Management's Discussion and Analysis

The purpose of this Management's Discussion and Analysis **("MD&A")** is to help the reader understand the nature and importance of changes and trends as well as the risks and uncertainties that may affect Northland Power Inc.'s ("**Northland's**" or the "**Company's**") operating results and financial position. This MD&A should be read in conjunction with Northland's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2017 and 2016, as well as its audited consolidated financial statements for the years ended December 31, 2016 and 2015. This material is available on SEDAR at www.sedar.com and on Northland's website at www.northlandpower.ca. Additional information about Northland, including the most recent Annual Report and Annual Information Form dated March 2, 2017 (**AIF**) can be found on SEDAR.

This MD&A contains forward-looking statements that are based on certain estimates and assumptions that were considered reasonable on August 9, 2017; actual results may differ materially. Please see *SECTION 12: Forward-Looking Statements* in this MD&A for additional information.

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

Non-IFRS Financial Measures

This MD&A includes references to Northland's adjusted earnings before interest, income taxes, depreciation and amortization ("**adjusted EBITDA**"), free cash flow, free cash flow payout ratio (or payout ratio) and free cash flow per share, measures not prescribed by International Financial Reporting Standards (**IFRS**). Adjusted EBITDA, free cash flow, free cash flow payout ratio, payout ratio and free cash flow per share, as presented, do not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. These measures should not be considered alternatives to net income (loss), cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. Rather, these measures are provided to complement IFRS measures in the analysis of Northland's results of operations from management's perspective. Management believes that adjusted EBITDA, free cash flow, free cash flow payout ratio, payout ratio and free cash flow per share are widely accepted financial indicators used by investors and securities analysts to assess the performance of a company, including its ability to generate cash through operations. For an explanation of these non-IFRS measures and reconciliations to the nearest IFRS measure, readers should refer to *SECTION 3.2: 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 5: 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.

This MD&A is organized as follows:

SECTION 1: CONSOLIDATED HIGHLIGHTS

1.1 Significant events

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

Completion of Gemini Offshore Wind Project
On April 28, 2017, Northland announced that the Gemini offshore wind farm achieved full completion. The project was completed ahead of schedule and under its total budget of €2.8 billion. Concurrent with full completion, Gemini successfully and favourably renegotiated the project's €2 billion senior debt. This renegotiation reduced the weighted average all-in interest rate by 80 basis points to 3.8% for the remaining 13-year amortization period, removed the cash sweep requirements in year five under the previous mini-perm financing, and significantly improves expected distributions to Gemini's owners. Gemini made its first cash distribution to its owners in May 2017; regular operating distributions are expected to commence in December 2017 and occur semi-annually thereafter.

Nordsee One Offshore Wind Project Achieves First Power
Construction of the Nordsee One offshore wind farm continues to progress according to the project plan. Installation of the project's 54 wind turbines began earlier in March 2017 and 44 turbines have been installed as of the date hereof. Turbine installation will continue in parallel with the progressive commissioning of the wind turbines. Installation of all 54 Nordsee One wind turbines is expected to be completed by the end of 2017.

DeBu Offshore Wind Advanced Development Project Update
Completion of Northland's acquisition of Deutsche Bucht ("**DeBu**") is subject to achieving certain conditions which are anticipated to be completed shortly. Financial close and the commencement of construction are expected to follow, with full commercial operations expected by the end of 2019. Development of the project is progressing well and all key construction contracts have been signed. The total estimated project cost is approximately €1.3 billion (approximately CAD $1.9 billion). Northland expects to invest approximately $400 million of corporate funds, sourced from cash on hand and corporate liquidity. The balance of the project cost will be funded with non-recourse project finance debt and pre-completion revenues. The project is investigating the development of two additional demonstration turbines utilizing suction bucket foundations. The final investment decision for these two turbines is subject to achieving certain development milestones. If built, they will contribute an additional 17 MW of capacity and bring the total project cost to approximately €1.4 billion (CAD $2.0 billion). Northland's investment would increase to approximately $425 million, funded by cash and corporate debt, with the balance of incremental costs funded by additional project debt.

Long-Term Enhanced Dispatch Contract for Iroquois Falls Facility
On July 4, 2017, Northland announced that a permanent Long-Term Enhanced Dispatch Contract (**LTEDC**) for its Iroquois Falls facility was executed with the Independent Electricity System Operator (**IESO**). The contract, which succeeded the interim enhanced dispatch arrangement ("**Interim EDC**") and took effect July 1, 2017, is expected to result in reduced greenhouse gas emissions, cost savings for Ontario electricity consumers, and improved economics for Northland. The LTEDC expires in 2021 and replaces the facility's previous contract with the Ontario Electricity Financial Corporation. Under the LTEDC, the facility will operate in dispatchable mode rather than baseload.

Strategic Review
Northland has concluded the strategic review process announced in July 2016. Given the positive financial operating performance, the substantial progress made on numerous growth opportunities, the completion of €2.8 billion Gemini project ahead of schedule and under budget, the completion of the $365 million Grand Bend wind farm ahead of schedule and under budget and the nearing completion of the €1.2 billion Nordsee One project, the Company now has a stronger platform than when the strategic review was launched. The Board of Directors and management have concluded that Northland's current platform as an independent Canadian public company and leader in the international clean energy infrastructure sector is the preferred strategy going forward.

1.2 Operating highlights

Summary of Consolidated Second Quarter Results

In thousands of dollars except per share and energy unit amounts

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
FINANCIALS				
Sales	**322,351**	176,626	**686,402**	354,754
Gross Profit	**283,603**	138,026	**606,685**	267,368
Operating Income	**144,527**	59,405	**332,159**	126,429
Net Income (Loss)	**61,733**	23,376	**161,845**	(68,275)
Adjusted EBITDA (1)	**168,158**	103,930	**366,275**	207,867
Cash Provided by Operating Activities	**142,155**	107,762	**418,860**	216,582
Free Cash Flow (1)	**99,717**	46,316	**141,265**	91,182
Cash Dividends Paid to Common and Class A Shareholders	**33,298**	34,559	**66,853**	71,025
Total Dividends Declared to Common and Class A Shareholders (2)	**46,964**	46,318	**93,769**	92,486
Per Share				
Free Cash Flow (1)	**$ 0.573**	$ 0.270	**$ 0.811**	$ 0.531
Total Dividends Declared to Common and Class A Shareholders (2)	**$ 0.270**	$ 0.270	**$ 0.540**	$ 0.540
ENERGY VOLUMES				
Electricity (megawatt hours) (3)	**1,312,217**	1,294,542	**3,021,338**	2,715,265

(1) Please see Non-IFRS Financial Measures for an explanation of these terms, *SECTION 3.2: Consolidated Results* and *SECTION 5: Equity, Liquidity and Capital Resources* for reconciliations to the nearest IFRS measures.

(2) 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.

(3) Includes Gemini and Nordsee One pre-completion production volumes, which totalled 213,895 and 843,208 MWhs for the three and six months ended June 30, 2017, respectively and 89,555 and 100,555 MWhs for the same periods last year. The related pre-completion revenues are included in sales.

- **Sales** increased by 82.5% or $145.7 million and **gross profit** increased by 105.5% or $145.6 million, over the second quarter of 2016 primarily due to contributions from Gemini, which achieved full commercial operations on April 28, 2017 and pre-completion revenues from Nordsee One, which began producing power on March 31, 2017, combined with positive contributions from the Grand Bend, North Battleford and Iroquois Falls facilities. These variances were partially offset by lower contributions from the ground-mounted solar facilities and from Kingston as further discussed in *SECTION 3.1: Facility Results*.
- **Adjusted EBITDA** (a non-IFRS measure) for the second quarter increased by 61.8% over the same period in 2016 to $168.2 million primarily due to the factors described above, partially offset by an increase in management and administration costs, as detailed below. See *SECTION 3.2: Consolidated Results* for additional details on the above variances.
- **Operating income** for the three months ended June 30, 2017 was $85.1 million higher than the second quarter of 2016 for reasons similar to the increase in gross profit. The increase in operating income was lower than the increase in gross profit due to increased depreciation of property, plant and equipment, higher plant operating costs and corporate management and administration costs.
- **Net income** for the quarter was $61.7 million compared to $23.4 million in the second quarter of 2016. The increase in net income was a result of the increase in operating income, partially offset by the lower non-cash gain related to financial derivative contracts and an increase in finance costs.

1.3 Liquidity and capital resource highlights

- **Cash provided by operating activities** increased by $34.4 million from the same quarter in 2016 primarily due to favourable gross profit and the timing of payables, receivables, and deposits, partially offset by higher operating costs.
- **Quarterly free cash flow per share** (a non-IFRS measure) increased to $0.57 compared to $0.27 in the second quarter of 2016, primarily as a result of two factors: the one-time cash distribution representing Northland's share of Gemini net pre-completion revenue in excess of the amount required by project lenders to fund construction costs (see *SECTION 3.1 Facility Results* for additional information) as well as a full quarter of contribution from Grand Bend. The increase was partially offset by a lower contribution from Kingston (see *SECTION 3.1 Facility Results* for additional information). While adjusted EBITDA includes the results of projects under construction, free cash flow does not. Gemini achieved full completion on April 28, 2017 and results from that date are included in free cash flow.

SECTION 2: DESCRIPTION OF BUSINESS

As of June 30, 2017, Northland owns or has a net economic interest in completed power producing facilities with a total operating capacity of approximately 1,754 MW. Northland's operating assets comprise facilities that produce electricity from renewable resources and natural gas for sale primarily under long-term PPAs or other revenue arrangements with creditworthy customers in order to provide cash flow stability. Additionally, as of June 30, 2017, Northland had 332 MW (282 MW net interest to Northland) of generating capacity under construction, representing an 85% equity stake in Nordsee One. Furthermore, Northland has a portfolio of projects in late and early stages of development.

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

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

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

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

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

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

vi. Saint-Ulric Saint-Léandre Wind L.P., which owns a 133.3 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 9 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) located 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 located in southern Ontario, together herein referred to as "**Grand Bend**";

xii. ZeeEnergie C.V. and Buitengaats C.V., which collectively own the 600 MW (360 MW net interest to Northland) offshore wind facility off the coast of the Netherlands in the North Sea which achieved full completion April 28, 2017, together herein referred to as "**Gemini**"; 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 of the North Sea "**Nordsee One**".

Northland's unaudited interim condensed consolidated financial statements include the financial results for facilities owned by Kirkland Lake Power Corp. (**"Kirkland Lake"**) and Cochrane Power Corporation (**"Cochrane"**). Northland continues to manage Cochrane and Kirkland Lake on behalf of these corporations, which are owned by third-party, non-voting shareholders and Canadian Environmental Energy Corporation (**CEEC**) in which Northland has a 68% interest. Northland also has a 75% equity interest in four small rooftop solar facilities 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.

SECTION 3: DISCUSSION OF OPERATIONS

3.1 Facility results

Northland's Offshore Wind Facilities

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.

On April 28, 2017, Gemini achieved full completion, ahead of schedule and under its total budget of €2.8 billion. Full completion marks the official end of construction and signifies that all of the terms required to satisfy the project lenders for term conversion have been achieved. As a result of these significant milestones, Gemini made its first cash distribution to its owners. Northland's share of net pre-completion revenue in excess of the amount required by project lenders to fund construction costs (**"the Gemini Completion Distribution"**) totalled approximately €31 million. Regular distributions to shareholders from Gemini operations are expected to commence in December 2017 and occur semi-annually thereafter.

Nordsee One produced its first revenues during 2017. Although the project remains under construction at the end of the second quarter, certain revenues and costs are recorded in operating income as individual wind turbines become operational. For additional details on Nordsee One, please see *SECTION 6: Construction and Advanced Development.*

See the table below for offshore wind operational results for the three and six months ended June 30.

	Three months ended June 30,		Six months ended June 30,	
In thousands of dollars	**2017**	2016	**2017**	2016
Sales/Gross profit (1)(2)	**160,710**	1,800	**338,092**	1,827
Plant operating costs (2)	**18,611**	3,478	**33,493**	4,643
Management and administration costs	**4,458**	2,103	**6,988**	2,893
Adjusted EBITDA (3)(4)	**82,532**	(2,306)	**178,418**	(3,549)

(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 wind turbines at Nordsee One, and at Gemini up until April 28, 2017, when the facility achieved full completion. Full revenues on all MWh generated are reflected in Gemini's operating results for 2017.

(3) A non-IFRS measure.

(4) Adjusted EBITDA represents Northland's share of adjusted EBITDA.

Electricity production, including pre-completion production, during the three and six months ended June 30, 2017 was 432,280 MWh and 1,050,593 MWh, respectively, higher than the comparable periods in 2016 largely due to all of Gemini's turbines producing revenue in 2017. Only 90 of the 150 turbines were producing power as of June 30, 2016. Nordsee One produced a minimal amount of electricity because the project remained under construction at the end of the quarter.

Sales of $160.7 million and adjusted EBITDA of $82.5 million were driven by revenue reported for Gemini. In August 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 begin receiving its contracted subsidy in addition to market revenues for the subsequent 15 years. Gemini operating results for 2017 reflect full revenues on all MWh generated. Adjusted EBITDA includes Northland's share of both projects' overhead costs (management and administration) which do not qualify for capitalization or deferral under IFRS.

Northland's Thermal Facilities

The following is a discussion of the operating results for Northland's thermal facilities for the three and six months ended June 30.

	Three months ended June 30,		Six months ended June 30,	
In thousands of dollars except as indicated	**2017**	2016	**2017**	2016
Electricity Production (MWh)	**480,724**	911,123	**1,171,127**	2,037,895
Sales	**96,041**	108,507	**211,706**	238,607
Less finance lease adjustment (1)	**(4,047)**	(4,046)	**(8,094)**	(8,093)
Sales as reported	**91,994**	104,461	**203,612**	230,514
Cost of sales	**31,121**	32,836	**62,344**	74,022
Gross profit	**64,920**	75,671	**149,362**	164,585
Less finance lease adjustment (1)	**(4,047)**	(4,046)	(8,094)	(8,093)
Gross profit as reported	**60,873**	71,625	**141,268**	156,492
Plant operating costs	**8,956**	9,298	**16,790**	19,181
Operating income	**43,011**	50,661	**106,505**	113,999
Adjusted EBITDA (2)	**55,759**	66,303	**131,980**	145,227
Capital expenditures (3)	**14**	101	**14**	101

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

(2) A non-IFRS measure.

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

Northland's thermal assets comprise both baseload and dispatchable facilities. Baseload facilities generally operate at full output, with the objective of generating 100% of contracted on-peak and off-peak production volumes and receive a fixed price for all electricity sold. Under certain baseload PPAs, the facility may operate at reduced output during off-peak periods at the request of the PPA counterparty and/or may be reimbursed for cost of sales from the power purchaser.

Dispatchable facilities operate either when market conditions are economical or as requested by the PPA counterparty. These facilities receive contract payments that are largely dependent on their ability to operate according to contract parameters as opposed to maximizing production.

Thorold and Spy Hill operate as dispatchable facilities. North Battleford operates as a baseload facility. Iroquois Falls operated as a baseload facility until January 1, 2017, and has operated as a dispatchable facility thereafter. Additional information relating to the thermal facility contracts can be found in Northland's AIF, which is filed electronically at www.sedar.com under Northland's profile.

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

Electricity production during the second quarter of 2017 was 430,399 MWh lower than the same quarter of 2016 largely due to no dispatch under the Iroquois Falls Interim EDC and under the Kingston Remarketing Initiative. Electricity production for the six months ended June 30, 2017 was 866,768 MWh lower than the same period in 2016 primarily due to the Iroquois Falls Interim EDC, the Kingston Remarketing Initiative and fewer dispatch hours at Thorold. Changes in the volume of electricity produced at Iroquois, Thorold, Spy Hill, and North Battleford have a minimal impact on gross profit given the nature of those facilities' PPAs.

Sales during the second quarter of 2017 of $92.0 million were $12.5 million lower than the second quarter of 2016 primarily due to the Kingston Remarketing Initiative ($25.4 million). This decrease in sales was partially offset by higher gas sales at Iroquois Falls ($8.3 million) and higher flow-through gas costs at North Battleford ($6.7 million). Similarly, sales during the six month period ending June 30, 2017 of $203.6 million were $26.9 million lower than the comparable period in 2016 primarily due to the Kingston Remarketing Initiative ($43.6 million), partially offset by higher sales at Iroquois Falls ($10.1 million) and higher flow-through natural gas costs at North Battleford ($10.7 million).

Gross profit during the second quarter of 2017 at $60.9 million was $10.8 million lower than the comparable period in 2016 primarily due to the Kingston Remarketing Initiative ($12.9 million). Gross profit during the six months ended June 30, 2017 at $141.3 million was $15.2 million lower than the comparable period primarily due to the Kingston Remarketing Initiative ($21.7 million), partially offset by higher gross profit from Iroquois Falls ($5.7 million) as a result of the Interim EDC.

Plant operating costs of $9.0 million for the three months ended June 30, 2017 were consistent with the comparable period in 2016. For the six months ended June 30, 2017, plant operating costs of $16.8 million were $2.4 million lower than the comparable period in 2016 as a result of service agreement savings at Thorold, maintenance agreement savings at Iroquois Falls related to the Interim EDC, and lower costs due to the Kingston Remarketing Initiative.

Operating income for the thermal facilities for the three and six month periods ended June 30, 2017 were $7.7 million and $7.5 million, respectively, lower than the comparable periods in 2016 because lower gross profit was offset by lower plant operating and other costs.

Adjusted EBITDA and operating income for the thermal facilities for the three and six months ended June 30, 2017 were lower than the comparable periods in 2016 for the same reasons as the gross profit variances described above.

Northland's On-Shore Renewable Facilities

The following is a discussion of the results of operations of Northland's on-shore renewable facilities for the three and six months ended June 30.

	Three months ended June 30,		**Six months ended June 30,**	
In thousands of dollars except as indicated	**2017**	2016	**2017**	2016
Electricity Production (MWh) - Actual	**309,658**	293,864	**699,063**	576,815
Electricity Production (MWh) - Long-term forecast	**333,917**	305,013	**722,179**	591,588
On-shore wind	**28,393**	23,270	**68,789**	45,286
Solar	**26,936**	33,670	**42,044**	46,577
Sales/Gross profit (1)	**55,329**	56,940	**110,833**	91,863
On-shore wind	**5,864**	5,108	**12,175**	9,287
Solar	**1,113**	1,091	**2,100**	2,227
Plant operating costs	**6,977**	6,199	**14,275**	11,514
Operating income	**25,526**	27,795	**50,361**	38,422
On-shore wind	**15,516**	13,326	**38,522**	28,449
Solar	**22,576**	28,815	**35,141**	39,483
Adjusted EBITDA (2)(3)	**38,092**	42,141	**73,663**	67,932
Capital expenditures (4)	**33**	1,416	**157**	1,416

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

(2) A non-IFRS measure.

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

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

Electricity production during the second quarter of 2017 was 15,794 MWh higher than the comparable period in 2016 primarily due to a 38,076 MWh contribution from Grand Bend, which declared commercial operations in April 2016. These results were partially offset by a 13,794 MWh decrease in solar production as a result of heavy cloud cover at all solar facilities, and a net decrease in production at the other wind facilities caused by lower wind resources. Electricity production during the six months ended June 30, 2017 was 122,248 MWh higher than the comparable period in 2016 primarily due to the contribution from Grand Bend (148,461 MWh). These results were partially offset by a net decrease in solar and wind production at the other facilities, as described above.

During the second quarter of 2017, sales of $55.3 million were generally consistent with the comparable period in 2016 as a result of higher sales at Grand Bend offsetting the impact of lower production at other facilities. For the six months ended June 30, 2017, sales of $110.8 million were $19.0 million higher than the comparable period in 2016 primarily due to the incremental contribution from Grand Bend.

Plant operating costs of $7.0 million and $14.3 million for the three months ended and six months ended June 30, 2017, respectively, were higher than the comparable periods in 2016 primarily due to the incremental contribution from Grand Bend.

Operating income of $25.5 million for the second quarter of 2017 was $2.3 million lower than the comparable period in 2016 as a result of lower results at the solar facilities being partially offset by the contribution from Grand Bend. Operating income of $50.4 million for the six months ended June 30, 2017 was $11.9 million higher than the comparable period in 2016 as a result of the incremental contribution from Grand Bend, but partially offset by the inclusion of depreciation for the wind farm and the lower results at the solar facilities during the second quarter of 2017.

Adjusted EBITDA for the on-shore renewable facilities of $38.1 million for the three months ended June 30, 2017 was $4.0 million lower than the comparable period in 2016 primarily due to lower results at the solar facilities being partially offset by the contribution from Grand Bend. Adjusted EBITDA for the on-shore renewable facilities of $73.7 million for the six months ended June 30, 2017 was $5.7 million higher than the same period of 2016 primarily as a result of the contributions from Grand Bend.

Corporate and Managed Facilities Including Other Income

The following is a discussion of the results of operations of Northland's managed facilities (Kirkland Lake, Cochrane and management fees from Chapais), as well as Corporate activities, for the three and six months ended June 30.

	Three months ended June 30,		**Six months ended June 30,**	
In thousands of dollars	**2017**	2016	**2017**	2016
Sales	**14,318**	13,425	**33,865**	30,550
Cost of sales	**7,627**	5,764	**17,373**	13,364
Gross profit	**6,691**	7,661	**16,492**	17,186
Plant operating costs	**5,040**	3,257	**8,012**	6,700
Operating income	**999**	3,300	**7,230**	7,753
Adjusted EBITDA (1)				
Managed facilities (2)	**1,762**	3,703	**7,490**	8,883
Gemini interest income	**5,212**	4,538	**9,977**	9,119
Other	**194**	1,353	**262**	2,401
	7,168	9,594	**17,729**	20,403

(1) A non-IFRS measure.

(2) Adjusted EBITDA for managed facilities represents management and incentive fees earned by Northland from services provided to Kirkland Lake, Chapais, and Cochrane.

Sales for the three and six months ended June 30, 2017 were higher than the comparable period in 2016 primarily due to higher flow-through gas costs, as well as higher gas mitigation sales at Kirkland Lake, partially offset by lower electricity production driven by the timing of maintenance activities. Gross profit for the three and six months ended June 30, 2017 was lower than the comparable periods in 2016 as a result of higher cost of sales from gas consumed being only partially offset by increased revenues.

Operating income for the three and six months ended June 30, 2017 was lower than the comparable periods in 2016 largely due to higher plant operating costs driven by the timing of maintenance activities and repairs at Kirkland Lake.

Adjusted EBITDA for the managed facilities (i.e. management and incentive fees) for the three and six months ended June 30, 2017 was lower than the comparable periods in 2016 due to management fees generated from Kirkland

Lake being lower, largely as a result of the timing of maintenance activities, which impacted production and operating costs.

"Gemini interest income" represents interest earned on the subordinated debt that Northland has loaned to Gemini. Northland consolidates the financial results of Gemini; therefore, the subordinated debt balances and related investment income and interest expense eliminate on consolidation but the income is still included in Northland's consolidated adjusted EBITDA.

	Three months ended June 30,		Six months ended June 30,	
In thousands of dollars	**2017**	2016	**2017**	2016
Management and administration costs				
Corporate operations	**7,938**	5,500	**16,057**	10,705
Corporate development	**7,645**	6,302	**20,661**	11,441
Facilities	**4,773**	3,003	**8,319**	4,143
Total management and administration costs	**20,356**	14,805	**45,037**	26,289
Corporate management and administration costs	**15,583**	11,802	**36,718**	22,146
Corporate adjusted EBITDA (1)(2)	**(15,393)**	(11,802)	**(35,515)**	(22,146)

(1) A non-IFRS measure.

(2) Adjusted EBITDA excludes costs associated with the strategic review.

Corporate management and administration costs for the three and six months ended June 30, 2017 were $3.8 million and $14.6 million, respectively, higher than the comparable period in 2016. The year-over-year increase in Corporate management and administration costs for the three and six months ended June 30 was largely due to higher early-stage development activities across a range of geographic locations ($0.5 million and $7.2 million, respectively) and higher personnel costs ($2.1 million and $5.5 million, respectively).

Facility management and administration costs for the three and six months ended June 30, 2017 were $1.8 million and $4.2 million, respectively, higher than the comparable period in 2016, primarily due to an increase in management and administration costs at Gemini ($1.9 million and $3.7 million, respectively) because costs that were previously capitalized, including personnel, office and other costs, are now being expensed. As wind turbines were commissioned, costs that were not directly attributable to the construction of the project were expensed as management and administration costs; therefore, these costs increased over time until all turbines were commissioned in 2016.

3.2 Consolidated results

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

Second Quarter

Net income for the three months ended June 30, 2017 of $61.7 million was higher than the same quarter of 2016 primarily due to a combination of the increase in operating income partially offset by non-cash fair value gains associated with Northland's derivative contracts ($0.1 million gain in the second quarter of 2017 versus a $17.3 million gain in the second quarter of 2016) and finance costs. New for 2017, Northland adopted hedge accounting under the requirements of IFRS 9, effective January 1, 2017, to minimize mark-to-market adjustments in net income resulting from volatility of foreign currency and interest rate movements.

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

Total Sales and *Gross profit* increased (sales 82.5% or $145.7 million; gross profit 105.5% or $145.6 million) compared to the second quarter of 2016 for reasons discussed in *Section 3.1: Facility Results* and primarily due to the contribution from Gemini which reached commercial operations on April 28, 2017, combined with additional contributions from Grand Bend, North Battleford and Iroquois Falls. These variances were partially offset by the Kingston Remarketing Initiative and lower production at the ground-mounted solar facilities.

Plant operating costs increased by $17.1 million largely due to the inclusion of costs from Gemini upon achieving full operations, the addition of costs from Grand Bend and maintenance activities at Kirkland Lake, partially offset by lower costs at Kingston and Iroquois Falls, as previously discussed.

Management and administration costs at $20.4 million were $5.6 million higher than the second quarter of 2016. Corporate management and administration costs were $3.8 million higher than the comparable period of 2016 largely due to higher early-stage development activities ($0.5 million), and personnel costs ($2.1 million), as previously discussed. Facility management and administration costs were $1.8 million higher primarily due to the inclusion of Gemini costs that were previously capitalized, including personnel, office and other costs, and are now being expensed as a result of the wind turbines having been commissioned.

Finance costs, *net* (primarily interest expense), increased by $32.1 million from the second quarter of 2016 due to the inclusion of interest incurred at Gemini and Grand Bend.

Non-cash fair value loss of $2.1 million in the second quarter of 2017 (compared to a $18.3 million gain in the second quarter of 2016) is primarily due to an unrealized foreign exchange loss. As mentioned previously, Northland early adopted IFRS 9 and elected to apply hedge accounting which allows Northland to record the effective portion of mark-to-market adjustments on its derivative contracts in other comprehensive income. Further details are provided in Note 4 of the unaudited interim condensed consolidated financial statements for the period ended June 30, 2017.

The factors described above, combined with $0.2 million and $0.2 million, respectively of current and deferred taxes, resulted in net income of $61.7 million for the second quarter of 2017, compared to $23.4 million for the second quarter of 2016.

Year-to-Date

Net income for the six months ended June 30, 2017, of $161.8 million was higher than 2016 primarily due to the increase in operating income combined with the non-cash fair value gain associated with Northland's derivative contracts ($29.5 million gain in the first six months of 2017 versus a $122.7 million loss in the first six months of 2016). Of the non-cash fair value gain on the derivative contracts for the first six months of 2017, $42 million was associated with Gemini's and Nordsee One's interest rate swap contracts, which are partially offset by counter movements in other derivative contracts.

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

Sales were higher in the first six months of 2017 compared to the prior year as discussed in *SECTION 3.1: Facility Results* and primarily due to operating results from Gemini, and positive contributions from North Battleford, Grand Bend, and the Interim EDC at Iroquois Falls. These variances were partially offset by the impact of the Kingston Remarketing Initiative and lower production at the ground-mounted solar facilities.

Gross profit of $606.7 million for the first six months of 2017 was $339.3 million higher than the same period of 2016 primarily due to operating results from Gemini and positive contributions from Grand Bend and Iroquois Falls, as discussed in *SECTION 3.1: Facility Results.*

Plant operating costs increased by $30.5 million largely due to the inclusion of costs from Gemini and Grand Bend, combined with maintenance activities at Kirkland Lake, partially offset by lower costs at Iroquois Falls and Kingston, as discussed in *SECTION 3.1: Facility Results*.

Management and administration costs increased by $18.7 million from the prior period largely due to higher early-stage development activities and personnel costs, higher costs at Gemini because management and administration costs are now being expensed, as previously discussed.

Finance costs, *net* (primarily interest expense), increased by $76.5 million from the first half of 2016 due to the inclusion of interest incurred at Gemini.

Non-cash fair value gain of $28.3 million (compared to a $124.0 million loss in 2016) is comprised of a $29.5 million gain in the fair value of Northland's financial derivative contracts and a $1.2 million unrealized foreign exchange loss. A significant portion ($42 million) represents the consolidated marked-to-market adjustment on the interest rate swaps entered into by Gemini and Nordsee One, which are offset by counter movements in other derivative contracts.

The factors described above, combined with a $1.6 million and a $19.6 million provision for current and deferred income taxes, resulted in a net income of $161.8 million for the six months ended June 30, 2017, compared to a net loss of $68.3 million for the six months ended June 30, 2016.

Adjusted EBITDA

Adjusted EBITDA (a non-IFRS measure) is calculated as net income (loss) adjusted for the provision for (recovery of) income taxes, depreciation of property, plant and equipment, amortization of contracts and other intangible assets, net finance costs, Gemini subordinated debt interest, fair value (gain) loss on derivative contracts, unrealized foreign exchange (gain) loss, gain on sale of development assets, elimination of non-controlling interests (excluding management and incentive fees to Northland), finance lease and equity accounting, and Gemini contingent consideration.

The loan balance on Northland's €80 million of subordinated debt to Gemini increased through accrued interest until June 30, 2017 to €117 million, which will be subject to interest going forward. Semi-annual principal payments will start in 2027. Northland consolidates the financial results of Gemini and, as a result, Northland's loan balances, investment income, and interest expense are eliminated upon consolidation. However, the investment income is included in Northland's adjusted EBITDA as "Gemini subordinated debt interest" and will be included in free cash flow only when cash payments are received, which is anticipated to commence in the second half of 2017.

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

	Three months ended June 30,		Six months ended June 30,	
In thousands of dollars	**2017**	**2016**	**2017**	**2016**
Net Income (Loss)	**61,733**	23,376	**161,845**	(68,275)
Adjustments:				
Provision for (recovery of) income taxes	**440**	3,896	**21,175**	(21,024)
Depreciation of property, plant and equipment	**82,381**	45,736	**163,424**	81,333
Amortization of contracts and other intangible assets	**2,292**	4,826	**3,960**	9,652
Finance costs, net	**77,917**	45,799	**158,761**	82,255
Gemini subordinated debt interest	**5,212**	4,538	**9,977**	9,119
Fair value (gain) loss on derivative contracts	**(94)**	(17,310)	**(29,474)**	122,674
Foreign exchange (gain) loss	**2,146**	(976)	**1,183**	1,360
Elimination of non-controlling interests	**(65,205)**	(6,756)	**(142,356)**	(10,816)
Finance lease and equity accounting	**675**	801	**1,453**	1,589
Gemini contingent consideration	**221**	—	**14,816**	—
Strategic review costs	**440**	—	**1,511**	—
Adjusted EBITDA	**168,158**	103,930	**366,275**	207,867

Northland's adjusted EBITDA for the three months ended June 30, 2017 was $64.2 million higher than the second quarter of 2016.

The significant factors increasing adjusted EBITDA were:

- $85.0 million increase in operating results from Gemini which began full commercial operations on April 28, 2017;
- $3.3 million increase in operating results from North Battleford and Iroquois Falls; and
- $2.6 million increase in operating results from Grand Bend due to a full quarter of contributions.

The favourable results were partially offset by:

- $12.3 million decrease in operating results from Kingston;
- $6.2 million decrease in operating results from Northland's solar facilities due to lower production;
- $4.6 million decrease in results from Northland's other operating facilities; and
- $3.6 million increase in relevant corporate management and administration costs primarily related to early-stage development projects and personnel costs.

Northland's adjusted EBITDA for the six months ended June 30, 2017 was $158.4 million higher than 2016.

The significant factors increasing adjusted EBITDA were:

- $182.2 million increase in operating results from Gemini, as discussed above;
- $11.3 million increase in operating results from Grand Bend; and
- $9.1 million increase in operating results from Iroquois Falls and North Battleford.

These favourable results were partially offset by:

- $20.7 million decrease in operating results from Kingston;
- $13.4 million increase in relevant corporate management and administration costs primarily related to higher early-stage development projects and personnel costs;
- $4.3 million decrease in operating results from Northland's solar facilities; and
- $5.8 million decrease in results from Northland's other operating facilities.

3.3 Summary of historical consolidated quarterly results and trends

In millions of dollars, except per share information	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Total sales	322.4	364.1	478.6	265.7	176.6	178.1	171.5	187.7
Operating income	144.5	187.6	276.6	105.6	59.4	67.0	60.6	79.7
Net income (loss)	61.7	100.1	290.8	(31.9)	23.4	(91.7)	8.9	(91.1)
Adjusted EBITDA (1)	168.2	198.1	277.2	141.9	103.9	103.9	94.4	119.2
Cash provided by operating activities	142.2	276.7	344.4	158.8	107.8	108.8	72.9	118.0
Free cash flow (1)	99.7	41.5	119.0	32.1	46.3	44.9	34.3	63.1
Per share statistics								
Net income (loss) - basic	$ 0.19	0.30	0.94	(0.18)	0.20	(0.32)	0.01	(0.51)
Net income (loss) - diluted	$ 0.19	0.30	0.94	(0.18)	0.20	(0.32)	0.02	(0.51)
Free cash flow (1)	$ 0.57	0.24	0.69	0.19	0.27	0.26	0.20	0.37
Total dividends declared	$ 0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27

(1) Non-IFRS measures.

Northland’s consolidated financial results are affected by seasonal factors, contract provisions, and extraordinary items, which result in quarterly variations.

Northland’s quarterly net income (loss) also varies due to any non-cash impairments/recoveries and foreign exchange adjustments required to translate 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.

SECTION 4: CHANGES IN FINANCIAL POSITION

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

As at, in thousands of dollars	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	**396,775**	307,521
Restricted cash	**362,047**	171,304
Trade and other receivables	**196,386**	158,007
Other current assets	**35,736**	33,445
Property, plant and equipment	**7,400,562**	7,157,401
Contracts and other intangible assets	**237,512**	234,328
Other assets (1)	**434,977**	435,671
	9,063,995	**8,497,677**
Liabilities		
Trade and other payables	**149,532**	231,186
Interest-bearing loans and borrowings	**6,325,547**	5,736,112
Net derivative financial liabilities (2)	**429,677**	442,262
Net deferred tax liability (2)	**65,466**	52,610
Other liabilities (3)	**642,005**	660,387
	7,612,227	7,122,557
Total equity	**1,451,768**	1,375,120
	9,063,995	**8,497,677**

(1) This amount is derived from the unaudited interim consolidated balance sheets and contains finance lease receivable, long-term deposit, other assets and goodwill.

(2) Derivative financial instruments and deferred taxes are presented on a net basis resulting in a difference in total assets and total liabilities when compared to the unaudited interim consolidated balance sheets.

(3) This amount is derived from the unaudited interim consolidated balance sheets and contains dividends payable, corporate term loan facility, convertible debentures and provisions and other liabilities.

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

- Restricted cash increased by $190.7 million primarily due to the funds set aside for construction and debt service at Gemini and Nordsee One partially offset by the release of funds for construction at Kirkland Lake and for NPI Ground-Mounted Solar's and North Battleford's semi-annual principal payments.
- Trade and other receivables increased by $38.4 million mainly due to increased electricity sales at Gemini partially offset by lower sales at Kingston and Iroquois Falls.
- Property, plant and equipment increased by $243.2 million from December 31, 2016 primarily due to construction-related activities at Nordsee One and Kirkland Lake.
- Contracts and other intangible assets increased by $3.2 million mainly due to foreign exchange translation differences partially offset by contract amortization.

- Trade and other payables decreased by $81.7 million primarily due to the timing of construction-related payables, including amounts paid at Gemini and Nordsee One.
- Interest-bearing loans and borrowings increased by $589.4 million mainly due to Gemini's and Nordsee One's senior debt drawings and additional debt at Kirkland Lake, partially offset by scheduled loan repayments.
- Net derivative financial liabilities (derivative financial liabilities less derivative financial assets) of $429.7 million decreased by $12.6 million primarily due to the non-cash fair value mark-to-market adjustments on foreign exchange contracts, Iroquois Falls' natural gas financial derivative contract and interest rate swaps ($274.7 million relates to Gemini's and Nordsee One's interest rate swaps). The application of hedge accounting under IFRS 9 allows Northland to record the effective portion of mark-to-market adjustments on its derivative contracts in other comprehensive income, as previously disclosed.
- Net deferred tax liability (deferred tax asset less deferred tax liabilities) of $65.5 million increased by $12.9 million due to movements in accounting versus tax balances, particularly fair value gains on derivative contracts.

SECTION 5: EQUITY, LIQUIDITY AND CAPITAL RESOURCES

Equity and Convertible Unsecured Subordinated Debenture Information

As at June 30, 2017, Northland had 173,155,939 common shares outstanding (as at December 31, 2016 – 171,973,308), 4,501,565 Series 1 Preferred Shares, 1,498,435 Series 2 Preferred Shares, 4,800,000 Series 3 Preferred Shares and 1,000,000 Class A Shares. During the quarter, $0.1 million of the 2019 convertible debentures were converted into 1,805 common shares.

During the first six months of 2017, Northland's total equity increased by $76.6 million primarily as a result of the $26.9 million increase in common shares from the issuance of additional shares under Northland's DRIP. In addition, there was an $29.1 million increase in accumulated other comprehensive income due to the impact of foreign exchange rate fluctuations on the translation of Gemini and Nordsee One results into Canadian dollars. Northland's total equity includes non-controlling interests of $475.0 million at June 30, 2017. Readers should refer to Note 7 to the unaudited interim condensed consolidated financial statements for the period ending June 30, 2017 for additional details related to Northland's non-controlling interests.

As of the date of this MD&A, Northland has outstanding 173,391,434 common 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, $78.4 million of the 2019 Debentures, and $156.1 million of the 2020 Debentures. If the 2019 Debentures and 2020 Debentures were converted in their entirety, an additional 10.8 million shares would be issued and outstanding.

Liquidity and Capital Resources

	Three months ended June 30,		Six months ended June 30,	
In thousands of dollars	**2017**	**2016**	**2017**	**2016**
Cash and cash equivalents, beginning of period	**324,796**	177,805	**307,521**	151,927
Cash provided by operating activities	**142,155**	107,762	**418,860**	216,582
Cash used in investing activities	**(151,517)**	(563,742)	**(438,737)**	(959,643)
Cash provided by financing activities	**81,857**	432,358	**109,461**	741,046
Effect of exchange rate differences	**(516)**	12,200	**(330)**	16,471
Cash and cash equivalents, end of period	**396,775**	166,383	**396,775**	166,383

Cash and cash equivalents for the six months ended June 30, 2017 were $396.8 million, which increased by $89.3 million from December 31, 2016, due to $418.9 million in cash provided by operating activities and $109.5 million in cash provided by financing activities, partially offset by $438.7 million in cash used in investing activities.

Cash provided by operating activities for the six months ended June 30, 2017 was $418.9 million, comprising: (i) net income of $161.8 million; (ii) $323.2 million in non-cash and non-operating items such as depreciation and amortization, unrealized foreign exchange gains, and changes in fair value of financial instruments; combined with (iii) a $66.2 million change in working capital from December 31, 2016 due to the timing of payables, receivables, and deposits.

Cash used for investing activities for the six months ended June 30, 2017 was $438.7 million, primarily due to: (i) $201.5 million used for the purchase of property, plant and equipment, mostly for the construction of Nordsee One; (ii) $179.7 million of restricted cash funding associated with construction expenditures ($117.5 million is associated with construction activities at Gemini and Nordsee One) and reserves for debt payments; and (iii) a $64.3 million change in working capital related to the timing of construction payables ($59.4 million is associated with construction payables at Gemini and Nordsee One). These uses were partially offset by: (i) $5.0 million primarily related to proceeds received from other investing activities during the quarter; and (ii) $1.8 million of interest received.

Cash provided by financing activities for the six months ended June 30, 2017 was $109.5 million, comprising: $444.3 million of proceeds from Gemini's and Nordsee One's third-party senior debt, and Kirkland Lake; partially offset by; (i) $135.5 million in interest payments; (ii) $72.4 million of common, Class A and preferred share dividends; (iii) $69.3 million in scheduled loan repayments; and (iv) $57.6 million in dividends to the non-controlling shareholders largely associated with Gemini, Grand Bend, CEEC, and McLean's.

Due to the movement of the euro versus the Canadian dollar, Northland's June 30, 2017 consolidated cash and cash equivalents was negatively impacted by $0.3 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.

During the quarter, cash and cash equivalents increased by $72.0 million due to cash provided by operations of $142.2 million and cash provided by financing activities of $81.9 million, offset by $151.5 million of cash used in investing activities.

The increase in cash and cash equivalents during the quarter was largely due to: (i) debt proceeds from Gemini's and Nordsee One's third-party senior debt and Kirkland Lake financing; (ii) overall favourable operating results from Northland's operating facilities; and (iii) $19.2 million change in working capital related to the timing of construction payables. These variances were partially offset by: (i) construction and development related expenditures, mostly associated with Nordsee One and Kirkland Lake projects; (ii) interest payments associated with borrowings; (iii) a net reserve increase primarily associated with the transfer of funds related to construction expenditures; and (iv) scheduled debt repayments.

The following table provides a continuity of the cost of property, plant and equipment:

In thousands of dollars	Cost balance as of December 31, 2016	Additions	Other (1)	Exchange rate differences	Transfers	Cost balance as of June 30, 2017
Operations:						
Offshore wind	—	—	**(5,214)**	**162,264**	**3,701,176**	**3,858,226**
Thermal (2)	1,579,620	**14**	—	—	—	**1,579,634**
On-shore renewable	1,754,550	**737**	**(656)**	**1,581**	—	**1,756,212**
Construction:						
Offshore wind	4,746,285	**197,478**	**(5,867)**	**60,455**	**(3,701,176)**	**1,297,175**
Managed (3)	233,096	**3,180**	—	—	—	**236,276**
Corporate (4)	20,456	**135**	—	—	—	**20,591**
Total	8,334,007	**201,544**	**(11,737)**	**224,300**	—	**8,748,114**

(1) Includes the accrual for asset retirement obligations for accounting purposes, tax credits, LTIP shares granted and write-offs of deferred development costs.

(2) Excludes Spy Hill lease receivable accounting treatment.

(3) Relates to Kirkland Lake facility.

(4) 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, 2016	Financings	Repayments	Amortization of costs/fair value	Exchange rate differences	Transfers	Balance as of June 30, 2017
Operations:							
Offshore wind (3)	—	—	—	—	**122,489**	**2,937,321**	**3,059,810**
Thermal (1)	1,059,476	—	**(18,918)**	**1,266**	—	—	**1,041,824**
On-shore renewable (2)	1,173,317	—	**(21,343)**	**423**	—	—	**1,152,397**
Construction:							
Offshore wind (3)	3,494,567	**441,187**	—	**15,740**	**45,467**	**(2,937,321)**	**1,059,640**
Managed (4)	8,752	**3,126**	—	—	—	—	**11,878**
Corporate (5)	247,741	**(32)**	**(29,003)**	**344**	**2,375**	—	**221,425**
Total	5,983,853	**444,281**	**(69,264)**	**17,773**	**170,331**	—	**6,546,974**

(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) Relates to Kirkland Lake facility.

(5) Excludes convertible unsecured subordinated debentures.

Long-term Debt

In April 2017, concurrent with achieving full completion, Gemini successfully renegotiated the project's €2 billion senior debt on more favourable terms. This renegotiation reduced the weighted average all-in interest rate by 80 basis points to 3.8% for the remaining term and removed the cash sweep requirements in year five under the original financing. The project debt will be fully amortized by its maturity in 2030.

Debt Covenants

Northland generally conducts its business indirectly through separate subsidiary legal entities and is dependent on the distribution of cash from those entities to defray its corporate expenses, repay corporate debt, and to pay cash dividends to common, Class A and preferred shareholders. Certain of those entities have outstanding non-recourse project finance debt at the subsidiary entity. Under the credit agreements or trust indentures for such debt, distributions of cash to Northland are typically prohibited if the coverage ratios or other covenants are not met and/or if the loan is in default. Northland and its subsidiaries were in compliance with all debt covenants for the period ended June 30, 2017. Readers should refer to Northland's AIF, for additional details concerning its debt covenants.

Corporate Facility and Letters of Credit

As of June 30, 2017, Northland's corporate credit facilities total $900 million. The facilities are available for general corporate purposes, to support operational, construction and development opportunities and to provide letters of credit issued on behalf of Northland as described below.

The corporate credit facility includes the following:

- A $450 million revolving facility in place until March 2020 with successive annual renewals at Northland's option, subject to lender approval, of which $nil has been utilized for letters of credit;
- A $250 million term facility that matures in March 2018 with a one-year renewal at Northland's option, subject to lender approval, of which $250 million has been drawn (although the amount shown on the balance sheet reflects the Canadian equivalent at the quarter-end foreign exchange rates);
- A $100 million corporate letter of credit facility in place until March 2019 with successive annual renewals at Northland's option, subject to lender approval, of which $95.8 million has been utilized; and
- A newly arranged $100 million corporate letter of credit facility backed by an export credit agency in place until March 2019 with successive annual renewals at Northland's option, subject to lender and export credit agency approval, of which $48.1 million has been utilized. This new facility is specifically to support Northland's international activities and opportunities.

As of June 30, 2017, Northland and its subsidiaries had $191.8 million of letters of credit outstanding, of which $144.0 million were issued as security under Northland's corporate credit facilities for certain projects in operation, advanced development and construction, and $47.8 million was issued under specific subsidiaries' non-recourse credit facilities.

Free Cash Flow and Dividends to Shareholders

The following calculation of free cash flow, free cash flow payout ratio and free cash flow per share (all non-IFRS measures) is based on the unaudited interim condensed consolidated financial statements of Northland.

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

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

- Short-term changes in operating working capital that are expected to be largely reversed in succeeding periods (or represent reversals from previous periods);
- Capital expenditures related to the maintenance requirements of the existing business;
- Interest paid on outstanding debt, because it is excluded from cash provided by operating activities under IFRS;

- Scheduled repayments of principal on debt (because these payments must be made before funds are available for dividends to the shareholders of Northland);
- Funds set aside for quarterly scheduled principal repayments (or reversals from previous periods), 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;
- Consolidation of non-controlling interests;
- Timing of distributions received from equity accounted investments; and
- Preferred share dividends.

Free cash flow is generally increased for:

- Net proceeds on the sale of development assets.

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

	Three months ended June 30,		Six months ended June 30,	
In thousands of dollars	**2017**	**2016**	**2017**	**2016**
Cash provided by operating activities	**142,155**	107,762	**418,860**	216,582
Northland adjustments:				
Net change in non-cash working capital balances related to operations	**90,450**	5,065	**66,151**	(12,242)
Capital expenditures, net non-expansionary	**(46)**	(468)	**(1,955)**	(631)
Interest paid, net	**(75,241)**	(52,057)	**(133,660)**	(76,622)
Scheduled principal repayments on term loans	**(27,074)**	(27,171)	**(40,261)**	(39,107)
Funds set aside (utilized) for quarterly scheduled principal repayments	**7,689**	7,168	**(1)**	(760)
Restricted funding for major maintenance	**(614)**	(704)	**(1,023)**	(1,128)
Consolidation of non-controlling interests	**(34,904)**	8,323	**(160,822)**	8,464
Equity accounting	**97**	240	**(435)**	311
Other	—	951	—	1,899
Preferred share dividends	**(2,795)**	(2,793)	**(5,589)**	(5,584)
Free cash flow (1)	**99,717**	46,316	**141,265**	91,182
Cash Dividends paid to common and Class A shareholders	**33,298**	34,559	**66,853**	71,025
Free cash flow payout ratio - net dividends (1)(2)	**33%**	75%	**47%**	78%
Total Dividends (3) **paid to common and Class A shareholders**	**46,929**	45,762	**93,683**	91,886
Free cash flow payout ratio - total dividends (1)(2)	**47%**	99%	**66%**	101%
Free cash flow payout ratio - total dividends since initial public offering (1)(2)			**95%**	102%
Weighted average number of shares - basic (thousands of shares) (4)	**174,155**	171,739	**174,154**	171,739
Weighted average number of shares - fully diluted (thousands of shares) (5)	**174,155**	185,016	**174,154**	171,739
Per share ($/share)				
Free cash flow - basic (1)	**$0.57**	$0.27	**$0.81**	$0.53
Free cash flow - fully diluted (1)	**$0.57**	$0.27	**$0.81**	$0.53

(1) Non-IFRS measures.

(2) 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.

(3) 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.

(4) The number of shares and the related per share numbers is 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 which may be issuable in respect of the conversion of Northland's outstanding convertible debentures.

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

Free cash flow of $99.7 million for the second quarter of 2017 was $53.4 million higher than the corresponding period in 2016 largely due to the Gemini Completion Distribution. Significant factors increasing or decreasing free cash flow are described below.

Factors increasing free cash flow were:

- $98.9 million increase in contributions from Gemini, including regular operating results beginning April 28, 2017 and the Gemini Completion Distribution;
- $3.3 million increase in operating results from North Battleford and Iroquois Falls; and
- $2.6 million increase in operating results from Grand Bend due to a full quarter of contributions.

Factors decreasing free cash flow were:

- $18.6 million decrease in operating results due to lower sales at Kingston and at the ground-mounted solar facilities;
- $14.6 million payment of contingent consideration to the vendor of Gemini;
- $7.9 million increase in debt service costs primarily due to the inclusion of Gemini and Grand Bend debt;
- $4.0 million increase in relevant corporate management and administration costs primarily related to early-stage development projects and personnel costs; and
- $6.3 million decrease in results from Northland's other operating facilities.

For the three months ended June 30, 2017, common share and Class A Share dividends declared for the quarter totalled $0.27 per share. The increase in quarterly free cash flow from 2016, described above, was the primary reason for the decrease in the quarterly cash payout ratio to 33.4%, or 47.1% if all dividends were paid out in cash (i.e. excluding the effect of dividends re-invested through Northland's DRIP).

Free cash flow of $141.3 million for the six months ended June 30, 2017 was $50.1 million higher than the same period in 2016.

Factor increasing free cash flow were:

- $99.2 million increase in contributions from Gemini, including operating results from April 28, 2017 and the Gemini Completion Distribution;
- $11.3 million increase in operating results from Grand Bend; and
- $9.1 million increase in operating results from Iroquois Falls and North Battleford.

Factors decreasing free cash flow were:

- $20.7 million decrease in operating results from Kingston;
- $14.9 million increase in relevant corporate management and administration costs primarily related to early-stage development projects and personnel costs;
- $14.6 million payment of contingent consideration related to certain net project cost saving achieved at completion of Gemini's construction;
- $7.9 million increase in net interest expense primarily due to the inclusion of Gemini and Grand Bend debt;
- $4.3 million decrease in operating results from Northland's solar facilities;
- $2.7 million increase in scheduled debt repayments related to the McLean's wind facility; and
- $4.4 million decrease in results from Northland's other operating facilities.

SECTION 6: CONSTRUCTION AND ADVANCED DEVELOPMENT ACTIVITIES

Nordsee One 332 MW Offshore Wind Farm – Germany
On March 31, 2017, the first wind turbine installed on the offshore wind farm successfully started to generate power and is feeding green electricity into the grid. As of June 30, 2017, $3.7 million of revenue has been earned. 44 of the 54 turbines have been installed to date. Wind turbine installation will continue in parallel with the progressive commissioning of the wind turbines. Northland expects the installation and commissioning of all turbines to be completed by the end of 2017.

Nordsee One's total capital cost is approximately €1.2 billion (CAD$1.8 billion as at June 30, 2017). The project remains on time and within budget.

DeBu 252 MW Offshore Wind Project – Germany
On March 3, 2017, Northland announced that it had signed a definitive agreement to acquire 100% of DeBu, a 252 MW offshore wind project currently in advanced development. DeBu will be built in the German North Sea and is Northland's third offshore wind project.

Development of the project is well advanced, all major key construction contracts have been signed. The completion of Northland's acquisition of DeBu is subject to achieving certain conditions which are anticipated to be completed shortly. Financial close and commencing construction are expected to follow, with full commercial operations scheduled by the end of 2019.

The total estimated project cost is approximately €1.3 billion (approximately CAD $1.9 billion as at June 30, 2017). Northland expects to invest approximately $400 million of corporate funds, sourced from cash on hand and corporate liquidity. The balance of the project cost will be funded with non-recourse project finance debt and pre-completion revenues.

The project is investigating the development of two additional demonstration turbines utilizing suction bucket foundations. The final investment decision for these two turbines is subject to achieving certain development milestones. If built, they will contribute an additional 17 MW of capacity and bring the total project cost to approximately €1.4 billion (approximately CAD $2.0 billion as at June 30, 2017). Northland's investment would increase to approximately $425 million, funded by cash and corporate debt, with the balance of incremental costs funded by additional project debt.

SECTION 7: LITIGATION, CLAIMS AND CONTINGENCIES

There are no material litigation, claims or contingencies as of the date of this report.

SECTION 8: FUTURE ACCOUNTING POLICIES

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

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

Management has undertaken IFRS 15 planning sessions and developed a preliminary adoption plan. Management identified major revenue streams and associated revenue contracts in scope of IFRS 15 and has initiated preliminary analysis. Next steps will involve accumulating, identifying, and inventorying detailed information on major contracts that may be impacted by the changes at the transition date, completing the overall analysis, assessing any potential impact to IT systems and internal controls, and reviewing the additional disclosures required by the standard. Management continues to evaluate the impact of IFRS 15 on the consolidated financial statements.

SECTION 9: OUTLOOK

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

Due to solid performance, a favourable average foreign exchange rate and an improved outlook for Northland's facilities, management has increased its expected adjusted EBITDA guidance in 2017 to be $710 million to $750 million, up from the range of $660 million to $710 million previously disclosed.

Additionally, commensurate with the increase in adjusted EBITDA guidance, Gemini debt restructuring and planned use of cash and credit to fund DeBu, management has increased the expected 2017 free cash flow per share guidance to be in the range of $1.18 to $1.30 per share, up from the $1.03 to $1.18 per share previously disclosed. This free cash flow per share guidance includes the Gemini Completion Distribution and operating income received subsequent to the project reaching full operations in April 2017. 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 10: RISKS AND UNCERTAINTIES

For information concerning Northland’s risks, uncertainties, financial instruments and contractual commitments please refer to Northland’s 2016 Annual Report and its AIF which are filed electronically at www.sedar.com under Northland’s profile.

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

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

Except as disclosed in this MD&A or notes to the unaudited interim condensed consolidated financial statements, Northland has not entered into any additional significant financial instruments or contractual commitments during the quarter.

SECTION 11: MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

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

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

SECTION 12: 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," "predicts," "believes," "estimates," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions or future or conditional verbs such as "may," "will," "should," "would" and "could." These statements may include, without limitation, statements regarding future adjusted EBITDA, free cash flows, dividend payments and dividend payout ratios; the construction, completion, attainment of commercial operations, cost and output of development projects; litigation claims; plans for raising capital; and the future operations, business, financial condition, financial results, priorities, ongoing objectives, strategies and outlook of Northland and its subsidiaries. These statements are based upon certain material factors or assumptions that were applied in developing the forward-looking statements, including the design specifications of development projects, the provisions of contracts to which Northland or a subsidiary is a party, management's current plans and its perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. 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 this MD&A and Northland's 2016 Annual Report and the 2016 Annual Information Form dated March 2, 2017, both of 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 transpire or occur. The forward-looking statements contained in this MD&A are based on assumptions that were considered reasonable on August 9, 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.