The following is a discussion of the consolidated financial position and operating results of Northland Power Inc. **("Northland" or "the Company")** as of December 31, 2016, and for the fiscal year then ended. This management's discussion and analysis **(MD&A)** should be read in conjunction with Northland's 2016 audited consolidated financial statements and accompanying notes. Additional information relating to Northland can be found in the Company's 2016 Annual Information Form **(AIF)**, which is filed electronically on SEDAR at www.sedar.com under Northland's profile and posted on Northland's website at www.northlandpower.ca. Northland's audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards **(IFRS)**, and amounts in this MD&A are in thousands of Canadian dollars or thousands of share amounts unless otherwise indicated.

Throughout this MD&A, management makes use of non-IFRS measures such as adjusted earnings before interest, income taxes, depreciation and amortization **("adjusted EBITDA")**, free cash flow, free cash flow payout ratio (or payout ratio) and free cash flow per share to help explain and assess Northland's financial results. These measures as presented may not be comparable to similar measures presented by other companies and should not be considered alternatives to net income, 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. For an explanation of these non-IFRS measures and reconciliations to the nearest IFRS measure, readers should refer to *Section 4: Non-IFRS Financial Measures* for an explanation of these non-IFRS measures, *Section 5: Consolidated Results* for an explanation of adjusted EBITDA and a reconciliation of Northland's reported adjusted EBITDA to its consolidated net income (loss) and *Section 6: Equity, Liquidity and Capital Resources* for an explanation of free cash flow and a reconciliation of Northland's free cash flow to its cash provided by operating activities.

The purpose of this MD&A is to help the reader understand the nature and importance of changes and trends in the business, as well as the risks and uncertainties that may affect Northland's operating results and financial position. Accordingly, this MD&A contains forward-looking statements that are based on certain estimates and assumptions that were considered reasonable on March 2, 2017; actual results may differ materially. Readers should refer to *Section 17: Forward-Looking Statements* in this MD&A for additional information regarding forward-looking statements.

This MD&A dated March 2, 2017, compares Northland's fiscal 2016 financial results and financial position with those of fiscal 2015 and is organized as follows:

Section 1: Description of Business

As of December 31, 2016, Northland owns or has a net economic interest in operating power-producing facilities with a total capacity of approximately 1,394 megawatts **(MW).** Northland's operating assets comprise facilities that produce electricity from renewable resources and natural gas for sale primarily under long-term power purchase agreements **(PPAs)** with creditworthy customers in order to ensure cash flow stability. As of December 31, 2016, Northland had the following projects under construction: the 600 MW (360 MW net interest to Northland) Gemini offshore wind project and 332 MW (282 MW net interest to Northland) Nordsee One offshore wind project.

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

i. Iroquois Falls Power Corp., which owns a 120 MW natural-gas-fired cogeneration facility located in Northern Ontario, together herein referred to as **"Iroquois Falls";**

ii. Kingston CoGen Limited Partnership, which owns a 110 MW natural-gas-fired combined-cycle facility located in Eastern Ontario, together herein referred to as **"Kingston";**

iii. Thorold CoGen L.P., which owns a 265 MW natural-gas-fired cogeneration facility located in the Niagara region of Ontario, together herein referred to as **"Thorold";**

iv. North Battleford Power L.P., which owns a 260 MW natural-gas-fired combined-cycle facility located near Saskatoon in central Saskatchewan, together herein referred to as **"North Battleford";**

v. Spy Hill Power L.P., which owns an 86 MW natural-gas-fired peaking facility located in eastern Saskatchewan, together herein referred to as **"Spy Hill";**

vi. Saint-Ulric Saint-Léandre Wind L.P., which owns a 133.3 MW wind farm located in the Gaspésie region of Québec, together herein referred to as **"Jardin";**

vii. Mont-Louis Wind L.P., which owns a 100.5 MW wind farm located in the Gaspésie region of Québec, together herein referred to as **"Mont Louis";**

viii. DK Windpark Kavelstorf GmbH & Co. KG and DK Burgerwindpark Eckolstädt GmbH & Co. KG, which own two wind farms totalling 21.5 MW located in eastern Germany, together herein referred to as the **"German wind farms";**

ix. Ground-mounted solar partnerships, which consist of 13 operating 10 MW solar facilities (the nine solar facilities totalling 90 MW in eastern and central Ontario are together herein referred to as **"NPI Ground-mounted Solar,"** and the final four facilities totalling 40 MW (25 MW net interest to Northland) in Northern Ontario are together herein referred to as **"Cochrane Solar");**

x. McLean's Mountain Wind Limited Partnership, which owns the 60 MW (30 MW net interest to Northland) wind farm on Manitoulin Island in Ontario, together herein referred to as **"McLean's";**

xi. Grand Bend Wind Limited Partnership, which owns the 100 MW (50 MW net interest to Northland) wind farm in southern Ontario, together herein referred to as **"Grand Bend";**

xii. ZeeEnergie C.V. and Buitengaats C.V., which collectively own the 600 MW (360 MW net interest to Northland) offshore wind project under construction off the coast of the Netherlands in the North Sea, together herein referred to as **"Gemini"**; and

xiii. Nordsee One GmbH, which owns the 332 MW (282 MW net interest to Northland) offshore wind project in construction off the German coast in the North Sea, **"Nordsee One."**

Northland's financial results consolidate the financial results for the Kirkland Lake and Cochrane facilities that Northland continues to manage on behalf of third-party, non-voting shareholders and Canadian Environmental Energy Corporation **(CEEC).** Northland also has a 75% equity interest in four small rooftop solar projects in Ontario and receives management fees from Chapais Énergie, Société en Commandite **("Chapais")** for managing its 28 MW biomass-fired power facility in Chapais, Québec.

Readers should refer to Northland's 2016 AIF, dated March 2, 2017, for further details on Northland's facilities.

As a result of acquiring a controlling interest in Gemini in May 2014 and in Nordsee One in September 2014, Northland's audited consolidated financial statements also include Gemini's and Nordsee One's financial results. Significant Gemini and Nordsee One items included in Northland's audited consolidated financial statements are as follows:

- Cash and cash equivalents of $4.7 million;
- Restricted cash of $146.9 million;
- Current assets (excluding cash and cash equivalents and restricted cash) of $21.8 million;
- Property, plant and equipment of $4.7 billion;
- Contracts and other intangibles of $157.5 million;
- Long-term deposits of $50.4 million;
- Current liabilities of $248.9 million;
- Decommissioning provisions of $102.2 million;
- Interest-bearing loans and borrowings, net of costs (excluding intercompany amounts) of $3.5 billion;
- Cumulative unrealized fair value loss on the long-term derivative contracts of $323.2 million; and
- Sales of $266.1 million.

Northland's common shares **("Shares")**, cumulative rate reset preferred shares, series 1 **("Series 1 Preferred Shares")**, cumulative rate reset preferred shares, series 2 **("Series 2 Preferred Shares")**, cumulative rate reset preferred shares, series 3 **("Series 3 Preferred Shares")**, Series B convertible unsecured subordinated debentures **("2019 Debentures")**, and Series C convertible unsecured subordinated debentures **("2020 Debentures")** qualify as investments for RRSPs and DPSPs under the Canadian Income Tax Act.

Section 2: Strategy and Key Factors Supporting Sustainability

Investment Objective

Northland's objective is to provide shareholders with stability and growth from assets, businesses and investments related to the production, delivery and sale of electricity-related products. Northland defines stability as producing steady and sustainable levels of free cash flow to support a consistent dividend payout on its Shares over the long term. Northland derives growth primarily from developing, financing, constructing, owning, operating and managing power generation facilities that sell electricity and related products pursuant to long-term agreements.

Strategy

Northland aims to increase shareholder value by developing high-quality projects supported by long-term revenue contracts while carefully managing and mitigating risks. Northland employs strategic approaches to all aspects of developing, financing, constructing and operating its clean and green power projects. Northland's on-time, on-budget project execution record and consistent investor returns result from these strategic objectives. Northland's management team collectively has more than 200 years of power industry experience and an average tenure at Northland of over 15 years. This team manages the Company's operating assets to optimize efficiency, long-term profitability, best-in-class health and safety performance and to ensure compliance with permits and respect for the environment and host communities. With a focus on continual improvement, Northland's operating experiences are shared with its development, engineering and construction groups on an ongoing basis to ensure this knowledge is factored into the development and construction of all new projects the Company undertakes.

In pursuing growth, Northland seeks out technologies and jurisdictions where an early-mover advantage can be applied. Northland utilizes its long-term experience to identify and execute development opportunities that are expected to produce stable cash flows. The Company develops projects utilizing different technologies, such as thermal (natural-gas-fired and biomass), wind (onshore and offshore) and solar. Renewable energy from wind and solar is attractive due to government policies aimed at sustainability and reducing greenhouse gas emissions. Clean-burning natural-gas-fired plants provide reliable baseload and dispatchable power, grid support and backup for renewable generation as needed by the customer. Northland's principal regional focus for growth initiatives will be Canada, the United States, Europe, Mexico, Taiwan and potentially other jurisdictions that match Northland's strict risk management criteria. Northland manages its development processes prudently by constantly balancing costs against the probability of success.

Northland prudently maintains sufficient liquidity to meet short- and medium-term cash needs and ensures that the Company has access to sufficient resources to capitalize on opportunities as they arise. Northland finances its projects primarily with non-recourse project debt with fixed or hedged interest rates and repayment tied to the terms of the projects' initial PPAs. 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.

Long-Term Contracts

A key focus of Northland's strategy is ensuring the majority of revenues and costs are predetermined under long-term contracts with creditworthy counterparties. The major terms of Northland's long-term PPAs and fuel supply contracts (where applicable) are aligned for each facility such that revenues and cost escalations are substantially linked, providing long-term predictability for each facility's operating income.

The following table lists the counterparties and the expiry year of the revenue contracts for each of Northland's generating facilities and the expiry year of the corresponding fuel supply contract. Except as otherwise noted in the AIF, all power off-takers are investment-grade as appraised by one or more rating agencies.

Operating and Managed Facilities

Project	Gross project capacity	Economic interest	Northland economic interest capacity	Contract counterparty	PPA term	Fuel supply term
THERMAL						
Iroquois Falls	120.0 MW	100%	120.0 MW	OEFC†	December 2021	2021[1]
Kingston	110.0 MW	100%	110.0 MW	OEFC	January 2017[2]	2017
Thorold	265.0 MW	100%	265.0 MW	IESO††	March 2030	N/A[3]
Spy Hill	86.0 MW	100%	86.0 MW	SaskPower	October 2036	N/A[4]
North Battleford	260.0 MW	100%	260.0 MW	SaskPower	June 2033	N/A[4]
RENEWABLE						
Jardin	133.3 MW	100%	133.3 MW	Hydro-Québec	November 2029	N/A[5]
Mont Louis	100.5 MW	100%	100.5 MW	Hydro-Québec	September 2031	N/A[5]
German wind farms	21.5 MW	100%	21.5 MW	N/A[6]	N/A[6]	N/A[5]
NPI Ground-mounted Solar	90.0 MW	100%	90.0 MW	IESO	2033–2035	N/A[5]
Cochrane Solar	40.0 MW	62.5%[7]	25.0 MW	IESO	2033–2035	N/A[5]
McLean's	60.0 MW	50.0%	30.0 MW	IESO	April 2034	N/A[5]
Grand Bend	100.0 MW	50.0%[8]	50.0 MW	IESO	April 2036	N/A[5]

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Project	Gross project capacity	Economic interest	Northland economic interest capacity	Contract counterparty	PPA term	Fuel supply term
MANAGED/OTHER						
Kirkland Lake	132.0 MW	77%(9)	101.6 MW	IESO/OEFC	August 2030/2035	2030
Rooftop solar	1.0 MW	75%	0.8 MW	IESO	April–September 2031	N/A(5)

† Ontario Electricity Financial Corporation **(OEFC).**

†† Independent Electricity System Operator **(IESO),** which effective January 1, 2015, merged with the Ontario Power Authority to continue as the IESO.

(1) Northland entered into a long-term financial natural gas contract primarily to stabilize the price of future natural gas purchases from 2017 until the end of the PPA in 2021.

(2) Kingston's PPA expired as of January 31, 2017. Northland is continuing discussions with the OEFC to extend the PPA subject to economic terms and conditions.

(3) Thorold purchases natural gas at spot market prices; the commodity cost and variable transportation charges are effectively recovered through sales of electricity to the Ontario wholesale electricity market.

(4) SaskPower provides all required fuel to operate the facility and assumes all natural gas price risk under the long-term PPA.

(5) Wind and solar availability is based on long-term site studies undertaken as part of the development decision-making process.

(6) German electricity production is purchased by local power utilities at predetermined prices under German federal legislation.

(7) In June 2015, Northland completed the sale of its 37.5% equity interest in Northland's Cochrane facilities to a corporation controlled by its First Nations partners.

(8) In March 2015, Northland issued a 50% interest in Grand Bend Wind Limited Partnership to a corporation controlled by its First Nations partners.

(9) Northland has a 68% controlling interest in CEEC, which owns the voting shares in Kirkland Lake and Cochrane, resulting in Northland having a 77% residual economic interest in these facilities.

Projects Under Construction

Project	Gross project capacity	Economic interest	Northland economic interest capacity	Region	Contract counterparty	PPA term[1]
Gemini offshore wind	600.0 MW	60%	360.0 MW	The Netherlands	Government of the Netherlands[2]	15 years
Nordsee One offshore wind	332.0 MW	85%	282.0 MW	Germany	Government of Germany[2]	Approximately 10 years

(1) From the commercial operations date.

(2) The main source of revenue is ultimately an obligation of the contract counterparty.

Post-Contract Economics

Northland's operating facilities earn revenue under long-term PPAs that generally have initial terms of 20 to 25 years. Certain PPAs (i.e., Kingston and Iroquois Falls) contain an option to be extended with the OEFC upon reaching mutually agreed pricing levels. The initial term of Kingston's PPA expired in January 2017, and Northland is continuing to work with the OEFC to extend the PPA; however, a mutually agreeable price and structure have not been reached to date. Alternative revenue sources for Kingston, including exporting electricity to other jurisdictions, are being actively explored. Negotiations to extend the PPA at Northland's Iroquois Falls facility will begin prior to 2021. The Cochrane facility, which was unable to extend its PPA past its expiration date of May 11, 2015, has ceased operations.

Section 3: Facility Results

Northland's Thermal Facilities

The following is a discussion of the operating results for Northland's thermal facilities for the years ended December 31:

In thousands of dollars except as indicated	**2016**	2015	2014
Electricity production (MWh*)			
Iroquois Falls	**702,861**	723,712	690,747
Kingston	**719,686**	773,691	761,449
Other[1]	**2,767,971**	2,740,685	2,726,963
	4,190,518	4,238,088	4,179,159
Sales			
Iroquois Falls	**156,579**	107,758	91,049
Kingston	**110,564**	111,727	113,220
Thorold	**88,897**	89,441	115,440
Spy Hill[2]	**22,602**	21,916	24,444
North Battleford	**153,996**	160,952	182,565
	532,638	491,794	526,718
Less finance lease adjustment	**(16,188)**	(16,188)	(16,186)
Sales as reported	**516,450**	475,606	510,532
Cost of sales	**164,741**	173,364	219,706

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In thousands of dollars except as indicated	**2016**	2015	2014
Gross profit			
Iroquois Falls	**116,973**	69,066	48,044
Kingston	**54,080**	58,319	61,400
Thorold	**66,381**	62,645	69,044
Spy Hill(2)	**19,103**	18,516	18,391
North Battleford	**111,360**	109,884	110,133
	367,897	318,430	307,012
Less finance lease adjustment	**(16,188)**	(16,188)	(16,186)
Gross profit as reported	**351,709**	302,242	290,826

Plant operating costs			
Iroquois Falls	**9,447**	9,356	8,686
Kingston	**5,732**	5,650	6,239
Thorold	**9,540**	9,305	9,867
Spy Hill	**1,882**	1,666	1,750
North Battleford	**13,464**	13,464	13,034
	40,065	39,441	39,576
Operating income	**267,403**	214,169	203,241

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In thousands of dollars except as indicated	2016	2015	2014
Adjusted EBITDA[(3)]			
Iroquois Falls	**107,545**	58,440	39,274
Kingston	**48,067**	52,433	54,930
Thorold	**56,811**	53,248	59,081
Spy Hill	**17,200**	16,828	16,614
North Battleford	**97,872**	96,395	97,059
	327,495	277,344	266,958

Capital expenditures[(4)]	**1,510**	803	1,497

* Megawatt hour, a unit of electrical energy equal to 1,000 kilowatt hours.

(1) "Other" includes electricity production at North Battleford, Thorold and Spy Hill, which have contractual structures that effectively provide for a pass-through of variable production costs and are generally not affected financially by changes in production levels.

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

(3) A non-IFRS measure.

(4) Capital expenditures exclude construction-related capital items. The majority of gas turbine maintenance is provided under long-term, fixed-price contracts that are charged to the consolidated statement of income based on the terms of those contracts.

Northland's thermal assets comprise both baseload and dispatchable facilities. The Iroquois Falls and Kingston baseload plants were operated at full output with the objective of generating 100% of contracted on-peak and off-peak production volumes and received a fixed price for all electricity sold up until January 1, 2017, and January 31, 2017, respectively. Production levels and sales at these two facilities have an impact on gross profit for the year ended December 31, 2016.

The North Battleford baseload plant is operated to generate at full output during on-peak periods and at reduced output during off-peak periods at the request of the power purchaser. The PPA is designed to provide generally stable gross profit based on North Battleford's ability to operate according to its contractual parameters regardless of production or sales levels.

Thorold and Spy Hill are dispatchable facilities and operate either when market conditions are economic or as requested by the PPA counterparty. These facilities receive contract payments that are largely dependent on their ability to operate according to contract parameters as opposed to maximizing production or sales, and the payments ensure gross profit is generally stable regardless of production or sales levels. Additional information relating to the thermal facility contracts can be found in Northland's AIF, which is filed electronically on SEDAR at www.sedar.com under Northland's profile.

Electricity production during 2016 was 47,570 MWh lower than the prior year primarily due to fewer economic production periods and dispatch requests at the Thorold facility (72,070 MWh), a decrease in production at the Kingston facility (54,005 MWh) due to paid curtailment opportunities, and planned outages at the Iroquois Falls facility (20,851 MWh). These results were partially offset by higher production at the Spy Hill and North Battleford facilities. Changes in the volume of electricity produced at Thorold, Spy Hill and North Battleford have a minimal impact on gross profit given the natures of those facilities' PPAs.

Sales during 2016 at $516.5 million were $40.8 million or 9% higher than the prior year primarily due to the one-time retroactive payments earned at the Iroquois Falls facility ($41.6 million) in the fourth quarter of 2016 associated with the price escalation from the OEFC in connection with the previously disclosed decision of the Ontario Court of Appeal dated April 19, 2016 **(the "Global Adjustment Decision")** (see *Section 12: Litigation, Claims and Contingencies*), as well as an increase in revenue at the Iroquois Falls facility ($7.2 million) largely due to the price escalation resulting from the OEFC court decision. These results were partially offset by lower flow-through energy gas costs at the North Battleford facility ($7 million).

Gross profit during 2016 at $351.7 million was $49.5 million or 16% higher than the prior year primarily due to higher gross profit at the Iroquois Falls facility ($47.9 million) driven by the one-time revenues earned, as described above.

Plant operating costs of $40.1 million were consistent with 2015.

Operating income and adjusted EBITDA for the thermal facilities were higher than 2015 for the same reasons as the gross profit variance described above.

As of January 1, 2017, Iroquois Falls entered into a four-month enhanced dispatch agreement with the IESO to operate the facility as a dispatchable plant.

The initial term of the Kingston PPA expired on January 31, 2017, and if the facility continues to operate it will be in a dispatchable or enhanced dispatchable mode.

THERMAL FACILITIES OUTLOOK

Management expects all of Northland's thermal facilities in 2017 to operate in line with 2016, other than the Kingston facility as discussed below. No extended outages are expected from Northland's operating thermal facilities. It is expected that gross profit from the Iroquois Falls facility will be in line with 2016 under the four-month enhanced dispatch agreement.

The one-time retroactive PPA payment that was included in Iroquois Falls in 2016 as a result of the Global Adjustment Decision will not repeat in 2017.

Kingston's PPA initial term expired on January 31, 2017, but an extension is negotiable under the PPA. Management continues negotiation efforts with the OEFC for an extended term and is evaluating all revenue alternatives, including the ability to sell power and/or capacity in the IESO and the New York Independent System Operator markets. Revenue for Kingston beyond the initial term of its PPA cannot be assured.

Northland's Renewable Facilities

The following is a discussion of the operating results for Northland's renewable facilities for the years ended December 31:

In thousands of dollars except as indicated	2016	2015	2014
Electricity production (MWh)	**1,197,963**	1,006,742	884,562
Electricity production (MWh) – long-term forecast	**1,075,510**	1,036,080	928,622
Sales[1]			
Jardin	**23,413**	25,246	24,044
Mont Louis	**21,126**	23,007	20,967
German wind farms	**3,452**	4,066	3,407
McLean's	**23,310**	24,313	13,323
Grand Bend	**30,825**	–	–
Ground-mounted Solar[2]	**89,929**	67,096	52,107
	192,055	143,728	113,848
Plant operating costs			
Jardin	**5,416**	6,057	5,810
Mont Louis	**5,520**	5,374	4,915
German wind farms	**1,191**	1,555	1,162
McLean's	**4,582**	4,036	2,439
Grand Bend	**4,269**	–	–
Ground-mounted Solar	**4,914**	3,715	2,797
	25,892	20,737	17,123
Operating income	**76,814**	59,903	45,101

continued...

In thousands of dollars except as indicated	2016	2015	2014
Adjusted EBITDA[(3)]			
Jardin	**17,966**	19,159	18,086
Mont Louis	**15,586**	17,608	15,938
German wind farms	**1,809**	2,719	1,808
McLean's[(4)]	**9,550**	10,312	5,561
Grand Bend[(4)]	**14,431**	–	–
Ground-mounted Solar[(4)]	**75,784**	61,277	49,198
	135,126	111,075	90,591

Capital expenditures[(5)]	**2,533**	64	563

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

(2) Cochrane Solar began commercial operations in the second half of 2015.

(3) A non-IFRS measure.

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

(5) Capital expenditures exclude construction-related items. The majority of wind turbine maintenance is provided under long-term, fixed-price contracts that are charged to the consolidated statement of income based on the terms of those contracts.

Renewable Facility Performance

Electricity production during 2016 exceeded the prior year by 191,221 MWh or 19% primarily due to the 188,824 MWh contribution from the Grand Bend facility, which declared commercial operations on April 19, 2016, as well as an additional 50,443 MWh of solar production primarily from the Cochrane Solar sites, which were commissioned between July and October of 2015. These results were partially offset by a 48,046 MWh decrease in production at the other wind facilities caused primarily by lower wind resources.

Excluding the incremental contribution from the Grand Bend facility, which was not included in the 2016 long-term forecast, wind production was 7% below the long-term forecast, largely due to lower wind resources at McLean's and Jardin and downtime at McLean's during the third quarter of 2016. Solar production was 4% below the long-term production forecast largely due to unusually high cloud coverage at Cochrane Solar. The long-term production forecasts for Northland's wind farms and solar projects were prepared by specialized consulting firms prior to the start of construction.

During 2016, sales, plant operating costs, operating income and adjusted EBITDA were all higher than 2015 due primarily to incremental contributions from Grand Bend and Cochrane Solar: sales of $192.1 million were $48.3 million higher, plant operating costs of $25.9 million were $5.2 million higher, operating income of $76.8 million was $16.9 million higher and adjusted EBITDA of $135.1 million was $24.1 million higher.

RENEWABLE FACILITIES OUTLOOK

Northland expects 2017 electricity production and financial results for its renewable facilities to exceed 2016 due to the inclusion of the Grand Bend facility for a full year of operations.

Northland's Managed Facilities

The following is a discussion of the operating results for Northland's managed facilities (Kirkland Lake, Cochrane and management fees from Chapais) for the years ended December 31:

In thousands of dollars	2016	2015	2014
Sales	124,391	108,807	135,691
Cost of sales	28,499	52,328	71,040
Gross profit	95,892	56,479	64,651
Plant operating costs	16,029	17,212	21,715
Operating income	75,450	36,236	34,216
Adjusted EBITDA(1)	61,104	33,951	32,359

(1) Adjusted EBITDA, a non-IFRS measure, represents management and incentive fees earned by Northland from services provided to Kirkland Lake, Chapais and Cochrane.

The Kirkland Lake baseload facility is operated with the objective of generating 100% of contracted on-peak and off-peak production volumes and receives fixed prices for all electricity sold depending on the time of day and season. The Cochrane facility was operated in the same manner prior to its closure on May 11, 2015, due to the non-renewal of the PPA.

Sales and gross profit in 2016 were higher than the prior year ($15.6 million and $39.4 million, respectively) primarily due to one-time retroactive payments received as a result of the Global Adjustment Decision (see *Section 12: Litigation, Claims and Contingencies*). The Kirkland Lake facility received $43.3 million in the fourth quarter of 2016, as compared to the $9.4 million received in the third quarter of 2015, and the Cochrane facility received $21.1 million in the fourth quarter of 2016 and no receipts in 2015 as a result of the Global Adjustment Decision. These results were partially offset by lower electricity revenue earned at the Kirkland Lake facility in 2016 due to the 2015 amendment to the baseload gas-fired PPA rates and the closure of the Cochrane facility.

Adjusted EBITDA (i.e., management and incentive fees) was $27.2 million higher in 2016 primarily due to increased management fees generated from the Kirkland Lake and Cochrane facilities as a result of the retroactive payments received from the OEFC pursuant to the Global Adjustment Decision.

MANAGED FACILITIES OUTLOOK

Management expects that in 2017 Kirkland Lake will operate in line with 2016, and no extended outages are expected. The one-time retroactive PPA payments associated with the Global Adjustment Decision that were included in Kirkland Lake and Cochrane in 2016 will not repeat in 2017.

Northland's Offshore Wind Projects

Northland's offshore wind facilities consist of the 600 MW Gemini wind farm, located off the coast of the Netherlands, and the 332 MW Nordsee One wind farm, located off the coast of Germany. Both Gemini and Nordsee One are currently under construction. For additional details on each of these facilities, please see *Section 7: Construction and Development Activities*.

See the chart below for offshore wind operational results for the years ended December 31. Although Northland's two offshore wind projects are under construction, certain revenues and costs are recorded in operating income as individual turbines become operational. Pre-completion revenue and an allocation of plant operating costs have been recorded for Gemini. Sales and operating costs will increase over time as additional wind turbines are commissioned. Previously, sales represented pre-completion revenue for power sold at local market prices. During the third quarter of 2016, Gemini retroactively commenced its two power contracts effective March 1, 2016, and July 1, 2016. Commencing the power contracts entitled the project to earn a subsidy on top of market revenues for 15 years, including a subsidy on top of market revenues recorded in previous quarters. The operating results now reflect full revenues on all MWh generated from contract commencement, plus market revenue on MWh generated before contract commencement. The adjusted EBITDA includes Northland's share of the project overhead costs (management and administration), which do not qualify for capitalization or deferral under IFRS.

In thousands of dollars	2016	2015	2014
Sales/gross Profit(1)(2)	226,104	–	–
Plant operating costs(2)	29,871	–	–
Management and administration costs	5,962	2,535	2,099
Adjusted EBITDA(3)	258,842	2,535	2,099

Adjusted EBITDA(3) – Northland's share	136,754	1,740	1,443

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

(2) The sales/gross profit and plant operating costs include pre-completion revenue and the allocated plant operating costs for the operational turbines at Gemini.

(3) A non-IFRS measure.

OFFSHORE WIND OUTLOOK

Northland expects 2017 electricity production and financial results for its offshore wind facilities to exceed 2016 due to the inclusion of a full year of Gemini operations, as well as pre-completion revenues for Nordsee One.

Northland will record its share of both projects' EBITDA converted at the average foreign exchange rate for the period in consolidated adjusted EBITDA.

Corporate, Including Other Income

The following is a discussion of financial results related to Northland's other services, including investment income for the years ended December 31:

In thousands of dollars	**2016**	2015	2014
Gemini interest	**18,680**	15,775	10,836
Other	**2,892**	3,640	6,873
Adjusted EBITDA(1)	**21,572**	19,415	17,709

(1) A non-IFRS measure.

"Gemini interest" represents interest earned on the subordinated debt that Northland has loaned to Gemini. Due to Northland acquiring the controlling interest in Gemini in May 2014, Northland consolidates the financial results of Gemini. Therefore, the subordinated debt receivable and related investment income eliminate on consolidation, but investment income is included in Northland's consolidated adjusted EBITDA.

"Other" in the table above represents adjusted EBITDA from an equity investment in four small rooftop solar partnerships and interest earned on the loans receivable from Northland's equity partners in McLean's and Grand Bend. Adjusted EBITDA from "Other" is $0.7 million lower than 2015 primarily due to repayment of the loans receivable from Northland's equity partners in McLean's and Grand Bend in the first and third quarters of 2016, respectively.

The following is a discussion of financial results related to Northland's management and administration costs for the years ended December 31:

In thousands of dollars	2016	2015	2014
Management and administration costs			
Corporate operations	**25,801**	20,061	15,957
Corporate development[1]	**31,255**	16,345	21,024
Facilities	**10,117**	5,435	4,318
Total management and administration costs	**67,173**	41,841	41,299
Writeoff of deferred development costs	**–**	–	5,181
Corporate management and administration costs	**57,056**	36,406	42,162
Corporate adjusted EBITDA[2][3]	**(55,172)**	(37,087)	(42,162)

(1) Excludes writeoffs of deferred development costs.

(2) A non-IFRS measure.

(3) Adjusted EBITDA for 2016 excludes costs associated with the strategic review, and adjusted EBITDA for 2015 includes legal costs associated with the sale of Cochrane Solar.

Management and administration costs of $67.2 million were $25.3 million higher than the prior year. The overall increase in corporate management and administration costs was driven by development management and administration costs, which were $14.9 million higher than the prior year largely due to higher early-stage development activities across a range of locations. In addition, operations management and administration costs were higher than in 2015, primarily as a result of costs associated with the strategic review, increased headcount and other personnel costs, as well as one-time improvement initiatives.

Facility management and administration costs of $10.1 million were $4.7 million higher than the prior year, primarily as a result of an increase in management and administration costs at Gemini ($3.1 million) because costs that were previously capitalized, including personnel, office and other costs, are now being expensed. As wind turbines are commissioned, costs that are not directly attributable to the construction of the wind park are expensed as management and administration costs; therefore, these costs have increased over time as additional wind turbines have been commissioned. Incremental management and administration costs from the Grand Bend facility ($0.7 million) also contributed to the increase in facility costs.

CORPORATE OUTLOOK

Northland expects corporate expenditures in 2017 to be higher than 2016 primarily due to the expanded scope of Northland's international development activities.

Section 4: Non-IFRS Financial Measures

This MD&A includes references to Northland's adjusted EBITDA, free cash flow, free cash flow payout ratio, payout ratio and free cash flow per share, measures not prescribed by IFRS. Adjusted EBITDA, free cash flow, free cash flow payout ratio, payout ratio and free cash flow per share, as presented, do not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. These measures should not be considered alternatives to net income (loss), cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. Rather, these measures are provided to complement IFRS measures in the analysis of Northland's results of operations from management's perspective. Management believes that adjusted EBITDA, free cash flow, payout ratio and free cash flow per share are widely accepted financial indicators used by investors and securities analysts to assess the performance of a company, including its ability to generate cash through operations.

Readers should refer to *Section 5: Consolidated Results* for an explanation of adjusted EBITDA and a reconciliation of Northland's reported adjusted EBITDA to its consolidated net income (loss). Please see *Section 6: Equity, Liquidity and Capital Resources* for an explanation of free cash flow and a reconciliation of Northland's free cash flow to its cash provided by operating activities.

Section 5: Consolidated Results

The following discussion of the consolidated financial condition and results of operations of Northland should be read in conjunction with the audited consolidated financial statements for the years ended December 31. Readers should note that a significant number of variances are the result of Northland consolidating the financial results for Gemini and Nordsee One.

In thousands of dollars except as indicated	**2016**	2015	2014
Energy volumes			
Electricity (MWh)	**5,388,481**	5,244,830	5,063,721
Sales	**1,099,000**	728,141	760,071
Cost of sales	**193,240**	225,692	290,692
Gross profit	**905,760**	502,449	469,379
Expenses			
Plant operating costs	**111,857**	77,390	78,662
Management and administration costs – operations	**35,918**	25,496	20,275
Management and administration costs – development	**31,255**	16,345	21,024
Depreciation of property, plant and equipment	**233,598**	125,661	120,191
	412,628	244,892	240,152

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In thousands of dollars except as indicated	2016	2015	2014
Investment income	**2,306**	3,100	5,898
Finance lease income	**13,199**	13,437	13,656
Operating income	**508,637**	274,094	248,781
Finance costs	**236,426**	140,233	124,980
Amortization of contracts and other intangible assets	**13,517**	18,624	19,815
Impairments	**23,055**	20,808	45,287
Foreign exchange (gain) loss	**(2,022)**	2,403	(622)
Finance costs (income)	**(9,458)**	(2,445)	(2,831)
Fair value (gain) loss on derivative contracts	**27,830**	80,424	296,586
Other (income)	**310**	(731)	(1,222)
Equity investment gain	**(337)**	(288)	(250)
Income (loss) before income taxes	**219,316**	15,066	(232,962)
Current income taxes	**10,749**	5,424	7,928
Deferred income taxes	**18,008**	(17,889)	(63,435)
Provision for (recovery of) income taxes	**28,757**	(12,465)	(55,507)
Net income (loss)	**190,559**	27,531	(177,455)
Net income (loss) per share – basic and diluted	**$0.64**	$(0.07)	$(0.82)

Net income for 2016 was \$190.6 million compared to \$27.5 million in 2015. The increase of \$163.1 million was primarily due to the one-time retroactive payments of approximately \$104.5 million (\$94.7 million net to Northland) received from the OEFC pursuant to the Global Adjustment Decision combined with pre-completion revenues from Gemini.

The following section describes significant factors contributing to the change in net income (loss):

- TOTAL SALES AND GROSS PROFIT increased (sales – 51% or \$370.9 million; gross profit – 80.3% or \$403.3 million) compared to 2015 for the reasons discussed in *Section 3: Facility Results* and largely due to the one-time retroactive payments associated with the price escalation from the OEFC pursuant to the Global Adjustment Decision, the pre-completion revenue earned from Gemini, the additional contributions from the Grand Bend wind farm, which reached commercial operations in April 2016, the completion of the Cochrane Solar facilities, which were commissioned in the second half of 2015, and additional paid curtailment opportunities that reduce sales and improve gross profit.
- PLANT OPERATING COSTS of \$111.9 million for 2016 were \$34.5 million higher than 2015 primarily due to the inclusion of costs from the Gemini wind farm now that the turbines are in operation, Grand Bend and the Cochrane Solar facilities, partially offset by costs avoided due to the shutdown of the Cochrane thermal facility.
- MANAGEMENT AND ADMINISTRATION COSTS, as previously described, were \$25.3 million higher than the prior year primarily due to early-stage development activities and personnel, office and other costs related to Gemini now that wind turbines have been commissioned.
- INVESTMENT INCOME at \$2.3 million was in line with 2015. Investment income includes interest earned on the loan receivables from McLean's and Grand Bend's equity partners, as discussed previously.
- FINANCE COSTS, NET (primarily interest expense), at \$227 million increased by \$89.2 million from 2015 due to the inclusion of interest from Gemini, Grand Bend and the Cochrane Solar facilities' debt.
- AMORTIZATION OF CONTRACTS AND OTHER INTANGIBLE ASSETS at \$13.5 million was \$5.1 million lower than the prior year due to the shutdown of the Cochrane thermal facility in 2015.
- IMPAIRMENTS AND WRITEDOWNS at \$23.1 million were \$2.2 million higher than 2015 and related to impairments taken on property, plant and equipment largely a result of changes in cash flow forecasts at the Kingston facility due to the inability to agree with the power purchaser on the pricing terms for the five-year contract extension beyond January 2017. As a result, management's expectations for the future operations of the facility were updated. The 2015 impairment was largely associated with changes in cash flow forecasts and the shutdown of the Cochrane thermal facility, offset by reversals of impairments related to the amendment of the baseload PPA and new peaking contract at Kirkland Lake. Readers should refer to Note 21 of the consolidated financial statements for more details on impairment of property, plant and equipment, intangible assets and goodwill.

- NON-CASH FAIR VALUE LOSS of $25.8 million (compared to an $82.8 million loss in 2015) comprises of a $27.8 million loss in the fair value of Northland's financial derivative contracts that include interest rate swaps on the facilities' non-recourse project debt, the long-term financial hedge related to future natural gas prices at Iroquois Falls and foreign exchange contracts primarily associated with Gemini and Nordsee One, combined with a $2 million unrealized foreign exchange gain. A non-cash fair value loss of $94.2 million represents the marked-to-market adjustment on interest rate swaps entered into by Gemini and Nordsee One. Northland's policy is to economically hedge material interest rate and foreign exchange exposures where feasible. Changes in market rates give rise to non-cash marked-to-market adjustments each quarter as a result of Northland's accounting election to forgo the application of hedge accounting.
  These fair value adjustments are non-cash items that will reverse over time and have no impact on the cash obligations of Northland or its projects.

The factors described above, combined with $10.7 million and $18 million, respectively, of current and deferred taxes, resulted in net income for the year of $190.6 million, compared to net income of $27.5 million in the previous year.

Adjusted EBITDA

Adjusted EBITDA (a non-IFRS measure) is calculated as net income (loss) adjusted for income taxes, depreciation of property, plant and equipment, amortization of contracts and other intangible assets, net finance costs, investment income earned on the Gemini subordinated debt (Northland's portion), fair value losses (gains) on derivative contracts, fair value losses (gains) on convertible shares, unrealized foreign exchange losses (gains), gain (loss) on the sale of development and operating assets, impairments, elimination of non-controlling interests, costs associated with the strategic review (within Other) and finance lease and equity accounting.

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

In thousands of dollars	**2016**	2015	2014
Net income (loss)	**190,559**	27,531	(177,455)
Adjustments:			
Provision for (recovery of) income taxes	**28,757**	(12,465)	(55,507)
Depreciation of property, plant and equipment	**233,598**	125,661	120,191
Amortization of contracts and other intangible assets	**13,517**	18,624	19,815
Finance costs, net	**226,968**	137,788	122,149
Gemini subordinated debt interest	**18,678**	15,775	10,836
Change in fair value of derivative contracts	**27,830**	80,424	296,586
Unrealized foreign exchange losses (gains)	**(1,942)**	2,525	(686)
Gain on sale of development assets	**–**	(7,554)	–
Net impairments	**23,055**	20,808	40,106
Elimination of non-controlling interests	**(140,102)**	(10,554)	(14,778)
Other	**2,720**	542	(547)
Finance lease and equity accounting	**3,241**	3,002	2,787
Adjusted EBITDA	**626,879**	402,107	363,497

Northland's 2016 consolidated adjusted EBITDA was $224.8 million higher than the prior year. Significant factors increasing adjusted EBITDA from 2015 are described below:

- $124.1 million increase in operating results from the recognition of Gemini's pre-completion revenues following the retroactive commencement of its two power contracts effective March 1, 2016, and July 1, 2016;
- $49.1 million in operating results from the Iroquois Falls facility primarily due to the one-time retroactive payment received from the OEFC pursuant to the Global Adjustment Decision;
- $28 million in management fees earned from the Kirkland Lake and Cochrane facilities, also related to the one-time retroactive payments received from the OEFC pursuant to the Global Adjustment Decision;
- $24.1 million in operating results from generation from Northland's new renewable facilities; and
- $17.9 million higher investment income earned on Northland's portion of the Gemini subordinated debt, which for accounting purposes is consolidated and therefore netted, and the loan receivable from Grand Bend's equity partner.

These favourable results were partially offset by an $18.1 million increase in corporate costs primarily related to early-stage development activities projects, increased headcount and special projects.

Section 6: Equity, Liquidity and Capital Resources

Equity and Convertible Unsecured Subordinated Debenture Information

As at December 31, 2016, Northland had outstanding 171,973,308 Shares (2015 – 169,645,251 Shares), 4,501,565 Series 1 Preferred Shares, 1,498,435 Series 2 Preferred Shares, 4,800,000 Series 3 Preferred Shares and 1,000,000 Class A Shares. During the year, a total of 2,230,717 Shares (2015 – 2,557,561 Shares) were issued under Northland's Dividend Reinvestment Plan **(DRIP),** under which shareholders and the Class A shareholder may elect to reinvest their dividends in Shares of Northland to be issued from treasury at up to a 5% discount to the market price.

In September 2015, Northland announced that 1,498,435 of its 6,000,000 Series 1 Preferred Shares converted on a one-for-one basis into Series 2 Preferred Shares. Consequently, Northland now has 4,501,565 Series 1 Preferred Shares outstanding with fixed quarterly dividends payable at an annual rate of 3.51% ($0.22 per share per quarter) until September 29, 2020, and 1,498,435 Series 2 Preferred Shares outstanding with a floating quarterly dividend payable at an annual rate of 2.80% over the annual yield on 90-day Government of Canada treasury bills (as determined on the relevant quarterly dividend determination date). The Series 1 Preferred Shares are listed on the Toronto Stock Exchange under the symbol "NPI.PR.A", and the Series 2 Preferred Shares are listed under the symbol "NPI.PR.B."

In January 2015, Northland announced the closing of a $157.5 million offering of 4.75% convertible unsecured subordinated debentures that mature on June 30, 2020. In March 2015, Northland closed a $231 million offering of 14,437,500 common shares. Northland also issued, on a private placement basis, 3,125,000 common shares to a subsidiary of Northland Power Holdings Inc. **(NPHI),** a company controlled by the Chairman of Northland, James C. Temerty. The aggregate gross proceeds from the offering and placement were $281 million ($271.3 million after costs and underwriters' fees). Northland used the net proceeds of the offerings primarily to fund a portion of Northland's equity investment in the Nordsee One project and the Grand Bend wind project in Ontario, to replenish working capital and for general corporate purposes.

On March 5, 2014, Northland announced the closing of a $157.5 million offering of 9,843,750 common shares and $78.8 million of 5% convertible unsecured debentures that mature on June 30, 2019. Northland also issued, on a private placement basis, 3,125,000 common shares to a subsidiary of NPHI. The aggregate gross proceeds from the offering and placement were $286.3 million ($275.7 million after costs and underwriters' fees). Northland used the net proceeds of the offerings primarily to fund a portion of Northland's equity investment and subordinated loan to Gemini.

Northland also has an employee Long-Term Incentive Plan **(LTIP)** that provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries or for cash payments. The majority of executives and certain management and staff receive LTIP awards based on project milestones. Certain executives receive LTIP awards annually pursuant to employment agreements. For milestone-related LTIP awards, the number of Shares awarded at each milestone is determined using the amount of expected development profits at that milestone date. As a result, the amount of 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 about 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. During 2016 and 2015, milestones were achieved requiring management to estimate the share-based cost of LTIP awards. For the year ended December 31, 2016, Northland issued 21,142 Shares (2015 – 115,298 Shares) to employees and capitalized $5.6 million (2015 – $4.6 million) and expensed $0.1 million (2015 – $1.2 million) of costs under the LTIP. A total of 1,853,979 Shares have been issued to date under the LTIP as at December 31, 2016.

During 2016, Northland recognized a $31.9 million decrease in total shareholders' equity, which included a $47.6 million increase in Shares, partially offset by accumulated other comprehensive loss. The increase in Shares was primarily due to the issuance of additional Shares under Northland's LTIP and DRIP programs, and debentures converted during the year. As a result of the acquisition of the controlling interests in CEEC, Gemini and Nordsee One, Nordsee Two and Nordsee Three **("Nordsee entities")** and the equity funding of McLean's, Grand Bend, Gemini and Nordsee by their non-controlling partners, Northland's total equity includes non-controlling interests, which totals $440.6 million at December 31, 2016. Readers should refer to Note 20 to the consolidated financial statements for additional details related to Northland's non-controlling interests. Shareholders' equity also includes $20.5 million in accumulated other comprehensive losses, which arises as the Canadian dollar/Euro exchange rate fluctuates and Gemini and Nordsee One results are translated into Canadian dollars.

As of the date of this MD&A, Northland has outstanding 172,352,927 Shares, 4,501,565 Series 1 Preferred Shares, 1,498,435 Series 2 Preferred Shares, 4,800,000 Series 3 Preferred Shares, 1,000,000 Class A Shares, $78.5 million of 2019 Debentures and $156.1 million of 2020 Debentures. If the 2019 Debentures and 2020 Debentures converted in their entirety, an additional 10.9 million Shares would be issued.

Liquidity and Capital Resources

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

In thousands of dollars	**2016**	2015	2014
Cash and cash equivalents – opening	**151,927**	193,412	138,460
Cash provided by operating activities	**719,812**	398,743	366,589
Cash used in investing activities	**(1,536,277)**	(2,237,717)	(1,808,861)
Cash provided by financing activities	**971,068**	1,793,427	1,524,023
Effect of exchange rate differences	**991**	4,062	(26,799)
Cash and cash equivalents – ending	**307,521**	151,927	193,412
Total assets	**8,663,430**	7,366,395	4,999,094
Total long-term liabilities	**6,806,663**	5,542,986	3,374,729

Cash and cash equivalents for the year ended December 31, 2016, were $307.5 million, which increased by $155.6 million from December 31, 2015, primarily due to $719.8 million in cash provided by operating activities and $971.1 million in cash provided by financing activities, partially offset by $1.5 billion in cash used in investing activities.

Cash provided by operating activities for the year ended December 31, 2016, was $719.8 million, comprising net income of $190.6 million, $526.9 million in non-cash and non-operating items such as depreciation and amortization, unrealized foreign exchange gains, the impairment of property, plant and equipment and changes in fair value financial instruments, combined with a $2.3 million net change in working capital since December 31, 2015, due to the timing of year-end payables, receivables and deposits. The increase in cash from operating activities in 2016 was largely the result of the increase in adjusted EBITDA, as described earlier.

Cash used in investing activities consumed $1.5 billion for the year ended December 31, 2016, primarily due to: (i) $1.6 billion used for the purchase of property, plant and equipment, mostly for the construction of the Gemini, Nordsee One and Grand Bend; and (ii) a $29.2 million change in working capital related to the timing of construction payables. Partially offsetting these uses were: (i) utilization of $103.7 million of cash reserves associated with construction expenditures ($94.3 million is associated with construction activities at Grand Bend); (ii) $9.5 million of interest received (largely related to interest on the retroactive payments received from the OEFC); and (iii) $6 million of proceeds from the settlement with H. B. White Canada Corp. **("White")**.

Cash provided by financing activities for the year ended December 31, 2016, was $971.1 million, comprising (i) $1.4 billion of proceeds from Gemini and Nordsee One's third-party senior debt and Cochrane Solar and Kirkland Lake financing; (ii) $26.3 million of proceeds from the repayment of a loan made to Grand Bend's equity partner; and (iii) $2.4 million of proceeds from the repayment of a loan made to McLean's equity partner. Partially offsetting these proceeds were (i) $197.5 million in interest payments; (ii) $151.1 million of common, Class A and preferred share dividends; (iii) $79.6 million in scheduled loan repayments (including Kirkland Lake); and (iv) $12.5 million of dividends to non-controlling shareholders.

Due to the strengthening of the Euro versus the Canadian dollar, Northland's December 31, 2016, consolidated cash and cash equivalents was positively affected by $1 million as a result of translating Euro-denominated cash and cash equivalents held by Gemini and Nordsee One into Canadian dollars. The effect of exchange rate differences on cash and cash equivalents for Northland's Europe projects will fluctuate from quarter to quarter as the Canadian dollar/Euro exchange rate fluctuates. However, Euro-denominated cash will be utilized by Gemini and Nordsee One for expenditures and the purchase of Euro-denominated property, plant and equipment.

Total Assets and Long-Term Liabilities

The following sections describe significant changes in Northland's consolidated balance sheet and include schedules of property, plant and equipment and debt.

Consolidated Balance Sheet

- Restricted cash decreased by $112.5 million primarily due to funds utilized for construction at Grand Bend and the Nordsee One offshore wind farm, partially offset by funds set aside at Gemini.
- Trade and other receivables increased by $39.2 million mainly due to the timing of receipts for electricity sales and input tax credits related to construction activities.
- Property, plant and equipment increased by $1.2 billion from 2015 primarily due to construction-related activities at Grand Bend, Gemini and Nordsee One.
- Contracts and other intangible assets decreased by $23.1 million mainly due to amortization and foreign exchange translation differences.
- Other assets decreased by $26.7 million primarily due to repayment of loan receivables from the McLean and Grand Bend equity partners.
- Interest-bearing loans and borrowings increased by $1.1 billion mainly due to additional debt at Kirkland Lake and Cochrane Solar combined with Gemini's and Nordsee One's senior debt drawings, partially offset by scheduled loan repayments.
- Provisions increased by $129.6 million due to decommissioning liabilities related primarily to Northland's offshore wind farms (Gemini), onshore wind farms, ground-mounted solar sites and closed thermal facility.
- Net derivative financial liabilities (financial liabilities less derivative financial assets) of $442.3 million increased by $10.6 million primarily due to non-cash fair value marked-to-market adjustments on foreign exchange contracts and Iroquois Falls' natural gas financial derivative contract and interest rate swaps ($94.2 million relates to Gemini and Nordsee One's interest rate swap contracts).
- Net deferred tax liability (deferred tax asset less deferred tax liabilities) of $52.6 million decreased by $23.5 million primarily due to movements in accounting versus tax balances; in particular, fair value losses on derivative contracts.

The following table provides a continuity of the cost of Northland's property, plant and equipment and deferred development:

In thousands of dollars	Cost balance as of December 31, 2015	Additions[1]	Impairments	Provisions, disposals and other[2]	Exchange rate differences	Transfers	**Cost balance as of December 31, 2016**
Operations							
Thermal[3]	1,601,165	1,510	(23,055)	–	–	–	**1,579,620**
Renewable	1,394,614	2,533	–	5,301	(2,112)	354,214	**1,754,550**
	2,995,779	4,043	(23,055)	5,301	(2,112)	354,214	**3,334,170**
Construction							
Renewable	284,752	69,462	–	–	–	(354,214)	**–**
Gemini	2,940,975	847,689	–	105,455	(200,124)	–	**3,693,995**
Nordsee One	400,421	692,513	–	3,024	(43,668)	–	**1,052,290**
	3,626,148	1,609,664	–	108,479	(243,792)	(354,214)	**4,746,285**
Managed[4]	224,052	9,044	–	–	–	–	**223,096**
Corporate[5]	16,986	3,470	–	–	–	–	**20,456**
Total	6,862,965	1,626,221	(23,055)	113,780	(245,904)	–	**8,334,007**

(1) Includes pre-completion revenue of $14.3 million relating to Gemini.

(2) Includes the accrual for decommissioning liabilities, tax credits and LTIP shares granted.

(3) Excludes Spy Hill lease receivable accounting treatment.

(4) Kirkland Lake and Cochrane facilities.

(5) Includes certain costs related to projects in construction.

The following table provides a continuity of Northland's debt:

In thousands of dollars	Balance as of December 31, 2015	Financings	Repayments	Amortization of costs/ fair value	Transfers	Exchange rate differences	**Balance as of December 31, 2016**
Operations							
Thermal[1]	1,096,523	–	(39,864)	2,817	–	–	**1,059,476**
Renewable[2]	877,531	9,070	(39,783)	854	325,645	–	**1,173,317**
	1,974,054	9,070	(79,647)	3,671	325,645	–	**2,232,793**
Construction							
Renewable	325,645	–	–	–	(325,645)	–	**–**
Gemini[3]	2,185,063	707,994	–	13,662	–	(142,425)	**2,764,294**
Nordsee One	101,805	656,408	–	–	–	(27,940)	**730,273**
	2,612,513	1,364,402	–	13,662	(325,645)	(170,365)	**3,494,567**
Managed[4]	–	8,752	–	–	–	–	**8,752**
Corporate[5]	250,064	–	–	704	–	(3,027)	**247,741**
Total	4,836,631	1,382,224	(79,647)	18,037	–	(173,392)	**5,983,853**

(1) Includes a favourable fair value adjustment to Thorold's debt.

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

(3) Excludes Northland's subordinated debt, which eliminates on consolidation.

(4) Kirkland Lake and Cochrane facilities.

(5) Excludes convertible unsecured subordinated debentures.

Long-Term Project Debt

In March 2016, Kirkland Lake closed a $25 million bank credit facility consisting of a $15 million term loan and a $10 million letter of credit facility. The term loan is due in March 2023 and bears an all-in interest rate of 2.8%.

In March 2015, Northland completed the refinancing of Thorold's credit facility. The facility is non-recourse to Northland and comprises a $183 million bank term loan and $16 million letter of credit facility, along with an existing institutional term debt of $179 million. The bank term loan matures in March 2030, coincident with the maturity of the existing institutional debt. The average all-in interest rate on the new loan is 7.1%.

In March 2015, the Nordsee One project completed €903 million of non-recourse project financing with a syndicate of financial institutions including a €63 million contingent debt facility. The project loans include a three-year construction period and an approximately 10-year amortization period. The majority of the interest rate exposure for the project has been hedged over the full loan amortization period with an effective interest rate of approximately 3.3%.

In March 2015, Northland completed $326 million of non-recourse project financing and a $16 million letter of credit facility for the Grand Bend wind farm. Commerical operations were achieved on April 19, 2016. After conversion to a term loan on July 29, 2016, the loan requires payments of interest only for a 42-month period, followed by scheduled payments of principal and interest to maturity over a 190-month amortization period. The all-in interest rate is 4.3%. At the time of financing, Northland also provided a loan to its First Nations partner for $28.7 million for a portion of their equity contribution, which has since been repaid.

Debt Covenants

Northland generally conducts its business indirectly through separate subsidiary legal entities and is dependent on receipt of cash from those entities to defray its corporate expenses and to pay cash dividends to common, Class A and preferred shareholders. Certain of those entities have outstanding debt arising from non-recourse project financing at the subsidiary entity. Under the credit agreements or trust indentures for such debt, distributions of cash to Northland are typically prohibited if the coverage ratios or other covenants are not met and/or the loan is in default. Northland and its subsidiaries were in compliance with all debt covenants for the year ended December 31, 2016.

Readers should refer to Northland's 2016 AIF, dated March 2, 2017, for additional details concerning its debt covenants.

Corporate Facility and Letters of Credit

Northland's corporate credit facilities total $800 million as of December 31, 2016. The facilities are available for general corporate purposes, to support operational, construction and development opportunities and as security against letters of credit issued on behalf of Northland.

The corporate credit facility includes the following:

- $450 million revolving facility in place until March 2020 with successive annual renewals at Northland's option, subject to lender approval;
- $250 million term facility that matures in March 2018 with a one-year renewal at Northland's option, subject to lender approval; and
- $100 million corporate letter of credit facility in place until March 2018 with successive annual renewals at Northland's option, subject to lender approval.

On February 18, 2015, Northland completed an amendment to its syndicated credit facility. The primary components of the amendment include (i) the receipt of lender commitments for the $100 million accordion feature of the revolving credit facility, which increased the revolving facility from $350 million to $450 million; (ii) an extension of the revolving facility maturity date to March 2020; and (iii) changes to certain financial ratios and sublimits in order to provide liquidity and support Northland's ongoing development activities.

On September 30, 2015, Northland closed the financing of its $100 million corporate letter of credit facility. The facility is used to issue letters of credit and provides security for operating, construction and development activities.

As of December 31, 2016, Northland and its subsidiaries had $393.3 million of letters of credit outstanding, of which $343.8 million were issued as security under Northland's corporate credit facilities for certain projects in operation and for advanced development and construction. In addition, $49.5 million is outstanding under specific subsidiaries' non-recourse credit facilities.

The table below shows the outstanding letters of credit issued under the corporate and subsidiary credit facilities.

In millions of dollars	Purpose	Amount
Corporate[1]	Operations	163.3
	Advanced development and construction	180.5
		343.8
Project entity[2]	Operations	49.5
	Construction	–
		49.5
		393.3

(1) Secured by Northland's $450 million corporate revolver and $100 million corporate letter of credit facility.

(2) Secured by project-level credit agreements.

Sustainability of Cash Flows and Dividends

Northland continues to execute its business strategy of providing shareholders with stability and long-term growth. Northland's primary focus is to maximize the results from its existing operating facilities and generate stable cash flow streams over their asset lives, while ensuring ongoing environmental sustainability and the health and safety of its employees and its host communities. Management believes that cash flows generated by operations and available through other sources are sufficient to maintain plant capacities over their asset lives. For current and future development projects, Northland intends to maintain its current approach, utilizing long-term sales, supply and maintenance agreements to ensure stable margins and non-recourse project finance structures to reduce financial risks. Northland will continue to exercise judgment, discipline and acumen in its development activities to ensure maximum success. The discipline that has been applied to operations, construction and development underpins management's confidence in Northland's ability to continue to meet its stakeholder commitments.

Northland's Board and management are committed to maintaining the current dividend of $0.09 per share per month ($1.08 on an annual basis) and are confident that Northland has adequate access to funds to meet its dividend commitment, including operating cash flows, cash and cash equivalents on hand and, as necessary, its line of credit or external capital.

In July 2016, Standard & Poor's reaffirmed Northland's credit rating of BBB (Stable). In addition, Northland's preferred share rating and unsecured debt ratings were reaffirmed on Standard & Poor's global scale and Canada scale of BB+ and P-3 (high), respectively.

Free Cash Flow and Dividends to Shareholders

In 2016, Northland declared dividends to shareholders of $1.08 per share. This was consistent with the prior year.

The following reconciliation of free cash flow, free cash flow payout ratio and free cash flow per share (all non-IFRS measures) is based on the audited consolidated financial statements of Northland:

In thousands of dollars except as indicated	2016	2015	2014
Cash provided by operating activities	**718,812**	398,743	366,589
Northland adjustments			
Net change in non-cash working capital balances related to operations	**(2,343)**	(10,362)	(5,607)
Capital expenditures, net non-expansionary	**(3,695)**	(1,164)	(2,200)
Interest paid, net	**(188,009)**	(129,281)	(111,386)
Scheduled principal repayments on term loans	**(79,998)**	(62,613)	(52,706)
Funds utilized (set aside) for quarterly scheduled principal repayments	**–**	(689)	(79)
Restricted cash utilization (funding) for major maintenance/debt service	**(2,178)**	(6,342)	1,036
Writeoff of deferred development costs	**–**	–	(5,181)
Consolidation of non-controlling interests	**(192,563)**	(2,136)	(9,851)
Equity accounting	**588**	540	(25)
Net proceeds from the sale of development assets(1)	**–**	7,529	–
Corporate credit facility renewal costs	**–**	–	(2,598)
Other	**1,899**	1,128	750
Preferred share dividends	**(11,189)**	(13,195)	(13,876)
Free cash flow(2)	**242,324**	182,158	164,866

continued...

In thousands of dollars except as indicated	2016	2015	2014
Cash dividends paid to common and Class A shareholders	**139,890**	137,852	115,322
Free cash flow payout ratio – net dividends(2)(3)	**58%**	76%	70%
Total dividends(4) paid to common and Class A shareholders	**184,459**	177,766	155,827
Free cash flow payout ratio – total dividends(2)(3)	**77%**	98%	95%
Free cash flow payout ratio – total dividends since initial public offering(2)(3)	**95%**	102%	103%
Weighted average number of Shares – basic (thousands of Shares)(5)	**172,910**	167,555	146,765
Weighted average number of Shares – fully diluted (thousands of Shares)(6)	**186,575**	183,713	153,307
Per share ($/share)			
Free cash flow – basic(2)	**$1.40**	$1.09	$1.12
Free cash flow – fully diluted(2)	**$1.34**	$0.99	$1.10

(1) Amount is net of deferred development costs.

(2) A non-IFRS measure.

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

(4) Total dividends to common and Class A shareholders represent dividends declared irrespective of whether the dividend is received in cash or in shares as part of the DRIP program.

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

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

Free cash flow represents the cash generated from the business that Northland's management believes is representative of the amount that is available to be paid as dividends to common shareholders while preserving the long-term value of the business. Free cash flow is calculated as cash provided by operating activities, adjusted for:

- Short-term changes in operating working capital that are expected to be largely reversed in succeeding periods (or represent reversals from previous periods);
- Capital expenditures related to the maintenance requirements of the existing business;
- Interest paid on outstanding debt because it is excluded from cash provided by operating activities under IFRS;
- Scheduled repayments of principal on debt (because these payments must be made before funds are available for dividends to the shareholders of Northland);
- Funds set aside for quarterly scheduled principal repayments (or reversals from previous periods) because these amounts would have been included in scheduled repayments of principal on debt if not for the timing of holidays and weekends;
- Funds identified as being set aside or reserved (or utilized) for future maintenance;
- The writeoff of deferred development costs (because these costs are not included in the free cash flow calculation when incurred);
- Consolidation of non-controlling interests (see below for additional details);
- The timing of distributions received from equity-accounted investments;
- Net proceeds from the sale of development assets;
- Disbursements related to the cost of renewing credit facilities;
- Preferred share dividends; and
- The portion of net pre-completion revenue required by the lenders to fund construction.

Northland's audited consolidated financial statements include the results for Kirkland Lake, Cochrane and CEEC. Fees and dividends earned by Northland from those entities are considered intercompany amounts and eliminate on consolidation. However, in the calculation of free cash flow, Northland includes its portion of the fees and dividends earned rather than the full consolidated free cash flow generated by these entities. The adjustments are to recognize the fees and dividends earned and remove the free cash flow generated by Kirkland Lake, Cochrane and CEEC that is included in Northland's consolidated statements of income (loss) within the "consolidation of non-controlling interests" adjustment. "Consolidation of non-controlling interests" also includes the removal of free cash flow generated by McLean's, Gemini and Nordsee One that belongs to their other equity partners.

Free cash flow of $242.3 million was $60.2 million higher than in 2015; significant factors increasing and decreasing free cash flow in 2016 are described below.

Factors increasing free cash flow were:

- $73.3 million increase in adjusted EBITDA from Northland's operating facilities primarily due to the one-time retroactive payments received at Iroquois Falls from the OEFC pursuant to the Global Adjustment Decision, as previously discussed and the additional contributions from completed construction projects;
- $28 million increase in management fees from Kirkland Lake and Cochrane due to the one-time retroactive payments received from the OEFC pursuant to the Global Adjustment Decision; and
- $4.2 million decrease in funds set aside for future maintenance.

Factors decreasing free cash flow were:

- $26.3 million net interest expense increase related to the inclusion of Grand Bend and Cochrane Solar facilities debt; and
- $17.6 million increase in scheduled debt repayments as a result of additional ground-mounted solar facilities.

Free cash flow per share for 2016 was $1.40 compared to $1.09 in 2015, an increase of 28.5% from 2015.

All dividends paid by Northland during 2016 will qualify for the enhanced dividend tax credit. Readers should refer to Northland's website at www.northlandpower.ca for additional information on the taxability of Northland's common and preferred share dividends.

Payout Ratio

For the 12-month period ended December 31, 2016, Northland's dividend payments were 58% of free cash flow or 77% on an all-cash dividend basis (if the impact of the DRIP were excluded). While equity and debt funding are generally committed at the beginning of construction, it may be several years before a project starts to generate cash flow. In prior years, Northland's higher payout ratios reflected growth expenditures and payments of dividends on equity capital raised for construction projects for which corresponding cash flows would not start until future years.

Section 7: Construction and Development Activities

Projects Under Construction

Gemini 600 MW Offshore Wind Project – The Netherlands

In May 2014, Northland acquired a 60% interest in Gemini, located 85 kilometres off the coast of the Netherlands in the North Sea. Gemini is owned by a consortium consisting of affiliates Northland Power (60%), Siemens Financial Services and Affiliates **("Siemens")** (20%), Van Oord Dredging and Marine Contractors B.V. **("Van Oord")** (10%) and N.V. HVC (10%). The project has two 15-year electricity subsidy agreements with the Government of the Netherlands, which provide revenue above the market price of electricity.

All 150 wind turbines have been installed, are producing full power and are earning pre-completion revenue at the prescribed contract rates and price for 2016. Gemini retroactively elected to commence its two power contracts, one effective March 1, 2016, and the other July 1, 2016. Commencing the power contracts entitled the project to begin receiving the subsidy retroactively as of the commencement date. Full commercial operations are expected by mid-2017. The project remains on schedule and within budget. As at December 31, 2016, total revenue of approximately €181.5 million (CA$266.1 million) has been recorded during the year from the Gemini project.

Gemini's total capital cost is approximately €2.8 billion (CA$4 billion as of December 31, 2016).

Nordsee One 332 MW Offshore Wind Farm – Germany

In September 2014, Northland acquired an 85% equity stake in Nordsee One, located in the North Sea in German territorial waters. Innogy SE owns the remaining 15% equity interest in the project. Nordsee One is entitled to a feed-in tariff **(FIT)** subsidy for approximately 10 years under the German Renewable Energy Act, which is added to the market power price, effectively generating a fixed unit price for energy sold.

Nordsee One's construction continues to progress as expected, on schedule and within budget. All 54 foundation monopiles and transition pieces have been completed, and, by July 2016, installation of the offshore substation and in-field cables was also completed. Wind turbine production is ongoing, with installation expected to commence in early 2017. Full commercial operations are expected by the end of 2017.

Nordsee One's total capital cost is approximately €1.2 billion (CA$1.7 billion as of December 31, 2016).

Section 8: Outlook

In 2017, management expects adjusted EBITDA to be $660 to $710 million, an increase of approximately 9% over 2016. This adjusted EBITDA guidance includes Northland's share of (i) net pre-completion revenue and operating income once Gemini reaches full operations, which is expected in mid-2017, (€175 to €195 million) and (ii) net pre-completion revenue from Nordsee One (€50 to €60 million), both projects at an assumed average exchange rate of CA$1.40/Euro.

The 2017 adjusted EBITDA is expected to increase from $626.9 million in 2016 primarily due to the following factors:

- €76 to €95 million in additional adjusted EBITDA from Northland's share of net pre-completion and operating revenue based on a full year of generation at Gemini, which commenced midway through 2016 (at an assumed average exchange rate of CA$1.40/Euro);
- €50 to €60 million in additional adjusted EBITDA from Northland's share of net pre-completion revenue from Nordsee One (at an assumed average exchange rate of CA$1.40/Euro); and
- $11 to $15 million in higher adjusted EBITDA from Northland's operating facilities, primarily based on a full year of Grand Bend operations, which commenced partway through 2016, and higher PPA price increase at Iroquois Falls.

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

- $92 million in lower adjusted EBITDA due to the one-time retroactive payments received from the OEFC in 2016 pursuant to the Global Adjustment Decision;
- $46 to $47 million in lower adjusted EBITDA due to lower projected revenue following expiry of the PPA contract at the Kingston facility in January 2017; and
- $12 to $15 million in lower adjusted EBITDA due to potentially higher corporate and development expenditures related to the expanded scope of Northland's international development activities.

In 2018, once the construction of both offshore wind projects is completed and they are fully operational, excluding investment income from the subordinated debt, management expects Gemini and Nordsee One to generate adjusted EBITDA of €175 to €195 million and €160 to €180 million, respectively, reflecting Northland's equity interest of 60% and 85%, respectively.

In 2017, management expects the free cash flow per share to be in the range of $1.10 to $1.25 per share. This free cash flow per share guidance includes Northland's share of Gemini net pre-completion revenue in excess of the amount required by the project lenders to fund construction costs and operating income once the project reaches full operations, which is expected in mid-2017 (€57 to €67 million at an assumed average exchange rate of CA$1.40/Euro). It excludes the expected proceeds from the sale of 37.5% of the Cochrane Solar facility, which is subject to meeting certain conditions in 2017.

The 2017 free cash flow per share guidance is expected to be lower than the $1.40 per share in 2016 primarily due to the following factors:

- $95 million in lower free cash flow due to the one-time retroactive payments received from the OEFC in 2016 pursuant to Global Adjustment Decision payments as described previously;
- $46 to $47 million in lower free cash flow due to lower projected revenue following expiry of the PPA contract at the Kingston facility in January 2017 as described previously;
- $12 to $15 million in lower free cash flow due to potentially higher corporate and development expenditures related to the expanded scope of Northland's international development activities as described previously; and
- $1 to $2 million in lower free cash flow due to a one-time corporate credit amendment, refinancing fees and higher interests.

The decreases were partially offset by the following factors:

- €57 to €67 million in higher free cash flow from Northland's share of Gemini net pre-completion revenue in excess of the amount required by the project lenders to fund construction costs and Gemini operating income once the project reaches full operations, which is expected in mid-2017 (at an assumed average exchange rate of CA$1.40/Euro);
- $16 to $19 million in higher free cash flow from Northland's operating facilities due to higher adjusted EBITDA as described previously, combined with lower reserve funding, debt service and capital expenditures;
- $11 to $12 million in higher free cash flow from Northland's share of the first investment income receivable on the subordinated debt at Gemini following full operations; and
- An increase in the weighted average number of shares outstanding as a result of the additional shares issued through the DRIP.

Nordsee One's net pre-completion revenue is excluded from the free cash flow calculation because the expected cash generated is primarily used to fund construction costs pursuant to the credit agreement.

Section 9: Historical Consolidated Quarterly Results

In millions of dollars except per-share amounts	**Q1**	**Q2**	**Q3**	**Q4**	**Total 2016**
Sales	**178.1**	**176.6**	**265.7**	**478.6**	**1,099.0**
Operating income	**67.0**	**59.4**	**105.6**	**276.6**	**508.6**
Net income (loss)	**(91.7)**	**23.4**	**(31.9)**	**290.8**	**190.6**
Adjusted EBITDA(1)	**103.9**	**103.9**	**141.9**	**277.2**	**626.9**
Cash provided by operating activities	**108.8**	**107.8**	**158.8**	**344.4**	**719.8**
Free cash flow(1)	**44.9**	**46.3**	**32.1**	**119.0**	**242.3**
Net income (loss) per Share – basic and diluted	**(0.32)**	**0.20**	**(0.18)**	**0.94**	**0.64**
Free cash flow per Share(1)	**0.26**	**0.27**	**0.19**	**0.69**	**1.40**
Dividends declared per Share	**0.27**	**0.27**	**0.27**	**0.27**	**1.08**

In millions of dollars except per-share amounts	Q1	Q2	Q3	Q4	Total 2015
Sales	201.6	167.3	187.7	171.5	728.1
Operating income	74.3	59.5	79.7	60.6	274.1
Net income (loss)	(30.6)	140.3	(91.1)	8.9	27.5
Adjusted EBITDA(1)	97.1	91.4	119.2	94.4	402.1
Cash provided by operating activities	119.6	88.2	118.0	72.9	398.7
Free cash flow(1)	50.2	34.6	63.1	34.3	182.2
Net income (loss) per Share – basic	(0.12)	0.53	(0.51)	0.01	(0.07)
Net income (loss) per Share – diluted	(0.12)	0.48	(0.51)	0.02	(0.07)
Free cash flow per Share(1)	0.33	0.20	0.37	0.20	1.09
Dividends declared per Share	0.27	0.27	0.27	0.27	1.08

(1) A non-IFRS measure.

Northland's financial results are affected by seasonal factors that result in quarterly variations. At the Iroquois Falls facility, the OEFC has contracted for more electricity and pays a higher price in winter than in summer. The financial results from Northland's wind farms follow a similar seasonal pattern because it tends to be windier in winter months compared to summer months. Northland's solar projects follow a seasonal pattern that is the opposite of Northland's wind farms because the solar projects are expected to generate higher output and revenue during the summer months. Consolidated seasonality is also mitigated at the Thorold, Spy Hill and North Battleford facilities because the contract provisions of these projects provide for generally consistent earnings throughout the year.

Northland's quarterly net income (loss) also varies due to any non-cash impairments/recoveries and foreign exchange adjustments required to translate U.S. dollar and Euro denominated balances to the appropriate quarter-end Canadian-dollar equivalent and due to fair value movements of financial derivative contracts. Quarterly variations in financial results are also affected by facilities completing construction activities and entering into commercial operations.

Section 10: Fourth-Quarter 2016 Results

Northland's fourth-quarter adjusted EBITDA was $277.1 million, a $182.7 million increase from the same quarter in 2015, while free cash flow of $119 million was $84.7 million higher than the same quarter last year. Major variances compared with the fourth quarter of 2015 are discussed below:

- THERMAL FACILITIES: Electricity production during the fourth quarter of 2016 was approximately 3% higher than the prior year, primarily due to additional economic production periods at the Thorold facility. These results were partially offset by lower production at the Kingston and Iroquois Falls facilities. Sales were $46 million higher than the prior year, primarily due to the one-time retroactive payment received from the OEFC pursuant to the Global Adjustment Decision at the Iroquois Falls facility ($41.6 million). Gross profit was $39.3 million higher than the prior year, also as a result of the one-time retroactive payments earned at the Iroquois Falls facility, offset by $5.5 million of fixed transportation costs at the Kingston facility. Plant operating costs were in line with the prior year. As a result of the above factors, adjusted EBITDA and operating income were $41.3 million and $43.8 million, respectively, higher than the prior year.

- RENEWABLE FACILITIES: Electricity production was approximately 31% higher than the previous year due to the incremental contribution from the Grand Bend facility, which declared commercial operations on April 19, 2016. These results were partially offset by a net decrease in production at the other wind facilities caused by lower wind resources. Ground-mounted solar electricity production was in line with the previous year as a result of the positive impact of all 13 sites being fully operational for the full quarter, offset by lower electricity production due to cloud and snow cover. Sales and plant operating costs during the fourth quarter of 2016 were $14.3 million and $1.9 million, respectively, higher than the prior year, largely due to the incremental contribution from the Grand Bend facility. Higher revenue, partially offset by increased operating expenses, resulted in adjusted EBITDA and operating income both exceeding the prior quarter by $4.8 million and $7.4 million, respectively.
- MANAGED FACILITIES: Sales and gross profit in the fourth quarter of 2016 were higher than the same period last year ($65.5 million and $65.3 million, respectively), primarily due to the one-time retroactive payments received from the OEFC pursuant to the Global Adjustment Decision.
- MANAGEMENT AND ADMINISTRATION COSTS: Corporate management and administration costs were $9 million higher than the same period in 2015, largely due to higher early-stage development activities across a range of geographic locations, as well as costs associated with the strategic review, increased headcount and other personnel costs, and one-time improvement initiatives. Facility management and administration costs were higher than the prior year primarily as a result of an increase in personnel, office and other costs.
- NET FINANCE COSTS, primarily interest expense, increased by $36.9 million from 2015 due to the inclusion of interest from Gemini, Grand Bend and Cochrane Solar facilities debt.
- IMPAIRMENTS at $23.1 million were $14.8 million higher than in 2015 and related to impairments taken on property, plant and equipment largely a result of changes in cash flow forecasts at the Kingston facility as described previously. The 2015 impairment was largely associated with changes in cash flow forecasts, offset by reversals of impairments related to the amendment of the baseload PPA and new peaking contract at Kirkland Lake. Readers should refer to Note 21 of the consolidated financial statements for more details on impairment of property, plant and equipment, intangible assets and goodwill.
- NON-CASH FAIR VALUE GAINS of $177.5 million (compared to a $1.4 million loss in 2015) primarily consisted of a $173.1 million gain in the fair value of Northland's financial derivative contracts that include interest rate swaps on the facilities' non-recourse project debt, the long-term financial hedge related to future natural gas prices at Iroquois Falls and foreign exchange contracts primarily associated with Gemini and Nordsee One, combined with a $4.4 million unrealized foreign exchange gain.

The factors described above combined with $6.9 million and $60.5 million, respectively, of current and deferred taxes resulted in net income for the quarter of $290.7 million and adjusted EBITDA of $277.1 million.

Cash and cash equivalents increased by $77.6 million during the quarter primarily due to $344.4 million in cash provided by operating activities partially offset by $255.5 million in cash used for investing activities and $9.9 million in cash used in financing activities.

Cash provided by operating activities for the fourth quarter of 2016 was $344.4 million, comprising net income of $290.7 million, $80.7 million in non-cash and non-operating items such as depreciation and amortization, unrealized foreign exchange gains, the impairment of property, plant and equipment and changes in fair value financial instruments, combined with a $27 million net change in working capital due to the timing of year-end payables, receivables and deposits.

Cash used in investing activities for the fourth quarter of 2016 included: (i) $179 million used for the purchase of property, plant and equipment, the majority of which related to construction of the Gemini and Nordsee One projects; and (ii) $105.3 million increase in working capital related to the timing of construction activities. Partially offsetting these usages were (i) a $14.9 million utilization of cash reserves associated with construction activities; (ii) $7.9 million of interest received; and (iii) $6 million in proceeds from the White settlement.

Cash used in financing activities for the fourth quarter of 2016 was $9.9 million, comprising (i) $78.6 million in interest payments; (ii) $37.6 million of common, Class A and preferred share dividends; and (iii) $29.1 million in scheduled loan repayments; and (iv) $3.7 million of dividends to non-controlling shareholders, partially offset by $139.1 million of proceeds from Gemini and Nordsee One's third-party senior debt and Cochrane Solar and Kirkland Lake project financing.

Fourth-quarter free cash flow at $119 million was $84.7 million higher than the same period last year. Favourable variances from the same period for 2015 included: (i) a $45.6 million increase in adjusted EBITDA from Northland's operating facilities; (ii) a $47.8 million increase in management fees earned from the Kirkland Lake and Cochrane facilities, as previously discussed; (iii) a $14.8 million increase in investment income; and (iv) a $1.7 million decrease in funds set aside for future major maintenance. Offsetting these favourable variances were: (i) $14.4 million net interest expense increase related to the inclusion of Grand Bend and additional ground-mounted solar project debt; (ii) a $9 million increase in corporate management and administration costs; and (iii) a $2 million increase in non-expansionary capital expenditures.

Free cash flow per share at $0.69 in the fourth quarter of 2016 was $0.49 per share higher than in the same period last year.

For the three-month period ending December 31, 2016, Share and Class A Share dividends declared for the quarter totalled $0.27 per share. This is equivalent to a payout ratio of 29% or 39% if all dividends were paid out in cash (i.e., excluding the effect of dividends reinvested through Northland's DRIP).

Section 11: Commitments/Contractual Obligations

Non-Financial Commitments/Contractual Obligations

The following table includes all fixed contractual obligations of Northland and its subsidiaries as at December 31, 2016. The amounts are based on the assumptions of a 2% annual consumer price index increase, a Canadian dollar/U.S. dollar exchange rate of $1.28 and Canadian dollar/Euro exchange rate of $1.40. The table includes natural gas transportation demand charges for which Northland is liable whether or not natural gas is shipped, base operations management fees to the manager of the German wind farms and to a supplier responsible for the management of all aspects of the gas supply under a fuel management agreement with Kingston, and fixed contractual obligations related to the warranty, maintenance and services agreements for the wind farms. The majority of the construction commitment relates to the construction of the Nordsee One project. The cash obligations related to the leases for land and buildings and dismantlement are also included.

In thousands of dollars	2017	2018	2019	2020	2021	>2021
Natural gas supply and transportation, fixed portion	28,196	19,988	17,175	13,933	14,194	22,703
Maintenance agreements	102,381	129,863	129,510	112,210	115,135	1,313,364
Leases	7,341	6,913	6,756	6,857	6,984	64,124
Management fees	458	6,617	6,622	6,602	6,477	34,993
Construction, excluding debt, interest and fees	591,912	–	–	–	–	–
Dismantlement funding	–	–	–	425	509	112,429

Except in circumstances where cancellation of the agreements would result in material penalties, the above table does not include variable contractual obligations of Northland (which typically relate directly to production or meeting performance criteria). Such obligations include natural gas purchase costs, variable natural gas transportation costs and variable payments to maintenance providers. Except for the Jardin, Mont Louis, Spy Hill and North Battleford PPAs, the electricity supply contracts contain no penalties for failure to supply. With respect to the supply of natural gas, generally there are no penalties for failure to purchase natural gas under these contracts; however, failure to purchase specified annual quantities could reduce the future delivery obligations of the suppliers.

Financial Commitments/Contractual Obligations

In addition to the previously discussed non-financial commitments and contractual obligations, Northland has entered into financial and derivative contracts. The contractual maturities of Northland's financial liabilities at December 31, 2016, are as follows:

In thousands of dollars	Currency	2017	2018	2019	2020	2021	>2021
U.S. dollar foreign exchange contracts	US$	4,800	5,100	5,200	4,100	–	–
Euro foreign exchange contracts	Euro	3,716	103,556	104,505	119,058	122,047	807,220
Amortizing loans, including interest rate swaps	CA$	427,837	850,122	630,985	650,712	655,697	5,593,144
Financial natural gas contract	CA$	32,982	26,240	27,045	28,657	30,222	3,230
Convertible subordinated debentures, including interest	CA$	11,347	11,347	87,957	159,877	–	–

Section 12: Litigation, Claims and Contingencies

Northland and its subsidiaries have been named in or have commenced various claims and legal actions. The material claims as of the date of this report have been noted below.

(i) Cochrane Solar and Burks Falls West Solar

On July 7, 2016, Northland entered into an agreement with White and certain of White's affiliates to settle all disputes and claims between White and Northland and certain Northland affiliates concerning five ground-mounted solar facilities located in and around Cochrane and Burks Falls. In conjunction with the settlement, White also announced that it filed a court application for creditor protection under the Companies' Creditors Arrangement Act **(CCAA)** in Ontario. The settlement agreements between White and Northland were conditional upon the plan of compromise or arrangement **(the "Plan")** proposed by White in its CCAA proceeding being approved by the court and its applicable stakeholders and the Plan providing for the payment of $6 million to Northland, as well as other relief.

On November 1, 2016, the Ontario Superior Court of Justice (Commercial List) sanctioned and approved the Plan. Implementation of the Plan occurred and Northland received a payment of $6 million under the Plan. All claims and all liens by White and its subcontractors have been discharged in their entirety, and all letters of credit posted to remove the liens from the facilities have been returned in their entirety to Northland.

(ii) Global Adjustment

In connection with the previously disclosed decision of the Ontario Court of Appeal dated April 19, 2016, involving Northland's wholly-owned subsidiary, Iroquois Falls Power Corp., and Northland's managed facilities, Cochrane Power Corporation and Kirkland Lake Power Corporation **(collectively, the "Northland Applicants"),** and other industry participant applicants in relation to the interpretation of the price escalator for power sold under their power purchase agreements with the OEFC, on October 21, 2016, Northland announced that the Northland Applicants had received the retroactive payments of approximately $104.5 million ($94.7 million net to Northland) from the OEFC. Consistent with the treatment of prior payments in relation to the legal case, the retroactive payments were recorded into revenue as of the date of receipt. The OEFC sought leave to appeal the Ontario Court of Appeal decision in its entirety to the Supreme Court of Canada. Retention by the Northland Applicants of the retroactive payments and any other prior payments received in relation to the decision would have been adversely impacted in the event of an unfavourable outcome from the Supreme Court proceeding.

On January 19, 2017, Northland announced that the Supreme Court of Canada did not grant the OEFC leave to appeal the legal case concerning the interpretation of the price escalator for power sold under power purchase agreements related to the Northland Applicants. This final decision confirms that the Northland Applicants will retain all payments received to date from the OEFC and will continue to earn revenues per the Northland Applicants' interpretation of the contracts.

(iii) Gemini Contingent Consideration

In connection with the 2014 acquisition of Gemini, contingent consideration up to €10.4 million may be due if certain cost savings are achieved at completion of the project's construction. As of December 31, 2016, significant uncertainty remained with respect to the probability of payment and amount of contingent consideration. As a result, no liability was recorded.

Section 13: Critical Accounting Estimates

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

In making these estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. 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.

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

Deferral of Development Expenditures

Northland expenses development-related management and administration costs not directly attributable to a specific development project, including costs to determine the feasibility of prospective projects. If management determines that a development project meets specific criteria that indicate a high probability of completion, Northland capitalizes all pre-construction costs directly related to that project but continues to expense indirect costs such as base salaries and short-term incentives and overhead. If management determines that development of a project will be discontinued or that success is no longer highly likely, all deferred costs are expensed in the period the determination is made. The deferral of development expenditures is sensitive to governmental requirements and procedures, the estimation of future development and construction costs and interest/financing rates.

Long-Term Incentive Plan

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. The costs of LTIP awards that are for employees whose activities are directly attributable to the development and construction of certain Northland facilities are included in property, plant and equipment, and the costs of LTIP awards relating to the performance of the facility are expensed during the year. The LTIP cost for a period is based on expected development cost profits for a project and recognized over the expected vesting period. The calculation of development profit is sensitive to the estimation of future cash flows for each particular project and the discount rate used to discount those expected cash flows. For LTIP awards granted based on certain service-level commitments, the cost of LTIP Shares awarded is expensed over the estimated vesting period.

Impairment of Non-Financial Assets

Northland's impairment tests for goodwill, other intangible assets and property, plant and equipment are based on value-in-use calculations that use a discounted cash flow model. The cash flows are derived from the forecasts over the remaining useful lives of the assets of the cash-generating units **(CGUs),** less an allocation of forecasted corporate costs, and do not include restructuring activities that Northland is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows and the amounts allocated for corporate overhead. The expected future cash inflows are sensitive to future electricity prices, expected long-term average electricity generation and estimated natural gas commodity and transportation costs where applicable.

Income Taxes

Preparation of the audited 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 treatments 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. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply during the year when the assets are realized or the liabilities settled, using the tax rates and laws enacted at the consolidated balance sheet dates.

An assessment is also made to determine the likelihood that Northland's future 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.

Fair Value of Financial Assets and Financial Liabilities

Where the fair value of financial assets and financial liabilities that are recorded in the balance sheet 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, counterparty risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Property, Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets are depreciated over their useful lives, taking into account residual values, where appropriate. Assessments of useful lives and residual values are performed annually after considering factors such as technological innovation, maintenance programs, relevant market information and management considerations. In assessing residual values, Northland considers the remaining life of the asset, its projected disposal value and future market conditions. 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 property, plant and equipment and intangible assets.

Accounting for Investments in Non-Wholly-Owned Subsidiaries

Management exercises judgment in determining that certain subsidiaries are controlled by Northland even though the subsidiaries are less than wholly owned. Non-wholly-owned subsidiaries that required management judgment to determine if Northland controlled the entities and therefore should be consolidated with Northland's financial statements include Kirkland Lake, Cochrane, CEEC, Cochrane Solar, Grand Bend, Gemini, Nordsee One and McLean's. Management judgment and estimation 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.

Decommissioning Liabilities

Northland's decommissioning liabilities relate to the future remediation costs required under contract or by law and are recognized based on best estimates. These estimates are calculated at the end of each period, taking into account expected undiscounted outflows for each asset in question. Estimates depend on labour costs, efficiency of site restoration and remediation measures, inflation rates and pre-tax interest rates that reflect current market conditions or the time value of money, as well as risks specific to the liability. Management also estimates the timing of expenses, which may change depending on the type of continuing operations. Expected future costs are inherently uncertain and could materially change over time. Northland expects to use its installed assets at the thermal facilities for an indefinite period due to continuing equipment overhauls and ownership of the lands; as a result, management considers that a reasonable estimate of the fair value of any related decommissioning liabilities cannot be made until it is known that the thermal facilities are to be closed.

Northland has estimated the fair value of its total decommissioning liabilities for all of its Gemini and non-thermal facilities to be $166.1 million, based on an estimated total future liability. An average discount rate of 2.00–3.93% and an inflation rate of 2.0% were used to calculate the fair value of the decommissioning liabilities.

Section 14: Future Accounting Policies

A number of new standards, amendments and interpretations issued are not yet effective for the year ended December 31, 2016, and therefore have not yet been applied in preparing the consolidated financial statements. Northland will assess each standard to determine if it has an impact on its consolidated financial statements. Management anticipates that all of the relevant standards will be adopted for the first period beginning on their respective effective dates, except for IFRS 9, "Financial Instruments" **("IFRS 9"),** which will be applied starting January 1, 2017.

In July 2014, the International Accounting Standards Board **(IASB)** issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company will adopt IFRS 9 effective January 1, 2017, and consequently, management will amend its accounting policy for financial instruments, impairment and hedge accounting to reflect this early adoption. As part of the Company's adoption of IFRS 9, the Company has designated certain financial instruments for hedge accounting effective January 1, 2017, which the Company expects will have the effect of reducing gains and losses recognized in the consolidated statements of income related to fair value measurements of derivative financial instruments and increase gains and losses recognized in the consolidated statements of comprehensive income. The Company is in the process of determining other financial impacts that may result from its adoption of IFRS 9.

The IASB and the Financial Accounting Standards Board jointly issued one converged accounting standard on the recognition of revenue from contracts with customers, IFRS 15, "Revenue from Contracts with Customers" **("IFRS 15"),** effective for annual reporting periods beginning on or after January 1, 2018. The core principle of IFRS 15 is to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. Management is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

IFRS 16, "Leases" **("IFRS 16"),** was issued in January 2016 and replaces IAS 17, "Leases" **("IAS 17"),** IFRIC 4, "Determining whether an Arrangement contains a Lease", SIC-15, "Operating Leases – Incentives," and SIC-27, "Evaluating the Substance of Transactions Involving the Legal Form of a Lease." IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard 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 (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. In 2017, management plans to evaluate the impact of IFRS 16 on its consolidated financial statements.

Other than the above, there have been no additional accounting standards issued by the IASB that would have a material impact on Northland's consolidated financial statements.

Section 15: Management's Responsibility for Financial Information

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, 2016, 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 include policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and value of the assets and liabilities of Northland to permit preparation of the audited financial statements in accordance with IFRS and provide reasonable assurance regarding prevention or timely detection of the unauthorized acquisition, use or disposition of Northland's assets that could have a material effect on the audited financial statements.

As a result of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect 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 or that the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of the design and operation of Northland's internal controls over financial reporting was conducted as of December 31, 2016, 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, 2016.

Review and Approval of Financial Information

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

Section 16: Risks and Uncertainties

Northland's activities expose it to a variety of risks. Readers should refer to Northland's 2016 AIF, dated March 2, 2017, which can be found at www.sedar.com under Northland's profile and on www.northlandpower.ca, for a summary of the more important and relevant factors that could significantly affect the operations and financial results of Northland and its subsidiaries.

Northland uses derivative financial instruments to mitigate certain risk exposures. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are classified into one of the following four categories: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. Northland's financial assets include cash and cash equivalents, restricted cash, trade and other receivables and, up until its writedown in May 2014, the investment in Panda-Brandywine. Financial liabilities are classified as financial liabilities at fair value through profit or loss, and loans and borrowings or derivatives are designated as hedging instruments. Northland's financial liabilities include trade and other payables, bank indebtedness, interest-bearing loans and borrowings, dividends payable, convertible unsecured subordinated debentures and derivative 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 there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously. Northland determined that the fair value of the embedded holder option at the time of issue was nominal, and as a result the entire amount of the 2019 Debentures and 2020 Debentures was classified as a long-term liability.

Northland's gains, losses, income and expenses with respect to its financial instruments are as follows:

For the year ended December 31, in thousands of dollars	**2016**	2015	2014
Income on financial assets not held for trading	**13,199**	13,437	13,656
Loss on other financial liabilities	**232,256**	137,017	123,448
Loss on net financial liabilities at fair value through profit or loss	**27,830**	80,424	296,586

The fair values of derivative financial instruments reflect 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 of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions) without any deduction for transaction costs. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's-length market transactions, reference to the current fair value of another instrument that is essentially the same, discounted cash flow analysis or other valuation models. 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 values of Northland's financial derivatives are included in the consolidated balance sheets as "derivative financial instruments," and the changes in the fair value of Northland financial derivatives are included in the consolidated statements of income (loss) as "fair value (gain) loss on derivative contracts." The fair value represents a point-in-time estimate that may not be relevant in predicting Northland's future earnings or cash flows.

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

Market Risk

Market risk is the risk that the fair value or future cash flows of Northland's financial instruments will fluctuate because of changes in market prices. Northland is exposed to four types of market risk: (i) interest rate risk; (ii) credit spread risk; (iii) currency risk; and (iv) commodity price risk. Financial instruments affected by market risk include the available-for-sale investments, loans and borrowings and derivative financial instruments. Components of market risk to which Northland is exposed are discussed below.

Interest Rate Risk

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

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

Changes in the fair value of all interest rate swap contracts are recorded in Northland's consolidated statements of income (loss). The fair values for these interest rate swap contracts were based on calculations and valuation models using observable market rates.

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

Credit Spread Risk

Credit spread risk as it affects Northland refers to the risk that the loan margin charged by current or future lenders (this percentage is in addition to the underlying interest rate) will increase, making the cost of debt capital more expensive. There are currently no products available to hedge credit spread risk. Northland manages its exposure to credit spread risk by (i) entering into long-term fixed-rate financings when possible or feasible; and (ii) continually monitoring credit markets and by making prudent decisions about the timing and method of loan refinancing or repricing opportunities.

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 exchange rates. Northland is exposed to changes in the Euro and U.S. dollar, notably the Euro-denominated consolidated financial statements of Gemini, Nordsee One and the German wind farms.

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

Northland entered into foreign exchange contracts with several members of its corporate banking syndicate to effectively fix the foreign exchange conversion rate on substantially all projected Euro-denominated cash inflows from Gemini and Nordsee One. For Gemini, the foreign exchange hedge was for approximately 15 years following the completion of construction at a weighted average conversion rate of approximately 1.67 Canadian dollars per Euro. For Nordsee One, the foreign exchange hedge was for approximately 10 years following the completion of construction at a weighted average conversion rate of approximately 1.51 Canadian dollars per Euro.

Northland's foreign exchange derivative contracts rely on counterparties, usually financial institutions with strong credit ratings.

Commodity Price Risk

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

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

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

Counterparty Risk

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

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

As at December 31, 2016, approximately 91% (2015 – 89%) of Northland's consolidated trade and other receivables, excluding loan receivable from the equity partner, were owing from government-related entities.

In 2016, approximately 99% (2015 – 97%) of Northland's consolidated revenue was derived indirectly from the sale of electricity to government-related entities. For electricity and other sales, Northland and its subsidiaries have not provided allowance accounts, do not hold collateral from counterparties and have not purchased credit derivatives to mitigate counterparty risk. All significant accounts receivable amounts at December 31, 2016, are current.

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

Liquidity Risk

Liquidity risk arises through an excess of financial obligations over available financial assets at any point in time. Liquidity risk includes the risk that, as a result of Northland operational liquidity requirements:

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

Northland's objective in managing liquidity risk is to maintain sufficient cash or readily available funding in order to meet its expected liquidity requirements. Northland achieves this by (i) maintaining prudent cash balances, availability under committed credit facilities and access to capital markets, and (ii) selecting derivatives and hedging strategies to minimize the risk of material cash flow impacts.

As at December 31, 2016, Northland and its subsidiaries were holding cash and cash equivalents of $307.5 million ($173 million held corporately) and had an undrawn corporate line of credit available of $206.2 million.

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 receipts of cash from those entities to defray its corporate expenses and to make dividend payments to shareholders. Certain of those entities have outstanding debt that was incurred to help fund the entities' original investments. Under the credit agreements for such debt, it is conventional for distributions of cash to Northland to be prohibited if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark debt service coverage ratio, which is the ratio of EBITDA for a specified time period to the scheduled loan principal and interest payments for the same time period. For the year ended December 31, 2016, 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.

Readers should refer to Notes 3 and 25 to the audited consolidated financial statements for additional information related to Northland's financial liabilities, commitments and obligations.

Section 17: Forward-Looking Statements

This MD&A contains certain forward-looking statements that are provided for the purpose of presenting information about management's current expectations and plans. Readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects," "anticipates," "plans," "believes," "estimates," "intends," "targets," "projects," "results of litigation and arbitration proceedings," "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 flows, dividend payments and dividend payout ratios; the construction, completion, attainment of commercial operations, cost and output of development projects; 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. Although these forward-looking statements are based upon management's current reasonable expectations and assumptions, they are subject to numerous risks and uncertainties. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, natural events, construction risks, counterparty risks, operational risks, risks relating to co-ownership, the variability of revenues from generating facilities powered by intermittent renewable resources, power market risks and possible inflation risks and the other factors described in Northland's 2016 Annual Information Form dated March 2, 2017, which can be found at www.sedar.com under Northland's profile and on Northland's website at www.northlandpower.ca. Northland's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will occur. The forward-looking statements contained in this MD&A are based on assumptions that were considered reasonable on March 2, 2017. 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.

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 auditors, have examined the consolidated financial statements of Northland. The independent auditors' responsibility is to express a professional opinion on the fairness of the consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion on the consolidated financial statements. Their report as auditors is set out on page 73.

The Audit Committee of Northland meets periodically with management and the independent auditors 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 auditors' report; examines the fees and expenses for audit services; and considers the engagement or reappointment of the external auditors. 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.

John W. Brace
Chief Executive Officer
Northland Power Inc.

Paul J. Bradley
Chief Financial Officer
Northland Power Inc.