Expanding Our Global Footprint

2019 Annual Report

NORTHLAND POWER


NORTHLAND
POWER
Intelligent Energy for a Greener Planet™

Table of Contents

Northland Power is an independent power producer. We develop, build, own and operate sustainable infrastructure assets that produce electricity from clean burning natural gas and renewable resources such as wind, solar and biomass. Our goal is to be a leading supplier of clean, green energy while providing a sustainable and prosperous future for all stakeholders. We aim to increase shareholder value by creating high-quality projects underpinned by revenue contracts that deliver predictable cash flows.

Letter to Shareholders

Dear fellow shareholders,

Northland Power had another remarkable year in 2019, delivering strong construction, operational and financial results. Our global development offices that were established over the past couple of years have solidified our position as an international leader in the clean and green energy sector. By deploying talented local teams in these global offices, we were successful in establishing new development projects in new jurisdictions and acquiring our first electricity distribution utility. We also made our first investment in Mexico, with the start of construction of the 130 megawatt (MW) La Lucha project.

As always, our success can be directly attributed to our dedicated and growing team of talented professionals who remain focused on our vision to be a top clean and green developer, constructor, owner, and operator of sustainable infrastructure assets. Northland has a significant global presence as a sustainable power provider, helping the global shift to renewable sustainable energy while reducing greenhouse gas emissions. Embedded in this is our Environmental, Social and Governance (ESG) initiatives and our belief that maintaining socially responsible practices from health and safety to community relations and diversity within the workplace are key elements of our success. As such, in 2019 we implemented a carbon offset emissions program to make our business travel carbon neutral for 2019 and beyond. We also introduced a diversity and inclusion initiative, an employee led initiative with the support of management, intended to provide an all-inclusive work environment encompassing diversity in all forms. We recognize that by investing in our people, we are inspiring them to achieve a sustainable and prosperous future for all of our stakeholders. All the while, we remain agile and efficient to deliver the results investors expect.

Financially, we are proud to note that, once again in 2019, the year unfolded largely as planned, delivering strong financial results for both adjusted EBITDA and free cash flow per share. Our adjusted EBITDA grew to $985 million, a gain of 10% from 2018. Our free cash flow per share, at $ 1.77 per share, saw a modest decline of 7% from 2018. The biggest change in the free cash flow was from our Nordsee One project which had a full year of scheduled debt repayments in 2019 compared to a partial payment in 2018.

Operationally, our teams worked tirelessly to ensure that our facilities operated safely and efficiently. Effective operation of our facilities produces the cash flow to pay our dividends while funding our growth initiatives. Our facilities achieved high availability throughout the year, which once again demonstrates the capabilities of our operations teams to ensure our facilities perform at optimum levels.

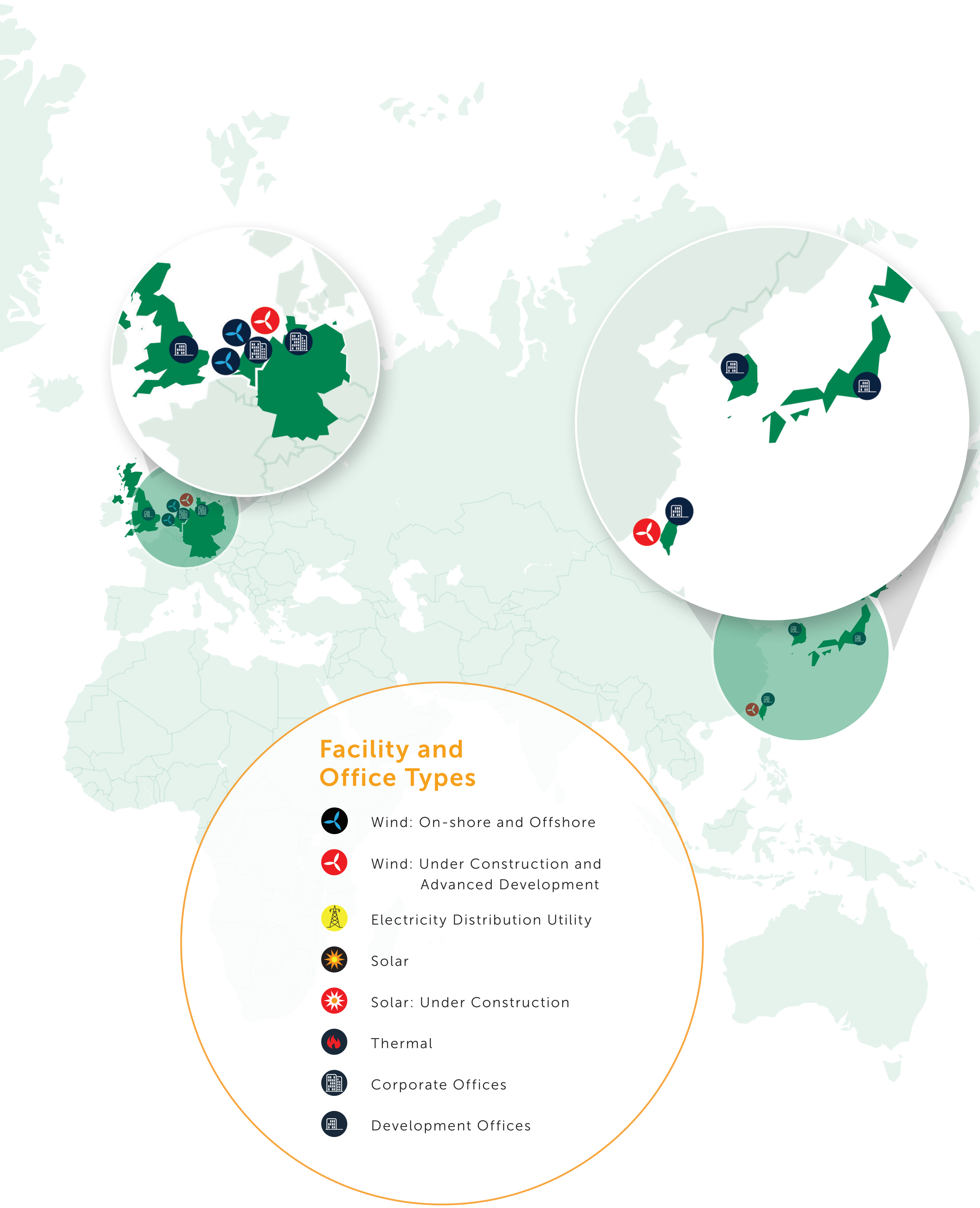
Northland undertook a number of initiatives in 2019 to further strengthen our balance sheet. These included successfully completing a $345 million Subscription Receipt offering and a $495 million Bridge Facility in support of our Colombian utility acquisition, renewing the Normal Course Issuer Bid as well as extending our bilateral facility and $1.0 billion-dollar revolving credit facility to 2021 and 2024, respectively.

(continued on page 7)

Northland's Global Footprint

2.4+ GW

Gross Operating Capacity plus Colombian utility EBSA


Facility and Office Types
Wind: On-shore and Offshore
Wind: Under Construction and Advanced Development
Electricity Distribution Utility
Solar
Solar: Under Construction
Thermal
Corporate Offices
Development Offices

32%

Total shareholder return in 2019

$985 million

2019 Adjusted EBITDA

Letter to Shareholders (Cont'd)

PROJECT CONSTRUCTION PROGRESS

We made significant progress on the construction of our Deutsche Bucht offshore wind farm. In June 2019, we commenced with the installation of the turbines on the main project at Deutsche Bucht, achieving first power in early July. By the end of August, all 31 monopile foundation turbines were installed and then were fully operational a month later. Currently, all of the installed turbines are producing full power and, as of December 31, 2019, Deutsche Bucht had generated $96 million of pre-completion revenue.

Installation of the two turbine, demonstrator project utilizing mono bucket foundations, was paused in the fourth quarter of 2019 following the identification of technical issues. A thorough evaluation of the cause of the technical issues is ongoing and there is a possibility that the demonstrator project may not proceed.

If this determination is made, Deutsche Bucht will be comprised of the operationally complete 31 turbines on monopile foundations with total capacity of 252 MW.

EXPANDING OUR INVESTMENT HORIZONS

Recognizing that our continued growth will require further expansion of our global footprint, our development teams continued to source opportunities in new jurisdictions that are seeking increased energy independence, sustainability and security.

Latin America

Our development office in Houston, Texas was actively pursuing energy investment opportunities in Latin America and was successful in expanding our power generating portfolio with the 130 MW La Lucha solar project in Mexico. In June, we announced the commencement of construction activities at La Lucha, with construction progressing throughout the year. The project remains on schedule for completion in the second half of 2020.

We also explored alternative investment opportunities beyond power generation, such as energy infrastructure and transmission. In September, Northland announced the acquisition of our first regulated utility, Empresa de Energía de Boyacá (EBSA). EBSA represents our entry into Colombia and provides Northland with a perpetual cash flow profile to provide long-term growth and support to our dividend. With the acquisition, we welcomed over 500 new employees to the Northland team and assumed responsibility to provide safe, reliable, and affordable power service to more than 480,000 customers.

The acquisition also provides a platform for the additional development of new infrastructure and generation opportunities in Colombia. We are excited about the prospects that Colombia has to offer and how these prospects will continue to deliver strong shareholder returns while advancing our evolution as a global player in the power infrastructure sector. The transaction officially closed in January 2020.

Asia

We see tremendous potential in Asia, where jurisdictions are shifting away from nuclear and carbon-based energy. We are establishing a material presence in Northeast Asia and already have a meaningful footprint in Taiwan with our Hai Long offshore wind project.

We are working closely with our local partners on advancing the Hai Long offshore wind project and in February 2019, we announced that the project had secured a 20-year Power Purchase Agreement (PPA) based on the 300 MW Feed-in-Tariff portion of the project. Work continued through the year on finalizing the necessary permitting for the remaining 744 MW allocation, which was secured under an auction process, and gives us the right to secure PPAs for the allocation. We anticipate signing the PPAs on those projects in 2020. When fully developed, Hai Long will represent a total of 1,044 MW of power generation, of which, we have a 60% interest, representing 626 MW net to Northland.

In November, we announced our partnership with Shizen Energy, marking Northland's official entry into Japan and expansion of our Asian growth strategy. Through this strategic joint venture, we will look to jointly establish early stage offshore wind development opportunities. The prospective offshore wind projects currently being contemplated are expected to provide combined capacity of approximately 600 MW.

Our development teams are actively evaluating additional opportunities and in February 2020, we announced the signing of an agreement to acquire Dado Ocean, a development company with multiple early stage offshore wind development sites in South Korea. The acquisition builds on Northland's presence in South Korea as these projects will be developed over the coming years.

(continued on page 8)

Letter to Shareholders (Cont'd)

Europe

We have realized significant growth in Europe over the last few years, with three offshore wind projects with a combined gross capacity of over 1,200 MW being added to our portfolio. Our team continues to actively pursue additional development opportunities for both offshore and onshore development in select markets in Europe.

North America

In North America, our development strategy continues to pursue opportunities to expand Northland's operating footprint. We continue to pursue new projects in Canada and are looking to establish a presence in the United Sates through aggregation of onshore wind assets in key US markets.

POSITIONING FOR FUTURE GROWTH

As Northland grows and diversifies its asset mix and geographic footprint, our management team remains disciplined and focused. Balancing near term financial performance with investments in growth is fundamental to our success.

Our strategy for 2020 and beyond will focus on our continued international growth, seeking new project opportunities for our renewables business in multiple jurisdictions. As global demand for environmentally friendly energy sources increases, we see more and larger growth opportunities.

To further strengthen our capabilities as we grow our international presence, we announced the addition of David Povall as Executive Vice President, Development. David is a seasoned international energy executive and developer who will be responsible for leading the company's development initiatives in key markets around the globe.

We also announced the planned retirement of Paul Bradley, our Chief Financial Officer. Paul has been an integral part of Northland's executive management team for nine years and will continue on to facilitate a smooth transition with his successor. Lastly, we announced that James Temerty officially stepped down as Chair of the Board of Directors in December and that John Brace, Northland's former CEO and current director would be his successor. As Chair, Jim provided invaluable guidance and support over his 32 years to help shape Northland into the company that it is today. Jim will continue as a member of the Board

Our sincere gratitude also goes to our Board of Directors, whose counsel has been invaluable as we deliver on our vision for the company. Our final thanks goes to our shareholders for the confidence they continue to demonstrate while we pursue our growth objectives. We are more committed than ever to our growth objectives and delivering continued strong returns to our shareholders in 2020 and beyond.

Prince Edward County, Ontario, Canada - 10 MW Capacity

John Brace
Director and
Chair of the Board

James C. Temerty
Director and
Past Chair

Mike Crawley
President and
Chief Executive Officer


$1.77
per share
2019 Free Cash Flow

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

Table of Contents

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 audited consolidated financial statements for the year ended December 31, 2019 and 2018, and Northland's most recent Annual Information Form ("**2019 AIF**"). This material is available on SEDAR at www.sedar.com and on Northland's website at northlandpower.com.

This MD&A, dated February 25, 2020, compares Northland's financial results and financial position for the year ended December 31, 2019, with those for the year ended December 31, 2018. Certain prior period disclosures have been reclassified for consistency with the current period presentation. Northland's Audit Committee reviewed this MD&A and the associated audited consolidated financial statements and notes, and its Board of Directors approved these documents prior to their release.

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 February 25, 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, 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 5.4: Adjusted EBITDA* for a reconciliation of consolidated net income (loss) under IFRS to reported adjusted EBITDA and *SECTION 5.5: Free Cash Flow* 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 and excludes pre-completion revenue and operating costs for projects under construction and 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: STRATEGY AND KEY FACTORS SUPPORTING SUSTAINABLE PERFORMANCE

Business Objective

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

Vision

Northland's vision is to be a top clean and green developer, owner, constructor and operator of sustainable infrastructure assets, inspiring our people to achieve a sustainable and prosperous future for all of our stakeholders.

Business Strategy

Northland's business strategy is centered on establishing a significant global presence as a sustainable power provider. Northland aims to increase shareholder value by leveraging its expertise and early mover advantage in relevant markets to create and operate high-quality, sustainable projects supported by revenue contracts that deliver predictable cash flows. Northland leverages its operational knowledge and the application of appropriate technology to enhance operational performance, with the goal of reducing the impact of energy usage on the environment. Northland aims to inspire its people to achieve excellence by embracing and living Northland's values on a daily basis.

To successfully execute its strategy, Northland must excel in each of the following strategic objectives:

(i) Winning Business

The global shift to renewable energy sources is creating opportunities based on favourable government policies aimed at sustainability, energy security and reducing greenhouse gas emissions. Northland is well positioned through its regional development offices to capture development opportunities that will help facilitate the global advancement of renewable energy targets. Northland develops, constructs and operates sustainable infrastructure projects across a range of clean and green technologies, such as wind (offshore and on-shore), solar and thermal (natural-gas-fired and biomass) and asset classes, such as utilities. Clean-burning natural-gas-fired plants provide reliable baseload and dispatchable power, grid support and backup for renewable generation as needed by customers. Northland remains focused on pursuing growth opportunities in jurisdictions that meet Northland's risk management criteria such as North America, Europe, Latin America and Asia. Northland manages its development processes prudently by regularly balancing the probability of success against associated costs and risks.

(ii) Building Facilities

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

(iii) Operating Facilities

A core element of Northland's strategy is the optimization of revenues and predetermined costs through revenue contracts with creditworthy counterparties. For the thermal generation facilities, the key terms of operating facilities' long-term power purchase agreements (**PPA**) and fuel supply contracts are aligned for each facility, such that revenues and cost escalations are substantially linked. For renewable generation facilities, Northland does not incur an associated cost of sales and generally enters into long-term operating and maintenance contracts with leading service providers at predetermined rates. This approach provides predictability for each facility's operating income and cash flow, while ensuring ongoing environmental sustainability and the health and safety of employees and host communities.

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

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

(iv) Organizational Effectiveness

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

SECTION 3: NORTHLAND'S OPERATING FACILITIES

As of December 31, 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 PPA or other revenue arrangements with creditworthy customers in order to generate predictable cash flows. Subsequent to December 31, 2019, Northland acquired Empresa de Energía de Boyacá ("**EBSA**"), a regulated power distribution utility located in Colombia serving 480,000 customers.

Northland's MD&A and audited 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
Utility					
EBSA	2020	Colombia	99%	n/a	n/a
Total				**2,429**	**2,014**

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

(2) As at December 31, 2019, Northland's economic interest was unchanged from December 31, 2018. Northland's acquisition of EBSA was completed on January 14, 2020 and will be 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 of December 31, 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 9: 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.

SECTION 4: CONSOLIDATED HIGHLIGHTS

4.1: Significant Events

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

Acquisition of Offshore Wind Development Company in South Korea

On February 24, 2020, Northland announced the acquisition of Dado Ocean Wind Farm Co., Ltd ("**Dado Ocean**"), an offshore wind development company based in Korea with rights to multiple early-stage development sites off the southern coast of the Korean Peninsula.

Acquisition of EBSA 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**”). The EBSA Acquisition was subject to customary closing conditions, including the receipt of approval by the local regulator of EBSA’s proposed tariff for the next regulatory period. Pursuant to the share purchase agreement, the purchase price was adjusted to COP 2,412 billion ($960 million) from COP 2,665 billion ($1.05 billion) based on the tariff resolution issued by the regulator in December 2019, and remains subject to post-closing adjustments to the purchase price following a review of the tariff resolution.

Concurrent with the announcement of the EBSA Acquisition in September 2019, Northland issued 14,289,000 subscription receipts in a public offering (the “**Offering**”) for gross proceeds of $347 million, which converted to 14,289,000 common shares upon closing of the EBSA Acquisition on January 14, 2020. In addition to the net proceeds from the Offering, the initial purchase price was funded through proceeds drawn under a bridge credit facility (the “**EBSA Bridge**”), the assumption of the existing debt of EBSA totaling COP 550 billion (approximately $219 million) and Northland’s existing credit facilities. The long-term funding for EBSA will include replacing the EBSA Bridge with non-recourse debt, expected to occur in the first half of 2020.

Refer to *SECTION 7: EQUITY, LIQUIDITY AND CAPITAL RESOURCES* and *SECTION 9: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information.

Deutsche Bucht Offshore Wind Project Update

Construction of the Deutsche Bucht offshore wind project was highlighted by the installation of all 31 monopile foundations and turbines, ahead of schedule, and generating power by the end of September 2019, earning $96 million of pre-completion revenues in sales in 2019. Installation of the two turbines utilizing mono bucket foundations (“**Demonstrator Project**”) was paused in the fourth quarter of 2019 following the identification of technical issues. A thorough evaluation of the cause of the technical issues is ongoing and there is a possibility that the Demonstrator Project may not proceed. As a result of the uncertainty, Northland recorded a non-cash impairment loss of $98 million for project costs incurred to date associated with the Demonstrator Project. The total estimated project cost remains at approximately €1.4 billion ($2.0 billion). Refer to *SECTION 9: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information.

Joint Venture for Future Offshore Wind Projects in Japan

In November 2019, Northland signed an agreement with Shizen Energy Inc. (“**Shizen Energy**”) to jointly establish Chiba Offshore Wind Inc. (“**Chiba**”) to develop early stage offshore wind development opportunities in Japan. The prospective projects have an expected combined capacity of approximately 600 MW. Northland and Shizen Energy intend to collaborate to further develop these and other opportunities.

La Lucha Solar Project Update

In May 2019, Northland started construction of the La Lucha 130 MW solar project in the State of Durango, Mexico. The project is progressing according to schedule and on track with estimated project costs. Total capital cost for the project is expected to be $190 million with project completion anticipated in the second half of 2020**.**

Negotiation of bilateral power contracts continues with qualified providers of retail electricity services in Mexico (“**Qualified Suppliers**”) for delivery of energy and clean energy certificates to commercial and industrial off-takers and is expected to be finalized prior to project completion. Refer to *SECTION 9: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information.

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. In the fourth quarter of 2019, preferred supplier agreements for turbine supply and balance of plant components were executed, for all of Hai Long 2 and 3. Northland continues to develop Hai Long 2B and Hai Long 3 sub-projects allocated a total of 744 MW under auction in 2018 and expects to execute their respective PPAs in 2020. Refer to *SECTION 9: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES* for additional information.

Change to Northland's Chair of the Board

In December 2019, Northland announced that John W. Brace was named Chair of the Board. James C. Temerty stepped down as Chair but will continue to serve as a Director of the Company. Mr. Brace joined Northland in 1988, shortly after the Company was founded. He was appointed Chief Executive Officer (**CEO**) in 2003 and served in the role until his retirement in 2018. Mr. Brace helped steer Northland through many of its projects and initiatives and its growth over his tenure as CEO. He was appointed to the Board of Directors in 2018 where he has continued his involvement in the future success of the Company.

Addition to Northland's Executive Team

In October 2019, David Povall joined Northland as the Executive Vice President, Development. David is based out of the Toronto office and is 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

In April 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 at the time. 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. As of December 31, 2019, Mr. Temerty owns or has control or direction over 20,740,884 common shares representing 11.6% of the outstanding common shares.

NORTHLAND POWER

4.2: Operating Highlights

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

Summary of Consolidated Results

Year ended December 31,		2019		2018		2017
FINANCIALS						
Sales	**$**	**1,658,977**	$	1,555,587		1,376,256
Gross profit		**1,542,689**		1,441,366		1,236,717
Operating income		**813,700**		732,848		632,126
Net income (loss)		**451,754**		405,508		275,836
Adjusted EBITDA (a non-IFRS measure)		**984,736**		891,484		765,176
Cash provided by operating activities		**1,224,415**		1,133,884		849,007
Free cash flow (a non-IFRS measure)		**318,480**		337,623		256,100
Cash dividends paid to common and Class A shareholders (1)		**216,373**		163,605		134,307
Total dividends declared (2)		**216,396**		212,353		189,981
Total assets (3)		**10,478,668**		10,335,950		10,280,517
Total non-current liabilities (3)		**7,569,921**		8,013,753		7,934,212
Per Share						
Weighted average number of shares - basic (000s)		**180,322**		177,757		175,383
Net income (loss) - basic	**$**	**1.71**	$	1.50	$	0.85
Free cash flow - basic	**$**	**1.77**	$	1.90	$	1.46
Total dividends declared	**$**	**1.20**	$	1.20	$	1.09
ENERGY VOLUMES						
Electricity production in gigawatt hours (**GWh**) (4)		**9,060**		8,254		7,193

(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.

(3) As at December 31.

(4) Includes Deutsche Bucht's pre-completion production volumes. Refer to Section 5.1 Operating Results for additional information.

NORTHLAND POWER

SECTION 5: RESULTS OF OPERATIONS

5.1: 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 December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
Electricity production (GWh) (1)	**1,356**	1,108	**3,876**	3,447
Sales/gross profit (2)(3)	**$ 271,192**	$ 220,932	**$ 1,005,717**	$ 931,056
Operating costs (3)	**33,113**	35,967	**128,582**	143,443
Operating income	**151,973**	116,091	**577,181**	505,353
Adjusted EBITDA	**$ 192,771**	$ 132,807	**$ 625,387**	$ 533,967

(1) Includes GWh both produced and attributed to paid curtailments as well as pre-completion production for Deutsche Bucht in 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 operating costs includes pre-completion revenue and the allocated operating costs for the operational wind turbines at Deutsche Bucht.

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, 2019, Gemini and Nordsee One contributed approximately 32% and 24%, respectively, of Northland's reported adjusted EBITDA from facilities. Refer to the 2019 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, 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 year ended December 31, 2019, the loss on sales from the average wholesale market price falling below the SDE floor was €5 million or 2.3% of Northland's share of revenues of Gemini. For the year ended December 31, 2018, the average wholesale market price exceeded the SDE floor, to the benefit of Gemini.

Nordsee One has a Feed-In Tariff 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. Nordsee One may also be subject to unpaid curtailment by the system operator for grid repairs. For the year ended December 31, 2019, the loss on sales from unpaid curtailments was €11 million or 6.1% of Northland's share of revenues of Nordsee One (2018 - €3 million or 1.8%).

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 9: 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 December 31, 2019, increased 22.4% or 248 GWh compared to the same quarter of 2018 primarily due to pre-completion production from Deutsche Bucht partially offset by lower wind resource in the North Sea and unpaid curtailments at Nordsee One due to grid repairs by the system operator and periods of negative market pricing. Production for the year ended December 31, 2019, increased 12.5% or 429 GWh compared to the same period of 2018 primarily due to pre-completion production from Deutsche Bucht and higher wind resource in the North Sea, partially offset by unpaid curtailments at Nordsee One.

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

	Three months ended December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
Pre-completion electricity production (GWh)	**300**	—	**406**	—
Pre-completion revenue in sales/gross profit [(1)]	**78,834**	—	**96,105**	—
Pre-completion revenue in construction-in-progress	**728**	—	**11,541**	—
Total pre-completion revenue	**$ 79,562**	$ —	**$ 107,646**	$ —

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

Sales of $271 million for the three months ended December 31, 2019, increased 22.7% or $50 million compared to the same quarter of 2018 primarily due to pre-completion revenues from Deutsche Bucht and factors affecting production as described above, partially offset by wholesale market price below the SDE floor at Gemini and unfavourable foreign exchange rate fluctuations of $9 million. Sales of $1.0 billion for the year ended December 31, 2019, increased 8.0% or $75 million compared to the same period of 2018 primarily due to the same factors described above. Foreign exchange rate fluctuations resulted in $31 million lower sales for the year ended December 31, 2019, compared to the same period of 2018.

Operating costs of $33 million and $129 million for the three months and year ended December 31, 2019, respectively, decreased 7.9% or $3 million and 10.4% or $15 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 provides 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 $152 million and $577 million for the three months and year ended December 31, 2019, respectively, increased 30.9% or $36 million and 14.2% or $72 million compared to the same periods of 2018 primarily due to higher sales and lower operating costs, as described above.

Adjusted EBITDA of $193 million and $625 million, for the three months and year ended December 31, 2019, respectively, increased 45.2% or $60 million and 17.1% or $91 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 December 31,		Year ended December 31,	
	2019	2018	**2019**	2018
Electricity production (GWh)	**938**	875	**3,787**	3,444
Sales (1)	**$ 113,408**	$ 107,744	**$ 421,154**	$ 405,956
Less: cost of sales	**29,402**	26,155	**106,022**	110,643
Gross profit	**84,006**	81,589	**315,132**	295,313
Operating costs	**15,708**	15,456	**54,229**	51,499
Operating income	**58,350**	56,730	**222,401**	204,547
Adjusted EBITDA (2)	**$ 71,017**	$ 72,875	**$ 270,355**	$ 261,231

(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, 2019, Northland's six thermal facilities contributed approximately 28% of reported adjusted EBITDA from facilities, with North Battleford, Iroquois Falls and Thorold accounting for approximately 25%. Refer to the 2019 AIF for additional information on Northland's thermal facilities.

Electricity production of 938 GWh and 3,787 GWh for the three months and year ended December 31, 2019, increased 7.3% or 64 GWh and 10.0% or 343 GWh, respectively, compared to the same periods of 2018 primarily due to an increase in off-peak production and the sale of continued enhancement of capacity at North Battleford in 2019, increased dispatches at Thorold and the effect of a maintenance outage in 2018 at another Northland facility.

Sales of $113 million for the three months ended December 31, 2019, increased 5.3% or $6 million compared to the same quarter of 2018 primarily due to higher production and the sale of continued enhancement of capacity at North Battleford partially offset by lower cost of sales at Thorold resulting in lower reimbursements by the counterparty. Sales of $421 million for the year ended December 31, 2019, increased 3.7% or $15 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 2018 due to the effect of a reduced rate escalation by the system operator as well as maintenance outages at a facility last year.

Gross profit of $84 million and $315 million for the three months and year ended December 31, 2019, respectively, increased 3.0% or $2 million and 6.7% or $20 million with 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.

Operating costs of $16 million for the three months ended December 31, 2019, were in line with the same quarter of 2018. Operating costs of $54 million for the year ended December 31, 2019, increased 5.3% or $3 million compared to the same period of 2018 primarily due to overall higher production at the thermal facilities and a maintenance outage in the third quarter of 2019.

Operating income of $58 million for the three months ended December 31, 2019, increased 2.9% or $2 million compared to the same quarter of 2018 primarily due to favourable operating results at Iroquois Falls and North Battleford. Operating income of $222 million for the year ended December 31, 2019, increased 8.7% or $18 million compared to the same period of 2018 primarily due to higher gross profit partially offset by higher operating costs, as described above.

Adjusted EBITDA of $71 million for the three months ended December 31, 2019 decreased 2.5% or $2 million primarily due to the sale of one of Northland's managed facilities in 2018 which offset the increase in operating income. Adjusted EBITDA of $270 million for the year ended December 31, 2019, increased 3.5% or $9 million compared to the same period 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 December 31,			Year ended December 31,	
	2019	2018		**2019**	2018
Electricity production (GWh) (1)	**372**	376		**1,397**	1,364
On-shore wind	**$ 38,885**	38,663		**$ 130,016**	$ 126,322
Solar	**11,474**	9,215		**89,164**	87,944
Sales/gross profit (2)	**50,359**	47,878		**219,180**	214,266
On-shore wind	**6,044**	6,589		**26,053**	26,330
Solar	**1,547**	1,455		**5,312**	5,023
Operating costs	**7,591**	8,044		**31,365**	31,353
Operating income	**20,608**	16,888		**93,873**	91,003
On-shore wind	**22,076**	22,339		**71,822**	69,531
Solar	**9,453**	7,049		**73,452**	72,213
Adjusted EBITDA	**$ 31,529**	$ 29,388		**$ 145,274**	$ 141,744

(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 year ended December 31, 2019, Northland's on-shore renewable facilities contributed approximately 16% 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 December 31, 2019, was in line with the same quarter of 2018, noting lower wind resource but higher solar resource. Production for the year ended December 31, 2019, was 2.5% or 34 GWh higher than 2018 due to higher wind and solar resources.

Sales of $50 million for the three months ended December 31, 2019, increased 5.2% or $2 million compared to the same quarter of 2018 primarily due to higher production at the solar facilities. Sales of $219 million for the year ended December 31, 2019, increased 2.3% or $5 million due to higher production at the wind and solar 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.

Operating costs of $8 million and $31 million for the three months and year ended December 31, 2019, were largely in line with the same periods of 2018.

Operating income and *adjusted EBITDA* of $21 million and $32 million, respectively, for the three months ended December 31, 2019, increased 22.0% or $4 million and 7.3% or $2 million compared to the same quarter of 2018 primarily due to higher production at the solar facilities and lower costs at certain wind facilities. Operating income and adjusted EBITDA of $94 million and $145 million for the year ended December 31, 2019, respectively increased 3.2% or $3 million and 2.5% or $4 million due to higher production at the wind and solar facilities.

5.2: General and Administrative Costs and Other Income

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

	Three months ended December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
Corporate overhead	**$ 10,797**	$ 10,111	**$ 34,180**	$ 34,911
Development overhead	**4,834**	3,777	**18,519**	15,365
Development projects	**10,574**	5,886	**24,427**	17,967
Corporate G&A costs	**26,205**	19,774	**77,126**	68,243
Operations G&A	**3,052**	1,802	**12,449**	11,963
Acquisition costs	**276**	—	**1,254**	—
Total G&A costs	**29,533**	21,576	**90,829**	80,206

Corporate G&A costs for the three months and year ended December 31, 2019, increased 32.5% or $6 million and 13.0% or $9 million, respectively, compared to the same periods in 2018 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.

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 Note 2.6 of the audited consolidated financial statements for the year ended December 31, 2019, for additional information on the policy for capitalization of development costs).

Operations G&A costs for the three months ended December 31, 2019, increased 69.4% or $1 million compared to the same quarter of 2018 primarily due to costs incurred related to energy marketing activities and timing of certain costs. Operations G&A costs for the year ended December 31, 2019, remained consistent compared to the same period of 2018 primarily due to costs incurred related to energy marketing activities, partially offset by 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 year ended December 31, 2019, acquisition costs totaled $1 million and primarily relate to the EBSA Acquisition.

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

	Three months ended December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
Corporate G&A costs	**(26,205)**	(19,774)	**(77,126)**	(68,243)
Other development project costs [(1)]	**(849)**	—	**(849)**	—
Gemini interest income	**3,897**	5,349	**18,326**	21,538
Other [(2)]	**465**	630	**3,369**	1,247
Corporate items in Adjusted EBITDA	**$ (22,692)**	$ (13,795)	**$ (56,280)**	$ (45,458)

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

(2) 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.

5.3: Consolidated Results

The following discussion of the significant factors contributing to the consolidated financial results should be read in conjunction with Northland's audited consolidated financial statements for the year ended December 31, 2019.

	Three months ended December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
Electricity production (GWh)	**2,666**	2,359	**9,060**	8,254
Sales	**$ 438,178**	$ 380,863	**$ 1,658,977**	$ 1,555,587
Less: Cost of sales	**32,360**	29,733	**116,288**	114,221
Gross profit	**405,818**	351,130	**1,542,689**	1,441,366
Expenses				
Operating costs	**56,413**	59,467	**214,176**	226,295
G&A - operations	**13,849**	11,912	**46,629**	46,874
G&A - development	**15,684**	9,663	**44,200**	33,332
Depreciation of property, plant and equipment	**120,421**	102,585	**438,804**	415,161
	206,367	183,627	**743,809**	721,662
Investment income	**758**	45	**2,466**	484
Finance lease income	**3,058**	3,138	**12,354**	12,660
Operating income	**203,267**	170,686	**813,700**	732,848
Finance costs, net	**93,657**	83,030	**331,168**	337,434
Amortization of contracts and intangible assets	**10,691**	8,542	**24,848**	19,116
Impairment of property, plant and equipment	**97,782**	—	**97,782**	—
Foreign exchange (gain) loss	**84**	(4,460)	**5,177**	(11,373)
Fair value (gain) loss on derivative contracts	**(51,733)**	1,629	**(161,356)**	(87,624)
Other expense (income)	**(5,640)**	(7,586)	**(14,400)**	(13,834)
Income (loss) before income taxes	**58,426**	89,531	**530,481**	489,129
Provision for (recovery of) income taxes				
Current	**15,272**	20,408	**49,236**	40,919
Deferred	**(17,515)**	3,872	**29,491**	42,702
Provision for (recovery of) income taxes	**(2,243)**	24,280	**78,727**	83,621
Net income (loss)	**$ 60,669**	$ 65,251	**$ 451,754**	$ 405,508
Net income (loss) per share - basic	**$ 0.23**	$ 0.23	**$ 1.71**	$ 1.50
Net income (loss) per share - diluted	**$ 0.23**	$ 0.22	**$ 1.68**	$ 1.46

Fourth Quarter

Total Sales and *gross profit* of $438 million and $406 million, respectively increased 15.0% or $57 million and 15.6% or $55 million compared to the same quarter of 2018 primarily due to pre-completion revenues at Deutsche Bucht and higher overall production at the thermal and solar facilities. The positive performance was partially offset by lower production at Gemini and Nordsee One, wholesale market prices below the SDE floor at Gemini and the effect of unfavourable foreign exchange rate fluctuations.

Operating costs of $56 million decreased 5.1% or $3 million compared to the same quarter of 2018 primarily due to the timing of repairs and maintenance at the offshore wind facilities, lower insurance premiums at Gemini and lower costs at Nordsee One from operating efficiencies.

G&A costs of $30 million increased 36.9% or $8 million compared to the same quarter of 2018 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.

Finance costs, *net* (primarily interest expense) of $94 million increased 12.8% or $11 million compared to the same quarter of 2018 primarily due to the amortization of deferred financing costs related to the subscription receipts, partially offset by declining interest costs as a result of scheduled principal repayments on facility-level loans and the redemption of convertible debentures in December 2018.

Impairment of property, plant and equipment of $98 million was recorded due to a non-cash impairment loss for project costs incurred to date associated with the Demonstrator Project at Deutsche Bucht.

Fair value gain on derivative contracts was $52 million compared to a $2 million loss in the same quarter of 2018 primarily due to the favourable movement in Colombian pesos foreign exchange contracts and natural gas forward contracts.

Other (income) expense decreased by $2 million mainly due to higher insurance proceeds received in 2018 compared to 2019 in relation to Nordsee One construction claims, which are now resolved.

Net income decreased $5 million in the fourth quarter of 2019 compared to the same quarter of 2018 primarily as a result of the factors described above, partially offset by a $27 million lower tax expense**.**

2019

Total Sales of $1.7 billion increased 6.6% or $103 million compared to 2018 primarily due to pre-completion revenues at Deutsche Bucht and higher overall production at all the operating facilities. The positive performance was partially offset by wholesale market prices below the SDE floor at Gemini and foreign exchange rate fluctuations for Gemini and Nordsee One.

Gross profit of $1.5 billion increased 7.0% or $101 million compared to 2018 primarily due to the same factors affecting sales described above and lower gas transportation costs at thermal facilities.

Operating costs of $214 million decreased 5.4% or $12 million compared to 2018 primarily due to the timing of repairs at offshore wind facilities, lower insurance premiums at Gemini and lower costs at Nordsee One from operating efficiencies, partially offset by a maintenance outage at one facility.

G&A costs of $91 million increased 13.2% or $11 million compared to 2018 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.

Finance costs, *net* (primarily interest expense) of $331 million decreased 1.9% or $6 million compared to 2018 primarily due to declining interest costs as a result of scheduled principal repayments on facility-level loans, and the redemption of convertible debentures in December 2018, partially offset by the amortization of deferred financing costs related to subscription receipts.

Impairment of property, plant and equipment of $98 million was recorded due to a non-cash impairment loss for project costs incurred to date associated with the Demonstrator Project at Deutsche Bucht.

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

Fair value gain on derivative contracts was $161 million compared to an $88 million gain in 2018 primarily due to the movement in the fair value of interest rate swaps and foreign exchange contracts.

Other (income) expense was in line with the same period of 2018 primarily due to a higher non-cash fair value adjustment on a loan receivable in 2019, partially offset by higher insurance proceeds received in 2018 and a gain on sale of an operating asset in 2018.

Net income increased $46 million for the year ended December 31, 2019 compared to 2018 mainly due to the factors described above.

5.4: Adjusted EBITDA

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

	Three months ended December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
Net income (loss)	**$ 60,669**	$ 65,251	**$ 451,754**	$ 405,508
Adjustments:				
Finance costs, net	**93,657**	83,030	**331,168**	337,434
Gemini interest income	**3,898**	5,349	**18,327**	21,538
Provision for (recovery of) income taxes	**(2,243)**	24,280	**78,727**	83,621
Depreciation of property, plant and equipment	**120,421**	102,585	**438,804**	415,161
Amortization of contracts and intangible assets	**10,691**	8,542	**24,848**	19,116
Fair value (gain) loss on derivative contracts	**(51,733)**	1,629	**(161,356)**	(87,624)
Foreign exchange (gain) loss	**84**	(4,460)	**5,177**	(11,373)
Impairment of property, plant and equipment	**97,782**	—	**97,782**	—
Elimination of non-controlling interests	**(55,860)**	(58,258)	**(287,129)**	(281,635)
Finance lease (lessor) and equity accounting	**1,172**	914	**3,782**	3,722
Other adjustments	**(5,823)**	(7,587)	**(17,148)**	(13,984)
Adjusted EBITDA	**$ 272,715**	$ 221,275	**$ 984,736**	$ 891,484

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.

The adoption of IFRS 16 effective January 1, 2019, 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 $7 million.

For the year ended December 31, 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 year ended December 31, 2018, other adjustments primarily include a gain on sale of an operating asset.

Fourth Quarter

Adjusted EBITDA of $273 million for the three months ended December 31, 2019, increased 23.2% or $51 million compared to the same quarter of 2018. The significant factor increasing adjusted EBITDA include:

- $77 million increase as a result of net pre-completion revenues at Deutsche Bucht.

Factors partially offsetting the increase in adjusted EBITDA include:

- $10 million decrease in operating results from Gemini due to lower wind resource and wholesale market price below the SDE floor, partially offset by lower insurance costs;
- $9 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 higher personnel costs to support Northland's growth; and
- $7 million decrease in operating results from Nordsee One primarily due to lower wind resource, unpaid curtailment resulting from grid repairs by the system operator and periods of negative market pricing, partially offset by lower costs from operating efficiencies.

2019

Adjusted EBITDA of $985 million for the year ended December 31, 2019, increased 10.5% or $93 million compared to the same period last year. The significant factors increasing adjusted EBITDA include:

- $93 million increase as a result of net pre-completion revenues at Deutsche Bucht; and

- $9 million increase primarily due to the effect of the reduced rate escalation adjustments at Iroquois Falls recorded in 2018 and higher production at North Battleford in 2019.

The factor partially offsetting the increase in adjusted EBITDA was an $11 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 higher personnel costs to support Northland's growth.

5.5: Free Cash Flow

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

	Three months ended December 31,		Year ended December 31,	
	2019	2018	**2019**	2018
Cash provided by operating activities	**$ 333,626**	$ 291,160	**$ 1,224,415**	$ 1,133,884
Adjustments:				
Net change in non-cash working capital balances related to operations	**4,263**	(2,454)	**(17,097)**	(17,973)
Non-expansionary capital expenditures	**(5,616)**	(2,745)	**(9,582)**	(5,658)
Restricted funding for major maintenance, debt and decommissioning reserves	**(3,276)**	(4,701)	**(14,176)**	(13,713)
Interest paid, net	**(104,659)**	(111,596)	**(288,720)**	(314,125)
Scheduled principal repayments on facility debt	**(154,407)**	(154,748)	**(412,167)**	(373,677)
Funds set aside (utilized) for scheduled principal repayments	**72,413**	72,107	**(5,847)**	(1,035)
Preferred share dividends	**(2,932)**	(2,920)	**(11,728)**	(11,554)
Consolidation of non-controlling interests	**(17,132)**	(17,112)	**(111,773)**	(112,499)
Cash from operating activities from projects under construction	**(67,637)**	—	**(81,530)**	1,457
Lease payments	**(1,883)**	—	**(6,682)**	—
Investment income (1)	**5,607**	13,074	**22,060**	30,136
Nordsee One proceeds from government grant	**6,883**	5,969	**22,496**	20,399
Foreign exchange	**4,330**	(2)	**9,565**	1,180
Other (2)	**(2,225)**	2,627	**(754)**	801
Free cash flow	**$ 67,355**	$ 88,659	**$ 318,480**	$ 337,623

(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 December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
Cash dividends paid to common and Class A shareholders	**$ 54,130**	$ 44,147	**$ 216,373**	$ 163,605
Free cash flow payout ratio - cash dividends (1)			**67.9%**	48.5%
Total dividends paid to common and Class A shareholders (2)	**$ 54,130**	$ 53,246	**$ 216,373**	$ 211,877
Free cash flow payout ratio - total dividends (1) (2)			**67.9%**	62.8%
Weighted average number of shares - basic (000s) (3)	**180,434**	178,031	**180,322**	177,757
Weighted average number of shares - diluted (000s) (4)	**187,421**	189,604	**187,625**	189,593
Per share ($/share)				
Dividends paid	**$0.30**	$0.30	**$1.20**	$1.20
Free cash flow — basic	**$0.37**	$0.50	**$1.77**	$1.90
Free cash flow — diluted	**$0.37**	$0.48	**$1.73**	$1.81

(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.

Fourth Quarter

Free cash flow of $67 million for the three months ended December 31, 2019, was 24.0% or $21 million lower than the same quarter of 2018.

Factors decreasing free cash flow include:

- $18 million decrease 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
- $6 million increase in corporate G&A 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.

The factor partially offsetting the decrease in free cash flow was a $5 million decrease in net interest expense due to a lower outstanding balance of amortizing debt and the redemption of the convertible debentures in December 2018.

2019

Free cash flow of $318 million for the year ended December 31, 2019, was 5.7% or $19 million lower than 2018.

Factors decreasing free cash flow include:

- $35 million increase in scheduled principal repayments, primarily for Nordsee One debt;
- $9 million increase in corporate G&A 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; and
- $9 million increase in current taxes related to the offshore wind facilities.

Factors partially offsetting the decrease in free cash flow include:

- $28 million decrease in net interest expense due to a lower outstanding balance of amortizing debt and the redemption of the convertible debentures in December 2018; and
- $6 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.

As at December 31, 2019, the rolling four quarter free cash flow net payout ratio was 67.9%, calculated on the basis of cash dividends paid and calculated on the basis of total dividends, compared to 48.5% and 62.8%, 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 6: CHANGES IN FINANCIAL POSITION

The following table provides a summary of account balances derived from the audited consolidated balance sheets as at December 31, 2019 and December 31, 2018.

As at		December 31, 2019		December 31, 2018
Assets				
Cash and cash equivalents	**$**	**268,193**	$	278,400
Restricted cash		**623,007**		450,437
Trade and other receivables		**295,427**		275,088
Other current assets		**44,521**		39,675
Property, plant and equipment		**8,072,519**		8,105,845
Contracts and other intangible assets		**521,050**		581,097
Other assets (1)		**521,898**		534,563
	$	**10,346,615**	$	10,265,105
Liabilities				
Trade and other payables		**193,160**		197,828
Interest-bearing loans and borrowings		**6,893,227**		7,011,572
Net derivative liabilities (2)		**438,772**		537,157
Net deferred tax liability (2)		**192,226**		179,549
Other liabilities (3)		**1,118,478**		798,377
	$	**8,835,863**	$	8,724,483
Total equity		**1,510,752**		1,540,622
	$	**10,346,615**	$	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 audited consolidated balance sheets were as follows:

- *Restricted cash* increased by $173 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 $33 million mainly due a non-cash impairment of project costs incurred to date associated with the Demonstrator Project at Deutsche Bucht of $98 million, 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 $60 million primarily due to foreign exchange rate fluctuations and amortization.
- *Interest-bearing loans and borrowings* decreased by $118 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 $320 million, mainly due to the subscription receipts offering, the initial recognition of lease liabilities of $60 million and the initial recognition of the decommissioning liability at Deutsche Bucht, partially offset by partial repayment of Northland's syndicated revolving facility and foreign exchange rate fluctuations.

SECTION 7: 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.

Dividends

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

Under the DRIP, common shareholders and the Class A shareholder may elect to reinvest their dividends in common shares. On November 6, 2018, Northland reduced the discount under its DRIP from 5% to 0% and announced that shares would be sourced through market purchases.

Equity and Convertible Unsecured Subordinated Debentures

The change in shares and class A shares during 2019 and 2018 was as follows:

	December 31, 2019	December 31, 2018
Shares outstanding, beginning of year	**179,201,743**	174,440,081
Conversion of debentures	**239,476**	2,527,626
Shares issued under the LTIP	**—**	23,467
Shares issued under the DRIP	**—**	2,210,569
Shares outstanding, end of year	**179,441,219**	179,201,743
Class A shares	**1,000,000**	1,000,000
Total common and convertible shares outstanding, end of year	**180,441,219**	180,201,743

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

As at	December 31, 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 December 31, 2019, Northland had 179,441,219 common shares with no change in Class A and preferred shares outstanding from December 31, 2018. During 2019, $5 million of convertible debentures were converted into 239,476 common shares.

As of the date of this MD&A, Northland has 193,780,165 common shares outstanding with no change in Class A and preferred shares outstanding from December 31, 2019. The increase in common shares outstanding since December 31, 2019, is primarily due to the conversion of the subscription receipts. If the convertible debentures outstanding as at December 31, 2019, totaling $150 million, were converted in their entirety, an additional 7 million common shares would be issued.

Subscription Receipts

In September 2019, Northland completed the Offering of 14,289,000 subscription receipts for gross proceeds of $347 million. At closing of the EBSA Acquisition on January 14, 2020, the subscription receipts converted to common shares with each subscription receipt holder receiving one common share as well as a payment equivalent to dividends paid on common shares in the period since the Offering. This resulted in the issuance of 14,289,000 additional common shares subsequent to year end, following which 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 issued and outstanding common shares. In accordance with TSX rules, any daily purchases (other than pursuant to a block purchase exemption) on the TSX 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.

Northland Power believes that the market price of its common shares may trade in a price range that does not fully reflect their inherent value, and that the acquisition of the common shares may represent an appropriate use of available funds. For the year ended December 31, 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 December 31,		Year ended December 31,	
	2019	2018	**2019**	2018
Cash and cash equivalents, beginning of year	**$ 302,682**	$ 315,010	**$ 278,400**	$ 400,573
Cash provided by operating activities	**333,626**	291,160	**1,224,415**	1,133,884
Cash used in investing activities	**(106,833)**	(108,061)	**(757,995)**	(589,092)
Cash (used in) provided by financing activities	**(260,208)**	(226,154)	**(471,102)**	(678,315)
Effect of exchange rate differences	**(1,074)**	6,445	**(5,525)**	11,350
Cash and cash equivalents, end of year	**$ 268,193**	$ 278,400	**$ 268,193**	$ 278,400

Fourth Quarter

Cash and cash equivalents for the fourth quarter of 2019 decreased $34 million from September 30, 2019 due to cash used in financing activities of $260 million, cash used in investing activities of $107 million and $1 million effect of foreign exchange translation, partially offset by cash provided by operations of $334 million.

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

- Scheduled debt repayments, including semi-annual repayments of Gemini and Nordsee One debt;
- Interest payments associated with borrowings; and
- Construction expenditures related to the Deutsche Bucht and La Lucha projects.

The decrease was partially offset by cash flow from operating facilities and utilization of restricted cash for Deutsch Bucht construction activities.

2019

Cash and cash equivalents for the year ended December 31, 2019, decreased $10 million due to cash used in investing activities of $758 million, cash used in financing activities of $471 million and $6 million effect of foreign exchange translation, partially offset by $1,224 million in cash provided by operations.

Cash provided by operating activities for the year ended December 31, 2019 was $1,224 million comprising:

- $452 million of net income;

- $756 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
- $17 million in changes in working capital due to the timing of payables, receivables and deposits.

Cash used in investing activities for the year ended December 31, 2019, was $758 million, primarily comprising:

- $766 million used for the purchase of property, plant and equipment, mainly for the construction of Deutsche Bucht and La Lucha;
- $56 million in changes in working capital primarily related to the timing of construction payables at Deutsche Bucht; and
- $58 million utilization of restricted cash mainly related to Deutsch Bucht construction activities.

Cash used in financing activities for the year ended December 31, 2019, was $471 million, primarily comprising:

- $125 million in net repayments under the corporate syndicated revolving facility;
- $412 million in scheduled principal repayments on project debt;
- $292 million in interest payments;
- $228 million of common, Class A and preferred share dividends;
- $99 million in dividends to the non-controlling shareholders; and
- $6 million in lease principal payments.

Factors partially offsetting cash used in financing activities include:

- $613 million of proceeds drawn on project debt from borrowings under Deutsche Bucht's construction loan; and
- $80 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 $6 million for the year ended December 31, 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 year ended December 31, 2019:

	Cost balance as at Dec. 31, 2018	Additions[1]	Other [2]	Exchange rate differences	Transfers	Cost balance as at Dec. 31, 2019
Operations:						
Offshore wind	$ 5,666,499	$ 2,726	$ 11,167	$ (387,944)	$ 1,452,559	**$ 6,745,007**
Thermal [3]	1,760,009	2,218	(114)	—	—	**1,762,113**
On-shore renewable	1,721,698	757	28,105	—	—	**1,750,560**
Construction:						
Offshore wind	819,462	718,995	(12,654)	(73,244)	(1,452,559)	**—**
On-shore renewable	—	37,891	3,854	(377)	—	**41,368**
Corporate	26,851	15,184	13,361	(811)	—	**54,585**
Total	$ 9,994,519	$ 777,771	$ 43,719	$ (462,376)	$ —	**$ 10,353,633**

(1) Includes pre-completion revenue of $12 million for Deutsche Bucht. See SECTION 5.1 Results of Operations for additional information.

(2) Includes initial recognition of lease right-of-use assets, amounts accrued under the LTIP, initial recognition of the decommissioning provision for and an impairment related to Deutsche Bucht. Refer to Note 2.3 and 8.2 of the annual financial statements for additional information on lease recognition. Refer to Note 20 of the annual financial statements for additional information on the impairment.

(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 year ended December 31, 2019:

	Balance as at Dec. 31, 2018	Financings, net of costs	Repayments	Amort. of costs/fair value	Exchange rate differences	Balance as at Dec. 31, 2019
Operations:						
Offshore wind	$ 4,160,574	$ —	$ (321,134)	$ 17,881	$ (279,266)	**$ 3,578,055**
Thermal	995,131	—	(45,181)	1,538	—	**951,488**
On-shore renewable	1,100,198	—	(45,852)	1,056	—	**1,055,402**
Construction:						
Offshore wind	755,669	613,293	—	5,419	(66,099)	**1,308,282**
Corporate (1)	309,274	581,634	(706,637)	825	(13,712)	**171,384**
Total	$ 7,320,846	$ 1,194,927	$ (1,118,804)	$ 26,719	$ (359,077)	**$ 7,064,611**

(1) Excludes convertible unsecured subordinated debentures and subscription receipts.

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

In addition to the loans outstanding in the above table, as at December 31, 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 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 year ended December 31, 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 December 31, 2019	Facility size	Amount drawn	Outstanding letters of credit	Available capacity	Maturity date
Syndicated revolving facility	$ 1,000,000	$ 175,689	$ 92,925	$ 731,386	Jun. 2024
Bilateral letter of credit facility	100,000	—	99,393	607	Mar. 2021
Export credit agency backed letter of credit facility	100,000	—	44,221	55,779	Mar. 2020
Total	**$ 1,200,000**	**$ 175,689**	**$ 236,539**	**$ 787,772**	
Less: deferred financing costs		4,305			
Total, net		**$ 171,384**			

- In the year ended December 31, 2019, Northland made net repayments of $125 million on the syndicated revolving facility, with the remaining movement in the year due to foreign exchange fluctuations.
- In the second quarter of 2019, the $1.0 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.
- As part of the initial funding of the EBSA Acquisition, Northland entered into the EBSA Bridge, a $495 million 12-month bridge credit facility. The terms of the EBSA Bridge are aligned with the terms of Northland's syndicated revolving facility. Northland drew the full $495 million on January 14, 2020, and subsequently repaid $310 million using the proceeds from the Offering.
- Of the $237 million of corporate letters of credit issued as at December 31, 2019, $116 million relates to projects under advanced development or construction.

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

Exposure to LIBOR and EURIBOR

LIBOR and EURIBOR are the two key global benchmark rates used to determine interest rates and value government and corporate bonds, loans, currency and interest rate swaps and many other financial products. Regulators are expected to discontinue the use of these rates by the end of 2021, at which time each jurisdiction will identify its own alternative replacement rate. Each jurisdiction has formed working groups to identify and develop a preferred successor rate.

As at December 31, 2019, Northland had €4.3 billion of EURIBOR-linked borrowings and derivatives that extend beyond 2021. Northland did not have any US dollar LIBOR-linked borrowings or derivatives at the end of 2019. Northland expects to incur additional USD borrowings during 2020 to fund the construction of La Lucha.

In 2019, management formed an internal task force to monitor industry developments and develop a transition plan in consultation with legal counsel and advisors. Transition activities will include a comprehensive review of financial exposures, discussions with lenders as well as planning and implementing potential amendments to preserve the originally intended economics of loan arrangements. Management does not currently expect a material financial impact and continues to monitor and manage the situation.

Financial Commitments and Contractual Obligations

In the ordinary course of business, Northland enters into financial and derivative contracts. The contractual maturities of Northland's material financial liabilities as at December 31, 2019, are summarized below:

	2020	2021-2022	2023-2024	>2024
Derivative contracts				
Euro foreign exchange contracts	$ 194,351	$ 359,585	$ 309,960	$ 954,266
Financial natural gas contract	58,561	67,468	—	—
Colombian peso foreign exchange contracts	727,528	—	—	—
U.S. dollar foreign exchange contracts	27,614	19,355	—	—
Power financial contracts	7,847	7,454	—	—
Loans and borrowings				
Interest-bearing loans and borrowings - principal	569,151	1,172,705	1,263,944	4,210,063
Interest-bearing loans and borrowings - interest, including interest rate swaps	274,939	507,165	422,983	758,557
Corporate credit facilities, including interest	26,196	5,138	180,134	—
Convertible debentures, including interest	154,335	—	—	—
Total	**$ 2,040,522**	**$ 2,138,870**	**$ 2,177,021**	**$ 5,922,886**

Non-Financial Commitments and Contractual Obligations

The following table summarizes all material fixed contractual commitments and obligations as at December 31, 2019, for non-financial contracts. The amounts are based on the assumptions of a 2% annual consumer price index increase, a Canadian dollar/euro exchange rate of $1.56 and Canadian dollar/U.S. dollar exchange rate of $1.31. The table includes maintenance and services agreements and natural gas transportation demand charges for which Northland is liable whether or not natural gas is shipped. The construction commitment relates to the construction of the Deutsche Bucht project. The cash obligations related to the leases for land and buildings, dismantlement and management fees to non-controlling interest partners are also included.

	2020	2021-2022	2023-2024	>2024
Maintenance agreements	$ 170,319	$ 376,540	$ 347,972	$ 2,065,439
Construction, excluding debt, interest and fees	123,083	—	—	—
Natural gas supply and transportation, fixed portion	32,479	66,896	43,810	50,959
Leases	10,767	19,464	15,073	57,134
Dismantlement funding	14,739	29,897	30,148	215,908
Management fees	1,038	2,109	2,154	12,378
Total	**$ 352,425**	**$ 494,906**	**$ 439,157**	**$ 2,401,818**

Except in circumstances where cancellation of the agreements would result in material penalties, the above table does not include variable contractual obligations of Northland (which typically relate directly to production or meeting performance criteria). Such obligations include natural gas purchase costs, variable natural gas transportation costs and variable payments to maintenance providers. Except for certain on-shore renewable and thermal facilities' PPAs, the electricity supply contracts contain no penalties for failure to supply.

SECTION 8: 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.

With the exception of the adoption of IFRS 16 in 2019 (refer to Note 2.3 of the audited consolidated financial statements), accounting policies and principles have been applied consistently for all periods presented in the table below.

In millions of dollars, except per share information	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Total sales	$ 438	$ 378	$ 344	$ 499	$ 381	$ 350	$ 338	$ 486
Operating income	203	177	146	288	171	150	131	281
Net income (loss)	61	111	76	204	65	93	69	178
Adjusted EBITDA	273	224	194	294	221	197	183	290
Cash provided by operating activities	334	242	341	308	291	193	343	306
Free cash flow	67	74	35	142	89	64	37	148
Per share statistics								
Net income (loss) - basic	$ 0.23	$ 0.42	$ 0.28	$ 0.78	$ 0.23	$ 0.38	$ 0.29	$ 0.61
Net income (loss) - diluted	0.23	0.41	0.28	0.76	0.22	0.37	0.28	0.59
Free cash flow - basic	0.37	0.41	0.20	0.79	0.50	0.36	0.21	0.84
Total dividends declared	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30

SECTION 9: CONSTRUCTION, DEVELOPMENT AND ACQUISITION ACTIVITIES

Acquisition of Offshore Wind Development Company in South Korea

On February 24, 2020, Northland announced the acquisition of Dado Ocean Wind Farm Co., Ltd ("**Dado Ocean**"), an offshore wind development company based in Korea with rights to multiple early-stage development sites off the southern coast of the Korean Peninsula.

Acquisition of EBSA Regulated Power Distribution Utility – Colombia

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) (the "**EBSA Acquisition**"). The EBSA Acquisition was subject to customary closing conditions, including the receipt of approval by the local regulator of EBSA's proposed tariff for the next regulatory period. Pursuant to the share purchase agreement, the purchase price was adjusted to COP 2,412 billion ($960 million) from COP 2,665 billion ($1.05 billion) based on the tariff resolution issued by the regulator in December 2019, and remains subject to post-closing adjustments to the purchase price following a review of the tariff resolution.

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.

The EBSA Acquisition 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 EBSA 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 a regulatory framework administered by Comisi ĀĀde Regulaci ĀĀde Energía y Gas ("**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 weighted average cost of capital ("**WACC**") of approximately 11.5% for an expected 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'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.

Deutsche Bucht 269 MW Offshore Wind Project – Germany

Construction of the Deutsche Bucht offshore wind project was highlighted by the installation of all 31 monopile foundations and turbines, ahead of schedule, and generating power by the end of September 2019, earning $96 million of pre-completion revenues in sales in 2019. Installation of the two turbines utilizing mono bucket foundations ("**Demonstrator Project**") was paused in the fourth quarter of 2019 following the identification of technical issues. A thorough evaluation of the cause of the technical issues is ongoing and there is a possibility that the Demonstrator Project may not proceed. As a result of the uncertainty, Northland recorded a non-cash impairment loss of $98 million for project costs incurred to date associated with the Demonstrator Project. The total estimated project cost remains at approximately €1.4 billion ($2.0 billion).

Joint Venture with Shizen Energy for Offshore Wind Projects in Japan

In November 2019, Northland signed an agreement with Shizen Energy Inc. ("**Shizen Energy**") to jointly establish Chiba Offshore Wind Inc. ("**Chiba**") to develop early stage offshore wind development opportunities in Japan. The prospective projects have an expected combined capacity of approximately 600 MW. Northland and Shizen Energy intend to collaborate to further develop these and other opportunities.

La Lucha 130 MW Solar Project – Mexico

In May 2019, Northland started construction of the La Lucha 130 MW solar project in the State of Durango, Mexico. The project is progressing according to schedule and on track with estimated project costs. Total capital cost for the project is expected to be $190 million with project completion anticipated in the second half of 2020**.**

Construction is progressing on schedule with engineering almost fully complete, procurement of major components finalized and installation in progress. Negotiation of bilateral power contracts continues with qualified providers of retail electricity services in Mexico ("**Qualified Suppliers**") for delivery of energy and clean energy certificates to commercial and industrial off-takers and is expected to be finalized prior to project completion. Northland intends to utilize non-recourse project financing for La Lucha once construction is complete.

Hai Long 1,044 MW Offshore Wind Project – Taiwan

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 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. In the fourth quarter of 2019, preferred supplier agreements for turbine supply and balance of plant components were executed, covering all sub-projects. Northland continues to develop Hai Long 2B and Hai Long 3 sub-projects allocated a total of 744 MW under auction in 2018 and expects to execute their respective PPAs in 2020.

SECTION 10: OUTLOOK

Northland actively pursues new sustainable infrastructure opportunities that encompass a range of clean technologies, including wind, solar and natural gas power generation as well as electricity grid networks.

Northland's development strategy focuses on 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. As such, the 2020 guidance range reflects higher development expenses in pursuit of the Company's continued execution of its global growth strategy. This includes expenditures related to the development and advancement of Hai Long, the new joint venture in Japan and other offshore wind projects.

Adjusted EBITDA

In 2020, management expects adjusted EBITDA to be in the range of $1.1 billion to $1.2 billion. 2020 adjusted EBITDA is expected to be higher relative to the revised 2019 guidance primarily due to the following factors (all amounts approximate):

- Incremental contribution from Deutsche Bucht for a full year of operations, excluding the Demonstrator Project ($140 million to $155 million increase); and
- Contributions from La Lucha, which is expected to be completed in the second half of 2020, and from newly acquired EBSA based on the final tariff expected, assuming an average exchange rate of COP 2,512/CAD ($100 million to $105 million increase) .

Factors partially offsetting the increase in 2020 adjusted EBITDA include:

- Lower anticipated contribution from thermal facilities primarily due to stronger than expected performance in 2019 and one-time costs expected in 2020 ($15 million to $20 million impact); and
- Lower assumed market prices at Gemini and higher unpaid curtailments at Nordsee One ($5 million to $20 million impact)

assuming an average foreign exchange rate of CAD$1.49/Euro; and

- Higher G&A costs primarily due to increased level of development activities ($40 million to $50 million impact).

Free Cash Flow

In 2020, management expects free cash flow per share to be in the range of $1.70 to $2.05 per share. 2020 free cash flow per share is adjusted from the revised 2019 guidance primarily due to the following factors (all amounts approximate):

- Contribution from Deutsche Bucht for the full year including one-time excess pre-completion revenue from 2019, net of partial year principal debt repayments, and excluding the Demonstrator Project ($120 million to $130 million); and
- Contributions from La Lucha, which is expected to be completed in the second half of 2020, and from newly acquired EBSA based on the final tariff expected ($30 million to $35 million increase).

Factors partially offsetting the increase in expected free cash flow include:

- Lower assumed market prices and higher taxes at Gemini and higher unpaid curtailments at Nordsee One ($10 million to $20 million impact);
- Lower anticipated contribution from thermal facilities primarily due to stronger than expected performance in 2019 and one-time costs expected in 2020 ($10 million to $15 million impact);
- Higher G&A costs primarily due to increased level of development activities ($40 million to $50 million impact);
- Higher scheduled principal debt repayments at certain operating facilities ($20 million impact);
- Higher interest on corporate borrowings primarily due to the EBSA Acquisition funding offset by lower interest on the 2020 Debentures, maturing in mid-2020 ($5 million impact); and
- An increase in the weighted average number of common shares outstanding as a result of the subscription receipts offering associated with the EBSA Acquisition and the maturity of the 2020 Debentures.

The 2020 development expenses are expected to total $0.45 to $0.50 of 2020 free cash flow per share, including Hai Long development costs and development overhead, an increase from a total of $0.24 per share in 2019.

SECTION 11: LITIGATION, CLAIMS AND CONTINGENCIES

Litigation, claims and other contingencies arise from time to time in the ordinary course of business for Northland. None of these contingencies, individually or in aggregate, are expected to result in a liability that would have a material adverse effect on Northland. Refer to Note 24 of the audited consolidated financial statements for the year ended December 31, 2019 for additional information.

NORTHLAND POWER

SECTION 12: SUSTAINABILITY AND CLIMATE CHANGE

Sustainability and Northland's Business Model

Sustainability and the need for clean energy were key factors leading to the Company being established in 1987 and continue to be a fundamental part of the business environment in which Northland operates. Sustainability underlies and influences many of the key business risks identified and managed by management and overseen by the Board of Directors. Understanding, measuring, and managing the opportunities and risks arising from the global shift to renewable energy sources, as a result of climate change is a core component of Northland's business activities and critical to delivering on its vision. Northland holds the view that demand for electricity from renewable sources will continue to rise as a result of growing recognition of the adverse effects of climate change and an increasing number of jurisdictions adopting de-carbonization policies and renewable energy targets.

Growth of Renewable Assets Portfolio

Northland sees significant growth opportunities in its renewable asset portfolio as a result of the general trend towards global de-carbonization, which encourages sustainable power generation from clean and green technologies. Northland expects these opportunities to span short, medium and long-term time horizons as such policies spread to new parts of the globe and strengthen in advanced economies. Northland is currently pursuing such opportunities through active development of sustainable projects in North America, Europe, Latin America and Asia. Refer to the 2019 AIF for a summary of regulatory developments in the markets where Northland operates.

Enterprise Risk Management

Climate change, which increases the likelihood of unexpected, severe and more frequent weather-related natural disasters such as severe storms, droughts, heat waves, rising temperatures and sea levels and changing precipitation patterns, presents both risks and opportunities to Northland. Climate change has raised the importance of access to clean energy, energy security and energy efficiency, which Northland is well-positioned to contribute to.

Northland manages the business risks presented by climate change as part of its Enterprise Risk Management (**ERM**) program. Northland's ERM program builds risk identification, assessment, response planning, reporting and monitoring into routine business activities, with ownership of key risks delegated throughout the organization. Assessment, using quantification of business impacts wherever possible, occurs on an ongoing basis.

Climate change related compliance requirements did not have a significant financial or operational impact on Northland's earnings or capital expenditures in 2019.

Climate Change Related Opportunities

New Business Opportunities

Northland expects to identify new business opportunities due to continued interest and growth in clean and renewable power technologies as well as increased investment by public and private entities in the sector. For example, many commercial and industrial entities are partnering with sustainable power producers for their energy needs. Such partnerships and capital investments are expected to lead to enhanced performance and reliability and/or reduced operating costs, improving Northland's operating and financial results. Continued investment in clean technology may also uncover new applications for existing technologies and entirely new business models, which Northland is well-positioned to benefit from.

Greater Access to Capital

Northland expects to benefit from direct business partnerships as well as the trend of increasing capital allocations by large institutional investors to companies pursing environmentally sustainable business models. Northland's current shareholder base includes large institutional investors and "green funds" that have found Northland to meet their criteria. Newer financial products, such as green bonds, present additional opportunities to raise capital in the future.

Reputational Advantage

Northland's business model has and is expected to continue to attract and retain top talent due to employees' growing preference to work for companies whose actions and strategy align with their own beliefs. Northland's sustainability focus provides an advantage in the competition for top talent at all levels of the organization. Similarly, Northland benefits from its positive brand image and reputation when seeking new business partners, exploring new jurisdictions and obtaining regulatory approvals.

Climate Change Related Risks

Increased Variability of Results

Climate change may increase the potential for increased variability of renewable resources, resulting in higher variability of electricity production and financial results, across all time horizons. Research on the impact of climate change on wind and solar patterns in areas of concentrated renewable power production, though growing, remains in early stages. Reliable information on localized impact for specific regions over the long-term is not yet available in today's climate change computer simulation models. Northland's concentration of offshore wind farms in the North Sea presents a performance and operating risk. Over the long-term, the effects of climate change and severe weather events may also change energy demand patterns and market prices in the regions where Northland operates to the benefit or detriment of Northland.

Acute and Chronic Effect on Physical Assets

Northland’s facilities and projects are exposed to the elements such as wind, water and in the case of the offshore wind projects, movement of the sea floor. They are also susceptible to extreme weather conditions and natural disasters such as hurricanes, tornadoes, lightning storms, icing events and in the case of distribution lines, fires. Extreme weather conditions and natural disasters can cause downtime, construction delays, production losses and/or damage to equipment. Natural events may also make it impossible for operations and maintenance crews to access the disabled equipment to deliver parts and provide services.

Northland is exposed to weather risk and subsurface risk during the construction and operation of its offshore wind farms. Northland attempts to mitigate these risks through the purchase of insurance and/or the inclusion of provisions under applicable construction agreements with contractors. However, insurance policies and/or construction agreements may not provide coverage for certain events, or coverage may be insufficient to compensate for all of the losses suffered by a project. Such insurance may not continue to be available at all or at economically feasible cost.

Northland’s operations rely on assets such as transmission grids, towers and substations owned and operated by third-parties. These assets may also be adversely affected by extreme weather events and climate change and which Northland has little ability to control. Similarly, Northland’s operating and construction activities could be affected by the impact of extreme weather events on its supply chain.

Regulatory Compliance

With the growing scrutiny of environmental impacts of business activities, Northland faces the risk of increased costs for regulatory compliance such as carbon pricing programs for natural gas fired thermal facilities, maintenance of air and water quality standards, limiting greenhouse gas emissions and costs of compliance during the construction phase.

Northland monitors global regulatory developments and acts to manage the related financial and business risks associated with its activities. For example, the Pan-Canadian Framework on Clean Growth and Climate Change, established by the Canadian government in 2016, provided a back-stop to provincial carbon pricing programs. Under the program, a fuel charge is applied to a range of fuels, including natural gas and industrial facilities are subject to an Output-Based Pricing System (**OBPS**) for carbon emissions above applicable limits. Industrial facilities may pay the OBPS or procure equivalent credits from other companies. Northland's thermal facilities are subject to OBPS programs, federally or through an equivalent provincial program. Substantially all of Northland’s operating thermal facilities pass the costs of compliance through to the counterparty under the terms of their PPA.

Northland discloses its direct greenhouse gas and air emissions in its Sustainability Report and plans to continue to measure and report on these metrics annually. Northland recognizes the long-term importance of sustainability and the role of renewable energy in counteracting climate change and is focused on increasing the capacity of its renewable asset portfolio in response to the threat of climate change.

NORTHLAND POWER

SECTION 13: FINANCIAL RISKS AND UNCERTAINTIES

Northland's activities expose it to a variety of risks. Refer to the 2019 AIF for a summary of factors in addition to those discussed below that could significantly affect the operations and financial results of Northland.

Northland's risk management objective is to mitigate fluctuations in cash flows in order to maintain stable and sustainable levels of cash available to pay dividends to shareholders. Northland does not seek to mitigate fair value risk. Northland classifies financial risks into market risk, counterparty risk and liquidity risk. Northland manages financial risks by identifying, evaluating and, where appropriate, mitigating financial risks in compliance with internal policies and external requirements under non-recourse project financing arrangements. Northland uses derivative financial instruments to manage certain financial risks but does not engage in speculative activity. Material financial risks are monitored and reported regularly to the Audit Committee of the Board of Directors. The risks associated with Northland's financial instruments and Northland's policies for mitigating these risks are described below.

Market Risk

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

(i) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Northland manages this risk by securing fixed-rate debt or entering into interest rate swap agreements that effectively convert floating rate interest exposures to a fixed rate.

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

(ii) Credit Spread Risk

Credit spread risk as it affects Northland refers to the risk that the loan margin charged by current or future lenders (a borrower-specific margin added to the underlying interest rate) will increase, making the cost of debt capital more expensive. Credit spread risk cannot be hedged. Northland manages this risk by: (i) entering into long-term financings with defined credit spreads over the amortization period whenever possible; (ii) ensuring loans are fully amortized (repaid) by maturity; and (iii) monitoring credit markets and making prudent decisions about the timing and method of original financings, refinancing and repricing opportunities.

(iii) Currency Risk

Currency risk arises because the Canadian dollar equivalent of transactions, assets or liabilities denominated in foreign currencies may vary due to changes in foreign exchange rates. Northland is exposed to changes in the euro, U.S. dollar and Colombian peso; notably, through the euro-denominated consolidated financial statements of Gemini, Nordsee One and Deutsche Bucht project. Northland manages this risk by hedging material net foreign currency cash flows to the extent practical and economical in order to minimize material cash flow fluctuations.

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

(iv) Commodity Price Risk

Commodity price risk arises where: (i) PPA revenues for thermal facilities are fixed, not linked to natural gas prices or the cost of natural gas is not substantively passed through to the off-taker; (ii) PPA revenues or components of PPA revenues depend upon certain electricity market indices; (iii) a portion of revenue is not contracted and subject to changes in electricity prices; or (iv) the value of a financial instrument or cash flows associated with the instrument fluctuates due to changes in commodity prices.

Northland manages this risk by: (i) entering into PPAs that provide a fixed price for all, or substantially all, electricity production, provide a price linked to commodity prices or include pass-through of commodity costs to the off-taker; (ii) entering into financial power and natural gas hedges to stabilize contractual economics, including natural gas costs and electricity prices; and (iii) entering into fixed price gas supply contracts.

Counterparty Risk

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

Northland manages counterparty risk by contracting with highly creditworthy counterparties wherever possible, such as government-related entities and large financial institutions. Northland's cash, derivative financial instruments, unfunded loan commitments and insurance policies are contracted with creditworthy financial institutions. Northland's gas, transportation, equipment, maintenance and construction contracts are with highly rated and/or large, well-capitalized counterparties wherever possible.

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

Liquidity Risk

Liquidity risk is the risk that Northland: (i) may not have sufficient funds to settle a transaction on the due date; (ii) may be forced to sell financial assets or terminate financial liabilities at a value that is not the fair market value; or (iii) may be unable to settle or recover a financial asset at all. Liquidity risk arises through an excess of financial obligations over available financial assets at any point in time.

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

Northland is also subject to internal liquidity risk because it conducts its business activities through separate legal entities (subsidiaries and affiliates) and is dependent on cash distributions from those entities to defray corporate expenses and pay dividends. Most operating subsidiaries hold non-recourse debt. Such non-recourse financing agreements typically prohibit 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 loan principal and interest payments over a specified time period. For the year ended December 31, 2019, Northland and its subsidiaries were in compliance with all debt covenants.

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

Refer to Note 24 in the audited consolidated financial statements for the year ended December 31, 2019, for additional information related to Northland's commitments and obligations.

SECTION 14: CRITICAL ACCOUNTING ESTIMATES

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

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

Additional information on the significant estimates, judgments and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed in Note 3 in the audited consolidated financial statements for the year ended December 31, 2019.

SECTION 15: 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 December 31, 2019, there have been no accounting pronouncements by the International Accounting Standards Board that would materially affect Northland's consolidated financial statements beyond those described in Note2.3 of the audited consolidated financial statements.

SECTION 16: CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

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

An evaluation of the effectiveness of the design and operation of Northland's disclosure controls and procedures was conducted as of December 31, 2019, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Northland's disclosure controls and procedures, as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

Internal Controls over Financial Reporting

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

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

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

An evaluation of the effectiveness of the design and operation of Northland's internal controls over financial reporting was conducted as of December 31, 2019, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Northland's internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of the audited consolidated financial statements in accordance with IFRS.

No changes were made in Northland's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, Northland's internal controls over financial reporting in the year ended December 31, 2019.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation of Northland's consolidated financial statements and annual report. Management has prepared the accompanying consolidated financial statements in accordance with International Financial Reporting Standards, and the financial information included in the annual report is consistent with the consolidated financial statements. Where appropriate, these consolidated financial statements reflect estimates based on the judgments of management. When alternative methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

Management is responsible for the development and maintenance of systems of internal accounting and administrative cost controls of high quality, consistent with a suitable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that Northland and its subsidiaries' assets are appropriately accounted for and adequately safeguarded.

The Board of Directors and Audit Committee (consisting of independent directors) are responsible for reviewing the consolidated financial statements of Northland and the accompanying management's discussion and analysis and ensuring that management fulfills its responsibilities for financial reporting.

Ernst & Young LLP, the independent auditor, have examined the consolidated financial statements of Northland. The independent auditor's responsibility is to express a professional opinion on the fairness of the consolidated financial statements. The auditor's report outlines the scope of their examination and sets forth their opinion on the consolidated financial statements. Their report as auditor is set out on page 44.

The Audit Committee of Northland meets periodically with management and the independent auditor to discuss internal controls, auditing matters and financial reporting issues and to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee also reviews the consolidated financial statements, management's discussion and analysis and the external auditor's report; examines the fees and expenses for audit services; and considers the engagement or reappointment of the external auditor. The Audit Committee reports its findings to the Board of Directors for consideration prior to the issuance of the Northland consolidated financial statements to the shareholders. Ernst & Young LLP have full access to the Audit Committee and meet with the committee both in the presence of management and separately.

(signed, Mike Crawley)
Mike Crawley
President and Chief Executive Officer

(signed, Paul J. Bradley)
Paul J. Bradley
Chief Financial Officer
Toronto, Canada
February 25, 2020

Independent Auditor's Report

To the Shareholders of Northland Power Inc.

Opinion

We have audited the consolidated financial statements of Northland Power Inc. and its subsidiaries (the "**Group**"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of income (loss), consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (**IFRSs**).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis; and
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

NORTHLAND POWER

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Daniela Carcasole.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, ON

February 25, 2020

Consolidated Financial Statements

Table of Contents

Consolidated Balance Sheets

In thousands of Canadian dollars

As at		December 31, 2019		December 31, 2018
Assets				
Cash and cash equivalents	**$**	**268,193**	$	278,400
Restricted cash [Note 14.4, 15]		**623,007**		450,437
Trade and other receivables [Note 9.3, 15]		**295,427**		275,088
Other current assets [Note 8.1, 9.1]		**44,521**		39,675
Derivative assets [Note 17.2]		**47,637**		8,187
Total current assets	**$**	**1,278,785**	$	1,051,787
Property, plant and equipment [Note 5, 8.2, 20]		**8,072,519**		8,105,845
Contracts and other intangible assets [Note 6]		**521,050**		581,097
Goodwill [Note 7]		**204,942**		204,942
Finance lease receivable [Note 8.1]		**140,724**		144,889
Derivative assets [Note 17.2]		**33,604**		6,502
Long-term deposits [Note 9.2]		**66,332**		56,845
Deferred tax asset [Note 21]		**50,812**		56,156
Other assets [Note 9.3, 15]		**109,900**		127,887
Total assets	**$**	**10,478,668**	$	10,335,950
Liabilities and equity				
Trade and other payables	**$**	**193,160**	$	197,828
Interest-bearing loans and borrowings [Note 11]		**567,936**		428,570
Subscription receipts [Note 14.4]		**339,181**		—
Convertible debentures [Note 12.2]		**150,102**		—
Dividends payable		**18,044**		18,713
Derivative liabilities [Note 17.2]		**129,572**		136,464
Total current liabilities	**$**	**1,397,995**	$	781,575
Interest-bearing loans and borrowings [Note 11]		**6,325,291**		6,583,002
Corporate credit facilities [Note 12.1]		**171,384**		309,274
Convertible debentures [Note 12.2]		**—**		153,969
Provisions and other liabilities [Note 2.3, 8.2, 13]		**439,767**		316,421
Derivative liabilities [Note 17.2]		**390,441**		415,382
Deferred tax liability [Note 21]		**243,038**		235,705
Total liabilities	**$**	**8,967,916**	$	8,795,328
Equity				
Common and Class A shares [Note 14.1]	**$**	**2,443,209**	$	2,438,036
Preferred shares [Note 14.2]		**260,880**		260,880
Contributed surplus		**351**		326
Accumulated other comprehensive loss		**(174,597)**		(68,659)
Deficit		**(1,466,235)**		(1,558,875)
Equity attributable to shareholders		**1,063,608**		1,071,708
Non-controlling interests [Note 15]		**447,144**		468,914
Total equity		**1,510,752**		1,540,622
Total liabilities and equity	**$**	**10,478,668**	$	10,335,950

See accompanying notes.

(signed, John W. Brace)
John W. Brace
Director and Chair of the Board

(signed, Russell Goodman)
Russell Goodman
Director and Chair of the Audit Committee

NORTHLAND POWER

Consolidated Statements of Income (Loss)

In thousands of Canadian dollars except per Share and Share information

		Year ended December 31,		
		2019		2018
Sales	**$**	**1,658,977**	$	1,555,587
Cost of sales		**116,288**		114,221
Gross profit	**$**	**1,542,689**	$	1,441,366
Expenses				
Operating costs		**214,176**		226,295
General and administrative costs - operations		**46,629**		46,874
General and administrative costs - development		**44,200**		33,332
Depreciation of property, plant and equipment [Note 5, 8.2]		**438,804**		415,161
Total expenses	**$**	**743,809**	$	721,662
Investment income		**2,466**		484
Finance lease income [Note 8.1]		**12,354**		12,660
Operating income	**$**	**813,700**	$	732,848
Finance costs, net [Note 19]		**331,168**		337,434
Amortization of contracts and other intangible assets [Note 6]		**24,848**		19,116
Impairment of property, plant and equipment [Note 20]		**97,782**		—
Foreign exchange (gain) loss		**5,177**		(11,373)
Fair value (gain) loss on derivative contracts [Note 17.2]		**(161,356)**		(87,624)
Other (income) expense [Note 17.1, 24.2]		**(14,400)**		(13,834)
Income (loss) before income taxes	**$**	**530,481**	$	489,129
Provision for (recovery of) income taxes [Note 21]				
Current		**49,236**		40,919
Deferred		**29,491**		42,702
Total income taxes		**78,727**		83,621
Net income (loss)	**$**	**451,754**	$	405,508
Net income (loss) attributable to:				
Non-controlling interests [Note 15]		**130,990**		127,378
Common shareholders		**320,764**		278,130
Net income (loss)	**$**	**451,754**	$	405,508
Weighted average number of Shares outstanding - basic (000s) [Note 18]		**180,322**		177,757
Weighted average number of Shares outstanding - diluted (000s) [Note 18]		**187,625**		189,593
Net income (loss) per share - basic [Note 18]	**$**	**1.71**	$	1.50
Net income (loss) per share - diluted [Note 18]	**$**	**1.68**	$	1.46

See accompanying notes.

Consolidated Statements of Comprehensive Income (Loss)

In thousands of Canadian dollars

		Year ended December 31,		
		2019		**2018**
Net income (loss)	**$**	**451,754**	$	405,508
Items that may be re-classified into net income (loss):				
Exchange rate differences on translation of foreign operations		**(87,408)**		40,284
Change in fair value of hedged derivative contracts [Note 17]		**(88,677)**		(128,340)
Deferred tax recovery (expense) [Note 21]		**16,814**		27,086
Other comprehensive income (loss)	**$**	**(159,271)**	$	(60,970)
Total comprehensive income (loss)	**$**	**292,483**	$	344,538
Total comprehensive income (loss) attributable to:				
Non-controlling interests [Note 15]		**77,657**		114,709
Common shareholders		**214,826**		229,829
Total comprehensive income (loss)	**$**	**292,483**	$	344,538

See accompanying notes.

Consolidated Statements of Changes in Equity

In thousands of Canadian dollars

	Common and Class A shares	Preferred shares	Deficit	Contributed surplus	Accumulated other comprehensive income (loss)	Equity attributable to shareholders'	Non-controlling interests	Total equity
December 31, 2018	$ 2,438,036	$ 260,880	$ (1,558,875)	$ 326	$ (68,659)	**$ 1,071,708**	$ 468,914	**$ 1,540,622**
Net income (loss)	—	—	320,764	—	—	**320,764**	130,990	**451,754**
Deferred income taxes [Note 21]	—	—	—	—	16,065	**16,065**	749	**16,814**
Change in translation of net investment in foreign operations	—	—	—	—	(69,230)	**(69,230)**	(18,178)	**(87,408)**
Change in fair value of hedged derivative contracts [Note 17.2]	—	—	—	—	(52,773)	**(52,773)**	(35,904)	**(88,677)**
Deferred rights [Note 14.1]	—	—	—	25	—	**25**	—	**25**
Common and Class A share and non-controlling interest dividends declared [Note 14.3, 15]	—	—	(216,396)	—	—	**(216,396)**	(99,427)	**(315,823)**
Preferred share dividends [Note 14.2]	—	—	(11,728)	—	—	**(11,728)**	—	**(11,728)**
Conversion of debentures [Note 14.1]	5,173	—	—	—	—	**5,173**	—	**5,173**
December 31, 2019	**$ 2,443,209**	**$ 260,880**	**$ (1,466,235)**	**$ 351**	**$ (174,597)**	**$ 1,063,608**	**$ 447,144**	**$ 1,510,752**

See accompanying notes.

Consolidated Statements of Changes in Equity - continued

In thousands of Canadian dollars

	Common and Class A shares	Preferred shares	Long-Term Incentive Plan reserve	Deficit	Contributed surplus	Accumulated other comprehensive income (loss)	Equity attributable to shareholders'	Non-controlling interests	Total equity
December 31, 2017	$ 2,335,892	$ 260,880	$ 8,872	$ (1,640,041)	$ 582	$ (20,358)	**$ 945,827**	$ 512,058	**$ 1,457,885**
Net income (loss)	—	—	—	278,130	—	—	**278,130**	127,378	**405,508**
Deferred income taxes [Note 21]	(647)	—	—	—	—	26,394	**25,747**	692	**26,439**
Change in translation of net investment in foreign operations	—	—	—	—	—	32,214	**32,214**	8,070	**40,284**
Change in fair value of hedged derivative contracts [Note 17.2]	—	—	—	—	—	(106,909)	**(106,909)**	(21,431)	**(128,340)**
LTIP shares and deferred rights [Note 14.1]	583	—	(6,722)	—	(256)	—	**(6,395)**	—	**(6,395)**
Disposal of non-controlling interest [Note 15]	—	—	—	26,943	—	—	**26,943**	(26,943)	**—**
Common and Class A share and non-controlling interest dividends declared [Note 14.1, 14.3, 15]	47,611	—	—	(212,353)	—	—	**(164,742)**	(130,910)	**(295,652)**
Preferred share dividends [Note 14.2]	—	—	—	(11,554)	—	—	**(11,554)**	—	**(11,554)**
Conversion of debentures [Note 14.1]	54,597	—	—	—	—	—	**54,597**	—	**54,597**
Transfer of LTIP reserve to liabilities	—	—	(2,150)	—	—	—	**(2,150)**	—	**(2,150)**
December 31, 2018	**$ 2,438,036**	**$ 260,880**	**$ —**	**$ (1,558,875)**	**$ 326**	**$ (68,659)**	**$ 1,071,708**	**$ 468,914**	**$ 1,540,622**

See accompanying notes.

NORTHLAND POWER

Consolidated Statements of Cash Flows

In thousands of Canadian dollars

		Year ended December 31,		
		2019		**2018**
Operating activities				
Net income (loss)	**$**	**451,754**	$	405,508
Items not involving cash or operations:				
Depreciation of property, plant and equipment [Note 5]		**438,804**		415,161
Amortization of contracts and other intangibles [Note 6]		**24,848**		19,116
Impairment of property, plant and equipment [Note 20]		**97,782**		—
Finance costs, net		**328,572**		343,517
Fair value (gain) loss on derivative contracts [Note 17.2]		**(161,356)**		(87,624)
Finance lease [Note 8.1]		**3,834**		3,528
Unrealized foreign exchange (gain) loss		**5,177**		(11,373)
Loss (gain) on sale of assets [Note 5]		**723**		(5,739)
Deferred tax expense (recovery) [Note 21]		**29,491**		42,702
Other		**(12,311)**		(8,885)
	$	**1,207,318**	$	1,115,911
Net change in working capital related to operations		**17,097**		17,973
Cash provided by operating activities	**$**	**1,224,415**	$	1,133,884
Investing activities				
Purchase of property, plant and equipment [Note 5]		**(766,038)**		(396,889)
Acquisitions, net [Note 4.1]		**(2,507)**		(4,086)
Restricted cash utilization (funding)		**58,104**		(46,617)
Interest received		**3,606**		3,461
Other		**4,466**		16,317
Net change in working capital related to investing activities		**(55,626)**		(161,278)
Cash used in investing activities	**$**	**(757,995)**	$	(589,092)
Financing activities				
Proceeds from borrowings, net of transaction costs [Note 11]		**1,194,927**		1,142,608
Repayment of borrowings [Note 11, 12]		**(1,118,804)**		(1,203,720)
Interest paid		**(292,326)**		(317,586)
Restricted cash utilization (funding)		**80,410**		3,135
Lease principal payments		**(6,211)**		—
Common and Class A share dividends [Note 14.3]		**(216,373)**		(163,605)
Dividends to non-controlling interests [Note 15]		**(99,427)**		(130,913)
Preferred share dividends [Note 14.2]		**(11,728)**		(11,554)
Other		**(1,570)**		3,320
Cash (used in) provided by financing activities	**$**	**(471,102)**	$	(678,315)
Effect of exchange rate differences on cash and cash equivalents		**(5,525)**		11,350
Net change in cash and cash equivalents during the year		**(10,207)**		(122,173)
Cash and cash equivalents, beginning of year		**278,400**		400,573
Cash and cash equivalents, end of year	**$**	**268,193**	$	278,400

See accompanying notes.

Notes to the Consolidated Financial Statements

1. Description of Northland's Business

Northland Power Inc. (“**Northland**”) owns or holds net economic interests, through its subsidiaries, in operating power-producing facilities and in projects under construction or in development phases. Northland’s operating 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 to provide stable cash flow. Northland’s operating assets and investments are primarily located in Canada, Germany and the Netherlands. Northland’s significant assets under construction are located in Germany and Mexico. Subsequent to December 31, 2019, Northland acquired Empresa de Energía de Boyacá (**EBSA**), a regulated utility with operations in Colombia.

Northland is incorporated under the laws of Ontario, Canada with common shares (“**Shares**”), subscription receipts (“**Subscription Receipts**”), Series 1 cumulative rate reset preferred shares (“**Series 1 Preferred Shares**”), Series 2 cumulative floating rate preferred shares (“**Series 2 Preferred Shares**”), Series 3 cumulative rate reset preferred shares (“**Series 3 Preferred Shares**”) and Series C convertible unsecured subordinated debentures (“**2020 Debentures**”) that are publicly traded on the Toronto Stock Exchange (“**TSX**”). Northland is the parent company for the operating subsidiaries that carry on Northland’s business. Northland’s registered office is located in Toronto, Ontario.

These audited consolidated financial statements (“**Consolidated Financial Statements**”) include the results of Northland and its subsidiaries, of which the most significant are listed in the following table:

	Geographic region (1)	% voting ownership as at Dec. 31, 2019 (2)
Offshore Wind		
Buitengaats C.V. and ZeeEnergie C.V. (“**Gemini**”)	The Netherlands	60.0%
Nordsee One GmbH (“**Nordsee One**”)	Germany	85.0%
Northland Deutsche Bucht GmbH (“**Deutsche Bucht**”)	Germany	100.0%
Thermal		
Iroquois Falls Power Corp. (“**Iroquois Falls**”)	Ontario, Canada	100.0%
Kingston CoGen Limited Partnership (“**Kingston**”)	Ontario, Canada	100.0%
Kirkland Lake Power Corp. (“**Kirkland Lake**”) (3)	Ontario, Canada	100.0%
North Battleford Power L.P. (“**North Battleford**”)	Saskatchewan, Canada	100.0%
Spy Hill Power L.P. (“**Spy Hill**”)	Saskatchewan, Canada	100.0%
Thorold CoGen L.P. (“**Thorold**”)	Ontario, Canada	100.0%
On-shore Renewable		
Four solar facilities (“**Cochrane Solar**”)	Ontario, Canada	62.5%
Grand Bend Wind L.P. (“**Grand Bend**”)	Ontario, Canada	50.0%
Saint-Ulric Saint-Léandre Wind L.P. (“**Jardin**”)	Québec, Canada	100.0%
McLean’s Mountain Wind L.P. (“**McLean’s**”)	Ontario, Canada	50.0%
Mont-Louis Wind L.P. (“**Mont Louis**”)	Québec, Canada	100.0%
Nine solar facilities (“**Solar**”)	Ontario, Canada	100.0%
NP Energia La Lucha SA de CV (“**La Lucha**”)	Mexico	100.0%

(1) Geographic region corresponds to place of incorporation or, in the case of partnerships, registration, for all entities listed except North Battleford and Spy Hill, which are registered in Ontario, Canada.

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

(3) Northland holds a 68% controlling interest in Canadian Environmental Energy Corporation (CEEC), which holds 100% of the voting shares of Kirkland Lake. Northland's effective net economic interest in Kirkland Lake is approximately 77%.

2. Significant Accounting Policies and Changes

2.1 Basis of Preparation and Statement of Compliance

These consolidated financial statements of Northland and its subsidiaries were prepared in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**) and are presented in Canadian dollars. All values are presented in thousands except when otherwise indicated. The comparative audited consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2019 consolidated financial statements.

The Consolidated Financial Statements for the year ended December 31, 2019 were approved by the Board of Directors on February 25, 2020.

2.2 Basis of Consolidation

The Consolidated Financial Statements comprise the financial statements of Northland and its subsidiaries at and for the year ended December 31, 2019. Subsidiaries are fully consolidated on the date that Northland obtains control and continue to be consolidated until the date that such control ceases. Control is achieved when Northland is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Northland reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated balance sheets and consolidated statements of income (loss) from the date Northland gains control until the date control ceases. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

2.3 Change in Accounting Policies

In 2016, the International Accounting Standards Board (**IASB**) replaced IAS 17, "Leases" ("**IAS 17**"), IFRIC 4, "Determining Whether an Arrangement Contains a Lease" ("**IFRIC 4**"), SIC-15, "Operating Leases - Incentives", and SIC-27, "Evaluating the Substance of Transactions Involving the Legal Form of a Lease" with a new accounting standard, IFRS 16, "Leases" ("**IFRS 16**"), which sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model. At the commencement date of a lease, a lessee recognizes a liability to make lease payments and an asset representing the right to use the underlying asset. The standard includes two recognition exemptions — leases of "low-value" assets and short-term leases (i.e. leases with a lease term of 12 months or less). Lessees will be required to recognize an interest expense element on the lease liability and a depreciation expense on the lease right-of-use (**ROU**) asset. Upon the occurrence of certain events, such as a change in the lease term or a change in future lease payments resulting from a change in an index or rate, the lessee is required to remeasure the lease liability and will generally recognize the impact as an adjustment to the lease ROU asset. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

Initial application of IFRS 16

Northland applied IFRS 16 from January 1, 2019 using the modified retrospective approach. Accordingly, comparative information was not restated. Northland elected to utilize practical expedients available under the modified retrospective approach in order to:

- Not reassess whether a contract is, or contains, a lease at the date of initial application, resulting in Northland only applying IFRS 16 to existing contracts previously identified as leases under IAS 17 and IFRIC 4;
- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- Not apply the requirements of IFRS 16 to short-term leases and leases for which the underlying asset is of low value.

Under the selected transition approach, lessees previously classified as finance leases under IAS 17, carry forward at the existing balance of assets and liabilities prior to initial application.

For lessees previously classified as operating leases under IAS 17, Northland recognized a lease liability under IFRS 16 equal to the present value of remaining lease payments discounted at the lessee's incremental borrowing rate and chose to recognize a lease ROU asset in an amount equal to the lease liability. As at January 1, 2019, Northland recognized an increase in lease assets and liabilities of $60 million on the consolidated balance sheets. The lease ROU asset balance is included in "property, plant and equipment" in the consolidated balance sheets. The long-term portion of the lease liability balance is included in "provisions and other liabilities" and the current portion is included in "trade and other payables" in the consolidated balance sheets.

The table below reconciles the lease commitments disclosed in the 2018 audited annual consolidated financial statements to the lease liability recognized on January 1, 2019:

Lease commitments disclosed as at December 31, 2018	**$**	**90,422**
Less: Variable lease payments		(11,439)
Less: Application of IFRS 16 policy for payment measurement and lease term (1)		(5,626)
Add/(less): Other adjustments (2)		4,972
		78,329
Discounted using the weighted average lessee's incremental borrowing rate of 3.40%		(18,661)
Lease liability recognized as at January 1, 2019	**$**	**59,668**

(1) Includes adjustments for consumer price index escalation considered in commitments but treated as a change in future lease payments and remeasurement of the lease liability when incurred under IFRS 16, partially offset by additional payments expected from reasonably certain renewals.

(2) Includes adjustments for short-term and low-value leases, commitments that do not meet the definition of a lease under IFRS 16 and commitments related to leases previously classified as finance leases.

As a result of initial adoption of IFRS 16, general and administrative (**G&A**) and operating costs decreased while depreciation expense and finance costs increased on the consolidated statements of income (loss). Refer to Note 2.7 for details on lease accounting policies.

2.4 Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given and equity instruments issued, less the fair value of the liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition, irrespective of the extent of any minority interest. The acquired business's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" are recognized at their fair values at the acquisition date, except for (i) income taxes, which are measured in accordance with IAS 12, "Income Taxes"; (ii) share-based payments, which are measured in accordance with IFRS 2, "Share-based Payment"; and (iii) non-current assets that are classified as held for sale, which are measured at fair value less costs to sell in accordance with IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations." Northland did not designate any assets as held for sale in 2019.

Goodwill is initially measured at cost, being the excess of the purchase price over Northland's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the purchase price of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Northland's cash-generating units (**CGUs**) that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

2.5 Property, Plant and Equipment

Property, plant and equipment (**PP&E**) are recorded at cost, net of accumulated depreciation and any accumulated impairment losses. The cost of PP&E includes the cost of replacing part of the PP&E and borrowing costs for long-term construction projects, if the recognition criteria are met. Likewise, when a major overhaul as described below is performed, its cost is recognized in the carrying amount of the related PP&E as a replacement if the recognition criteria are met. All other repair and maintenance costs are recognized in profit and loss as incurred. The present value of the expected cost for decommissioning is included in the cost of the related asset if the recognition criteria for a provision are met. See Note 2.10 for further information about the measurement of the decommissioning liabilities.

Depreciation is recorded on a straight-line basis at rates designed to amortize the cost of PP&E over its estimated useful lives as follows:

Plant and operating equipment	10 to 30 years
Buildings and foundations	20 to 40 years
Lease ROU asset	1 to 34 years
Leasehold improvements	Over the term of the lease
Other equipment - Vehicles and meteorological towers	5 years
Other equipment - Office equipment, furniture and fixtures	5 years
Other equipment - Computers and computer software	2 years

In general, Northland expects to use its PP&E to their full useful lives and considers residual values, where appropriate, in calculating depreciation.

Assets included in construction-in-progress (**CIP**) are transferred to the appropriate PP&E category and amortized once the assets are available for use, such as when the test period ends and the PP&E begins commercial operations.

The costs of all maintenance provided under long-term, fixed-price contracts are charged to the consolidated statements of income (loss) based on the terms of the contract. All major overhaul expenditures that are not incurred under long-term maintenance contracts are capitalized and amortized over the average expected period between major overhauls.

An item of PP&E is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit and loss in the year the asset is derecognized.

Government grants related to the construction of capital assets are recorded as a reduction to the cost of the related asset and amortized over the useful life of the related asset.

2.6 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, other than deferred development costs, are not capitalized, and the expenditure is reflected in profit and loss.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates and adjusted prospectively.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit and loss when the asset is derecognized.

Development costs

Development expenditures on an individual project are capitalized when Northland can demonstrate:

- The technical feasibility of completing the project so that it will be available for use or sale;
- The intention to complete, and ability to use or sell, the project;
- The project will generate future economic benefits;
- The availability of resources to complete the project; and
- The ability to measure reliably the expenditures during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied, requiring the asset to be carried at cost less any impairment losses. During the period of development, the asset is tested for impairment annually or more often if any indicators exist.

Deferred development costs include pre-construction costs directly related to new projects. Deferral begins once it is determined by management that a given project has a high likelihood of being pursued through to completion. Costs are deferred up to the closing of project financing and/or the start of construction, at which time they are reclassified to the cost of PP&E or recorded as intangible assets, as appropriate. All indirect research and development costs not eligible for capitalization are expensed and are recognized in “general and administrative costs - development”.

Contracts

Contracts relate primarily to the fair value of PPAs and management agreements when they were acquired by Northland and are recorded net of accumulated amortization. Contract amortization is recorded on a straight-line basis over the term of the agreement.

2.7 Leases or Arrangements Containing a Lease

The sections below outline Northland's accounting policies for leases up to December 31, 2018 under IAS 17 and from January 1, 2019 onwards under IFRS 16. The adoption of IFRS 16 and associated impact on the Consolidated Financial Statements is explained in Note 2.3.

Lessee accounting under IFRS 16

At the inception of a contract, Northland assesses whether the contract is, or contains, a lease that conveys to Northland the right to control the use of an underlying asset in return for payment. If the contract meets the definition of a lease, a lease liability is recognized in an amount equal to the present value of the unpaid lease payments discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used. Lease payments include: (i) all fixed payments; (ii) variable payments that depend on an index or rate; and (iii) any purchase option or termination penalty reasonably certain to be incurred. A lease ROU asset is recognized in amount equal to the lease liability less any lease incentives received and plus: (i) any payments made prior to the start of the lease; (ii) any initial direct costs incurred; and (iii) an estimate of the cost to restore the asset as required by the lease contract.

Northland remeasures the lease liability in response to changes in future lease payments, such as consumer price index (**CPI**) escalations or changes in lease term, adjusting the lease asset by an equivalent amount.

Northland applies the cost model to subsequently measure lease ROU assets and applies the same impairment policy as other PP&E. Lease ROU assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. The lease term includes any renewal or termination Northland is reasonably certain to exercise. In the case of land leased for future development, Northland assumes an initial lease term of 5 years. Where leased assets are required for the operation of the facility, Northland assumes the lease will be renewed to match the term of the facility's PPA. Northland reassesses the lease term in response to significant events or changes in circumstances. If a lease transfers ownership of the underlying asset or Northland expects to exercise a purchase option, the related ROU asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Lessor accounting under IFRS 16 and IAS 17

Northland enters into PPAs to provide electricity and electricity-related products at predetermined prices. At inception of the contract, Northland assesses whether it is, or contains, a lease that conveys to the counterparty the right to control the use of Northland's PP&E in return for payment. If the PPA meets the definition of a lease and the terms of the contract do not transfer substantially all of the benefits and risks of ownership of PP&E, it is classified as an operating lease. Where the terms do transfer substantially all of the benefits and risks of ownership, it is classified as a finance lease.

Finance lease receivables are initially recognized at amounts equal to the present value of the net investment in the lease. Finance lease income is recognized in a manner that produces a constant rate of return on Northland's net investment in the lease and is included in operating income.

At the commencement of the lease, which generally coincides with start of commercial operations of the facility, Northland separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

2.8 Impairment of Non-financial Assets

Northland assesses at each reporting date whether there is an indication that an asset may be impaired or that previously recognized impairment losses may no longer exist or have decreased. If any indication exists or when annual impairment testing for an asset is required, Northland estimates the asset's or CGU's recoverable amount. The estimated recoverable amount is the higher of (i) an asset's or CGU's estimated fair value less costs to sell or (ii) its value in use. Where the carrying amount of an asset or CGU exceeds its estimated recoverable amount, the asset is considered impaired and is written down to its estimated recoverable amount. When the recoverable amount exceeds the carrying amount for an asset or CGU previously impaired, the reversal is limited to ensure the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment been previously recognized.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and risk specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used and calculations are corroborated by valuation multiples or other available fair value indicators.

Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount for each CGU to which the goodwill relates. Where the estimated recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

2.9 Inventories

Inventories comprise natural gas, spare parts and other inventory. Inventory is carried at the lower of cost or net realizable value. The cost of natural gas inventory is determined on a weighted average basis.

2.10 Provisions

General

Provisions are recognized when Northland has a present obligation (legal or constructive) as a result of a past event and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where Northland expects some or all of a provision to be reimbursed (for example, under an insurance policy or warranty agreement), the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit and loss net of any reimbursement.

Decommissioning liabilities

Provisions for decommissioning costs are recorded at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of the related asset. The cash flows are discounted at a current pre-tax rate. Where the estimated cash flows reflect the risks specific to the decommissioning liability, a risk-free discount rate is used; otherwise, a discount rate reflective of the risks specific to the decommissioning liability is used. The unwinding of the discount is expensed as incurred and recognized in the consolidated statements of income (loss) as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

2.11 Class A Shares

As part of the consideration for the 2009 merger between the then privately held Northland Power Inc. and the publicly traded Northland Power Income Fund (the "**Merger**"), Class A Units were issued that became Class A Shares upon corporatization of Northland Power Income Fund on January 1, 2011. The Class A Shares are recorded in equity and are included in the calculation of basic net income (loss) per share.

The Class A Shares are entitled to dividends on the same basis as Shares and are convertible into Shares on a one-for-one basis.

2.12 Share-Based Payments

As part of Northland's Long-Term Incentive Plan (**LTIP**), Northland provides share-based compensation to management and certain employees when projects achieve predetermined milestones ("**Development LTIP**") or to recognize achievements, attract and retain executives ("**Deferred Rights**"). Northland has the option to settle the LTIP in shares or in cash. The fair value of the awards is based on the grant date share price and, to the extent that services are provided in advance of the grant date, Northland's reporting date share price. The estimated forfeiture rate reflects the Shares that will vest upon achieving project milestone and is revised if there is any indication that the number of Shares expected to vest has changed. For Development LTIP awards, the cost of the LTIP Shares awarded is recognized over the estimated vesting period and is capitalized for employees providing services directly involved in the development and construction of the project. The awards vest when the associated project meets established performance expectations. For Deferred Rights awards, the cost of LTIP Shares awarded is expensed over the estimated vesting period.

2.13 Cash and Cash Equivalents and Restricted Cash

Cash equivalents comprise only highly liquid investments with maturities of less than 90 days. Restricted cash comprises amounts contractually restricted for specific uses including amounts funded against future maintenance, debt service and construction costs at certain Northland subsidiaries. As at December 31, 2019, restricted cash included proceeds from the subscription receipts held in escrow. See Note 14.4 for details.

2.14 Financial Instruments

(a) Financial assets

Regular purchases and sales of financial assets are recognized on the trade date, being the date on which Northland commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and Northland has transferred substantially all the risks and rewards of ownership.

At initial recognition, Northland measures a financial asset at its fair value. In the case of a financial asset not categorized as fair value through profit and loss (**FVPL**), transaction costs that are directly attributable to the acquisition of the financial asset are included in measurement at initial recognition. Transaction costs of financial assets carried at FVPL are expensed in profit and loss.

Subsequent measurement depends on Northland's business objective for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which Northland classifies its financial assets:

- Amortized cost - Assets held for collection of contractual cash flows that represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment is recognized in profit and loss when the asset is derecognized or impaired. Interest income from these financial assets is included in "finance costs, net" using the effective interest rate method. Cash and cash equivalents, restricted cash, trade and other receivables and long-term deposits are included in this category.
- Fair value through profit and loss - Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income (**FVOCI**) are measured at FVPL. A gain or loss on a financial asset measured at FVPL that is not part of a hedging relationship is recognized in profit and loss and presented on a net basis in the period in which it arises. For derivative financial assets, gains and losses are shown within "fair value (gain) loss on derivative contracts". Northland classifies loans provided to First Nations partners (Note 15) at FVPL due to the fact that they do not meet the criteria for classification as amortized cost because the contractual cash flows are not solely payments of principal and interest. This is the only non-derivative financial asset measured at FVPL and related gains and losses are shown within "other (income) expense" in the consolidated statements of income (loss). Interest income from FVPL financial assets is included in "investment income".

A third category, FVOCI, is available; however, Northland has not classified any financial assets in this category.

Northland accounts for impairment of financial assets based on a forward-looking expected credit loss (**ECL**) approach. ECL are measured as the difference in the present value of the contractual cash flows due to Northland under the contract and the cash flows that Northland expects to receive. Northland assesses all information available, including past due status, credit ratings, the existence of third-party insurance and forward-looking macro-economic factors in the measurement of the ECL associated with its assets carried at amortized cost and FVOCI. Northland measures ECL by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Impairment of cash and cash equivalents and restricted cash is evaluated by reference to the credit quality of the underlying financial institution or investee.

Trade receivables are reviewed qualitatively on a case-by-case basis to determine if impairment exists.

(b) Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit and loss, amortized cost, or derivatives designated as hedging instruments in an effective hedge. Northland determines the classification of its financial liabilities at initial recognition. Northland's financial liabilities include trade and other payables, dividends payable, interest-bearing loans and borrowings, corporate credit facilities, convertible debentures and derivative liabilities. Financial liabilities are initially measured at fair value, with subsequent measurement determined based on their classification as follows:

- Fair value through profit and loss - Financial liabilities held for trading, such as those acquired for the purpose of selling in the near term, and derivative financial instruments entered into by Northland that do not meet hedge accounting criteria are classified as fair value through profit and loss. Gains or losses on this type of liabilities are recognized in profit and loss.
- Amortized cost - All other financial liabilities are classified as amortized cost using the effective interest rate method. Gains and losses are recognized in profit and loss when the liabilities are derecognized as well as through the amortization process. Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. This category includes trade and other payables, dividends payable, interest-bearing loans and borrowings, corporate credit facilities, convertible debentures and subscription receipts.

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheets if and only if there is a currently enforceable legal right to offset the recognized amounts and an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The individual derivative financial instruments, that a subsidiary enters into, will not be realized or settled simultaneously, and therefore derivative assets and derivative liabilities are not offset on the consolidated balance sheets.

(d) Fair value of financial instruments

Northland determines the fair value of its financial instruments at each balance sheet date based on the following hierarchy:

- Level 1 - Where financial instruments are traded in an active financial market, fair value is established by reference to the appropriate quoted market price at the reporting date. Active markets are those in which transactions occur with significant frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - If there is no active market, fair value is established using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable market data where possible, including recent arm's-length market transactions, and comparisons to the current fair value of similar instruments; but where this is not feasible, inputs such as liquidity risk, counterparty risk and volatility are used.
- Level 3 - Valuations at this level are those with inputs that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment; any changes in assumptions may affect the reported fair value of financial instruments.

The fair value of derivative financial instruments reflects the estimated amount that Northland would have been required to pay if forced to settle all unfavourable outstanding contracts or the amount that would be received if forced to settle all favourable contracts at year-end. The fair value represents a point-in-time estimate that may not be relevant in predicting Northland's future earnings or cash flows.

(e) Derivatives and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

Northland elected to apply hedge accounting to qualifying derivative instruments from January 1, 2017 onwards. Northland designates its derivatives as hedges of:

- Foreign exchange risk associated with the cash flows of highly probable forecast transactions (cash flow hedges);
- Foreign exchange risk associated with net investment in foreign operations (net investment hedges);
- Floating interest rate risk associated with payments of debts (cash flow hedges); and
- Commodity risk associated with payments under PPAs (cash flow hedges).

The fair values of various derivative financial instruments used for hedging purposes and movements in the hedge reserve within equity are shown in Note 17.

When a hedging instrument expires, is sold, is terminated, or no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging are immediately reclassified to profit and loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit and loss at the time of the hedge relationship rebalancing.

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income (**OCI)** and accumulated in reserves in equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit and loss, within “fair value (gain) loss on derivative contracts”.

Gains and losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the cash flow hedge reserve within equity. Amounts accumulated in equity are reclassified in the period when the hedged item affects profit and loss.

Net investment hedges that qualify for hedge accounting

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in OCI and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit and loss within “fair value (gain) loss on derivative contracts”. Gains and losses accumulated in equity will be reclassified to profit and loss when the foreign operation is partially disposed of or sold.

Hedge ineffectiveness

Northland’s hedging policy only allows for the use of derivative instruments that form effective hedge relationships. Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. Except for the hedge relationships designated at January 1, 2017, Northland enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, Northland uses the hypothetical derivative method to assess effectiveness.

2.15 Revenue Recognition

Revenue is recognized over time as electricity and related products are delivered. Each of Northland’s PPAs contain a distinct performance obligation for the delivery of electricity, delivery of capacity (i.e. availability of generation), or a combination of the two. Determining what goods or services promised to the customer constitute a distinct performance obligation requires significant judgment. Northland considered all goods and services promised in its PPA contracts and determined that while certain promises do have stand alone value to the customer, they are not distinct in the context of the contract. Refer to Note 22 for details on revenue streams disaggregated by technology and geography.

Northland views each megawatt hour (**MWh**) of electricity and/or capacity delivered to be a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer as measured using an output method. The amount that Northland has a right to bill the customer reflects the pattern of transfer and value of the completed performance to the customer. As a result, Northland applies the “right to invoice” practical expedient under IFRS 15, “Revenue from Contracts with Customers”, to measure and recognize revenue.

Payments to customers are recorded as an expense when the payments relate to a separate good or service provided by the customer and recorded as a reduction in revenue when the payments relate to Northland’s performance obligations under the contract (e.g. liquidated damages penalties).

Other sources of revenue

Revenue from the sale of electricity at facilities under development and included in CIP is recorded as an offset to PP&E until certain operational testing requirements are satisfied.

Northland recognizes management fees and operations-related incentive fees as earned based on the terms of its respective facility agreements as work is performed.

Interest and investment income

Interest and investment income are recognized as earned in accordance with the terms of the underlying financial contracts. Interest income earned on third-party loans is included in "investment income" while interest income earned on cash and cash equivalents balances is included in "finance costs, net" in the consolidated statements of income (loss).

2.16 Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset that takes a substantial period of time to prepare for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

2.17 Taxes

Current income tax

Income tax assets and liabilities are measured at the amount expected to be recovered from or paid to tax authorities. Tax rates and tax laws that are enacted or substantively enacted at the reporting date are used in the computations.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of income (loss).

Deferred income tax

Deferred income tax is determined using the asset and liability method at the reporting date on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting income nor taxable income or loss; and
- Where the deferred income tax liability relates to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable income will be available against which the deductible temporary differences, carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting income nor taxable income or loss; and
- Where the deferred income tax asset relates to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in equity is recognized in equity not profit and loss.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to offset and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Sales taxes

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- Where receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from or payable to the taxation authority is included in the consolidated balance sheets.

2.18 Foreign Currency Translation

Northland's Consolidated Financial Statements are presented in Canadian dollars, which is Northland's functional currency. For each subsidiary, Northland determines the functional currency and measures items included in the financial statements of the subsidiary in that functional currency. The functional currency of Northland's significant subsidiaries reflects the primary economic environment in which each subsidiary operates and includes the Canadian dollar, euro and Mexican peso.

The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date and their consolidated statements of income (loss) are translated at the average exchange rate for each quarterly period. The exchange differences arising on the translation are recognized in accumulated OCI in equity. On disposal of a foreign operation, the cumulative amount recognized in equity relating to the foreign operation is recognized in profit and loss.

2.19 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 December 31, 2019, new and amended standards relevant to Northland that are issued, but not yet effective, up to the date of issuance of these financial statements are disclosed below.

Amendment to IFRS 3 "Business Combinations" ("IFRS 3")

In October 2019, the IASB issued narrow-scope amendments to IFRS 3, including revising the definition of a business and introducing an optional concentration test. The amendments are expected to assist companies in determining whether a transaction should be accounted for a business combination or an asset acquisition. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and applied prospectively. Northland has not early adopted these amendments. Following the adoption, Northland expects more transactions to be accounted for as asset acquisitions, resulting in less frequent recognition of goodwill.

3. Accounting Policy Judgments and Estimates

When preparing the Consolidated Financial Statements, Northland undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses and in applying accounting policies. The actual results are likely to differ from the judgments, estimates and assumptions and will seldom precisely equal the estimated results.

The significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

PP&E and intangible assets

PP&E and intangible assets are depreciated over their useful lives, taking into account estimated residual values, where appropriate. Residual values and useful lives are reviewed annually and adjusted prospectively, if appropriate. In assessing residual values, Northland considers the remaining life of the asset, its projected disposal value and future market conditions. Useful lives take into account factors such as technological innovation, maintenance programs, relevant market information and management considerations. Management judgment is also required when Northland acquires entities and must allocate the purchase price to the fair value of the assets and liabilities acquired, which includes PP&E and intangible assets. The carrying amounts of PP&E and intangible assets are analyzed in Notes 5 and 6, respectively.

Deferred development costs

Management monitors the progress of development projects in the prospecting, development and advanced development phases by using a project management system. Advanced development costs are recognized as an asset when it is determined by management that a given project has a high likelihood of being pursued through to completion, whereas prospecting and development phase project costs are expensed as incurred.

Determining which projects will continue to be pursued and when to begin deferring costs for advanced development phase projects requires judgment. Management reviews on a regular basis the feasibility of each project that is being developed and, should management determine that development of a particular project is no longer highly likely to be pursued to completion, the deferred costs are expensed in the period the determination is made.

Decommissioning liabilities

Northland's decommissioning liabilities relate to wind, solar and closed thermal facilities. Future remediation costs, whether required under contract or by law, are recognized based on best estimates. These estimates are calculated at completion of construction and reviewed annually or more often if there is reason to believe the estimate has changed. Cost estimates depend on labour costs, efficiency of site restoration and remediation measures, inflation rates and, where possible, risks specific to the liability. Estimates of pre-tax interest rates that reflect current market conditions, the time value of money and, where applicable, the risks specific to the liability also affect the liability. Northland estimates the timing of expenses, which may change depending on the viability of continuing operations. Expected future costs are inherently uncertain and could materially change over time. Subject to plant closures, Northland expects to use assets at the thermal facilities for an indefinite period due to continuing equipment overhauls and rights to the underlying land. As a result, management considers that a reasonable estimate of the fair value of any related decommissioning liability cannot be made until it is known that the facility will be closed. See Note 13 for additional details.

Accounting for investments in non-wholly owned subsidiaries

Northland exercises judgment in determining whether non-wholly owned subsidiaries are controlled by Northland. Northland's judgment included the determination of (i) how the relevant activities of the subsidiary are directed (either through voting rights or contracts); (ii) whether Northland's rights are substantive or protective in nature; and (iii) Northland's ability to influence the returns of the subsidiary. Where subsidiaries are subject to joint control, Northland applies judgment in determining whether its rights are to the net assets or individual assets and liabilities of the joint arrangement, which results in accounting for the subsidiary as a joint venture or joint operation, respectively. Refer to Note 4 for a summary of the acquisitions made in the year and subsequent to the year end as well as Note 15 for details on non-wholly owned subsidiaries.

Fair value of financial assets and financial liabilities

Where the fair values of financial assets and financial liabilities cannot be derived from active markets, they are determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of non-financial assets

Northland tests impairment of goodwill, other intangible assets and PP&E based on value-in-use calculations using a discounted cash flow model. The cash flows are derived from forecasts over the remaining useful lives of the assets of the CGUs, less an allocation of forecasted corporate costs. The estimated recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows. The key assumptions used to estimate the recoverable amount for the different CGUs are further explained in Note 20.

Income taxes

Preparation of the Consolidated Financial Statements requires an estimate of income taxes in each of the jurisdictions in which Northland operates. The process involves an estimate of Northland's current tax exposure and an assessment of temporary differences resulting from differing treatment of items such as depreciation and amortization for tax and accounting purposes. These differences result in deferred tax assets and liabilities that are included in Northland's consolidated balance sheets.

An assessment is also made to determine the likelihood that Northland's deferred income tax assets will be recovered from future taxable income.

Judgment is required to continually assess changing tax interpretations, regulations and legislation to ensure liabilities are complete and to ensure assets, net of valuation allowances, are realizable. The impact of different interpretations and applications could be material.

4. Acquisitions

4.1 Offshore Wind Development Joint Venture in Japan

In November 2019, Northland signed an agreement with Shizen Energy Inc. ("**Shizen Energy**") to jointly establish Chiba Offshore Wind Inc. ("**Chiba**") to develop early stage offshore wind development opportunities in Japan. The prospective projects have an expected combined capacity of approximately 600 MW. Northland and Shizen Energy intend to collaborate to further develop these and other opportunities. Northland and Shizen Energy jointly control Chiba. The joint arrangement is classified as a joint venture and accounted for under the equity method. Northland's investment in the joint venture is included in "other assets" on the consolidated balance sheets [Note 9.3]. For the year ended December 31, 2019, $1 million of expenses have been recorded in the consolidated statements of income (loss) in relation to the investment.

4.2 Acquisition of EBSA Regulated Utility

On January 14, 2020, Northland completed its previously announced acquisition of a 99.2% interest in the Colombian regulated utility, Empresa de Energía de Boyacá (**EBSA**)(the "**EBSA Acquisition**"). The EBSA Acquisition was subject to customary closing conditions, including the receipt of approval by the local regulator of EBSA's proposed tariff for the next regulatory period. Pursuant to the share purchase agreement, the purchase price was adjusted to COP 2,412 billion ($960 million) including existing debt of COP 550 billion (approximately $219 million) from COP 2,665 billion ($1.05 billion) based on the tariff resolution issued by the regulator in December 2019, and remains subject to post-closing adjustments to the purchase price following a review of the tariff resolution.

Due to the recent closing of the acquisition, the final fair value determination and purchase price accounting have not been completed for the EBSA Acquisition as of February 25, 2020. The final purchase price and fair values of the assets acquired and liabilities assumed is expected to be disclosed in the interim condensed consolidated financial statements for the three months ended March 31, 2020.

Consideration Transferred

The EBSA Acquisition initial purchase price was settled by transferring cash of $751 million funded through net proceeds from the completed Subscription Receipts offering, proceeds drawn under a fully committed bridge credit facility and Northland's existing credit facilities. The cash transferred reflects the purchase price less net indebtedness acquired and plus net cash acquired.

Transaction Costs

For the year ended December 31, 2019, $1 million of transaction costs related to the EBSA Acquisition are included in "general and administrative costs - development" in the consolidated statements of income (loss). No other material amounts of revenue or expenses were recorded in the consolidated statements of income (loss) for the year ended December 31, 2019 as a result of the acquisition. EBSA will be consolidated into Northland's financial statements effective January 14, 2020.

4.3 Acquisition of Offshore Wind Development Company in South Korea

On February 24, 2020, Northland announced the acquisition of Dado Ocean Wind Farm Co., Ltd ("**Dado Ocean**"), an offshore wind development company based in Korea with rights to multiple early-stage development sites off the southern coast of the Korean Peninsula.

NORTHLAND POWER

5. Property, Plant and Equipment

The following table illustrates movements in Northland's PP&E cost balance by category:

	Construction -in-progress	Plant and operating equipment	Land, buildings and leasehold improvements	Lease ROU asset	Other equipment (1)	Total
Cost						
January 1, 2018	$ 415,398	$ 7,089,049	$ 1,919,581	$ —	$ 23,142	$ 9,447,170
Additions	385,252	5,776	1,501	—	4,360	396,889
Foreign exchange	23,415	149,261	44,244	—	51	216,971
Provisions, disposals and other (2)	1,281	(60,924)	(6,638)	—	(230)	(66,511)
December 31, 2018	$ 825,346	$ 7,183,162	$ 1,958,688	$ —	$ 27,323	$ 9,994,519
Initial recognition of IFRS 16 [Note 2.3] (4)	**—**	**(1,980)**	**—**	**62,740**	**(1,092)**	**59,668**
Additions	**769,535**	**2,430**	**975**	**11,733**	**4,639**	**789,312**
Transfer from CIP	**(1,456,924)**	**1,327,135**	**128,958**	**—**	**831**	**—**
Foreign exchange	**(68,905)**	**(302,401)**	**(88,933)**	**(1,825)**	**(312)**	**(462,376)**
Pre-completion revenue (3)	**(11,541)**	**—**	**—**	**—**	**—**	**(11,541)**
Provisions, disposals and other (2)	**84,720**	**(2,874)**	**(13)**	**—**	**—**	**81,833**
Impairment [Note 20]	**(97,782)**	**—**	**—**	**—**	**—**	**(97,782)**
December 31, 2019	**$ 44,449**	**$ 8,205,472**	**$ 1,999,675**	**$ 72,648**	**$ 31,389**	**$ 10,353,633**

(1) Other equipment includes vehicles, meteorological towers, office equipment, furniture and fixtures, computers and computer software.

(2) Provisions, disposals and other for 2019 includes recognition of the decommissioning liability for Deutsche Bucht and amounts accrued net of amounts paid under the LTIP. Provisions, disposals and other for 2018 includes the sale of the Cochrane thermal facility, an adjustment to the decommissioning liability for Nordsee One, and amounts accrued net of amounts paid under the LTIP.

(3) Pre-completion revenue is netted against purchases in the consolidated statements of cash flows.

(4) Includes leases previously classified as finance leases for which a lease asset was recognized in the consolidated balance sheets at December 31, 2018 as well as leases for which a lease ROU asset was initially recognized on January 1, 2019 under IFRS 16.

Included in "Additions" above is $22 million (2018 - $25 million) of capitalized interest.

The following table illustrates movements in Northland's PP&E accumulated depreciation balance by category:

	Construction -in-progress	Plant and operating equipment	Land, buildings and leasehold improvements	Lease ROU asset	Other equipment [1]	Total
Accumulated depreciation						
January 1, 2018	$ —	$ 1,236,717	$ 259,868	$ —	$ 18,475	$ 1,515,060
Foreign exchange	—	13,480	3,969	—	29	17,478
Depreciation	—	317,502	95,103	—	2,556	415,161
Disposals	—	(57,192)	(1,493)	—	(340)	(59,025)
December 31, 2018	$ —	$ 1,510,507	$ 357,447	$ —	$ 20,720	$ 1,888,674
Initial recognition of IFRS 16 [Note 2.3] [2]	**—**	**(98)**	**—**	**264**	**(166)**	**—**
Foreign exchange	**—**	**(35,447)**	**(10,652)**	**(119)**	**(146)**	**(46,364)**
Depreciation	**—**	**338,558**	**91,035**	**6,986**	**2,225**	**438,804**
Disposals	**—**	**—**	**—**	**—**	**—**	**—**
December 31, 2019	**$ —**	**$ 1,813,520**	**$ 437,830**	**$ 7,131**	**$ 22,633**	**$ 2,281,114**
Net book value						
December 31, 2018	825,346	5,672,655	1,601,241	—	6,603	8,105,845
December 31, 2019	**$ 44,449**	**$ 6,391,952**	**$ 1,561,845**	**$ 65,517**	**$ 8,756**	**$ 8,072,519**

(1) Other equipment includes vehicles, meteorological towers, office equipment, furniture and fixtures, computers and computer software.

(2) Reflects leases previously classified as finance leases for which a lease asset was recognized under IFRS 16 in the balance sheets at December 31, 2019.

6. Contracts and Other Intangible Assets

The following table illustrates movements in Northland's intangible asset contract balances:

Year ended December 31,	2019	2018
Cost		
Total, beginning of year	**$ 795,160**	$ 780,471
Acquired [1]	**—**	(1,579)
Disposal	**—**	(1,925)
Foreign exchange	**(36,551)**	18,193
Total, end of year	**$ 758,609**	$ 795,160
Accumulated Amortization		
Total, beginning of year	**$ 214,063**	$ 196,482
Disposal	**—**	(1,985)
Amortization	**24,848**	19,116
Foreign exchange	**(1,352)**	450
Total, end of year	**$ 237,559**	$ 214,063
Net book value	**$ 521,050**	$ 581,097

(1) Reflects adjustment to contingent consideration related to the Deutsche Bucht project finalized in 2018.

As at December 31, 2019 and 2018, there were no deferred development costs recognized in the consolidated balance sheets.

7. Goodwill

Acquired goodwill was allocated to CGUs expected to benefit from the synergies of the acquisition. As at December 31, 2019, $205 million of goodwill (2018 - $205 million) from past acquisitions is included in the consolidated balance sheets.

For the year ended December 31, 2019 and 2018, no impairments or additions to goodwill were recognized. The goodwill balance as at December 31, 2019 includes accumulated impairments of $78 million (2018 - $78 million). Refer to Note 20 for additional information on impairment testing.

8. Leases

8.1 Northland as Lessor

Spy Hill's long-term PPA is classified as a finance lease arrangement, whereby Northland is considered to have leased the Spy Hill facility to Saskatchewan Power Corporation ("**SaskPower**") for 25 years ending in 2036. For the year ended December 31, 2019, finance lease income of $12 million (2018 - $13 million) was recognized.

The amounts receivable under finance lease accounting are as follows:

As at	**December 31, 2019**		**December 31, 2018**	
Minimum lease payments	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Within one year	**$ 16,188**	**$ 4,165**	$ 16,189	$ 3,834
After one year but not more than five years	**64,752**	**20,591**	64,752	18,951
More than five years	**190,006**	**120,133**	206,193	125,938
	$ 270,946	**$ 144,889**	$ 287,134	$ 148,723
Less: Unearned finance income	**(126,057)**	**—**	(138,411)	—
Total finance lease receivable	**$ 144,889**	**$ 144,889**	$ 148,723	$ 148,723
Current portion		**$ 4,165**		$ 3,834
Long-term		**140,724**		144,889

The interest rate inherent in the lease was fixed for the entire lease term at the lease inception date at approximately 8.4% per annum. The current portion of finance lease receivable is included in "other current assets" on the consolidated balance sheets.

8.2 Northland as Lessee

Northland and several of its subsidiaries have entered into leases for land with private and public landowners as well as leases for buildings and operating equipment. The original terms of these leases range from one to 37 years.

The amount of the lease ROU asset and associated depreciation by type of underlying asset as at December 31, 2019 is as follows:

	Land	**Vehicle**	**Equipment**	**Building**	**Total**
As at December 31, 2018 [(1)]	**$ —**	**$ —**	**$ 2,808**	**$ —**	**$ 2,808**
Initial recognition [Note 2.3]	**35,311**	**182**	**10,902**	**13,273**	**59,668**
Additions	**419**	**189**	**9,402**	**1,723**	**11,733**
Depreciation expense	**(2,274)**	**(88)**	**(2,489)**	**(2,135)**	**(6,986)**
Foreign exchange	**(288)**	**(7)**	**(718)**	**(693)**	**(1,706)**
As at December 31, 2019	**$ 33,168**	**$ 276**	**$ 19,905**	**$ 12,168**	**$ 65,517**

(1) Reflects leases previously classified as finance leases for which a lease asset was recognized in the consolidated balance sheets at December 31, 2018.

The lease ROU asset balance is included in "property, plant and equipment" in the consolidated balance sheets.

Northland expenses payments for leases that are short-term (i.e. term of 12 months or less) and low value as well as variable payments that are excluded from lease payments, such as usage-based fees or utilities charges. For the year ended December 31, 2019, lease expense of $4 million was recognized in "general and administrative costs" and "operating costs" in the consolidated statements of income (loss).

The following table illustrates movements in Northland's lease liabilities:

Year ended December 31,		2019
Total, beginning of the year (1)		**2,797**
Initial recognition [Note 2.3]		**59,668**
Additions		**11,733**
Accretion of interest [Note 19]		**1,685**
Payments		**(7,125)**
Foreign exchange		**(1,750)**
Total, end of the year	**$**	**67,008**
Current (included in "trade and other payables")		**7,756**
Non-current (included in "provision and other liabilities")		**59,252**

(1) Reflects leases previously classified as finance leases for which a lease asset was recognized in the consolidated balance sheets at December 31, 2018.

9. Other Assets

9.1. Other current assets

Other current assets consist of the following:

As at December 31,		2019		2018
Natural gas inventory	**$**	**484**	$	854
Spare parts and other inventory		**21,030**		17,134
Prepaid expenses		**18,842**		17,853
Finance lease receivable (current portion) [Note 8.1]		**4,165**		3,834
Total	**$**	**44,521**	$	39,675

During 2019, Northland and its subsidiaries expensed $2 million (2018 - $1 million) of inventory to cost of sales and operating costs.

9.2. Long-term Deposits

Long-term deposits consist of the following:

As at December 31,		2019		2018
Decommissioning deposit	**$**	**66,167**	$	56,698
Other		**165**		147
Total	**$**	**66,332**	$	56,845

Gemini provided a letter of credit to the Dutch government to secure future decommissioning liability for Gemini. The letter of credit is collateralized by a long-term deposit held by project lenders in a money market fund due in 2042 and earns interest at a rate of 6-month EURIBOR plus 0.8%.

9.3. *Other Assets*

Other assets consist of the following:

As at December 31,		2019		2018
Government grant receivable	**$**	**60,397**	$	86,154
Receivable from Cochrane Solar First Nations Partner [Note 15]		**33,207**		20,777
Other [(1)]		**16,296**		20,956
Total	**$**	**109,900**	$	127,887

(1) Includes investment in associate, investment in joint venture [Note 4.1] and long-term prepaid expenses.

As at December 31, 2019, Nordsee One had accrued a government grant in amount of €57 million (2018 - €70 million), including €41 million in "other assets" and €15 million classified as current and included in "trade and other receivables". The grant relates to the construction of the wind facility and will be collected from 2019 to 2022.

10. Management of Capital

Northland's strategy to finance general development efforts and investments in project entities utilizes internally generated cash flows, equity issuances and corporate debt, notably corporate credit facility borrowings and convertible debentures (refer to Note 12 for additional information).

Northland defines capital that it manages as the aggregate of its equity, including non-controlling interests, interest-bearing loans and borrowings, corporate credit facilities, convertible debentures and subscription receipts. Northland's objectives when managing capital are to (i) ensure the stability and long-term sustainability of dividends to shareholders and (ii) finance assets with non-recourse debt that is fully amortized over the term of the underlying revenue arrangements.

As at December 31, 2019, total managed capital was $9.1 billion (2018 - $9.0 billion), comprising equity of $1.5 billion (2018 - $1.5 billion), non-recourse interest-bearing loans and borrowings totaling $6.9 billion (2018 - $7.0 billion), corporate credit facilities totaling $0.2 billion (2018 - $0.3 billion), convertible unsecured subordinated debentures of $0.2 billion (2018 - $0.2 billion) and subscription receipts of $0.3 billion (2018 - $nil).

Northland exercises discretion in the amount of dividends declared to shareholders, the terms of its Dividend Re-Investment Plan (**DRIP**), return of capital to shareholders, issuance of new Shares or preferred shares, repurchase of Shares under its Normal Course Issuer Bid (**NCIB**) and the issuance or redemption of convertible debentures.

Northland's strategy has been to finance its operating entities (which are subsidiaries of Northland) using primarily non-recourse debt at the subsidiary level. The interest rate on the debt at Northland's power generation facilities is fixed (or effectively fixed using interest rate swaps) and principal is fully repaid (amortized) generally over each facility's PPA term. This ensures a power generation facility is debt-free at the expiry of its original revenue arrangement, after which its economics become less predictable.

11. Interest-bearing Loans and Borrowings

Northland generally finances projects and its operating facilities through non-recourse, secured credit arrangements at the subsidiary level. These loans and borrowing are summarized in the table below:

	Rate (1)	Maturity	Amount drawn as at Dec. 31, 2019 (2)	Amount drawn as at Dec. 31, 2018 (2)
Kirkland Lake	3.5%	2023	**$ 11,800**	$ 12,712
Nordsee One (3)	2.2%	2026	**957,164**	1,149,657
Jardin (3)	6.0%	2029	**86,776**	93,485
Thorold (3)	6.7%	2030	**263,090**	279,274
Gemini (3)(5)	4.1%	2030	**2,620,897**	3,010,917
Mont Louis	6.6%	2031	**73,468**	78,203
Solar Phase I (3)(4)	4.4%	2032	**187,758**	200,065
Solar Phase II (4)	5.4%	2032	**99,461**	105,833
North Battleford (3)	5.0%	2032	**543,260**	565,914
Cochrane Solar (3)	5.3%	2033	**163,587**	172,551
Deutsche Bucht (3)	2.6%	2033	**1,308,283**	755,669
McLean's	6.0%	2034	**118,708**	124,416
Grand Bend	4.3%	2035	**325,645**	325,645
Spy Hill (3)	4.1%	2036	**133,330**	137,231
Weighted average and total	3.9%		**$ 6,893,227**	$ 7,011,572
Current			**567,936**	428,570
Long-term			**6,325,291**	6,583,002

(1) The weighted average all-in interest rates of the subsidiary borrowings.

(2) Excludes letters of credit secured by facility or project-level credit agreements.

(3) Net of transaction costs and/or fair value adjustments.

(4) Solar Phase I and Solar Phase II include the nine entities that comprise Solar.

(5) Includes the amount drawn on the senior debt and the third-party portion of subordinated debt.

As at December 31, 2019, $40 million of letters of credit secured by facility or project-level credit agreements was outstanding (2018 - $43 million).

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

Changes in interest-bearing loans and borrowings and corporate credit facilities (see Note 12) are summarized in the table below:

Year ended December 31, 2019	**Interest-bearing loans and borrowings**	**Corporate credit facilities (1)**	**Total**
Total, beginning of the year	$ 7,011,572	$ 309,274	$ 7,320,846
Financings net of fees paid	613,293	581,634	1,194,927
Repayments	(412,167)	(706,637)	(1,118,804)
Other non-cash (2)	25,894	825	26,719
Foreign exchange	(345,365)	(13,712)	(359,077)
Total, end of the year	**$ 6,893,227**	**$ 171,384**	**$ 7,064,611**

(1) Excludes convertible debentures and subscription receipts.

(2) Other non-cash changes include amortization of fair value adjustments and amortization of deferred financings costs.

NORTHLAND POWER

12. Corporate Credit Facilities and Convertible Debentures

12.1 Corporate Credit Facilities

The corporate credit facilities are summarized in the table below:

	Facility size	Amount drawn as at Dec. 31, 2019	Outstanding letters of credit	Available capacity	Maturity	Amount drawn as at Dec. 31, 2018
Syndicated revolving facility [(1)]	$ 1,000,000	**$ 175,689**	$ 92,925	$ 731,386	Jun. 2024	$ 312,720
Bilateral letter of credit facility	100,000	**—**	99,393	607	Mar. 2021	—
Export credit agency backed letter of credit facility	100,000	**—**	44,221	55,779	Mar. 2020	—
Total	$ 1,200,000	**$ 175,689**	$ 236,539	$ 787,772		$ 312,720
Less: deferred financing costs		**4,305**				3,446
Total, net		**$ 171,384**				$ 309,274

(1) The amount drawn on the syndicated revolving facility comprises €107 million converted to CAD at the period-end exchange rate and $20 million (2018 - €200 million).

In the year ended December 31, 2019, Northland made net repayments of $125 million on the syndicated revolving facility, with the remaining movement in the year due to foreign exchange fluctuations.

Subsequent to December 31, 2019, Northland entered into a $495 million 12-month bridge credit facility as part of the initial funding for the EBSA Acquisition. The terms of the facility are aligned with the terms of Northland's syndicated revolving facility.

Amounts drawn under the syndicated revolving facility are collateralized by a debenture security and general security agreement that constitutes a first-priority lien on all of the real property and present and future property and assets of Northland.

12.2 Convertible Debentures

The 2020 Debentures have a maturity of June 30, 2020 ("2020 Debentures") and may be converted into Shares at a conversion price of $21.60 per share at any time prior to the maturity date. If the 2020 Debentures outstanding as at December 31, 2019 were converted in their entirety, an additional 7 million Shares would be issued.

As at December 31, 2019, $150 million, net of $1 million deferred financing costs (2018 - $154 million, net of $2 million deferred financing costs) of 2020 Debentures were outstanding. At issuance, Northland estimated the fair value of the embedded holder option as nominal, and as a result, the entire amount of the Debentures was classified as a liability. The payment of convertible unsecured subordinated debenture principal and interest is subordinated in right of payment to the prior payment of all senior indebtedness of Northland.

13. Provisions and Other Liabilities

13.1 Decommissioning Liabilities

Decommissioning liabilities are recognized for renewable facilities. A portion of Northland's on-shore wind and solar facilities are located on lands leased from private and public landowners. Upon the expiration of the leases, Northland is obligated to restore the leased lands to near to their original condition and remove all turbines, solar panels and equipment. Northland's obligations for decommissioning of its offshore wind facilities are based on the government regulations in the applicable jurisdictions.

Northland expects to use its installed assets for an indefinite period. No decommissioning liabilities are recognized for thermal facilities until the time Northland determines the facility will no longer be operated or maintained and should be decommissioned. As at December 31, 2019, no provisions were recognized related to thermal facilities.

Northland estimated the fair value of its total decommissioning liabilities to be $309 million (2018 - $233 million), based on an estimated total future liability. A discount rate of 0.9% to 3.9% (2018 - 1.0% to 3.9%) and an inflation rate, where applicable, of 2.0% (2018 - 2.0%) was used to calculate the fair value of the decommissioning liabilities.

The following table reconciles Northland's total decommissioning liabilities activity:

Year ended December 31,	2019	2018
Total, beginning of year	**$ 233,326**	$ 223,152
Additions [1]	**82,482**	2,385
Disposals	**—**	(2,183)
Accretion	**4,435**	4,403
Foreign exchange	**(11,733)**	5,569
Total, end of year	**$ 308,510**	$ 233,326

(1) Additions for 2019 reflect recognition of the decommissioning liability for Deutsche Bucht. Additions for 2018 reflect an adjustment to the decommissioning liability at Nordsee One as a result of a change in estimate.

13.2 Other Liabilities

As at December 31, 2019, provisions and other liabilities on the consolidated balance sheets included $69 million payable by Nordsee One to the third-party partner in the wind facility under a shareholder loan arrangement (2018 - $78 million). Under the shareholder loan arrangement, interest is accrued at an annual rate of 10% and repayments are made based on the partner's share of distributable funds from operations.

14. Equity

14.1 Common Shares and Class A Shares

Northland is authorized to issue an unlimited number of Shares. The terms and conditions of Northland's Class A Shares are defined in Northland's articles of incorporation. The Class A Shares are convertible into Shares on a one-for-one basis.

The change in Shares and Class A Shares during 2019 and 2018 was as follows:

	December 31, 2019		December 31, 2018	
	Shares	Amount	Shares	Amount
Shares outstanding, beginning of year	**179,201,743**	**$ 2,423,421**	174,440,081	$ 2,321,277
Conversion of debentures	**239,476**	**5,173**	2,527,626	54,597
Shares issued under the LTIP	**—**	**—**	23,467	583
Shares issued under the DRIP	**—**	**—**	2,210,569	47,611
Change in deferred taxes	**—**	**—**	—	(647)
Shares outstanding, end of year	**179,441,219**	**$ 2,428,594**	179,201,743	$ 2,423,421
Class A shares	**1,000,000**	**14,615**	1,000,000	14,615
Total common and convertible shares outstanding, end of year	**180,441,219**	**$ 2,443,209**	180,201,743	$ 2,438,036

Dividend Re-Investment Plan

The DRIP provides shareholders and the Class A shareholder the right to reinvest their dividends in Shares with a discount to the market price as defined in the DRIP. Shares issued under the DRIP can be sourced from treasury or purchased on the secondary market at the election of Northland's Board of Directors. For the year ended December 31, 2019, all Shares issued under the DRIP were purchased on the secondary market with no discount to the market price. Northland's Board of Directors has the discretion to alter the discount or source of Shares issued under the DRIP.

Share-based compensation

Northland's LTIP provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries. As at December 31, 2019, 1.2 million Shares remain available for future issuance under the LTIP. Shares may be awarded based on development profits, which arise from new projects or acquisitions ("**Development LTIP**"). The number of Shares awarded at each milestone of the project is determined using the amount of expected development profits at that milestone date. As a result, the amount of Development LTIP costs recognized depends on the estimated number of Shares to be issued at each milestone date, which, in turn, is based on management's best estimate of a project's expected development profit. Changes in estimates related to the number of Shares to be issued, forfeiture rates and vesting dates and changes in fair value up to the grant date are recognized in the period of the change. Awards under the LTIP may be settled in Shares or in cash, at the discretion of Northland's Board of Directors.

Shares may also be awarded under the LTIP to recognize achievements or attract and retain executives ("**Deferred Rights**"). Grants of Deferred Rights vest over a maximum of a three-year period, and the expected cost is expensed over the vesting period.

For the year ended December 31, 2019, Northland capitalized $2 million (2018 - $0.4 million) and expensed $0.4 million (2018 - $1 million) of costs under the LTIP. No forfeitures are assumed to occur. The balance of accrued awards related to the Development LTIP is shown in liabilities because these awards are expected to be settled in cash.

In addition to the LTIP, stock-based compensation in the form of Restricted Share Units (**RSU**) and Deferred Share Units (**DSU**) may be granted by Northland to employees and directors. These awards are settled and paid in cash and accounted for as a liability until paid.

14.2 Preferred Shares

Northland's preferred shares balance contains Series 1, Series 2 and Series 3 Preferred Shares.

Series 1 and 2 Preferred Shares

In 2010, Northland issued 6.0 million Series 1 Preferred Shares at a price of $25.00 per share, for gross proceeds of $150 million. The annual dividend rate was reset on September 30, 2015 to 3.51%, from 5.25% previously, and will reset every five years thereafter at a rate equal to the then five-year Government of Canada bond yield plus 2.80%. The holders of the Series 1 Preferred Shares are entitled to fixed cumulative dividends, payable quarterly, as and when declared by the Board of Directors.

The holders of Series 1 Preferred Shares have the right, at their option, to convert their shares into Series 2 Preferred Shares on September 30, 2020, and on September 30 of every fifth year thereafter, subject to certain conditions. On September 30, 2015, 1,498,435 of the 6,000,000 Series 1 Preferred Shares were converted on a one-for-one basis into Series 2 Preferred Shares. Consequently, Northland has 4,501,565 Series 1 Preferred Shares outstanding. Series 1 Preferred Shares are redeemable on September 30, 2020, and will be redeemable on September 30 of every fifth year thereafter.

The Series 2 Preferred Shares carry the same features as the Series 1 Preferred Shares, except that holders are entitled to receive quarterly floating-rate cumulative dividends, as and when declared by the Board of Directors, at an annual rate equal to the then three-month Government of Canada treasury bill yield plus 2.80% (4.44% as of December 31, 2019). The holders of Series 2 Preferred Shares will have the right to convert their shares back into Series 1 Preferred Shares on September 30, 2020, and on September 30 of every fifth year thereafter.

As at December 31, 2019 and December 31, 2018, there were 4,501,565 Series 1 Preferred Shares outstanding, representing equity of $107 million.

As at December 31, 2019 and December 31, 2018, there were 1,498,435 Series 2 Preferred Shares outstanding, representing equity of $37 million.

Series 3 Preferred Shares

In 2012, Northland issued 4.8 million Series 3 Preferred Shares at a price of $25.00 per share, for gross proceeds of $120 million. The annual dividend rate was reset on December 31, 2017 to 5.08%, from 5.00% previously, and will reset every five years thereafter at a rate equal to the then five-year Government of Canada Bond yield plus 3.46%. The holders of the Series 3 Preferred Shares are entitled to fixed cumulative dividends, payable quarterly, as and when declared by the Board of Directors.

The holders of the Series 3 Preferred Shares have the right, at their option, to convert their shares into Series 4 Preferred Shares on December 31, 2022, and have such right on December 31 of every fifth year thereafter, subject to certain conditions.

The Series 4 Preferred Shares, if issued at subsequent conversion dates, will carry the same features as the Series 3 Preferred Shares, except that holders will be entitled to receive quarterly floating-rate cumulative dividends, as and when declared by the Board of Directors at an annual rate equal to the then 90-day Government of Canada treasury bill yield plus 3.46%.

As at December 31, 2019 and December 31, 2018, there were 4,800,000 Series 3 Preferred Shares outstanding, representing equity of $116 million.

Preferred share dividends, excluding tax, were paid as follows:

Year ended December 31,		2019		2018
Series 1	**$**	**3,954**	$	3,954
Series 2		**1,678**		1,504
Series 3		**6,096**		6,096
Total	**$**	**11,728**	$	11,554

14.3 Dividends

Dividends declared per Share and in aggregate were as follows:

Year ended December 31,		2019		2018
Dividends declared per Share	**$**	**1.20**	$	1.20
Aggregate dividends declared				
Dividends in cash	**$**	**216,396**	$	167,700
Dividends in shares (1)		**—**		44,653
Total	**$**	**216,396**	$	212,353

(1) For the year ended December 31, 2019, all dividends declared under the DRIP were sourced from the secondary market.

14.4 Subscription Receipts

In September 2019, Northland completed a public offering of 14,289,000 Subscription Receipts for gross proceeds of $347 million or net proceeds of $332 million after transaction costs. 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. See Note 4.2 for details on the EBSA Acquisition. As at December 31, 2019, the net proceeds from the sale of the Subscription Receipts are held in escrow, pending satisfaction of acquisition closing conditions, and are included in “restricted cash” on the consolidated balance sheets.

As a result of the close of the EBSA Acquisition on January 14, 2020, the net proceeds were released from escrow to Northland, the Subscription Receipts were converted to 14,289,000 common shares and a dividend equivalent cash payment equal to $0.40 per Subscription Receipt was paid to the Subscription Receipt holders.

15. Non-controlling Interests

Non-controlling interests relate to the interests not owned by Northland for Gemini (40%), Nordsee One (15%), McLean’s (50%), Grand Bend (50%), Cochrane Solar (37.5%) and CEEC (32%). CEEC has voting control of Kirkland Lake but ownership interest of 8.8% as a result of non-voting ownership interest held by third-parties.

Summarized financial information on items subject to non-controlling interests in the consolidated balance sheets (shown at 100% totals) are as follows:

As at December 31, 2019	Current assets (1)	Long-term assets	Current liabilities	Long-term liabilities
Gemini	**$ 352,841**	**$ 3,232,175**	**$ 280,529**	**$ 2,744,762**
Nordsee One	**99,870**	**1,467,361**	**159,001**	**923,136**
McLean's	**6,557**	**135,321**	**7,293**	**132,326**
Grand Bend	**17,553**	**318,685**	**14,981**	**353,713**
Cochrane Solar	**10,223**	**287,733**	**11,729**	**168,185**
CEEC	**30,220**	**24,440**	**9,529**	**10,674**
Total	**$ 517,264**	**$ 5,465,715**	**$ 483,062**	**$ 4,332,796**

As at December 31, 2018	Current assets (1)	Long-term assets	Current liabilities	Long-term liabilities
Gemini	$ 376,620	$ 3,631,820	$ 302,426	$ 3,109,424
Nordsee One	202,843	1,562,072	174,564	1,108,656
McLean's	5,625	138,439	6,892	132,180
Grand Bend	17,200	326,678	2,953	355,595
Cochrane Solar	9,992	305,657	10,851	174,884
CEEC	20,994	25,406	8,837	12,520
Total	$ 633,274	$ 5,990,072	$ 506,523	$ 4,893,259

(1) As at December 31, 2019, restricted cash of $147 million (December 2018 - $243 million) is included for Gemini and Nordsee One where the availability of funds is intended for debt repayments and final construction costs.

As at December 31, 2019, Northland had an outstanding receivable balance of $39 million with Cochrane Solar's First Nations partner (2018 - $39 million). This balance appears at a fair value of $37 million (2018 - $25 million) on the consolidated balance sheets, including $4 million classified as "trade and other receivables" and the remaining portion as "other assets".

The change in non-controlling interests during 2019 and 2018 is as follows:

	Gemini	Nordsee One	McLean's	Grand Bend	Cochrane Solar	CEEC	Total
As at January 1, 2018	$ 241,514	$ 33,225	$ 7,881	$ 8,279	$ 57,349	$ 163,810	$ 512,058
Net income (loss) attributable (1)	89,646	18,696	971	5,808	1,678	10,579	127,378
Dividends and distributions declared (1)	(100,473)	—	(2,830)	(14,010)	(7,725)	(5,872)	(130,910)
Allocation of other comprehensive income (loss) (1)	(12,183)	30	—	—	(516)	—	(12,669)
Disposal of non-controlling interests	—	—	—	—	—	(26,943)	(26,943)
As at December 31, 2018	$ 218,504	$ 51,951	$ 6,022	$ 77	$ 50,786	$ 141,574	$ 468,914
Net income (loss) attributable (1)	**92,830**	**17,963**	**1,567**	**6,367**	**630**	**11,633**	**130,990**
Dividends and distributions declared (1)	**(63,319)**	**(17,233)**	**(2,835)**	**(13,302)**	**(2,738)**	**—**	**(99,427)**
Allocation of other comprehensive income (loss) (1)	**(46,388)**	**(5,596)**			**(1,349)**		**(53,333)**
As at December 31, 2019	**$ 201,627**	**$ 47,085**	**$ 4,754**	**$ (6,858)**	**$ 47,329**	**$ 153,207**	**$ 447,144**

(1) Net income (loss), dividends and distributions, and other comprehensive income (loss) are shown at the respective non-controlling interest share.

As at December 31, 2019, there were no dividends payable to CEEC on the consolidated balance sheets (2018 - $1 million).

16. Financial Risk Management

Northland's risk management objective is to mitigate fluctuations in cash flows in order to maintain stable and sustainable levels of cash available to pay dividends to shareholders. Northland does not seek to mitigate fair value risk. Northland classifies financial risks into market risk, counterparty risk and liquidity risk. Northland manages financial risks by identifying, evaluating and, where appropriate, mitigating financial risks in compliance with internal policies and external requirements under non-recourse project financing arrangements. Northland uses derivative financial instruments to manage certain financial risks but does not engage in speculative activity. Material financial risks are monitored and reported regularly to the Audit Committee of the Board of Directors. The risks associated with Northland's financial instruments and Northland's policies for mitigating these risks are described below.

16.1 Market Risk

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

(i) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Northland manages this risk by securing fixed-rate debt or entering into interest rate swap agreements that effectively convert floating rate interest exposures to a fixed rate.

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

For the year ended December 31, 2019, if interest rates had been 100 basis points higher or lower with all other variables held constant, income before income taxes from the change in fair value of the interest rate swaps prior to the application of hedge accounting would have been $291 million higher or lower. This change would have had no impact on Northland's cash flows.

The counterparties to Northland's interest rate derivative contracts are well-capitalized financial institutions with strong credit ratings. See "Counterparty Risk" below.

(ii) Credit spread risk

Credit spread risk as it affects Northland refers to the risk that the loan margin charged by current or future lenders (a borrower-specific margin added to the underlying interest rate) will increase, making the cost of debt capital more expensive. Credit spread risk cannot be hedged. Northland manages this risk by: (i) entering into long-term financings with defined credit spreads over the amortization period whenever possible; (ii) ensuring loans are fully amortized (repaid) by maturity; and (iii) monitoring credit markets and making prudent decisions about the timing and method of original financings, refinancing and repricing opportunities.

(iii) Currency risk

Currency risk arises because the Canadian dollar equivalent of transactions, assets or liabilities denominated in foreign currencies may vary due to changes in foreign exchange rates. Northland is exposed to changes in the euro, U.S. dollar and Colombian peso; notably, through the euro-denominated consolidated financial statements of Gemini, Nordsee One and Deutsche Bucht project. Northland manages this risk by hedging material net foreign currency cash flows to the extent practical and economical in order to minimize material cash flow fluctuations.

Exchange rate gains and losses on the currency derivatives that have been recognized in OCI are recognized in net income in the same period during which corresponding gains or losses arising from the translation of the consolidated financial statements of the self-sustaining foreign operation are recognized in net income.

At December 31, 2019, if the Canadian dollar had been 5% higher or lower against the U.S. dollar with all other variables held constant, income before taxes from the change in fair value of the U.S. dollar foreign exchange contracts prior to the application of hedge accounting would have been $2 million higher or lower. If the Canadian dollar had been 5% higher or lower against the euro with all other variables held constant, income before taxes from the change in fair value of the euro foreign exchange contracts prior to the application of hedge accounting would have been $85 million lower or higher. If the Canadian dollar had been 5% higher or lower against the Colombian peso with all other variables held constant, income before taxes from the change in fair value of the Colombian peso foreign exchange contracts (used to effectively fix the EBSA cash purchase price) would have been $40 million lower or higher.

The counterparties to Northland's currency derivative contracts are well-capitalized financial institutions with strong credit ratings. See "Counterparty Risk" below.

(iv) Commodity price risk

Commodity price risk arises where: (i) PPA revenues for thermal facilities are fixed, not linked to natural gas prices or the cost of natural gas is not substantively passed through to the off-taker; (ii) PPA revenues or components of PPA revenues depend upon certain electricity market indices; (iii) a portion of revenue is not contracted and subject to changes in electricity prices; or (iv) the value of a financial instrument or cash flows associated with the instrument fluctuates due to changes in commodity prices.

Northland manages this risk by: (i) entering into PPAs that provide a fixed price for all, or substantially all, electricity production, provide a price linked to commodity prices or include pass-through of commodity costs to the off-taker; (ii) entering into financial power and natural gas hedges to stabilize contractual economics, including natural gas costs and electricity prices; and (iii) entering into fixed price gas supply contracts.

Northland has exposure to Dutch electricity market prices under Gemini's PPA when the market price falls below the contractual floor price. For the year ended December 31, 2019, the average wholesale market price was below the contractual floor price, resulting in an estimated €9 million or 2.3% lower revenues from Gemini. Additionally, production in excess of the annual production ceiling under the PPA earns revenue at wholesale market rates.

Northland has indirect exposure to German electricity market prices under the Nordsee One and Deutsche Bucht PPAs. When the market price falls below zero for periods of more than six consecutive hours, curtailment is unpaid resulting in lower revenues.

Northland has exposure to Ontario electricity market prices through variable components of certain thermal revenue contracts and at facilities, such as Kingston, that do not have a revenue contract. Northland has entered into power forward contracts to partially manage this exposure.

For the year ended December 31, 2019, if natural gas prices had been $1/gigajoule higher or lower with all other variables held constant, the change in income before income taxes from the change in fair value of the gas forward contracts would have been $6 million higher or lower. This change would have had no impact on Northland's cash flows.

16.2 Counterparty Risk

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

Northland manages counterparty risk by contracting with highly creditworthy counterparties wherever possible, such as government-related entities and large financial institutions. Northland's cash, derivative financial instruments, unfunded loan commitments and insurance policies are contracted with creditworthy financial institutions. Northland's gas, transportation, equipment, maintenance and construction contracts are with highly rated and/or large, well-capitalized counterparties wherever possible.

As at December 31, 2019, approximately 88.5% (2018 - 80.3%) of Northland's consolidated trade and other receivables, excluding third-party partner loan receivable, were receivable from creditworthy government-related entities.

In 2019, approximately 91.3% (2018 - 89.7%) of Northland's consolidated revenue was derived indirectly from the sale of electricity to government-related entities. For electricity and other sales, Northland and its subsidiaries have not provided allowance accounts and have not purchased credit derivatives to mitigate counterparty risk. All significant accounts receivable amounts reported at December 31, 2019 are current.

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

16.3 Liquidity Risk

Liquidity risk is the risk that Northland: (i) may not have sufficient funds to settle a transaction on the due date; (ii) may be forced to sell financial assets or terminate financial liabilities at a value that is not the fair market value; or (iii) may be unable to settle or recover a financial asset at all. Liquidity risk arises through an excess of financial obligations over available financial assets at any point in time.

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

As at December 31, 2019, Northland and its subsidiaries were holding cash and cash equivalents of $268 million ($41 million held corporately) and had available borrowing capacity under the syndicated revolving facility of $0.7 billion.

The contractual maturities of Northland's financial liabilities at December 31, 2019 are as follows:

	2020	2021-2022	2023-2024	>2024
Derivative contracts				
Euro foreign exchange contracts	$ 194,351	$ 359,585	$ 309,960	$ 954,266
Financial natural gas contract	58,561	67,468	—	—
U.S. dollar foreign exchange contracts	27,614	19,355	—	—
Colombian peso foreign exchange contracts	727,528	—	—	—
Power financial swap	7,847	7,454	—	—
Loans and borrowings				
Interest-bearing loans and borrowings - principal	569,151	1,172,705	1,263,944	4,210,063
Interest-bearing loans and borrowings - interest, including interest rate swaps	274,939	507,165	422,983	758,557
Corporate credit facilities, including interest	26,196	5,138	180,134	—
Convertible debentures, including interest	154,335	—	—	—
Total	**$ 2,040,522**	**$ 2,138,870**	**$ 2,177,021**	**$ 5,922,886**

Northland is also subject to internal liquidity risk because it conducts its business activities through separate legal entities (subsidiaries and affiliates) and is dependent on cash distributions from those entities to defray corporate expenses and pay dividends. Most operating subsidiaries hold non-recourse debt. Such non-recourse financing agreements typically prohibit 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 loan principal and interest payments over a specified time period. For the year ended December 31, 2019, Northland and its subsidiaries were in compliance with all debt covenants.

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

17. Financial Instruments

17.1 Fair Value Measurement

The carrying values of Northland's financial instruments as at December 31, 2019 and 2018 are as follows:

As at December 31, 2019		Level 1		Level 2		Level 3		Total
Financial assets at amortized cost (1)	**$**	**891,200**	**$**	**574,278**	**$**	**—**	**$**	**1,465,478**
Financial assets at fair value through profit and loss (2)		**—**		**118,248**		**—**		**118,248**
Financial liabilities at fair value through profit and loss (2)		**—**		**520,013**		**—**		**520,013**
Financial liabilities at amortized cost (3)		**489,283**		**7,407,071**		**—**		**7,896,354**

As at December 31, 2018		Level 1		Level 2		Level 3		Total
Financial assets at amortized cost (1)	$	728,837	$	579,890	$	—	$	1,308,727
Financial assets at fair value through profit and loss (2)		—		39,646		—		39,646
Financial liabilities at fair value through profit and loss (2)		—		551,846		—		551,846
Financial liabilities at amortized cost (3)		153,969		7,620,482		—		7,774,451

(1) Includes cash and cash equivalents, restricted cash, trade and other receivables, finance lease receivable, long-term deposits and certain other assets.

(2) Includes derivative financial instruments and financial assets at fair value through profit and loss consisting of a third-party partner loan [Note 15].

(3) Includes trade and other payables, dividends payable, interest-bearing loans and borrowings, corporate credit facilities, convertible debentures, subscription receipts and other liabilities (excluding decommissioning liabilities).

The estimated fair value of other financial liabilities as at December 31, 2019 is $7.4 billion (2018 - $7.6 billion).

During the year ended December 31, 2019, a fair value gain of $11 million (2018 - loss of $4 million) was recorded in relation to non-derivative financial assets at fair value through profit and loss which appears in “other (income) expense“ on the consolidated statements of income (loss).

Additional details of Northland's income and expenses with respect to its financial instruments are as follows:

Year ended December 31,		2019		2018
Income (expense) on financial assets at amortized cost	**$**	**18,426**	$	16,770
Expense (income) on financial liabilities at amortized cost		**330,339**		333,132
Expense (income) on net financial liabilities at fair value through profit and loss		**(172,185)**		(40,539)

NORTHLAND POWER

17.2 Derivative Financial Instruments

The derivative financial instruments consist of the following:

As at December 31, 2019	Current assets	Current liabilities	Long-term assets	Long-term liabilities	Total
Derivatives designated for hedge accounting					
Canadian dollar interest rate swaps	$ 75	$ (7,199)	$ 166	$ (35,305)	$ (42,263)
U.S. dollar foreign exchange contracts	424	—	—	—	424
Euro interest rate swaps	—	(82,713)	—	(287,495)	(370,208)
Euro foreign exchange contracts	4,240	(76)	10,668	(49,340)	(34,508)
Power forward contracts	138	(574)	—	(171)	(607)
Derivatives not designated for hedge accounting					
Canadian dollar interest rate swaps	—	(23,467)	—	—	(23,467)
U.S. dollar foreign exchange contracts	—	(512)	—	(273)	(785)
Euro foreign exchange contracts	11,508	(32)	22,189	(2,361)	31,304
Colombian peso foreign exchange contracts	28,593	—	—	—	28,593
Gas forward contracts	2,649	(14,883)	575	(15,496)	(27,155)
Power forward contracts	10	(116)	6	—	(100)
Total	$ 47,637	$ (129,572)	$ 33,604	$ (390,441)	$ (438,772)

As at December 31, 2018	Current assets	Current liabilities	Long-term assets	Long-term liabilities	Total
Derivatives designated for hedge accounting					
Canadian dollar interest rate swaps	$ 98	$ (6,692)	$ 338	$ (33,691)	$ (39,947)
U.S. dollar foreign exchange contracts	1,308	—	483	—	1,791
Euro interest rate swaps	—	(88,915)	—	(221,417)	(310,332)
Euro foreign exchange contracts	—	(2,973)	1,250	(110,619)	(112,342)
Power forward contracts	1,300	(5)	—	(13)	1,282
Derivatives not designated for hedge accounting					
Canadian dollar interest rate swaps	1	(21,570)	3	—	(21,566)
U.S. dollar foreign exchange contracts	33	—	—	—	33
Euro foreign exchange contracts	2,361	(1,045)	2,578	(18,296)	(14,402)
Gas forward contracts	3,086	(15,264)	1,850	(31,346)	(41,674)
Total	$ 8,187	$ (136,464)	$ 6,502	$ (415,382)	$ (537,157)

The change in derivative financial instruments for the year ended December 31, 2019 and 2018 is as follows:

	Balance as at Dec. 31, 2018 asset (liability)	Designated in hedge relationships: Changes in fair value recognized in OCI (1)	Designated in hedge relationships: Cash and accrued payments / (receipts) (2)	Designated in hedge relationships: Unrealized fair value changes (2)	Fair value changes on derivatives not designated in hedge relationships (2)	Foreign exchange gain (loss)	Balance as at Dec. 31, 2019 asset (liability)
Canadian dollar interest rate swaps	**$ (61,513)**	**$ (7,668)**	**$ 8,339**	**$ (2,990)**	**$ (1,898)**	**$ —**	**$ (65,730)**
Euro interest rate swaps	**(310,332)**	**(139,998)**	**71,489**	**(17,073)**	**—**	**25,706**	**(370,208)**
Gas forward contracts	**(41,674)**	**—**	**—**	**—**	**14,519**	**—**	**(27,155)**
Power forward contracts	**1,282**	**(1,701)**	**—**	**(188)**	**(100)**	**—**	**(707)**
U.S. dollar foreign exchange contracts	**1,824**	**(229)**	**(1,231)**	**92**	**(817)**	**—**	**(361)**
Euro foreign exchange contracts	**(126,744)**	**60,919**	**(364)**	**14,469**	**48,516**	**—**	**(3,204)**
Colombian peso foreign exchange contracts	**—**	**—**	**—**	**—**	**28,593**	**—**	**28,593**
Total	**$ (537,157)**	**$ (88,677)**	**$ 78,233**	**$ (5,690)**	**$ 88,813**	**$ 25,706**	**$ (438,772)**

(1) Amounts recognized in "Change in fair value of hedged derivative contracts" in the consolidated statements of comprehensive income (loss).

(2) Amounts recognized in "Fair value (gain) loss on derivative contracts" in the consolidated statements of income (loss).

	Balance as at Dec. 31, 2017 asset (liability)	Designated in hedge relationships: Changes in fair value recognized in OCI (1)	Designated in hedge relationships: Cash and accrued payments / (receipts) (2)	Designated in hedge relationships: Unrealized fair value changes (2)	Fair value changes on derivatives not designated in hedge relationships (2)	Foreign exchange gain (loss)	Balance as at Dec. 31, 2018 asset (liability)
Canadian dollar interest rate swaps	$ (70,603)	$ (4,452)	$ 10,267	$ 1,488	$ 1,787	$ —	$ (61,513)
Euro interest rate swaps	(281,912)	(85,363)	79,426	(11,393)	—	(11,090)	(310,332)
Gas forward contracts	(44,228)	—	—	—	2,554	—	(41,674)
Power forward contracts	—	1,282	—	—	—	—	1,282
U.S. dollar foreign exchange contracts	2,112	856	(1,207)	63	—	—	1,824
Euro foreign exchange contracts	(90,857)	(40,663)	(3,543)	23,599	(15,280)	—	(126,744)
Total	$ (485,488)	$ (128,340)	$ 84,943	$ 13,757	$ (10,939)	$ (11,090)	$ (537,157)

(1) Amounts recognized in "Change in fair value of hedged derivative contracts" in the consolidated statements of comprehensive income (loss).

(2) Amounts recognized in "Fair value (gain) loss on derivative contracts" in the consolidated statements of income (loss).

The objective of Northland's hedges is to reduce volatility in its cash flow related to changes in foreign exchange, interest rates and market prices for gas and power. The nature of the risks that Northland is exposed to and the related hedge objectives did not change in the year ended December 31, 2019, with the exception of increased exposure to the Colombian peso as a result of the purchase price commitment made for the EBSA Acquisition.

The effects of applying hedge accounting on Northland's financial position and performance are described below.

(a) Foreign exchange risk

Foreign exchange forward contracts		December 31, 2019		December 31, 2018
Carrying amount (asset/(liability))	**$**	**(34,084)**	$	(110,551)
Notional amount - EUR		**922,686**		958,798
Notional amount - USD		**1,550**		5,550
Maturity date		**January 2020–August 2032**		January 2019–August 2032
Hedge ratio (1)		**1:1**		**1:1**
Change in discounted spot value of outstanding hedging instruments since January 1	**$**	**77,700**	$	(21,161)
Change in value of hedged item used to determine hedge effectiveness	**$**	**79,199**	$	(66,643)
Weighted average hedged rate for the year (including forward points):				
USD foreign exchange forward contracts		**US$0.981:CAD$1**		US$0.981:CAD$1
EUR foreign exchange forward contracts		**€0.615:CAD$1**		€0.610:CAD$1

(1) The foreign exchange forward contracts are denominated in the same currency as the highly probable future payments (US$) and the net investment in foreign operations; therefore, the hedge ratio is 1:1.

Foreign exchange hedge reserve		Euro contracts			U.S. dollar contracts		Total foreign exchange hedge
Year ended December 31, 2019		Cost of hedging		Forward component		Forward component		reserve in AOCI
Total, beginning of the year	$	(26,820)	$	(87,736)	$	1,175	$	(113,381)
Add: Costs of hedging deferred during the year in OCI		7,068		—		—		7,068
Add: Change in fair value of hedging instrument recognized in OCI for the year (effective portion)(1)		—		79,428		(229)		79,199
Less: Re-classified to profit and loss		(25,578)		—		—		(25,578)
Total, end of the year	**$**	**(45,330)**	**$**	**(8,308)**	**$**	**946**	**$**	**(52,692)**

(1) The deferred tax applicable to the foreign exchange hedge reserve is a $10 million recovery, which has been recognized in OCI.

The hedge ineffectiveness recognized in "fair value (gain) loss on derivative contracts" in the consolidated statements of income (loss) related to foreign currency contracts (cash flow and net investment hedges) for the year ended December 31, 2019 was $2 million.

(b) Interest rate risk

Interest rate swaps		December 31, 2019		December 31, 2018
Carrying amount (asset/(liability))	**$**	**(412,471)**	$	(350,279)
Notional amount - CAD		**419,225**		443,426
Notional amount - EUR		**3,183,879**		2,991,603
Maturity date		**January 2020–June 2033**		January 2019–June 2033
Hedge ratio (1)		**1:1**		1:1
Change in fair value of outstanding hedging instruments since January 1	**$**	**(154,937)**	$	(90,658)
Change in value of hedged item used to determine hedge effectiveness	**$**	**167**	$	81,901

(1) The interest rate swaps mirror the interest rate of the debts; therefore, the hedge ratio is 1:1.

Interest rate hedge reserve Year ended December 31, 2019		Canadian interest rate swaps		Euro interest rate swaps		Total interest rate hedge reserve
Total, beginning of the year	$	3,592	$	(94,409)	$	(90,817)
Add: Change in fair value of hedging instrument recognized in OCI for the year (effective portion)(1)		(7,490)		(139,845)		(147,335)
Less: Re-classified to profit and loss		(179)		(153)		(332)
Total, end of the year	**$**	**(4,077)**	**$**	**(234,407)**	**$**	**(238,484)**

(1) The deferred tax applicable to the interest rate hedge reserve is a $20.0 million recovery, which has been recognized in OCI.

The hedge ineffectiveness recognized in "fair value (gain) loss on derivative contracts" in the consolidated statements of income (loss) related to interest rate contracts (cash flow hedges) for the year ended December 31, 2019 was $10 million.

(c) Electricity price risk

Power forward contracts		December 31, 2019		December 31, 2018
Carrying amount (asset/(liability))	**$**	**(607)**	$	1,282
Notional amount - CAD		**14,395**		7,908
Maturity date		**January 2020–December 2021**		January–December 2019
Hedge ratio (1)		**1:1**		**1:1**
Change in fair value of outstanding hedging instruments since January 1	**$**	**(1,888)**	$	1,282
Change in value of hedged item used to determine hedge effectiveness	**$**	**1,079**	$	(1,626)

(1) The power financial swaps mirror the price and quantities of the electricity price exposure in the corresponding facility PPAs; therefore, the hedge ratio is 1:1.

Power forward hedge reserve Year ended December 31, 2019		Power forward contract
Total, beginning of the year	$	1,282
Add: Change in fair value of hedging instrument recognized in OCI for the year (effective portion)(1)		(1,700)
Total, end of the year	**$**	**(418)**

(1) The deferred tax applicable to the power forward hedge reserve is a $0.3 million expense, which has been recognized in OCI.

(d) Hedge ineffectiveness

The fair value of the hedged item used as the basis for recognizing hedge ineffectiveness for the year, by risk category, are:

Fair value of hedged items (hypothetical derivatives)		December 31, 2019		December 31, 2018
Cash flow hedge – interest rate risk	**$**	**257,085**	$	90,229
Cash flow hedge – electricity price risk		**(548)**		(1,626)
Cash flow hedge – foreign currency risk		**946**		1,174
Net investment hedge – foreign currency risk		**(8,307)**		(87,736)

18. Net Income (Loss) per Share

The calculation of basic net income (loss) per Share is based on the consolidated net income (loss) for the period, less preferred share dividends divided by the sum of the weighted average number of Shares outstanding and the weighted average number of Class A Shares. Diluted net income per Share is calculated by dividing consolidated net income (loss) for the period, less preferred share dividends, plus expenses related to the debt that is assumed to be converted by the weighted average number of Shares used in the basic net income (loss) per Share calculation plus the number of Shares that would be issued assuming conversion of the 2020 Debentures into Shares during the period.

The reconciliation of the numerator in calculating basic and diluted net income (loss) is as follows:

Year ended December 31,	2019	2018
Net income (loss) for the period attributable to common shareholders	**$ 320,764**	$ 278,130
Less: preferred share dividends, net	**(11,728)**	(11,554)
Net income (loss) attributable to common shareholders for basic earnings	**$ 309,036**	$ 266,576
Add back: convertible unsecured subordinated debentures interest and amortization	**6,436**	9,909
Net income (loss) attributable to common shareholders for diluted earnings	**$ 315,472**	$ 276,485

The reconciliation of the denominator in calculating basic and diluted per share amounts is as follows:

Year ended December 31,	2019	2018
Weighted average number of Shares outstanding	**179,322,200**	176,757,190
Weighted average number of Class A shares	**1,000,000**	1,000,000
Weighted average number of Shares outstanding, basic	**180,322,200**	177,757,190
Effect of dilutive securities:		
Convertible unsecured subordinated debentures	**7,302,353**	11,835,891
Weighted average number of Shares outstanding, diluted	**187,624,553**	189,593,081

19. Finance Costs

Net finance costs consist of the following:

Year ended December 31,	2019	2018
Interest on debt, borrowings and bank fees	**$ 292,457**	$ 310,639
Amortization of deferred financing costs	**36,197**	25,853
Discount on provisions for decommissioning liabilities [Note 13.1]	**4,435**	4,403
Lease interest [Note 8.2]	**1,685**	—
Finance income	**(3,606)**	(3,461)
Finance costs, net	**$ 331,168**	$ 337,434

For the year ended December 31, 2019, $22 million (2018 - $25 million) in interest was incurred related to facilities under construction, which was capitalized and included in construction-in-progress.

20. Impairment of Property, Plant and Equipment, Intangible Assets and Goodwill

Northland determined that assets at each facility will be grouped together to form a CGU for purposes of impairment testing. PP&E, intangible assets and goodwill have been allocated to CGUs to determine the carrying amount.

The recoverable amount of the CGUs is determined using the value-in-use method, whereby the net cash flow is determined based on current business plans and budgets approved by management. The calculation of value-in-use for all of the above CGUs is most sensitive to the following assumptions:

- Growth rate of 2% - The rate is used to extrapolate CGU cash flow projections in the discounted cash flow approach. The rate is based on readily available published industry research.
- Discount rate - Pre-tax discount rates reflect the current market assessment of the risks specific to each CGU. The discount rate was estimated based on the weighted average cost of capital for the industry. The rate was further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted.

The rates are as follows:

Pre-tax discount rates	October 1, 2019	October 1, 2018
Applicable to PPA cash flows:	5.2%	5.9%
Applicable to post-PPA cash flows:	7.2%	7.9%

During the fourth quarter of 2019, Northland completed its annual comprehensive impairment assessment based on value-in-use estimates derived from the long-range forecasts and market values observed in the marketplace. Northland did not identify any impairments of goodwill or reversals of prior impairments as a result of this review.

Deutsche Bucht Demonstrator Project

During the year ended December 31, 2019, Northland recognized an impairment of PP&E related to the Deutsche Bucht project. The Deutsche Bucht project consists of 31 turbines on monopile foundations and two turbines utilizing mono bucket foundations. Installation of the two turbines utilizing mono bucket foundations ("**Demonstrator Project**") was paused in the fourth quarter of 2019 following the identification of technical issues. A thorough evaluation of the cause of the technical issues is ongoing and there is a possibility that the Demonstrator Project may not proceed. As a result of this uncertainty, Northland determined that the related construction-in-progress asset was impaired as at December 31, 2019 and recognized an impairment loss of $98 million. The impairment reduced the Demonstrator Project construction-in-progress to nil.

21. Income Taxes

21.1 Tax Expense and Temporary Difference

The following table summarizes the tax expense reported in the consolidated statements of income (loss):

Year ended December 31,		2019		2018
Current taxes				
Based on taxable income of current year	**$**	**44,545**	$	36,297
Tax on dividend payments		**4,691**		4,622
Total current taxation expense	**$**	**49,236**	$	40,919
Deferred taxes				
Deferred tax on origination and reversal of temporary differences	**$**	**37,194**	$	36,705
Deferred tax due to changes in tax rates		**(7,194)**		6,945
Prior-year (under) over provision		**(509)**		(948)
Total deferred tax expense (recovery)	**$**	**29,491**	$	42,702
Total income tax expense (recovery)	**$**	**78,727**	$	83,621

The following table summarizes the tax expense reported directly in equity:

Year ended December 31,	2019	2018
Deferred taxes related to origination and reversal of temporary differences related to financing fees	$ —	$ 647
Deferred taxes related to change in fair value of hedged derivative contracts	**(14,933)**	(28,390)
Deferred taxes related to change in translation of net investment in foreign operations	**(1,881)**	1,304
Total income tax expense (recovery) in equity	**$ (16,814)**	$ (26,439)

The following table summarizes the reconciliation of Northland's effective tax rate:

Year ended December 31,	2019	2018
Combined basic Canadian federal and provincial income tax rate	**26.5%**	26.5%
Income (loss) before income taxes	**$ 530,481**	$ 489,129
Income tax expense (recovery) based on statutory rate	**140,577**	129,619
Adjustment for non-deductible (taxable) expenses and incentives	**(35,080)**	(33,101)
Deferred tax expense (recovery) relating to changes in tax rates or change in legal structure	**(7,194)**	6,945
Rate difference related to temporary differences in foreign jurisdictions	**3,437**	(694)
Manufacturing and processing rate reduction (cost)	**(4,914)**	(2,277)
Tax expense associated with payment of preferred share dividends	**4,691**	4,622
Minority interest	**(21,147)**	(20,462)
Other	**(1,643)**	(1,031)
Total income tax expense (recovery)	**$ 78,727**	$ 83,621

Northland, although resident in Canada, operates in a number of foreign jurisdictions. The enacted blended tax rates relevant to the computation of tax expense (recovery) are: Canada - 26.5% (2018 - 26.5%), Germany - 30.0% (2018 - 30.8%), the Netherlands - 25.0% (2018 - 25.0%) and Luxembourg - 24.9% (2018 - 26.0%). For Canada, the tax rate is computed using the average tax rate based on provincial allocations. In September 2019, the Dutch government updated its legislative proposals to reduce corporate tax rates to 21.7% in 2021 and onwards.

The following table summarizes the components of the deferred tax asset and liability:

As at December 31,	2019	2018
Deductible temporary differences		
Losses available for carryforward	**$ 35,058**	**$ 47,880**
Derivative financial instruments	**86,640**	**105,482**
Canadian renewable conservation expense	**21,255**	**21,158**
Financing fees	**16,618**	**18,162**
Tax credits	**3,176**	**3,177**
Interest available for carryforward	**16,526**	**7,014**
	$ 179,273	$ 202,873
Taxable temporary differences		
Contracts	**$ 128,379**	$ 150,309
Fair value debt increments	**12,745**	18,293
Property, plant and equipment	**229,644**	213,820
Other	**731**	—
	$ 371,499	$ 382,422

The following table reconciles the opening and ending balance of Northland's net deferred tax liability:

As at December 31,	2019	2018
Opening balance, net deferred tax liability	**$ 179,549**	$ 163,370
Tax liability recognized in business combination	**—**	(105)
Tax expense (recovery) recognized in income statement	**29,491**	42,702
Tax expense (recovery) on change in fair value of hedged derivative contracts in OCI	**(14,932)**	(28,390)
Tax expense (recovery) on change in translation of net investment in foreign operations in OCI	**(1,881)**	1,304
Tax expense (recovery) recognized in equity	**—**	647
Other	**(1)**	21
Ending net, deferred tax liability	**$ 192,226**	$ 179,549

Northland has recognized a deferred tax asset of $46 million (2018 - $50.7 million) for Gemini with respect to unused losses and other tax attributes available for carry forward. Management has assessed the probability of future taxable income arising within the available carry forward period of these tax benefits and has concluded that it is probable that the benefit will be realized based on its estimate of future cash flows.

The following temporary differences have not been recognized in Northland's consolidated financial statements:

Year ended December 31,	2019	2018
Non-capital losses carried forward	**$ 7,400**	$ 5,384
Net capital loss	**2,222**	8,448
Outside basis difference on shares of foreign affiliate	**5,184**	5,184
Total deductible temporary differences	**$ 14,806**	$ 19,016

Northland has operating losses available for carry forward in Canada and Mexico of $69 million and $4 million, respectively, which expire beginning in 2025.

The operating losses are expected to expire as follows:

	Canada	Germany	Mexico
2025 – 2028	$ —	$ 8,306	$ 2,527
2029 – 2033	877	59,910	1,591
2034 – 2038	66,547	—	—
2039 – 2043	1,289	—	—
Total	**$ 68,713**	**$ 68,216**	**$ 4,118**

21.2 Temporary Differences Associated with Northland Investments

The taxable temporary difference associated with investments in Northland's subsidiaries is $69 million (2018 - $57 million). A deferred tax liability associated with these investments has not been recognized because Northland controls the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

Northland assesses its liabilities and contingencies for all tax years open to audit based upon the latest information available. For those matters where it is probable that an adjustment will be made, Northland has recorded its best estimate of these liabilities, including related interest charges. Inherent uncertainties exist in estimates of tax contingencies due to implementation of changes in tax laws. Although Northland believes it has adequately provided for the probable outcome of these matters, future results may include favourable adjustments to these estimated tax liabilities in the period the assessments are made or resolved or when the statute of limitation lapses. The final outcome of tax examinations may result in a materially different outcome than assumed in the tax liabilities.

22. Operating Segment Information

Northland identified the operating segments as outlined in the table below based on the nature of operations and asset class. Northland analyzes the performance of its operating segments based on their operating income, which is defined as revenue less operating expenses.

Significant information for each segment for the consolidated statements of income (loss) is as follows:

Year ended December 31, 2019	**Offshore Wind**	**Thermal**	**On-shore Renewable**	**Other [1]**	**Eliminations**	**Total**
External sales	**$ 1,005,717**	**$ 421,154**	**$ 219,180**	**$ 12,926**	**$ —**	**$ 1,658,977**
Inter-company sales	**—**	**—**	**—**	**155,937**	**(155,937)**	**—**
Total sales	**$ 1,005,717**	**$ 421,154**	**$ 219,180**	**$ 168,863**	**$ (155,937)**	**$ 1,658,977**
Cost of sales	**—**	**106,022**	**—**	**10,266**	**—**	**116,288**
Operating costs	**128,582**	**54,229**	**31,365**	**—**	**—**	**214,176**
General and administrative costs	**7,717**	**879**	**1,122**	**81,111**	**—**	**90,829**
Depreciation of PP&E	**292,237**	**49,977**	**92,820**	**3,770**	**—**	**438,804**
Other income [2]	**—**	**(12,354)**	**—**	**(2,466)**	**—**	**(14,820)**
Operating income	**$ 577,181**	**$ 222,401**	**$ 93,873**	**$ 76,182**	**$ (155,937)**	**$ 813,700**
Finance costs, net	**$ 192,271**	**$ 56,055**	**$ 59,111**	**$ 23,731**	**$ —**	**$ 331,168**

(1) Other external sales includes energy marketing activities. Other inter-segment sales include inter-company management fees, energy marketing activities and maintenance services, which are eliminated on consolidation.

(2) Other income includes investment income and finance lease income.

Year ended December 31, 2018	**Offshore Wind**	**Thermal**	**On-shore Renewable**	**Other [1]**	**Eliminations**	**Total**
External sales	$ 931,056	$ 405,956	$ 214,266	$ 4,309	$ —	$ 1,555,587
Inter-company sales	—	—	—	95,209	(95,209)	—
Total sales	$ 931,056	$ 405,956	$ 214,266	$ 99,518	$ (95,209)	$ 1,555,587
Cost of sales	—	110,643	—	3,578	—	114,221
Operating costs	143,443	51,499	31,353	—	—	226,295
General and administrative costs	9,696	2,195	1,083	67,232	—	80,206
Depreciation of PP&E	272,564	49,732	90,827	2,038	—	415,161
Other income [2]		(12,660)		(484)		(13,144)
Operating income	$ 505,353	$ 204,547	$ 91,003	$ 27,154	$ (95,209)	$ 732,848
Finance costs, net	$ 195,307	$ 58,587	$ 58,399	$ 25,141	$ —	$ 337,434

(1) Other external sales includes energy marketing activities. Other inter-segment sales include inter-company management fees, energy marketing activities and maintenance services, which are eliminated on consolidation.

(2) Other income includes investment income and finance lease income.

Significant information for each segment for the consolidated balance sheets is as follows:

As at December 31, 2019	**PP&E, net**	**Contracts and other intangibles, net**	**Goodwill**	**Equity-accounted investments (1)**	**Total assets**
Offshore wind	**$ 5,896,431**	**$ 463,363**	**$ —**	**$ —**	**$ 7,121,648**
Thermal	**901,963**	**57,687**	**150,201**	**—**	**1,429,373**
On-shore renewable	**1,235,757**	**—**	**54,741**	**—**	**1,368,631**
Other	**38,368**	**—**	**—**	**5,263**	**559,016**
Total	**$ 8,072,519**	**$ 521,050**	**$ 204,942**	**$ 5,263**	**$ 10,478,668**

(1) Includes investments in associates and joint ventures [Note 4.1].

As at December 31, 2018	**PP&E, net**	**Contracts and other intangibles, net**	**Goodwill**	**Equity-accounted investment**	**Total assets**
Offshore wind	$ 5,883,408	$ 517,253	$ —	$ —	$ 7,369,367
Thermal	949,800	63,844	150,201	—	1,486,609
On-shore renewable	1,258,585	—	54,741	—	1,368,366
Other	14,052	—	—	3,696	111,608
Total	$ 8,105,845	$ 581,097	$ 204,942	$ 3,696	$ 10,335,950

Information on operations by geographic area is as follows:

Sales

Year ended December 31,	**2019**	**2018**
Europe	**$ 653,260**	$ 624,531
North America	**1,005,717**	931,056
Total	**$ 1,658,977**	$ 1,555,587

Property, plant and equipment, net

As at December 31,	**2019**	**2018**
Europe (1)	**$ 5,916,661**	$ 5,883,409
North America	**2,114,748**	2,222,436
Latin America	**41,110**	—
Total	**$ 8,072,519**	$ 8,105,845

(1) Includes PP&E related to non-operating corporate assets.

23. Related-party Disclosures

23.1 Compensation of Key Management Personnel

Remuneration of key management personnel, consisting of the Board of Directors and members of executive management, expensed in the year ended December 31, 2019 is outlined in the table below. In 2019, Northland did not grant any Shares to key management personnel to settle share-based compensation (2018 - 23,467 Shares). Share-based compensation is tied directly to executive seniority and the success of development and construction projects as well as acquisition activities.

Year Ended December 31,	**2019**	**2018**
Salaries and short-term employee benefits	**$ 8,511**	$ 6,463
Share-based compensation (non-cash compensation expense)	**—**	583
Share-based compensation cash component	**30**	2,477
Total	**$ 8,541**	$ 9,523

23.2 Transactions with Shareholders

On April 5, 2019, a secondary offering closed for Northland's Shares held by entities controlled by James Temerty, the Chair of the Board of Directors of Northland at the time. A total of 36,938,000 Shares were sold at a price of $23.35 per Share. Northland did not receive any proceeds from this transaction. Aside from this secondary offering, there were no material transactions during the year ended December 31, 2019 with shareholders of Northland.

23.3 Entity with Significant Influence Over Northland

As of December 31, 2019, James C. Temerty, Director of Northland Power Inc., owns or has control or direction over 20,740,884 Shares, representing 11.6% of the outstanding Shares, (2018 - 57,625,884 Shares) and 1,000,000 Class A Shares, representing 100% of the Class A Shares. If all of the Class A Shares were converted into Shares, Mr. Temerty would beneficially own or have control or direction over 12.0% of the then outstanding Shares.

24. Litigation, Claims, Contingencies and Commitments

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.

24.1 Acquisition of EBSA Post-Closing Adjustment and Dividend Equivalent Payment

On January 14, 2020, Northland completed its previously announced acquisition of a 99.2% interest in EBSA. See Note 4.2 for details. The final purchase price will depend on the results of a review of the tariff resolution issued in December 2019 and may require Northland to make additional payments in relation to the EBSA Acquisition.

As a result of the close the EBSA Acquisition, a dividend equivalent cash payment equal to $0.40 per Subscription Receipt was paid to the Subscription Receipt holders. See Note 14.4 for details.

24.2 Insurance Proceeds

During 2018 and 2019, Northland received insurance proceeds related to a construction claims, which appear in "other (income) expense" in the consolidated statements of income (loss). The related claims were resolved as of December 31, 2019.

24.3 Commitments

The following is a summary of the material commitments that Northland and its subsidiaries have entered into as at December 31, 2019, in addition to the commitments outlined in the above notes.

The majority of Northland's revenues are earned under long-term PPAs with government-related entities. In certain circumstances, if a facility fails to meet the performance requirements under its respective PPA, penalties may apply or the contract may be terminated after a specified period of time.

Certain Northland gas-fired facilities and corporate subsidiaries have entered into agreements for the purchase of natural gas and natural gas transportation for various terms. Certain contracts include penalties for failure to purchase a minimum annual volume of natural gas or, in the case of transportation agreements, include substantial demand charges incurred whether or not gas is shipped.

Northland's natural-gas-fired turbines and wind turbines are maintained under long-term contracts with the original equipment suppliers. In certain circumstances, if Northland were to terminate any of the agreements, the termination payment would be material.

Under certain circumstances, Northland provides parental guarantees to third-parties. As at December 31, 2019, outstanding parental guarantees issued totaled $135 million and related primarily to the construction of La Lucha.

24.4 Capital Commitments

In the normal course of operations, as at December 31, 2019, Northland has committed to future spending of approximately $123 million on capital projects, primarily relating to the construction of La Lucha.

Corporate Information

DIRECTORS AND EXECUTIVE OFFICERS OF NORTHLAND POWER INC.

DIRECTORS

Mr. John W. Brace (Chair)
Mr. James C. Temerty
Ms. Linda L. Bertoldi
Dr. Marie Bountrogianni
Mr. Barry Gilmour
Mr. Russell Goodman
Mr. Keith Halbert

EXECUTIVE OFFICERS

Mr. Mike Crawley
President and Chief Executive Officer

Mr. Paul J. Bradley
Chief Financial Officer

Mr. Troy Patton
Chief Operations Officer

Mr. David Povall
Executive Vice President, Development

Mr. Morten Melin
Executive Vice President, Construction

Mr. Michael D. Shadbolt
Vice President and General Counsel

Ms. Tracy Robillard
Secretary

GENERAL INFORMATION

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
100 University Avenue
Toronto, Ontario, Canada
M5J 2Y1
Attention: Equity Services

COMMON SHARES, DEBENTURES AND PREFERRED SHARES

Northland's common shares and Series C convertible unsecured subordinated debentures and Series 1, Series 2 and Series 3 preferred shares are listed on the Toronto Stock Exchange and trade under the symbols NPI, NPI.DB.C, NPI.PR.A, NPI.PR.B and NPI.PR.C, respectively.

CONTACT INFORMATION

INVESTOR RELATIONS

Mr. Wassem Khalil
Senior Director, Investor Relations and Strategy
647-288-1019
investorrelations@northlandpower.com

NORTHLAND POWER

30 St. Clair Avenue West
12th floor
Toronto, Ontario, Canada
M4V 3A1
416-962-6262
northlandpower.com

VISION

To be a top clean and green developer, constructor, owner, and operator of sustainable infrastructure assets, inspiring our people to achieve a sustainable and prosperous future for all stakeholders.

NORTHLAND POWER

30 St. Clair Avenue West - 12th Floor, Toronto, Ontario, Canada M4V 3A1

PRINTED ON RECYCLED PAPER