

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 months ended March 31, 2020 and 2019, as well as its audited consolidated financial statements for the years ended December 31, 2019 and 2018 ("**2019 Annual Report**") and Northland's most recent Annual Information Form dated February 25, 2020 ("**2019 AIF**"). This material is available on SEDAR at www.sedar.com and on Northland's website at www.northlandpower.com.

This MD&A contains forward-looking statements that are based on certain estimates and assumptions that were considered reasonable on May 13, 2020; 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 May 13, 2020; 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, the events anticipated by the forward-looking statements may or may not 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, impact of COVID-19, 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, recovery of utility operating costs, permitting, construction risks, project development risks, acquisition 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 risks, health and worker safety risks, market compliance risk, government regulations and policy risks, utility rate regulation 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 this MD&A and the 2019 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 includes 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 Northland's share of 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; equity accounting; costs attributable to an asset or business acquisition and other adjustments as appropriate, such as management and incentive fees earned by Northland from non-wholly owned assets. 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 the long-term value of the business. Free cash flow is calculated as Northland's share of 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; interest income from Northland's subordinated loan to Gemini; proceeds from government grants; preferred share dividends; net proceeds from sale of development assets; and other adjustments as appropriate, including lease payments. Free cash flow excludes pre-completion revenue required to service debt and related operating costs for projects under construction and excludes costs attributable to an asset or business acquisition.

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 of 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 on-going obligations (except common and class A share dividends), 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. 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 March 31, 2020, Northland owns or has a net economic interest in 2,266 megawatts (**MW**) of power-producing facilities with a total operating capacity of approximately 2,681 MW. Northland's power-producing facilities produce electricity from clean energy sources for sale primarily under long-term power purchase agreements (**PPAs**) or other revenue arrangements with creditworthy customers. Northland's utility is a distributor and retailer of electricity compensated under a regulated framework. These operating assets provide stable cash flow and are primarily located in Canada, Germany, the Netherlands and Colombia.

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
Deutsche Bucht	2020	Germany	100%	252	252
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
Utility					
EBSA	2020	Colombia	99%	n/a	n/a
Total				2,681	2,266

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

(2) As at March 31, 2020, Northland's economic interest was unchanged from December 31, 2019, with the exception of EBSA, which Northland acquired on January 14, 2020. EBSA's results are consolidated in Northland's financial results effective the acquisition date.

(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 at March 31, 2020, Northland had 130 MW of generating capacity under construction, representing the La Lucha solar project ("**La Lucha**") in Mexico, in addition to its 60% equity stake in the 1,044 MW Hai Long project ("**Hai Long**") under development in Taiwan (refer to *SECTION 8: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information). Furthermore, Northland actively pursues projects in various stages of development in North America, Europe, Latin America and Asia.

Refer to the 2019 AIF for additional information on Northland's operating facilities and projects under construction or development as of December 31, 2019.

SECTION 3: CONSOLIDATED HIGHLIGHTS

3.1: Significant Events

Significant events during the first quarter of 2020 and through the date of this MD&A are described below.

COVID-19 Business Update

Each of Northland's operating facilities are deemed to be essential infrastructure and, as such, operations have continued uninterrupted to date. Accordingly, management has taken prudent and comprehensive measures to safeguard the health and well-being of all employees, contractors as well as host communities. All of Northland's facilities continue to operate as expected and preventative measures remain in place in accordance with Northland's crisis response plans and applicable local government directives. Management continues to actively monitor the situation, which remains uncertain, and may take further actions as required or recommended by authorities.

While the vast majority of Northland's revenues are contracted under long-term agreements with creditworthy counterparties, there is some, yet limited, exposure to the wholesale market price of electricity at the offshore wind facilities. If low wholesale market prices persist for an extended period, Northland's revenues may be negatively affected. Construction activities at La Lucha solar project in Mexico are progressing on schedule but could be affected by construction services and contractor unavailability.

While there continues to be uncertainty with regard to the potential impact of COVID-19, as a result of the relative stability of Northland's revenues and free cash flow profile, management does not anticipate a change to Northland's 2020 financial guidance as a result of COVID-19. Management believes Northland has sufficient liquidity available to limit the impact of COVID-19. As at March 31, 2020, Northland had access to \$423 million of cash and liquidity, comprising \$84 million of corporate cash on hand and \$339 million of liquidity available under its syndicated revolving facility. Management continues to monitor developments globally and their potential impact on Northland's business activities and financial results. Refer to *SECTION 11: FINANCIAL RISKS AND UNCERTAINTIES* for additional information.

Notice of Redemption of 4.75% Convertible Unsecured Subordinated Debentures Series C

On May 11, 2020, Northland completed the early redemption of its outstanding 4.75% extendible convertible unsecured subordinated debentures, Series C, due June 30, 2020 ("**2020 Debentures**"). Holders converted approximately \$147 million of their 2020 Debentures into 6.8 million new common shares prior to the May 11, 2020, redemption date. Northland redeemed the remaining approximately \$2 million of the 2020 Debentures in cash.

Deutsche Bucht 252 MW Project Update

On March 31, 2020, Northland announced that the Deutsche Bucht project achieved final completion. Final completion marks the official end of construction, the start of the operational phase of the project and the satisfaction of terms required by project lenders to achieve term conversion. This announcement followed management's decision on March 17, 2020 to permanently forego the installation of the two additional turbines utilizing mono bucket foundations due to technical issues encountered during the installation process. As a result of this decision, the Deutsche Bucht project will encompass 31 monopile foundations and turbines, which were installed and operational, ahead of schedule, with a total productive capacity of 252 megawatts. The project has generated €129 million of pre-completion revenues in sales, of which €63 million (\$93 million) were recognized in free cash flow in the first quarter of 2020 (the "**Deutsche Bucht Completion Distribution**"). Refer to *SECTION 8: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information.

NaiKun, Canadian Offshore Wind Development Project Acquisition

On March 30, 2020, Northland announced it had entered into a share purchase agreement to acquire NaiKun Offshore Wind Farm ("**NaiKun**") from NaiKun Wind Energy Group Inc. NaiKun is located in the Hecate Strait off the coast of British Columbia, Canada. This is an early stage development opportunity for the potential development of offshore wind in Canadian waters.

Northland Corporate Credit Rating Re-affirmed

In their most recent report issued in March 2020, 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+.

Addition to Northland's Executive Team

On March 9, 2020, Northland announced the appointment of Ms. Pauline Alimchandani as Chief Financial Officer (**CFO**), effective April 13, 2020. Ms. Alimchandani succeeded Mr. Paul Bradley, who will be retiring from Northland in May 2020. Since 2014, she served as Executive Vice President and CFO at a leading public Canadian real estate and development company where she was responsible for the strategic development and overall financial management of the business. In her role she led: corporate finance and strategy, capital allocation, risk management, debt and equity financings, project/development finance, financial reporting, treasury, tax and investor relations. In addition, she also managed legal, human resources and IT.

Dado Ocean, South Korean Offshore Wind Development Project Acquisition

On February 28, 2020, Northland completed its acquisition of Dado Ocean Wind Farm Co. Ltd ("**Dado Ocean**"), an offshore wind development company based in South Korea with access to multiple early-stage development sites off the southern coast. Subsequent to the announcement of the acquisition, the Company commenced early stage development on sites in proximity of the original sites. These sites could provide the opportunity to increase the development capacity to approximately 1.0 gigawatts of offshore wind. These opportunities will be developed together over the coming years.

EBSA, Colombian Regulated Power Distribution Utility Acquisition and Subscription Receipts Offering

On January 14, 2020, Northland completed its previously announced acquisition of a 99.2% interest in the Colombian regulated power distribution utility, Empresa de Energía de Boyacá S.A E.S.P ("**EBSA**"), for a total purchase price of COP 2,412 billion (\$960 million) including existing debt of COP 550 billion (approximately \$219 million) (the "**EBSA Acquisition**"). Pursuant to the share purchase agreement, the purchase price remains subject to post-closing adjustments following a review of the final tariff resolution. The long-term funding for the EBSA Acquisition will include replacing the interim bridge credit facility (the "**EBSA Bridge**") with non-recourse debt, which is expected in the third quarter of 2020. Refer to *SECTION 6: EQUITY, LIQUIDITY AND CAPITAL RESOURCES* and *SECTION 8: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information.

Energía, Mexican Qualified Supplier Acquisition and La Lucha 130 MW Project Update

The construction of the 130 MW La Lucha solar project in the State of Durango, Mexico is progressing on schedule with completion expected in the second half of 2020, however, completion timing may be affected by construction services and contractor availability as a result of COVID-19. Total capital cost for the project remains unchanged at approximately \$190 million. Northland intends to secure non-recourse project financing for La Lucha once construction is complete.

As part of its development strategy in Mexico and to facilitate securing off-take agreements for La Lucha, Northland completed the acquisition of an entity in Mexico ("**Energía**") that holds a qualified supplier license. Energía enables Northland to operate in the electricity sector in Mexico by contracting loads and generators, which also allows a more direct path to market for Northland's generation projects, including La Lucha. Refer to *SECTION 8: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information.

Hai Long 1,044 MW Offshore Wind Development Project Update

Northland and its 40% partner, Yushan Energy, continue to engage with the Taiwan government on finalization of the project's investments into the local supply chain, however, COVID-19 has added uncertainty to timing of near-term development milestones. Northland continues to develop the Hai Long 2B and Hai Long 3 sub-projects, allocated a total of 744 MW under auction, and expects to execute their respective PPAs in 2020. Refer to *SECTION 8: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information.

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 March 31,	
	2020	2019
FINANCIALS		
Sales	\$ 667,695	\$ 498,540
Gross profit	618,775	458,923
Operating income	394,551	287,588
Net income (loss)	275,019	204,230
Adjusted EBITDA (a non-IFRS measure)	420,771	293,675
Cash provided by operating activities	367,594	307,794
Free cash flow (a non-IFRS measure)	211,462	141,839
Cash dividends paid ⁽¹⁾	62,717	54,062
Total dividends declared ⁽¹⁾	64,159	54,062
Per Share		
Weighted average number of shares - basic (000s)	192,581	180,203
Common and class A shares outstanding (000s) ⁽²⁾	194,840	180,209
Net income (loss) - basic	\$ 1.02	\$ 0.78
Free cash flow - basic	\$ 1.10	\$ 0.79
Total dividends declared to common and class A shareholders ⁽³⁾	\$ 0.30	\$ 0.30
ENERGY VOLUMES		
Electricity production in gigawatt hours (GWh) ⁽⁴⁾	2,974	2,539

(1) Represents total dividends paid or declared to common and class A shareholders, including dividends in cash or in shares under the DRIP, as well as the dividend equivalent payment to subscription receipt holders upon conversion to common shares on January 14, 2020.

(2) As at March 31.

(3) Excludes the dividend equivalent payment of \$0.40 paid upon conversion of 14,289,000 subscription receipts on January 14, 2020.

(4) Includes Deutsche Bucht's pre-completion production volumes. Refer to Section 4.1 Operating Results for additional information.

SECTION 4: RESULTS OF OPERATIONS

4.1: Operating Results

Offshore Wind Facilities

The following table summarizes operating results the offshore wind facilities:

	Three months ended March 31,	
	2020	2019
Electricity production (GWh) ⁽¹⁾	1,583	1,025
Sales/gross profit ^{(2) (3)}	\$ 444,984	\$ 310,222
Operating costs ⁽³⁾	36,312	33,128
Operating income	320,961	207,667
Adjusted EBITDA	\$ 304,483	\$ 187,221

(1) Includes GWh both produced and attributed to paid curtailments as well as pre-completion production for Deutsche Bucht in 2020.

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

(3) For 2020, the sales/gross profit and operating costs includes pre-completion revenue and the related operating costs for the operational wind turbines at Deutsche Bucht.

Northland's three offshore wind facilities, Gemini, Nordsee One and Deutsche Bucht, are located 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 three months ended March 31, 2020, Gemini, Nordsee One and Deutsche Bucht contributed approximately 29%, 21% and 19%, respectively, of Northland's reported adjusted EBITDA from facilities. Refer to the 2019 AIF for additional information on Northland's offshore wind facilities.

Results for Northland's offshore wind facilities 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.

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, thereby exposing Gemini to market price risk if the average wholesale market price for the year falls below the contractual floor price ("**SDE floor**") of approximately €44/MWh. For the three months ended March 31, 2020, Northland's share of the loss on sales from the average wholesale market price falling below the SDE floor was €7 million (\$10 million) or 6.9%. For the three months ended March 31, 2019, the wholesale market price exceeded the SDE floor, to the benefit of Gemini.

Nordsee One and Deutsche Bucht have a Feed-In Tariff contract with the German government whereby 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, the facilities do not receive revenue for periods where the market power price remains negative for longer than six consecutive hours. The facilities may also be subject to unpaid curtailment by the system operator for grid repairs. For the three months ended March 31, 2020, the loss on sales from unpaid curtailments was €5 million (\$7 million) or 7.1% of Northland's share of revenues of Nordsee One (2019 - €2 million or 4.0%) and €5 million (\$7 million) or 7.9% of Northland's revenues from Deutsche Bucht.

At Deutsche Bucht, cash generated from pre-completion revenue was used to offset construction costs until responsibility transferred on a turbine by turbine basis from the contractor to Northland. Revenues and costs were recorded in operating income and adjusted EBITDA since wind turbines were operational during the construction stage. However, pre-completion revenue and operating costs are excluded from free cash flow during the construction phase since the funds are not yet

distributable under the terms of lender agreements. Deutsche Bucht earned pre-completion revenues until it achieved final completion effective March 31, 2020, at which point, net pre-completion revenue in excess of the amount required by project lenders to fund construction costs, was recognized as free cash flow totaling €63 million (\$93 million) (the “**Deutsche Bucht Completion Distribution**”).

Electricity production for the three months ended March 31, 2020, increased 54.4% or 558 GWh compared to the same quarter of 2019 primarily due to pre-completion production from Deutsche Bucht and higher wind resource in the North Sea, partially offset by more periods of unpaid curtailment due to negative pricing at Nordsee One and Deutsche Bucht.

The table below summarizes pre-completion production and revenue:

	Three months ended March 31,	
	2020	2019
Pre-completion electricity production (GWh)	349	—
Pre-completion revenue in sales/gross profit ⁽¹⁾	\$ 93,289	\$ —
Total pre-completion revenue	\$ 93,289	\$ —

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

Sales of \$445 million for the three months ended March 31, 2020, increased 43.4% or \$135 million compared to the same quarter of 2019 primarily due to pre-completion revenue from Deutsche Bucht and factors affecting production as described above, partially offset by the wholesale market price falling below the SDE floor at Gemini. Foreign exchange rate fluctuations resulted in \$8 million lower sales for the three months ended March 31, 2020, compared to the same quarter of 2019.

Operating costs of \$36 million for the three months ended March 31, 2020, increased 9.6% or \$3 million compared to the same quarter of 2019 primarily due to Deutsche Bucht achieving commercial operations and the timing of repairs and maintenance, partially offset by lower insurance premiums at Gemini and lower costs at Nordsee One from operating efficiencies.

In the first quarter of 2020, Nordsee One reached a settlement with its turbine manufacturer related to the outstanding warranty obligations. As part of the settlement, Nordsee One relinquished any rights to make further claims against the manufacturer under the warranty. The settlement totaled €58 million (\$76 million at Northland’s share) and was recorded as a reduction to property, plant and equipment under IFRS. However, since the settlement offsets potentially higher operating costs, it will be included in adjusted EBITDA and free cash flow on a straight-line basis over the remaining term of the original service agreement to 2029, net of the anticipated €20 million (\$26 million at Northland’s share) higher operating expenses over the same period.

Operating income and *adjusted EBITDA* of \$321 million and \$304 million, respectively, for the three months ended March 31, 2020, increased 54.6% or \$113 million and 62.6% or \$117 million compared to the same quarter of 2019 primarily due to contributions from Deutsche Bucht.

In the first quarter of 2020, earnings from Gemini became fully taxable due to prior utilization of tax loss carryforwards. Northland expects tax expense for Gemini to be €10 million (\$16 million at Northland’s share) for the full year 2020.

Thermal Facilities

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

	Three months ended March 31,	
	2020	2019
Electricity production (GWh)	1,024	1,091
Sales ⁽¹⁾	\$ 114,865	\$ 124,323
Less: cost of sales	27,818	35,243
Gross profit	87,047	89,080
Operating costs	11,956	11,662
Operating income	65,483	68,044
Adjusted EBITDA ⁽²⁾	\$ 76,645	\$ 77,153

(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 each 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 three months ended March 31, 2020, Northland's six thermal facilities contributed approximately 18% of reported adjusted EBITDA from facilities, with North Battleford, Iroquois Falls and Thorold accounting for approximately 17%. Refer to the 2019 AIF for additional information on Northland's thermal facilities.

Electricity production for the three months ended March 31, 2020, was 6.1% or 67 GWh lower than the same quarter of 2019 primarily due to lower production at Thorold and other facilities compared to the first quarter of 2019. Partially offsetting such lower production was an increase in off-peak production and the continued enhancement of capacity at North Battleford commencing in the second quarter of 2019.

Sales of \$115 million for the three months ended March 31, 2020, decreased 7.6% or \$9 million compared to the same quarter of 2019 primarily due to lower production and fewer gas optimization opportunities at Thorold compared to the same period last year as well as lower production at most other Northland facilities. The negative variance was partially offset by the sale of additional capacity, price escalation and higher flow through gas costs at North Battleford, combined with an increase in sales at Iroquois Falls due to the annual PPA rate escalation.

Gross profit of \$87 million for the three months ended March 31, 2020, decreased 2.3% or \$2 million compared to the same quarter of 2019 largely due to lower sales, as described above, partially offset by lower gas costs at Thorold and favourable operating results at North Battleford.

Operating costs of \$12 million for the three months ended March 31, 2020, were largely unchanged from the same quarter of 2019 primarily due to increased production and costs relating to the service agreement at North Battleford offset by lower costs from lower production at other facilities.

Operating income and *adjusted EBITDA* of \$65 million and \$77 million, respectively, for the three months ended March 31, 2020, decreased 3.8% or \$3 million and 0.7% or \$1 million compared to the same quarter of 2019 primarily due to lower gross profit, as described above.

On-shore Renewable Facilities

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

	Three months ended March 31,	
	2020	2019
Electricity production (GWh) ⁽¹⁾	367	423
On-shore wind	\$ 37,436	\$ 41,333
Solar	15,544	16,897
Sales/gross profit ⁽²⁾	52,980	58,230
On-shore wind	5,573	6,290
Solar	1,221	1,365
Operating costs	6,794	7,655
Operating income	23,935	26,956
On-shore wind	21,592	24,447
Solar	12,546	13,459
Adjusted EBITDA	\$ 34,138	\$ 37,906

(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 on-shore wind and solar facilities located in Ontario and Québec. On-shore wind projects are similar in nature operationally to offshore wind; however, with lower operating costs and generally lower wind resources. Solar power facilities have 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 three months ended March 31, 2020, Northland's on-shore renewable facilities contributed approximately 8% of reported adjusted EBITDA from facilities. Refer to the 2019 AIF for additional information on Northland's on-shore renewable facilities.

Electricity production at the on-shore renewable facilities for the three months ended March 31, 2020, was 13.4% or 57 GWh lower than the same quarter of 2019, primarily as a result of lower solar and wind resource across the facilities.

Sales of \$53 million for the three months ended March 31, 2020, decreased 9.0% or \$5 million compared to the same quarter of 2019 primarily due to lower production. 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.

Operating costs of \$7 million for the three months ended March 31, 2020, were 11.2% or \$1 million lower than the same quarter of 2019 primarily due to lower profit-sharing fees to the turbine maintenance provider at two wind facilities as a result of decreased production.

Operating income and *adjusted EBITDA* of \$24 million and \$34 million, respectively, for the three months ended March 31, 2020, decreased 11.2% or \$3 million and 10.0% or \$4 million compared to the same quarter of 2019 primarily due to lower production noted above.

Utility

The following table summarizes the operating results of EBSA:

	Three months ended March 31,	
		2020
Sales ⁽¹⁾	\$	49,671
Less: cost of sales		16,729
Gross profit		32,942
Operating costs		11,750
Operating income		11,682
Adjusted EBITDA ⁽¹⁾	\$	21,247

(1) Gross revenue from regulated electricity sales, including transmission and generation tariffs, which EBSA passes through to the regulator for reallocation.

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 customers. EBSA's net revenue is almost entirely regulated, of which the vast majority is earned from its distribution business and the remainder primarily from its electricity retail business. EBSA's reported results are affected by exchange rate fluctuations between the Canadian dollar and the Colombian Peso. Refer to the 2019 AIF for additional information on EBSA.

EBSA, like most power distribution utilities, earns revenue by charging customers a rate approved under the regulatory framework administered by the local regulator, the Comisión de Regulación de Energía y Gas ("CREG"). The rate charged is set for an expected five-year period and includes amounts retained by EBSA, as retailer and distributor, and amounts passed through to other electricity system participants, such as the transmission operator. 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 is expected to generate mid-single digit accretion to free cash flow per share during the current regulatory period ending 2023, and increasing accretion over the long-term.

For the three months ended March 31, 2020, utility operations contributed approximately 5.0% of total adjusted EBITDA. Refer to the 2019 AIF for additional information on EBSA.

Sales of \$50 million for the three months ended March 31, 2020, include revenues from the sale of electricity to regulated customers, which accounted for 96% of EBSA's total sales, as well as to non-regulated customers.

Cost of sales of \$17 million for the three months ended March 31, 2020, relate to the purchase of electricity for sale to customers and was primarily sourced under bilateral power purchase contracts, with incremental amounts purchased in the spot market. EBSA recovers the cost of electricity purchased through tariffs charged to customers.

Operating costs of \$12 million for the three months ended March 31, 2020, include the cost of transmission charges, loss reduction programs, materials used in maintenance activities and the portion of personnel costs that relate to operations. EBSA recovers the operating costs in full and recovers the cost of loss reduction programs at a regulated proportion through tariffs charged to customers.

Operating income and *adjusted EBITDA* of \$12 million and \$21 million, respectively, for the three months ended March 31, 2020, are composed of the items described above.

4.2: General and Administrative Costs and Other Income

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

	Three months ended March 31,	
	2020	2019
Corporate overhead	\$ 6,417	\$ 6,152
Development overhead	5,398	4,142
Development projects	6,945	4,216
Corporate G&A costs	18,760	14,510
Operations G&A	6,066	3,749
Acquisition costs	6,833	—
Total G&A costs	31,659	18,259

Corporate G&A costs for the three months ended March 31, 2020, increased 29.3% or \$4 million, compared to the same period in 2019 primarily due to an increasing level of project development activities, including the Hai Long offshore wind project, and slightly higher personnel costs to support Northland's growth.

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 2019 Annual Report for additional information on the policy for capitalization of development costs). For the three months ended March 31, 2020, development overhead and projects costs totaled \$0.06 of free cash flow per share.

Operations G&A costs for the three months ended March 31, 2020, increased 61.8% or \$2 million compared to the same quarter of 2019 primarily due to costs incurred at EBSA and Deutsche Bucht.

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 months ended March 31, 2020, acquisition costs totaled \$7 million and primarily relate to advisory fees and representations and warranties insurance costs for the EBSA Acquisition.

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

	Three months ended March 31,	
	2020	2019
Corporate G&A costs	(18,760)	(14,510)
Other development project costs ⁽¹⁾	(649)	—
Gemini interest income	3,901	5,239
Other ⁽²⁾	(234)	666
Corporate items in Adjusted EBITDA	\$ (15,742)	\$ (8,605)

(1) Includes Northland's share of costs incurred by a joint venture.

(2) Includes corporate investment income, energy marketing income (net), and certain operations costs.

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 three months ended March 31, 2020.

First Quarter

Total sales and gross profit of \$668 million and \$619 million, respectively, increased 33.9% or \$169 million and 34.8% or \$160 million compared to the same quarter of 2019 primarily due to sales revenue at EBSA, pre-completion revenues at Deutsche Bucht and higher production at Gemini and Nordsee One. The positive performance was partially offset by wholesale market prices falling below the SDE floor at Gemini, unpaid curtailments due to more periods of negative pricing at Nordsee One and the effect of unfavourable foreign exchange rate fluctuations.

Operating costs of \$67 million increased 27.4% or \$14 million compared to the same quarter of 2019 primarily due to the addition of costs from EBSA and Deutsche Bucht, partially offset by lower insurance premiums at Gemini and lower costs at Nordsee One from operating efficiencies.

G&A costs of \$32 million increased 73.4% or \$13 million compared to the same quarter of 2019 primarily due to acquisition-related costs of \$7 million for EBSA. Corporate G&A costs increased \$4 million primarily due to an increasing level of project development activities, including the Hai Long offshore wind project and higher personnel costs to support Northland's growth, while operations G&A increased \$2 million primarily due to costs incurred at EBSA and Deutsche Bucht.

Finance costs, net (primarily interest expense) of \$93 million increased 16.9% or \$14 million compared to the same quarter of 2019 primarily due to the effect of previously capitalized interest costs on Deutsche Bucht's loan, interest on EBSA's credit facilities and on borrowings to finance the EBSA Acquisition, partially offset by declining interest costs as a result of scheduled principal repayments on facility-level loans.

Fair value loss on derivative contracts was \$35 million compared to a \$43 million gain in the same quarter of 2019 primarily due to the movement in the fair value of interest rate swaps and foreign exchange contracts.

Foreign exchange gain of \$74 million is primarily due to unrealized gains from fluctuations in the closing foreign exchange rates.

Other (income) expense decreased by \$7 million mainly due to a non-cash fair value adjustment on a loan receivable in 2019.

Net income increased \$71 million in the first quarter of 2020 compared to the same quarter of 2019 primarily as a result of the factors described above, partially offset by a \$11 million higher tax expense.

4.4: Adjusted EBITDA

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

	Three months ended March 31,	
	2020	2019
Net income (loss)	\$ 275,019	\$ 204,230
Adjustments:		
Finance costs, net	93,376	79,855
Gemini interest income	3,901	5,239
Provision for (recovery of) income taxes	54,612	43,919
Depreciation of property, plant and equipment	129,665	104,022
Amortization of contracts and intangible assets	9,342	4,753
Fair value (gain) loss on derivative contracts	34,665	(43,153)
Foreign exchange (gain) loss	(74,047)	3,223
Elimination of non-controlling interests	(114,591)	(100,131)
Finance lease (lessor) and equity accounting	739	939
Other adjustments	8,090	(9,221)
Adjusted EBITDA	\$ 420,771	\$ 293,675

Adjusted EBITDA includes interest income earned on Northland's €117 million subordinated debt to Gemini, including accrued interest. 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.

In the first quarter of 2020, Nordsee One reached a settlement with its turbine manufacturer related to the outstanding warranty obligations. Beginning in the second quarter of 2020, adjusted EBITDA and free cash flow will include the settlement totaling €58 million (\$76 million at Northland's share), net of the anticipated €20 million (\$26 million at Northland's share) of higher operating costs, on a straight-line basis over the remaining term of the original service agreement to 2029.

For the three months ended March 31, 2020, other adjustments primarily include acquisition costs. For the three months ended March 31, 2019, other adjustments primarily include a non-cash fair value adjustment on a loan receivable.

First Quarter

Adjusted EBITDA of \$421 million for the three months ended March 31, 2020, increased 43.3% or \$127 million compared to the same quarter of 2019. The significant factors increasing adjusted EBITDA include:

- Higher contributions from the offshore wind operations due to:
 - \$85 million increase as a result of pre-completion revenue (net of certain operating costs) at Deutsche Bucht;
 - \$18 million increase in operating results from Nordsee One primarily due to higher wind resource, partially offset by unpaid curtailments due to periods of negative market pricing; and
 - \$15 million increase in operating results from Gemini due to higher wind resource in the first quarter partially offset by the wholesale market price falling below the SDE floor.
- \$21 million increase as a result of utility operations at EBSA, which are consolidated from the acquisition date of January 14, 2020.

Partially offsetting these increases in adjusted EBITDA were:

- \$7 million increase in corporate items in adjusted EBITDA primarily due to an increasing level of project development activities, including the Hai Long offshore wind project; and
- \$4 million decrease in operating results from onshore renewables facilities due to lower wind and solar resources.

4.5: Free Cash Flow

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

	Three months ended March 31,	
	2020	2019
Cash provided by operating activities	\$ 367,594	\$ 307,794
Adjustments:		
Net change in non-cash working capital balances related to operations	70,697	40,523
Non-expansory capital expenditures	(3,744)	(680)
Restricted funding for major maintenance, debt and decommissioning reserves	(2,959)	(3,420)
Interest paid, net	(46,537)	(42,617)
Scheduled principal repayments on facility debt	(14,061)	(12,178)
Funds set aside (utilized) for scheduled principal repayments	(140,465)	(109,512)
Preferred share dividends	(2,928)	(2,929)
Consolidation of non-controlling interests	(63,604)	(46,251)
Deutsche Bucht Completion Distribution	93,144	—
Cash from operating activities from projects under construction	(66,853)	198
Lease payments	(2,462)	(1,272)
Investment income ⁽¹⁾	6,175	5,828
Nordsee One proceeds from government grant	8,165	6,138
Foreign exchange	3,341	3,749
Other ⁽²⁾	5,959	(3,532)
Free cash flow	\$ 211,462	\$ 141,839

(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, 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.

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 March 31,	
	2020	2019
Cash dividends paid to common and Class A shareholders	\$ 62,717	\$ 54,062
Free cash flow payout ratio - cash dividends ⁽¹⁾	58.0 %	53.9 %
Total dividends paid to common and Class A shareholders ⁽²⁾	\$ 62,717	\$ 54,062
Free cash flow payout ratio - total dividends ^{(1) (2)}	58.0 %	64.4 %
Weighted average number of shares - basic (000s) ⁽³⁾	192,581	180,203
Weighted average number of shares - diluted (000s) ⁽⁴⁾	199,511	187,625
Per share (\$/share)		
Dividends paid ⁽⁵⁾	\$0.30	\$0.30
Free cash flow — basic	\$1.10	\$0.79
Free cash flow — diluted	\$1.07	\$0.76

(1) On a rolling four-quarter basis.

(2) Represents dividends paid in cash and in shares under the DRIP.

(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.

(5) Excludes the dividend equivalent payment of \$0.40 paid upon conversion of 14,289,000 subscription receipts on January 14, 2020.

First Quarter

Free cash flow of \$211 million for the three months ended March 31, 2020, was 49.1% or \$70 million higher than the same quarter of 2019.

Factors increasing free cash flow include:

- \$48 million increase in overall earnings primarily due to the factors improving adjusted EBITDA; and
- \$93 million increase as a result of the Deutsche Bucht Completion Distribution related to the March 31, 2020 term conversion.

Factors partially offsetting the increase in free cash flow include:

- \$37 million increase in scheduled principal repayments, primarily from funds set aside for Deutsche Bucht's first repayment in June 2020 and the first principal repayment at Grand Bend;
- \$28 million increase in cash tax expense primarily due to the addition of EBSA as well as higher cash taxes at the offshore wind facilities, including Gemini becoming taxable in 2020 (\$16 million expected for the full year); and
- \$5 million increase in corporate G&A primarily due to an increasing level of project development activities, including the Hai Long offshore wind project; and from higher capital expenditures related to EBSA and Nordsee One.

As at March 31, 2020, the rolling four quarter free cash flow net payout ratio was 58.0%, calculated on the basis of cash dividends paid compared to 64.4% for the same period in 2019. The improvement in the free cash flow payout ratio calculated on the basis of cash from 2019 was primarily due to higher free cash flow from Deutsche Bucht and EBSA, partially offset by an increase in the number of shares due to the conversion of subscription receipts to common shares on January 14, 2020.

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 March 31, 2020 and December 31, 2019.

As at	March 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents	\$ 629,154	\$ 268,193
Restricted cash	289,910	623,007
Trade and other receivables	486,276	295,427
Other current assets	60,101	44,521
Property, plant and equipment	8,864,383	8,072,519
Contracts and other intangible assets	558,906	521,050
Other assets ⁽¹⁾	1,035,065	521,898
	\$ 11,923,795	\$ 10,346,615
Liabilities		
Trade and other payables	312,623	193,160
Interest-bearing loans and borrowings	7,474,180	6,893,227
Net derivative liabilities ⁽²⁾	572,116	438,772
Net deferred tax liability ⁽²⁾	298,283	192,226
Other liabilities ⁽³⁾	1,378,125	1,118,478
	\$ 10,035,327	\$ 8,835,863
Total equity	1,888,468	1,510,752
	\$ 11,923,795	\$ 10,346,615

(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* decreased by \$333 million primarily due to the conversion of the subscription receipts and release of funds from escrow.
- *Trade and other receivables* increased by \$191 million mainly due to higher sales at Gemini and the EBSA Acquisition.
- *Property, plant and equipment* increased by \$792 million primarily due to the EBSA Acquisition, completion of construction at Deutsche Bucht, ongoing construction at La Lucha and foreign exchange rate fluctuations.
- *Other assets* increased by \$513 million mainly due to the recognition of goodwill related to the EBSA Acquisition.
- *Trade and other payables* increased by \$119 million primarily due to the accrual of contingent consideration for the EBSA Acquisition.
- *Interest-bearing loans and borrowings* increased by \$581 million mainly due to debt acquired in the EBSA Acquisition, Deutsche Bucht construction activities and foreign exchange rate fluctuations, partially offset by scheduled principal repayments on project debt.
- *Net deferred tax liability* (deferred tax asset less deferred tax liabilities) increased by \$106 million due to movements in the differential between accounting and tax balances, particularly the movement in net derivative liabilities.
- *Other liabilities* increased by \$260 million, primarily due to higher corporate borrowings to fund the EBSA Acquisition and foreign exchange rate fluctuations, partially offset by the conversion of subscription receipts.

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 2020 and 2019 was as follows:

	March 31, 2020	December 31, 2019
Shares outstanding, beginning of year	179,441,219	179,201,743
Conversion of subscription receipts	14,289,000	—
Conversion of debentures	110,128	239,476
Shares outstanding, end of period	193,840,347	179,441,219
Class A shares	1,000,000	1,000,000
Total common and convertible shares outstanding, end of period	194,840,347	180,441,219

Preferred shares outstanding as at March 31, 2020 and December 31, 2019 are as follows:

As at	March 31, 2020	December 31, 2019
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 March 2020, 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 March 31, 2020, Northland had 193,840,347 common shares with no change in Class A and preferred shares outstanding from December 31, 2019. During the first quarter of 2020, \$2 million of convertible debentures were converted into 110,128 common shares.

As of the date of this MD&A, Northland has 200,626,355 common shares outstanding with no change in Class A and preferred shares outstanding from March 31, 2020. The increase in common shares outstanding since March 31, 2020, is due to the early redemption of the 2020 Debentures. Holders converted approximately \$147 million of their 2020 Debentures into 6.8 million new common shares prior to the May 11, 2020, redemption date. Northland redeemed the remaining approximately \$2 million of the 2020 Debentures in cash.

Subscription Receipts

As a result of the close of the EBSA Acquisition on January 14, 2020, gross proceeds of \$347 million from the subscription receipts, less applicable transaction costs, were converted to 14,289,000 common shares on a one-to-one basis and a dividend equivalent cash payment equal to \$0.40 per subscription receipt, totaling \$6 million, was paid to subscription receipt holders. Following the issuance of common shares there were no outstanding subscription receipts.

Normal Course Issuer Bid

In December 2019, the Toronto Stock Exchange (TSX) approved the renewal of Northland's Normal Course Issuer Bid (NCIB) commencing December 17, 2019, and ending December 16, 2020. Pursuant to the NCIB, Northland may purchase for cancellation up to 8,000,000 common shares representing approximately 4.5% of Northland's then issued and outstanding common shares. In accordance with TSX rules, any daily purchases (other than pursuant to a block purchase exemption) under the NCIB are limited to a maximum of 148,272 common shares, which represents 25% of the average daily trading volume on the TSX for the six months ended November 30, 2019.

Liquidity and Capital Resources

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

	Three months ended March 31,	
	2020	2019
Cash and cash equivalents, beginning of year	\$ 268,193	\$ 278,400
Cash provided by operating activities	367,594	307,794
Cash used in investing activities	(679,098)	(104,496)
Cash (used in) provided by financing activities	604,611	(115,238)
Effect of exchange rate differences	67,854	(4,957)
Cash and cash equivalents, end of period	\$ 629,154	\$ 361,503

First Quarter

Cash and cash equivalents for the three months ended March 31, 2020, increased \$361 million due to cash provided by operations of \$368 million, cash provided by financing activities of \$605 million and \$68 million effect of foreign exchange translation, partially offset by \$679 million of cash used in investing activities.

Cash provided by operating activities for the three months ended March 31, 2020 was \$368 million comprising:

- \$275 million of net income;
- \$163 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
- \$71 million in changes in working capital due to the timing of payables, receivables and deposits.

Cash used in investing activities for the three months ended March 31, 2020, was \$679 million, primarily comprising:

- \$734 million paid for the acquisition of EBSA and Energia, net of cash acquired;
- \$66 million used for the purchase of property, plant and equipment, mainly for the completion of construction at Deutsche Bucht and ongoing construction at La Lucha; and
- \$33 million in changes in working capital primarily related to the timing of construction payables at Deutsche Bucht.

Factors partially offsetting cash used in investing activities include:

- \$101 million release of restricted cash mainly related to Deutsche Bucht achieving term conversion; and
- \$48 million received for the settlement of outstanding warranty obligations with Nordsee One's turbine manufacturer.

Cash provided by financing activities for the three months ended March 31, 2020, was \$605 million, primarily comprising:

- \$447 million in net drawdowns under the corporate syndicated revolving facility and the EBSA bridge facility;
- \$341 million received from common shares issued on the conversion of the subscription receipts; and
- \$80 million of proceeds drawn on project debt from borrowings under Deutsche Bucht's construction loan.

Factors partially offsetting cash provided by financing activities include:

- \$104 million of common, Class A and preferred share dividends as well as dividends to non-controlling shareholders;
- \$91 million change in restricted cash, primarily from funds set aside for debt service at Deutsche Bucht;
- \$50 million in interest payments; and
- \$14 million in scheduled principal repayments on project debt.

Movement of foreign currencies, including primarily the euro and Colombian peso, against the Canadian dollar increased cash and cash equivalents by \$68 million for the three months ended March 31, 2020. 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.

Property, Plant and Equipment

The following table provides a continuity of the cost of property, plant and equipment for the three months ended March 31, 2020:

	Cost balance as at Dec. 31, 2019	Acquired	Additions	Other ⁽¹⁾	Exchange rate differences	Cost balance as at Mar. 31, 2020
Operations:						
Offshore wind	\$ 6,745,007	\$ —	\$ 35,933	\$ (62,224)	\$ 436,784	\$ 7,155,500
Thermal ⁽²⁾	1,762,113	—	554	1,269	—	1,763,936
On-shore renewable	1,750,560	—	22	387	—	1,750,969
Utility	—	627,074	2,774	—	(82,176)	547,672
Construction:						
On-shore renewable	41,368	—	25,875	(153)	(8,698)	58,392
Corporate	54,585	—	501	(892)	1,531	55,725
Total	\$ 10,353,633	\$ 627,074	\$ 65,659	\$ (61,613)	\$ 347,441	\$ 11,332,194

(1) Includes settlement received from warranty obligation, change in estimate for decommissioning provision and amounts accrued under the LTIP.

(2) 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 three months ended March 31, 2020:

	Balance as at Dec. 31, 2019	Acquired	Financings, net of costs	Repayments	Amort. of costs/fair value	Exchange rate differences	Transfers	Balance as at Mar. 31, 2020
Operations:								
Offshore wind	\$ 3,578,055	\$ —	\$ —	\$ —	\$ 4,251	\$ 231,878	\$ 1,475,775	\$ 5,289,959
Thermal	951,488	—	—	(6,903)	604	—	—	945,189
On-shore renewable	1,055,402	—	—	(7,158)	259	—	—	1,048,503
Utility	—	219,163	—	—	192	(28,826)	—	190,529
Construction:								
Offshore wind	1,308,282	—	79,757	—	(617)	88,353	(1,475,775)	—
Corporate ⁽¹⁾	171,384	—	989,949	(542,916)	1,235	39,222	—	658,874
Total	\$ 7,064,611	\$ 219,163	\$ 1,069,706	\$ (556,977)	\$ 5,924	\$ 330,627	\$ —	\$ 8,133,054

(1) Excludes convertible unsecured subordinated debentures.

In addition to the loans outstanding in the above table, as at March 31, 2020, \$29 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 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 March 31, 2020.

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 March 31, 2020	Facility size	Amount drawn	Outstanding letters of credit	Available capacity	Maturity date
Syndicated revolving facility	\$ 1,000,000	\$ 525,332	\$ 135,506	\$ 339,162	Jun. 2024
Bilateral letter of credit facility	150,000	—	98,597	51,403	Mar. 2022
Export credit agency backed letter of credit facility	100,000	—	57,958	42,042	Mar. 2021
EBSA bridge facility	495,000	137,497	—	—	Jan. 2021
Total	\$ 1,745,000	\$ 662,829	\$ 292,061	\$ 432,607	
Less: deferred financing costs		3,955			
Total, net		\$ 658,874			

- In the three months ended March 31, 2020, Northland made net draw downs of \$318 million on the syndicated revolving facility, with remaining movement in the period due to foreign exchange fluctuations.
- In January 2020, Northland entered into a \$495 million 12-month bridge credit facility as part of the initial funding for the EBSA Acquisition. In the three months ended March 31, 2020, Northland drew the facility in full and made partial repayments, resulting in net draw downs of \$129 million.
- In the first quarter of 2020, the size of the bilateral letter of credit facility was increased to \$150 million.
- Of the \$292 million of corporate letters of credit issued as at March 31, 2020, \$161 million relates to projects under advanced development or construction, including those pending release as a result of the final completion of Deutsche Bucht.

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, U.S. dollar and Colombian peso denominated balances to the appropriate quarter-end Canadian dollar equivalent and due to fair value movements of financial derivative contracts.

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>	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Total sales	\$ 668	\$ 438	\$ 378	\$ 344	\$ 499	\$ 381	\$ 350	\$ 338
Operating income	395	203	177	146	288	171	150	131
Net income (loss)	275	61	111	76	204	65	93	69
Adjusted EBITDA	421	273	224	194	294	221	197	183
Cash provided by operating activities	368	334	242	341	308	291	193	343
Free cash flow	211	67	74	35	142	89	64	37
Per share statistics								
Net income (loss) - basic	\$ 1.02	\$ 0.23	\$ 0.42	\$ 0.28	\$ 0.78	\$ 0.23	\$ 0.38	\$ 0.29
Net income (loss) - diluted	0.99	0.23	0.41	0.28	0.76	0.22	0.37	0.28
Free cash flow - basic	1.10	0.37	0.41	0.20	0.79	0.50	0.36	0.21
Total dividends declared ⁽¹⁾	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30

(1) Excludes \$0.40 of dividends declared and paid upon conversion of 14,289,000 subscription receipts on January 14, 2020.

SECTION 8: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES

Deutsche Bucht 252 MW Project Update

On March 31, 2020, Northland announced that the Deutsche Bucht project achieved final completion. Final completion marks the official end of construction, the start of the operational phase of the project and the satisfaction of terms required by project lenders to achieve term conversion. This announcement followed management's decision on March 17, 2020 to permanently forego the installation of the two additional turbines utilizing mono bucket foundations due to technical issues encountered during the installation process. As a result of this decision, the Deutsche Bucht project will encompass 31 monopile foundations and turbines, which were installed and operational, ahead of schedule, with a total productive capacity of 252 megawatts. The project has generated €129 million of pre-completion revenues in sales, of which €63 million (\$93 million) were recognized in free cash flow in the first quarter of 2020.

Dado Ocean, South Korean Offshore Wind Development Project Acquisition

On February 28, 2020, Northland completed its acquisition of Dado Ocean Wind Farm Co. Ltd ("**Dado Ocean**"), an offshore wind development company based in South Korea with access to multiple early-stage development sites off the southern coast. Subsequent to the announcement of the acquisition, the Company commenced early stage development on sites in proximity of the original sites. These sites could provide the opportunity to increase the development capacity to approximately 1.0 gigawatts of offshore wind. These opportunities will be developed together over the coming years.

NaiKun, Canadian Offshore Wind Development Project Acquisition

On March 30, 2020, Northland announced it had entered into a share purchase agreement to acquire NaiKun Offshore Wind Farm ("**NaiKun**") from NaiKun Wind Energy Group Inc. NaiKun is located in the Hecate Strait off the coast of British Columbia, Canada. This is an early stage development opportunity for the potential development of offshore wind in Canadian waters.

EBSA, Columbian Regulated Power Distribution Utility Acquisition

On January 14, 2020, Northland completed its previously announced acquisition of a 99.2% interest in EBSA for a total purchase price of COP 2,412 billion (\$960 million) including existing debt of COP 550 billion (approximately \$219 million). Pursuant to the share purchase agreement, the purchase price COP 2,412 billion (\$960 million) from COP 2,665 billion (\$1.05 billion) remains subject to post-closing adjustments following a review of the final tariff resolution. The long-term funding for the EBSA Acquisition will include replacing the EBSA Bridge with non-recourse debt, which is expected in the third quarter of 2020.

Energía, Mexican Qualified Supplier Acquisition and La Lucha 130 MW Project Update

The construction of the 130 MW La Lucha solar project in the State of Durango, Mexico is progressing on schedule with completion expected in the second half of 2020, however, completion timing may be affected by construction services and contractor availability as a result of COVID-19. Activities at La Lucha have been affected by COVID-19, requiring added precautions, including coordination of communications and protocols with contractors and subcontractors, enhanced hygiene protocols, body temperature screening and other safety measures intended to minimize the potential transmission of the virus. Northland remains in close communication with suppliers and subcontractors to ensure the project remains on track. Total capital cost for the project remains unchanged at approximately \$190 million. Northland intends to secure non-recourse project financing for La Lucha once construction is complete.

As part of its development strategy in Mexico and to facilitate securing off-take agreements for La Lucha, Northland completed the acquisition of an entity in Mexico (“**Energía**”) that holds a qualified supplier license. Energía enables Northland to operate in the electricity sector in Mexico by contracting loads and generators, which also allows a more direct path to market for Northland’s generation projects, including La Lucha.

Hai Long 1,044 MW Offshore Wind Project Development Update

In 2018, the 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 early 2019, Northland and Yushan Energy executed a 20-year PPA with Taipower for the 300 MW Hai Long 2A offshore wind project. Preferred supplier agreements for turbine supply and balance of plant components were executed in late 2019 for both Hai Long 2 and 3. Northland and Yushan Energy continue to engage with the Taiwan government on finalization of the project’s investments into the local supply chain, however, COVID-19 has added uncertainty to timing of near-term development milestones. Northland continues to develop the Hai Long 2B and Hai Long 3 sub-projects, allocated a total of 744 MW under auction, and expects to execute their respective PPAs in 2020.

SECTION 9: OUTLOOK

Northland is committed to increasing 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.

COVID-19

Management does not expect a material impact as a result of COVID-19 on Northland's operations, financial condition, liquidity and capital resources or on critical accounting estimates as described in the 2019 Annual Report.

While the vast majority of Northland's revenues are contracted under long-term agreements with creditworthy counterparties, there is some, yet limited, exposure to the wholesale market price of electricity at the offshore wind facilities. If low wholesale market prices persist for an extended period, Northland's revenues may be negatively affected.

While there continues to be uncertainty with regard to the potential impact of COVID-19, as a result of the relative stability of Northland's revenues and free cash flow profile, management does not anticipate a change to Northland's 2020 financial guidance due to COVID-19. As of May 13, 2020, management continues to expect adjusted EBITDA in 2020 to be in the range of \$1.1 billion to \$1.2 billion and free cash flow per share in 2020 to be in the range of \$1.70 to \$2.05, unchanged from February 2020.

Management believes Northland has sufficient liquidity available to limit the impact of COVID-19. As at March 31, 2020, Northland had access to \$423 million of cash and liquidity, comprising \$84 million of corporate cash on hand and \$339 million of liquidity available under its syndicated revolving facility. Management continues to monitor global developments and their potential impacts on Northland's business activities and financial results.

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. Refer to Note 12 of the unaudited interim condensed consolidated financial statements for additional information including any contingencies arising as a result of completed acquisitions.

SECTION 11: FINANCIAL RISKS AND UNCERTAINTIES

For information on Northland's key risks, uncertainties, financial instruments and contractual commitments refer to Northland's 2019 Annual Report and the 2019 AIF filed electronically at www.sedar.com under Northland's profile. Other than risks described below, management does not believe there have been material changes in the business environment or risks faced by Northland during the period that have not been disclosed in the 2019 Annual Report or the 2019 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 16 of the 2019 Annual Report for additional information on Northland's risk management.

COVID-19

Each of Northland's operating facilities are deemed to be essential infrastructure and, as such, operations have continued uninterrupted to date. Accordingly, management has taken prudent and comprehensive measures to safeguard the health and well-being of all employees, contractors as well as host communities. All of Northland's facilities continue to operate as expected and preventative measures remain in place in accordance with Northland's crisis response plans and applicable local government directives. Management continues to actively monitor the situation, which remains uncertain, and may take further actions as required or recommended by authorities.

Risks related to COVID-19 as a result of lower demand for power globally include increased negative pricing at Nordsee One and Deutsche Bucht, lower wholesale market-based prices at Gemini, higher unpaid curtailments in general, increased volatility in the value of financial instruments and reduction in sales and net earnings. Other risks include potential delays in construction timelines as a result of construction services and contractor unavailability or unavailability of key personnel resulting in the interruption of production and lower availability of power infrastructure, thus affecting sales, operating costs and net earnings.

SECTION 12: FUTURE ACCOUNTING POLICIES

Management assesses each new IFRS or amendment to determine whether it may have a material impact on Northland's consolidated financial statements. As at March 31, 2020, there have been no accounting pronouncements by the International Accounting Standards Board that expected to materially affect Northland's consolidated financial statements.

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 2019 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 2020 in association with the filing of the 2019 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 March 31, 2020, 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 period ended March 31, 2020, that have materially affected or are reasonably likely to materially affect Northland's internal controls over financial reporting. Recent acquisitions, including EBSA, have been adequately integrated into the existing financial governance framework.