

Management's Discussion and Analysis of Northland Power's Financial Position and Operating Results

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SECTION 1: OVERVIEW

Introduction

The purpose of this Management's Discussion and Analysis ("MD&A") is to explain the financial results and to assist the reader in understanding 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 unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018, as well as its audited consolidated financial statements for the years ended December 31, 2018 and 2017 ("**2018 Annual Report**") and Northland's most recent Annual Information Form dated February 21, 2019 ("**2018 AIF**"). This material is available on SEDAR at www.sedar.com and on Northland's website at northlandpower.com.

This MD&A contains forward-looking statements that are based on certain estimates and assumptions that were considered reasonable on November 6, 2019; actual results may differ materially. Northland's audit committee reviewed this MD&A and the associated unaudited interim condensed consolidated financial statements and notes, and its Board of Directors approved these documents prior to their release.

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

Forward-Looking Statements

This MD&A contains forward-looking statements that are based on certain estimates and assumptions that were considered reasonable on November 6, 2019; 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, revenue contracts, counterparty risks, contractual operating performance, variability of revenue from generating facilities powered by intermittent renewable resources, offshore wind concentration, natural gas and power market risks, operational risks, permitting, construction risks, project development risks, financing risks, interest rate and refinancing risks, liquidity risk, credit rating risk, currency fluctuation risk, variability of cash flow and potential impact on dividends, taxation, natural events, environmental, health and worker safety risks, market compliance risk, government regulations and policy risks, international activities, reliance on information technology, labour relations, reputational risk, insurance risk, risks relating to co-ownership, bribery and corruption risk, legal contingencies, and the other factors described in the 2018 Annual Report and the 2018 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 certain of 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. Adjusted EBITDA and free cash flow are presented at Northland's share of underlying operations. 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 4.4: Adjusted EBITDA* for a reconciliation of consolidated net income (loss) under IFRS to reported adjusted EBITDA and *SECTION 4.5 Free Cash Flow* for a reconciliation of cash provided by operating activities under IFRS to reported free cash flow.

Adjusted EBITDA

Adjusted EBITDA represents core operating performance of the business excluding leverage, income tax and non-core accounting items. 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) loss on sale of development assets, elimination of non-controlling interests (excluding management and incentive fees to Northland), equity accounting, costs attributable to an asset or business acquisition, and other adjustments as appropriate. For clarity, Northland's adjusted EBITDA reflects a reduction for its share of general and administrative costs during development and 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 incurred on outstanding debt; scheduled principal repayments; major maintenance and debt reserves; exclusion of pre-completion revenue and operating costs for projects under construction; interest income from Northland's subordinated loan to Gemini; proceeds from government grants; non-controlling interests; preferred share dividends; net proceeds from sale of development assets; costs attributable to an asset or business acquisition and other adjustments as appropriate, including lease payments.

For clarity, Northland's free cash flow reflects a reduction for expenditures on development activities until an advanced project qualifies for capitalizing development expenditures. Where Northland controls the distribution policy from its investments, free cash flow reflects Northland's share of the investment's underlying free cash flow, otherwise, Northland includes the cash distributions received from the investment. Free cash flow from foreign operations is translated to Canadian dollars at the exchange rate Northland realizes on cash distributions.

Management believes free cash flow is a meaningful measure of Northland's ability to generate cash flow after all on-going obligations (except common and class A share dividends) to be available to invest in growth initiatives and fund dividend payments.

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 re-investment 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 affect the comparability of Northland's payout ratio to that of industry peers.

SECTION 2: NORTHLAND'S OPERATING FACILITIES

As of September 30, 2019, Northland owns or has a net economic interest in 2,014 megawatts (**MW**) of power-producing facilities with a total operating capacity of approximately 2,429 MW. Northland's operating facilities 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 generate predictable cash flows.

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

	Year of Commercial Operations or Acquisition	Geographic region ⁽¹⁾	Economic interest ⁽²⁾	Gross Production Capacity (MW)	Net Production Capacity (MW)
Offshore Wind					
Gemini	2017	The Netherlands	60%	600	360
Nordsee One	2017	Germany	85%	332	282
Thermal					
Iroquois Falls	1997	Ontario	100%	120	120
Kingston	1997	Ontario	100%	110	110
Kirkland Lake ⁽³⁾	1993	Ontario	77%	132	102
North Battleford	2013	Saskatchewan	100%	260	260
Spy Hill	2011	Saskatchewan	100%	86	86
Thorold	2010	Ontario	100%	265	265
On-shore Renewable					
Cochrane Solar	2015	Ontario	63%	40	25
Grand Bend	2016	Ontario	50%	100	50
Jardin	2009	Québec	100%	133	133
McLean's	2014	Ontario	50%	60	30
Mont Louis	2011	Québec	100%	101	101
Solar	2014	Ontario	100%	90	90
Total				2,429	2,014

(1) Operating thermal and on-shore renewable facilities are located in Canada.

(2) As at September 30, 2019, Northland's economic interest was unchanged from December 31, 2018.

(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 September 30, 2019, Northland had 399 MW of generating capacity under construction, representing the Deutsche Bucht offshore wind project ("**Deutsche Bucht**") in the North Sea and the La Lucha solar project ("**La Lucha**") in Mexico, in addition to its 60% equity stake in the 1,044 MW Hai Long projects under development in Taiwan (refer to *SECTION 8: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information). Furthermore, Northland has a portfolio of projects in various stages of development in Europe, North America, Latin America and Asia.

Refer to the 2018 AIF for additional information on Northland's operating facilities and projects under construction or development as of December 31, 2018.

SECTION 3: CONSOLIDATED HIGHLIGHTS

3.1: Significant Events

Significant events during the first nine months of 2019 and through the date of this MD&A are described below.

Acquisition of EBSA and Subscription Receipts Offering

On September 9, 2019, Northland announced it entered into an agreement to purchase a 99.2% interest in a Colombian regulated utility, Empresa de Energía de Boyacá (“EBSA”), for approximately \$1.05 billion, including existing debt of COP 550 billion (approximately \$215 million), subject to certain purchase price adjustments (the “**Acquisition**”). Closing of the Acquisition is expected in the fourth quarter and, under the terms of the purchase agreement, the final purchase price will take into account EBSA’s rate tariff for the 2019-2023 period, which is expected to be approved by the Colombian energy and utility regulator (Comisión de Regulación de Energía y Gas or “CREG”) in the fourth quarter.

EBSA holds the sole franchise rights for electricity distribution in the Boyacá region of Colombia and is an electricity retailer for the regulated residential sector in the region. EBSA owns and operates an extensive distribution network, serving approximately 480,000 regulated customers. EBSA’s net revenue is highly regulated, of which approximately 80% is earned from its distribution business and the remainder primarily from its electricity retail business. The Acquisition expands Northland’s Latin American platform, facilitating participation in future growth projects across all electricity segments in Colombia. The Acquisition also diversifies Northland’s asset portfolio by asset class and geography, and is expected to generate average mid-single digit accretion to Free Cash Flow per Share during the current regulatory period ending 2023, and increasing accretion over the long-term.

Concurrent with the announcement of the Acquisition, Northland completed a public offering of 14,289,000 Subscription Receipts (the “**Offering**”) for gross proceeds of \$347 million, which convert to an equivalent number of common shares upon closing of the Acquisition. In addition to the net proceeds from the Offering, the initial purchase price is expected to be funded through proceeds drawn under a fully committed bridge credit facility, the assumption of the existing debt of EBSA totaling COP 550 billion (approximately \$220 million) and Northland’s existing credit facilities. The long-term funding for the Acquisition will replace the bridge credit facility with non-recourse debt expected to be funded in the first quarter of 2020. Refer to *SECTION 6: EQUITY, LIQUIDITY AND CAPITAL RESOURCES* and *SECTION 8: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information.

La Lucha Solar Project Update

In May 2019, Northland announced the final investment decision followed by the commencement of the construction of its 100%-owned La Lucha 130 MW solar project in the State of Durango, Mexico, which Northland originated as part of its broader Mexico development strategy. The project is progressing according to schedule and on budget. Total capital cost for the project is approximately \$190 million with project completion expected in the second half of 2020. Negotiation of bilateral power contracts are expected to be finalized prior to project completion. Refer to *SECTION 8: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information.

Deutsche Bucht Offshore Wind Project Update

The construction of Northland’s Deutsche Bucht offshore wind project remains on budget and all 31 monopile foundation turbines were installed by the end of August 2019, ahead of schedule, and generating power by the end of September 2019. Installation of the two turbines utilizing mono bucket foundations is expected to begin in the fourth quarter of 2019; however, full completion may extend into the first quarter of 2020 due to delays in the manufacturing of the mono bucket foundations resulting from supplier disruptions and the potential for adverse weather. The total estimated project cost remains at approximately €1.4 billion (CAD \$2.0 billion).

Hai Long Offshore Wind Project Update

In February 2019, Northland and its 40% partner, Yushan Energy, executed a 20-year PPA with Taiwan Power Company (“**Taipower**”) for the Hai Long 2A offshore wind project, based on the 300 MW Feed-in-Tariff (“**FIT**”) allocation. Refer to *SECTION 8: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information.

Addition to Northland's Executive Team

In October 2019, David Povall joined Northland as the Executive Vice President, Development. David will be based out of the Toronto office and will be responsible for leading the company's development initiatives in key markets around the globe. David brings to Northland more than 20 years of experience in the international power generation industry, including greenfield project development spanning multiple jurisdictions and technologies. Most recently, he served as Chief Executive Officer of Acacia Renewables, a Macquarie-owned developer focused on the Japanese market.

Secondary Offering of Common Shares

On April 5, 2019, a secondary offering closed for Northland's common shares held by entities controlled by James Temerty, the Chair of the Board of Directors of Northland. Northland did not receive any proceeds from this transaction. Subsequent to the closing, Mr. Temerty beneficially owned, or exercised control and direction over, approximately 11.5% of the common shares and all of the 1,000,000 Class A shares of Northland.

3.2: Operating Highlights

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

Summary of Consolidated Results

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
FINANCIALS				
Sales	\$ 378,437	\$ 350,175	\$ 1,220,799	\$ 1,174,724
Gross profit	355,945	320,985	1,136,871	1,090,236
Operating income	176,900	149,889	610,433	562,162
Net income (loss)	110,621	93,278	391,085	340,257
Adjusted EBITDA	224,312	196,797	712,021	670,209
Cash provided by operating activities	\$ 241,554	\$ 193,274	890,789	842,724
Free cash flow	74,112	63,948	251,125	248,964
Cash dividends paid to common and Class A shareholders ⁽¹⁾	54,119	40,219	162,243	119,458
Total dividends declared ⁽²⁾	54,122	53,122	162,265	158,815
Per Share				
Net income (loss) - basic	\$ 0.42	\$ 0.38	\$ 1.48	\$ 1.28
Free cash flow - basic	\$ 0.41	\$ 0.36	\$ 1.39	\$ 1.40
Total dividends declared ⁽²⁾	\$ 0.30	\$ 0.30	\$ 0.90	\$ 0.90
ENERGY VOLUMES				
Electricity production in gigawatt hours (GWh)	2,058	1,777	6,394	5,895

(1) Increase from prior period primarily as a result of shares under the DRIP being sourced from the secondary market such that all dividends declared reflect cash outflow from Northland.

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

SECTION 4: RESULTS OF OPERATIONS

4.1: Operating Results

Offshore Wind Facilities

Northland's offshore wind facilities consist of Gemini and Nordsee One as well as the Deutsche Bucht project currently under construction and generating pre-completion revenue. The following table summarizes their operating results:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Electricity production (GWh) ⁽¹⁾	850	636	2,520	2,339
Sales/gross profit ⁽²⁾⁽³⁾	\$ 231,164	\$ 201,437	\$ 734,525	\$ 710,124
Plant operating costs ⁽³⁾	29,435	34,850	95,469	107,476
Operating income	126,531	96,518	425,208	389,262
Adjusted EBITDA	\$ 139,144	\$ 110,974	\$ 432,616	\$ 401,160

(1) Includes GWh both produced and attributed to paid curtailments as well as pre-completion production recorded in Q3 2019.

(2) Offshore wind facilities do not have cost of sales and as a result, the reported sales figure equals gross profit.

(3) For 2019, the sales/gross profit and plant operating costs includes pre-completion revenue and the allocated plant operating costs for the operational wind turbines at Deutsche Bucht recorded in Q3.

Northland's three offshore wind facilities, Gemini, Nordsee One and Deutsche Bucht, are located in the North Sea, off the coasts of the Netherlands and Germany. Wind facilities tend to produce more electricity during winter due to denser air and higher winds compared to summer, the effect of which is reflected in the respective fiscal quarter's results. For the year ended December 31, 2018, Gemini and Nordsee One contributed approximately 34% and 26%, respectively, of Northland's total adjusted EBITDA. Refer to the 2018 AIF for additional information on Northland's offshore wind facilities.

Gemini has subsidy agreements with the Government of the Netherlands which expire in 2031. The subsidies top up the wholesale market-based revenue generated by Gemini to a fixed, contractual rate per megawatt hour (**MWh**) and are subject to an annual production ceiling (the "**Gemini Subsidy Cap**"), beyond which, production earns revenue at wholesale market prices. Based on management's expectations of wind resources and resultant electricity production volumes, the Gemini Subsidy Cap and the associated earnings would be achieved during the fourth quarter of the calendar year. The top up to a fixed contractual rate is subject to a floor price, however, thereby exposing Gemini to market price risk if the average wholesale market price for the year falls below the contractual floor price of approximately €44/MWh. For the nine months ended September 30, 2019, the loss on sales from the average wholesale market price falling below the contractual floor price is estimated at €5 million or 1.3% of revenues from Gemini. For the nine months ended September 30, 2018, the wholesale market price exceeded the contractual floor price, to the benefit of Gemini.

Nordsee One has a Feed-In Tariff (**FIT**) contract with the German government which expires in 2027. The associated tariff is added to the wholesale market price, effectively generating a fixed unit price for energy sold. Under the German *Renewable Energy Sources Act*, while the tariff compensates for most production curtailments required by the system operator, Nordsee One does not receive revenue for periods where the market power price remains negative for longer than six consecutive hours.

Deutsche Bucht produced its first revenues in the third quarter of 2019. Revenues and costs were recorded in operating income and adjusted EBITDA as individual wind turbines became operational during the construction stage. Free cash flow excludes pre-completion revenue and operating costs from Deutsche Bucht during the construction phase. Refer to **SECTION 8: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES** for additional information.

Northland's offshore wind facility results are affected by foreign exchange rate fluctuations between the Euro and Canadian dollar, which primarily affect sales, net income and adjusted EBITDA. Northland has entered into foreign exchange rate hedging transactions for a substantial portion of anticipated free cash flow, mitigating some of the effects of foreign exchange rate fluctuations.

Electricity production, including pre-completion production, for the three months ended September 30, 2019, increased 33.6% or 214 GWh compared to the same quarter of 2018 primarily due to pre-completion production from Deutsche Bucht and higher wind resource in the North Sea, partially offset by lower grid availability due to repairs by the system operator at Nordsee One. Production for the nine months ended September 30, 2019, increased 7.7% or 181 GWh compared to the same period of 2018 primarily due to similar factors affecting the third quarter, partially offset by unpaid curtailment from periods of negative market pricing at Nordsee One and cable repairs at Gemini in the second quarter of 2019.

The table below summarizes total pre-completion production and revenue and the portion recognized in sales earned by Deutsche Bucht.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Pre-completion electricity production (GWh)	106	—	106	—
Pre-completion revenue in sales/gross profit ⁽¹⁾	17,271	—	17,271	—
Pre-completion revenue in construction-in-progress	10,813	—	10,813	—
Total pre-completion revenue	\$ 28,084	\$ —	\$ 28,084	\$ —

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

Sales of \$231 million for the three months ended September 30, 2019, increased 14.8% or \$30 million compared to the same quarter of 2018 primarily due to pre-completion revenues from Deutsche Bucht and factors affecting production, partially offset by unfavourable foreign exchange rate fluctuations of \$8 million. Sales of \$735 million for the nine months ended September 30, 2019, increased 3.4% or \$24 million compared to the same period of 2018 primarily due to the same factors described above combined with the effect of the return of a 2017 overpayment by Gemini to the off-taker in the second quarter of 2018. Foreign exchange rate fluctuations resulted in \$22 million lower sales for the nine months ended September 30, 2019, compared to the same period of 2018.

Plant operating costs of \$29 million and \$95 million for the three and nine months ended September 30, 2019, decreased 15.5% or \$5 million and 11.2% or \$12 million compared to the same periods of 2018 primarily due to the timing of repairs and maintenance, lower insurance premiums at Gemini and lower costs at Nordsee One from operating efficiencies.

In September 2019, the turbine manufacturer for Nordsee One declared non-fulfillment of its service maintenance agreement after having filed for insolvency in April 2019. Nordsee One previously depended on the manufacturer to complete outstanding warranty work and perform under its service maintenance agreement. In preparation for the insolvency, Northland and Nordsee One entered into a service maintenance agreement in July 2019 whereby Northland would provide all maintenance services on behalf of the manufacturer for Nordsee One's benefit. Northland does not currently anticipate a material financial impact from this matter.

Operating income of \$127 million and \$425 million for the three and nine months ended September 30, 2019, respectively, increased 31.1% or \$30 million and 9.2% or \$36 million compared to the same periods of 2018 primarily due to higher sales and lower plant operating costs, as described above.

Adjusted EBITDA of \$139 million and \$433 million, for the three and nine months ended September 30, 2019, respectively, increased 25.4% or \$28 million and 7.8% or \$31 million compared to the same periods of 2018 primarily due to the factors described above.

Thermal Facilities

The following table summarizes the operating results of the thermal facilities:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Electricity production (GWh)	937	879	2,849	2,569
Sales ⁽¹⁾	\$ 93,739	\$ 96,939	\$ 307,746	\$ 298,212
Less: cost of sales	21,682	29,190	76,620	84,488
Gross profit	72,057	67,749	231,126	213,724
Plant operating costs	13,550	11,041	38,521	36,043
Operating income	48,990	47,382	164,051	147,817
Adjusted EBITDA ⁽²⁾	\$ 61,343	\$ 59,229	\$ 199,338	\$ 188,356

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

(2) Includes management and incentive fees earned by Northland.

The contractual structures of Northland's thermal facilities ensure the facility's gross profit is generally stable, within a seasonal profile, regardless of production or sales levels so long as the plant is available. Under some PPAs, the facility is reimbursed for certain costs of sales by the counterparty. When possible, management also aims to maximize returns through the re-marketing of natural gas storage and transportation ("**gas optimization**"). For the year ended December 31, 2018, Northland's six thermal facilities contributed approximately 30% of total adjusted EBITDA, with North Battleford, Iroquois Falls and Thorold accounting for approximately 27%. Refer to the 2018 AIF for additional information on Northland's thermal facilities.

Electricity production of 937 GWh for three months ended September 30, 2019, increased 6.6% or 58 GWh compared to the same quarter of 2018 primarily due to an increase in off-peak production and new incremental capacity at North Battleford and the effect of a maintenance outage in 2018 at another Northland facility. Production for the nine months ended September 30, 2019, increased 10.9% or 280 GWh compared to the same period of 2018 largely due to the same factors described above combined with greater dispatches at Thorold as a result of favourable market conditions in Ontario in the first quarter of 2019.

Sales of \$94 million for the three months ended September 30, 2019, decreased 3.3% or \$3 million compared to the same quarter of 2018 primarily due to lower cost of sales at Thorold resulting in lower reimbursements by the counterparty. Sales of \$308 million for the nine months ended September 30, 2019, increased 3.2% or \$10 million compared to the same period of 2018 primarily due to higher off-peak production and new incremental capacity at North Battleford, lower reported sales at Iroquois Falls in the second quarter of 2018 due to the effect of the reduced rate escalation by the system operator as well as maintenance outages at a facility last year. These favourable variances were partially offset by a lower estimated PPA rate at Iroquois Falls in 2019.

Gross profit of \$72 million and \$231 million for the three and nine months ended September 30, 2019, respectively, increased 6.4% or \$4 million and 8.1% or \$17 million compared to the same periods of 2018 largely due to lower gas transportation costs and favourable operating results at North Battleford and Iroquois Falls, as described above.

Plant operating costs of \$14 million and \$39 million for the three and nine months ended September 30, 2019, respectively, increased 22.7% or \$3 million and 6.9% or \$2 million compared to the same periods of 2018 primarily due to a maintenance outage.

Operating income of \$49 million for the three months ended September 30, 2019, increased 3.4% or \$2 million compared to the same quarter of 2018 primarily due to favourable operating results at Iroquois Falls and North Battleford, partially offset by the effect of a maintenance outage. Operating income of \$164 million for the nine months ended September 30, 2019, increased 11.0% or \$16 million compared to the same period of 2018 primarily due to higher gross profit partially offset by higher plant operating costs, as described above.

Adjusted EBITDA of \$61 million and \$199 million for the three and nine months ended September 30, 2019, respectively, increased 3.6% or \$2 million and 5.8% or \$11 million compared to the same periods of 2018 primarily due to the same factors increasing operating income.

On-shore Renewable Facilities

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Electricity production (GWh) ⁽¹⁾	271	262	1,025	987
On-shore wind	\$ 20,909	20,231	\$ 91,131	\$ 87,659
Solar	31,579	31,568	77,690	78,729
Sales/gross profit ⁽²⁾	52,488	51,799	168,821	166,388
On-shore wind	6,878	8,164	20,009	19,741
Solar	1,202	1,374	3,765	3,568
Plant operating costs	8,080	9,538	23,774	23,309
Operating income	20,434	19,332	73,265	74,115
On-shore wind	10,121	8,260	49,746	47,192
Solar	26,730	26,370	64,261	65,164
Adjusted EBITDA	\$ 36,851	\$ 34,630	\$ 114,007	\$ 112,356

(1) Includes GWh both produced and attributed to paid curtailments.

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

Northland's on-shore renewable assets comprise four on-shore wind and three 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. Solar power facilities have much lower fixed operating costs per unit of capacity than thermal or wind facilities. Electricity production from solar facilities tends to be less variable than wind but is limited to available sunlight, which is generally higher in the summer than in the winter. For the year ended December 31, 2018, Northland's on-shore renewable facilities contributed approximately 16% of total adjusted EBITDA. Refer to the 2018 AIF for additional information on Northland's on-shore renewable facilities.

Electricity production at the on-shore renewable facilities for the three months ended September 30, 2019, was 3.4% or 9 GWh higher than the same quarter of 2018 largely due to higher wind resource. Production for the nine months ended September 30, 2019, was 3.8% or 38 GWh higher than the same period last year primarily due to higher wind resource, partially offset by lower resources at the solar facilities in the second quarter of 2019.

Sales of \$52 million and \$169 million for the three and nine months ended September 30, 2019, increased 1.3% or \$1 million and 1.5% or \$2 million compared to the same periods of 2018 primarily due to higher production at the wind facilities, as described above. Production variances at the solar facilities have a larger effect on sales than the wind facilities since solar facilities receive a higher contracted price per MW.

Plant operating costs of \$8 million for the three months ended September 30, 2019, were 15.3% or \$1 million lower than the same quarter of 2018 primarily due to the timing of profit-sharing fees to the turbine maintenance provider at certain wind facilities. Plant operating costs of \$24 million for the nine months ended September 30, 2019, were in line with the same period of 2018.

Operating income and *adjusted EBITDA* of \$20 million and \$37 million, respectively, for the three months ended September 30, 2019, increased 5.7% or \$1 million and 6.4% or \$2 million compared to the same quarter of 2018 largely due to higher production at the wind facilities and lower plant operating costs at certain wind facilities, as described above. Operating income and adjusted EBITDA of \$73 million and \$114 million for the nine months ended September 30, 2019, respectively, was in line with the same period of 2018 primarily because higher production at the wind facilities was offset by lower production at the solar facilities.

4.2: General and Administrative Costs and Other Income

The following table summarizes general and administrative (G&A) costs:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Corporate overhead	\$ 8,035	\$ 7,284	\$ 23,383	\$ 24,800
Development overhead	4,702	3,979	13,685	11,588
Development projects	4,567	2,412	13,853	12,081
Corporate G&A costs	17,304	13,675	50,921	48,469
Operations G&A	3,199	1,891	9,397	10,162
Acquisition costs	978	—	978	—
Total G&A costs	21,481	15,566	61,296	58,631

Corporate G&A costs for the three months ended September 30, 2019, increased 26.5% or \$4 million compared to the same quarter of 2018 primarily due to the timing of expenditures related to project development activities and higher personnel costs to support Northland's growth. Corporate G&A costs for the nine months ended September 30, 2019, increased 5.1% or \$2 million compared to the same period of 2018 primarily due to the timing of expenditures related to project development activities and higher personnel costs.

Development overhead costs relate primarily to personnel, rent and other office costs not directly attributable to identifiable development projects. Development project costs are generally third-party costs directly attributable to identifiable development projects, whose capitalization begins once management determines that the project has a high likelihood of being pursued through to completion (refer to the 2018 Annual Report for additional information on the policy for capitalization of development costs).

Operations G&A costs for the three months ended September 30, 2019, increased 69.2% or \$1 million compared to the same quarter of 2018 primarily due to timing of certain costs. Operations G&A costs for the nine months ended September 30, 2019 decreased 7.5% or \$1 million compared to the same period of 2018 primarily due to lower personnel costs at the offshore wind facilities and timing of certain other costs.

Acquisition costs are generally third-party transaction-related costs directly attributable to an asset or business acquisition and these costs are excluded from adjusted EBITDA and free cash flow. For the three and nine months ended September 30, 2019, acquisition costs totaled \$1 million and relate to the acquisition of EBSA.

The following table presents the effect of corporate G&A costs and other income on adjusted EBITDA:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Corporate G&A costs	(17,304)	(13,675)	(50,921)	(48,469)
Gemini interest income	3,915	5,396	14,429	16,189
Other ⁽¹⁾	715	243	2,904	617
Corporate items in Adjusted EBITDA	\$ (12,674)	\$ (8,036)	\$ (33,588)	\$ (31,663)

(1) Includes corporate investment income and energy marketing income (net).

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 because it reflects returns generated from an investment in core assets.

4.3: Consolidated Results

The following discussion of the significant factors contributing to the consolidated financial results should be read in conjunction with Northland's unaudited interim condensed consolidated financial statements for the nine months ended September 30, 2019.

Third Quarter

Total Sales of \$378 million increased 8.1% or \$28 million compared to the same quarter of 2018 primarily due to pre-completion revenues at Deutsche Bucht and higher production at Gemini and Nordsee One, partially offset by the effect of unfavourable foreign exchange rate fluctuations.

Gross profit of \$356 million increased 10.9% or \$35 million compared to the same quarter of 2018 primarily due to the same factors affecting sales described above as well as lower gas transportation costs at thermal facilities.

Plant operating costs decreased 7.9% or \$4 million compared to the same quarter of 2018 primarily due to the timing of repairs and maintenance at the offshore wind facilities and lower costs at Nordsee One from operating efficiencies, partially offset by a maintenance outage at one facility.

G&A costs increased 38.0% or \$6 million compared to the same quarter of 2018 primarily due to the timing of expenditures related to project development activities and higher personnel costs to support Northland's growth.

Finance costs, net (primarily interest expense) decreased 7.0% or \$6 million compared to the same quarter of 2018 primarily due to declining interest costs as a result of scheduled principal repayments on facility-level loans, a lower outstanding balance on corporate credit facilities and the redemption of convertible debentures in December 2018.

Fair value gain on derivative contracts was \$41 million compared to a \$44 million gain in the same quarter of 2018 primarily due to the movement in the fair value of interest rate swaps and foreign exchange contracts.

Other (income) expense decreased by \$5 million mainly due to the sale of an operating asset in 2018.

Primarily as a result of the factors described above, partially offset by an \$8 million higher tax expense, net income increased \$17 million in the third quarter of 2019 compared to the same quarter of 2018.

Year-to-date

Total Sales of \$1.2 billion increased 3.9% or \$46 million compared to 2018 primarily due to pre-completion revenues at Deutsche Bucht and higher overall production at the offshore wind and thermal facilities. These positive variances were partially offset by foreign exchange rate fluctuations for Gemini and Nordsee One.

Gross profit of \$1.1 billion increased 4.3% or \$47 million compared to 2018 primarily due to the same factors affecting sales described above and lower gas transportation costs at thermal facilities.

Plant operating costs decreased 5.4% or \$9 million compared to 2018 primarily due to the timing of repairs at Gemini and lower costs at Nordsee One from operating efficiencies compared to the same period last year, partially offset by a maintenance outage at one facility.

G&A costs increased 4.5% or \$3 million compared to 2018 primarily due to the timing of expenditures related to project development activities and higher personnel costs.

Finance costs, net (primarily interest expense) decreased 6.6% or \$17 million compared to 2018 primarily due to declining interest costs as a result of scheduled principal repayments on facility-level loans, a lower outstanding balance on corporate credit facilities and the redemption of convertible debentures in December 2018.

Fair value gain on derivative contracts was \$110 million compared to a \$89 million gain in 2018 primarily due to the movement in the fair value of interest rate swaps and foreign exchange contracts.

Foreign exchange loss of \$5 million is primarily due to unrealized loss from fluctuations in the closing foreign exchange rate.

Other (income) expense improved by \$3 million compared to 2018 primarily due to insurance proceeds received related to construction and a non-cash fair value adjustment on a loan receivable, partially offset by the gain on sale of an operating asset in 2018.

Mainly due to the factors described above, combined with a \$22 million higher tax expense, compared to the same period last year, net income increased \$51 million for the nine months ended September 30, 2019 compared to 2018.

4.4: Adjusted EBITDA

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net income (loss)	\$ 110,621	\$ 93,278	\$ 391,085	\$ 340,257
Adjustments:				
Finance costs, net	78,130	84,002	237,511	254,404
Gemini interest income	3,915	5,396	14,429	16,189
Provision for (recovery of) income taxes	23,604	15,680	80,970	59,341
Depreciation of property, plant and equipment	110,308	103,445	318,383	312,576
Amortization of contracts and intangible assets	4,663	3,502	14,157	10,574
Fair value (gain) loss on derivative contracts	(40,871)	(43,583)	(109,623)	(89,253)
Foreign exchange (gain) loss	(370)	671	5,093	(6,913)
Elimination of non-controlling interests	(67,734)	(63,696)	(231,269)	(223,377)
Finance lease (lessor) and equity accounting	835	1,936	2,610	2,808
Other adjustments	1,211	(3,834)	(11,325)	(6,397)
Adjusted EBITDA	\$ 224,312	\$ 196,797	\$ 712,021	\$ 670,209

Adjusted EBITDA includes interest income earned on Northland's €117 million subordinated debt to Gemini, which includes accrued interest. Cash interest payments commenced in 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.

The adoption of IFRS 16 effective January 1, 2019 has resulted in an increase in adjusted EBITDA relative to last year since prior period figures are not restated. The increase in adjusted EBITDA for the full year 2019 compared to 2018 is an estimated \$6 million.

For the nine months ended September 30, 2019, other adjustments primarily include insurance proceeds received related to construction, a non-cash fair value adjustment on a loan receivable and acquisition costs. For the nine months ended September 30, 2018, other adjustments primarily include a gain on sale of an operating asset.

Third Quarter

Adjusted EBITDA of \$224 million for the three months ended September 30, 2019, increased 14.0% or \$28 million compared to the same quarter of 2018. The significant factors increasing adjusted EBITDA include:

- \$16 million increase as a result of net pre-completion revenues at Deutsche Bucht;
- \$8 million increase in operating results from Gemini due to higher production as well as lower insurance costs; and
- \$4 million increase in operating results from Nordsee One primarily due to higher production as well as lower costs from operating efficiencies.

Factors partially offsetting the increase in adjusted EBITDA include:

- \$4 million increase in corporate items in adjusted EBITDA primarily due to the timing of expenditures related to project development activities and higher personnel costs to support Northland's growth.

Year-to-date

Adjusted EBITDA of \$712 million for the nine months ended September 30, 2019, increased 6.2% or \$42 million compared to the same period last year. The significant factors increasing adjusted EBITDA include:

- \$16 million increase as a result of net pre-completion revenues at Deutsche Bucht;
- \$11 million increase primarily due to the effect of the reduced rate escalation adjustments at Iroquois Falls recorded in the second quarter of 2018 and higher production at North Battleford;

- \$10 million increase at Gemini primarily due to higher production, the effect of the return of a 2017 overpayment by Gemini to the off-taker recorded in 2018 as well as lower plant operating costs; and
- \$5 million increase at Nordsee One primarily due to higher production and lower plant operating costs, partially offset by unpaid curtailment from periods of negative market pricing during the second quarter of 2019.

The increase in adjusted EBITDA was partially offset by a \$2 million increase in corporate items primarily due to the timing of expenditures related to project development activities and personnel costs.

4.5 Free Cash Flow

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Cash provided by operating activities	\$ 241,554	\$ 193,274	\$ 890,789	\$ 842,724
Adjustments:				
Net change in non-cash working capital balances related to operations	12,096	36,422	(21,360)	(15,519)
Non-expansory capital expenditures	(1,814)	(1,807)	(3,966)	(2,913)
Restricted funding for major maintenance, debt and decommissioning reserves	(2,098)	(1,586)	(10,900)	(9,012)
Interest paid, net	(46,008)	(54,754)	(184,061)	(202,529)
Scheduled principal repayments on facility debt	(18,051)	(22,116)	(257,760)	(218,929)
Funds set aside (utilized) for scheduled principal repayments	(72,782)	(68,640)	(78,260)	(73,142)
Preferred share dividends	(2,936)	(2,899)	(8,796)	(8,634)
Consolidation of non-controlling interests	(29,926)	(26,934)	(84,171)	(95,387)
Lease payments	(1,953)	—	(4,799)	—
Investment income ⁽¹⁾	4,644	5,750	16,453	17,062
Nordsee One proceeds from government grant	4,766	4,124	15,613	14,430
Foreign exchange	(1,904)	1,563	(5,235)	1,182
Other ⁽²⁾	(11,476)	1,551	(12,422)	(369)
Free cash flow	\$ 74,112	\$ 63,948	\$ 251,125	\$ 248,964

(1) Investment income includes Gemini interest income and interest received on third-party loans to partners on Cochrane Solar.

(2) Other includes adjustments for Nordsee One interest on shareholder loans, equity accounting, Deutsche Bucht net pre-completion revenues excluded from free cash flow, acquisition costs and non-cash expenses adjusted in working capital excluded from free cash flow, partially offset by stock-based compensation awards settled in cash in the period.

Scheduled principal repayments on facility term loans reflect repayments as paid. Funds set aside (utilized) for scheduled principal repayments allocates semi-annual repayments evenly across two quarters as well as adjusts for timing of quarterly repayments. Gemini's principal repayment schedule is weighted towards the first payment of the year to align with Gemini's expected cash flow profile. For 2019, Northland's share of Gemini and Nordsee One's principal repayments are expected to total €79 million and €72 million, respectively, (2018 - €77 million and €49 million).

Free cash flow incorporates interest expense each quarter as it is accrued in net income and working capital or paid.

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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Cash dividends paid to common and Class A shareholders	\$ 54,119	\$ 40,219	\$ 162,243	\$ 119,458
Free cash flow payout ratio - cash dividends ⁽¹⁾			60.7%	48.3%
Total dividends paid to common and Class A shareholders ⁽²⁾	\$ 54,119	\$ 53,060	\$ 162,243	\$ 158,632
Free cash flow payout ratio - total dividends ^{(1) (2)}			63.4%	64.6%
Weighted average number of shares - basic (000s) ⁽³⁾	180,403	177,263	180,285	177,240
Weighted average number of shares - diluted (000s) ⁽⁴⁾	187,815	188,317	187,231	188,485
Per share (\$/share)				
Dividends paid	\$0.30	\$0.30	\$0.90	\$0.90
Free cash flow — basic	\$0.41	\$0.36	\$1.39	\$1.40
Free cash flow — diluted	\$0.40	\$0.35	\$1.36	\$1.35

(1) On a rolling four-quarter basis.

(2) Represents dividends paid in cash and in shares under the DRIP. For 2019, cash dividends equal total dividends because shares under the DRIP are being sourced from the secondary market.

(3) Includes common shares and class A shares but 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.

Third Quarter

Free cash flow of \$74 million for the three months ended September 30, 2019, was 15.9% or \$10 million higher than the same quarter of 2018.

Factors increasing free cash flow include:

- \$15 million increase in overall earnings primarily due to the factors affecting adjusted EBITDA except net pre-completion revenues from Deutsche Bucht, which are excluded from free cash flow; and
- \$8 million decrease in net interest expense due to declining interest costs as a result of scheduled principal repayments on facility-level loans, lower outstanding balance on corporate credit facilities and redemption of convertible debentures in December 2018.

Factors partially offsetting the increase in free cash flow include:

- \$7 million increase in current taxes related to the offshore wind facilities; and
- \$4 million increase in corporate G&A primarily due to the timing of expenditures related to project development activities and higher personnel costs to support Northland's growth.

Year-to-date

Free cash flow of \$251 million for the nine months ended September 30, 2019 was 0.9% or \$2 million higher than the same period last year.

Factors increasing free cash flow include:

- \$24 million increase in overall earnings primarily due to the factors affecting adjusted EBITDA except net pre-completion revenues from Deutsche Bucht, which are excluded from free cash flow; and
- \$23 million decrease in net interest expense due to declining interest costs as a result of scheduled principal repayments on facility-level loans, lower outstanding balance on corporate credit facilities and redemption of convertible debentures in December 2018.

Factors partially offsetting the increase in free cash flow include:

- \$34 million increase in scheduled principal repayments, primarily for Nordsee One debt;

- \$10 million increase in current taxes related to the offshore wind facilities; and
- \$2 million increase in corporate G&A primarily due to the timing of expenditures related to project development activities and higher personnel costs.

As at September 30, 2019, the rolling four quarter free cash flow net payout ratio was 60.7%, calculated on the basis of cash dividends paid and 63.4% calculated on the basis of total dividends, compared to 48.3% and 64.6%, respectively, in 2018. The increase in the free cash flow payout ratio calculated on the basis of cash from 2018 was primarily due to an increase in the number of shares due to the redemption of the convertible debentures in December 2018 and also due to a decrease in the DRIP participation since the discount was reduced to nil effective December 2018.

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, 2019 and December 31, 2018.

As at	September 30, 2019	December 31, 2018
Assets		
Cash and cash equivalents	\$ 302,682	\$ 278,400
Restricted cash	685,775	450,437
Trade and other receivables	278,686	275,088
Other current assets	50,012	39,675
Property, plant and equipment	8,070,202	8,105,845
Contracts and other intangible assets	527,298	581,097
Other assets ⁽¹⁾	508,145	534,563
	\$ 10,422,800	\$ 10,265,105
Liabilities		
Trade and other payables	267,948	197,828
Interest-bearing loans and borrowings	6,971,878	7,011,572
Net derivative liabilities ⁽²⁾	568,169	537,157
Net deferred tax liability ⁽²⁾	193,008	179,549
Other liabilities ⁽³⁾	982,472	798,377
	\$ 8,983,475	\$ 8,724,483
Total equity	1,439,325	1,540,622
	\$ 10,422,800	\$ 10,265,105

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

(2) Presented on a net basis.

(3) Includes dividends payable, corporate credit facilities, convertible debentures, subscription receipts, provisions and other liabilities.

Significant changes in Northland's unaudited interim condensed consolidated balance sheets were as follows:

- *Restricted cash* increased by \$235 million primarily due to proceeds from the subscription receipts offering, partially offset by the release of funds for debt service at Nordsee One, which were reclassified to cash as a result of an amendment to Nordsee One's debt facility agreement in the first quarter.
- *Property, plant and equipment* decreased by \$36 million mainly due to foreign exchange rate fluctuations and depreciation, partially offset by construction-related activities at Deutsche Bucht and La Lucha and the initial recognition of lease assets of \$60 million.
- *Contracts and other intangible assets* decreased by \$54 million primarily due to foreign exchange rate fluctuations and amortization.
- *Trade and other payables* increased by \$70 million, mainly due to the timing of construction-related payables at Deutsche Bucht partially offset by exchange rate fluctuations.

- *Interest-bearing loans and borrowings* decreased by \$40 million, primarily due to scheduled principal repayments on project debt and foreign exchange rate fluctuations, partially offset by Deutsche Bucht construction activities.
- *Net deferred tax liability* (deferred tax asset less deferred tax liabilities) increased by \$13 million due to movements in the differential between accounting and tax balances, particularly the movement in net derivative liabilities.
- *Other liabilities* increased by \$184 million, mainly due to the subscription receipts offering and the initial recognition of lease liabilities of \$60 million, partially offset by partial repayment of Northland's revolving facility and foreign exchange rate fluctuations.

SECTION 6: EQUITY, LIQUIDITY AND CAPITAL RESOURCES

Northland 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 2019 and 2018 was as follows:

For period ended	September 30, 2019	December 31, 2018
Shares outstanding, beginning of year	179,201,743	174,440,081
Conversion of debentures	213,599	2,527,626
Shares issued under the LTIP	—	23,467
Shares issued under the DRIP	—	2,210,569
Shares outstanding, end of period	179,415,342	179,201,743
Class A shares	1,000,000	1,000,000
Total common and convertible shares outstanding, end of period	180,415,342	180,201,743

Preferred shares outstanding as at September 30, 2019 and December 31, 2018 are as follows:

As at	September 30, 2019	December 31, 2018
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

In their most recent report issued in October 2018, Standard & Poor's reaffirmed Northland's corporate credit rating of BBB (Stable). In addition, Northland's preferred share rating was reaffirmed on Standard & Poor's Canada scale of BB+.

As at September 30, 2019, Northland had 179,415,342 common shares outstanding with no change in Class A and preferred shares outstanding from December 31, 2018. During the first nine months of 2019, \$4.6 million of convertible debentures were converted into 213,599 common shares.

As of the date of this MD&A, Northland has 179,438,952 common shares outstanding with no change in Class A and preferred shares outstanding from September 30, 2019. If the convertible debentures outstanding as at September 30, 2019, totaling \$151 million, were converted in their entirety, an additional 7.0 million common shares would be issued.

Subscription Receipts

In September 2019, Northland completed a public offering of 14,289,000 Subscription Receipts for gross proceeds of \$347 million. The holder of each Subscription Receipt is entitled to receive one common share at closing of the EBSA acquisition as well as payment equivalent to any dividends paid on common shares in the period prior to closing of the acquisition.

Normal Course Issuer Bid (NCIB)

Pursuant to its NCIB, commencing December 17, 2018, Northland is authorized to purchase for cancellation, up to 8,000,000 common shares representing approximately 4.5% of Northland's then issued and outstanding common shares. The NCIB will expire on December 16, 2019, or such earlier date as Northland completes its purchases pursuant to the NCIB. For the nine months ended September 30, 2019, no common shares were purchased under the NCIB.

Liquidity and Capital Resources

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cash and cash equivalents, beginning of period	\$ 288,696	\$ 455,158	\$ 278,400	\$ 400,573
Cash provided by operating activities	241,554	193,274	890,789	842,724
Cash used in investing activities	(218,869)	(99,481)	(651,162)	(481,031)
Cash (used in) provided by financing activities	(10,243)	(229,669)	(210,894)	(452,161)
Effect of exchange rate differences	1,544	(4,272)	(4,451)	4,905
Cash and cash equivalents, end of period	\$ 302,682	\$ 315,010	\$ 302,682	\$ 315,010

Year-to-date

Cash and cash equivalents for the nine months ended September 30, 2019, increased \$24 million due to \$891 million in cash provided by operating activities, partially offset by \$651 million in cash used in investing activities, \$211 million in cash used in financing activities and the effect of foreign exchange translation of \$4 million.

Cash provided by operating activities for the nine months ended September 30, 2019, was \$891 million comprising:

- \$391 million of net income;
- \$478 million in non-cash and non-operating items such as depreciation and amortization, finance costs, changes in fair value of financial instruments and deferred taxes; and
- \$21 million in changes in working capital due to the timing of payables, receivables and deposits.

Cash used in investing activities for the nine months ended September 30, 2019, was \$651 million, primarily due to \$692 million used for the purchase of property, plant and equipment, primarily for the construction of Deutsche Bucht and La Lucha. Partially offsetting cash used in investing activities was a \$33 million change in working capital primarily related to the timing of construction payables at Deutsche Bucht.

Cash used in financing activities for the nine months ended September 30, 2019, was \$211 million, primarily comprising:

- \$436 million in repayments under the corporate revolving facility (\$178 million) and scheduled principal repayments on project debt (\$258 million);
- \$187 million in interest payments;
- \$171 million of common, Class A and preferred share dividends; and
- \$96 million in dividends to the non-controlling shareholders.

Factors partially offsetting cash used in financing activities include:

- \$612 million of proceeds primarily from borrowings under Deutsche Bucht's construction loan; and
- \$70 million change in restricted cash, primarily from release of funds set aside for debt service at Nordsee One.

Movement of the euro against the Canadian dollar decreased cash and cash equivalents by \$4 million for the nine months ended September 30, 2019. 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 debt for operating expenditures and the purchase of property, plant and equipment in euros by Deutsche Bucht.

Property, plant and equipment

The following table provides a continuity of the cost of property, plant and equipment for the nine months ended September 30, 2019:

	Cost balance as at Dec. 31, 2018	Additions ⁽¹⁾	Other ⁽²⁾	Exchange rate differences	Cost balance as at Sept. 30, 2019
Operations:					
Offshore wind	\$ 5,666,499	\$ 172	\$ 14,159	\$ (437,190)	5,243,640
Thermal ⁽³⁾	1,760,009	1,871	47	—	1,761,927
On-shore renewable	1,721,698	599	28,087	—	1,750,384
Construction:					
Offshore wind	819,462	656,750	1,960	(86,212)	1,391,960
On-shore renewable	—	29,549	3,854	(1,102)	32,301
Corporate	26,851	2,655	15,024	(920)	43,610
Total	\$ 9,994,519	\$ 691,596	\$ 63,131	\$ (525,424)	\$ 10,223,822

(1) Includes pre-completion revenue of \$11 million for Deutsche Bucht. See Operating Facilities Results section for additional information.

(2) Includes initial recognition of lease right-of-use assets and amounts accrued under the LTIP. Refer to Note 2.3 and 4 of the interim financial statements for additional information on lease recognition.

(3) Excludes Spy Hill lease receivable accounting treatment.

Long-term Debt

Operating facilities and projects under construction are financed primarily with non-recourse project debt with fixed or hedged interest rates and repayments tied to the terms of the project's initial PPA post-completion. 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 nine months ended September 30, 2019:

	Balance as at Dec. 31, 2018	Financings, net of costs	Repayments	Amort. of costs/fair value	Exchange rate differences	Balance as at Sept. 30, 2019
Operations:						
Offshore wind	\$ 4,160,574	\$ —	\$ (193,394)	\$ 13,527	\$ (314,215)	3,666,492
Thermal	995,131	—	(28,904)	931	—	967,158
On-shore renewable	1,100,198	—	(35,462)	796	—	1,065,532
Construction:						
Offshore wind	755,669	592,023	—	3,023	(78,019)	1,272,696
Corporate⁽¹⁾	309,274	20,227	(178,479)	607	(19,173)	132,456
Total	\$ 7,320,846	\$ 612,250	\$ (436,239)	\$ 18,884	\$ (411,407)	\$ 7,104,334

(1) Excludes convertible unsecured subordinated debentures.

In February 2019, Nordsee One amended its debt facility agreement to include a debt service reserve facility, resulting in the release of €50 million in funds previously restricted for debt service.

In addition to the loans outstanding in the above table, as at September 30, 2019, \$40 million of letters of credit were outstanding under non-recourse project-level credit facilities for operational use.

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. Most operating subsidiaries hold non-recourse debt, which typically prohibits distributions 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 adjusted EBITDA to scheduled principal and interest payments over a specified time period. Northland and its subsidiaries were in compliance with all debt covenants for the period ended September 30, 2019.

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 September 30, 2019	Facility size	Amount drawn	Outstanding letters of credit	Available capacity	Maturity date
Syndicated revolving facility	\$ 1,000,000	\$ 137,066	\$ 90,151	\$ 772,783	Jun. 2024
Bilateral letter of credit facility	100,000	—	99,388	612	Mar. 2021
Export credit agency backed letter of credit facility	100,000	—	43,783	56,217	Mar. 2020
Total	\$ 1,200,000	\$ 137,066	\$ 233,322	\$ 829,612	
Less: deferred financing costs		4,610			
Total, net		\$ 132,456			

- Northland repaid \$120 million (€80 million) of the balance drawn on the revolving facility in the first quarter of 2019 and an additional \$37 million (€25 million) in the third quarter of 2019.
- In the second quarter of 2019, the \$1 billion revolving credit facility was extended to June 22, 2024.
- In the third quarter of 2019, the \$100 million bilateral letter of credit facility was extended to March 31, 2021.
- Amounts drawn against the revolving facility reflect €95 million converted at the period-end exchange rate.
- Of the \$233 million of corporate letters of credit issued as at September 30, 2019, \$114 million relates to projects under advanced development or construction.
- Northland has finalized the terms of a 12-month bridge credit facility intended as part of the initial funding for the EBSA acquisition and plans to execute and draw on the facility at the time of the acquisition close.

Northland's corporate credit facilities include provisions that allow for renewals at Northland's option, subject to approval by the lenders.

SECTION 7: SUMMARY OF QUARTERLY CONSOLIDATED RESULTS

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 16 in 2019 (refer to note 2 of the unaudited interim condensed consolidated financial statements), accounting policies and principles have been applied consistently for all periods presented in the table below.

<i>In millions of dollars, except per share information</i>	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	2019	2019	2019	2018	2018	2018	2018	2017
Total sales	\$ 378.4	343.8	498.5	\$ 380.9	\$ 350.2	\$ 338.2	\$ 486.4	\$ 394.6
Operating income	176.9	145.9	287.6	170.7	150.4	130.5	281.2	196.5
Net income (loss)	110.6	76.2	204.2	65.3	93.2	69.0	178.0	82.3
Adjusted EBITDA	224.3	194.0	293.7	221.3	196.8	183.0	290.4	238.7
Cash provided by operating activities	241.6	341.3	307.8	291.2	193.3	343.3	306.1	257.6
Free cash flow	74.1	35.2	141.8	88.7	63.9	37.0	148.0	69.5
Per share statistics								
Net income (loss) - basic	\$ 0.42	\$ 0.28	\$ 0.78	\$ 0.23	\$ 0.38	\$ 0.29	\$ 0.61	\$ 0.25
Net income (loss) - diluted	0.41	0.28	0.76	0.22	0.37	0.28	0.59	0.25
Free cash flow - basic	0.41	0.20	0.79	0.50	0.36	0.21	0.84	0.40
Total dividends declared	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.28

SECTION 8: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES

Acquisition of EBSA Regulated Distribution Utility – Colombia

On September 9, 2019, Northland announced it entered into an agreement to purchase a 99.2% interest in a Colombian regulated utility, Empresa de Energía de Boyacá ("**EBSA**"), for approximately \$1.05 billion, including existing debt of COP 550 billion (approximately \$215 million), subject to certain purchase price adjustments (the "**Acquisition**"). Closing of the Acquisition is expected in the fourth quarter and, under the terms of the purchase agreement, the final purchase price will take into account EBSA's rate tariff for the 2019-2023 period, which is expected to be approved by the Colombian energy and utility regulator (Comisión de Regulación de Energía y Gas or "**CREG**") in the fourth quarter.

EBSA holds the sole franchise rights for electricity distribution in the Boyacá region of Colombia and is an electricity retailer for the regulated residential sector in the region. EBSA owns and operates an extensive distribution network, serving approximately 480,000 regulated customers. EBSA's net revenue is highly regulated, of which approximately 80% is earned from its distribution business and the remainder primarily from its electricity retail business.

The Acquisition of EBSA expands Northland's Latin American platform, facilitating participation in future growth projects across all electricity segments in Colombia. Colombia offers an attractive jurisdiction for infrastructure investments, having the third largest population in the region, a growing middle class and expected gross domestic product growth of 3% in 2019. The Acquisition also diversifies Northland's portfolio by adding a perpetual utility infrastructure business.

EBSA, like most electric distribution utilities, earns revenue by charging customers a rate approved under the regulatory framework administered by CREG. The rate charged is set for a five-year period and includes amounts retained by EBSA, as retailer and distributor, and amounts passed on to other electricity system participants, such as the transmission operator. EBSA's portion of the rate is determined based on its asset base (i.e. the "rate base"), inflation indexation per the established Colombian producer price index and a regulated average weighted average cost of capital ("**WACC**") of approximately 11.5% for a five-year period. The rate base takes into account the depreciated cost of existing equipment and anticipated future expenditure for maintenance and growth. EBSA's portion of the rate also includes standardized allowances set by the regulator intended to cover fixed and variable operating costs. The rate is designed to ensure EBSA earns a predictable and stable return. EBSA submitted its most recent rate application in September 2018, based on which, EBSA's rate base for 2019 is expected to

be approximately COP 1,600 billion (\$630 million). EBSA's rate base is expected to grow in the long-run as result of inflation indexation and rate base investments, which are expected to be self-funded through cash from operations and non-recourse debt. EBSA is expected to contribute adjusted EBITDA in 2020 of approximately COP 255 billion (\$100 million) based on the submitted rate application.

La Lucha 130 MW Solar Project – Mexico

In May 2019, Northland announced the final investment decision followed by the commencement of the construction of its 100%-owned La Lucha 130 MW solar project in the State of Durango, Mexico, which Northland originated as part of its broader Mexico development strategy. The project is progressing according to schedule and on budget. Total capital cost for the project is approximately \$190 million with project completion expected in the second half of 2020.

Construction is progressing on schedule with most engineering and the site preparation work complete and ready for the installation of major foundations and photovoltaic infrastructure. Initial equipment deliveries are expected in the fourth quarter of 2019. Negotiation of bilateral power contracts continues with a range of commercial and industrial offtakers in the regional market and is expected to be finalized prior to project completion. Northland expects to utilize non-recourse project financing to finance La Lucha once construction is complete.

Deutsche Bucht 269 MW Offshore Wind Project – Germany

The construction of Northland's Deutsche Bucht offshore wind project remains on budget and all 31 monopile foundation turbines were installed by the end of August 2019, ahead of schedule, and generating power by the end of September 2019. Installation of the two turbines utilizing mono bucket foundations is expected to begin in the fourth quarter of 2019; however, full completion may extend into the first quarter of 2020 due to delays in the manufacturing of the mono bucket foundations resulting from supplier disruptions and the potential for adverse weather. The total estimated project cost remains at approximately €1.4 billion (CAD \$2.0 billion).

Hai Long 1,044 MW Offshore Wind Project – Taiwan

In 2018, the Company's Hai Long project owned by Northland and its 40% partner, Yushan Energy, was allocated a total of 1,044 MW (626 MW net to Northland) by the Bureau of Energy of Taiwan under a FIT program and an auction process. Key aspects of the Hai Long project are presented below:

Sub-project	Gross Capacity (MW)	Net Capacity (MW) ⁽¹⁾	Year of Grid Connection	Type of Procurement
Hai Long 2A	300	180	2024	FIT
Hai Long 2B	232	139	2025	Auction
Hai Long 3	512	307	2025	Auction
Total	1,044	626		

(1) Represents Northland's 60% economic interest.

In February 2019, Northland and Yushan Energy executed a 20-year PPA with Taipower for the Hai Long 2A offshore wind project, based on the 300 MW FIT allocation. Northland remains engaged in developing Hai Long 2B and Hai Long 3 sub-projects and expects to execute their respective PPAs with Taipower in 2019.

SECTION 9: OUTLOOK

Northland aims to increase shareholder value by creating high-quality projects underpinned by revenue arrangements that deliver predictable cash flows. Management actively seeks to invest in technologies and jurisdictions where Northland can benefit from an early-mover advantage and establish a meaningful presence while striving for excellence in managing Northland's operating facilities by enhancing their performance and value.

As of November 6, 2019, primarily due to the passage of three quarters, management has narrowed its guidance range for 2019 adjusted EBITDA to be in the range of \$950 to \$1,000 million (formerly, \$920 to \$1,010 million) and 2019 free cash flow per share to be in the range of \$1.65 to \$1.80 (formerly, \$1.65 to \$1.95). The narrowed range reflects Northland's year-to-date results including lower than forecast offshore wind production as well as unpaid curtailments at Nordsee One. Additionally, as a result of the industry expecting unpaid curtailments to continue in 2020, management has revised Deutsche Bucht's contribution to adjusted EBITDA in 2020 to between €155 to €175 million (formerly, €165 to €185 million).

SECTION 10: 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 11: FUTURE ACCOUNTING POLICIES

Northland assesses each new IFRS or amendment to determine whether it may have a material impact on its consolidated financial statements. As at September 30, 2019, there have been no accounting pronouncements by the International Accounting Standards Board that would materially affect Northland's consolidated financial statements.

SECTION 12: RISKS AND UNCERTAINTIES

For information concerning Northland's risks, uncertainties, financial instruments and contractual commitments refer to Northland's 2018 Annual Report and the 2018 AIF filed electronically at www.sedar.com under Northland's profile. Management believes 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 2018 Annual Report or the 2018 AIF.

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. Refer to Note 15 of the 2018 Annual Report for additional information on Northland's risk management.

SECTION 13: CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

A rigorous and comprehensive financial governance framework is in place at Northland and its subsidiaries. Northland's 2018 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 February 2019 in association with the filing of the 2018 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, 2019, 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 the design of internal controls over financial reporting during the quarter ended September 30, 2019, that have materially affected or are reasonably likely to materially affect Northland's internal controls over financial reporting.