MANAGEMENT'S DISCUSSION AND ANALYSIS

of Northland Power's Financial Position and Operating Results

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Section 1: Overview

Introduction

The purpose of this Management's Discussion and Analysis ("**MD&A**") is to help the reader understand the nature and importance of changes and trends as well as the risks and uncertainties that may affect the operating results and financial position of Northland Power Inc. ("**Northland**" or the "**Company**"). This MD&A should be read in conjunction with Northland's audited consolidated financial statements for the years ended December 31, 2017 and 2016. Additional information relating to Northland can be found in the Company's most recent Annual Information Form ("**2017 AIF**"), which is filed electronically on SEDAR at www.sedar.com under Northland's profile and posted on Northland's website at www.northlandpower.ca. All dollar amounts set out herein are in thousands of Canadian dollars, unless otherwise stated.

This MDA, dated February 22, 2018, compares Northland's financial results and financial position for the year ended December 31, 2017, with those for the year ended December 31, 2016. Northland's Audit Committee reviewed this MD&A and the associated audited consolidated financial statements and notes, and its Board of Directors approved these documents prior to their release.

Forward-Looking Statements

This MD&A contains forward-looking statements that are based on certain estimates and assumptions that were considered reasonable on February 22, 2018; actual results may differ materially. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans. Readers are cautioned that such statements may not be appropriate for other purposes. 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. Forward-looking statements are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects," "anticipates," "plans," "predicts," "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." These statements may include, without limitation, statements regarding future adjusted EBITDA, free cash flow, dividend payments and dividend payout ratios; the construction, completion, attainment of commercial operations, cost and output of development projects; litigation claims; plans for raising capital; and the future operations, business, financial condition, financial results, priorities, ongoing objectives, strategies and outlook of Northland and its subsidiaries. These statements are based upon certain material factors or assumptions that were applied in developing the forward-looking statements, including the design specifications of development projects, the provisions of contracts to which Northland or a subsidiary is a party, management's current plans and its perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Forward-looking statements are subject to numerous risks and uncertainties, which include, but are not limited to, financial risks, construction risks, counterparty risks, operational risks, risks relating to co-ownership, variability of revenues from generating facilities powered by intermittent renewable resources, power market risks and possible inflation risks and the other factors described in this MD&A and the 2017 AIF. Other than as specifically required by law, Northland undertakes no obligation to update any forward-looking statements to reflect events or circumstances after such date or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Non-IFRS Financial Measures

This MD&A and Northland's press releases include references to the Company's adjusted earnings before interest, income taxes, depreciation and amortization ("**adjusted EBITDA**"), free cash flow and applicable payout ratio and per share amounts, measures not prescribed by International Financial Reporting Standards (**IFRS**) and therefore, do not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. These measures should not be considered alternatives to net income (loss), cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. Rather, these measures are provided to complement IFRS measures in the analysis of Northland's results of operations from management's perspective. Management believes that adjusted EBITDA, free cash flow and applicable payout ratio and per share amounts are widely accepted financial indicators used by investors and securities analysts to assess the performance of a company, including its ability to generate cash through operations. For reconciliations of these non-IFRS measures to their nearest IFRS measure, refer to SECTION 5.4 Adjusted EBITDA for a reconciliation of consolidated net income (loss) under IFRS to reported adjusted EBITDA and SECTION 5.5 Free Cash Flow and Payout Ratios for a reconciliation of cash provided by operating activities under IFRS to reported free cash flow.

The following describes the non-IFRS measures used by management in evaluating Northland's financial performance.

Adjusted EBITDA

Adjusted EBITDA is calculated as net income (loss) adjusted for the provision for (recovery of) income taxes, depreciation of property, plant and equipment, amortization of contracts and other intangible assets, net finance costs, interest income from Gemini, fair value (gain) loss on derivative contracts, unrealized foreign exchange (gain) loss, gain on sale of development assets, elimination of non-controlling interests (excluding management and incentive fees to Northland), finance lease and equity accounting, and other adjustments as appropriate. Adjusted EBITDA includes Northland's share of overhead costs (management and administration) during construction that do not qualify for capitalization. Management believes adjusted EBITDA is a meaningful measure of Northland's operating performance because it excludes certain items included in the calculation of net income (loss) that may not be appropriate determinants of long-term operating performance.

Free Cash Flow

Free cash flow represents the cash generated from the business that management believes is representative of cash available to pay dividends while preserving long-term value of the business. Free cash flow is calculated as cash provided by operating activities adjusted for short-term changes in operating working capital; non-expansionary capital expenditures; interest paid on outstanding debt; scheduled principal repayments; future maintenance reserves; exclusion of pre-completion revenue and operating costs for projects under construction; non-controlling interests; timing of distributions received from equity investments; preferred share dividends; and net proceeds from sale of development assets. For clarity, Northland's free cash flow reflects the reduction for expenditures on development activities. Management believes free cash flow is a meaningful measure of Northland's operating performance because it adjusts the calculation of cash flow from operating activities for certain items to be reflective of long-term operating performance.

The free cash flow payout ratio indicates the proportion of free cash flow paid as dividends, whether in cash or in shares under Northland's dividend reinvestment plan (**DRIP**). The net payout ratio indicates the proportion of free cash flow paid as cash dividends (not reinvested). The payout ratio generally reflects Northland's ability to fund expansionary capital expenditures and sustain dividends.

Northland's debt and equity for a project are generally funded and/or committed at the beginning of construction, but it may be several years before the project starts to generate cash flow. As a result, from time to time, Northland may have a temporarily higher payout ratio than it would if the future free cash flow from projects under construction were reflected in the calculation. This factor may decrease the comparability of Northland's payout ratio to that of industry peers.

Enterprise Value and Total Debt

Management defines enterprise value as the sum of total debt and Northland's equity capitalization as at the reporting date. Total debt includes the carrying value of all project debt, corporate borrowings and convertible unsecured subordinated debentures. Equity capitalization is equivalent to the number of outstanding of common shares, Class A shares and preferred shares on the last trading date of the period times their respective closing price on that date. Management uses enterprise value to assess the total amount of capital employed to generate returns to shareholders.

Section 2: Strategy and Key Factors Supporting Sustainable Performance

Business Objective

Northland's primary objective is to provide its shareholders with sustainable cash flow and share value growth from the successful management of its assets, businesses and investments related to the production, delivery and sale of electricity-related products.

Dividends

Northland's Board of Directors and management are committed to maintaining the current monthly dividend of $0.10 per share ($1.20 on an annual basis) and are confident that Northland has adequate access to funds to meet its dividend commitment, including operating cash flows, corporate funds and, as necessary, its line of credit or external capital. The Board of Directors reviews the dividend policy periodically as part of Northland's overall capital allocation strategy to balance growth requirements and investor preferences.

Business Strategy

For Northland to successfully deliver on its vision to be a top clean and green power producer, Northland must excel in each of the following strategic pillars:

(i) Winning Business

Northland pursues sustainable growth and value creation by developing high-quality clean and green power projects supported by long-term revenue contracts, while carefully managing and mitigating development risks. The global shift to renewable energy sources is creating opportunities based on favourable government policies aimed at sustainability, energy security, and reducing greenhouse gas emissions. Northland operates, develops and constructs projects across a range of clean and green technologies, such as wind (offshore and on-shore), thermal (natural-gas-fired and biomass) and solar. Clean-burning natural-gas-fired plants provide reliable baseload and dispatchable power, grid support and backup for renewable generation as needed by the customer. Northland remains focussed on pursuing growth in North America, Europe and Asia, in addition to other jurisdictions that meet Northland's risk management criteria. Northland manages its development processes prudently by regularly balancing costs and risks against the probability of success.

(ii) Building Facilities

Northland aims to maximize shareholder value by engineering and constructing high-quality projects designed for the intended purposes of earning income from long-term revenue arrangements. Northland exercises judgment, discipline and acumen in its construction activities to ensure maximum success. Northland's successful record of on-time, on-budget project execution results from these core strengths and to consistent investor returns.

(iii) Operating Facilities

A core element of Northland's strategy is the optimization of project revenues and predetermined costs through long-term contracts with creditworthy counterparties. Where applicable, the key terms of operating 'facilities' long-term power purchase agreements (**PPA**) and fuel supply contracts are aligned for each facility such that revenues and cost escalations are substantially linked. This approach provides long-term predictability for each facility's operating income and cash flow, while ensuring ongoing environmental sustainability and the health and safety of employees and host communities.

Northland's management maximizes sustainable returns through a focus on efficient and effective facility operations; longer-term asset management; and structuring sales supply and maintenance agreements to maximize revenues while carefully managing risk. Opportunities to maximize returns beyond the contract terms are routinely sought and achieved.

With a commitment to continuous improvement, Northland's operations group shares its experiences with the development, engineering and construction groups on an ongoing basis, to ensure all knowledge gained is factored into the development and construction of any new projects Northland undertakes.

(iv) Organizational Effectiveness

Underpinning Northland's strategy is a focus on strong management of key corporate functions such as: governance; human resources and talent management; construction; environment; health and safety; finance and accounting; management information systems and communications. Management recognizes that a commitment to organizational effectiveness is an essential component of Northland's long-term success and continued growth.

Section 3: Northland's Business and Operating Facilities

As of December 31, 2017, Northland owns or has a net economic interest in completed power-producing facilities with a total operating capacity of approximately 2,029 MW. Northland's operating assets comprise facilities that produce electricity from renewable resources and natural gas for sale primarily under long-term PPAs or other revenue arrangements with creditworthy customers in order to provide stable cash flow.

Northland's MD&A and audited consolidated financial statements include the results of its operating facilities, the most significant of which are presented below:

	Completion date	Geographic region (1)	Economic interest (2)	Gross Production Capacity (MW)	Net Production Capacity (MW)
Offshore Wind					
Gemini	April 2017	The Netherlands	60%	600	360
Nordsee One	December 2017	Germany	85%	332	282
Thermal					
Iroquois Falls	January 1997	Ontario	100%	120	120
Kingston	February 1997	Ontario	100%	110	110
Kirkland Lake (3)	August 1993	Ontario	77%	132	102
North Battleford	June 2013	Saskatchewan	100%	260	260
Spy Hill	October 2011	Saskatchewan	100%	86	86
Thorold	April 2010	Ontario	100%	265	265
On-shore Renewables					
Cochrane Solar	October 2015	Ontario	63%	40	25
Grand Bend	April 2016	Ontario	50%	100	50
Jardin	November 2009	Quebec	100%	133	133
McLean's	May 2014	Ontario	50%	60	30
Mont Louis	September 2011	Quebec	100%	101	101
Solar	September 2014	Ontario	100%	90	90
Other				29	15
Total				**2,458**	**2,029**

(1) Thermal and on-shore renewables are located in Canada.

(2) As at December 31, 2017, Northland's economic interest was unchanged from December 31, 2016, with the exception of the sale of its German wind farms completed in November 2017. Refer to Operating Facilities Results section for additional information.

(3) Northland indirectly controls 100% of the voting interest of Kirkland Lake, while third-parties have non-voting ownership interests. Northland's effective net economic interest in Kirkland Lake is approximately 77%.

As of December 31, 2017, Northland had 252 MW of generating capacity under construction, representing the Deutsche Bucht Offshore Wind Project ("**Deutsche Bucht**" or "**DeBu**"). Furthermore, Northland has a portfolio of projects in various stages of development in Europe, North America and Asia.

Refer to the 2017 AIF for additional information on Northland's operating facilities and projects under construction.

Section 4: Consolidated Highlights

4.1 Significant Events

Significant events during 2017 and through the date of this MD&A are described below.

Nordsee One Offshore Wind Project

In December 2017, the Nordsee One offshore wind project achieved final completion, which marked the end of construction and the start of commercial operations, and commenced the term-loan phase of the project debt. The project was completed on schedule and under its total budget of €1.2 billion. Concurrently with final completion, Nordsee One renegotiated the project's €840 million senior debt reducing loan margins by 150 basis points.

Increase in Monthly Dividend

In December 2017, the Board of Directors declared an increased monthly dividend on Northland's common shares and Class A shares of $0.10 per month ($1.20 annually), an increase of 11% from the previous dividend of $0.09 per month ($1.08 annually) commencing with the dividend payable on January 15, 2018. The Board of Directors reviews the dividend policy periodically as part of Norhtland's overall capital allocation startegy to balance growth requirements and investor preferences.

Restructuring of Debt on Solar Facilities

In August 2017, Northland restructured the project debt relating to seven of its solar facilities, primarily to align the financing with Northland's ownership interest and reduce loan margins and certain reserving requirements.

Deutsche Bucht Offshore Wind Project

In August 2017, Northland acquired the Deutsche Bucht offshore wind project and achieved financial close, with full equity and debt commitments by Northland and project debt lenders. All key construction contracts have been signed, and manufacturing of the offshore substation, monopiles and transition pieces has commenced. Project completion is expected by the end of 2019. The total estimated project cost is approximately €1.3 billion. Northland has invested approximately $0.4 billion of corporate funds into the project to date. Refer to *Section 9: Construction and Development Activities* for additional information.

Enhanced Dispatch Contract for Iroquois Falls

In July 2017, Iroquois Falls executed an Enhanced Dispatch Contract (**EDC**) with the Independent Electricity System Operator (**IESO**) for the balance of the Iroquois Falls' PPA. The EDC, which succeeded an interim enhanced dispatch arrangement, took effect July 1, 2017, and has resulted in reduced greenhouse gas emissions, cost savings for Ontario electricity consumers and improved economics for Northland.

Completion of Gemini Offshore Wind Project

In April 2017, the Gemini offshore wind project achieved final completion. The project was completed ahead of schedule and under its total budget of €2.8 billion. Concurrently with final completion, Gemini renegotiated the project's €2 billion senior debt, reducing the weighted average all-in interest rate by 80 basis points and eliminated a cash sweep provision.

4.2 Operating Highlights

The following table presents certain IFRS and non-IFRS financial measures and operational results:

Year ended December 31,		2017		2016		2015
FINANCIALS						
Sales	**$**	**1,376,256**	$	1,099,000	$	728,141
Gross profit		**1,236,717**		905,760		502,449
Operating income		**632,126**		508,637		274,094
Net income		**275,836**		190,559		27,531
Adjusted EBITDA		**765,176**		626,879		402,107
Cash provided by operating activities		**849,007**		719,812		398,743
Free cash flow		**256,100**		242,324		182,158
Cash dividends paid to common and class A shareholders		**134,307**		139,890		137,852
Total dividends declared (1)		**189,981**		185,606		179,916
Total assets (2)		**10,280,517**		8,663,430		7,366,395
Total non-current liabilities (2)		**7,934,212**		6,806,663		5,542,986
Per Share						
Net income (loss) - basic	**$**	**0.85**	$	0.64	$	(0.07)
Free cash flow - basic	**$**	**1.46**	$	1.40	$	1.09
Total dividends declared (1)	**$**	**1.09**	$	1.08	$	1.08
ENERGY VOLUMES						
Electricity production in megawatt hours (**GWh**) (3)		**6,556**		6,392		5,245

(1) Represents total dividends declared to common and class A shareholders including dividends in cash or in shares under the DRIP.

(2) As at December 31.

(3) Includes Gemini and Nordsee One pre-completion production volumes. Refer to *Section 5.1 Operating Facilities' Results* for additional information.

Section 5: Results of Operations

5.1 Operating Facilities' Results

Offshore Wind Facilities

Northland's operating offshore wind facilities consist of Gemini and Nordsee One. The following table summarizes their operating results:

	Three months ended December 31,		Year ended December 31,	
	2017	**2016**	**2017**	**2016**
Electricity production (GWh)	**1,153**	623	**2,828**	1,003
Sales/gross profit (1) (2)	**$ 233,487**	$ 181,092	**$ 714,589**	$ 266,104
Plant operating costs (2)	**29,457**	16,352	**95,404**	31,765
Operating income	**133,542**	113,663	**392,855**	144,365
Adjusted EBITDA (3)	**144,513**	96,049	**397,276**	136,754

(1) Offshore wind facilities do not have cost of sales, and as a result, the reported sales figures equal gross profit.

(2) The sales/gross profit and plant operating costs include pre-completion revenues and the allocated plant operating costs for the operational wind turbines at Gemini up to April 28, 2017, and at Nordsee One up to December 21, 2017, when the facilities achieved final completion. Full revenues on all GWh generated are reflected in Gemini's operating results for 2017.

(3) Adjusted EBITDA includes Northland's share of overhead costs (management and administration) during construction for Gemini and Nordsee One, which did not qualify for capitalization.

Northland's operating offshore wind facilities are located in the North Sea, off the coasts of the Netherlands and Germany. Wind power generation is a form of renewable energy that harnesses and converts kinetic energy of wind into electrical energy. Wind facilities tend to produce more electricity during the winter due to denser air and higher winds compared to the summer.

Gemini achieved final completion in April 2017, ahead of schedule and under its total budget of €2.8 billion. Final completion marked the end of construction and allowed for completion of term conversion. As a result of these significant milestones, Gemini made its first cash distribution to its owners in May 2017. Gemini commenced earning pre-completion revenue from the second quarter of 2016 until final completion; the cash generated was used to offset construction costs until full responsibility for a turbine had passed from the contractor to Northland. Northland's share of net pre-completion revenue in excess of the amount required by project lenders to fund construction costs (the "**Gemini Completion Distribution**") totalled approximately €31.0 million.

Gemini has two 15-year subsidy agreements with the Government of the Netherlands, the first subsidy agreement for one half of the turbines commenced March 1, 2016, and the second subsidy agreement for the other half commenced July 1, 2016. The subsidies top up the wholesale market-based revenue generated by Gemini to a fixed, contractual rate per megawatt hour (**MWh**). The subsidies are subject to an annual production ceiling (the "**Gemini Subsidy Cap**"), beyond which, production earns revenue at wholesale market rates. In addition, the top up to a fixed contractual rate is subject to a floor price, thereby exposing Gemini to market price risk when the wholesale prices fall below the contractual floor price. Based on expected wind resources and resultant electricity production volumes, the Gemini Subsidy Cap, and the associated earnings, are expected to be achieved during the third or fourth quarter of the calendar year, which Northland takes into account in its forecasts. For the year ended December 31, 2017, the impact of the floor price on sales was approximately €11 million.

Nordsee One achieved final completion in December 2017 on schedule and under its total budget of €1.2 billion. Nordsee One commenced earning pre-completion revenue from the first quarter of 2017, with revenues and costs recorded in operating income as individual wind turbines became operational during the construction stage until final completion in December.

Each turbine in Nordsee One is entitled to a feed-in tariff (**FIT**) subsidy for approximately 10 years from the date of its commissioning, which is added to the wholesale market rate, effectively generating a fixed unit price for energy sold. The FIT compensates for production curtailments which may be required by the system operator.

In addition to the above factors, Gemini and Nordsee One results can also be affected by foreign exchange rate fluctuations. Foreign exchange rate fluctuations primarily impact adjusted EBITDA because Northland has entered into foreign exchange rate swaps for a substantial portion of anticipated cash flow.

Electricity production, including pre-completion production, for the three months and year ended December 31, 2017, was higher by 530 GWh and 1,825 GWh, respectively, compared to the same periods last year. During 2016, Gemini's turbines were progressively installed and commissioned until all turbines were producing power by the end of the third quarter of 2016. The increase was primarily due to all of Gemini'sturbines producing power throughout 2017. Gemini operating results for 2017 reflect full revenues on all GWh generated.

For the year ended December 31, 2017, Nordsee One earned the equivalent of 475 GWh in pre-completion production, including paid curtailment, and began generating revenue as individual turbines were commissioned over the course of 2017.

Pre-completion revenue is recognized in sales when full responsibility for a turbine has passed from the contractor to Northland, generally following a series of reliability and other tests. The table below summarizes total pre-completion production and revenue earned by Gemini and Nordsee One and the portion recognized in sales and as a deduction from construction in progress.

	Three months ended December 31,		Year ended December 31,	
	2017	2016	**2017**	2016
Pre-completion electricity production (GWh)	**326**	623	**1,289**	1,003
Pre-completion revenue in sales/gross profit [1]	**$ 105,301**	$ 181,092	**$ 381,457**	$ 266,104
Pre-completion revenue in construction in progress	**2,098**	(1,770)	**18,034**	13,771
Total pre-completion revenue	**$ 107,399**	$ 179,322	**$ 399,491**	$ 279,875

(1) Offshore wind facilities do not have cost of sales and as a result, the reported sales figures equal gross profit.

Pre-completion revenue in construction in progress is negative for the three months ended December 31, 2016 due to an adjustment recorded during that period. Nordsee One earned pre-completion revenue of $149.3 million for the year ended December 31, 2017, of which $131.2 million was recorded in sales and $18.0 million was recorded as a deduction from construction in progress.

Sales and *adjusted EBITDA*, for the three months ended December 31, 2017, increased $52.4 million and $48.5 million, respectively, compared to the same quarter last year primarily as a result of pre-completion revenue from Nordsee One, partially offset by lower results at Gemini primarily due to the annual Gemini Subsidy Cap being reached in November 2017. Sales and adjusted EBITDA, for the year ended December 31, 2017, increased $448.5 million and $260.5 million, respectively, compared to last year primarily as a result of full production from Gemini and pre-completion revenue from Nordsee One. Although foreign exchange rate fluctuations had a minimal impact on full year results from Gemini and Nordsee One, foreign exchange rate fluctuations for the fourth quarter resulted in $13.9 million higher revenue compared to the same quarter last year.

Plant operating costs, for the three months and year ended December 31, 2017, increased $13.1 million and $63.6 million, respectively, compared to the same periods last year primarily due to higher production.

Thermal Facilities

The following table summarizes the operating results and capital expenditures for the thermal facilities:

	Three months ended December 31,		Year ended December 31,	
	2017	**2016**	**2017**	**2016**
Electricity production (GWh)	**591**	1,064	**2,384**	4,191
Sales [1]	**$ 112,139**	$ 248,947	**$ 450,102**	$ 640,841
Less: cost of sales	**29,585**	55,630	**139,539**	193,240
Gross profit	**82,554**	193,317	**310,563**	447,601
Plant operating costs	**14,093**	17,787	**51,051**	56,094
Operating income	**58,730**	165,909	**220,930**	342,853
Adjusted EBITDA [2]	**$ 71,514**	$ 164,367	**$ 271,134**	$ 388,599
Capital expenditures [3]	**$ 1,110**	$ 4,609	**$ 4,622**	$ 10,554

(1) Northland accounts for its Spy Hill operations as a finance lease.
(2) Includes management and incentive fees earned by Northland for services provided to facilities not wholly owned by Northland.
(3) Capital expenditures exclude construction-related capital items. The majority of gas turbine maintenance is provided under long-term, fixed-price contracts and is expensed on the terms of those contracts.

Northland's thermal assets comprise baseload and dispatchable facilities. Baseload facilities generally operate at full output, with the objective of generating contracted on-peak and off-peak production volumes, and receive a fixed price for all electricity sold. Under certain baseload PPAs, the facility may operate at reduced output during off-peak periods at the request of the PPA counterparty and/or may be reimbursed for cost of sales from the counterparty. North Battleford and the majority of the generators at Kirkland Lake operate as baseload facilities.

Dispatchable facilities operate either when market conditions are economical or as requested by the PPA counterparty. These facilities receive contract payments that are largely dependent on their ability to operate according to contract parameters as opposed to maximizing production. Iroquois Falls, Thorold, Spy Hill and certain generators at Kirkland Lake operate as dispatchable facilities. Iroquois Falls operated as a baseload facility until January 1, 2017, and has operated as a dispatchable facility thereafter.

North Battleford, Thorold and Spy Hill have contractual structures that effectively allow for a pass-through of certain variable production costs and are therefore not financially impacted by changes in operating costs such as natural gas costs.

Subsequent to the expiration of Kingston's PPA on January 31, 2017, Ontario wholesale market prices have been insufficient to run the facility. Consequently, there was no production at Kingston from January 31, 2017. Sales for the year ended December 31, 2017, although minimal, were earned as a result of Kingston selling capacity in the New York Independent System Operator capacity market. Net income, adjusted EBITDA and free cash flow were commensurately lower than in the prior year since Kingston continues to incur certain fixed operating expenses. Collectively, Kingston's operations for the year are referred to as the "**Kingston Remarketing Initiative**".

Electricity production for the three months and the year ended December 31, 2017, decreased 473 GWh and 1,807 GWh, respectively, compared to the same periods last year primarily due to the Kingston Remarketing Initiative, the change in management's operating strategy at Iroquois Falls due to the EDC and fewer dispatches at Thorold. Changes in the volume of electricity produced at Iroquois Falls, Thorold, Spy Hill, and North Battleford have a minimal impact on gross profit under the terms of those facilities' PPAs.

Sales for the three months ended December 31, 2017 decreased $136.8 million to $112.1 million compared to the same quarter last year primarily due to the one-time receipt of retroactive payments in 2016 ($104.5 million), as well as the impact of the Kingston Remarketing Initiative ($25.8 million), and a planned maintenance shutdown at North Battleford ($9.1 million). The one-time retroactive payments were received from the Ontario Electricity Financial Corp (**OEFC**) and related to a legal dispute over the administration of PPA escalation indices at certain thermal facilities. The impact of these payments on sales was $104.5 million, and the impact on adjusted EBITDA and free cash flow, reflecting Northland's economic interest, was $94.7 million, as a result of facilities not wholly owned by Northland. Collectively, the impact of the one-time retroactive payments is referred to as the "**Global Adjustment Decision**". Sales for the year ended December 31, 2017, decreased $190.7 million to $450.1 million compared to last year, also primarily due to the Global Adjustment Decision impact of $104.5 million and the Kingston Remarketing Initiative impact of $95.3 million, partially offset by higher sales under the Iroquois Falls EDC ($9.5 million).

Gross profit for the three months and year ended December 31, 2017 decreased $110.8 million and $137.0 million, respectively, compared to the same periods last year due to similar factors as the sales variances described above, partially offset by lower cost of sales at Kingston.

Plant operating costs for the three months and year ended December 31, 2017, decreased $3.7 million and $5.0 million, respectively, compared to the same periods last year primarily as a result of maintenance agreement savings at Iroquois Falls and Kirkland Lake, service agreement savings at Thorold related to fewer dispatch starts, and lower costs due to the Kingston Remarketing Initiative.

Operating income for the three months and year ended December 31, 2017, decreased $107.2 million and $121.9 million, respectively, compared to the same periods last year as a result of lower gross profit, but was partially offset by lower plant operating and other costs described above.

Adjusted EBITDA for the three months and year ended December 31, 2017, was lower compared to the same periods last year due to the factors described above.

On-shore Renewable Facilities

The following table summarizes the operating results and capital expenditures of the on-shore renewable facilities:

	Three months ended December 31,		Year ended December 31,	
	2017	2016	**2017**	2016
Electricity production (GWh) - Actual	**381**	348	**1,344**	1,198
Electricity production (GWh) - Long-term forecast	**375**	285	**1,394**	1,076
On-shore wind	**$ 37,878**	$ 36,804	**$ 127,585**	$ 102,126
Solar	**11,107**	11,657	**83,980**	89,929
Sales/gross profit (1)	**48,985**	48,461	**211,565**	192,055
On-shore wind	**6,276**	6,045	**24,913**	20,978
Solar	**1,461**	1,567	**5,275**	4,914
Plant operating costs	**7,737**	7,612	**30,188**	25,892
Operating income	**18,106**	16,948	**88,614**	76,814
On-shore wind	**22,313**	20,188	**71,264**	59,342
Solar	**8,742**	9,372	**69,473**	75,784
Adjusted EBITDA (2)	**$ 31,055**	$ 29,560	**$ 140,737**	$ 135,126
Capital expenditures (3)	**$ 536**	$ (1,891)	**$ 4,302**	$ 2,533

(1) On-shore renewable facilities do not have cost of sales and, as a result, the reported sales figures equal gross profit.

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

(3) Capital expenditures exclude construction-related items. The majority of wind turbine maintenance is provided under long-term, fixed-price contracts and is expensed based on the terms of those contracts.

Northland's on-shore renewable assets comprise on-shore wind and solar facilities located in Ontario and Québec. On-shore wind projects are similar in nature operationally to offshore wind, however, with lower operating costs and generally lower wind resources. Northland's solar facilities use solar photovoltaic technologies to convert sunlight into electricity. Solar power facilities have much lower fixed operating expenses than thermal or wind facilities. Electricity production from solar facilities tends to be less variable than wind and is generally higher in the summer than in the winter.

Electricity production for the three months ended December 31, 2017, increased 33 GWh compared to the same quarter last year, primarily due to higher wind resources at Jardin and Mont Louis compared to last year. Electricity production for the year ended December 31, 2017, increased 146 GWh compared to last year primarily due to a full year of operations at Grand Bend, which declared commercial operations in April 2016 (the "**Grand Bend Commencement**"), as well as higher wind resources at Jardin, Mont Louis, and McLean's.

Sales for the three months ended December 31, 2017, of $49.0 million were consistent with the same quarter last year primarily due to higher production at Jardin and Mont Louis being offset by the impact of a shutdown at Grand Bend to complete a onetime planned substation reactor installation. Sales for the year ended December 31, 2017, increased $19.5 million to $211.6 million compared to last year primarily as a result of the impact of the Grand Bend Commencement being partially offset by the impact of higher-than-usual cloud cover at the solar facilities.

Plant operating costs for the three months ended December 31, 2017, were consistent with the same quarter last year. Plant operating costs for the year ended December 31, 2017, increased $4.3 million to $30.2 million compared to last year primarily due to the impact of the Grand Bend Commencement as well as higher variable service fees at McLean's due to higher production.

Operating income for the three months ended December 31, 2017, increased $1.2 million compared to the same quarter last year primarily as a result of a higher contribution from Jardin and Mont Louis due to higher wind resources. Operating income for the year ended December 31, 2017, increased $11.8 million compared to last year due to the impact of the Grand Bend Commencement, partially offset by the associated commencement of depreciation.

Adjusted EBITDA for the on-shore renewable facilities for the three months ended December 31, 2017, increased $1.5 million compared to the same quarter last year primarily due to higher operating income at Jardin and Mont Louis. Adjusted EBITDA for the year ended December 31, 2017, increased $5.6 million to $140.7 million compared to last year primarily due to the impact of the Grand Bend Commencement.

Sale of Asset

In November 2017, Northland completed the sale of its 22 MW German wind farms for approximately €3.7 million.

5.2 Corporate and Development Costs and Other Income

The following table summarizes corporate and development costs and other income:

	Three months ended December 31,		Year ended December 31,	
	2017	2016	**2017**	2016
Management and administration costs				
Corporate operations	**$ 6,921**	$ 8,306	**$ 31,845**	$ 25,801
Corporate development	**2,929**	2,849	**13,456**	11,083
Corporate development projects	**4,143**	8,495	**23,329**	20,172
Corporate management and administration costs	**13,993**	19,650	**68,630**	57,056
Facilities	**4,831**	2,442	**11,312**	8,223
Management and administration costs	**18,824**	22,092	**79,942**	65,279
Adjusted EBITDA				
Corporate [1]	**(13,887)**	(17,766)	**(65,019)**	(55,172)
Gemini interest income	**5,415**	4,825	**20,514**	18,680
Other	**65**	61	**534**	2,892
Adjusted EBITDA	**$ (8,407)**	$ (12,880)	**$ (43,971)**	$ (33,600)

(1) Excludes costs associated with the strategic review that concluded in the third quarter of 2017.

Corporate development costs relate primarily to personnel, rent and other office costs that are not directly attributable to development projects. Corporate development projects costs are directly attributable to expenditures on development projects.

*Corporate management and administration (**M&A**) costs* for the three months ended December 31, 2017, decreased $5.7 million compared to the same quarter last year primarily due to the timing of early-stage development activities across a range of geographic locations ($4.4 million), as well as the impact of certain non-recurring costs incurred in the fourth quarter of last year, partially offset by higher personnel costs ($1.8 million). Corporate M&A costs for the year ended December 31, 2017, increased $11.6 million compared to last year primarily due to higher personnel costs ($8.3 million), including certain non-recurring costs ($1.3 million), and higher early-stage development activities across a range of geographic locations ($3.2 million).

Facility M&A costs for the three months and year ended December 31, 2017, increased $2.4 million and $3.1 million, respectively, compared to the same periods last year primarily due to higher costs at Gemini ($3.6 million and $4.4 million) as a result of partial capitalization of MD&A costs during commissioning in 2016.

Gemini interest income represents interest earned on the subordinated debt receivable from Gemini to Northland. Since Northland consolidates the financial results of Gemini, the subordinated debt balances and related investment income and interest expense eliminate upon consolidation; nevertheless, Gemini interest income is included in Northland's consolidated adjusted EBITDA.

5.3 Consolidated Results

The following discussion of the consolidated financial results of operations should be read in conjunction with Northland's audited consolidated financial statements for the year ended December 31, 2017.

	Three months ended December 31,		Year ended December 31,	
	2017	**2016**	**2017**	**2016**
Electricity production (GWh)	**2,125**	2,035	**6,556**	6,392
Sales	**$ 394,611**	$ 478,500	**$ 1,376,256**	$ 1,099,000
Less: Cost of sales	**29,585**	55,630	**139,539**	193,240
Gross profit	**365,026**	422,870	**1,236,717**	905,760
Expenses				
Plant operating costs	**51,287**	41,751	**176,643**	113,751
Management and administration costs - operations	**11,752**	10,748	**43,157**	34,024
Management and administration costs - development	**7,072**	11,344	**36,785**	31,255
Depreciation of property, plant and equipment	**102,087**	85,654	**361,365**	233,598
	172,198	149,497	**617,950**	412,628
Investment income	**418**	—	**418**	2,306
Finance lease income	**3,210**	3,276	**12,941**	13,199
Operating income	**196,456**	276,649	**632,126**	508,637
Finance costs, net	**94,468**	73,543	**333,469**	226,968
Amortization of contracts and intangible assets	**2,506**	(961)	**8,766**	13,517
Impairment	**—**	23,055	**—**	23,055
Foreign exchange (gain) loss	**(2,275)**	(4,373)	**(2,275)**	(2,022)
Fair value (gain) loss on derivative contracts	**(9,672)**	(173,108)	**(50,796)**	27,830
Other (income) expense	**6,633**	310	**21,281**	(27)
Income (loss) before income taxes	**104,796**	358,183	**321,681**	219,316
Provision for (recovery of) income taxes				
Current	**12,011**	6,915	**16,129**	10,749
Deferred	**10,504**	60,533	**29,716**	18,008
Provision for (recovery of) income taxes	**22,515**	67,448	**45,845**	28,757
Net income (loss)	**$ 82,281**	$ 290,735	**$ 275,836**	$ 190,559
Net income (loss) per share - basic	**$ 0.25**	$ 0.94	**$ 0.85**	$ 0.64
Net income (loss) per share - diluted	**$ 0.25**	$ 0.89	**$ 0.85**	$ 0.64

Fourth Quarter

Net income for the three months ended December 31, 2017, of $82.3 million was $208.5 million lower than the same quarter last year primarily due to a lower non-cash fair value gain on derivative contracts primarily as a result of the adoption of hedge accounting ($9.7 million gain compared to a $173.1 million gain in the fourth quarter of 2016), and receipt of one-time payments associated with the Global Adjustment Decision ($104.5 million) last year. These variances were partially offset by operating income from Gemini and Nordsee One, lower deferred taxes and no impairment charges during 2017.

The following describes the significant factors contributing to the change in net income for the quarter ended December 31, 2017:

Total Sales decreased $83.9 million and Gross profit decreased $57.8 million compared to the fourth quarter of last year primarily due to the impact of the Global Adjustment Decision, the annual Gemini Subsidy Cap this year and the Kingston Remarketing Initiative. These variances were partially offset by positive contributions from Nordsee One and the on-shore wind facilities.

Plant operating costs increased $9.5 million compared to the fourth quarter of last year primarily due to costs at Gemini and Nordsee One now that all wind turbines are in operation, partially offset by service agreement savings at Iroquois Falls and Kirkland Lake, and lower costs due to the Kingston Remarketing Initiative, as previously discussed.

Management and administration costs decreased $3.3 million compared to the fourth quarter of last year. Corporate M&A costs decreased $5.7 million primarily due to the timing of early-stage development activities as well as certain non-recurring costs in 2016, partially offset by higher personnel costs in 2017. Facility M&A costs increased $2.4 million primarily due to higher costs at Gemini as a result of partial capitalization of M&A costs during commissioning in 2016.

Finance costs, net (primarily interest expense) increased $20.9 million compared to the fourth quarter of last year primarily due to interest costs at Gemini and Nordsee One no longer being capitalized following completion of construction activities.

Impairments were nil in 2017. The $23.1 million charge in 2016 primarily related to changes in cash flow forecasts for the Kingston facility.

Non-cash fair value gains totalled $11.9 million, including a $9.7 million gain in the fair value of derivative contracts, compared to a $177.5 million gain in the fourth quarter of last year, primarily due to the impact of adopting hedge accounting. Effective January 1, 2017, Northland adopted hedge accounting under IFRS 9 in order to minimize mark-to-market adjustments in the statement of income resulting from volatility of foreign currency and interest rate movements. The fair value adjustments in 2017 are non-cash items which will reverse over time, and have no impact on the cash obligations of Northland or its projects. Refer to Notes 2 and 16 of the audited consolidated financial statements for the year ended December 31, 2017.

Other expense (income) increased $6.3 million compared to the fourth quarter of last year primarily due to a $10.3 million non-cash fair value adjustment under IFRS 9 on a loan receivable, partially offset by a gain on the sale of the German on-shore wind farms.

Mainly due to the factors described above, combined with a $16.4 million higher depreciation expense and a $50.0 million lower deferred income tax expense, net income was $82.3 million for the fourth quarter of 2017 compared to $290.7 million for the same quarter last year.

2017

Net income for the year ended December 31, 2017, of $275.8 million was $85.3 million higher than last year primarily due to the increase in operating income combined with the non-cash fair value gain associated with derivative contracts ($50.8 million gain compared to a $27.8 million loss in 2016). The positive variances were partially offset by higher depreciation and finance costs in connection with completed projects.

The following describes the significant factors contributing to the change in net income for the year ended December 31, 2017:

Total Sales increased $277.3 million compared to last year primarily due to contributions from Gemini, pre-completion revenue from Nordsee One and positive contributions from the on-shore wind facilities (primarily the Grand Bend Commencement). These variances were partially offset by the impact of the Global Adjustment Decision, the Kingston Remarketing Initiative, and lower production at Thorold.

Gross profit increased $331.0 million compared to last year primarily due to higher sales combined with a lower cost of sales at Kingston.

Plant operating costs increased $62.9 million compared to last year primarily due to the inclusion of costs from Gemini, Nordsee One and Grand Bend, partially offset by lower costs at Iroquois Falls, Kingston and Thorold.

Management and administration costs increased $14.7 million compared to last year primarily due to higher personnel costs and early-stage development activities, combined with increased facility M&A costs primarily due to higher costs at Gemini as a result of partial capitalization of M&A costs during commissioning in 2016.

Finance costs, net (primarily interest expense) increased $106.5 million compared to last year primarily due to interest costs at Gemini, Nordsee One and Grand Bend no longer being capitalized following completion of construction activities.

Non-cash fair value gains totalled $53.1 million compared to a $25.8 million loss last year. A significant portion of the current year gain ($69.8 million) represents the marked-to-market adjustment on the interest rate swaps and undesignated portions of foreign exchange contracts related to Gemini, Nordsee One and Deutsche Bucht.

Other expense (income) increased $21.3 million compared to last year primarily due to the €10.4 million ($14.6 million) of contingent consideration in connection with the acquisition of Gemini, and a $10.3 million non-cash fair value adjustment under IFRS 9 on a loan receivable, partially offset by a gain on the sale of the German wind farms.

Mainly due to the factors described above, combined with $17.1 million higher tax expense compared to the last year, net income was $275.8 million for the year ended December 31, 2017, compared to $190.6 million in 2016.

5.4 Adjusted EBITDA

The following table reconciles net income (loss) to adjusted EBITDA:

	Three months ended December 31,		Year ended December 31,	
	2017	**2016**	**2017**	**2016**
Net income (loss)	**$ 82,281**	$ 290,735	**$ 275,836**	$ 190,559
Adjustments:				
Provision for (recovery of) income taxes	**22,515**	67,448	**45,845**	28,757
Depreciation of property, plant and equipment	**102,087**	85,654	**361,365**	233,598
Amortization of contracts and intangible assets	**2,506**	(961)	**8,766**	13,517
Finance costs, net	**94,468**	73,543	**333,469**	226,968
Gemini interest income	**5,415**	4,823	**20,514**	18,678
Fair value (gain) loss on derivative contracts	**(9,672)**	(173,108)	**(50,796)**	27,830
Foreign exchange (gain) loss	**(2,275)**	(4,321)	**(2,275)**	(1,942)
Net impairments	**—**	23,055	**—**	23,055
Elimination of non-controlling interests	**(66,123)**	(93,326)	**(255,862)**	(140,102)
Finance lease and equity accounting	**837**	834	**2,966**	3,241
Other	**6,636**	2,720	**25,348**	2,720
Adjusted EBITDA	**$ 238,675**	$ 277,096	**$ 765,176**	$ 626,879

Adjusted EBITDA includes interest income earned on Northland's €80.0 million subordinated debt to Gemini, which increased as a result of accrued interest to €117.0 million as at June 30, 2017. Cash interest payments commenced during the third quarter of 2017, and semi-annual principal payments will commence in 2027 until maturity in 2032. Northland consolidates the financial results of Gemini and, as a result, Northland's loan balances, investment income, and interest expense are eliminated upon consolidation. Interest income from Gemini ("**Gemini interest income**") has been included in adjusted EBITDA since inception of the subordinated debt and has been included in free cash flow upon commencement of cash interest payments during the third quarter of 2017.

Other adjustments to arrive at adjusted EBITDA for the year ended December 31, 2017 include a non-cash fair value adjustment under IFRS 9 on a loan receivable of $10.3 million and a one-time payment of $14.6 million of contingent consideration in connection with the acquisition of Gemini.

Adjusted EBITDA for the three months ended December 31, 2017, was $38.4 million lower than the same quarter last year. The significant factors decreasing adjusted EBITDA include:

- $94.7 million as a result of the one-time receipt in 2016 of retroactive payments in connection with the Global Adjustment Decision;
- $38.2 million as a result of lower sales at Gemini due to the annual Gemini Subsidy Cap having been achieved in November 2017, after which production generated revenue solely at wholesale market rates;
- $8.1 million as a result of the expiration of the PPA at Kingston in January 2017; and
- $5.3 million as a result of a planned major outage at North Battleford which did not occur in 2016.

Factors partially offsetting the decrease in adjusted EBITDA include:

- $87.4 million as a result of pre-completion revenue (net of certain operating costs) from Nordsee One;
- $10.4 million higher operating income from Northland's other operating facilities;
- $7.5 million as a result of higher operating income under the Enhanced Dispatch Contract executed by Iroquois Falls in 2017; and
- $3.9 million decrease in relevant corporate M&A costs related to timing of development projects partially offset by increased personnel costs.

Adjusted EBITDA for the year ended December 31, 2017, was $138.3 million higher than last year. The significant factors increasing adjusted EBITDA include:

- $155.0 million as a result of increasing contributions from Gemini as a result of achieving final completion in 2017;
- $106.5 million as a result of pre-completion revenue (net of certain operating costs) from Nordsee One;
- $12.3 million as a result of higher operating income under the Enhanced Dispatch Contract executed by Iroquois Falls in 2017;
- $11.0 million as a result of a full year of operations from Grand Bend; and
- $3.9 million higher operating income from Northland's other operating facilities.

Factors partially offsetting the increase in adjusted EBITDA include:

- $94.7 million as a result of the one-time receipt in 2016 of retroactive payments in connection with the Global Adjustment Decision;
- $40.4 million due to the expiration of the PPA at Kingston in January 2017;
- $9.8 million increase in relevant corporate M&A costs related to personnel costs and development projects; and
- $6.3 million as a result of lower production at solar facilities largely due to the impact of higher-than-usual cloud cover.

5.5 Free Cash Flow and Payout Ratios

The following table reconciles cash flow from operations to free cash flow:

	Three months ended December 31,		Year ended December 31,	
	2017	**2016**	**2017**	**2016**
Cash provided by operating activities	**$ 257,642**	$ 344,424	**$ 849,007**	$ 719,812
Adjustments:				
Net change in non-cash working capital balances related to operations	**57,514**	27,028	**94,820**	(2,343)
Capital expenditures, net non-expansionary	**(1,418)**	(643)	**(3,612)**	(3,695)
Restricted funding for major maintenance	**(1,238)**	(642)	**(2,087)**	(2,178)
Interest paid, net	**(112,047)**	(70,712)	**(272,256)**	(188,009)
Scheduled principal repayments on term loans	**(39,537)**	(30,067)	**(110,523)**	(79,998)
Funds set aside (utilized) for quarterly scheduled principal repayments	**4,737**	9,448	**(2,954)**	—
Preferred share dividends	**(2,823)**	(2,801)	**(11,215)**	(11,189)
Consolidation of non-controlling interests	**(95,597)**	(157,099)	**(292,807)**	(192,563)
Equity accounting	**—**	62	**(226)**	588
Gemini interest income	**6,081**	—	**11,720**	1,899
Foreign exchange and other	**(3,767)**	—	**(3,767)**	—
Free cash flow	**$ 69,547**	$ 118,998	**$ 256,100**	$ 242,324

The following table summarizes cash and total dividends paid and respective free cash flow payout ratios as well as per share amounts:

	Three months ended December 31,		Year ended December 31,	
	2017	**2016**	**2017**	**2016**
Cash dividends paid to common and Class A shareholders	**$ 34,254**	$ 34,790	**$ 134,307**	$ 139,890
Free cash flow payout ratio - cash dividends (1)			**52%**	58%
Total dividends paid to common and Class A shareholders (2)	**$ 47,239**	$ 46,761	**$ 188,005**	$ 184,459
Free cash flow payout ratio - total dividends (1) (2)			**73%**	76%
Free cash flow payout ratio - total dividends since initial public offering (1) (2)			**94%**	95%
Weighted average number of shares - basic (000s) (3)	**175,422**	172,323	**175,383**	172,910
Weighted average number of shares - diluted (000s) (4)	**186,244**	184,342	**186,232**	186,575
Per share ($/share)				
Dividends paid	**$0.27**	$0.27	**$1.08**	$1.08
Free cash flow - basic	**$0.40**	$0.69	**$1.46**	$1.40
Free cash flow - diluted	**$0.38**	$0.66	**$1.42**	$1.34

(1) On a rolling four-quarter basis.
(2) Represent dividends paid in cash and in shares under the DRIP.
(3) Includes common shares and class A shares and excludes common shares issuable upon conversion of outstanding convertible debentures.
(4) Includes common shares, class A shares and any common shares issuable upon conversion of outstanding convertible debentures.

Free cash flow of $69.5 million for the fourth quarter of 2017 was $49.5 million lower than the fourth quarter last year. Factors decreasing free cash flow include:

- $94.7 million due to the one-time receipt in 2016 of retroactive payments in connection with the Global Adjustment Decision;
- $32.4 million increase in net interest expense primarily related to a full year of Gemini senior debt;
- $8.1 million decrease due to the expiration of the PPA at Kingston in January 2017; and
- $5.8 million increase in scheduled debt repayments related to Gemini and McLean's.

Factors partially offsetting the decrease in free cash flow include:

- $59.7 million increase in contributions from Gemini, partially offset by the impact of the annual Gemini Subsidy Cap being reached during the quarter;
- $7.5 million increase in operating income from the Enhanced Dispatch Contract at Iroquois Falls executed in 2017;
- $6.3 million decrease in relevant corporate M&A costs related to the timing of development projects;
- $6.1 million increase in Gemini interest income on the subordinated debt; and
- $4.6 million increase in operating income from Northland's other operating facilities.

Free cash flow of $256.1 million for the year ended December 31, 2017 was $13.8 million higher than last year. Factors increasing free cash flow include:

- $213.2 million increase as a result of a full year of contributions from Gemini, partially offset by the impact of the annual Gemini Subsidy Cap being reached in November 2017;
- $12.3 million increase in operating income from the Enhanced Dispatch Contract at Iroquois Falls executed in 2017;
- $11.0 million increase in contributions from the Grand Bend Commencement in April 2017;
- $9.4 million increase in Gemini interest income on the subordinated debt;
- $9.1 million increase in operating income from Northland's other operating facilities; and
- $5.5 million lower operations-related capital expenditures.

Factors partially offsetting the increase in free cash flow include:

- $94.7 million due to the one-time receipt in 2016 of retroactive payments in connection with the Global Adjustment Decision;
- $68.5 million increase in net interest expense primarily related to a full year of Gemini and Grand Bend debt;
- $40.4 million decrease due to the expiration of the PPA at Kingston in January 2017;
- $14.6 million of contingent consideration in connection with the acquisition of Gemini;
- $11.4 million increase in scheduled debt repayments related to Gemini and McLean's;
- $11.3 million increase in relevant corporate M&A costs related to personnel costs and development projects; and
- $6.3 million decrease in operating income at the solar facilities largely due the impact of higher-than-usual cloud cover.

For the year ended December 31, 2017, the free cash flow net payout ratio, calculated on the basis of cash dividends paid, was 52%, and 73% on a total dividend basis, compared to 58% and 76%, respectively, last year. The improvement in the free cash flow payout ratios from last year was primarily due to contributions from Gemini and certain thermal facilities as described above, partially offset by the Global Adjustment Decision in 2016 and higher finance costs.

Section 6: Changes in Financial Position

The following table provides a summary of account balances derived from the audited consolidated balance sheets as at December 31, 2017 and December 31, 2016.

As at		December 31, 2017		December 31, 2016
Assets				
Cash and cash equivalents	**$**	**400,573**	$	307,521
Restricted cash		**287,609**		171,304
Trade and other receivables		**271,952**		158,007
Other current assets		**39,095**		33,445
Property, plant and equipment		**7,932,110**		7,157,401
Contracts and other intangible assets		**583,989**		234,328
Other assets (1)		**654,506**		435,671
	$	**10,169,834**	$	8,497,677
Liabilities				
Trade and other payables		**344,760**		231,186
Interest-bearing loans and borrowings		**6,667,056**		5,736,112
Net derivative financial liabilities (2)		**485,488**		442,262
Net deferred tax liability (2)		**163,370**		52,610
Other liabilities (3)		**1,051,275**		660,387
	$	**8,711,949**	$	7,122,557
Total equity		**1,457,885**		1,375,120
	$	**10,169,834**	$	8,497,677

(1) Includes goodwill, finance lease receivable, long-term deposit and other assets.
(2) Presented on a net basis.
(3) Includes dividends payable, corporate credit facilities, convertible debentures, provisions and other liabilities.

Significant changes in Northland's audited consolidated balance sheets were as follows:

- *Restricted cash* increased $116.3 million primarily due to funds set aside for construction at Deutsche Bucht and an increase in Gemini's and Nordsee One's debt reserves to fund their semi-annual principal payments.
- *Trade and other receivables* increased $113.9 million mainly due to higher electricity sales at Gemini and Nordsee One partially offset by lower sales at Kingston.
- *Property, plant and equipment* increased $774.7 million primarily due to construction-related activities at Nordsee One, Deutsche Bucht, and changes in the foreign exchange translation.
- *Contracts and other intangible assets* increased $349.7 million mainly due to the Deutsche Bucht acquisition and changes in the foreign exchange translation.
- *Other assets* increased $218.8 million primarily due to vendor deposits associated with construction at Deutsche Bucht and a government grant expected to be received over a five-year period related to the construction of Nordsee One.
- *Interest-bearing loans and borrowings* increased $930.9 million mainly due to Gemini, Nordsee One and Deutsche Bucht construction activities, partially offset by scheduled loan repayments.
- *Deferred tax liability, net* increased $110.8 million largely due to the differences in accounting versus tax balances, acquired as part of the Deutsche Bucht acquisition; in particular, the contracts acquired.
- *Other liabilities* increased $390.9 million primarily due to borrowings on Northland's revolving facility utilized for the Deutsche Bucht acquisition, Nordsee One decommissioning costs recognized upon final completion and the portion of Nordsee One's shareholder loan due to the non-controlling interest partner, which was previously classified as current during the construction period.

Section 7: Equity, Liquidity and Capital Resources

Northland prudently maintains sufficient liquidity to meet short- and medium-term cash needs and ensures that it has access to sufficient resources to capitalize on investment opportunities and to meet development expenditure commitments, monthly cash dividend requirements and other needs in the normal course of operations. Northland finances these commitments through cash flow from operations, non-recourse project financing, corporate credit facilities, convertible debentures and equity, such as common and preferred shares.

Equity and Convertible Unsecured Subordinated Debentures

The change in shares and class A shares during 2017 and 2016 was as follows:

For year ended	December 31, 2017	December 31, 2016
Shares outstanding, beginning of year	**171,973,308**	169,645,251
Conversion of debentures	**56,848**	76,198
Shares issued under the LTIP	**22,284**	21,142
Shares issued under the DRIP	**2,387,641**	2,230,717
Shares outstanding, end of year	**174,440,081**	171,973,308
Class A shares	**1,000,000**	1,000,000
Total common and convertible shares outstanding, end of year	**175,440,081**	172,973,308

Preferred shares outstanding as at December 31, 2017 and 2016 are as follows:

As at	December 31, 2017	December 31, 2016
Series 1	**4,501,565**	4,501,565
Series 2	**1,498,435**	1,498,435
Series 3	**4,800,000**	4,800,000
Total	**10,800,000**	10,800,000

Under the DRIP, common shareholders and the Class A shareholder may elect to reinvest their dividends in common shares to be issued from treasury at up to a 5% discount to the market price.

As of February 22, 2018, Northland has 174,634,960 common shares outstanding with no change in Class A and preferred shares outstanding from December 31, 2017. If the convertible debentures outstanding as at December 31, 2017, totalling $233.4 million, were converted in their entirety, an additional 10.8 million common shares would be issued.

In their most recent report issued in September 2017, Standard & Poor's reaffirmed Northland's credit rating of BBB (Stable). In addition, Northland's preferred share rating and unsecured debt ratings were reaffirmed on Standard & Poor's global scale and Canada scale of BB+ and P-3 (high), respectively.

Liquidity and Capital Resources

The following table reconciles Northland's opening cash and cash equivalents to closing cash and cash equivalents:

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Cash and cash equivalents, beginning of period	**$ 360,537**	$ 229,875	**$ 307,521**	$ 151,927
Cash provided by operating activities	**257,642**	344,424	**849,007**	719,812
Cash used in investing activities	**(111,405)**	(255,499)	**(1,189,166)**	(1,536,277)
Cash provided by financing activities	**(127,670)**	(9,922)	**408,147**	971,068
Effect of exchange rate differences	**21,469**	(1,357)	**25,064**	991
Cash and cash equivalents, end of period	**$ 400,573**	$ 307,521	**$ 400,573**	$ 307,521

Fourth Quarter

Cash and cash equivalents for the fourth quarter of 2017 increased $40.0 million from September 30, 2017, due to cash provided by operations of $257.6 million and the impact of foreign exchange translation of $21.5 million, partially offset by cash used by financing activities of $127.7 million and $111.4 million of cash used in investing activities.

The increase in cash and cash equivalents during the quarter was largely due to:

- overall favourable operating results from Northland's operating facilities;
- a net reserve decrease primarily associated with the release of funds related to construction expenditures; and
- debt proceeds from the Deutsche Bucht's construction loan and Nordsee One's third-party senior debt.

The increase was partially offset by:

- construction and development related expenditures, mostly associated with Nordsee One and Deutsche Bucht;
- interest payments associated with borrowings; and
- scheduled debt repayments.

2017

Cash and cash equivalents for the year ended December 31, 2017, increased $93.1 million from December 31, 2016, due to $849.0 million in cash provided by operating activities and $408.1 million in cash provided by financing activities, partially offset by $1.2 billion in cash used in investing activities.

Cash provided by operating activities for the year ended December 31, 2017, was $849.0 million, comprising: (i) net income of $275.8 million; (ii) $668.0 million in non-cash and non-operating items such as depreciation and amortization, unrealized foreign exchange gains, and changes in fair value of financial instruments; combined with (iii) a $94.8 million change in working capital from December 31, 2016, due to the timing of payables, receivables, and deposits.

Cash used for investing activities for the year ended December 31, 2017, was $1.2 billion, primarily comprising:

- $815.8 million used for the purchase of property, plant and equipment, mostly for the construction of Nordsee One and Deutsche Bucht;
- $301.3 million used to acquire the Deutsche Bucht project; and
- $218.0 million of restricted cash funding associated with construction expenditures at Deutsche Bucht and debt service reserve funding at Gemini and Nordsee One.

Cash provided by financing activities for the year ended December 31, 2017, was $408.1 million, comprising:

- $1.0 billion of proceeds primarily from Deutsche Bucht's construction loan, Gemini's and Nordsee One's third-party senior debt, draws on corporate credit facilities and Kirkland Lake financing.

Factors partially offsetting cash provided by financing activities include:

- $275.7 million in interest payments;
- $145.5 million of common, Class A and preferred share dividends;
- $140.7 million in scheduled loan repayments; and
- $62.5 million in dividends to the non-controlling shareholders.

Cash and cash equivalents increased by $25.1 million for the year ended December 31, 2017, due to the movement of the euro against the Canadian dollar upon translation of euro-denominated cash and cash equivalents held by Gemini, Nordsee One and Deutsche Bucht. Northland aims to mitigate the effects of exchange rate fluctuations through a variety of mechanisms including foreign exchange rate hedges and using euro-denominated corporate funds for ongoing expenditures and the purchase of euro-denominated property, plant and equipment by Gemini and Nordsee One.

The following table provides a continuity of the cost of property, plant and equipment for the year ended December 31, 2017:

	Cost balance as at Dec. 31, 2016	Acquired (1)	Additions (2)	Other (3)	Exchange rate differences	Transfers	Cost balance as at Dec. 31, 2017
Operations:							
Offshore wind	$ —	$ —	$ 362	$ (5,152)	$ 53,770	$ 5,426,440	**$ 5,475,420**
Thermal (4)	1,812,716	—	4,622	(486)	—	—	**1,816,852**
On-shore renewable	1,754,550	—	4,302	(39,413)	1,407	—	**1,720,846**
Construction:							
Offshore wind	4,746,285	68,036	804,448	(61,494)	280,710	(5,426,440)	**411,545**
Corporate	20,456	—	2,051	—	—	—	**22,507**
Total	$ 8,334,007	$ 68,036	$ 815,785	$ (106,545)	$ 335,887	$ —	**$ 9,447,170**

(1) Includes deferred development costs assumed upon the acquisition of Deutsche Bucht on August 17, 2017 that were reclassified to property, plant and equipment as construction in progress following the closing of project financing on August 18, 2017.

(2) Includes pre-completion revenue of $18.0 million for Nordsee One. See Operating Facilities Results section for additional information.

(3) Includes the accrual for asset retirement obligations and government grant receivable for accounting purposes at Nordsee One, amounts accrued under the LTIP, and the disposal of the German wind farms.

(4) Excludes Spy Hill lease receivable accounting treatment.

Long-term Debt

Development projects are financed primarily with non-recourse project debt with fixed or hedged interest rates and repayment tied to the terms of the project's initial PPA. Each project is undertaken as a special-purpose entity so that an adverse event at one facility would not affect Northland's other facilities. By owning and operating high-quality assets and applying its deep, long-term experience, Northland expects to continue to enjoy a competitive cost of capital, which maximizes returns from growth initiatives.

The following table provides a continuity of Northland's debt for the year ended December 31, 2017:

	Balance as at Dec. 31, 2016	Acquired	Financings	Repayments	Amort. of costs / fair value	Exchange rate differences	Transfers	Balance as at Dec. 31, 2017
Operations:								
Offshore wind	$ —	$ —	$ —	$ (36,767)	$ 11,900	$ 182,299	$ 4,124,755	**$ 4,282,187**
Thermal	1,068,228	—	3,572	(38,341)	2,523	—	—	**1,035,982**
On-shore renewable	1,173,317	—	5,546	(36,629)	948	—	—	**1,143,182**
Construction:								
Offshore wind (1)	3,494,567	(7,346)	754,073	—	16,362	72,804	(4,124,755)	**205,705**
Corporate (2)	247,741	—	269,401	(29,003)	696	6,688	—	**495,523**
Total	$ 5,983,853	$ (7,346)	$ 1,032,592	$ (140,740)	$ 32,429	$ 261,791	$ —	**$ 7,162,579**

(1) Includes deferred financing costs acquired related to Deutsche Bucht.

(2) Excludes convertible unsecured subordinated debentures.

In addition to the loans outstanding in the above table, as at December 31, 2017, $45.0 million of letters of credit were issued by Northland's non-recourse project-level credit facilities for operational use.

On December 29, 2017, Nordsee One achieved term conversion and renegotiated its €0.8 billion of senior debt, to reduce the weighted average all-in interest rate to 2.2% for the remaining 12-year.

On August 22, 2017, Northland restructured the project debt relating to seven of its solar facilities primarily to align the financing with Northland's ownership interest and reduce loan margins and certain reserve requirements. The Solar Phase II debt increased to $115.1 million from $73.2 million with a weighted average all-in swapped interest rate of 5.4% compared to 6.1% prior to the restructuring. Cochrane Solar debt balance decreased to $184.5 million from $216.5 million with a weighted average all-in swapped interest rate of 5.3% compared to 5.9% prior to the restructuring. The change in the principal debt balances is primarily due to the transfer of one solar facility to Solar Phase II to align with the Cochrane Solar structure.

On August 18, 2017, Northland achieved financial close on its Deutsche Bucht project, having obtained a €988 million non-recourse construction and term loan and related loan facilities from a syndicate of international commercial lenders. The interest rate on the Deutsche Bucht debt has been effectively fixed, with a weighted average all-in swapped interest rate of 2.8% during the construction period and 2.7% during the term period. The debt matures in 2033.

In April 2017, concurrent with achieving final completion, Gemini renegotiated the project's €2.0 billion senior debt on more favourable terms to reduce the weighted average all-in interest rate by 80 basis points to 3.8% for the remaining term and removed the cash sweep provision. The debt matures in 2030.

In March 2016, Kirkland Lake obtained a $25 million bank credit facility consisting of a $15 million term loan and a $10 million letter of credit facility (reduced to $4.1 million during 2017). The term loan is due in 2023 and bears an all-in interest rate of 2.8%.

Debt Covenants

Northland generally conducts its business indirectly through separate subsidiary legal entities and is dependent on the distribution of cash from those subsidiary entities to defray its corporate expenses, repay corporate debt, and to pay cash dividends to common, Class A and preferred shareholders. Certain of those entities have outstanding non-recourse project finance debt at the subsidiary entity. Under the credit agreements or trust indentures for such debt, distributions of cash to Northland are typically prohibited if the coverage ratios or other covenants are not met and/or if the loan is in default. Northland and its subsidiaries were in compliance with all debt covenants for the year ended December 31, 2017.

Corporate Credit Facilities and Letters of Credit

Northland's corporate credit facilities are available for general corporate purposes, to support operational, construction and development opportunities and to provide letters of credit issued on behalf of Northland. The corporate credit facilities are summarized in the table below:

As at December 31, 2017	Facility size	Amount drawn	Outstanding letters of credit	Available borrowing capacity	Maturity date
Syndicated revolving facility	$ 450,000	$ 273,364	$ —	$ 176,636	March 2020
Syndicated term facility [1]	250,000	222,451	—	—	March 2019
Bilateral letter of credit facility	100,000	—	90,883	9,117	March 2019
Export credit agency backed letter of credit facility	100,000	—	89,529	10,471	March 2020
Total	$ 900,000	$ 495,815	$ 180,412	$ 196,224	
Less: deferred financing costs		(292)			
Total, net		$ 495,523			

(1) The term facility was fully drawn to assist in funding Northland's equity investment in Gemini. A partial repayment was made in 2017; however, the amount repaid cannot be redrawn.

- The syndicated term facility was extended during 2017 from March 2018 to March 2019. The amount shown reflects the Canadian equivalent based on period-end foreign exchange rates.
- Amounts drawn against the revolving facility include €181.0 million ($273.4 million) of borrowings related to the acquisition of Deutsche Bucht in August 2017.
- The $100 million letter of credit facility maturing March 2020, which Northland entered into during 2017, is supported by an export credit agency guarantee and allows successive annual renewals at Northland's option, subject to lender and export credit agency approval. The facility supports Northland's international activities.
- Of the $180.4 million of corporate letters of credit issued as at December 31, 2017, $89.5 million relate to projects under advanced development or construction.

Northland's corporate credit facilities, with the exception of the syndicated term facility, include provisions that allow for successive annual renewals at Northland's option, subject to approval by the lenders as applicable.

As at December 31, 2017, Northland's ratio of total debt to enterprise value was 63.1% compared to 59.4% as at December 31, 2016. The increase was primarily as a result of higher total debt due to draws on corporate credit facilities and project financing for offshore wind projects, partially offset by a higher number of common shares outstanding and higher closing share price.

Financial Commitments and Contractual Obligations

In the ordinary course of business, Northland enters into financial and derivative contracts. The contractual maturities of Northland's material financial liabilities as at December 31, 2017, are summarized below:

	2018	2019-2020	2021-2022	>2022
Derivative contracts				
Euro foreign exchange contracts	$ 215,245	$ 359,377	$ 372,893	$ 1,311,015
Financial natural gas contract	45,800	94,149	54,996	—
U.S. dollar foreign exchange contracts	4,906	6,982	—	—
Loans and borrowings				
Interest-bearing loans and borrowings - principal	369,359	1,001,961	1,205,352	5,653,075
Interest-bearing loans and borrowings - interest, including interest rate swaps	254,215	471,320	412,767	968,157
Corporate credit facilities, including interest	27,278	495,815	—	—
Convertible debentures, including interest	11,279	246,430	—	—
Total	**$ 928,082**	**$ 2,676,034**	**$ 2,046,008**	**$ 7,932,247**

Non-Financial Commitments and Contractual Obligations

The following table summarizes all material fixed contractual commitments and obligations as at December 31, 2017, for non-financial contracts. The amounts are based on the assumptions of a 2% annual consumer price index increase, a Canadian dollar/euro exchange rate of $1.52 and Canadian dollar/U.S. dollar exchange rate of $1.24. The table includes natural gas transportation demand charges for which Northland is liable whether or not natural gas is shipped and maintenance and services agreements. The majority of the construction commitment relates to the construction of the Deutsche Bucht project. The cash obligations related to the leases for land and buildings, dismantlement and management fees to non-controlling interest partners are also included.

	2018	2019-2020	2020-2021	>2022
Maintenance agreements	$ 136,125	$ 289,953	$ 321,948	$ 2,492,545
Construction, excluding debt, interest and fees	389,878	604,328	—	—
Natural gas supply and transportation, fixed portion	50,232	59,136	36,919	21,128
Leases	9,320	17,612	16,919	100,474
Dismantlement funding	6,418	13,261	14,105	143,409
Management fees	1,019	2,070	2,114	14,570
Total	**$ 592,992**	**$ 986,360**	**$ 392,005**	**$ 2,772,126**

Except in circumstances where cancellation of the agreements would result in material penalties, the above table does not include variable contractual obligations of Northland (which typically relate directly to production or meeting performance criteria). Such obligations include natural gas purchase costs, variable natural gas transportation costs and variable payments to maintenance providers. Except for the Jardin, Mont Louis, Spy Hill and North Battleford PPAs, the electricity supply contracts contain no penalties for failure to supply. With respect to the supply of natural gas, certain contracts include penalties for failure to purchase a minimum annual volume of natural gas based on the marketer's premium and the deficiency in volume purchased during the year.

Section 8: Summary of Quarterly Consolidated Results

In millions of dollars, except per share information	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Total sales	$ 394.6	$ 295.2	$ 322.4	$ 364.1	$ 478.6	$ 265.7	$ 176.6	$ 178.1
Operating income	196.5	103.5	144.5	187.6	276.6	105.6	59.4	67.0
Net income (loss)	82.3	31.7	61.7	100.1	290.8	(31.9)	23.4	(91.7)
Adjusted EBITDA	238.7	160.2	168.2	198.1	277.2	141.9	103.9	103.9
Cash provided by operating activities	257.6	172.5	142.2	276.7	344.4	158.8	107.8	108.8
Free cash flow	69.5	45.3	99.7	41.5	119.0	32.1	46.3	44.9
Per share statistics								
Net income (loss) - basic	$ 0.25	$ 0.12	$ 0.19	$ 0.30	$ 0.94	$ (0.18)	$ 0.20	$ (0.32)
Net income (loss) - diluted	0.25	0.12	0.19	0.30	0.94	(0.18)	0.20	(0.32)
Free cash flow - basic	0.40	0.26	0.57	0.24	0.69	0.19	0.27	0.26
Total dividends declared	0.28	0.27	0.27	0.27	0.27	0.27	0.27	0.27

Northland's consolidated financial results are affected by seasonal factors, contract provisions, and extraordinary items, which result in quarterly variations.

Northland's quarterly net income (loss) also varies due to any non-cash impairments/recoveries and foreign exchange adjustments required to translate euro- and U.S. dollar-denominated balances to the appropriate quarter-end Canadian-dollar equivalent and due to fair value movements of financial derivative contracts.

With the exception of the adoption of IFRS 9 effective January 1, 2017, and its associated impact on the results of Northland as described above and in Note 2.3 to the audited annual consolidated financial statements for the year ended December 31, 2017, accounting policies and principles have been applied consistently for all periods presented herein.

Section 9: Construction and Development Activities

Deutsche Bucht 252 MW Offshore Wind Project – Germany

On August 17, 2017, Northland acquired a 100% interest in Deutsche Bucht, with financial close on August 18, 2017. All key construction contracts have been signed, design certificates have been obtained and manufacturing of the offshore substation, monopiles and transition pieces has commenced. The installation of the foundations is expected to commence in late 2018, followed by the cables, offshore substation and wind turbines in 2019. Commercial operations are scheduled to commence by the end of 2019.

The total estimated project cost is approximately €1.3 billion. Northland has invested approximately $0.4 billion, sourced from corporate funds and €181.0 million from Northland's corporate revolving facility. The balance of the project cost will be funded with the €988.0 million non-recourse project finance debt entered into at financial close, and pre-completion revenues.

Northland is investigating the development of two additional demonstration turbines ("**Demonstrator Project**") utilizing suction bucket foundations. The final investment decision for the demonstration turbines is expected in the second half of 2018 and is subject to achieving certain development milestones. If built, they will contribute an additional 17 MW of capacity and increase total project cost by approximately €70 million, including Northland's equity investment by approximately €18 million. The balance of the Demonstrator Project costs would be funded by additional project debt that has already been committed as part of the existing project financing.

Section 10: Outlook

Northland actively pursues new power development opportunities that encompass a range of clean technologies, including natural gas, wind, solar and hydro.

Adjusted EBITDA

In 2017, adjusted EBITDA of $765 million exceeded the most recent guidance range issued of $710 to $750 million primarily as a result of higher than expected wholesale market prices at Gemini in the fourth quarter, favourable foreign exchange movements and timing of certain early-stage development expenditures.

In 2018, management expects adjusted EBITDA to be in the range of $860 to $930 million, an increase of approximately 17% over 2017, assuming a CAD/euro exchange rate of 1.52.

The 2018 adjusted EBITDA is expected to increase from $765 million in 2017 primarily due to the following factors:

- $133 to $196 million higher operating income primarily as a result of higher production at Gemini and a full year of generation at Nordsee One.

The increase is expected to be offset by the following factors:

- $23 to $28 million higher planned corporate M&A costs related to the expanded scope of Northland's international development activities; and
- $8 to $10 million lower projected sales as a result of the Kingston Remarketing Initiative.

In 2020, once the construction of the Deutsche Bucht offshore wind project is completed and is fully operational, management expects Deutsche Bucht to generate adjusted EBITDA of approximately €155 to €175 million annually.

Free Cash Flow

In 2017, free cash flow of $1.46 per share exceeded the most recent guidance range issued of $1.18 to $1.30 per share primarily as a result of the same factors affecting adjusted EBITDA.

In 2018, management expects the free cash flow per share to be in the range of $1.70 to $2.00 per share, an increase of approximately 27% over 2017.

The 2018 free cash flow per share guidance is expected to be higher than the $1.46 per share in 2017 primarily due to the following factors:

- $84 to $126 million higher operating cash flow from Gemini and Nordsee One, partially offset by higher debt service, reserve funding and income taxes; and
- $16 million higher interest income on Northland's share of subordinated debt to Gemini.

The increases are expected to be offset by the following factors:

- $23 to $28 million higher planned corporate M&A costs related to the expanded scope of Northland's international development activities;
- $9 to $11 million higher interest on the corporate borrowing used to fund Deutsche Bucht;
- $8 to $10 million lower projected revenue as a result of the Kingston Remarketing Initiative;
- $2 to $5 million higher debt service cost at thermal and on-shore renewables facilities; and
- An increase in the weighted average number of common shares outstanding as a result of the additional common shares expected to be issued through the DRIP and expected conversions from convertible debentures.

Section 11: Litigation, Claims and Contingencies

Litigation, claims and other contingencies arise from time to time in the ordinary course of business for Northland. None of these contingencies, individually or in aggregate, are expected to result in a liability that would have a material adverse effect on Northland.

Section 12: Risk and Uncertainties

Northland's activities expose it to a variety of risks. Refer to the 2017 AIF for a summary of factors in addition to those discussed below that could significantly affect the operations and financial results of Northland.

Northland's overall risk management approach seeks to mitigate the financial risks to which it is exposed in order to maintain stable and sustainable levels of cash available to pay dividends to shareholders. Northland does not seek to mitigate fair value risk. Northland classifies financial risks into market risk, counterparty risk and liquidity risk. The risks associated with Northland's financial instruments and Northland's policies for mitigating these risks are described below.

Market Risk

Market risk is the risk that the fair value of or future cash flows from financial instruments will fluctuate because of changes in market prices. Financial instruments affected by market risk include the loans and borrowings and derivative financial instruments. Components of market risk to which Northland is exposed are discussed below.

(i) Interest Rate Risk

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

The objective of Northland's interest rate risk management activities is to minimize the volatility of cash flows otherwise subject to fluctuating interest rates. In order to manage this risk, Northland enters into fixed-rate debt or interest rate swap agreements that effectively convert floating interest exposures to a fixed rate.

Changes in the fair value of interest rate swap contracts designated for hedge accounting are recorded in Northland's consolidated statements of comprehensive income (loss) to the extent that the hedge arrangements are effective. The fair values for these interest rate swap contracts are based on calculations and valuation models using observable market rates.

(ii) Credit Spread Risk

Credit spread risk as it affects Northland refers to the risk that the loan margin charged by current or future lenders (in addition to the underlying interest rate) will increase, making the cost of debt capital more expensive. Exposure to this risk is limited to floating rate interest loans that mature prior to the full amortization period of the loan since fixed interest rate spreads cannot be hedged and could increase materially at loan maturity. Northland manages its exposure to credit spread risk by (i) entering into long-term fixed-rate financings when possible or feasible; and (ii) continually monitoring credit markets and making prudent decisions about the timing and method of loan refinancing or repricing opportunities.

(iii) Currency Risk

Currency risk arises because the Canadian dollar equivalent of transactions, assets or liabilities denominated in foreign currencies may vary due to changes in foreign exchange rates. Northland is exposed to changes in the euro and U.S. dollar, notably the euro-denominated consolidated financial statements of Gemini, Nordsee One and Deutsche Bucht project.

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

Northland has entered into foreign exchange contracts to effectively fix foreign exchange conversion rates on substantially all forecasted euro-denominated cash inflows from Gemini, Nordsee One and Deutsche Bucht.

(iv) Commodity Price Risk

Commodity price risk arises where: (i) PPA revenues are fixed or not linked to natural gas prices or the cost of natural gas is not substantively passed through to the off-taker, which may cause fluctuations in cash flows; (ii) PPA revenues or components of PPA revenues depend upon certain electricity market indices; or (iii) the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in commodity prices.

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

Counterparty Risk

Counterparty risk arises from a number of sources including: (i) cash and cash equivalents held with banks and financial institutions; (ii) counterparty exposures arising from: (a) contractual obligations, which include but are not limited to sales contracts, equipment supply and maintenance contracts, fuel supply and transportation agreements and construction contracts, (b) derivative financial instruments, (c) trade receivables due from customers, (d) loan receivables due from partners and other entities, and (e) claims payable by an insurer; and (iii) unfunded loan commitments from financial institutions for the construction of projects. The maximum exposure to counterparty risk, other than for the loan commitments, is equal to the carrying value of the financial assets.

The objective in managing counterparty risk is to prevent losses in financial assets. To meet this objective, the majority of Northland's revenues are earned under long-term contracts with creditworthy counterparties such as government-related entities; Northland's foreign exchange, financial commodity contracts, interest rate swap contracts, loan commitments and insurance policies are with creditworthy financial institutions; and Northland's gas supply, transportation, equipment supply and maintenance, and construction contracts are with highly rated and/or large, well-capitalized counterparties wherever possible.

As at December 31, 2017, approximately 92% (2016 - 91%) of Northland's consolidated trade and other receivables, excluding third-party partner loan receivable, were owing from government-related entities.The reduction from last year was primarily the result of the growing portion of revenue earned by Gemini at market rates.

In 2017, approximately 89% (2016 - 99%) of Northland's consolidated revenue was derived indirectly from the sale of electricity to government-related entities. For electricity and other sales, Northland and its subsidiaries have not provided allowance accounts, do not hold collateral from counterparties and have not purchased credit derivatives to mitigate counterparty risk. All significant accounts receivable amounts reported as at December 31, 2017 are current.

The nature of Northland's business and contractual arrangements and quality of its counterparties generally serve to mitigate counterparty risk.

Liquidity Risk

Liquidity risk arises through an excess of financial obligations over available financial assets at any point in time and includes the risk that:

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

Northland's objective in managing liquidity risk is to maintain sufficient cash or readily available funding in order to meet its expected liquidity requirements. Northland achieves this by: (i) maintaining prudent cash balances, availability under committed credit facilities and access to capital markets; (ii) selecting derivatives and hedging strategies to mitigate the risk of material cash flow impacts; and (iii) actively monitoring open positions to assess and proactively adapt to possible market liquidity concerns.

Northland is also subject to internal liquidity risk since it conducts its business activities through separate legal entities (subsidiaries and affiliates) and is dependent on receipts of cash from those entities to defray its corporate expenses and to make dividend payments to shareholders. Certain of those entities have outstanding debt that was incurred to help fund the entities' original investments. Under the financing agreements for such debt, it is conventional for distributions of cash to Northland to be prohibited if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark debt service coverage ratio, which is the ratio of EBITDA for a specified time period to the scheduled loan principal and interest payments for the same time period. For the year ended December 31, 2017, Northland and its subsidiaries were in compliance with all debt covenants.

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

Refer to Note 23 to the audited consolidated financial statements for the year ended December 31, 2017, for additional information related to Northland's commitments and obligations.

Section 13: Critical Accounting Estimates

Preparing the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Northland's operating facilities and investments operate under long-term contracts with creditworthy counterparties. As a result, management believes it is not exposed to critical accounting estimates to the same degree as merchant businesses of comparable size. For Northland, the amounts recorded for depreciation of property, plant and equipment and contracts, fair value of financial assets and financial liabilities, decommissioning liabilities, deferred development costs, leases, LTIP, impairment of non-financial assets, income taxes and, accounting for non-wholly owned subsidiaries are based on estimates and management's judgment. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the audited consolidated financial statements of future periods. Estimates and accounting judgments are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances.

In making these estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as appropriate. These estimates and judgments have been applied in a manner consistent with that in the prior year, and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in this annual report.

Additional information on the significant estimates, judgments and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed in Note 2.20 in the audited annual consolidated financial statements for the year ended December 31, 2017.

Section 14: Future Accounting Policies

A number of new standards, amendments and interpretations issued are not yet effective for the year ended December 31, 2017, and therefore have not yet been applied in preparing the consolidated financial statements. These standards include IFRS 15, "Revenue from Contracts with Customers" effective for annual reporting periods beginning on or after January 1, 2018, and IFRS 16, "Leases" effective for annual periods beginning on or after January 1, 2019.

Northland will assess each standard to determine whether it has a material impact on its consolidated financial statements. In 2017, management completed the detailed analysis of the contracts in scope of IFRS 15 that may be impacted by changes at the transition date, with no material impact identified. Management anticipates that all of the relevant standards will be adopted for the first period beginning on their respective effective dates. Refer to Note 2.19 in the audited annual consolidated financial statements for the year ended December 31, 2017, for additional information.

Section 15: Controls and Procedures Over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (**CEO**) and Chief Financial Officer (**CFO**), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of Northland's disclosure controls and procedures was conducted as of December 31, 2017, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Northland's disclosure controls and procedures, as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of audited financial statements for external purposes in accordance with IFRS.

Northland's internal controls over financial reporting are designed and operating effectively to provide reasonable assurance regarding: (i) prevention or timely detection of the unauthorized transactions that could have a material effect on Northland's audited consolidated financial statements, and (ii) the reliability of financial reporting and preparation of audited consolidated financial statements for external use purposes in accordance with policies, procedures and IFRS.

As a result of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance, not absolute, and may not prevent or detect all misstatements. Further, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions.

An evaluation of the effectiveness of the design and operation of Northland's internal controls over financial reporting was conducted as of December 31, 2017, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Northland's internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of the audited consolidated financial statements in accordance with IFRS.

No changes were made in Northland's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, Northland's internal controls over financial reporting in the year ended December 31, 2017.