion revenues of €0.2 billion. Northland's total investment is $557 million, including subordinated debt investment of about $120 million.
- As of December 31, 2013, the company's net debt was just over $2 billion, with roughly $900 million in bonds and the remainder as bank loans. Most of the debt is project specific and is non-recourse to the parent company. The company also amortizes the project debt over the life of the initial PPA contracts.
- The company raised $286 in common shares and convertible debentures through public issuance and private placement earlier in 2014, to help finance its Gemini investment.
- Northland Power had its corporate credit rating upgraded by Standard&Poor's to BBB stable, highlighting Northland's successful completion of growth projects and ability to produce substantial cash flows in the future.
- The company does not expected to pay meaningful cash taxes until after the end of the current decade due to the magnitude of it capital cost allowance tax pools of around $2 billion.
- Northland Power is committed to paying a sustainable dividend, currently and for the foreseeable future at $1.08 per annum. The company's dividend to free cash flow payout ratio improved dramatically in 2013, to 102.9%, due to the addition of the cashflows from North Battleford. The company has in place a dividend re-investment program (DRIP) which has a rate of uptake of about 25%.

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Financial Statement Summary (CAD MM except per share items which is CAD, years ended December 31):	2009	2010	2011	2012	2013
Income Statement					
Total Revenue	193.37	312.49	356.22	361.68	557.24
Operating Income	50.42	72.66	74.48	73.31	159.60
EBITDA	81.87	134.67	147.78	162.30	257.39
Free Cash Flow per Share (Diluted)	1.09	0.85	0.71	0.55	1.05
Dividend per Share	1.08	1.08	1.08	1.08	1.08
Dividend Payout Ratio (Free Cash Flow)	99.08%	127.06%	152.11%	196.36%	102.86%
Balance Sheet					
Net Debt	630	847	1,156	1,670	2,031
Total Equity	706	207	680	701	879
Net Debt: Total Equity	89.24%	408.72%	170.07%	238.16%	230.93%
Cash Flow Statement					
Operating Cash Flow	65	141	127	162	257

Key Ratios and Figures:

	2011	2012	2013
Y/E December 31			
Operating Margin	20.91%	20.27%	28.64%
Interest Coverage	2.8x	2.6x	3.1x
Return on Invested Capital	-3.29%	-0.45%	6.45%
S&P Credit Rating	BBB-	BBB-	BBB

Key Ratios and Figures:

	Revenues (%)		Operating Profit (%)	
	2013	2012	2013	2012
Business Mix				
Thermal	86.3	82.1	101.3	101.2
Wind/Renewables	12.0	12.3	11.4	5.9
Other	1.7	5.6	-12.7	-7.1

Sourced from Thomson Reuters and Company Reports

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