

# Management’s Discussion and Analysis

## Amended and Restated

<a href="#">SECTION 1: OVERVIEW</a>	<a href="#">1</a>
<a href="#">SECTION 2: DESCRIPTION OF BUSINESS</a>	<a href="#">3</a>
<a href="#">SECTION 3: CONSOLIDATED HIGHLIGHTS</a>	<a href="#">4</a>
<a href="#">SECTION 4: DISCUSSION OF OPERATIONS</a>	<a href="#">6</a>
<a href="#">SECTION 5: CHANGES IN FINANCIAL POSITION</a>	<a href="#">14</a>
<a href="#">SECTION 6: EQUITY, LIQUIDITY AND CAPITAL RESOURCES</a>	<a href="#">15</a>
<a href="#">SECTION 7: CONSTRUCTION AND DEVELOPMENT ACTIVITIES</a>	<a href="#">20</a>
<a href="#">SECTION 8: LITIGATION, CLAIMS AND CONTINGENCIES</a>	<a href="#">20</a>
<a href="#">SECTION 9: FUTURE ACCOUNTING POLICIES</a>	<a href="#">20</a>
<a href="#">SECTION 10: OUTLOOK</a>	<a href="#">21</a>
<a href="#">SECTION 11: RISKS AND UNCERTAINTIES</a>	<a href="#">21</a>
<a href="#">SECTION 12: MANAGEMENT’S RESPONSIBILITY</a>	<a href="#">21</a>

## 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 Northland Power Inc.’s (“**Northland’s**” or the “**Company’s**”) operating results and financial position. This MD&A should be read in conjunction with Northland’s unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2017 and 2016, as well as its audited consolidated financial statements for the years ended December 31, 2016 and 2015 (“**2016 Annual Report**”). This material is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Northland’s website at [www.northlandpower.ca](http://www.northlandpower.ca). Additional information about Northland, including the 2016 Annual Report and the Annual Information Form dated March 2, 2017 (**AIF**) can be found on SEDAR.

This MD&A contains forward-looking statements that are based on certain estimates and assumptions that were considered reasonable on November 8, 2017; actual results may differ materially. Refer to *Forward-Looking Statements* section below for additional information.

All dollar amounts set out herein are in thousands of Canadian dollars, unless otherwise stated.

### Forward-Looking Statements

*This MD&A contains certain forward-looking statements that 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 Northland's 2016 Annual Report and 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 includes references to Northland'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). Adjusted EBITDA, free cash flow, free cash flow payout ratio, payout ratio and free cash flow per share, as presented, 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, free cash flow payout ratio, payout ratio and free cash flow per share 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 the nearest IFRS measure, refer to *SECTION 4.2: Consolidated Results* for a reconciliation of consolidated net income (loss) under IFRS to reported adjusted EBITDA and *SECTION 6: Equity, Liquidity and Capital Resources* 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 any project contingent consideration. Adjusted EBITDA includes Northland's share of overhead costs (management and administration) during construction for Gemini and Nordsee One, which do not qualify for capitalization.

### **Free Cash Flow**

Free cash flow represents the cash generated from the business that Northland's management believes is representative of the amount that is available to be paid as dividends to common shareholders while preserving the long-term value of the business.

Free cash flow is calculated as cash provided by operating activities, which is generally decreased for:

- Short-term changes in operating working capital that are expected to be largely reversed in succeeding periods (or represent reversals from previous periods);
- Capital expenditures related to the maintenance requirements of the existing business;
- Interest paid on outstanding debt, because it is excluded from cash provided by operating activities under IFRS;
- Scheduled repayments of principal on debt (because these payments must be made before funds are available for dividends to the shareholders of Northland);
- Funds set aside for quarterly scheduled principal repayments (or reversals from previous periods) since these amounts would have been included in scheduled repayments of principal on debt if not for the timing of holidays and weekends;
- Funds identified as being set aside or reserved (or utilized) for future maintenance;
- Pre-completion revenue and operating costs for projects under construction;
- Elimination of non-controlling interests;
- Timing of distributions received from equity accounted investments; and
- Preferred share dividends.

Free cash flow is generally increased for:

- Net proceeds on the sale of development assets.

## SECTION 2: DESCRIPTION OF BUSINESS

As of September 30, 2017, Northland owns or has a net economic interest in completed power producing facilities with a total operating capacity of approximately 1,754 MW. Northland's operating assets comprise facilities that produce electricity from renewable resources and natural gas for sale primarily under long-term power purchase agreements (**PPA**) or other revenue arrangements with creditworthy customers in order to provide cash flow stability. Additionally, as of September 30, 2017, Northland had 584 MW (534 MW net interest to Northland) of generating capacity under construction, representing an 85% equity stake in Nordsee One and a 100% interest in Deutsche Bucht. Furthermore, Northland has a portfolio of projects in development across many regions.

Northland's unaudited interim condensed consolidated financial statements include the results of Northland and its subsidiaries, of which the most significant are:

- i. Iroquois Falls Power Corp., which owns a 120 MW natural-gas-fired cogeneration facility located in northern Ontario, together herein referred to as "**Iroquois Falls**";
- ii. Kingston CoGen Limited Partnership, which owns a 110 MW natural-gas-fired combined cycle facility located in eastern Ontario, together herein referred to as "**Kingston**";
- iii. Thorold CoGen L.P., which owns a 265 MW natural-gas-fired cogeneration facility located in the Niagara region of Ontario, together herein referred to as "**Thorold**";
- iv. North Battleford Power L.P., which owns a 260 MW natural-gas-fired combined-cycle facility located near Saskatoon in central Saskatchewan, together herein referred to as "**North Battleford**";
- v. Spy Hill Power L.P., which owns an 86 MW natural-gas-fired peaking facility located in eastern Saskatchewan, together herein referred to as "**Spy Hill**";
- vi. Saint-Ulric Saint-Léandre Wind L.P., which owns a 133 MW wind farm located in the Gaspésie region of Québec, together herein referred to as "**Jardin**";
- vii. Mont-Louis Wind L.P., which owns a 101 MW wind farm located in the Gaspésie region of Québec, together herein referred to as "**Mont Louis**";
- viii. DK Windpark Kavelstorf GmbH & Co. KG and DK Burgerwindpark Eckolstädt GmbH & Co. KG, which own two wind farms totaling 22 MW located in eastern Germany, together herein referred to as the "**German wind farms**";
- ix. Ground-mounted solar partnerships, which consist of 13 operating 10 MW solar facilities. The 9 solar facilities totaling 90 MW in eastern and central Ontario are referred to as "**NPI Ground-Mounted Solar**" while the final four facilities totaling 40 MW (25 MW net interest to Northland) located in northern Ontario are referred to as "**Cochrane Solar**";
- x. McLean's Mountain Wind Limited Partnership, which owns the 60 MW (30 MW net interest to Northland) wind farm on Manitoulin Island in Ontario, together herein referred to as "**McLean's**";
- xi. Grand Bend Wind Limited Partnership, which owns the 100 MW (50 MW net interest to Northland) wind farm located in southern Ontario, together herein referred to as "**Grand Bend**";
- xii. ZeeEnergie C.V. and Buitengaats C.V., which collectively own the 600 MW (360 MW net interest to Northland) offshore wind facility off the coast of the Netherlands in the North Sea which achieved full completion April 28, 2017, together herein referred to as "**Gemini**";
- xiii. Nordsee One GmbH, which owns the 332 MW (282 MW net interest to Northland) offshore wind project in construction off the German coast of the North Sea, herein referred to as "**Nordsee One**"; and
- xiv. British Wind Energy GmbH which owns the 252 MW offshore wind project in advanced development off the German coast of the North Sea, herein referred to as "**DeBu**".

Northland's unaudited interim condensed consolidated financial statements include the financial results for facilities owned by Kirkland Lake Power Corp. ("**Kirkland Lake**") and Cochrane Power Corporation ("**Cochrane**"). Northland continues to manage Cochrane and Kirkland Lake on behalf of these corporations, which are owned by third-party, non-voting shareholders and Canadian Environmental Energy Corporation (**CEEC**) in which Northland has a 68% interest.

## SECTION 3: CONSOLIDATED HIGHLIGHTS

### 3.1 Significant events

Significant events which occurred during the first nine months of 2017 and through the date of this MD&A, are described below.

#### *Planned Increase in Dividend*

The Board of Directors plans to approve an increase in Northland's common share dividend from \$0.09 per month (\$1.08 annually) at present to \$0.10 per month (\$1.20 annually) commencing with the dividend record date of December 29, 2017 for dividends payable on January 15, 2018. The Board of Directors expects to review the dividend policy on a regular basis to balance growth requirements and investor preferences.

#### *Nordsee One Offshore Wind Project Update*

Construction of the 332 MW Nordsee One offshore wind farm continues to progress according to the project plan. On September 22, 2017, the 54th and final wind turbine was successfully installed and all turbines were earning pre-completion revenues at full rates. As at November 8, 2017, 53 turbines have completed their reliability test. Takeover activities have commenced and Northland expects the commissioning of all turbines and earning of full project revenues to occur by the end of 2017. Final construction close-out and term conversion of the financing is expected to occur prior to the end of the first quarter of 2018.

#### *Restructuring of Ground-Mounted Solar Debt*

On August 22, 2017, Northland favourably restructured the project debt relating to seven of its ground-mounted 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 Update*

On August 17, 2017, Northland acquired a 100% interest in the Deutsche Bucht Offshore Wind project ("**DeBu**"). Financial close for DeBu, with all equity contributed and all debt required fully committed by project lenders, occurred on August 18, 2017. All key construction contracts have been signed and manufacturing has commenced, with project completion expected by the end of 2019. The total estimated project cost is approximately €1.3 billion (CAD \$1.9 billion). Northland has invested approximately \$408.0 million of corporate funds, sourced from cash on hand and €181.0 million from Northland's corporate revolving facility. Refer to *SECTION 7: Construction and Development Activities* for further information.

#### *Long-Term Enhanced Dispatch Contract for Iroquois Falls*

On July 4, 2017, Northland announced a long-term Enhanced Dispatch Contract (**EDC**) for Iroquois Falls had been executed with the Independent Electricity System Operator (**IESO**). The EDC, which succeeded an interim enhanced dispatch arrangement, took effect July 1, 2017 and is expected to result in reduced greenhouse gas emissions, cost savings for Ontario electricity consumers and improved economics for Northland.

#### *Completion of Gemini Offshore Wind Project*

On April 28, 2017, Northland announced the Gemini offshore wind farm achieved full completion. The project was completed ahead of schedule and under its total budget of €2.8 billion. Concurrent with full completion, Gemini successfully and favourably renegotiated the project's €2 billion senior debt. This renegotiation reduced the weighted average all-in interest rate and removed the cash sweep requirements under the previous mini-perm financing.

### 3.2 Operating highlights

#### Summary of Consolidated Results

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>FINANCIALS</b>				
Sales	\$ 295,243	\$ 265,746	\$ 981,645	\$ 620,500
Gross Profit	265,006	215,522	871,691	482,890
Operating Income	103,511	105,559	435,670	231,988
Net Income (Loss)	31,710	(31,901)	193,555	(100,176)
Adjusted EBITDA	160,226	141,916	526,501	349,783
Cash Provided by Operating Activities	\$ 172,505	\$ 158,806	\$ 591,365	\$ 375,388
Free Cash Flow	\$ 45,288	\$ 32,144	\$ 186,553	\$ 123,326
Cash Dividends Paid to Common and Class A Shareholders	33,200	34,075	100,053	105,100
Total Dividends Declared to Common and Class A Shareholders <sup>(1)</sup>	\$ 47,144	\$ 46,484	\$ 140,913	\$ 138,970
<b>Per Share</b>				
Free Cash Flow	\$ 0.260	\$ 0.187	\$ 1.070	\$ 0.716
Total Dividends Declared to Common and Class A Shareholders <sup>(1)</sup>	\$ 0.270	\$ 0.270	\$ 0.810	\$ 0.810

#### ENERGY VOLUMES

Electricity (megawatt hours) <sup>(2)</sup>	1,409,409	1,641,555	4,430,747	4,356,820
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(1) Total dividends to Common and Class A Shareholders represent total dividends declared including dividends received in cash or in shares under the DRIP.

(2) Includes Gemini and Nordsee One pre-completion production volumes, which totaled 120,262 and 963,470 MWhs for the three and nine months ended September 30, 2017, respectively and 279,247 and 379,802 MWhs for the same periods last year. A portion of the related pre-completion revenues are included in sales.

- **Sales** increased \$29.5 million and gross profit increased \$49.5 million, compared to the third quarter of 2016 primarily due to contributions from Gemini, and pre-completion revenues from Nordsee One, which began producing power on March 31, 2017, combined with positive contributions from McLean's and Grand Bend. These positive variances were partially offset by lower contribution from Kingston, as further discussed in *SECTION 4.1: Facility Results*.
- **Adjusted EBITDA** (a non-IFRS measure) increased \$18.3 million compared to the third quarter of 2016 primarily due to the factors impacting gross profit, partially offset by higher plant operating costs and management and administration costs, as further discussed in *SECTION 4.2: Consolidated Results*.
- **Operating income** decreased \$2.0 million compared to the third quarter of 2016 primarily due to higher depreciation of property, plant and equipment, plant operating costs and corporate management and administration costs partially offset by an increase in gross profit.
- **Net income** increased \$63.6 million compared to the third quarter of 2016 primarily due to non-cash gains related to financial derivative contracts, partially offset by lower deferred tax recoveries and higher finance costs.

#### 3.3 Liquidity and capital resource highlights

- **Cash provided by operating activities** increased by \$13.7 million compared to the third quarter of 2016 primarily due to higher gross profit and the timing of payables, receivables, and deposits, partially offset by higher operating costs.
- **Quarterly free cash flow per share** (a non-IFRS measure) increased to \$0.26 compared to \$0.19 in the third quarter of 2016, primarily as a result of a full quarter of contribution from Gemini partially offset by a lower contribution from Kingston and the commencement of scheduled loan repayments at Gemini in the quarter.

## SECTION 4: DISCUSSION OF OPERATIONS

### 4.1 Facility results

#### Offshore Wind Facilities

Northland's offshore wind facilities producing revenues consist of the 600 MW Gemini wind farm and the 332 MW Nordsee One wind project. Although Nordsee One is still under construction, it is earning pre-completion revenues that are included in sales.

On April 28, 2017, Gemini achieved full completion, ahead of schedule and under its total budget of €2.8 billion. For Gemini, full completion marks the official end of construction and signifies that all of the terms required to satisfy the project lenders for term conversion have been achieved. As a result of these significant milestones, Gemini made its first cash distribution to its owners. 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**") totaled approximately €31.0 million. Subsequent regular distributions to shareholders from Gemini operations are expected to commence in December 2017 and occur semi-annually thereafter.

Nordsee One produced its first revenues during 2017. Revenues and costs were recorded in operating income as individual wind turbines became operational during the construction stage. For additional details on Nordsee One, refer to *SECTION 7: Construction and Development Activities*.

The following table summarizes the operating results for Gemini and Nordsee One offshore wind facilities for the three and nine months ended September 30, 2017 and 2016.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Electricity Production (MWh)</b>	<b>523,497</b>	279,247	<b>1,674,645</b>	379,802
<b>Sales/Gross profit <sup>(1)(2)</sup></b>	<b>\$ 143,010</b>	\$ 83,185	<b>\$ 481,102</b>	\$ 85,012
<b>Plant operating costs <sup>(2)</sup></b>	<b>27,184</b>	10,770	<b>60,677</b>	15,413
<b>Operating income</b>	<b>53,039</b>	44,648	<b>259,313</b>	30,702
<b>Adjusted EBITDA <sup>(3)</sup></b>	<b>74,345</b>	44,254	<b>252,763</b>	40,705

(1) Offshore wind facilities do not have cost of sales and as a result, the reported sales numbers are equivalent to 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 Nordsee One, and at Gemini up to April 28, 2017, when the facility achieved full completion. Full revenues on all MWh generated are reflected in Gemini's operating results for 2017.

(3) A non-IFRS measure. Adjusted EBITDA represents Northland's share of adjusted EBITDA.

Electricity production, including pre-completion production, for the three and nine months ended September 30, 2017 was higher by 244,250 MWh and 1,294,843 MWh, respectively, compared to the same periods last year. The increase was primarily due to all of Gemini's turbines producing power throughout 2017. During the nine months ended September 30, 2016, turbines were progressively installed and commissioned until all turbines were producing power by the end of the third quarter of 2016. Nordsee One project remained under construction at the end of the quarter, but generated 148,702 MWh in pre-completion production year to date.

Gemini generated pre-completion revenue beginning in the second quarter of 2016 and for the period up to full completion on April 28, 2017. Nordsee One commenced generating pre-completion revenue in the first quarter of 2017. The table below summarizes total pre-completion revenues earned for the three and nine months ended September 30, 2017 and 2016 and the portion recognized in sales and as a deduction from construction in progress.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Pre-completion revenue in Sales/Gross Profit <sup>(1)</sup>	<b>\$ 25,647</b>	\$ 83,185	<b>\$ 276,156</b>	\$ 85,012
Pre-completion revenue in construction in progress	<b>12,284</b>	14,039	<b>15,936</b>	15,541
<b>Total pre-completion revenue</b>	<b>\$ 22,011</b>	\$ 97,224	<b>\$ 276,172</b>	\$ 100,553

(1) Offshore wind facilities do not have cost of sales and as a result, the reported sales numbers are equivalent to gross profit.

In August 2016, Gemini retroactively commenced its two power contracts effective March 1, 2016, and July 1, 2016. Commencing the power contracts entitled the project to begin receiving its contracted subsidy in addition to market revenues for the subsequent 15 years. Gemini operating results for 2017 year to date reflect full revenues on all MWh generated.

Sales and adjusted EBITDA, for the three months ended September 30, 2017, increased \$59.8 million and \$30.1 million, respectively, compared to the same quarter last year primarily as a result of revenues from Gemini and pre-completion revenues from Nordsee One. Sales and adjusted EBITDA, for the nine months ended September 30, 2017, increased \$396.1 million and \$212.1 million, respectively, compared to the same periods last year primarily as a result of revenues from Gemini. Nordsee One earned pre-completion revenues of \$26.0 million for the nine months ended September 30, 2017, of which \$25.9 million were recorded in sales and \$15.9 million were recorded as a deduction from construction in progress.

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

### **Thermal Facilities**

The following table summarizes the operating results for Northland's thermal facilities for the three and nine months ended September 30, 2017 and 2016.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Electricity Production (MWh)	621,456	1,088,942	1,792,583	3,126,837
<b>Sales</b> <sup>(1)</sup>	\$ 100,486	\$ 130,830	\$ 337,963	\$ 391,894
Less cost of sales	30,237	50,224	109,954	137,610
<b>Gross Profit</b>	70,249	80,606	228,009	254,284
Plant operating costs	12,156	12,426	36,958	38,307
<b>Operating income</b>	48,465	54,899	162,200	176,944
<b>Adjusted EBITDA</b> <sup>(2)</sup>	\$ 60,150	\$ 70,122	\$ 199,620	\$ 224,232
Capital expenditures <sup>(3)</sup>	\$ 318	\$ 3,273	\$ 3,512	\$ 5,945

(1) Northland accounts for its Spy Hill operations as a finance lease.

(2) A non-IFRS measure. Adjusted EBITDA for Kirkland Lake, Chapais, and Cochrane facilities represents management and incentive fees earned by Northland from services provided to those facilities.

(3) Capital expenditures exclude construction-related capital items. The majority of gas turbine maintenance is provided under long-term, fixed-price contracts that are charged to statement of income based 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 100% of 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 power purchaser.

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.

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 and the majority of the Kirkland Lake generators operate as baseload facilities. Additional information relating to the thermal facility contracts can be found in Northland's AIF.

Subsequent to the expiration of Kingston's PPA on January 31, 2017, Ontario market prices have been insufficient to run the facility. Consequently, there was no production at Kingston during the quarter, and lower production year to date over the prior year period. Year to date sales, although minimal, were earned as a result of Kingston selling capacity in the New York Independent System Operator capacity market. These changes to Kingston's operations resulted in lower sales compared to the same periods last year. Net income, free cash flow and adjusted EBITDA were commensurately lower than comparable periods since Kingston continues to incur certain fixed operating expenses. Collectively, Kingston's operations for the quarter and year to date are referred to as the "**Kingston Remarketing Initiative**".

Electricity production for the three months ended September 30, 2017 decreased 467,486 MWh compared to the same quarter last year primarily due to a lack of dispatches being made under the Kingston Remarketing Initiative and the Iroquois Falls EDC and fewer dispatch starts and hours at Thorold. Electricity production for the nine months ended September 30, 2017 decreased 1,334,254 MWh compared to the same period last year primarily due to the same factors. 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 September 30, 2017 decreased \$30.3 million to \$100.5 million compared to the same quarter last year primarily due to the impact of the Kingston Remarketing Initiative (\$25.8 million). Sales for the nine months ended September 30, 2017 decreased \$53.9 million to \$338.0 million compared to the same period last year primarily due to the impact of the Kingston Remarketing Initiative (\$69.5 million), partially offset by higher flow-through natural gas costs at North Battleford (\$10.1 million), higher flow-through natural gas costs and higher wood-fired electricity revenue at Kirkland Lake (\$7.6 million) and the impact of the Iroquois Falls EDC (\$6.2 million).

Gross profit for the three months ended September 30, 2017 decreased \$10.4 million to \$70.2 million compared to the same quarter last year primarily due to the impact of the Kingston Remarketing Initiative (\$12.2 million). Gross profit for the nine months ended September 30, 2017 decreased \$26.3 million to \$228.0 million compared to the same period last year primarily due to the impact of the Kingston Remarketing Initiative (\$33.9 million), partially offset by higher gross profit from the Iroquois Falls EDC (\$4.1 million).

Plant operating costs for the three months ended September 30, 2017 decreased \$0.3 million to \$12.2 million compared to the same quarter last year and plant operating costs for the nine months ended September 30, 2017 decreased \$1.3 million to \$37.0 million compared to the same period last year. These variances were primarily as a result of service agreement savings at Thorold related to fewer dispatch starts, maintenance agreement savings at Iroquois Falls related to the EDC, and lower costs due to the Kingston Remarketing Initiative.

Operating income for the three and nine months ended September 30, 2017 decreased \$6.4 million and \$14.7 million, respectively, compared to the same periods last year as a result of lower gross profit, but partially offset by lower plant operating and other costs.

Adjusted EBITDA for the three and nine months ended September 30, 2017 was lower compared to last year for the same reasons as the operating income variances described above.

### On-Shore Renewable Facilities

The following table summarizes the operating results of Northland's on-shore renewable facilities for the three and nine months ended September 30, 2017 and 2016.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Electricity Production (MWh) - Actual	264,456	273,366	963,519	850,181
Electricity Production (MWh) - Long-term forecast	297,332	236,382	1,019,511	790,272
On-shore wind	\$ 20,918	\$ 20,036	\$ 89,707	\$ 65,322
Solar	30,829	31,695	72,873	78,272
<b>Sales/Gross profit <sup>(1)</sup></b>	<b>51,747</b>	<b>51,731</b>	<b>162,580</b>	<b>143,594</b>
On-shore wind	6,462	5,646	18,637	14,933
Solar	1,714	1,120	3,814	3,347
Plant operating costs	8,176	6,766	22,451	18,280
<b>Operating income</b>	<b>20,147</b>	<b>21,444</b>	<b>70,508</b>	<b>59,866</b>
On-shore wind	10,429	10,705	48,951	39,154
Solar	25,590	26,929	60,731	66,412
<b>Adjusted EBITDA <sup>(2)</sup></b>	<b>\$ 36,019</b>	<b>\$ 37,634</b>	<b>\$ 109,682</b>	<b>\$ 105,566</b>
Capital expenditures <sup>(3)</sup>	\$ 3,609	\$ 3,008	\$ 3,766	\$ 4,424

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

(2) A non-IFRS measure. 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 that are charged to the interim consolidated statement of income based on the terms of those contracts.

Electricity production during the three months ended September 30, 2017 was comparable to the same quarter last year. Electricity production during the nine months ended September 30, 2017 increased 113,338 MWh compared to the same period last year primarily due to a 144,286 MWh contribution from Grand Bend, which declared commercial operations in April 2016. This contribution was partially offset by a 34,908 MWh decrease in production at Jardin and Mont Louis caused by lower wind resources.

Sales for the three months ended September 30, 2017 of \$51.7 million were consistent with the same quarter last year primarily due to higher results at Grand Bend and McLean's being offset by the impact of higher than usual cloud cover at the solar facilities. Sales for the nine months ended September 30, 2017 increased \$19.0 million to \$162.6 million compared to last year primarily as a result of the higher contribution from the commencement of operations at Grand Bend.

Plant operating costs for the three months ended September 30, 2017 increased \$1.4 million to \$8.2 million compared to the same quarter last year primarily as a result of one-time maintenance costs. Plant operating costs for the nine months ended September 30, 2017 increased \$4.2 million to \$22.5 million compared to the same period last year primarily due to the commencement of operations at Grand Bend.

Operating income for the three months ended September 30, 2017 decreased \$1.3 million compared to the same quarter last year primarily as a result of a lower contribution from the solar facilities due to lower revenue and one-time maintenance costs. Operating income for the nine months ended September 30, 2017 increased \$10.6 million compared to the same period last year as a result of the higher contribution from the commencement of operations at Grand Bend, partially offset by the commencement of depreciation for Grand Bend and the lower production at solar and certain wind facilities.

Adjusted EBITDA for the on-shore renewable facilities for the three months ended September 30, 2017 decreased \$1.6 million compared to the same quarter last year primarily due to lower operating income at solar and certain wind facilities. Adjusted EBITDA for the nine months ended September 30, 2017 increased \$4.1 million to \$109.7 million compared to the same period last year primarily as a result of the contributions from Grand Bend, partially offset by lower results at solar and certain wind facilities.

### Sale of German On-Shore Wind Farms

Effective November 2, 2017, Northland sold its 22 MW German wind farms for approximately €3.7 million.

### Corporate and Development Costs and Other Income

The following table summarizes corporate and development costs and other income for the three and nine months ended September 30, 2017 and 2016.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Management and administration costs</b>				
Corporate operations	\$ 8,867	\$ 6,790	\$ 24,924	\$ 17,495
Corporate development	3,356	3,053	10,527	8,234
Corporate development projects	5,696	5,417	19,186	11,677
<b>Corporate management and administration costs</b>	<b>17,919</b>	<b>15,260</b>	<b>54,637</b>	<b>37,406</b>
Facilities	3,432	1,638	11,751	5,781
<b>Management and administration costs</b>	<b>21,351</b>	<b>16,898</b>	<b>66,388</b>	<b>43,187</b>
<b>Adjusted EBITDA <sup>(1)</sup></b>				
Corporate <sup>(2)</sup>	(15,617)	(15,260)	(51,132)	(37,406)
Gemini interest income	5,122	4,736	15,099	13,855
Other	207	430	469	2,831
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>\$ (10,288)</b>	<b>\$ (10,094)</b>	<b>\$ (35,564)</b>	<b>\$ (20,720)</b>

(1) A non-IFRS measure.

(2) Adjusted EBITDA 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 and nine months ended September 30, 2017 increased \$2.7 million and \$17.2 million, respectively, compared to the same periods last year primarily due to higher early-stage development activities across a range of geographic locations (\$0.3 million and \$7.5 million) and higher personnel costs (\$0.9 million and \$6.4 million) including certain non-recurring costs. Facility M&A costs for the three and nine months ended September 30, 2017 increased \$1.8 million and \$6.0 million, respectively, compared to the same periods last year primarily due to higher costs at Gemini (\$2.4 million and \$6.1 million) as a result of the commissioning of all turbines during 2016 and commencement of operations in 2017. Consequently, costs not directly attributable to the construction of the project or occurring after full completion were expensed.

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.

## 4.2 Consolidated results

The following discussion of the consolidated financial results of operations should be read in conjunction with Northland's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2017, Northland's 2016 Annual Report and AIF.

### Third Quarter

Net income for the three months ended September 30, 2017 of \$31.7 million was \$63.6 million higher than the same quarter last year primarily due to non-cash fair value gains associated with derivative contracts (\$11.7 million gain compared to a \$78.3 million loss in the third quarter of 2016), partially offset by lower deferred tax recoveries and higher finance costs. Effective January 1, 2017, Northland adopted hedge accounting under the requirements of IFRS 9 in order to minimize mark-to-market adjustments in net income resulting from volatility of foreign currency and interest rate movements.

The following describes the significant factors contributing to the change in net income for the quarter ended September 30, 2017:

*Total Sales* increased \$29.5 million and *Gross profit* increased \$49.5 million compared to the third quarter of last year primarily due to the contributions from Gemini, Nordsee One, Grand Bend and McLean's. These positive variances were partially offset by the impact of the Kingston Remarketing Initiative.

*Plant operating costs* increased \$17.6 million compared to the third quarter of last year primarily due to the inclusion of costs from Gemini upon achieving full operations and higher one-time maintenance costs at the on-shore renewable facilities, partially offset by lower costs at Kingston, Thorold and Iroquois Falls, as previously discussed.

*Management and administration costs* increased \$4.5 million compared to the third quarter of last year. Corporate M&A costs increased \$2.7 million from the same quarter last year primarily due to higher personnel costs (\$0.9 million), including certain non-recurring costs, and higher early-stage development activities (\$0.3 million), as previously discussed. Facility M&A costs increased \$1.8 million primarily due to the inclusion of Gemini costs previously capitalized, including personnel, office and other costs, but expensed in the current year period as a result of commencement of commercial operations.

*Finance costs, net* (primarily interest expense), increased \$9.1 million compared to the third quarter of last year primarily due to interest costs at Gemini no longer being capitalized.

*Non-cash fair value gains* totaled \$12.8 million, compared to a \$79.3 million loss in the third quarter of last year, primarily due to an \$11.7 million gain in the fair value of Northland's financial derivative contracts. As mentioned previously, Northland has adopted IFRS 9 and elected to apply hedge accounting which allows Northland to record the effective portion of mark-to-market adjustments on its derivative contracts in other comprehensive income. Further details are provided in Note 5 of the unaudited interim condensed consolidated financial statements for the period ended September 30, 2017.

The factors described above, combined with a \$29.2 million higher depreciation expense and a \$19.6 million lower deferred income tax recovery, resulted in net income of \$31.7 million for the third quarter of 2017 compared to a \$31.9 million loss for the same quarter last year.

### Year-to-Date

Net income for the nine months ended September 30, 2017 of \$193.6 million was \$293.7 million higher than the same period last year primarily due to the increase in operating income combined with the non-cash fair value gain associated with derivative contracts (\$41.1 million gain compared to a \$200.9 million loss in the first nine months of 2016). Of the non-cash fair value gain on the derivative contracts for the first nine months of 2017, \$45.7 million was associated with Gemini and Nordsee One interest rate swap contracts, which are partially offset by counter movements in other derivative contracts and the application of hedge accounting. The positive variances were partially offset by higher current and deferred taxes and higher finance costs.

The following describes the significant factors contributing to the change in net income for the nine months ended September 30, 2017:

*Sales* increased \$361.1 million compared to last year primarily due to contributions from Gemini, pre-completion revenue from Nordsee One and positive contributions from North Battleford, Grand Bend, and the Iroquois Falls EDC. These variances were partially offset by the impact of the Kingston Remarketing Initiative and lower production at the ground-mounted solar facilities.

*Gross profit* increased \$388.8 million compared to last year primarily due to operating results from Gemini, pre-completion revenue from Nordsee One and positive contributions from Grand Bend and Iroquois Falls, as discussed above.

*Plant operating costs* increased \$48.1 million compared to last year primarily due to the inclusion of costs from Gemini and Grand Bend, combined with maintenance activities at Kirkland Lake, partially offset by lower costs at Iroquois Falls, Kingston and Thorold, as discussed above.

*Management and administration costs* increased \$23.2 million compared to last year primarily due to higher early-stage development activities and personnel costs, and expensing of costs incurred at Gemini upon completion of construction, as discussed above.

*Finance costs, net* (primarily interest expense), increased \$85.6 million compared to last year primarily due to interest costs at Grand Bend and Gemini.

*Non-cash fair value gain* totaled \$41.1 million compared to a \$203.3 million loss last year. A significant portion of the current year gain (\$45.7 million) represents the consolidated marked-to-market adjustment on the interest rate swaps entered into by Gemini, Nordsee One and DeBu, which are offset by counter movements in other derivative contracts and the application of hedge accounting.

The factors described above, combined with \$111.3 million higher depreciation expense and \$61.7 million higher deferred tax expense compared to the same period last year resulted in a net income of \$193.6 million for the nine months ended September 30, 2017, compared to a net loss of \$100.2 million last year.

### **Adjusted EBITDA**

The following table reconciles Northland's net income (loss) to its adjusted EBITDA:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Net Income (Loss)</b>	\$ 31,710	\$ (31,901)	\$ 193,555	\$ (100,176)
Adjustments:				
Provision for (recovery of) income taxes	2,155	(17,667)	23,330	(38,691)
Depreciation of property, plant and equipment	95,854	66,611	259,278	147,944
Amortization of contracts and other intangible assets	2,300	4,826	6,260	14,478
Finance costs, net	80,240	71,170	239,001	153,425
Gemini interest income	5,122	4,736	15,099	13,855
Fair value (gain) loss on derivative contracts	(11,650)	78,264	(41,124)	200,938
Foreign exchange (gain) loss	(1,183)	1,019	—	2,379
Elimination of non-controlling interests	(47,383)	(35,960)	(189,739)	(46,776)
Finance lease and equity accounting	675	818	2,129	2,407
Gemini contingent consideration	84	—	14,899	—
Strategic review costs	2,302	—	3,813	—
<b>Adjusted EBITDA</b>	\$ 160,226	\$ 141,916	\$ 526,501	\$ 349,783

Adjusted EBITDA includes interest income earned on Northland's €80 million subordinated debt to Gemini, which increased as a result of accrued interest to €117 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. 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.

Adjusted EBITDA for the three months ended September 30, 2017 was \$18.3 million higher than the same quarter last year. The significant factors increasing adjusted EBITDA were:

- \$19.3 million as a result of pre-completion revenues less certain operating costs from Nordsee One;
- \$10.9 million as a result of full commercial operations at Gemini; and
- \$2.3 million as a result of higher availability at Kirkland Lake.

The favourable results were partially offset by:

- \$11.6 million as a result of the Kingston Remarketing Initiative;
- \$1.3 million as a result of lower production at the solar facilities;
- \$0.4 million increase in relevant corporate M&A costs related to personnel costs and early-stage development projects; and
- \$0.5 million lower operating income from Northland's other operating facilities.

Adjusted EBITDA for the nine months ended September 30, 2017 was \$176.7 million higher than the same period last year. The significant factors increasing adjusted EBITDA were:

- \$193.1 million as a result of full commercial operations from April 2017 at Gemini;
- \$19.1 million as a result of pre-completion revenues less certain operating costs from Nordsee One;
- \$11.7 million as a result of full period of contributions from Grand Bend; and
- \$8.4 million as a result of higher sales at North Battleford and Iroquois Falls.

These favourable results were partially offset by:

- \$32.3 million as a result of the Kingston Remarketing Initiative;
- \$13.7 million increase in relevant corporate M&A costs related to personnel costs and early-stage development projects;
- \$5.7 million as a result of lower production at the solar facilities; and
- \$3.9 million lower operating income from other operating facilities.

#### 4.3 Summary of historical consolidated quarterly results and trends

In millions of dollars, except per share information	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Total sales	\$ 295.2	\$ 322.4	\$ 364.1	\$ 478.6	\$ 265.7	\$ 176.6	\$ 178.1	\$ 171.5
Operating income	103.5	144.5	187.6	276.6	105.6	59.4	67.0	60.6
Net income (loss)	31.7	61.7	100.1	290.8	(31.9)	23.4	(91.7)	8.9
Adjusted EBITDA <sup>(1)</sup>	160.2	168.2	198.1	277.2	141.9	103.9	103.9	94.4
Cash provided by operating activities	172.5	142.2	276.7	344.4	158.8	107.8	108.8	72.9
Free cash flow <sup>(1)</sup>	45.3	99.7	41.5	119.0	32.1	46.3	44.9	34.3
<b>Per share statistics</b>								
Net income (loss) - basic	\$ 0.12	\$ 0.19	\$ 0.30	\$ 0.94	\$ (0.18)	\$ 0.20	\$ (0.32)	\$ 0.01
Net income (loss) - diluted	0.12	0.19	0.30	0.94	(0.18)	0.20	(0.32)	0.02
Free cash flow <sup>(1)</sup>	0.26	0.57	0.24	0.69	0.19	0.27	0.26	0.20
Total dividends declared	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27

(1) A non-IFRS measure.

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.

## SECTION 5: CHANGES IN FINANCIAL POSITION

The following table provides a summary of account balances derived from the unaudited interim condensed consolidated balance sheets as at September 30, 2017 and December 31, 2016.

As at	September 30, 2017	December 31, 2016
<b>Assets</b>		
Cash and cash equivalents	\$ 360,537	\$ 307,521
Restricted cash	445,737	171,304
Trade and other receivables	220,959	158,007
Other current assets	35,644	33,445
Property, plant and equipment	7,625,087	7,157,401
Contracts and other intangible assets	574,684	234,328
Other assets <sup>(1)</sup>	438,967	435,671
	<b>\$ 9,701,615</b>	<b>\$ 8,497,677</b>
<b>Liabilities</b>		
Trade and other payables	240,098	231,186
Interest-bearing loans and borrowings	6,528,107	5,736,112
Net derivative financial liabilities <sup>(2)</sup>	437,696	442,262
Net deferred tax liability <sup>(2)</sup>	162,360	52,610
Other liabilities <sup>(3)</sup>	909,931	660,387
	<b>\$ 8,278,192</b>	<b>\$ 7,122,557</b>
<b>Total equity</b>	<b>1,423,423</b>	<b>1,375,120</b>
	<b>\$ 9,701,615</b>	<b>\$ 8,497,677</b>

(1) Includes finance lease receivable, long-term deposit, other assets and goodwill.

(2) Derivative financial instruments and deferred taxes are presented on a net basis.

(3) Includes dividends payable, corporate term loan facility, convertible debentures and provisions and other liabilities.

The following items describe the significant changes in Northland's unaudited interim condensed consolidated balance sheet:

- Restricted cash increased \$274.4 million primarily due to funds set aside for construction at Nordsee One and DeBu and an increase in NPI Ground-Mounted Solar's and North Battleford's debt reserves to fund their semi-annual principal payments.
- Trade and other receivables increased \$63.0 million mainly due to higher electricity sales at Gemini and Nordsee One partially offset by lower sales at Kingston and Iroquois Falls.
- Property, plant and equipment increased \$467.7 million from December 31, 2016 primarily due to construction-related activities at Nordsee One, DeBu and Kirkland Lake.
- Contracts and other intangible assets increased \$340.4 million mainly due to the DeBu acquisition.
- Interest-bearing loans and borrowings increased \$792.0 million mainly due to Gemini, Nordsee One, DeBu and Kirkland Lake, partially offset by scheduled loan repayments.
- Net derivative financial liabilities (derivative financial liabilities less derivative financial assets) decreased \$4.6 million primarily due to the non-cash fair value mark-to-market adjustments on foreign exchange contracts, Iroquois Falls' natural gas financial derivative contract and interest rate swaps (\$276.9 million relates to the Gemini, Nordsee One and DeBu interest rate swaps). The application of hedge accounting under IFRS 9 allows Northland to record the effective portion of mark-to-market adjustments on its derivative contracts in other comprehensive income, as discussed above.
- Deferred tax liability net of deferred tax asset increased \$109.8 million due to movements in accounting versus tax balances, in particular fair value gains on derivative contracts.
- Other liabilities increased \$249.5 million primarily due to borrowings on Northland's revolving facility utilized for the acquisition of DeBu and prepayments related to North Battleford's gas turbine maintenance agreement provider.

## SECTION 6: EQUITY, LIQUIDITY AND CAPITAL RESOURCES

### *Equity and Convertible Unsecured Subordinated Debenture Information*

As at September 30, 2017, Northland had 173,814,978 common shares outstanding (as at December 31, 2016 – 171,973,308), 4,501,565 Series 1 Preferred Shares, 1,498,435 Series 2 Preferred Shares, 4,800,000 Series 3 Preferred Shares and 1,000,000 Class A Shares. During the quarter, \$0.2 million of the 2019 convertible debentures were converted into 8,331 common shares.

During the first nine months of 2017, Northland's total equity increased by \$48.3 million primarily as a result of the issuance of additional shares under Northland's DRIP. In addition, there was an \$8.6 million increase in accumulated other comprehensive income due to the impact of foreign exchange rate fluctuations on the translation of European entities' results into Canadian dollars and the application of hedge accounting. Northland's total equity includes non-controlling interests of \$479.0 million at September 30, 2017. Readers should refer to Note 8 to the unaudited interim condensed consolidated financial statements for the period ending September 30, 2017 for additional details related to Northland's non-controlling interests.

As of the date of this MD&A, Northland has 174,055,261 common shares outstanding, 4,501,565 Series 1 Preferred Shares, 1,498,435 Series 2 Preferred Shares, 4,800,000 Series 3 Preferred Shares, 1,000,000 Class A Shares, \$77.3 million of the 2019 Debentures, and \$156.1 million of the 2020 Debentures. If the 2019 Debentures and 2020 Debentures were converted in their entirety, an additional 10.8 million shares would be issued and outstanding.

### *Liquidity and Capital Resources*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Cash and cash equivalents, beginning of period</b>	\$ 396,775	\$ 166,383	\$ 307,521	\$ 151,927
Cash provided by operating activities	172,505	158,806	591,365	375,388
Cash used in investing activities	(639,024)	(321,135)	(1,077,761)	(1,280,778)
Cash provided by financing activities	426,356	239,944	535,817	980,990
Effect of exchange rate differences	3,925	(14,123)	3,595	2,348
<b>Cash and cash equivalents, end of period</b>	\$ 360,537	\$ 229,875	\$ 360,537	\$ 229,875

Cash and cash equivalents for the nine months ended September 30, 2017 were \$360.5 million, which increased by \$53.0 million from December 31, 2016, due to \$591.4 million in cash provided by operating activities and \$535.8 million in cash provided by financing activities, partially offset by \$1.1 billion in cash used in investing activities.

Cash provided by operating activities for the nine months ended September 30, 2017 was \$591.4 million, comprising: (i) net income of \$193.6 million; (ii) \$435.1 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 \$37.3 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 nine months ended September 30, 2017 was \$1.1 billion, primarily comprised of: (i) \$474.8 million used for the purchase of property, plant and equipment, mostly for the construction of Nordsee One and DeBu; (ii) \$301.3 million used to acquire the DeBu project; (iii) \$266.9 million of restricted cash funding associated with construction expenditures (\$274.0 million is associated with construction activities at Gemini, Nordsee One, and DeBu, partially offset by decreases in reserves at other facilities) and reserves for debt payments; and (iii) a \$42.4 million change in working capital primarily related to the timing of construction payables for Nordsee One and DeBu. These uses were partially offset by: (i) \$5.0 million primarily related to proceeds received from other investing activities during the quarter; and (ii) \$2.7 million of interest received.

Cash provided by financing activities for the nine months ended September 30, 2017 was \$535.8 million, comprising: \$949.6 million of proceeds primarily from DeBu's construction loan, Gemini's and Nordsee One's third-party senior debt, draws on Northland's credit facility and Kirkland Lake financing; partially offset by: (i) \$162.9 million in interest payments; (ii) \$108.4 million of common, Class A and preferred share dividends; (iii) \$81.1 million in scheduled loan repayments; and (iv) \$61.4 million in dividends to the non-controlling shareholders largely associated with Gemini, Grand Bend, CEEC, and McLean's.

Due to the movement of the euro against the Canadian dollar, consolidated cash and cash equivalents was positively impacted by \$3.6 million as a result of translating euro-denominated cash and cash equivalents held by Gemini, Nordsee One and DeBu into Canadian dollars. The effect of exchange rate differences on cash and cash equivalents for Northland's Europe projects will

fluctuate from quarter to quarter as the Canadian dollar/euro exchange rate fluctuates. However, euro-denominated cash will be utilized by Gemini and Nordsee One for expenditures and the purchase of euro-denominated property, plant and equipment.

During the quarter, cash and cash equivalents increased by \$36.2 million due to cash provided by operations of \$172.5 million and cash provided by financing activities of \$426.4 million, offset by \$639.0 million of cash used in investing activities.

The increase in cash and cash equivalents during the quarter was largely due to: (i) debt proceeds from Northland's credit facility, DeBu's construction loan, Nordsee One's third-party senior debt and Kirkland Lake financing; (ii) overall favourable operating results from Northland's operating facilities; and (iii) \$21.9 million change in working capital related to the timing of construction payables. These variances were partially offset by: (i) the acquisition of the DeBu project; (ii) construction and development related expenditures, mostly associated with Nordsee One, DeBu and Kirkland Lake projects; (iii) interest payments associated with borrowings; (iv) a net reserve increase primarily associated with the transfer of funds related to construction expenditures; and (v) scheduled debt repayments.

The following table provides a continuity of the cost of property, plant and equipment for the nine months ended September 30, 2017:

	Cost Balance as		Exchange rate			Cost Balance as	
	at Dec 31, 2016	Acquired <sup>(3)</sup>	Additions	Other <sup>(1)</sup>	differences	Transfers	at Sep. 30, 2017
<b>Operations:</b>							
Offshore wind	\$ —	\$ —	\$ —	\$ (5,186)	\$ 143,712	\$ 3,701,176	\$ 3,839,702
Thermal <sup>(2)</sup>	1,812,716	—	3,512	—	—	—	1,816,228
On-shore renewable	1,754,550	—	3,766	(1,186)	1,407	—	1,758,537
<b>Construction:</b>							
Offshore wind	4,746,285	68,134	466,631	(4,345)	54,224	(3,701,176)	1,629,753
<b>Corporate</b>	20,456	—	886	—	—	—	21,342
<b>Total</b>	<b>\$ 8,334,007</b>	<b>\$ 68,134</b>	<b>\$ 474,795</b>	<b>\$ (10,717)</b>	<b>\$ 199,343</b>	<b>\$ —</b>	<b>\$ 9,065,562</b>

(1) Includes the accrual for asset retirement obligations for accounting purposes, tax credits, and LTIP shares granted.

(2) Excludes Spy Hill lease receivable accounting treatment. Includes Kirkland Lake and Cochrane.

(3) Includes deferred development costs assumed upon the acquisition of DeBu 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.

The following table provides a continuity of Northland's debt for the nine months ended September 30, 2017:

	Balance as of					Amort. of	Exchange	Balance as of	
	Dec 31, 2016	Acquired	Financings	Repayments	costs / fair value	rate differences	Transfers	Sep 30, 2017	
<b>Operations:</b>									
Offshore wind <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ —	\$ 9,841	\$ 107,842	\$ 2,937,321	\$ 3,055,004	
Thermal <sup>(2)</sup>	1,068,228	—	3,599	(24,675)	1,838	—	—	1,048,990	
On-shore renewable <sup>(3)</sup>	1,173,317	—	6,100	(27,406)	654	—	—	1,152,665	
<b>Construction:</b>									
Offshore wind <sup>(1)</sup>	3,494,567	(7,346)	670,530	—	10,116	40,902	(2,937,321)	1,271,448	
<b>Corporate <sup>(4)</sup></b>	247,741	—	269,401	(29,003)	520	(413)	—	488,246	
<b>Total</b>	<b>\$ 5,983,853</b>	<b>\$ (7,346)</b>	<b>\$ 949,630</b>	<b>\$ (81,084)</b>	<b>\$ 22,969</b>	<b>\$ 148,331</b>	<b>\$ —</b>	<b>\$ 7,016,353</b>	

(1) Excludes Northland's subordinated debt, which eliminates upon consolidation. Includes deferred financing costs acquired under DeBu.

(2) Includes a favourable fair value adjustment to Thorold's debt. Includes Kirkland Lake.

(3) Includes a favourable fair value adjustment to Jardin's debt.

(4) Excludes convertible unsecured subordinated debentures.

### Long-term Debt

In April 2017, concurrent with achieving full completion, Gemini successfully renegotiated the project's €2.0 billion senior debt on more favourable terms. This renegotiation reduced the weighted average all-in interest rate by 80 basis points to 3.8% for the remaining term and removed the cash sweep requirements in year five under the original financing. The project debt will be fully amortized by its maturity in 2030.

On August 18, 2017, Northland achieved financial close on its DeBu project, obtaining 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 DeBu 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 December 2031.

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

### ***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 period ended September 30, 2017. Readers should refer to Northland's AIF, for additional details concerning its debt covenants.

### ***Corporate Facility and Letters of Credit***

As of September 30, 2017, Northland's corporate credit facilities total \$900 million. The 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 as described below.

The corporate credit facility includes the following:

- A \$450 million revolving facility in place until March 2020 with successive annual renewals at Northland's option, subject to lender approval, of which €181.0 million of borrowings was utilized for the acquisition of DeBu and \$nil has been utilized for letters of credit as at September 30, 2017;
- A \$250 million term facility in place until March 2019 of which \$221.9 million has been drawn as at September 30, 2017 (although the amount shown on the balance sheet reflects the Canadian equivalent at the quarter-end foreign exchange rates). During the third quarter, the facility was extended to March 2019 from March 2018 with lender approval;
- A \$100.0 million corporate letter of credit facility in place until March 2019 with successive annual renewals at Northland's option, subject to lender approval, of which \$95.8 million has been utilized as at September 30, 2017; and
- A \$100 million corporate letter of credit facility supported by an export credit agency, which Northland entered into in the second quarter is in place until March 2020 with successive annual renewals at Northland's option, subject to lender and export credit agency approval, of which \$87.7 million has been utilized as at September 30, 2017. This new facility supports Northland's international activities.

As of September 30, 2017, Northland and its subsidiaries had \$228.3 million of letters of credit outstanding, of which \$183.5 million were issued as security under Northland's corporate credit facilities for certain projects in operation, advanced development and construction, and \$44.8 million was issued under specific subsidiaries' non-recourse credit facilities.

### Free Cash Flow and Dividends to Shareholders

The following table reconciles Northland's cash flow from operations to its free cash flow:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Cash provided by operating activities</b>	\$ 172,505	\$ 158,806	\$ 591,365	\$ 375,388
<b>Northland adjustments:</b>				
Net change in non-cash working capital balances related to operations	(28,845)	(17,129)	37,306	(29,371)
Capital expenditures, net non-expansionary	(239)	(2,421)	(2,194)	(3,052)
Interest paid, net	(26,549)	(40,675)	(160,208)	(117,297)
Scheduled principal repayments on term loans	(11,821)	(10,824)	(52,082)	(49,931)
Funds set aside (utilized) for quarterly scheduled principal repayments	(7,690)	(8,688)	(7,691)	(9,448)
Restricted funding for major maintenance	174	(408)	(849)	(1,536)
Consolidation of non-controlling interests	(55,292)	(43,927)	(216,115)	(35,464)
Equity accounting	209	214	(226)	526
Other	5,639	—	5,639	1,899
Preferred share dividends	(2,803)	(2,804)	(8,392)	(8,388)
<b>Free cash flow <sup>(1)</sup></b>	\$ 45,288	\$ 32,144	\$ 186,553	\$ 123,326

(1) A non-IFRS measure.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Cash Dividends paid to common and Class A shareholders</b>	\$ 33,200	\$ 34,075	\$ 100,053	\$ 105,100
Free cash flow payout ratio - cash dividends <sup>(1)(2)</sup>	73%	106%	54%	85%
<b>Total Dividends <sup>(3)</sup> paid to common and Class A shareholders</b>	\$ 47,084	\$ 45,812	\$ 140,766	\$ 137,698
Free cash flow payout ratio - total dividends <sup>(1)(2)</sup>	104%	143%	75%	112%
Free cash flow payout ratio - total dividends since initial public offering <sup>(1)(2)</sup>			96%	103%
<b>Weighted average number of shares - basic (thousands) <sup>(4)</sup></b>	174,804	172,323	174,790	172,296
<b>Weighted average number of shares - fully diluted (thousands) <sup>(5)</sup></b>	174,804	172,323	174,790	171,739
<b>Per share (\$/share)</b>				
Free cash flow - basic <sup>(1)</sup>	\$0.26	\$0.19	\$1.07	\$0.72
Free cash flow - fully diluted <sup>(1)</sup>	\$0.26	\$0.19	\$1.07	\$0.72

(1) A non-IFRS measure.

(2) A payout ratio in excess of 100% generally results from the payment of interest on subordinated convertible debt and dividends on preferred shares and common shares issued to fund construction projects prior to those projects generating cash flows, as well as the funding of development activities.

(3) Total dividends to common and Class A Shareholders represent dividends declared including dividends in cash or in shares under the DRIP.

(4) The weighted average number of shares - basic and the related per share amounts are the sum of the weighted average number of common shares and Class A Shares both of which are eligible to receive dividends and do not include any common shares which may be issuable in respect of the conversion of Northland's outstanding convertible debentures.

(5) Average number of shares diluted is the sum of the weighted average number of common shares and Class A shares in the basic calculation plus the number of common shares that would be issued assuming conversion of the 2019 and 2020 Debentures.

Free cash flow of \$45.3 million for the third quarter of 2017 was \$13.1 million higher than the corresponding period in 2016 largely due to the operating results from Gemini. Significant factors increasing or decreasing free cash flow are described below.

Factors increasing free cash flow were:

- \$54.7 million increase in contributions from Gemini which operated for a full quarter;
- \$5.4 million increase in Northland's portion of the Gemini subordinated debt interest now being recognized; and
- \$4.1 million reduction in operations-related capital expenditures.

Factors decreasing free cash flow were:

- \$28.3 million increase in net interest expense primarily related to Gemini senior debt;
- \$11.6 million decrease due to the impact of the Kingston Remarketing Initiative;
- \$4.9 million negative variance largely associated with prepayments under North Battleford's gas turbine maintenance agreement;
- \$3.0 million increase in scheduled debt repayments related to Gemini and McLean's; and
- \$2.7 million increase in relevant corporate management and administration costs primarily related to early-stage development projects and personnel costs.

For the three months ended September 30, 2017, common share and Class A Share dividends declared for the quarter totaled \$0.27 per share. The increase in quarterly free cash flow from 2016, described above, was the primary reason for the improvement in the quarterly cash payout ratio to 73%, or 104% if all dividends were paid out in cash (i.e. excluding the effect of dividends re-invested through Northland's DRIP).

Free cash flow of \$186.6 million for the nine months ended September 30, 2017 was \$63.2 million higher than the same period in 2016.

Factor increasing free cash flow were:

- \$153.6 million increase in contributions from Gemini and the Gemini Completion Distribution;
- \$11.7 million increase in contributions from Grand Bend due to a full nine months of operations;
- \$8.4 million increase in sales from Iroquois Falls and North Battleford;
- \$3.7 million reduction in operations-related capital expenditures; and
- \$3.3 million increase in Northland's portion of the Gemini subordinated debt interest.

Factors decreasing free cash flow were:

- \$32.3 million decrease due to the Kingston Remarketing Initiative;
- \$36.1 million increase in net interest expense primarily due to the inclusion of Gemini and Grand Bend debt;
- \$14.6 million payment of contingent consideration related to certain net project cost saving achieved at completion of Gemini's construction;
- \$17.5 million increase in relevant corporate management and administration costs primarily related to early-stage development projects and personnel costs;
- \$5.7 million decrease in sales at the solar facilities;
- \$5.4 million increase in scheduled debt repayments related to Gemini and McLean's;
- \$4.9 million negative variance largely associated with prepayments to North Battleford's gas turbine maintenance agreement provider; and
- \$3.6 million decrease in results from other operating facilities.

## SECTION 7: CONSTRUCTION AND DEVELOPMENT ACTIVITIES

### *Nordsee One 332 MW Offshore Wind Farm – Germany*

On September 22, 2017, the 54th and final wind turbine was successfully installed at Nordsee One. As of November 8, 2017, 53 turbines had completed their reliability test and all turbines were earning pre-completion revenues at full rates. Takeover activities have commenced and Northland expects the commissioning of all turbines and earning full project revenues to occur by the end of 2017. Nordsee One's total capital cost is expected to approximate €1.2 billion (CAD \$1.8 billion as at September 30, 2017). The project remains on time and within budget.

### *DeBu 252 MW Offshore Wind Project – Germany*

On August 17, 2017, Northland acquired a 100% interest in DeBu. Financial close for DeBu occurred on August 18, 2017. All key construction contracts have been signed and manufacturing has commenced, with project completion expected by the end of 2019. The total estimated project cost is approximately €1.3 billion (CAD \$1.9 billion). Northland has invested approximately \$408.0 million of corporate funds, sourced from cash on hand and €181.0 million from Northland's corporate revolving facility. The balance of the project cost will be funded with the €988 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 utilizing suction bucket foundations. The final investment decision for the demonstration turbines is expected by the end of the second quarter 2018 and is subject to achieving certain development milestones. If built, they will contribute an additional 17 MW of capacity and bring the total project cost to approximately €1.4 billion (CAD \$2.0 billion). Northland's corporate investment would increase by approximately \$25.0 million and is expected to be funded by cash and corporate debt. The balance of the demonstrator project costs would be funded by additional project debt that has already been committed as part of the project financing.

## SECTION 8: LITIGATION, CLAIMS AND CONTINGENCIES

Litigation, claims and commitments 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 significant adverse effect on Northland's financial position.

## SECTION 9: FUTURE ACCOUNTING POLICIES

As at September 30, 2017, there have been no additional accounting pronouncements by the International Accounting Standards Board (**IASB**) that would impact Northland beyond those described in Northland's 2016 Annual Report and in Note 2.2 of the unaudited interim condensed consolidated financial statements for the period ended September 30, 2017.

As discussed in Northland's 2016 annual report, the IASB and the Financial Accounting Standards Board jointly issued one converged accounting standard on the recognition of revenue from contracts with customers IFRS 15, "Revenue from Contracts with Customers" ("**IFRS 15**") effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 outlines a single comprehensive model to account for revenue arising from contracts with customers and will replace the majority of existing IFRS requirements on revenue recognition including IAS 18, Revenue. The core principle of IFRS 15 is to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. Northland will not be early adopting IFRS 15.

During the first nine months of 2017, management undertook IFRS 15 planning sessions, developed a preliminary adoption plan, and identified major revenue streams and associated revenue contracts in scope of IFRS 15. Management is currently working through the detailed analysis of the contracts in scope that may be impacted by changes at the transition date. All on-shore wind, ground-mounted solar as well as most thermal contracts have been analyzed, with no material impact identified. Next steps involve completing the detailed analysis of the remaining contracts, documenting the overall impact and revenue recognition policies, assessing any potential impact to information systems and internal controls, and reviewing the additional disclosures required by the standard. Management continues to evaluate the impact of IFRS 15 on the consolidated financial statements.

## SECTION 10: OUTLOOK

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

Management continues to expect adjusted EBITDA in 2017 to be in the range of \$710 million to \$750 million and free cash flow per share to be in the range of \$1.18 to \$1.30 per share. Nordsee One's net pre-completion revenue is excluded from the free cash flow calculation because the expected cash generated is primarily used to fund construction costs pursuant to the credit agreement.

### *Planned Increase in Dividend*

The Board of Directors plans to approve an increase in Northland's common share dividend from \$0.09 per month (\$1.08 annually) at present to \$0.10 per month (\$1.20 annually) commencing with the dividend record date of December 29, 2017 for dividends payable on January 15, 2018. The Board of Directors expects to review the dividend policy on a regular basis to balance growth requirements and investor preferences.

## SECTION 11: RISKS AND UNCERTAINTIES

For information concerning Northland's risks, uncertainties, financial instruments and contractual commitments refer to Northland's 2016 Annual Report and its AIF which are filed electronically at [www.sedar.com](http://www.sedar.com) under Northland's profile.

Management believes that there have been no material changes in the business environment or risks faced by Northland during the quarter that have not been disclosed in the AIF or the 2016 Annual Report.

Northland's overall risk management approach seeks to mitigate the financial risks to which it is exposed in order to maintain stable and sustainable levels of cash available to pay dividends to shareholders. Northland does not seek to mitigate fair value risk. Northland classifies financial risks into the categories of market risk, counterparty risk and liquidity risk. Readers should refer to Note 3 to the 2016 Annual Report for additional information on Northland's risk management.

As disclosed in this MD&A and notes to the unaudited interim condensed consolidated financial statements, Northland entered into an interest rate swap agreement during the third quarter to mitigate the interest rate risk associated with the closing of DeBu's €988 million non-recourse construction and term loan. The interest rate on the DeBu 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.

## SECTION 12: MANAGEMENT'S RESPONSIBILITY

A rigorous and comprehensive financial governance framework is in place at Northland and its subsidiaries. Northland's 2016 Annual Report contains a statement signed by Northland's Chief Executive Officer (**CEO**) and Chief Financial Officer (**CFO**) outlining management's responsibility for financial information contained in the report. Northland filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators in March 2017 in association with the filing of the 2016 Annual Report and other annual disclosure documents. In those filings, Northland's CEO and CFO certified, as required in Canada by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in Northland's annual filings and the effectiveness of Northland's disclosure controls and procedures. The CEO and CFO have certified to securities regulators the appropriateness of the financial disclosures in Northland's interim filings for the period ended September 30, 2017, and that they are responsible for the design of disclosure controls and procedures and internal controls over financial reporting. The interim filings include this MD&A and the accompanying unaudited interim condensed consolidated financial statements.

There have been no changes in internal controls over financial reporting during the quarter ended September 30, 2017 that have materially affected or are reasonably likely to materially affect Northland's internal controls over financial reporting.

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