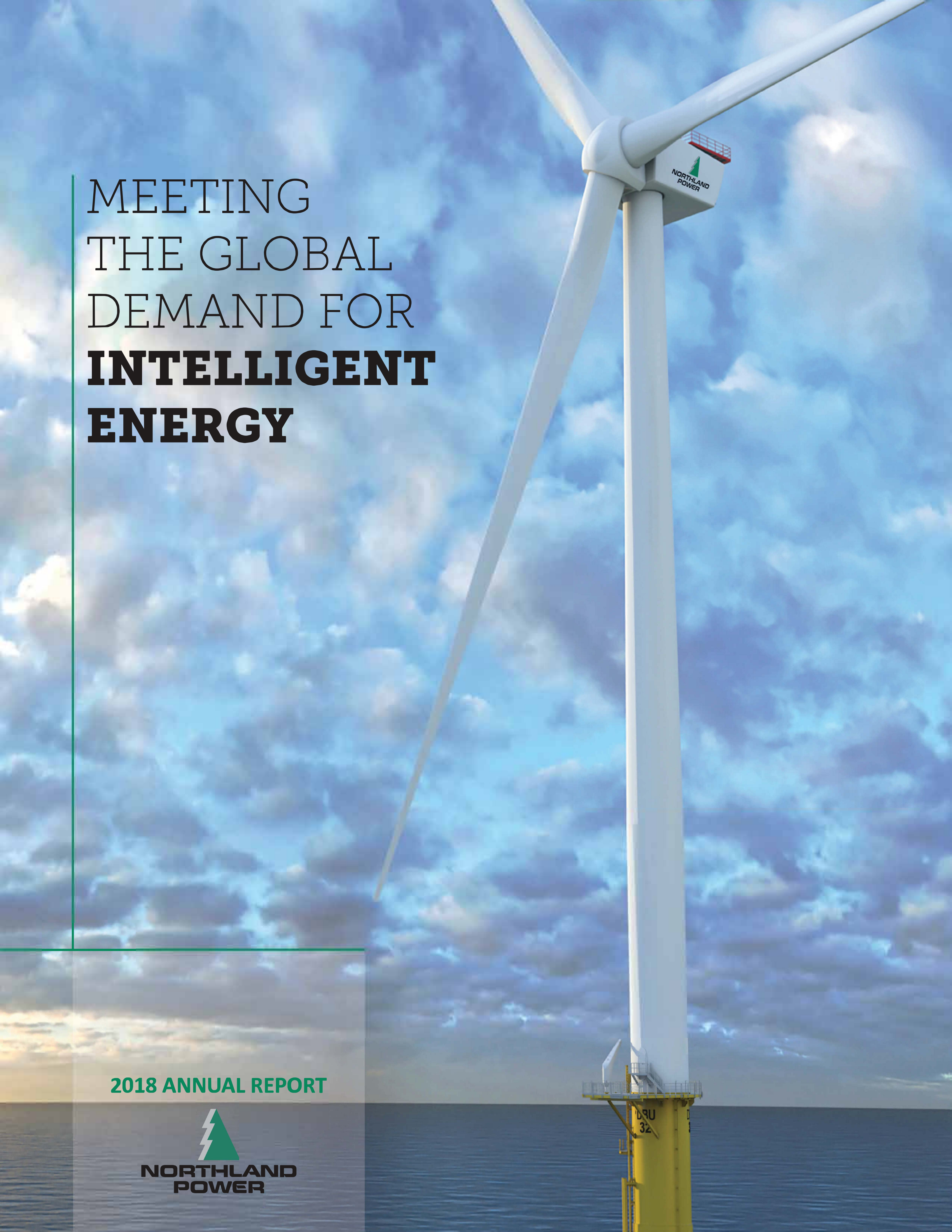
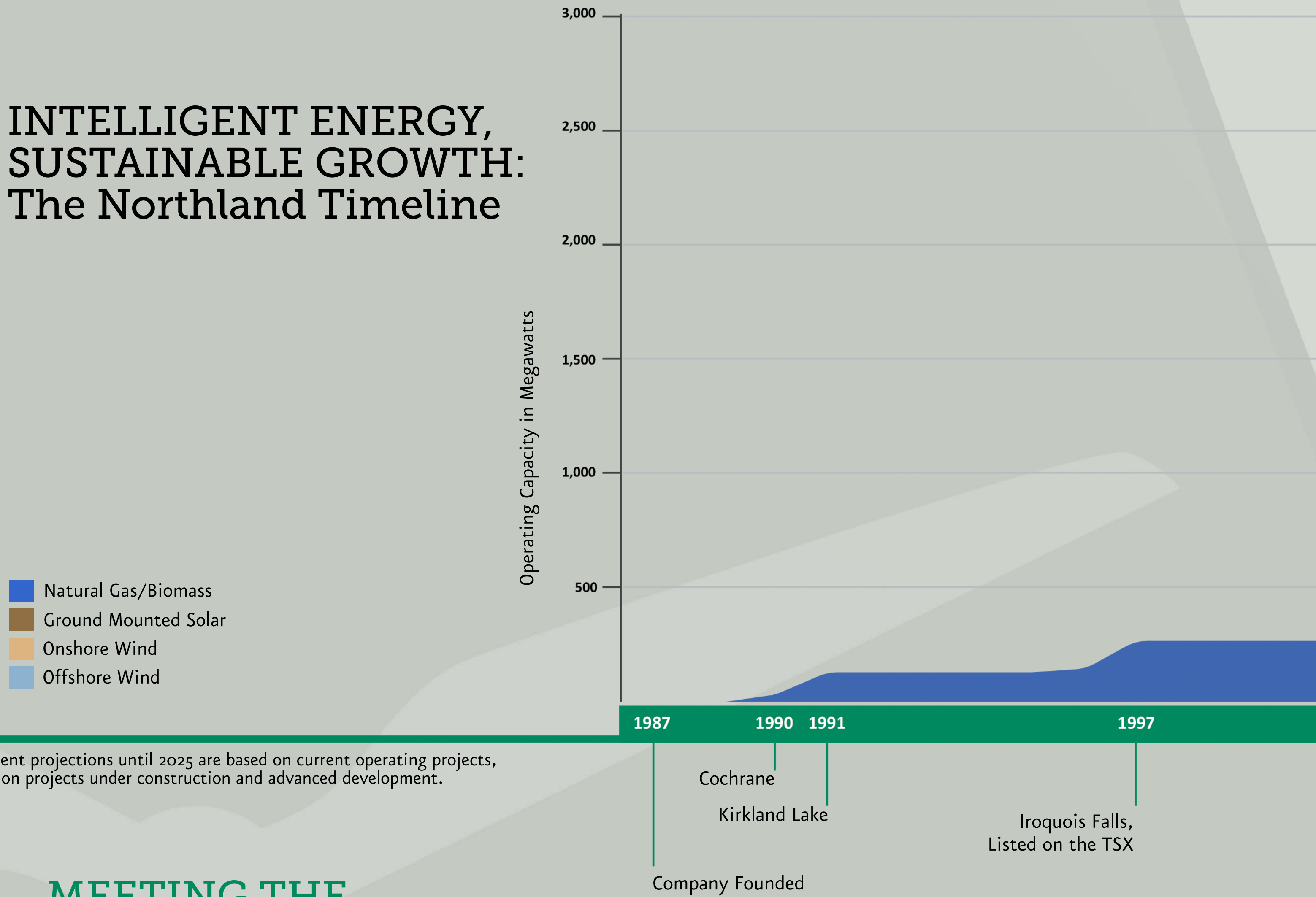


MEETING THE GLOBAL DEMAND FOR **INTELLIGENT ENERGY**

2018 ANNUAL REPORT

NORTHLAND POWER

INTELLIGENT ENERGY, SUSTAINABLE GROWTH: The Northland Timeline



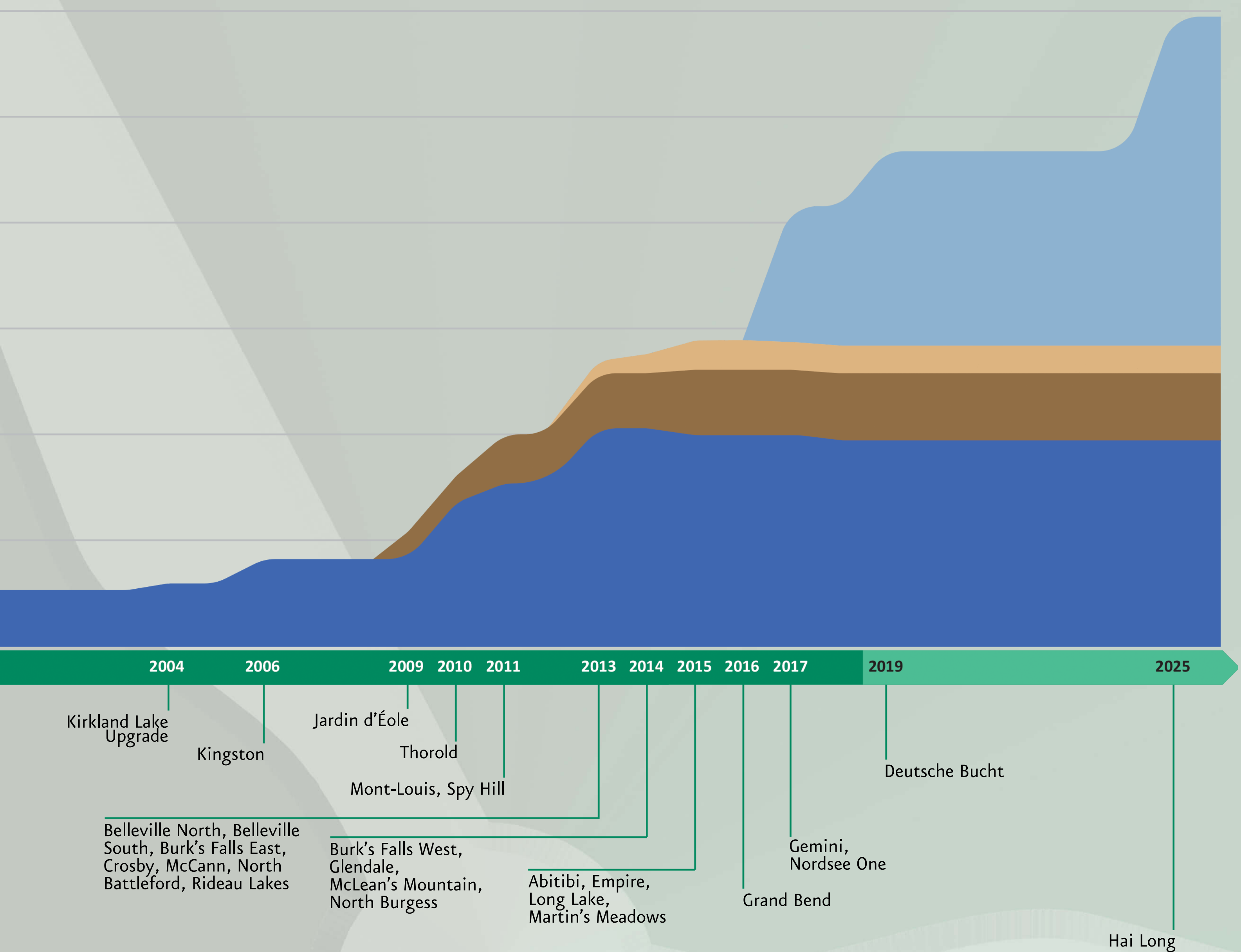
Current projections until 2025 are based on current operating projects, and on projects under construction and advanced development.

MEETING THE GLOBAL DEMAND FOR INTELLIGENT ENERGY

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

Table of Contents

Front/Back Cover: Universal Foundation/Ramboll, MHI Vestas Offshore Wind V164-8.4 MW™ turbine (© Universal Foundation/Ramboll)
Page 6: © BigLift Shipping

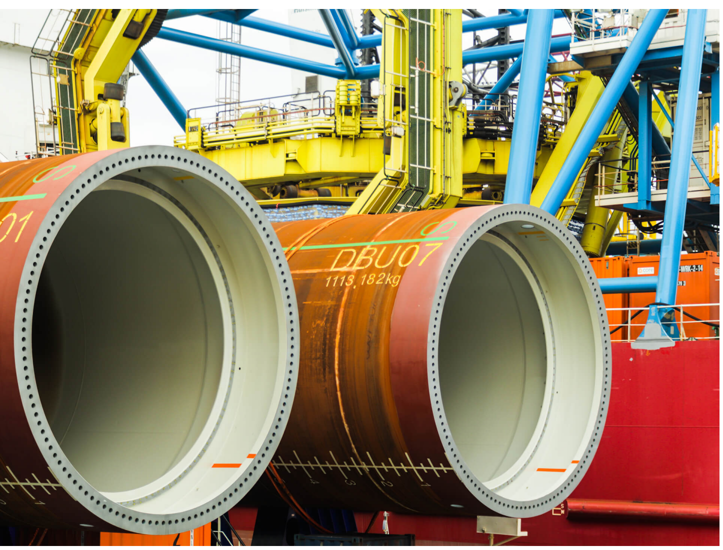


In 2018, we advanced our development of the awarded Hai Long offshore wind farms in Taiwan, a partnership which represents over 1,044 MW in power generation (626 MW net to Northland). In total, we operate 26 power generation facilities, including two offshore and four on-shore wind farms, six thermal facilities, and 14 solar facilities—representing $8 billion in power generation assets.

Meeting the Global Demand for Intelligent Energy

In 2018, Northland continued expanding to meet the growing global demand for clean, green energy. We now have two offshore wind farms operating in the North Sea, with a third nearing completion. In addition, we secured 1,044 MW of offshore wind generation development projects in Taiwan. Approximately 60 percent of our power production in 2018 was derived from renewable sources, with the largest being offshore wind.

At a time when governments and power authorities around the world are looking to renewable solutions, we have successfully positioned ourselves as a key supplier. We have demonstrated our ability to deliver major projects on time and on budget, and to operate them efficiently and profitably. Our successful bids in Taiwan have shown that we can compete among the world's largest renewable energy companies.



All 31 monopiles, were safely installed on schedule at our third offshore wind farm, Deutsche Bucht.

Financially, 2018 was a very good year, which unfolded largely as planned. At $891 million, total adjusted EBITDA exceeded that of 2017 by 17%. Our free cash flow per share also saw significant growth – at $1.90, an increase of 30% from 2017. The biggest change was that our Nordsee One project—which was completed in late 2017— contributed a full year's income to Northland. Beyond the addition of Nordsee One, a number of smaller events contributed to the year's results.

In 2018, wind conditions in the North Sea were below average, which noticeably impacted the revenue from our offshore wind projects. Due to the breadth and diversity of our asset portfolio, combined with the success of various optimization strategies we undertook, we were able to meet our financial guidance. Looking forward, our asset diversity will only increase, as our Hai Long projects come online in 2025 and our development initiatives take us into expanded technologies and geographies.

Northland's finance group undertook a number of initiatives in 2018 to further strengthen our balance sheet. These included: renewing the corporation's base shelf prospectus; entering into a $1.25 billion corporate credit facility with a syndicate of banks; holding a successful Investor Day in September; redeeming our 5.0% Series B convertible debentures; modifying the Dividend Reinvestment Plan and, instituting a Normal Course Issuer Bid.

Europe: project advancement and operational optimization

In September 2018, in-water construction officially commenced on our Deutsche Bucht offshore wind farm. By early January 2019, all 31 steel monopile foundations were in place. Fabrication continues on two additional foundations that employ a different technology, known as mono bucket foundations. Mono bucket foundations use suction to adhere to the ocean floor. This reduces underwater construction noise and its effects on marine life. Deutsche Bucht is the first offshore wind farm to employ mono bucket foundations under commercial operating conditions. Completion of construction activities at Deutsche Bucht is expected by the end of 2019, adding 269 MW of offshore wind power to our portfolio.

The foundations for Deutsche Bucht were successfully installed at depths of approximately 40 metres.

Northland's Asset Diversification

- Thermal
- Wind
- Wind Under Construction & Advanced Development
- Solar

Technology:	Operating[1]	Construction[1]
Thermal	973 MW	–
Wind	1,326 MW	269 MW
Solar	130 MW	–
Total (Gross)	**2,429 MW**	**269 MW**
Total (Net)[2]	**2,014 MW**	**269 MW**

1. As of December 31, 2018
2. Represents Northland's economic interest

2018 was the first full year of operation for our two offshore wind farms in Europe. Deutsche Bucht, our third European offshore wind farm, has advanced to construction. Completion is expected by the end of 2019.

The transition pieces for Deutsche Bucht – each weighing 335 metric tons – were transported by heavy lift vessel BigLift from the production site in Avilés, Spain to the port of Cuxhaven in Germany.

To increase the long-term value we receive from our operating assets, we established a European division with an office in the UK and two offices in Germany. This division will initially function as a centre for operations and management of our Deutsche Bucht and Nordsee One offshore wind farms. By taking over the management of many ongoing functions that were previously outsourced, we expect to significantly improve our margins and knowledge base.

Asia: Hai Long and beyond

2018's most significant news was the awarding of three grid capacity allocations for the Hai Long offshore wind project in Taiwan. When fully developed, this project will represent a total of 1,044 MW of power generation of which we have a 60% interest, representing 626 MW net to Northland. Advanced development work is currently underway, and the project is expected to begin initial commercial operations in 2025. In 2019, we plan to secure Power Purchase Agreements and move forward with procurement and supply chain strategies.

We see tremendous potential in Asia, where power producers are shifting away from nuclear and carbon-based energy. We continue to make progress in establishing a presence in the region. We have a Memorandum of Understanding in place with a power plant design and engineering company in South Korea, and market development initiatives are proceeding in Korea and Japan, with the Taiwan project as our anchor.

Canada and the Americas: optimizing operations and improving returns

Coal power generation is on the decline throughout North and Latin America. Our development office in Houston, Texas is actively exploring energy investment opportunities in Latin America and has an established presence, with a development pipeline in Mexico in the works. We are also exploring alternative investment opportunities beyond power generation, such as energy infrastructure and transmission. As always, our objectives are to balance growth with stability, by creating high-quality projects underpinned by revenue contracts that deliver predictable cash flows, while carefully managing and mitigating risks.

The installation vessel transported three monopiles and transition pieces per trip from the port of Cuxhaven to Deutsche Bucht's offshore site in the German Economic Exclusive Zone.

In our Canadian operations, a number of initiatives created value. At our North Battleford thermal facility, we secured a new agreement with SaskPower for increased capacity. As several of our assets approach the end of their Power Purchase Agreements in the coming years, we are pursuing new revenue streams for them. To increase the returns we receive on our operating assets, we expanded our Energy Marketing Group, further enhancing our capabilities for natural gas marketing, transportation and storage for our thermal plants. We expect that insourcing these functions will improve our margins on these types of transactions.

Stable, disciplined management, well positioned for growth

As Northland grows and diversifies its asset mix and geographic footprint, our management team remains disciplined and focused. We are well funded, with access to capital to support our initiatives. Our balance sheet and financial results continue to be strong. Our total shareholder returns are among the best in our sector, and we are well positioned to achieve measured, steady growth throughout the next decade and beyond.

As we increase in size and global scope, we take on new risks and challenges. In response, we established a more formal enterprise risk-management program. The new program provides a higher level of consistency and a documented framework for evaluating and mitigating the risk exposures of operations, development and construction.

A smooth transition to a new CEO

The year also brought about some changes in executive management. After 30 years with Northland, John Brace proudly retired as Chief Executive Officer. Under John's leadership, the company grew to a market capitalization of over $4 billion. John remains committed to Northland's success: he was appointed to our Board of Directors and has been working with our new CEO, Mike Crawley, to ensure a smooth and seamless transition. Mike, who was previously our Executive Vice President of Development, has been with Northland since 2015. He led the Deutsche Bucht project development team to success and was key in winning the Hai Long grid capacity allocations.

Building sustainable long-term, global growth

Looking ahead, Northland is in the strongest position in our corporate history. We have positioned ourselves at the forefront of the global move to greener energy. We are about to bring our third European offshore wind farm into operation. We have embarked on the multi-year development of the Hai Long project in Taiwan, and we have expanded our regional market development hubs, moving them closer to their respective markets. We are bringing more of our asset management in-house and seeing a marked improvement in returns.

As we close one year and begin another, we must thank the people who work at Northland for their dedication to developing and producing intelligent energy solutions. We give a special acknowledgement to the team who worked long and hard to secure opportunities in Asia, which will be transformative to our future. And we extend a personal note of thanks to John Brace for his strength, leadership and vision that brought Northland to where it is today. Lastly, we thank our shareholders for their continued support of Northland and our growth objectives.

James C. Temerty, C.M.
Director and Chairman of the Board

Mike Crawley
President and Chief Executive Officer

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

Table of Contents

SECTION 1: OVERVIEW

Introduction

The purpose of this Management's Discussion and Analysis ("**MD&A**") is to explain the financial results and to assist the reader in understanding the nature and importance of changes and trends as well as the risks and uncertainties that may affect the operating results and financial position of Northland Power Inc. ("**Northland**" or the "**Company**"). This MD&A should be read in conjunction with Northland's audited consolidated financial statements for the years ended December 31, 2018 and 2017. Additional information relating to Northland can be found in the Company's most recent Annual Information Form ("**2018 AIF**"), which is filed electronically on SEDAR at www.sedar.com under Northland's profile and posted on Northland's website at northlandpower.com.

This MD&A, dated February 21, 2019, compares Northland's financial results and financial position for the year ended December 31, 2018, with those for the year ended December 31, 2017. Certain prior period disclosures have been reclassified for consistency with the current period presentation. Northland's Audit Committee reviewed this MD&A and the associated audited consolidated financial statements and notes, and its Board of Directors approved these documents prior to their release.

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

Forward-Looking Statements

This MD&A contains forward-looking statements that are based on certain estimates and assumptions that were considered reasonable on February 21, 2019; actual results may differ materially. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans. Readers are cautioned that such statements may not be appropriate for other purposes. Northland's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur. Forward-looking statements are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects," "anticipates," "plans," "predicts," "believes," "estimates," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions or future or conditional verbs such as "may," "will," "should," "would" and "could." These statements may include, without limitation, statements regarding future adjusted EBITDA, free cash flow, dividend payments and dividend payout ratios; the construction, completion, attainment of commercial operations, cost and output of development projects; litigation claims; plans for raising capital; and the future operations, business, financial condition, financial results, priorities, ongoing objectives, strategies and outlook of Northland and its subsidiaries. These statements are based upon certain material factors or assumptions that were applied in developing the forward-looking statements, including the design specifications of development projects, the provisions of contracts to which Northland or a subsidiary is a party, management's current plans and its perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Forward-looking statements are subject to numerous risks and uncertainties, which include, but are not limited to, revenue contracts, counterparty risks, contractual operating performance, variability of revenue from generating facilities powered by intermittent renewable resources, offshore wind concentration, natural gas and power market risks, operational risks, permitting, construction risks, project development risks, financing risks, interest rate and refinancing risks, liquidity risk, credit rating risk, currency fluctuation risk, variability of cash flow and potential impact on dividends, taxation, natural events, environmental, health and worker safety risks, market compliance risk, government regulations and policy risks, international activities, reliance on information technology, labour relations, reputational risk, insurance risk, risks relating to co-ownership, bribery and corruption risk, legal contingencies, and the other factors described in this MD&A and the 2018 AIF. Other than as specifically required by law, Northland undertakes no obligation to update any forward-looking statements to reflect events or circumstances after such date or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Non-IFRS Financial Measures

This MD&A and certain of Northland's press releases include references to the Company's adjusted earnings before interest, income taxes, depreciation and amortization ("**adjusted EBITDA**"), free cash flow and applicable payout ratio and per share amounts, measures not prescribed by International Financial Reporting Standards (**IFRS**), and therefore do not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. These measures should not be considered alternatives to net income (loss), cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. Rather, these measures are provided to complement IFRS measures in the analysis of Northland's results of operations from management's perspective. Management believes that adjusted EBITDA, free cash flow and applicable payout ratio and per share amounts are widely accepted financial indicators used by investors and securities analysts to assess the performance of a company, including its ability to generate cash through operations. For reconciliations of these non-IFRS measures to their nearest IFRS measure, refer to *SECTION 5.4 Adjusted EBITDA* for a reconciliation of consolidated net income (loss) under IFRS to reported adjusted EBITDA and *SECTION 5.5 Free Cash Flow* for a reconciliation of cash provided by operating activities under IFRS to reported free cash flow.

Adjusted EBITDA

Adjusted EBITDA is calculated as net income (loss) adjusted for the provision for (recovery of) income taxes, depreciation of property, plant and equipment, amortization of contracts and other intangible assets, net finance costs, interest income from Gemini, fair value (gain) loss on derivative contracts, unrealized foreign exchange (gain) loss, (gain) loss on sale of development assets, elimination of non-controlling interests (excluding management and incentive fees to Northland), finance lease and equity accounting, and other adjustments as appropriate. For clarity, Northland's adjusted EBITDA reflects a reduction for its share of general and administrative costs during development and construction that do not qualify for capitalization. Management believes adjusted EBITDA is a meaningful measure of Northland's operating performance because it excludes certain items included in the calculation of net income (loss) that may not be appropriate determinants of long-term operating performance.

Free Cash Flow

Free cash flow represents the cash generated from the business that management believes is representative of cash available to pay dividends while preserving long-term value of the business. Free cash flow is calculated as cash provided by operating activities adjusted for short-term changes in operating working capital; non-expansionary capital expenditures; interest incurred on outstanding debt; scheduled principal repayments; major maintenance and debt reserves; exclusion of pre-completion revenue and operating costs for projects under construction; interest income from Northland's subordinated loan to Gemini; proceeds from government grants; non-controlling interests; preferred share dividends; net proceeds from sale of development assets and other adjustments as appropriate. For clarity, Northland's free cash flow reflects a reduction for expenditures on development activities until an advanced project qualifies for capitalizing development expenditures. Free cash flow from foreign operations is translated to Canadian dollars at the exchange rate Northland realizes on cash distributions. Management believes free cash flow is a meaningful measure of Northland's ability to generate cash flow after all on-going obligations (except common and class A share dividends) to be available to invest in growth initiatives and fund dividend payments.

The free cash flow payout ratio indicates the proportion of free cash flow paid as dividends, whether in cash or in shares under Northland's dividend re-investment plan (**DRIP**). The net payout ratio indicates the proportion of free cash flow paid as cash dividends (not reinvested). The payout ratio generally reflects Northland's ability to fund expansionary capital expenditures and sustain dividends.

Northland's debt and equity for a project are generally funded and/or committed at the beginning of construction, but it may be several years before the project starts to generate cash flow. As a result, from time to time, Northland may have a temporarily higher payout ratio than it would if the future free cash flow from projects under construction were reflected in the calculation. This factor may decrease the comparability of Northland's payout ratio to that of industry peers.

Enterprise Value and Total Debt

Management defines enterprise value as the sum of total debt and Northland's equity capitalization as at the reporting date. Total debt includes the carrying value of all project debt, corporate borrowings and convertible unsecured subordinated debentures. Equity capitalization is equivalent to the number of outstanding of common shares, Class A shares and preferred shares on the last trading date of the period times their respective closing price on that date. Management uses enterprise value to assess the total amount of capital employed to generate returns to shareholders.

NORTHLAND POWER

SECTION 2: STRATEGY AND KEY FACTORS SUPPORTING SUSTAINABLE PERFORMANCE

Business Objective

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

Vision

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

Business Strategy

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

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

(i) Winning Business

Northland pursues sustainable growth and value by creating high-quality clean and green sustainable infrastructure projects underpinned by revenue contracts that deliver predictable cash flows, while carefully managing and mitigating development risks. The global shift to renewable energy sources is creating opportunities based on favourable government policies aimed at sustainability, energy security and reducing greenhouse gas emissions. Northland develops, constructs and operates sustainable infrastructure projects across a range of clean and green technologies, such as wind (offshore and on-shore), solar and thermal (natural-gas-fired and biomass). 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 remains focused on pursuing growth in North America, Latin America, Europe and Asia, in addition to other jurisdictions that meet Northland's risk management criteria. Northland manages its development processes prudently by regularly balancing the probability of success against associated costs and risks.

(ii) Building Facilities

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

(iii) Operating Facilities

A core element of Northland's strategy is the optimization of project revenues and predetermined costs through revenue contracts with creditworthy counterparties. Where applicable, the key terms of operating facilities' long-term power purchase agreements (**PPA**) and fuel supply contracts are aligned for each facility, such that revenues and cost escalations are substantially linked. This approach provides predictability for each facility's operating income and cash flow, while ensuring ongoing environmental sustainability and the health and safety of employees and host communities.

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

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

(iv) Organizational Effectiveness

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

SECTION 3: NORTHLAND'S OPERATING FACILITIES

As of December 31, 2018, Northland owns or has a net economic interest in 2,014 megawatts (**MW**) of power-producing facilities with a total operating capacity of approximately 2,429 MW. Northland's operating facilities produce electricity from renewable resources and natural gas for sale primarily under long-term PPA or other revenue arrangements with creditworthy customers in order to generate predictable cash flows.

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

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

(1) Thermal and on-shore renewables facilities are located in Canada.

(2) As at December 31, 2018, Northland's economic interest was unchanged from December 31, 2017, with the exception of the sale of its 77% economic interest in Cochrane Power Corporation ("Cochrane"), which ceased operations in 2015 and the sale of a wholly-owned subsidiary entitled to management fees from a 28 MW biomass-fired power facility located in Chapais, Québec. Refer to Operating Facilities' Results section for additional information.

(3) Northland indirectly controls 100% of the voting interest of Kirkland Lake, while third-parties have non-voting ownership interests. Northland's effective net economic interest in Kirkland Lake is approximately 77%.

As of December 31, 2018, Northland had 269 MW of generating capacity under construction representing the Deutsche Bucht offshore wind project ("**Deutsche Bucht**"). Furthermore, Northland has a portfolio of projects in various stages of development in Europe, North America, Latin America and Asia.

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

SECTION 4: CONSOLIDATED HIGHLIGHTS

4.1: Significant Events

Significant events during 2018 and through the date of this MD&A are described below.

Deutsche Bucht Offshore Wind Project Update

The Deutsche Bucht offshore wind project is progressing according to schedule and is on budget. As of February 21, 2019, offshore installation of all 31 monopile foundations was completed. As part of the rights and assets acquired in 2017, Northland had an option to construct two demonstrator turbines utilizing 'mono bucket' foundations (the "**Demonstrator Project**"). In July 2018, the Demonstrator Project reached financial close. The Demonstrator Project will contribute an additional 17 MW of capacity to the base 252 MW project for a total of 269 MW and result in total project costs of approximately €1.4 billion (CAD $2.0 billion). The two mono bucket foundations are scheduled to be installed with the balance of plant during 2019 with project completion expected by the end of 2019.

Redemption of 5.0% Convertible Unsecured Subordinated Debentures Series B

In December 2018, Northland completed the early redemption of its 5.0% extendible convertible unsecured subordinated debentures, Series B, due June 30, 2019 ("**2019 Debentures**"). There was approximately $77.0 million aggregate principal amount of the 2019 Debentures outstanding when the redemption notice was issued on November 16, 2018. Holders converted $54.1 million of their 2019 Debentures into 2,504,670 new common shares prior to the December 21, 2018 redemption date. Northland redeemed the remaining $22.9 million of the 2019 Debentures in cash.

Normal Course Issuer Bid Approved

In December 2018, the Toronto Stock Exchange ("**TSX**") accepted Northland`s notice of intention to proceed with a normal course issuer bid ("**NCIB**") commencing December 17, 2018 and ending December 16, 2019. Pursuant to the NCIB, Northland may purchase for cancellation up to 8,000,000 common shares representing approximately 4.5% of Northland's issued and outstanding common shares. Refer to *SECTION 7: EQUITY, LIQUIDITY AND CAPITAL RESOURCES* for additional information.

Changes to Dividend Re-Investment Plan ("DRIP")

In November 2018, Northland reduced the discount at which shares are issued under its DRIP from 5% to 0%. Additionally, Northland began sourcing shares for purposes of the DRIP through market purchases, but reserves the right to issue shares from treasury. This change was effective for the dividend paid on December 14, 2018.

Hai Long Offshore Wind Project Update

During the second quarter of 2018, the Hai Long project, owned by Northland and its 40% partner, Yushan Energy, were allocated a total of 1,044 MW (626 MW net to Northland) by the Bureau of Energy of Taiwan under a Feed-in-Tariff ("**FIT**") program and an offshore wind auction program. The combined allocations advance the project's ability to execute 20-year PPAs, subject to permitting and financial close. Refer to *SECTION 9: CONSTRUCTION AND DEVELOPMENT ACTIVITIES* for additional information.

New Corporate Credit Facility

In June 2018, Northland entered a new $1.25 billion corporate credit facility with a syndicate of financial institutions. The new credit facility consists of a $1 billion revolving facility and $250 million term loan, and replaced Northland's previous $700 million syndicated credit facility (which comprised a $450 million revolving facility and $250 million term loan). Refer to *SECTION 7: EQUITY, LIQUIDITY AND CAPITAL RESOURCES* for additional information.

Retirement of John Brace and Appointment of Mike Crawley as Chief Executive Officer

In April 2018, Northland expanded its Board of Directors from six to seven members and appointed John W. Brace to the Board. Subsequently, Mr. Brace retired as Chief Executive Officer in August 2018 after 30 years with the Company. Mike Crawley, formerly Executive Vice President, Development of Northland, was appointed to the role of President and Chief Executive Officer.

4.2 Operating Highlights

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

Year ended December 31,		2018		2017		2016
FINANCIALS						
Sales	**$**	**1,555,587**	$	1,376,256		1,099,000
Gross profit		**1,441,366**		1,236,717		905,760
Operating income		**732,848**		632,126		508,637
Net income (loss)		**405,508**		275,836		190,559
Adjusted EBITDA		**891,484**		765,176		626,879
Cash provided by operating activities		**1,133,884**		849,007		719,812
Free cash flow		**337,623**		256,100		242,324
Cash dividends paid to common and Class A shareholders		**163,605**		134,307		139,890
Total dividends declared (1)		**212,353**		189,981		185,606
Total assets (2)		**10,335,950**		10,280,517		8,663,430
Total non-current liabilities (2)		**8,013,753**		7,934,212		6,806,663
Per Share						
Net income (loss) - basic	**$**	**1.50**	$	0.85	$	0.64
Free cash flow - basic	**$**	**1.90**	$	1.46	$	1.40
Total dividends declared (1)	**$**	**1.20**	$	1.09	$	1.08
ENERGY VOLUMES						
Electricity production in gigawatt hours (**GWh**) (3)		**8,254**		7,193		7,078

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

(2) As at December 31.

(3) Includes Gemini and Nordsee One pre-completion production volumes. Refer to Section 5.1 Operating Facilities' Results for additional information.

NORTHLAND POWER

SECTION 5: RESULTS OF OPERATIONS

5.1 Operating Facilities' Results

Offshore Wind Facilities

Northland's operating offshore wind facilities consist of Gemini and Nordsee One. The following table summarizes their operating results:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Electricity production (GWh) [(1)]	**1,108**	1,153	**3,447**	2,828
Sales/gross profit [(2)(3)]	**$ 220,932**	$ 233,487	**$ 931,056**	$ 714,589
Plant operating costs [(3)]	**35,967**	27,966	**143,443**	89,376
Operating income [(4)]	**116,670**	133,542	**505,353**	392,855
Adjusted EBITDA [(4)]	**132,807**	144,513	**533,967**	397,276

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

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

(3) For 2017, the sales/gross profit and plant operating costs included pre-completion revenue and the allocated plant operating costs for the operational wind turbines at Gemini and Nordsee One.

(4) Reduced by Northland's share of general and administrative costs that did not qualify for capitalization during construction.

Wind power generation harnesses renewable wind energy by converting the kinetic energy of wind into electrical energy. Wind facilities tend to produce more electricity during winter due to denser air and higher winds compared to summer. Northland's operating offshore wind facilities, Gemini and Nordsee One, are located in the North Sea, off the coasts of the Netherlands and Germany, respectively. Refer to the 2018 AIF for additional information on Northland's offshore wind facilities.

Gemini has subsidy agreements with the Government of the Netherlands which expire in 2031. The subsidies top up the wholesale market-based revenue generated by Gemini to a fixed, contractual rate per megawatt hour (**MWh**) and are subject to an annual production ceiling (the "**Gemini Subsidy Cap**"), beyond which, production earns revenue at wholesale market prices. In addition, the top up to a fixed contractual rate is subject to a floor price, thereby exposing Gemini to market price risk when the wholesale market prices fall below the contractual floor price of €44/MWh. Based on expected wind resources and resultant electricity production volumes, the Gemini Subsidy Cap and the associated earnings are expected to be achieved during the fourth quarter of the calendar year. For the year ended December 31, 2018, the average wholesale market price exceeded the contractual floor price, to the benefit of Gemini. For the year ended December 31, 2017, the impact of the average wholesale market price falling below the contractual floor price on sales was approximately €11 million or 2.8% of revenues from Gemini.

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

Gemini and Nordsee One results are affected by foreign exchange rate fluctuations. Foreign exchange rate fluctuations primarily affect net income and adjusted EBITDA. Northland has entered into foreign exchange rate swaps for a substantial portion of anticipated cash flow, thereby mitigating some of the impact of foreign exchange rate fluctuations on free cash flow.

Nordsee One turbines were commissioned progressively over the course of 2017 compared to all turbines producing power in 2018. Consequently, electricity production, sales, free cash flow and adjusted EBITDA from Nordsee One were commensurately higher for the year ended December 31, 2018, compared to 2017 (collectively referred to as "**2017 Nordsee One Construction Effect**").

Electricity production for the three months ended December 31, 2018, was 45 GWh (or 4%) lower than the same quarter of 2017 (including pre-completion production) due to lower wind resources in the North Sea compared to 2017, partially offset by the 2017 Nordsee One Construction Effect. Electricity production for the year ended December 31, 2018, was 619 GWh (or

22%) higher than in 2017 primarily due to the 2017 Nordsee One Construction Effect, partially offset by lower wind resource in 2018.

Gemini earned pre-completion revenue until it achieved final completion in April 2017; Nordsee One earned pre-completion revenue from the second quarter of 2017 until it achieved final completion in December 2017. For both projects, the cash generated from pre-completion revenue was used to offset construction costs until responsibility transferred on a turbine by turbine basis from the contractor to Northland. Revenues and costs were recorded in operating income and adjusted EBITDA once individual wind turbines became operational during the construction stage until final completion. For clarity, free cash flow excludes pre-completion revenue and operating costs during the construction phase.

The table below summarizes total pre-completion production and revenue and the portion recognized in sales earned by Gemini and Nordsee One. The first quarter of 2017 included pre-completion revenue in sales/gross profit from Gemini only. The remainder of 2017 included pre-completion revenue in sales/gross profit from Nordsee One as well as a one-time cash distribution of €31 million from Gemini, representing Northland's share of net pre-completion revenue in excess of the amount required by project lenders to fund construction costs.

	Three months ended December 31,		Year ended December 31,	
	2018	**2017**	**2018**	**2017**
Pre-completion electricity production (GWh)	—	326	—	1,289
Pre-completion revenue in sales/gross profit [1]	**$** —	$ 105,301	**$** —	$ 381,457
Pre-completion revenue in construction-in-progress	—	2,098	—	18,034
Total pre-completion revenue	**$** —	$ 107,399	**$** —	$ 399,491

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

Sales of $220.9 million for the three months ended December 31, 2018, decreased $12.6 million compared to the same quarter of 2017 primarily due to a change in accounting estimate at Gemini in the quarter totaling €10.2 million (or $9.2 million at Northland's interest) to account for a lower subsidy as a result of a higher than expected average wholesale market price for the year. The change in estimate did not affect the full year results. Sales were also lower in the fourth quarter of 2018 due to periods of negative power pricing during which Nordsee One did not receive its tariff. Sales of $931.1 million for the year ended December 31, 2018, increased $216.5 million compared to 2017 primarily due to the 2017 Nordsee One Construction Effect and higher wholesale market prices at Gemini. These favourable variances were partially offset by the factors affecting the fourth quarter described above and the return of an overpayment to Gemini by the off-taker, related to production from 2016, totaling €7.3 million ($6.8 million net to Northland). Foreign exchange rate fluctuations resulted in $2.2 million and $74.3 million higher revenue for the three months and year ended December 31, 2018, respectively, compared to the same periods of 2017.

Plant operating costs of $36.0 million and $143.4 million for the three months and year ended December 31, 2018, increased$8.0 million and $54.1 million, respectively, compared to the same periods of 2017 primarily as a result of the 2017 Nordsee One Construction Effect.

Operating income of $116.7 million for the three months ended December 31, 2018 decreased $16.9 million compared to the same quarter of 2017 primarily due to lower sales and higher plant operating costs at Nordsee One. For the year ended December 31, 2018 operating income of $505.4 million increased $112.5 million compared to 2017 primarily due to the 2017 Nordsee One Construction Effect partially offset by associated higher depreciation.

Adjusted EBITDA of $132.8 million for the three months ended December 31, 2018, decreased $11.7 million compared to the same quarter of 2017 primarily due to similar factors described above. Adjusted EBITDA of $534.0 million for the year ended December 31, 2018, increased $136.7 million compared to 2017 as a result of the 2017 Nordsee One Construction Effect and higher wholesale market prices at Gemini.

Thermal Facilities

The following table summarizes the operating results and capital expenditures for the thermal facilities:

	Three months ended December 31,				Year ended December 31,			
		2018		2017		**2018**		2017
Electricity production (GWh)		**875**		773		**3,443**		3,021
Sales (1)	**$**	**107,744**	$	112,139	**$**	**405,956**	$	450,102
Less: cost of sales		**26,155**		29,585		**110,643**		139,539
Gross profit		**81,589**		82,554		**295,313**		310,563
Plant operating costs		**15,456**		14,093		**51,499**		51,051
Operating income		**56,730**		58,730		**204,547**		220,930
Adjusted EBITDA (2)	**$**	**72,875**	$	71,514	**$**	**261,231**	$	271,134
Capital expenditures (3)	**$**	**169**	$	848	**$**	**1,623**	$	4,622

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

(2) Includes management and incentive fees earned by Northland for services provided to Kirkland Lake.

(3) Excludes construction-related items. The majority of gas turbine maintenance is provided under long-term, fixed-price contracts and is expensed on the terms of those contracts.

Northland's thermal assets comprise primarily dispatchable facilities, each with unique contractual parameters. Dispatchable facilities operate either when market conditions are economical or as specified by the PPA counterparty. These facilities receive contract payments that are largely dependent on the availability to operate according to contract parameters as opposed to maximizing production. Iroquois Falls, Thorold, Spy Hill, off-peak hours production at North Battleford and certain generators at Kirkland Lake operate as dispatchable facilities. In contrast to dispatchable facilities, baseload facilities generally operate at a contracted output and receive a fixed price for electricity sold. On-peak hours production at North Battleford and certain generators at Kirkland Lake operate as baseload.

The contractual structures of Northland's thermal facilities generally ensure the facility's gross profit is generally stable regardless of production or sales levels so long as the plant is available. Under certain PPAs, a facility may be reimbursed for certain costs of sales by the counterparty. North Battleford, Thorold and Spy Hill have contractual structures that effectively allow for a flow-through of certain variable production costs, primarily the supply and transportation of natural gas, and therefore gross margins are not significantly affected by changes in volume of electricity produced or in natural gas costs. When possible, management also aims to maximize returns through the re-marketing of natural gas storage and transportation ("**gas optimization**"). Refer to the 2018 AIF for additional information on Northland's thermal facilities.

Subsequent to the expiration of Kingston's PPA on January 31, 2017, Ontario market prices have been insufficient to run the facility. Sales, although minimal, are earned as a result of Kingston selling capacity in the New York Independent System Operator capacity market. Consequently, production, sales, free cash flow and adjusted EBITDA were commensurately lower for the year ended December 31, 2018, than 2017 since Kingston continues to incur certain fixed operating expenses. Collectively, the idling of the Kingston facility and the selling of capacity are referred to as the "**Kingston Remarketing Initiative"**.

Electricity production for three months ended December 31, 2018, increased 102 GWh (or 13%) compared to the same quarter of 2017 primarily due to higher production at Thorold, resulting from favourable market conditions, and at North Battleford, resulting from favourable operating conditions and the loss of production in 2017 from a major maintenance outage. These positive variances were partially offset by a maintenance outage at Kirkland Lake in the fourth quarter of 2018. Electricity production for the year ended December 31, 2018, increased 422 GWh (or 14%) compared to 2017 primarily due to the factors described above, partially offset by the effect of the Kingston Remarketing Initiative and longer maintenance outages at Kirkland Lake in 2018 compared to 2017.

Sales of $107.7 million for the three months ended December 31, 2018, decreased $4.4 million compared to the same quarter of 2017 primarily due to the maintenance outage and lower curtailment revenue at Kirkland Lake as well as a reduced PPA rate escalation factor for 2017 and 2018 as calculated by the Independent Electricity System Operator (**IESO**) recognized in the second quarter of 2018 under the Enhanced Dispatch Contract (**EDC**) at Iroquois Falls (the "**Iroquois Falls PPA Rate Adjustment**"). These variances were partially offset by higher production at North Battleford and Thorold as described above. Sales of $406.0 million for the year ended December 31, 2018, decreased $44.1 million compared to 2017 primarily due to the factors described above combined with the effect of the Kingston Remarketing Initiative, lower volume of natural gas resale at Iroquois Falls (due to the expiration of a natural gas contract in October 2017) and a retrospective adjustment recorded in 2018 relating to the 2017 escalation rate factor at Iroquois Falls totaling $4.1 million.

Gross profit of $81.6 million for the three months ended December 31, 2018, decreased $1.0 million compared to the same quarter of 2017 primarily due to the Iroquois Falls PPA Rate Adjustment and maintenance outages at Kirkland Lake. These unfavourable variances were partially offset by gas optimization activities at North Battleford and Thorold, favourable operating conditions at North Battleford and improved margins as a result of favourable market conditions at Thorold. Gross profit of $295.3 million for the year ended December 31, 2018, decreased $15.3 million compared to 2017 primarily due to the unfavourable effects of the Kingston Remarketing Initiative, the Iroquois Falls PPA Rate Adjustment and maintenance outages at Kirkland Lake, partially offset by the positive results at North Battleford and Thorold.

Plant operating costs of $15.5 million for the three months ended December 31, 2018, increased $1.4 million compared to the same quarter of 2017 primarily due to higher production at Thorold and North Battleford and unplanned maintenance costs incurred during the annual maintenance outage at Spy Hill. Plant operating costs of $51.5 million for the year ended December 31, 2018, were relatively flat compared to the same period of 2017 primarily as a result of higher production at Thorold offset by maintenance agreement savings at Kirkland Lake and Iroquois Falls, and the effect of the Kingston Remarketing Initiative.

Operating income of $56.7 million and $204.5 million for the three months and year ended December 31, 2018, decreased $2.0 million and $16.4 million, respectively, compared to the periods of 2017 largely as a result of lower gross profit as described above.

Adjusted EBITDA of $72.9 million for the three months ended December 31, 2018 increased $1.4 million compared to the same quarter of 2017 primarily due to management fees received from Kirkland Lake which offset the decrease in operating income. Adjusted EBITDA of $261.2 million for the year ended December 31, 2018, decreased $9.9 million largely due to lower gross profit due to the factors described above.

Amendment to North Battleford's Power Purchase Agreement

Following enhancements to North Battleford's generation equipment, Northland amended its PPA with SaskPower effective January 2, 2019, thereby contracting North Battleford to provide incremental capacity as operating reserve. Management expects the amendment to result in an increase of approximately $2 million to net income, adjusted EBITDA and free cash flow annually for the remainder of the PPA.

Sale of Assets

In September 2018, Northland, through its subsidiaries, completed the sale of its indirect interest in a 28 MW biomass-fired power facility located in Chapais, Québec ("**Chapais**") for total cash proceeds of $1.9 million and a promissory note. A gain of $3.3 million is recognized in "other (income) expense" in the consolidated statements of income (loss) as a result of the sale.

In March 2018, Northland, through its subsidiaries, completed the sale of its interest in the idled Cochrane thermal facility for total consideration of $0.8 million. A gain of $2.4 million, primarily due to the disposal of the decommissioning liability, is recognized in "other (income) expense" in the consolidated statements of income (loss) as a result of the sale.

On-shore Renewables Facilities

The following table summarizes the operating results and capital expenditures of the on-shore renewables facilities:

	Three months ended December 31,				Year ended December 31,			
		2018		2017		**2018**		2017
Electricity production (GWh) (1)		**376**		381		**1,364**		1,344
On-shore wind	**$**	**38,663**		37,878	**$**	**126,322**	$	127,585
Solar		**9,215**		11,107		**87,944**		83,980
Sales/gross profit (2)		**47,878**		48,985		**214,266**		211,565
On-shore wind		**6,589**		6,276		**26,330**		24,913
Solar		**1,455**		1,461		**5,023**		5,275
Plant operating costs		**8,044**		7,737		**31,353**		30,188
Operating income		**16,888**		18,106		**91,003**		88,614
On-shore wind		**22,339**		22,313		**69,531**		71,264
Solar		**7,049**		8,742		**72,213**		69,473
Adjusted EBITDA (3)	**$**	**29,388**	$	31,055	**$**	**141,744**	$	140,737
Capital expenditures (4)	**$**	**308**	$	536	**$**	**1,413**	$	4,302

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

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

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

(4) Excludes construction-related items. The majority of wind turbine maintenance is provided under long-term, fixed-price contracts and is expensed based on the terms of those contracts.

Northland's on-shore renewable assets comprise on-shore wind and solar facilities located in Ontario and Québec. On-shore wind projects are similar in nature operationally to offshore wind; however, with lower operating costs and generally lower wind resources. Northland's solar facilities use solar photovoltaic technologies to convert sunlight into electricity. Solar power facilities have much lower fixed operating expenses per unit of capacity than thermal or wind facilities. Electricity production from solar facilities tends to be less variable than wind but is limited to available sunlight, which is generally higher in the summer than in the winter. Refer to the 2018 AIF for additional information on Northland's on-shore renewable facilities.

Electricity production at the on-shore facilities for the three months ended December 31, 2018, was in line with the same quarter of 2017 because lower wind resource at Jardin and lower solar resource offset higher production at Grand Bend. Electricity production for the year ended December 31, 2018, was 20 GWh (or 1.5%) higher than 2017 because higher wind resource at Jardin and Mont Louis and higher solar resource was partially offset by lower wind resource at Grand Bend as well as the loss of contribution from the on-shore German wind farms as a result of their disposition in November 2017 ("**German Wind Farm Sale**").

Sales of $47.9 million for the three months ended December 31, 2018 decreased $1.1 million compared to the same quarter of 2017 primarily due to cloud cover at the solar facilities, partially offset by higher production at Grand Bend, as described above. Production variances at the solar facilities have a larger effect on sales than the wind facilities since solar facilities receive a higher contracted price per MW. Sales of $214.3 million for the year ended December 31, 2018, increased $2.7 million compared to 2017 primarily due to higher production at the solar facilities, Mont-Louis and Jardin, partially offset by lower production at Grand Bend and the effect of the German Wind Farm Sale.

Plant operating costs of $8.0 million for the three months ended December 31, 2018, were largely in line with the same quarter of 2017. Plant operating costs of $31.4 million for the year ended December 31, 2018, increased $1.2 million compared to 2017 primarily due to the timing of new profit-sharing fees to the turbine maintenance provider at Mont-Louis and Jardin associated with increased production.

Operating income and *Adjusted EBITDA* of $16.9 million and $29.4 million, respectively, for the three months ended December 31, 2018, decreased $1.2 million and $1.7 million compared to the same quarter of 2017 largely due to lower production at the solar facilities. Operating income and adjusted EBITDA of $91.0 million and $141.7 million for the year ended December 31, 2018, respectively, increased $2.4 million and $1.0 million compared to 2017 primarily due to positive operating results at the on-shore facilities, partially offset by the effect of the German Wind Farm Sale.

5.2 General and Administrative Costs and Other Income

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

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Corporate overhead	**$ 10,111**	$ 6,921	**$ 34,911**	$ 31,845
Development overhead	**3,777**	2,929	**15,365**	13,456
Development projects	**5,886**	4,143	**17,967**	23,329
Corporate G&A costs	**19,774**	13,993	**68,243**	68,630
Facilities	**1,802**	6,322	**11,963**	17,340
Total G&A costs	**21,576**	20,315	**80,206**	85,970

Corporate G&A costs for the three months ended December 31, 2018, increased $5.8 million compared to 2017 primarily due to the timing of expenditures related to project development activities and higher personnel costs. Corporate G&A costs for the year ended December 31, 2018, decreased $0.4 million compared to 2017 primarily due to the timing of expenditures related to project development activities and certain non-recurring costs incurred in 2017, partially offset by higher personnel costs.

Development overhead costs relate primarily to personnel, rent and other office costs not directly attributable to identifiable development projects. *Development project costs* are generally third-party costs directly attributable to identifiable development projects, whose capitalization begins once management determines that the project has a high likelihood of being pursued through to completion (refer to Note 2.6 of the audited consolidated financial statements for the year ended December 31, 2018, for additional information on the policy for capitalization of development costs).

Facilities G&A costs for the quarter and year ended December 31, 2018, decreased $4.5 million and $5.4 million respectively, compared to the same periods of 2017 primarily as a result of certain non-recurring costs incurred in 2017 at Gemini associated with project completion.

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

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Corporate G&A costs (1)	**(19,774)**	(13,887)	**(68,243)**	(65,019)
Gemini interest income	**5,349**	5,415	**21,538**	20,514
Other (2)	**630**	65	**1,247**	534
Impact on adjusted EBITDA	**$ (13,795)**	$ (8,407)	**$ (45,458)**	$ (43,971)

(1) Excludes costs associated with the strategic review that concluded in the third quarter of 2017.

(2) Includes corporate energy marketing income starting in the fourth quarter of 2018.

Gemini interest income represents interest earned on the subordinated debt receivable from Gemini to Northland. Since Northland consolidates the financial results of Gemini, the subordinated debt balances and related investment income and interest expense eliminate upon consolidation; nevertheless, Gemini interest income is included in Northland's consolidated adjusted EBITDA because if reflects returns generated from an investment in core assets.

NORTHLAND POWER

5.3 Consolidated Results

The following discussion of the consolidated financial results of operations should be read in conjunction with Northland's audited consolidated financial statements for the year ended December 31, 2018.

		Three months ended December 31,				Year ended December 31,		
		2018		**2017**		**2018**		**2017**
Electricity production (GWh)		**2,359**		2,307		**8,254**		7,193
Sales	**$**	**380,863**	$	394,611	**$**	**1,555,587**	$	1,376,256
Less: Cost of sales		**29,733**		29,585		**114,221**		139,539
Gross profit		**351,130**		**365,026**		**1,441,366**		**1,236,717**
Expenses								
Plant operating costs		**59,467**		49,796		**226,295**		170,615
G&A - operations		**11,912**		13,243		**46,874**		49,185
G&A - development		**9,663**		7,072		**33,332**		36,785
Depreciation of property, plant and equipment		**102,585**		102,087		**415,161**		361,365
		183,627		172,198		**721,662**		617,950
Investment income		**45**		418		**484**		418
Finance lease income		**3,138**		3,210		**12,660**		12,941
Operating income		**170,686**		196,456		**732,848**		632,126
Finance costs, net		**83,030**		94,468		**337,434**		333,469
Amortization of contracts and intangible assets		**8,542**		2,506		**19,116**		8,766
Foreign exchange (gain) loss		**(4,460)**		(2,275)		**(11,373)**		(2,275)
Fair value (gain) loss on derivative contracts		**1,629**		(9,672)		**(87,624)**		(50,796)
Other (income) expense		**(7,586)**		6,633		**(13,834)**		21,281
Income (loss) before income taxes		**89,531**		104,796		**489,129**		321,681
Provision for (recovery of) income taxes								
Current		**20,408**		12,011		**40,919**		16,129
Deferred		**3,872**		10,504		**42,702**		29,716
Provision for (recovery of) income taxes		**24,280**		22,515		**83,621**		45,845
Net income (loss)	**$**	**65,251**	$	82,281	**$**	**405,508**	$	275,836
Net income (loss) per share - basic	**$**	**0.23**	$	0.25	**$**	**1.50**	$	0.85
Net income (loss) per share - diluted	**$**	**0.22**	$	0.25	**$**	**1.46**	$	0.85

Fourth Quarter

The following describes the significant factors contributing to the net income for the quarter ended December 31, 2018:

Total Sales and gross profit of $380.9 million and $351.1 million, respectively, decreased $13.7 million and $13.9 million compared to the same quarter of 2017. The decrease was primarily due to a change in accounting estimate at Gemini in the quarter of €10.2 million (or $9.2 million at Northland's interest), a maintenance outage at Kirkland Lake and the Iroquois Falls PPA Rate Adjustment. These variances were partially offset by higher production as a result of favourable operating conditions at North Battleford and favourable market conditions at Thorold.

Plant operating costs increased $9.7 million compared to the same quarter of 2017 primarily due to the commencement of operating costs at Nordsee One following completion of construction activities in December 2017.

G&A costs increased $1.3 million compared to the same quarter of 2017 primarily due to the timing of expenditures related to project development activities and higher personnel costs, partially offset by lower G&A costs at the facilities primarily due to certain non-recurring costs incurred in 2017 at Gemini.

Finance costs, *net* (primarily interest expense) decreased $11.4 million compared to the same quarter of 2017 primarily due to declining interest costs as a result of scheduled principal repayments.

Fair value loss on derivative contracts was $1.6 million compared to a $9.7 million gain in the same quarter of 2017 primarily due to the movement in the fair value of interest rate swaps and foreign exchange contracts.

Foreign exchange gain of $4.5 million is primarily due to unrealized gains from fluctuations in the closing foreign exchange rate.

Other (income) expense improved $14.2 million primarily due to insurance proceeds received related to construction partially offset by a $3.6 million non-cash fair value adjustment on a loan receivable. The expense of $6.6 million in the fourth quarter of 2017 included a $10.3 million non-cash fair value adjustment on a loan receivable, partially offset by the gain on sale of the German on-shore wind farms in 2017.

Primarily as a result of the factors described above, net income decreased $17.0 million in the fourth quarter of 2018 compared to the same quarter of 2017.

2018

The following describes the significant factors contributing to the change in net income for the year ended December 31, 2018:

Total Sales of $1.6 billion increased $179.3 million compared to 2017 primarily due to the 2017 Nordsee One Construction Effect, higher wholesale market prices at Gemini and foreign exchange fluctuations combined with favourable market conditions at Thorold. These positive variances were partially offset by the Kingston Remarketing Initiative, a lower volume of natural gas resale at Iroquois Falls, the Iroquois Falls PPA Rate Adjustment and lost production resulting from maintenance outages at Kirkland Lake.

Gross profit of $1.4 billion increased $204.6 million compared to 2017 primarily due to the same factors affecting sales described above and lower cost of sales as a result of a lower volume of natural gas resale at Iroquois Falls and lost production resulting from maintenance outages at Kirkland Lake.

Plant operating costs increased $55.7 million compared to 2017 primarily due to the first full year of production at Nordsee One following completion of construction activities in December 2017.

G&A costs decreased $5.8 million compared to 2017 primarily due to the timing of expenditures related to project development activities and certain non-recurring facility costs incurred in 2017, partially offset by higher personnel costs.

Finance costs, *net* (primarily interest expense) increased $4.0 million compared to 2017 primarily due to interest costs no longer being capitalized at Nordsee One following completion of construction activities in December 2017 and an increase in amortization of deferred financing costs. Partially offsetting these were lower interest costs at Gemini as a result of a debt renegotiation upon project completion and declining interest costs as a result of scheduled principal repayments.

Fair value gain on derivative contracts was $87.6 million compared to a $50.8 million gain in 2017 primarily due to the movement in the fair value of interest rate swaps and foreign exchange contracts.

Foreign exchange gain of $11.4 million is primarily due to the realized gain on a foreign exchange contract settled during the first quarter of 2018 ($5.9 million) combined with unrealized gains from fluctuations in the closing foreign exchange rate.

Other (income) expense improved $35.1 million compared to 2017 primarily due to insurance proceeds received related to construction and a $5.7 million gain on sale of assets, partially offset by a $3.6 million non-cash fair value adjustment on a loan receivable. The improvement was also partially offset by the one-time $14.6 million (€10.4 million) contingent consideration expensed in 2017 in connection with the acquisition of Gemini and a $10.3 million non-cash fair value adjustment on a loan receivable in 2017.

Mainly due to the factors described above, combined with a $53.8 million higher depreciation expense and a $37.8 million higher tax expense, compared to 2017, net income increased $129.7 million for the year ended December 31, 2018 compared to 2017.

5.4 Adjusted EBITDA

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

	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Net income (loss)	**$ 65,251**	$ 82,281	**$ 405,508**	$ 275,836
Adjustments:				
Finance costs, net	**83,030**	94,468	**337,434**	333,469
Gemini interest income	**5,349**	5,415	**21,538**	20,514
Provision for (recovery of) income taxes	**24,280**	22,515	**83,621**	45,845
Depreciation of property, plant and equipment	**102,585**	102,087	**415,161**	361,365
Amortization of contracts and intangible assets	**8,542**	2,506	**19,116**	8,766
Fair value (gain) loss on derivative contracts	**1,629**	(9,672)	**(87,624)**	(50,796)
Foreign exchange (gain) loss	**(4,460)**	(2,275)	**(11,373)**	(2,275)
Elimination of non-controlling interests	**(58,258)**	(66,123)	**(281,635)**	(255,862)
Finance lease and equity accounting	**914**	837	**3,722**	2,966
Other adjustments	**(7,587)**	6,636	**(13,984)**	25,348
Adjusted EBITDA	**$ 221,275**	$ 238,675	**$ 891,484**	$ 765,176

Adjusted EBITDA includes interest income earned on Northland's €117.0 million subordinated debt to Gemini, which includes interest accrued until cash interest payments commenced in the third quarter of 2017. Principal payments will commence in 2027 until maturity in 2032. Northland consolidates the financial results of Gemini and, as a result, Northland's loan balances, investment income, and interest expense are eliminated upon consolidation. Interest income from Gemini ("**Gemini interest income**") has been included in adjusted EBITDA since inception of the subordinated debt and has been included in free cash flow upon commencement of cash interest payments during the third quarter of 2017.

For the year ended December 31, 2018, other adjustments include non-recurring insurance proceeds received, a non-cash fair value adjustment on a loan receivable, gains on the sale of Northland's interests in two assets. For the year ended December 31, 2017, other adjustments primarily included a non-cash fair value adjustment on a loan receivable of $10.3 million and the $14.6 million (€10.4 million) contingent consideration expensed in connection with the acquisition of Gemini.

Fourth Quarter

Adjusted EBITDA of $221.3 million for the three months ended December 31, 2018, decreased $17.4 million compared to the same quarter of 2017. The significant factors decreasing adjusted EBITDA include:

- $9.2 million decrease due to a change in an accounting estimate at Gemini in the quarter to account for a lower subsidy as a result of a higher than expected average wholesale market price for the year;
- $6.6 million decrease at Nordsee One primarily due to higher plant operating costs in 2018 since the project was under construction in 2017, as well as lower sales due to extended periods of negative power pricing during which Nordsee One did not receive its tariff;
- $5.9 million increase in relevant corporate G&A costs primarily due to the timing of expenditures related to project development activities and higher personnel costs;

The primary factors partially offsetting the decrease in adjusted EBITDA was:

- $3.9 million increase due to higher wholesale market prices at Gemini compared to the same period in 2017; and
- $3.8 million increase in operating results from North Battleford primarily due to favourable operating conditions, gas optimization activities and the effect of the 2017 major maintenance outage at the facility.

2018

In 2018, adjusted EBITDA of $891.5 million was at the upper end of the guidance range of $870 to $900 million. Adjusted EBITDA for the year ended December 31, 2018, increased $126.3 million compared to 2017. The significant factors contributing to the increased adjusted EBITDA include:

- $125.7 million increase primarily due to all of Nordsee One's turbines producing power in 2018, whereas the project was under construction in 2017;
- $11.5 million increase as a result of higher wholesale market prices at Gemini and foreign exchange fluctuations, partially offset by the factors affecting the fourth quarter described above and the return of an overpayment to Gemini by the off-taker, related to production from 2016, totaling €7.3 million ($6.8 million net to Northland);
- $7.5 million increase in operating results from North Battleford primarily due to favourable operating conditions, gas optimization activities and the effect of the 2017 major maintenance outage at the facility; and
- $2.7 million increase due to higher production at the solar facilities.

Factors partially offsetting the increase in adjusted EBITDA include:

- $9.1 million decrease primarily due to the reduced rate escalation factor for 2017 and 2018 by the IESO under Iroquois Falls' Enhanced Dispatch Contract, and a retrospective adjustment in 2018 of $4.1 million related to 2017;
- $8.5 million decrease due to the idling of the Kingston facility as a result of the expiration of its PPA in January 2017; and
- $3.2 million increase in relevant corporate G&A costs primarily due to higher personnel costs.

5.5 Free Cash Flow

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

	Three months ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
Cash provided by operating activities	**$ 291,160**	$ 257,642	**$ 1,133,884**	$ 849,007
Adjustments:				
Net change in non-cash working capital balances related to operations	**(2,454)**	57,514	**(17,973)**	94,820
Capital expenditures, net non-expansionary	**(2,745)**	(1,418)	**(5,658)**	(3,612)
Restricted funding for major maintenance, debt and decommissioning reserves	**(4,701)**	(1,238)	**(13,713)**	(2,087)
Interest paid, net	**(111,596)**	(112,047)	**(314,125)**	(272,256)
Scheduled principal repayments on facility debt	**(154,748)**	(58,441)	**(373,677)**	(110,523)
Funds set aside (utilized) for scheduled principal repayments	**72,107**	23,641	**(1,035)**	(2,954)
Preferred share dividends	**(2,920)**	(2,823)	**(11,554)**	(11,215)
Consolidation of non-controlling interests	**(17,112)**	(95,597)	**(112,499)**	(292,807)
Investment income (1)	**13,074**	6,081	**30,136**	11,720
Nordsee One proceeds from government grant	**5,969**	—	**20,399**	—
Foreign exchange	**(2)**	(3,767)	**1,180**	(3,767)
Other (2)	**2,627**	—	**2,258**	(226)
Free cash flow	**$ 88,659**	$ 69,547	**$ 337,623**	$ 256,100

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

(2) Other includes adjustments for Nordsee One interest on shareholder loans, equity accounting, Deutsche Bucht expenses excluded from free cash flow and non-cash expenses adjusted in working capital excluded from free cash flow, partially offset by long-term incentive plan (LTIP) awards settled in cash in the period.

Scheduled principal repayments on facility term loans reflect repayments as paid. Funds set aside (utilized) for scheduled principal repayments allocates semi-annual repayments evenly across two quarters as well as adjustments for timing of quarterly repayments. Gemini's principal repayment schedule is weighted towards the first payment of the year to align with Gemini's expected cash flow profile. For 2019, Northland's share of Gemini and Nordsee One's principal repayments are expected to total €79.0 million and €71.9 million, respectively.

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

Nordsee One was previously awarded a grant under the European Commission's NER 300 program. The total grant value of €70.0 million was recorded as a reduction in property, plant and equipment upon completion of the project. Cash proceeds from the grant are based on production volumes, with the first cash payment expected in 2019 for production in 2018. Proceeds under the grant attributable to Nordsee One's production during the respective periods are included in free cash flow.

The following table summarizes cash and total dividends paid and respective free cash flow payout ratios as well as per share amounts:

	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Cash dividends paid to common and Class A shareholders	**$ 44,147**	$ 34,254	**$ 163,605**	$ 134,307
Free cash flow payout ratio - cash dividends (1)			**48.5%**	52.4%
Total dividends paid to common and Class A shareholders (2)	**$ 53,246**	$ 47,239	**$ 211,877**	$ 188,005
Free cash flow payout ratio - total dividends (1) (2)			**62.8%**	73.4%
Weighted average number of shares - basic (000s) (3)	**178,031**	175,422	**177,757**	175,383
Weighted average number of shares - diluted (000s) (4)	**189,604**	186,244	**189,593**	186,232
Per share ($/share)				
Dividends paid	**$0.30**	$0.27	**$1.20**	$1.08
Free cash flow — basic	**$0.50**	$0.40	**$1.90**	$1.46
Free cash flow — diluted	**$0.48**	$0.38	**$1.81**	$1.42

(1) On a rolling four-quarter basis.

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

(3) Includes common shares and class A shares but excludes common shares issuable upon conversion of outstanding convertible debentures.

(4) Includes common shares, class A shares and any common shares issuable upon conversion of outstanding convertible debentures.

Fourth Quarter

Free cash flow of $88.7 million for the three months ended December 31, 2018, was $19.1 million higher than the same quarter of 2017 primarily due to:

- $83.8 million increase at Nordsee One, which was under construction in 2017; and
- $5.0 million increase due to higher wholesale market prices at Gemini compared to the same period in 2017.

Factors partially offsetting the increase in free cash flow included:

- $36.7 million increase in scheduled principal repayments primarily for Gemini and Nordsee One debt;
- $11.2 million increase in current taxes related to Nordsee One;
- $9.2 million decrease due to a change in an accounting estimate at Gemini in the quarter to account for a lower subsidy as a result of a higher than expected average wholesale market price for the year;
- $5.8 million increase in relevant corporate G&A costs primarily due to the timing of expenditures related to project development activities and higher personnel costs; and
- $3.5 million increase in funds set aside for maintenance, debt and decommissioning reserves primarily due to decommissioning reserve funding at Nordsee One.

2018

In 2018, free cash flow per share of $1.90 per share was at the upper end of the guidance range of $1.75 to $1.95 per share. Free cash flow of $337.6 million for the year ended December 31, 2018, was $81.5 million higher than 2017. The significant factors resulting in an increase to free cash flow include:

- $247.7 million increase at Nordsee One, which was under construction in 2017;
- $151.9 million increase at Gemini primarily due to being under construction until April 2017 as well as higher wholesale market prices in 2018;
- $14.6 million of contingent consideration paid in 2017 in connection with the acquisition of Gemini;
- $10.0 million increase in Gemini interest income on the subordinated debt (excluded from free cash flow until commencement of cash interest payments in the third quarter of 2017); and
- $8.9 million increase in operating income from Northland's other operating facilities.

Factors partially offsetting the increase in free cash flow include:

- $183.3 million increase in scheduled principal repayments primarily for Gemini and Nordsee One debt;
- $58.9 million of one-time events, such as the completion distribution received from Gemini in 2017 (€31 million) and the return of an overpayment to Gemini by the off-taker related to production from 2016 totaling €7.3 million ($6.8 million net to Northland);
- $58.3 million increase in net interest expense due to interest costs no longer being capitalized at Nordsee One following completion of construction activities in December 2017, partially offset by declining interest costs as a result of scheduled principal repayments;
- $27.6 million increase in current taxes related to Nordsee One; and
- $17.6 million decrease primarily due to the reduced rate escalation at Iroquois Falls and the idling of the Kingston facility as a result of the expiration of its PPA in January 2017.

As at December 31, 2018, the rolling four quarter free cash flow net payout ratio was 48.5%, calculated on the basis of cash dividends paid and 62.8% calculated on the basis of total dividends, compared to 52.4% and 73.4%, respectively, in 2017. The improvement in the free cash flow payout ratios from 2017 was primarily due to contributions from Nordsee One.

SECTION 6: CHANGES IN FINANCIAL POSITION

The following table provides a summary of account balances derived from the audited consolidated balance sheets as at December 31, 2018 and December 31, 2017.

As at		December 31, 2018		December 31, 2017
Assets				
Cash and cash equivalents	**$**	**278,400**	$	400,573
Restricted cash		**450,437**		287,609
Trade and other receivables		**275,088**		271,952
Other current assets		**39,675**		39,095
Property, plant and equipment		**8,105,845**		7,932,110
Contracts and other intangible assets		**581,097**		583,989
Other assets (1)		**534,563**		654,506
	$	**10,265,105**	$	10,169,834
Liabilities				
Trade and other payables		**197,828**		344,760
Interest-bearing loans and borrowings		**7,011,572**		6,667,056
Net derivative financial liabilities (2)		**537,157**		485,488
Net deferred tax liability (2)		**179,549**		163,370
Other liabilities (3)		**798,377**		1,051,275
	$	**8,724,483**	$	8,711,949
Total equity		**1,540,622**		1,457,885
	$	**10,265,105**	$	10,169,834

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

(2) Presented on a net basis.

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

Significant changes in Northland's audited consolidated balance sheets were as follows:

- *Restricted cash* increased by $163 million, primarily due to the reclassification of funds set aside for construction at Deutsche Bucht from other assets to restricted cash since the funds are expected to be released prior to project completion in 2019, partially offset by a decrease in funds restricted under contracts with construction vendors at Nordsee One.
- *Property, plant and equipment* increased by $174 million, primarily due to construction-related activities at Deutsche Bucht and changes in foreign exchange translation, partially offset by depreciation.
- *Other assets* decreased by $120 million, primarily due to the reclassification of vendor deposits associated with construction at Deutsche Bucht to restricted cash since the funds are expected to be released prior to project completion in 2019 and the reclassification of the current portion of Nordsee One's government grant receivable to trade and other receivables.
- *Trade and other payables* decreased by $147 million, mainly due to the timing of construction-related payables at Deutsche Bucht and Nordsee One.
- *Interest-bearing loans and borrowings* increased by $345 million, mainly due to Deutsche Bucht construction activities, partially offset by scheduled principal repayments on project debt, including Nordsee One's principal repayments.
- *Net deferred tax liability* (deferred tax asset less deferred tax liabilities) increased by $16 million due to movements in accounting versus tax balances, particularly fair value gains on derivative contracts.
- *Other liabilities* decreased by $253 million, primarily due to voluntary repayments of corporate credit facilities with cash on hand, redemption of the 2019 Debentures and partial repayment of amounts due to Nordsee One affiliates, partially offset by accretion on decommissioning liabilities.

SECTION 7: EQUITY, LIQUIDITY AND CAPITAL RESOURCES

Northland maintains sufficient liquidity to meet short- and medium-term cash needs and ensures that it has access to sufficient resources to capitalize on investment opportunities and to meet development expenditure commitments, monthly cash dividend requirements and other needs in the normal course of operations. Northland finances these commitments through cash flow from operations, non-recourse project financing, corporate credit facilities, convertible debentures and equity, such as common and preferred shares.

Dividends

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

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

Equity and Convertible Unsecured Subordinated Debentures

The change in shares and class A shares during 2018 and 2017 was as follows:

	December 31, 2018	December 31, 2017
Shares outstanding, beginning of year	**174,440,081**	171,973,308
Conversion of debentures	**2,527,626**	56,848
Shares issued under the LTIP	**23,467**	22,284
Shares issued under the DRIP	**2,210,569**	2,387,641
Shares outstanding, end of year	**179,201,743**	174,440,081
Class A shares	**1,000,000**	1,000,000
Total common and convertible shares outstanding, end of year	**180,201,743**	175,440,081

Preferred shares outstanding as at December 31, 2018 and December 31, 2017 are as follows:

As at	December 31, 2018	December 31, 2017
Series 1	**4,501,565**	4,501,565
Series 2	**1,498,435**	1,498,435
Series 3	**4,800,000**	4,800,000
Total	**10,800,000**	10,800,000

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

In November 2018, Northland announced the early redemption of its 2019 Debentures. On December 21, 2018, Northland redeemed $22.9 million of debentures in cash and $54.1 million of debentures were converted into common shares by their holders. The conversions resulted in the issuance of 2,504,670 common shares.

As at December 31, 2018, Northland had 179,201,743 common shares outstanding with no change in Class A and preferred shares outstanding from December 31, 2017. During 2018, $54.6 million of convertible debentures were converted into 2,527,626 common shares largely due to the early redemption of the 2019 Debentures.

As of the date of this MD&A, Northland has 179,201,881 common shares outstanding with no change in Class A and preferred shares outstanding from December 31, 2018. If the convertible debentures outstanding as at December 31, 2018, totaling $155.9 million, were converted in their entirety, an additional 7.2 million common shares would be issued.

NORTHLAND POWER

Normal Course Issuer Bid

In December 2018, the TSX accepted Northland`s notice of intention to proceed with a NCIB commencing December 17, 2018 and ending December 16, 2019. Pursuant to the NCIB, Northland may purchase for cancellation up to 8,000,000 common shares representing approximately 4.5% of Northland's issued and outstanding common shares. In accordance with TSX rules, any daily purchases (other than pursuant to a block purchase exemption) on the TSX under the NCIB are limited to a maximum of 87,031 common shares, which represents 25% of the average daily trading volume on the TSX for the six months ended November 30, 2018.

Northland Power believes that the market price of its common shares may trade in a price range that does not fully reflect their inherent value, and that the acquisition of the common shares may represent an appropriate use of available funds. Although Northland intends to purchase common shares under the NCIB, there can be no assurances that any such purchases will be completed.

Liquidity and Capital Resources

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

	Three Months Ended December 31,		Year Ended December 31,	
	2018	**2017**	**2018**	**2017**
Cash and cash equivalents, beginning of period	**$ 315,010**	$ 360,537	**$ 400,573**	$ 307,521
Cash provided by operating activities	**291,160**	257,642	**1,133,884**	849,007
Cash used in investing activities	**(101,133)**	(111,405)	**(585,957)**	(1,189,166)
Cash (used in) provided by financing activities	**(233,082)**	(127,670)	**(681,450)**	408,147
Effect of exchange rate differences	**6,445**	21,469	**11,350**	25,064
Cash and cash equivalents, end of period	**$ 278,400**	$ 400,573	**$ 278,400**	$ 400,573

Fourth Quarter

Cash and cash equivalents for the fourth quarter of 2018 decreased $37 million from September 30, 2018 due to cash used by financing activities of $233 million and $101 million of cash used in investing activities, partially offset by cash provided by operations of $291 million and the effect of foreign exchange translation of $6 million.

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

- construction expenditures associated with Deutsche Bucht;
- scheduled debt repayments;
- redemption of the 2019 Debentures; and
- interest payments associated with borrowings.

The decrease was partially offset by:

- cash flow from operating facilities;
- a net decease in restricted cash; and
- debt proceeds from the Deutsche Bucht's construction loan.

2018

Cash and cash equivalents for the year ended December 31, 2018, decreased $122 million due to $586 million in cash used in investing activities and $681 million in cash used in financing activities, partially offset by $1.1 billion in cash provided by operating activities and the effect of foreign exchange translation of $11 million.

Cash provided by operating activities for the year ended December 31, 2018, was $1.1 billion comprising:

- $406 million of net income;
- $710 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; and
- $18 million in changes in working capital due to the timing of payables, receivables and deposits.

Cash used in investing activities for the year ended December 31, 2018, was $586 million, primarily comprising:

- $397 million used for the purchase of property, plant and equipment, mostly for the construction of Deutsche Bucht;
- $161 million change in working capital related to the timing of construction payables at Nordsee One and Deutsche Bucht; and
- $43 million of restricted cash funding associated with construction at Deutsche Bucht and due to timing of reserve funding at other operating facilities.

Cash used in financing activities for the year ended December 31, 2018, was $681 million, primarily comprising:

- $1.2 billion in repayments under the corporate credit facilities ($793 million), scheduled principal repayments on project debt ($388 million) and the redemption of the 2019 Debentures ($23 million);
- $318 million in interest payments;
- $175 million of common, Class A and preferred share dividends; and
- $131 million in dividends to the non-controlling shareholders.

Factors partially offsetting cash used in financing activities include:

- $1.1 billion of proceeds primarily from draws under the new corporate credit facility ($593 million) and borrowings under Deutsche Bucht's construction loan ($550 million).

Movement of the euro against the Canadian dollar increased cash and cash equivalents by $11 million for the year ended December 31, 2018. Northland aims to mitigate the effects of exchange rate fluctuations through a variety of mechanisms, including foreign exchange rate hedges and using euro-denominated corporate debt for operating expenditures and the purchase of property, plant and equipment in euros by Deutsche Bucht.

The following table provides a continuity of the cost of property, plant and equipment for the year ended December 31, 2018:

	Cost balance as at Dec. 31, 2017	Additions [1]	Other [2]	Exchange rate differences	Cost balance as at Dec. 31, 2018
Operations:					
Offshore wind	$ 5,475,420	$ 5,486	$ (7,924)	$ 193,517	**$ 5,666,499**
Thermal [3]	1,816,852	1,623	(58,466)	—	**1,760,009**
On-shore renewable	1,720,846	1,413	(561)	—	**1,721,698**
Construction:					
Offshore wind	411,545	383,221	1,281	23,415	**819,462**
Corporate	22,507	5,146	(841)	39	**26,851**
Total	$ 9,447,170	$ 396,889	$ (66,511)	$ 216,971	**$ 9,994,519**

(1) Includes amounts paid under the LTIP in the first quarter of 2018 related to Nordsee One.

(2) Includes the disposal of Cochrane, an adjustment to the accrual for asset retirement obligations at Nordsee One and amounts accrued net of amounts paid under the LTIP.

(3) Excludes Spy Hill lease receivable accounting treatment.

Long-term Debt

Operating facilities and projects under construction are financed primarily with non-recourse project debt with fixed or hedged interest rates and repayments tied to the terms of the project's initial PPA post-completion. Each project is undertaken as a special-purpose entity so that an adverse event at one facility would not affect Northland's other facilities. By owning and operating high-quality assets and applying its deep, long-term experience, Northland expects to continue to enjoy a competitive cost of capital, which maximizes returns from growth initiatives.

The following table provides a continuity of Northland's debt for the year ended December 31, 2018:

	Balance as at Dec. 31, 2017	Financings, net of costs	Repayments	Amort. of costs/fair value	Exchange rate differences	Balance as at Dec. 31, 2018
Operations:						
Offshore wind	$ 4,282,187	$ —	$ (284,436)	$ 18,714	$ 144,109	**$ 4,160,574**
Thermal	1,035,982	571	(43,919)	2,497	—	**995,131**
On-shore renewable	1,143,182	15,303	(59,374)	1,087	—	**1,100,198**
Construction:						
Offshore wind	205,705	533,698	—	—	16,266	**755,669**
Corporate (1)	495,523	593,036	(793,135)	638	13,212	**309,274**
Total	$ 7,162,579	$ 1,142,608	$ (1,180,864)	$ 22,936	$ 173,587	**$ 7,320,846**

(1) Excludes convertible unsecured subordinated debentures.

In addition to the loans outstanding in the above table, as at December 31, 2018, $43.5 million of letters of credit were outstanding under non-recourse project-level credit facilities for operational use.

In March 2018, Northland upsized the debt on its first six solar projects by $15.0 million subject to same interest rate and maturity. Northland used the proceeds to fully repay the outstanding principal balance on Mont Louis' loan from Investissement Québec originally maturing in 2032. A repayment of $14.8 million, net of transaction costs, is included under on-shore renewable repayments in the table above.

In July 2018, the Deutsche Bucht Demonstrator Project achieved financial close, increasing its borrowing capacity under the Deutsche Bucht non-recourse construction and term loan by €62.8 million subject to the same interest rate and maturity.

Debt Covenants

Northland generally conducts its business indirectly through separate subsidiary legal entities and is dependent on the distribution of cash from those subsidiary entities to defray its corporate expenses, repay corporate debt and to pay cash dividends to common, Class A and preferred shareholders. Most operating subsidiaries hold non-recourse debt, which typically prohibits distributions if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark debt service coverage ratio, which is the ratio of adjusted EBITDA to scheduled principal and interest payments over a specified time period. Northland and its subsidiaries were in compliance with all debt covenants for the year ended December 31, 2018.

Corporate Credit Facilities and Letters of Credit

Northland's corporate credit facilities are available for general corporate purposes, to support operational, construction and development opportunities and to provide letters of credit issued on behalf of Northland.

In June 2018, Northland entered into a new $1.25 billion corporate credit facility with a syndicate of financial institutions. The new credit facility consists of a $1.0 billion revolving facility and $250 million term loan and replaced Northland's previous $700 million syndicated credit facility (which comprised a $450 million revolving facility and $250 million term loan). Concurrent with the closing of the new syndicated corporate credit facility, Northland replaced its corporate bilateral letter of credit facility with a similar facility and amended and restated its export credit agency-backed corporate letter of credit facility, to align key covenants and terms with the new syndicated credit facility.

In August 2018, Northland borrowed €70.0 million under its syndicated revolving facility, bringing the balance to €200.0 million. Northland applied these proceeds plus cash on hand to repay the $250.0 million remaining balance under the term loan. The term loan cannot be redrawn and has been canceled.

The corporate credit facilities are summarized in the table below:

As at December 31, 2018	Facility size	Amount drawn	Outstanding letters of credit	Available capacity	Maturity date
Syndicated revolving facility	$ 1,000,000	$ 312,720	$ 87,026	$ 600,254	Jun. 2023
Syndicated term facility (1)	—	—	—	—	—
Bilateral letter of credit facility	100,000	—	99,877	123	Mar. 2020
Export credit agency backed letter of credit facility	100,000	—	49,132	50,868	Mar. 2020
Total	$ 1,200,000	$ 312,720	$ 236,035	$ 651,245	
Less: deferred financing costs		3,446			
Total, net		$ 309,274			

(1) The $250 million syndicated term loan facility was repaid in full in August 2018 and cannot be redrawn.

- Amounts drawn against the revolving facility reflect €200.0 million converted at the period-end exchange rate.
- Of the $236.0 million of corporate letters of credit issued as at December 31, 2018, $49.1 million relates to projects under advanced development or construction.

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

As at December 31, 2018, Northland's ratio of total debt to enterprise value was 64.6% compared to 63.1% as at December 31, 2017. The increase was primarily as a result of higher project debt from draws on the Deutsche Bucht construction loan and a lower closing share price, partially offset by lower corporate debt and a higher number of common shares outstanding.

Exposure to LIBOR and EURIBOR (Euro Interbank Offered Rate)

LIBOR and EURIBOR are the two key global benchmark rates used to determine interest rates and value government and corporate bonds, loans, currency and interest rate swaps and many other financial products. Regulators are expected to discontinue the use of EURIBOR after January 2020 and LIBOR after 2021. In the meantime, respective financial agencies, regulators and participants are working to develop replacement benchmarks, construct forward-looking term structures, ensure market liquidity and address documentation concerns to ensure an orderly transition.

Northland does not have debt or instruments indexed to LIBOR but does have exposure to EURIBOR at its European offshore wind projects with €3.1 billion of loans and interest rate swaps outstanding as at December 31, 2018 (Gemini: €1.9 billion; Nordsee One: €0.7 billion; and Deutsche Bucht: €0.5 billion). There is also EURIBOR exposure on €200 million of borrowings under the corporate revolving credit facility.

Management is studying potential impacts across the business. Initial observations indicate European offshore wind exposure to EURIBOR (where interest is paid on loans and offsetting interest rate swap amounts are both based on EURIBOR) would be mitigated if the same replacement rate is applied to the loans and interest rate swaps. Management will continue to monitor and manage the situation closely.

Financial Commitments and Contractual Obligations

In the ordinary course of business, Northland enters into financial and derivative contracts. The contractual maturities of Northland's material financial liabilities as at December 31, 2018, are summarized below:

	2019	2020-2021	2022-2023	>2023
Derivative contracts				
Euro foreign exchange contracts	$ 163,404	$ 411,099	$ 363,138	$ 1,177,754
Financial natural gas contract	62,224	122,942	6,704	—
U.S. dollar foreign exchange contracts	7,214	2,114	—	—
Power financial contracts	7,154	754	—	—
Loans and borrowings				
Interest-bearing loans and borrowings - principal	434,416	1,224,520	1,301,568	5,139,922
Interest-bearing loans and borrowings - interest, including interest rate swaps	264,833	558,629	476,661	937,307
Corporate credit facilities, including interest	3,753	9,174	325,708	—
Convertible debentures, including interest	7,407	159,631	—	—
Total	**$ 950,405**	**$ 2,488,863**	**$ 2,473,779**	**$ 7,254,983**

Non-Financial Commitments and Contractual Obligations

The following table summarizes all material fixed contractual commitments and obligations as at December 31, 2018, for non-financial contracts. The amounts are based on the assumptions of a 2% annual consumer price index increase, a Canadian dollar/euro exchange rate of $1.56 and Canadian dollar/U.S. dollar exchange rate of $1.25. The table includes maintenance and services agreements and natural gas transportation demand charges for which Northland is liable whether or not natural gas is shipped. The construction commitment relates to the construction of the Deutsche Bucht project. The cash obligations related to the leases for land and buildings, dismantlement and management fees to non-controlling interest partners are also included.

	2019	2020-2021	2022-2023	>2023
Maintenance agreements	$ 156,763	$ 335,831	$ 367,912	$ 2,614,182
Construction, excluding debt, interest and fees	804,244	—	—	—
Natural gas supply and transportation, fixed portion	33,342	68,593	71,365	60,326
Leases	9,053	17,165	12,881	51,323
Dismantlement funding	6,608	14,150	14,736	142,414
Management fees	1,027	2,087	2,131	13,463
Total	**$ 1,011,037**	**$ 437,826**	**$ 469,025**	**$ 2,881,708**

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, certain contracts include penalties for failure to purchase a minimum annual volume of natural gas based on the marketer's premium and the deficiency in volume purchased during the year.

SECTION 8: SUMMARY OF QUARTERLY CONSOLIDATED RESULTS

Northland's consolidated financial results are affected by seasonal factors, contract provisions and extraordinary items, which result in quarterly variations. Northland's quarterly net income (loss) also varies due to any non-cash impairments/recoveries and foreign exchange adjustments required to translate euro and U.S. dollar denominated balances to the appropriate quarter-end Canadian dollar equivalent and due to fair value movements of financial derivative contracts.

Accounting policies and principles have been applied consistently for all periods presented in the table below.

In millions of dollars, except per share information	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Total sales	$380.9	350.2	$ 338.1	$ 486.4	$ 394.6	$295.2	$ 322.4	$364.1
Operating income	170.7	150.4	130.5	281.2	196.5	103.5	144.5	187.6
Net income (loss)	65.3	93.2	69.0	178.0	82.3	31.7	61.7	100.1
Adjusted EBITDA	221.3	196.8	183.0	290.4	238.7	160.2	168.2	198.1
Cash provided by operating activities	291.2	193.3	343.3	306.1	257.6	172.5	142.2	276.7
Free cash flow	88.7	63.9	37.0	148.0	69.5	45.3	99.7	41.6
Per share statistics								
Net income (loss) - basic	$ 0.23	$ 0.38	$ 0.29	$ 0.61	$ 0.25	$ 0.12	$ 0.19	$ 0.30
Net income (loss) - diluted	0.22	0.37	0.28	0.59	0.25	0.12	0.19	0.30
Free cash flow - basic	0.50	0.36	0.21	0.84	0.40	0.26	0.57	0.24
Total dividends declared	0.30	0.30	0.30	0.30	0.28	0.27	0.27	0.27

SECTION 9: CONSTRUCTION AND DEVELOPMENT ACTIVITIES

Deutsche Bucht 269 MW Offshore Wind Project – Germany

The Deutsche Bucht offshore wind project is progressing according to schedule and is on budget. As of the date of this MD&A, offshore installation of all 31 monopile foundations was completed. As part of the rights and assets acquired in 2017, Northland had an option to construct two demonstrator turbines utilizing 'mono bucket' foundations. In July 2018, the Demonstrator Project reached financial close. The Demonstrator Project will contribute an additional 17 MW of capacity to the base 252 MW project for a total of 269 MW and result in total project costs of approximately €1.4 billion (CAD $2.0 billion). The two mono bucket foundations are scheduled to be installed with the balance of plant during 2019 with project completion expected by the end of 2019.

Hai Long 1,044 MW Offshore Wind Project – Taiwan

During the second quarter of 2018, the Company's Hai Long project owned by Northland and its 40% partner, Yushan Energy, was allocated a total of 1,044 MW (626 MW net to Northland) by the Bureau of Energy of Taiwan under a FIT program and an auction process. The combined allocations are significant milestones since they advance the project's ability to execute 20-year PPAs, subject to permitting and financial close. Key aspects of the Hai Long project are presented below:

Sub-project	Awarded	MW Procured (Gross)	MW Procured (Net) (1)	Year of Grid Connection	Type of Procurement
Hai Long 2A	April 2018	300	180	2024	FIT
Hai Long 2B	June 2018	232	139	2025	Auction
Hai Long 3	June 2018	512	307	2025	Auction
Total		1,044	626		

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

SECTION 10: OUTLOOK

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

Adjusted EBITDA

In 2019, management expects adjusted EBITDA to be in the range of $920 to $1,010 million. 2019 adjusted EBITDA is expected to be higher relative to 2018 guidance primarily due to the following factors:

- Addition of Deutsche Bucht's pre-completion revenue, net of operating costs, for a portion of the year (approximately $55 to $75 million increase);
- Reversion to normalized wind resource at Gemini and Nordsee One (approximately $15 to $50 million increase) assuming an average foreign exchange rate of CAD$1.53/Euro; and
- Higher corporate G&A costs due to the timing and the expanded scope of Northland's international development activities (approximately $15 to $20 million decrease).

In 2020, once the Deutsche Bucht offshore wind project is fully operational, management continues to expect Deutsche Bucht to generate adjusted EBITDA of approximately €165 to €185 million annually.

Free Cash Flow

In 2019, management expects free cash flow per share to be in the range of $1.65 to $1.95 per share. The free cash flow per share guidance excludes pre-completion revenue, net of operating costs, from Deutsche Bucht to be used to fund construction costs.

2019 free cash flow per share is adjusted from the 2018 guidance primarily due to the following factors:

- Higher project debt service primarily due to a full year of scheduled debt principal repayments at Nordsee One (approximately $25 million decrease);
- Reversion to normalized wind resource at Gemini and Nordsee One (approximately $25 to $35 million increase);
- Higher corporate G&A costs due to the timing and the expanded scope of Northland's international development activities (approximately $15 to $20 million decrease);
- Lower interest on corporate borrowing primarily due to the early redemption of the series B convertible debentures in late 2018 and lower corporate debt balance (approximately $14 to $15 million increase);
- Lower investment income and principal repayments on Northland's share of subordinated debt to Gemini and loans to business partners (approximately $5 to $7 million decrease); and
- An increase in the weighted average number of common shares outstanding as a result of the conversions in December 2018 from the Series B convertible debentures.

SECTION 11: LITIGATION, CLAIMS AND CONTINGENCIES

Litigation, claims and other contingencies arise from time to time in the ordinary course of business for Northland. None of these contingencies, individually or in aggregate, are expected to result in a liability that would have a material adverse effect on Northland.

SECTION 12: SUSTAINABILITY AND CLIMATE CHANGE

Sustainability and Northland's Business Model

Sustainability and the need for clean energy were key factors leading to the Company being established in 1987 and continue to be a fundamental part of the business environment in which Northland operates. Sustainability underlies and influences many of the key business risks identified and managed by management and overseen by its Board of Directors. As such, understanding, measuring, and managing the opportunities and risks arising as a result of climate change from non-sustainable power production is a core component of Northland's business activities and critical to delivering on its vision to be a top global clean and green developer, constructor, owner and operator of sustainable infrastructure assets. Northland holds the view that demand for electricity from renewable sources will continue to rise as a result of growing recognition of the adverse effects of climate change and legislation in an increasing number of jurisdictions requiring diversification away from fossil fuel-based power generation.

Climate change, which increases the likelihood of unexpected, severe and more frequent weather-related natural disasters such as severe storms, droughts, heat waves, rising temperatures and sea levels and changing precipitation patterns, presents both risks and opportunities. Climate change has raised the importance of access to clean energy, energy security and energy efficiency, which Northland is well-positioned to contribute to, as described below. Climate change requirements did not have a significant financial or operational impact on Northland's earnings or capital expenditures in 2018.

Governance

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

Climate Change Related Opportunities

Growth of Renewable Assets Portfolio

Northland sees significant growth opportunities in its renewable asset portfolio as a result of the general trend towards global de-carbonization which encourages sustainable power generation from clean and green technologies.

Northland expects these opportunities to span short, medium and long-term time horizons as such policies spread to new parts of the globe and strengthen in advanced economies. Northland is currently pursuing such opportunities through active development of sustainable projects in North America, Latin America, Europe and Asia, while exploring sustainable development opportunities in other select jurisdictions. Refer to the 2018 AIF for a summary of regulatory developments such as the trend towards de-carbonization in markets where Northland operates including Canada, the Netherlands, Germany and Taiwan.

New Business Opportunities

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

Greater Access to Capital

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

Reputational Advantage

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

Climate Change Related Risks

Increased Variability of Results

Climate change may increase the potential for increased variability of renewable resources, resulting in higher variability of electricity production and financial results. Research on the impact of climate change on wind and solar patterns in areas of concentrated renewable power production, though growing, remains in early stages. Reliable information on localized impact for specific regions over the long-term is not yet available in today's climate change computer simulation models. Northland's concentration of offshore wind farms in the North Sea presents a performance and operating risk.

Acute and Chronic Effect on Physical Assets

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

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

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

Regulatory Compliance

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

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

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

SECTION 13: FINANCIAL RISKS AND UNCERTAINTIES

Northland's activities expose it to a variety of risks. Refer to the 2018 AIF for a summary of factors in addition to those discussed below that could significantly affect the operations and financial results of Northland.

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

Market Risk

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

(i) Interest Rate Risk

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

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

(ii) Credit Spread Risk

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

(iii) Currency Risk

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

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

(iv) Commodity Price Risk

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

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

Counterparty Risk

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

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

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

Liquidity Risk

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

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

Northland is also subject to internal liquidity risk because it conducts its business activities through separate legal entities (subsidiaries and affiliates) and is dependent on cash distributions from those entities to defray corporate expenses and pay dividends. Most operating subsidiaries hold non-recourse debt. Such non-recourse financing agreements typically prohibit distributions if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark debt service coverage ratio, which is the ratio of Adjusted EBITDA to scheduled loan principal and interest payments over a specified time period. For the year ended December 31, 2018, Northland and its subsidiaries were in compliance with all debt covenants.

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

Refer to Note 23 in the audited consolidated financial statements for the year ended December 31, 2018, for additional information related to Northland's commitments and obligations.

SECTION 14: CRITICAL ACCOUNTING ESTIMATES

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

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

Additional information on the significant estimates, judgments and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed in Note 2.20 in the audited consolidated financial statements for the year ended December 31, 2018.

SECTION 15: FUTURE ACCOUNTING POLICIES

A number of new standards, amendments and interpretations issued are not yet effective for the year ended December 31, 2018, and therefore have not yet been applied in preparing the audited consolidated financial statements. These standards include IFRS 16, "Leases" effective for annual periods beginning on or after January 1, 2019.

Northland assesses each standard to determine whether it may have a material impact on its consolidated financial statements. As at December 31, 2018, there have been no additional accounting pronouncements by the International Accounting Standards Board (**IASB**) that would impact Northland beyond those described in Note 2.19 of the audited consolidated financial statements for the period ended December 31, 2018.

SECTION 16: CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

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

An evaluation of the effectiveness of the design and operation of Northland's disclosure controls and procedures was conducted as of December 31, 2018, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Northland's disclosure controls and procedures, as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

Internal Controls Over Financial Reporting

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

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

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

An evaluation of the effectiveness of the design and operation of Northland's internal controls over financial reporting was conducted as of December 31, 2018, 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, 2018.

MANAGEMENT'S RESPONSIBILITY

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

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

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

Ernst & Young LLP, the independent auditor, have examined the consolidated financial statements of Northland. The independent auditor's responsibility is to express a professional opinion on the fairness of the consolidated financial statements. The auditor's report outlines the scope of their examination and sets forth their opinion on the consolidated financial statements. Their report as auditor is set out on page 43.

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

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

(signed, Paul J. Bradley)
Paul J. Bradley
Chief Financial Officer
Toronto, Canada
February 21, 2019

Independent Auditor’s Report

To the Shareholders of Northland Power Inc.

Opinion

We have audited the consolidated financial statements of Northland Power Inc. and its subsidiaries (the “**Group**”), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of income (loss), consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (**IFRSs**).

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

EY Tower
100 Adelaide St W
Toronto, ON M5H 0B3

February 21, 2019

Consolidated Financial Statements

Table of Contents

NORTHLAND POWER

Consolidated Balance Sheets

In thousands of Canadian dollars

As at		December 31, 2018		December 31, 2017
Assets				
Cash and cash equivalents	**$**	**278,400**	$	400,573
Restricted cash [Note 8.2, 14]		**450,437**		287,609
Trade and other receivables [Note 8.3, 15]		**275,088**		271,952
Other current assets [Note 7, 8.1]		**39,675**		39,095
Derivative assets [Note 16.2]		**8,187**		12,679
Total current assets	**$**	**1,051,787**	$	1,011,908
Property, plant and equipment [Note 4]		**8,105,845**		7,932,110
Contracts and other intangible assets [Note 3, 5]		**581,097**		583,989
Goodwill [Note 6]		**204,942**		204,942
Finance lease receivable [Note 7]		**144,889**		148,723
Derivative assets [Note 16.2]		**6,502**		12,244
Long-term deposits [Note 8.2]		**56,845**		171,646
Deferred tax asset [Note 20]		**56,156**		85,760
Other assets [Note 8.3, 14]		**127,887**		129,195
Total assets	**$**	**10,335,950**	$	10,280,517
Liabilities and equity				
Trade and other payables	**$**	**197,828**	$	344,760
Interest-bearing loans and borrowings [Note 10]		**428,570**		395,783
Dividends payable		**18,713**		18,155
Derivative liabilities [Note 16.2]		**136,464**		129,722
Total current liabilities	**$**	**781,575**	$	888,420
Interest-bearing loans and borrowings [Note 10]		**6,583,002**		6,271,273
Corporate credit facilities [Note 11.1]		**309,274**		495,523
Convertible debentures [Note 11.2]		**153,969**		228,963
Provisions and other liabilities [Note 12]		**316,421**		308,634
Derivative liabilities [Note 16.2]		**415,382**		380,689
Deferred tax liability [Note 20]		**235,705**		249,130
Total liabilities	**$**	**8,795,328**	$	8,822,632
Equity				
Common and Class A shares [Note 13.1]	**$**	**2,438,036**	$	2,335,892
Preferred shares [Note 13.2]		**260,880**		260,880
Long-Term Incentive Plan reserve [Note 13.1]		**—**		8,872
Contributed surplus		**326**		582
Accumulated other comprehensive loss		**(68,659)**		(20,358)
Deficit		**(1,558,875)**		(1,640,041)
Equity attributable to shareholders		**1,071,708**		945,827
Non-controlling interests [Note 14]		**468,914**		512,058
Total equity		**1,540,622**		1,457,885
Total liabilities and equity	**$**	**10,335,950**	$	10,280,517

See accompanying notes.

(signed, James C. Temerty)
James C. Temerty, C.M.
Director and Chairman of the Board

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

Consolidated Statements of Income (Loss)

In thousands of Canadian dollars except per Share and Share information

		Year ended December 31,		
		2018		**2017**
Sales				
Electricity and related products	**$**	**1,554,170**	$	1,371,604
Other		**1,417**		4,652
Total sales		**1,555,587**		1,376,256
Cost of sales		**114,221**		139,539
Gross profit	**$**	**1,441,366**	$	1,236,717
Expenses				
Plant operating costs		**226,295**		170,615
General and administrative costs - operations		**46,874**		49,185
General and administrative costs - development		**33,332**		36,785
Depreciation of property, plant and equipment [Note 4]		**415,161**		361,365
	$	**721,662**	$	617,950
Investment income		**484**		418
Finance lease income [Note 7]		**12,660**		12,941
Operating income	**$**	**732,848**	$	632,126
Finance costs, net [Note 18]		**337,434**		333,469
Amortization of contracts and other intangible assets [Note 5]		**19,116**		8,766
Foreign exchange (gain) loss		**(11,373)**		(2,275)
Fair value (gain) loss on derivative contracts [Note 16.2]		**(87,624)**		(50,796)
Other (income) expense [Note 4.1, 16.1, 23]		**(13,834)**		21,281
Income (loss) before income taxes	**$**	**489,129**	$	321,681
Provision for (recovery of) income taxes [Note 20]				
Current		**40,919**		16,129
Deferred		**42,702**		29,716
		83,621		45,845
Net income (loss)	**$**	**405,508**	$	275,836
Net income (loss) attributable to:				
Non-controlling interests [Note 14]		**127,378**		114,714
Common shareholders		**278,130**		161,122
	$	**405,508**	$	275,836
Weighted average number of Shares outstanding - basic (000s) [Note 17]		**177,757**		175,383
Weighted average number of Shares outstanding - diluted (000s) [Note 17]		**189,593**		175,383
Net income (loss) per share - basic [Note 17]	**$**	**1.50**	$	0.85
Net income (loss) per share - diluted [Note 17]	**$**	**1.46**	$	0.85

See accompanying notes.

Consolidated Statements of Comprehensive Income (Loss)

In thousands of Canadian dollars

		Year ended December 31,		
		2018		**2017**
Net income (loss)	**$**	**405,508**	$	275,836
Items that may be re-classified into net income (loss):				
Exchange rate differences on translation of foreign operations		**40,284**		72,203
Change in fair value of hedged derivative contracts [Note 16]		**(128,340)**		(74,576)
Deferred tax recovery (expense) [Note 20]		**27,086**		22,115
Other comprehensive income (loss)	**$**	**(60,970)**	$	19,742
Total comprehensive income (loss)	**$**	**344,538**	$	295,578
Total comprehensive income (loss) attributable to:				
Non-controlling interests [Note 14]		**114,709**		134,339
Common shareholders		**229,829**		161,239
	$	**344,538**	$	295,578

See accompanying notes.

Consolidated Statements of Changes in Equity

In thousands of Canadian dollars

	Common and Class A shares	Preferred shares	Long-Term Incentive Plan reserve	Deficit	Contributed surplus	Accumulated other comprehensive income (loss)	Equity attributable to shareholders'	Non-controlling interests	Total equity
December 31, 2017	$ 2,335,892	$ 260,880	$ 8,872	$ (1,640,041)	$ 582	$ (20,358)	**$ 945,827**	$ 512,058	**$ 1,457,885**
Net income (loss)	—	—	—	278,130	—	—	**278,130**	127,378	**405,508**
Deferred income taxes [Note 20]	(647)	—	—	—	—	26,394	**25,747**	692	**26,439**
Change in translation of net investment in foreign operations	—	—	—	—	—	32,214	**32,214**	8,070	**40,284**
Change in fair value of hedged derivative contracts [Note 16.2]	—	—	—	—	—	(106,909)	**(106,909)**	(21,431)	**(128,340)**
LTIP shares and deferred rights [Note 13.1]	583	—	(6,722)	—	(256)	—	**(6,395)**	—	**(6,395)**
Disposal of non-controlling interest [Note 4.1, 14]	—	—	—	26,943	—	—	**26,943**	(26,943)	**—**
Common and Class A share and non-controlling interest dividends declared [Note 13.1, 13.3]	47,611	—	—	(212,353)	—	—	**(164,742)**	(130,910)	**(295,652)**
Preferred share dividends [Note 13.2]	—	—	—	(11,554)	—	—	**(11,554)**	—	**(11,554)**
Conversion of debentures [Note 13.1]	54,597	—	—	—	—	—	**54,597**	—	**54,597**
Transfer of LTIP reserve to liabilities [Note 13.1]	—	—	(2,150)	—	—	—	**(2,150)**	—	**(2,150)**
December 31, 2018	**$ 2,438,036**	**$ 260,880**	**$ —**	**$ (1,558,875)**	**$ 326**	**$ (68,659)**	**$ 1,071,708**	**$ 468,914**	**$ 1,540,622**

See accompanying notes.

Consolidated Statements of Changes in Equity - continued

In thousands of Canadian dollars

	Common and Class A shares	Preferred shares	Long-Term Incentive Plan reserve	Deficit	Contributed surplus	Accumulated other comprehensive income (loss)	Equity attributable to shareholders'	Non-controlling interests	Total equity
December 31, 2016	$ 2,281,516	$ 260,880	$ 12,246	$ (1,599,967)	$ 278	$ (20,475)	**$ 934,478**	$ 440,642	**$ 1,375,120**
Net income (loss)	—	—	—	161,122	—	—	**161,122**	114,714	**275,836**
Deferred income taxes [Note 20]	(1,087)	—	—	—	—	22,182	**21,095**	(67)	**21,028**
Change in translation of net investment in foreign operations	—	—	—	—	—	54,132	**54,132**	18,071	**72,203**
Change in fair value of hedged derivative contracts [Note 16.2]	—	—	—	—	—	(76,197)	**(76,197)**	1,621	**(74,576)**
LTIP shares and deferred rights [Note 13.1]	519	—	(3,374)	—	304	—	**(2,551)**	—	**(2,551)**
Non-controlling interest contributions [Note 14]	—	—	—	—	—	—	**—**	206	**206**
Common and Class A share and non-controlling interest dividends declared [Note 13.1, 13.3]	53,716	—	—	(189,981)	—	—	**(136,265)**	(63,129)	**(199,394)**
Preferred share dividends [Note 13.2]	—	—	—	(11,215)	—	—	**(11,215)**	—	**(11,215)**
Conversion of debentures [Note 13.1]	1,228	—	—	—	—	—	**1,228**	—	**1,228**
December 31, 2017	**$ 2,335,892**	**$ 260,880**	**$ 8,872**	**$ (1,640,041)**	**$ 582**	**$ (20,358)**	**$ 945,827**	**$ 512,058**	**$ 1,457,885**

See accompanying notes.

Consolidated Statements of Cash Flows

In thousands of Canadian dollars

	Year ended December 31, 2018	2017
Operating activities		
Net income (loss)	**$ 405,508**	$ 275,836
Items not involving cash or operations:		
Depreciation of property, plant and equipment [Note 4]	**415,161**	361,365
Amortization of contracts and other intangibles [Note 5]	**19,116**	8,766
Finance costs, net	**343,517**	313,591
Fair value (gain) loss on derivative contracts [Note 16.2]	**(87,624)**	(50,796)
Finance lease [Note 7]	**3,528**	3,245
Unrealized foreign exchange (gain) loss	**(11,373)**	(2,275)
Gain on sale of assets [Note 4.1]	**(5,739)**	(2,796)
Other	**(8,885)**	7,175
Deferred tax expense (recovery) [Note 20]	**42,702**	29,716
	$ 1,115,911	$ 943,827
Net change in non-cash working capital balances related to operations	**17,973**	(94,820)
Cash provided by operating activities	**$ 1,133,884**	$ 849,007
Investing activities		
Purchase of property, plant and equipment [Note 4]	**(396,889)**	(815,785)
Deutsche Bucht acquisition, net [Note 3]	**(4,086)**	(301,316)
Restricted cash utilization (funding)	**(43,482)**	(217,667)
Interest received	**3,461**	3,411
Proceeds from sale of assets, net [Note 4.1]	**2,754**	5,508
Other	**13,563**	7,037
Net change in working capital related to investing activities	**(161,278)**	129,646
Cash used in investing activities	**$ (585,957)**	$ (1,189,166)
Financing activities		
Proceeds from borrowings, net of transaction costs [Note 10]	**1,142,608**	1,032,592
Repayment of borrowings [Note 10, 11]	**(1,203,720)**	(140,740)
Interest paid	**(317,586)**	(275,667)
Common and Class A share dividends [Note 13.3]	**(163,605)**	(134,307)
Dividends to non-controlling interests [Note 14]	**(130,913)**	(62,516)
Preferred share dividends [Note 13.2]	**(11,554)**	(11,215)
Other	**3,320**	—
Cash (used in) provided by financing activities	**$ (681,450)**	$ 408,147
Effect of exchange rate differences on cash and cash equivalents	**11,350**	25,064
Net change in cash and cash equivalents during the year	**(122,173)**	93,052
Cash and cash equivalents, beginning of year	**400,573**	307,521
Cash and cash equivalents, end of year	**$ 278,400**	$ 400,573

See accompanying notes.

Notes to the Consolidated Financial Statements

1. Description of Northland's Business

Northland Power Inc. ("**Northland**") is incorporated under the laws of Ontario, Canada and has ownership or net economic interests, through its subsidiaries, in operating power-producing facilities and in projects under construction or in development phases. Northland's operating assets comprise facilities that produce electricity from clean energy sources for sale primarily under long-term power purchase agreements (**PPAs**) or other revenue arrangements with creditworthy customers in order to provide stable cash flow. Northland's operating assets and investments are primarily located in Canada, Germany and the Netherlands. Northland's significant assets under construction are located in Germany.

Northland is a corporation domiciled in Canada with common shares ("**Shares**"), Series 1 cumulative rate reset preferred shares ("**Series 1 Preferred Shares**"), Series 2 cumulative floating rate preferred shares ("**Series 2 Preferred Shares**"), Series 3 cumulative rate reset preferred shares ("**Series 3 Preferred Shares**") and Series C convertible unsecured subordinated debentures ("**2020 Debentures**") that are publicly traded on the Toronto Stock Exchange ("**TSX**"). Northland is the parent company for the operating subsidiaries that carry on Northland's business. Northland's registered office is located in Toronto, Ontario.

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

	Geographic region (1)	% voting ownership as at Dec. 31, 2018 (2)
Offshore Wind		
Buitengaats C.V. and ZeeEnergie C.V. ("**Gemini**")	The Netherlands	60.0%
Nordsee One GmbH ("**Nordsee One**")	Germany	85.0%
Northland Deutsche Bucht GmbH ("**Deutsche Bucht**" or "**DeBu**")	Germany	100.0%
Thermal		
Iroquois Falls Power Corp. ("**Iroquois Falls**")	Ontario, Canada	100.0%
Kingston CoGen Limited Partnership ("**Kingston**")	Ontario, Canada	100.0%
Kirkland Lake Power Corp. ("**Kirkland Lake**") (3)	Ontario, Canada	100.0%
North Battleford Power L.P. ("**North Battleford**")	Saskatchewan, Canada	100.0%
Spy Hill Power L.P. ("**Spy Hill**")	Saskatchewan, Canada	100.0%
Thorold CoGen L.P. ("**Thorold**")	Ontario, Canada	100.0%
On-shore Renewables		
Four solar facilities ("**Cochrane Solar**")	Ontario, Canada	62.5%
Grand Bend Wind L.P. ("**Grand Bend**")	Ontario, Canada	50.0%
Saint-Ulric Saint-Léandre Wind L.P. ("**Jardin**")	Québec, Canada	100.0%
McLean's Mountain Wind L.P. ("**McLean's**")	Ontario, Canada	50.0%
Mont-Louis Wind L.P. ("**Mont Louis**")	Québec, Canada	100.0%
Nine solar facilities ("**Solar**")	Ontario, Canada	100.0%

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

(2) As at December 31, 2018, Northland's economic interest was unchanged from December 31, 2017, with the exception of the sale of Northland's 77% economic interest in Cochrane Power Corporation thermal facility ("Cochrane"), which ceased operations in 2015, and the sale of a wholly-owned subsidiary entitled to management fees from a 28 MW biomass-fired power facility located in Chapais, Québec. Refer to Note 4.1 for additional information.

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

2. Significant Accounting Policies and Changes, Future Accounting Policies and Accounting Policy Judgments and Estimates

2.1 Basis of Preparation and Statement of Compliance

These consolidated financial statements of Northland and its subsidiaries were prepared in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**) and are presented in Canadian dollars. All values are presented in thousands except when otherwise indicated. The comparative audited consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2018 consolidated financial statements.

The Consolidated Financial Statements for the year ended December 31, 2018 were approved by the Board of Directors on February 21, 2019.

2.2 Basis of Consolidation

The Consolidated Financial Statements comprise the financial statements of Northland and its subsidiaries at and for the year ended December 31, 2018. Subsidiaries are fully consolidated on the date that Northland obtains control and continue to be consolidated until the date that such control ceases. Control is achieved when Northland is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Northland reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated balance sheets and consolidated statements of income (loss) from the date Northland gains control until the date control ceases. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

2.3 Change in Accounting Policies

Adoption of IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”)

IFRS 15 outlines a single comprehensive model to account for revenue arising from contracts with customers and replaced 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 and is effective for annual reporting periods beginning on or after January 1, 2018.

Northland adopted IFRS 15 effective January 1, 2018. Northland elected to apply the practical expedients available under IFRS 15 to adopt the standard using a modified retrospective approach and exclude completed contracts from its assessment of retrospective impacts. Under the modified retrospective approach, any retrospective impacts from the transition are shown as an adjustment to beginning retained earnings for 2018. Prior period figures are not restated.

The adoption of IFRS 15 had no material impact on revenue recognition or measurement related to contracts with customers. There was no adjustment required to beginning retained earnings on January 1, 2018 as a result of adopting the standard. Had Northland applied IFRS 15 to its results for the year ended December 31, 2017, there would be no material difference from the results disclosed. Refer to Note 2.15 for details on revenue recognition accounting policies.

2.4 Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given and equity instruments issued, less the fair value of the liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition, irrespective of the extent of any minority interest. The acquired business’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, “Business Combinations” are recognized at their fair values at the acquisition date, except for (i) income taxes, which are measured in accordance with IAS 12, “Income Taxes”; (ii) share-based payments, which are measured in accordance with IFRS 2, “Share-based Payment”; and (iii) non-current assets that are classified as held for sale, which are measured at fair value less costs to sell in accordance with IFRS 5, “Non-Current Assets Held for Sale and Discontinued Operations.” Northland did not designate any assets as held for sale in 2018.

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

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

Where goodwill forms part of a CGU of which a portion is disposed of, the goodwill associated with the operation disposed is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the portion of the CGU disposed of and the portion of the CGU retained.

2.5 Property, Plant and Equipment

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

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

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

Assets included in construction-in-progress (**CIP**) are amortized once the assets have entered into commercial operations.

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

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

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

2.6 Intangible Assets

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

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

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

Development costs

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

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

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

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

Contracts

Contracts relate to the fair value of the PPAs, natural gas purchase agreements, steam sales agreements and management agreements when they were acquired by Northland and are recorded net of accumulated amortization. Contract amortization is recorded on a straight-line basis over the terms of the agreements.

2.7 Leases or Arrangements Containing a Lease

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

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

At the date of commercial operations, Northland separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. Refer to Note 2.19 for details on changes to lease accounting policy effective for 2019.

2.8 Impairment of Non-financial Assets

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

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

Goodwill

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

2.9 Inventories

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

2.10 Provisions

General

Provisions are recognized when Northland has a present obligation (legal or constructive) as a result of a past event and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where Northland expects some or all of a provision to be reimbursed (for example, under an insurance policy or warranty agreement), the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit and loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Decommissioning liabilities

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

2.11 Class A Shares

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

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

2.12 Share-Based Payments

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

2.13 Cash and Cash Equivalents and Restricted Cash

Cash equivalents comprise only highly liquid investments with maturities of less than 90 days. Restricted cash comprises amounts funded against future maintenance, debt service and construction costs at certain Northland subsidiaries.

2.14 Financial Instruments

(a) Financial assets

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

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

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

- Amortized cost - Assets held for collection of contractual cash flows that represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment is recognized in profit and loss when the asset is derecognized or impaired. Interest income from these financial assets is included in "finance costs, net" using the effective interest rate method. Cash and cash equivalents, restricted cash, trade and other receivables and long-term deposits are included in this category.
- Fair value through profit and loss - Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a financial asset measured at FVPL that is not part of a hedging relationship is recognized in profit and loss and presented on a net basis in the period in which it arises. For derivative financial assets, gains and losses are shown within "fair value (gain) loss on derivative contracts". Northland classifies loans provided to First Nations partners (see Note 14) at FVPL due to the fact that they do not meet the criteria for classification as amortized cost because the contractual cash flows are not solely payments of principal and interest. This is the only non-derivative financial asset measured at FVPL and related gains and losses are shown within "other (income) expense" in the consolidated statements of income (loss). Interest income from FVPL financial assets is included in "finance costs, net".

A third category, fair value through other comprehensive income (**FVOCI**), is available; however, Northland has not classified any financial assets in this category.

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

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

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

(b) Financial liabilities

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

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

(c) Offsetting of financial instruments

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

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

(d) Fair value of financial instruments

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

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

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

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

(e) Derivatives and hedging activities

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

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

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

The fair values of various derivative financial instruments used for hedging purposes and movements in the hedge reserve within equity are shown in Note 16.

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

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

<u>Cash flow hedges that qualify for hedge accounting</u>

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

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

Net investment hedges that qualify for hedge accounting

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

Hedge ineffectiveness

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

2.15 Revenue Recognition

The sections below outline Northland’s accounting policies for revenue recognition up to December 31, 2017 under IAS 18, “Revenue” (“**IAS 18**”) and from January 1, 2018 onwards under IFRS 15. The adoption of IFRS 15 and associated impact on the Consolidated Financial Statements is explained in Note 2.3.

Sale of electricity and related products under IFRS 15

Under IFRS 15, revenue is recognized over time as electricity and related products are delivered. Each of Northland’s PPAs contain a distinct performance obligation for the delivery of electricity, delivery of capacity (i.e. availability of generation), or a combination of the two. Determining what goods or services promised to the customer constitute a distinct performance obligation requires significant judgment. Northland considered all goods and services promised in its PPA contracts and determined that while certain promises do have stand alone value to the customer, they are not distinct in the context of the contract. Refer to Note 21 for details on revenue streams disaggregated by technology and geography.

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

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

Sale of electricity and related products under IAS 18

Under IAS 18, revenue is recognized to the extent that it is probable the economic benefits will flow to Northland and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding sales taxes or duty.

The following specific recognition criteria must also be met before revenue is recognized:

Revenue from electricity and related products, including availability of capacity, is recognized upon delivery to the customer. A portion of the electricity sold under certain long-term PPAs is subject to retroactive adjustments for certain market-related escalation indices. Management records the impact of these estimated retroactive adjustments on a monthly basis and records the impact, if any, of the difference between previously estimated and actual adjustments in the month the retroactive payment is determined by the customer or counterparty.

Other sources of revenue under IFRS 15 and IAS 18

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

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

Interest and investment income

Interest and investment income are recognized as earned.

2.16 Borrowing Costs

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

2.17 Taxes

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

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

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

Sales taxes

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

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

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

2.18 Foreign Currency Translation

Northland's Consolidated Financial Statements are presented in Canadian dollars, which is Northland's functional currency. For each subsidiary, Northland determines the functional currency and measures items included in the financial statements of the subsidiary in that functional currency. All of Northland's significant subsidiaries have a Canadian dollar functional currency, with the exception of Gemini, Nordsee One and Deutsche Bucht, for which the functional currency is the euro.

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

2.19 Future Accounting Policies

IFRS 16, "Leases" ("IFRS 16")

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

Northland will apply IFRS 16 using the modified retrospective approach with the cumulative effect of initially applying the standard, if any, recognized in opening retained earnings on January 1, 2019. Comparative information will not be restated. IFRS 16 will be applied to contracts identified as leases under IAS 17 and IFRIC 4. As such, Northland identified existing leases and inventoried the key terms of those contracts. Northland elected to utilize the practical expedients available under IFRS 16 to apply a single discount rate to a portfolio of leases with similar characteristics and to treat leases with terms ending within 12 months from the date of initial application as short-term.

Under the selected transition approach, lessees carry forward the existing balance of assets and liabilities related to leases previously classified as finance leases under IAS 17. IFRS 16 accounting requirements for lessors are generally aligned with IAS 17. Consequently, Northland expects no material impact from the initial application of IFRS 16 in these lease arrangements.

IFRS 16 accounting requirements for lessees where a lease was previously classified as an operating lease are significantly different from IAS 17. For these lease arrangements, Northland will recognize a lease liability under IFRS 16 equal to the present value of remaining lease payments discounted at the lessee's incremental borrowing rate and has chosen to recognize a right-of-use asset in an amount equal to the lease liability. Northland expects the initial application of this accounting to result in (i) an increase in lease assets and liabilities each in the range of $50 to 60 million on the consolidated balance sheets; and (ii) a decrease in general and administrative ("**G&A**") and plant operating costs along with an increase in depreciation expense and finance costs on the consolidated statements of income (loss) in the year of adoption. Additional quantitative and qualitative disclosures regarding Northland's leasing arrangements will be included in 2019 financial reports.

Northland’s next steps include finalizing new accounting policies and related business processes and controls and ensuring they are appropriately applied. Northland will review all new contracts entered into to determine if they are within scope of IFRS 16. Northland continues to evaluate the impact of IFRS 16 on the consolidated financial statements.

2.20 Significant Judgments in Applying Accounting Policies and Estimation Uncertainty

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

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

PP&E and intangible assets

PP&E and intangible assets are depreciated over their useful lives, taking into account estimated residual values, where appropriate. 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 PP&E and intangible assets. The carrying amounts of PP&E and intangible assets are analyzed in Notes 4 and 5, respectively.

Deferred development costs

Management monitors the progress of projects in the internal prospecting phase, development phase and advanced development phase by using a project management system. Advanced development costs are recognized as an asset when certain criteria are met, whereas prospecting and development phase project costs are expensed as incurred.

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

Leases

Where Northland determines that a contract is a lease, or its provisions contain a lease and result in the counterparty assuming the principal risks and rewards of ownership of the asset, the arrangement is classified as a finance lease with Northland as the lessor. Assets subject to finance leases are not reflected as PP&E, and the net investment in the lease, represented by the present value of the amounts due from the lessee, is recorded in the consolidated balance sheets as a financial asset, classified as a lease receivable. The payments considered to be part of the leasing arrangement are apportioned between a reduction in the lease receivable and finance income. The amount recorded as lease receivable and finance lease income is sensitive to the estimation of future cash inflows and the discount rate.

Decommissioning liabilities

Northland’s decommissioning liabilities relate to wind, solar and closed thermal facilities. Future remediation costs, whether required under contract or by law, are recognized based on best estimates. These estimates are calculated at completion of construction and reviewed annually or more often if there is reason to believe the estimate has changed. 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. Northland 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. Subject to plant closures, 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. See Note 12 for additional details.

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 for employees whose activities are directly attributable to the development and construction of certain Northland facilities are included in PP&E, 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 profits for a project and recognized over the expected vesting period. The calculation of development profit is sensitive to the estimation of future cash inflows for each particular project, and the discount rate used to discount those expected cash inflows.

Accounting for investments in non-wholly owned subsidiaries

Northland exercises judgment in determining whether non-wholly owned subsidiaries are controlled by Northland. Non-wholly owned material subsidiaries that required judgment to determine if Northland controlled the entities and, therefore should consolidate them in its financial statements, include Gemini, Nordsee One, Kirkland Lake, Cochrane Solar, Grand Bend and McLean's. Northland's judgment included the determination of (i) how the relevant activities of the subsidiary are directed (either through voting rights or contracts); (ii) whether Northland's rights are substantive or protective in nature; and (iii) Northland's ability to influence the returns of the subsidiary.

Fair value of financial assets and financial liabilities

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

Impairment of non-financial assets

Northland'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 CGUs, less an allocation of forecasted corporate costs. The estimated recoverable amount is sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows. The key assumptions used to estimate the recoverable amount for the different CGUs are further explained in Note 19.

Income taxes

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

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

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

3. Acquisition of Deutsche Bucht Offshore Wind Project

In August 2017, Northland acquired the Deutsche Bucht offshore wind project by acquiring all of the outstanding shares of Northland Deutsche Bucht GmbH (formerly British Wind Energy GmbH) from a European developer. The project is located off the coast of Germany in the North Sea. Northland's investment included a cash payment of €205.6 million ($305.1 million) for the outstanding shares and funding of development costs incurred to date. Deutsche Bucht is consolidated into Northland's consolidated financial statements as of the date of acquisition.

The rights and assets acquired included an option to construct two demonstrator turbines utilizing 'mono bucket' foundations (the "**Demonstrator Project**"). The financial close of the Demonstrator Project on July 19, 2018, triggered the payment of contingent consideration, which was paid in the third quarter of 2018 in an amount equal to the fair value of contingent consideration previously recognized of $4.1 million.

For the remainder of the construction phase, the majority of project costs will be capitalized. No material amounts of revenue or expenses have been recorded in the audited consolidated statements of income (loss) for the year ended December 31, 2018.

During the year ended December 31, 2018, the purchase price allocation for the acquisition of Deutsche Bucht was finalized. No material changes were made to the purchase price allocation disclosed in the December 31, 2017 audited consolidated financial statements in respect of the acquisition.

4. Property, Plant and Equipment

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

	Construction-in-progress	Plant and operating equipment	Land, buildings and leasehold improvements	Other equipment (3)	Total
Cost					
January 1, 2017	$ 4,753,719	$ 2,892,746	$ 668,694	$ 18,848	$ 8,334,007
Additions	815,465	16,916	—	1,438	833,819
Transfer from CIP	(5,426,440)	4,185,880	1,237,893	2,667	—
Foreign exchange	280,710	41,197	13,980	—	335,887
Pre-completion revenue (1)	(18,034)	—	—	—	(18,034)
Transfer from intangible assets	67,847	—	—	189	68,036
Provisions, disposals and other	(57,869)	(47,690)	(986)	—	(106,545)
December 31, 2017	$ 415,398	$ 7,089,049	$ 1,919,581	$ 23,142	$ 9,447,170
Additions	**385,252**	**5,776**	**1,501**	**4,360**	**396,889**
Foreign exchange	**23,415**	**149,261**	**44,244**	**51**	**216,971**
Provisions, disposals and other (2)	**1,281**	**(60,924)**	**(6,638)**	**(230)**	**(66,511)**
December 31, 2018	**$ 825,346**	**$ 7,183,162**	**$ 1,958,688**	**$ 27,323**	**$ 9,994,519**

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

(2) Provisions, disposals and other includes the sale of the Cochrane thermal facility, an adjustment to the accrual for asset retirement obligations at Nordsee One, and amounts accrued net of amounts paid under the LTIP.

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

Included in "Additions" above is $25.4 million (2017 - $26.5 million) of capitalized interest.

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

	Construction-in-progress	Plant and operating equipment	Land, buildings and leasehold improvements	Other equipment [1]	Total
Accumulated depreciation					
January 1, 2017	$ —	$ 1,001,158	$ 161,218	$ 14,230	$ 1,176,606
Foreign exchange	—	10,137	1,991	—	12,128
Depreciation	—	260,334	96,786	4,245	361,365
Disposals	—	(34,912)	(127)	—	(35,039)
December 31, 2017	$ —	$ 1,236,717	$ 259,868	$ 18,475	$ 1,515,060
Foreign exchange	**—**	**13,480**	**3,969**	**29**	**17,478**
Depreciation	**—**	**325,117**	**87,488**	**2,556**	**415,161**
Disposals	**—**	**(57,192)**	**(1,493)**	**(340)**	**(59,025)**
December 31, 2018	**$ —**	**$ 1,518,122**	**$ 349,832**	**$ 20,720**	**$ 1,888,674**
Net book value					
December 31, 2017	415,398	5,852,332	1,659,713	4,667	7,932,110
December 31, 2018	**$ 825,346**	**$ 5,665,040**	**$ 1,608,856**	**$ 6,603**	**$ 8,105,845**

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

4.1 Sale of Assets

In March 2018, Northland, through its subsidiaries, completed the sale of its interest in Cochrane Power Corporation ("**Cochrane**") for a total consideration of $0.8 million. A gain of $2.4 million, primarily due to the disposal of the decommissioning liability, is recognized in "other (income) expense" in the consolidated statements of income (loss) as a result of the sale.

In September 2018, Northland, through its subsidiaries, completed the sale of its indirect interest in a 28 MW biomass-fired power facility located in Chapais, Québec ("**Chapais**") for total cash proceeds of $1.9 million and a promissory note. A gain of $3.3 million is recognized in "other (income) expense" in the consolidated statements of income (loss) as a result of the sale.

NORTHLAND POWER

5. Contracts and Other Intangible Assets

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

	Deferred development costs	Contracts	Total
Cost			
January 1, 2017	$ —	$ 424,181	$ 424,181
Acquired [Note 3]	68,036	342,457	410,493
Transfer to property, plant and equipment	(68,036)	—	(68,036)
Disposal	—	(2,690)	(2,690)
Foreign exchange	—	16,523	16,523
December 31, 2017	$ —	$ 780,471	$ 780,471
Acquired [Note 3] (1)	**—**	**(1,579)**	**(1,579)**
Disposal [Note 4.1]	**—**	**(1,925)**	**(1,925)**
Foreign exchange	**—**	**18,193**	**18,193**
December 31, 2018	**$ —**	**$ 795,160**	**$ 795,160**
Accumulated Amortization			
January 1, 2017	$ —	$ 189,853	$ 189,853
Disposal	—	(2,208)	(2,208)
Amortization	—	8,766	8,766
Foreign exchange	—	71	71
December 31, 2017	$ —	$ 196,482	$ 196,482
Disposal [Note 4.1]	**—**	**(1,985)**	**(1,985)**
Amortization	**—**	**19,116**	**19,116**
Foreign exchange	**—**	**450**	**450**
December 31, 2018	**$ —**	**$ 214,063**	**$ 214,063**
Net book value			
December 31, 2017	—	583,989	583,989
December 31, 2018	**$ —**	**$ 581,097**	**$ 581,097**

(1) Reflects adjustment to contingent consideration related to the Demonstrator Project finalized in 2018.

Deferred development costs acquired in 2017 relate entirely to Deutsche Bucht and were subsequently transferred to PP&E.

NORTHLAND POWER

6. Goodwill

Acquired goodwill was allocated to CGUs that were expected to benefit from the synergies of the acquisition. The following table summarizes changes in the net book value of goodwill:

	2018	2017
Balance, beginning of year	**$ 204,942**	$ 206,530
Disposals	**—**	(1,588)
Balance, end of year	**$ 204,942**	$ 204,942

For the year ended December 31, 2018 and 2017, no impairments, reversals of impairment or additions to goodwill were recognized. The goodwill balance as at December 31, 2018 includes accumulated impairments of $78.1 million (2017 - $78.1 million). Refer to Note 19 for additional information on impairment testing.

7. Leases

7.1 Northland as Lessor

Spy Hill's long-term PPA is classified as a finance lease arrangement, whereby Northland is considered to have leased the Spy Hill facility to Saskatchewan Power Corporation ("**SaskPower**") for 25 years ending in 2036. For the year ended December 31, 2018, finance lease income of $12.7 million (2017 - $12.9 million) was recognized.

The amounts receivable under finance lease accounting are as follows:

As at December 31	2018		2017	
Minimum lease payments	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Within one year	**$ 16,189**	**$ 3,834**	$ 16,188	$ 3,528
After one year but not more than five years	**64,752**	**18,951**	64,753	17,443
More than five years	**206,193**	**125,938**	222,381	131,280
	$ 287,134	**$ 148,723**	$ 303,322	$ 152,251
Less: Unearned finance income	**(138,411)**	**—**	(151,071)	—
Total finance lease receivable	**$ 148,723**	**$ 148,723**	$ 152,251	$ 152,251
Current portion		**$ 3,834**		$ 3,528
Long-term		**144,889**		148,723

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

7.2 Northland as Lessee

Northland and several of its subsidiaries have entered into leases for land with private landowners and public municipalities as well as leases for buildings and operating equipment. The original terms of these leases range from one to 22 years.

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2018, are as follows:

As at December 31	2018
Within one year	$ 9,053
After one year but not more than five years	30,046
More than five years	51,323
Total	**$ 90,422**

NORTHLAND POWER

8. Other Assets

8.1. Other current assets

Other current assets consist of the following:

As at December 31		2018		2017
Natural gas inventory	**$**	**854**	$	175
Spare parts and other inventory		**17,134**		17,256
Prepaid expenses		**17,853**		18,136
Finance lease receivable (current portion) [Note 7]		**3,834**		3,528
Total	**$**	**39,675**	$	39,095

During 2018, Northland and its subsidiaries expensed $1.0 million (2017 - $1.9 million) of inventory to cost of sales and plant operating costs.

8.2. Long-term Deposits

Long-term deposits consist of the following:

As at December 31		2018		2017
Decommissioning deposit	**$**	**56,698**	$	53,692
Contractor deposits		**—**		117,954
Other		**147**		—
Total	**$**	**56,845**	$	171,646

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

In 2017, Deutsche Bucht provided letters of credit to certain project contractors, which are collateralized by funds held in a restricted account. The balance earns interest at the EURIBOR market rate and will be released when the performance obligations of the contractors are met. As at December 31, 2018, the balance was reclassified to “restricted cash” since it is expected to be released in 2019.

8.3. Other Assets

Other assets consist of the following:

As at December 31		2018		2017
Government grant receivable	**$**	**86,154**	$	105,721
Receivable from Cochrane Solar First Nations Partner [Note 14]		**20,777**		9,351
Other		**20,956**		14,123
Total	**$**	**127,887**	$	129,195

As at December 31, 2018, Nordsee One had accrued a government grant in amount of €70.0 million (2017 - €70.0 million), including €55.1 million in “other assets” and €14.9 million classified as current and included in “trade and other receivables”. The grant relates to the construction of the wind farm and will be collected from 2019 to 2022. The full amount was recorded as a reduction to PP&E in 2017.

9. Management of Capital

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

As at December 31, 2018, total managed capital was $9.0 billion (2017 - $8.8 billion), comprising equity of $1.5 billion (2017 - $1.5 billion), non-recourse interest-bearing loans and borrowings totaling $7.0 billion (2017 - $6.6 billion), corporate credit facilities totaling $0.3 billion (2017 - $0.5 billion) and convertible unsecured subordinated debentures of $0.2 billion (2017 - $0.2 billion).

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

Northland's strategy has been to finance its operating entities (which are subsidiaries of Northland) using primarily non-recourse debt at the subsidiary level. The interest rate on the debt is fixed (or effectively fixed using interest rate swaps) and principal is fully repaid (amortized) over each facility's PPA term. This ensures a facility is debt-free at the expiry of its original revenue contract, after which its economics become less predictable. Northland's strategy to finance investments in project entities and general development efforts has generally relied on the use of Shares, with the addition of corporate debt, notably convertible debentures and corporate credit facility borrowings (refer to Note 11 for additional information).

10. Interest-bearing Loans and Borrowings

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

	Rate (1)	Maturity	Amount drawn as at Dec. 31, 2018 (2)	Amount drawn as at Dec. 31, 2017 (2)
Kirkland Lake	2.8%	2023	$ **12,712**	$ 12,322
Jardin (3)	6.0%	2029	**93,485**	99,760
Thorold (3)	7.1%	2030	**279,274**	295,168
Nordsee One (3)	2.2%	2030	**1,149,657**	1,187,434
Gemini (3)(5)	3.8%	2030	**3,010,917**	3,094,753
Mont Louis	6.6%	2031	**78,203**	97,810
Solar Phase I (3)(4)	4.4%	2032	**200,065**	196,794
Solar Phase II (4)	5.4%	2032	**105,833**	112,028
North Battleford (3)	5.0%	2032	**565,914**	587,727
Cochrane Solar (3)	5.3%	2033	**172,551**	181,238
Deutsche Bucht (3)	2.8%	2033	**755,669**	205,709
McLean's	6.0%	2034	**124,416**	129,908
Grand Bend	4.2%	2035	**325,645**	325,645
Spy Hill (3)	4.1%	2036	**137,231**	140,760
Weighted average and total	4.1%		$ **7,011,572**	$ 6,667,056
Current			**428,570**	395,783
Long-term			**6,583,002**	6,271,273

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

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

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

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

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

As at December 31, 2018, $43.5 million of letters of credit secured by facility or project-level credit agreements was outstanding (2017 - $45.0 million).

On March 29, 2018, Northland upsized its Solar Phase I debt, increasing it by $15.0 million to $214.3 million at the same interest rate of 4.4% and amortization as the former bonds. Gross proceeds were used to pay transaction costs and, in April 2018, fully repay the outstanding principal balance on Mont Louis' loan from Investissement Québec originally maturing in 2032 of $14.8 million net of transaction costs.

On July 19, 2018, the Deutsche Bucht Demonstrator Project achieved financial close, increasing borrowing capacity under the Deutsche Bucht non-recourse construction and term loan by €62.8 million subject to the same interest rate and maturity.

Changes in interest-bearing loans and borrowings and corporate credit facilities (see Note 11) are summarized in the table below:

For the year ended December 31, 2018		Interest-bearing loans and borrowings		Corporate credit facilities (1)		Total
Total, beginning of the year	$	6,667,056	$	495,523	$	7,162,579
Financings net of fees paid		549,572		593,036		1,142,608
Repayments		(387,729)		(793,135)		(1,180,864)
Other non-cash (2)		22,298		638		22,936
Foreign exchange		160,375		13,212		173,587
Total, end of the year	**$**	**7,011,572**	**$**	**309,274**	**$**	**7,320,846**

(1) Excludes convertible debentures.

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

11. Corporate Credit Facilities, Convertible Debentures and Interest-Bearing Loans

11.1 Corporate Credit Facilities

The corporate credit facilities are summarized in the table below:

		Facility size		Amount drawn as at Dec. 31, 2018		Outstanding letters of credit		Available capacity	Maturity		Amount drawn as at Dec. 31, 2017
Syndicated revolving facility (1)	$	1,000,000	**$**	**312,720**	$	87,026	$	600,254	Jun. 2023	$	273,364
Syndicated term facility (2)		—		**—**		—		—	—		222,451
Bilateral letter of credit facility		100,000		**—**		99,877		123	Mar. 2020		—
Export credit agency backed letter of credit facility		100,000		**—**		49,132		50,868	Mar. 2020		—
Total	$	1,200,000	**$**	**312,720**	$	236,035	$	651,245		$	495,815
Less: deferred financing costs				**3,446**							292
Total, net			**$**	**309,274**						$	495,523

(1) The amount drawn on the syndicated revolving facility comprises €200.0 million converted to CAD at the period-end exchange rate.

(2) The $250 million syndicated term loan facility was repaid in full in August 2018 and cannot be redrawn.

In June 2018, Northland entered into a new $1.25 billion corporate credit facility with a syndicate of financial institutions. The new credit facility consists of a $1.0 billion revolving facility and $250 million term loan and replaced Northland's previous $700 million syndicated credit facility (which comprised a $450 million revolving facility and $250 million term loan).

Concurrent with the closing of the new syndicated corporate credit facility, Northland replaced its corporate bilateral letter of credit facility with a similar facility and amended and restated its export credit agency-backed corporate letter of credit facility, to align key covenants and terms with the new syndicated credit facility.

In August 2018, Northland borrowed €70.0 million under its syndicated revolving facility, bringing the balance to €200.0 million. Northland applied these proceeds plus cash on hand to repay the $250.0 million remaining balance under the term loan. The term loan cannot be redrawn and has been canceled.

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

11.2 Convertible Debentures

The 2020 Debentures have a maturity of June 30, 2020 ("**2020 Debentures**") and are the only series of debentures outstanding at December 31, 2018. The 2020 Debentures may be converted into Shares at a conversion price of $21.60 per share at any time prior to the maturity date.

On December 21, 2018, Northland completed the early redemption of its 5.0% convertible unsecured subordinated debentures, Series B, due June 30, 2019 ("**2019 Debentures**"). There was approximately $77.0 million aggregate principal amount of the 2019 Debentures outstanding when the redemption notice was issued on November 16, 2018. Holders converted $54.1 million of their 2019 Debentures into 2,504,670 Shares prior to the December 21, 2018 redemption date. Northland redeemed the remaining $22.9 million of the 2019 Debentures in cash.

The following table summarizes the outstanding debentures:

	Maturity date	Number of additional Shares if fully converted as at Dec. 31, 2018	Outstanding as at Dec. 31, 2018	Outstanding as at Dec. 31, 2017
2019 Debentures	June 2019	**—**	**$ —**	$ 77,272
2020 Debentures	June 2020	**7,218,889**	**155,928**	156,104
Total		**7,218,889**	**$ 155,928**	$ 233,376
Less: deferred financing costs			**1,959**	4,413
Total, net			**$ 153,969**	$ 228,963

At issuance, Northland estimated the fair value of the embedded holder option as nominal, and as a result, the entire amount of the Debentures was classified as a long-term liability.

The payment of convertible unsecured subordinated debenture principal and interest is subordinated in right of payment to the prior payment of all senior indebtedness of Northland.

12. Provisions and Other Liabilities

12.1 Decommissioning Liabilities

Decommissioning liabilities are recognized for renewable facilities. A portion of Northland's on-shore wind farms and solar sites is located on lands leased from private and public landowners. Upon the expiration of the leases, the leased lands must be returned near to their original condition and all turbines, solar panels and equipment dismantled. Offshore wind farms are subject to government regulations for rehabilitation.

No decommissioning liabilities are recognized for thermal facilities until the time Northland determines the facility will no longer be operated or maintained and should be decommissioned. As at December 31, 2017, a provision was recognized for the closed Cochrane facility only, which was sold in 2018 (see Note 4.1).

Northland has estimated the fair value of its total decommissioning liabilities to be $233.3 million (2017 - $221.0 million), based on an estimated total future liability. A discount rate of 1.0% to 3.9% (2017 - 1.0% to 3.9%) and an inflation rate of 2.0% (2017 - 2.0%) were used to calculate the fair value of the decommissioning liabilities. Northland expects to use its installed assets for an indefinite period.

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

		2018		2017
Total, beginning of year	$	**223,152**	$	168,409
Additions [(1)]		**2,385**		44,535
Disposals		**(2,183)**		(190)
Accretion		**4,403**		3,748
Foreign exchange		**5,569**		6,650
Total decommissioning liabilities, end of year	**$**	**233,326**	$	223,152
Current portion included in "trade and other payables"		**—**		2,183
Long-term portion included in "provisions and other liabilities"		**233,326**		220,969

(1) Additions for 2018 reflects an adjustment to the decommissioning liabilities at Nordsee One of €1.5 million (CAD $2.4 million) as a result of a change in estimate.

12.2 Other Liabilities

As at December 31, 2018, provisions and other liabilities on the consolidated balance sheets included $78.1 million payable by Nordsee One to the third-party partner in the wind farm under a shareholder loan arrangement (2017 - $84.7 million). Per the shareholder loan arrangement, interest accrued at a rate of 11% throughout 2018. Repayments are made based on the partner's share of distributable funds from operations.

13. Equity

13.1 Common Shares and Class A Shares

Northland is authorized to issue an unlimited number of Shares.

The terms and conditions of Northland's Class A Shares are defined in Northland's articles of incorporation. The Class A Shares are convertible into Shares on a one-for-one basis.

The change in Shares and Class A Shares during 2018 and 2017 was as follows:

	December 31, 2018			December 31, 2017		
	Shares		Amount	Shares		Amount
Shares outstanding, beginning of year	**174,440,081**	**$**	**2,321,277**	171,973,308	$	2,266,901
Conversion of debentures	**2,527,626**		**54,597**	56,848		1,228
Shares issued under the LTIP	**23,467**		**583**	22,284		519
Shares issued under the DRIP	**2,210,569**		**47,611**	2,387,641		53,716
Change in deferred taxes	**—**		**(647)**	—		(1,087)
Shares outstanding, end of year	**179,201,743**	**$**	**2,423,421**	174,440,081	$	2,321,277
Class A shares	**1,000,000**		**14,615**	1,000,000		14,615
Total common and convertible shares outstanding, end of year	**180,201,743**	**$**	**2,438,036**	175,440,081	$	2,335,892

Dividend Re-Investment Plan

The DRIP provides shareholders and the Class A shareholder the right to reinvest their dividends in Shares up to a 5% discount to the market price as defined in the DRIP. Shares issued under the DRIP can be sourced from treasury or purchased on the market at the election of Northland's Board of Directors. In November 2018, Northland reduced the discount under its DRIP from 5% to 0% and announced that Shares would be sourced through market purchases. Following this change, the issue price for the reinvested Shares on each dividend payment date is the price paid to purchase the Shares in the market. Northland's Board of Directors has the discretion to alter the discount or source of Shares issued under the DRIP.

Share-based compensation

Northland's LTIP provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries. As at December 31, 2018, 1.2 million Shares remain available for future issuance under the LTIP. Shares may be awarded based on development profits, which arise from new projects or acquisitions ("**Development LTIP**"). The number of Shares awarded at each milestone is determined using the amount of expected development profits at that milestone date. As a result, the amount of Development LTIP costs recognized depends on the estimated number of Shares to be issued at each milestone date, which in turn is based on management's best estimate of a project's expected development profit. Changes in estimates related to the number of Shares to be issued, forfeiture rates and vesting dates and changes in fair value up to the grant date are recognized in the period of the change. Awards under the LTIP may be settled in Shares or in cash, at the discretion of Northland's Board of Directors.

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

For the year ended December 31, 2018, Northland capitalized $0.4 million (2017 - $7.5 million) and expensed $1.0 million (2017 - $1.3 million) of costs under the LTIP. No forfeitures are assumed to occur. The balance of accrued awards related to the Development LTIP is shown in liabilities because these awards are expected to be settled in cash.

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

13.2 Preferred Shares

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

Series 1 and 2 Preferred Shares

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

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

The Series 2 Preferred Shares carry the same features as the Series 1 Preferred Shares, except that holders are entitled to receive quarterly floating-rate cumulative dividends, as and when declared by the Board of Directors, at an annual rate equal to the then three-month Government of Canada treasury bill yield plus 2.80% (4.31% as of December 31, 2018). The holders of Series 2 Preferred Shares will have the right to convert their shares back into Series 1 Preferred Shares on September 30, 2020, and on September 30 of every fifth year thereafter. As at December 31, 2018, Northland has 1,498,435 Series 2 Preferred Shares outstanding.

As at December 31, 2018 and December 31, 2017, there were 4,501,565 Series 1 Preferred Shares outstanding, representing equity of $107.4 million.

As at December 31, 2018 and December 31, 2017, there were 1,498,435 Series 2 Preferred Shares outstanding, representing equity of $37.5 million.

Series 3 Preferred Shares

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

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

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

As at December 31, 2018 and December 31, 2017, there were 4,800,000 Series 3 Preferred Shares outstanding, representing equity of $116.0 million.

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

Year ended December 31,		2018		2017
Series 1	$	**3,954**	$	3,954
Series 2		**1,504**		1,261
Series 3		**6,096**		6,000
Total	$	**11,554**	$	11,215

13.3 Dividends

Dividends declared per Share and in aggregate were as follows:

Year ended December 31,		2018		2017
Dividends declared per Share	$	**1.20**	$	1.09
Aggregate dividends declared				
Dividends in cash	$	**167,700**	$	136,175
Dividends in Shares		**44,653**		53,806
Total	$	**212,353**	$	189,981

14. Non-Controlling Interests

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

Summarized financial information on the non-controlling interests in the consolidated balance sheets is as follows:

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

(1) As at December 31, 2018, restricted cash of $243.0 million (December 2017 - $263.5 million) is included for Gemini and Nordsee One where the availability of funds is intended for debt repayments and final construction costs.

December 31, 2017		Current assets [1]		Long-term assets		Current liabilities		Long-term liabilities
Gemini	$	464,444	$	3,697,708	$	291,754	$	3,197,123
Nordsee One		197,732		1,603,814		203,393		1,125,505
McLean's		6,267		148,249		7,103		137,526
Grand Bend		19,715		345,223		5,035		354,990
Cochrane Solar		23,106		323,867		11,567		184,267
CEEC		47,324		26,091		11,387		11,724
Total	$	758,588	$	6,144,952	$	530,239	$	5,011,135

(1) As at December 31, 2018, restricted cash of $243.0 million (December 2017 - $263.5 million) is included for Gemini and Nordsee One where the availability of funds is intended for debt repayments and final construction costs.

As at December 31, 2018, Northland had an outstanding receivable balance of $38.7 million with Cochrane Solar's First Nations partner (2017 - $46.3 million). This balance appears at a fair value of $25.0 million (2017 - $36.1 million) on the consolidated balance sheets, including $4.2 million classified as "trade and other receivables".

The change in non-controlling interests during 2018 and 2017 is as follows:

		Gemini		**Nordsee One**		**McLean's**		**Grand Bend**		**Cochrane Solar**		**CEEC**		**Total**
As at January 1, 2017	$	174,181	$	23,232	$	10,630	$	16,942	$	54,583	$	161,074	$	440,642
Contribution of non-controlling interests		—		—		206		—		—		—		206
Net income (loss) attributable		83,729		7,734		1,240		6,387		1,708		13,916		114,714
Dividends and distributions declared		(32,704)		—		(4,195)		(15,050)		—		(11,180)		(63,129)
Allocation of other comprehensive income (loss)		16,308		2,259		—		—		1,058		—		19,625
As at December 31, 2017	$	241,514	$	33,225	$	7,881	$	8,279	$	57,349	$	163,810	$	512,058
Net income (loss) attributable		**89,646**		**18,696**		**971**		**5,808**		**1,678**		**10,579**		**127,378**
Dividends and distributions declared		**(100,473)**		**—**		**(2,830)**		**(14,010)**		**(7,725)**		**(5,872)**		**(130,910)**
Allocation of other comprehensive income (loss)		**(12,183)**		**30**		**—**		**—**		**(516)**		**—**		**(12,669)**
Disposal of non-controlling interests		**—**		**—**		**—**		**—**		**—**		**(26,943)**		**(26,943)**
As at December 31, 2018	**$**	**218,504**	**$**	**51,951**	**$**	**6,022**	**$**	**77**	**$**	**50,786**	**$**	**141,574**	**$**	**468,914**

Dividends payable on the consolidated balance sheets includes $0.7 million owed to CEEC at December 31, 2018 (2017 - $0.6 million).

15. Financial Risk Management

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

15.1 Market Risk

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

(i) Interest rate risk

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

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

For the year ended December 31, 2018, if interest rates had been 100 basis points higher or lower with all other variables held constant, income before income taxes from the change in fair value of the interest rate swaps prior to the application of hedge accounting would have been $322.0 million higher or lower. This change would have had no impact on Northland's cash flows.

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

(ii) Credit spread risk

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

(iii) Currency risk

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

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

At December 31, 2018, if the Canadian dollar had been 5% higher or lower against the U.S. dollar with all other variables held constant, income before taxes from the change in fair value of the U.S. dollar foreign exchange contracts prior to the application of hedge accounting would have been $0.2 million higher or lower. If the Canadian dollar had been 5% higher or lower against the euro with all other variables held constant, income before taxes from the change in fair value of the euro foreign exchange contracts prior to the application of hedge accounting would have been $92.7 million lower or higher.

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

(iv) Commodity price risk

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

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

and (iii) entering into fixed price gas supply contracts.

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

Northland has exposure to Dutch electricity market prices under Gemini's PPA when the market price falls below the contractual floor price. For the year ended December 31, 2018, the average wholesale market price exceeded the contractual floor price. Additionally, production in excess of the annual production ceiling under the PPA earns revenue at wholesale market rates.

For the year ended December 31, 2018, if natural gas prices had been $1/gigajoule higher or lower with all other variables held constant, the change in income before income taxes from the change in fair value of the gas forward contracts would have been $8.7 million higher or lower. This change would have had no impact on Northland's cash flows.

For the year ended December 31, 2018, if Ontario power prices had been 5% higher or lower per MWh with all other variables held constant, the change in income before income taxes from the change in fair value of the power forward contracts would have been immaterial.

15.2 Counterparty Risk

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

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

As at December 31, 2018, approximately 80% (2017 - 92%) of Northland's consolidated trade and other receivables, excluding third-party partner loan receivable, were owing from government-related entities.

In 2018, approximately 90% (2017 - 89%) of Northland's consolidated revenue was derived indirectly from the sale of electricity to government-related entities. For electricity and other sales, Northland and its subsidiaries have not provided allowance accounts and have not purchased credit derivatives to mitigate counterparty risk. All significant accounts receivable amounts reported at December 31, 2018 are current.

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

15.3 Liquidity Risk

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

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

As at December 31, 2018, Northland and its subsidiaries were holding cash and cash equivalents of $278.4 million ($62.0 million held corporately) and had available borrowing capacity under corporate credit facilities of $651.2 million.

NORTHLAND POWER

The contractual maturities of Northland's financial liabilities at December 31, 2018 are as follows:

	2019	2020-2021	2022 - 2023	>2023
Derivative contracts				
Euro foreign exchange contracts	$ 163,404	$ 411,099	$ 363,138	$ 1,177,754
Financial natural gas contract	62,224	122,942	6,704	—
U.S. dollar foreign exchange contracts	7,214	2,114	—	—
Power financial contracts	7,154	754	—	—
Loans and borrowings				
Interest-bearing loans and borrowings - principal	434,416	1,224,520	1,301,568	5,139,922
Interest-bearing loans and borrowings - interest, including interest rate swaps	264,833	558,629	476,661	937,307
Corporate credit facilities, including interest	3,753	9,174	325,708	—
Convertible debentures, including interest	7,407	159,631	—	—
Total	**$ 950,405**	**$ 2,488,863**	**$ 2,473,779**	**$ 7,254,983**

Northland is also subject to internal liquidity risk because it conducts its business activities through separate legal entities (subsidiaries and affiliates) and is dependent on cash distributions from those entities to defray corporate expenses and pay dividends. Most operating subsidiaries hold non-recourse debt. Such non-recourse financing agreements typically prohibit distributions if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark debt service coverage ratio, which is the ratio of Adjusted EBITDA to scheduled loan principal and interest payments over a specified time period. For the year ended December 31, 2018, 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.

16. Financial Instruments

16.1 Fair Value Measurement

The carrying values of Northland's financial instruments as at December 31, 2018 and 2017 are as follows:

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

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets at amortized cost (1)	$ 688,182	$ 685,019	$ —	$ 1,373,201
Financial assets at fair value through profit and loss (2)	—	61,012	—	61,012
Financial liabilities at fair value through profit and loss (2)	—	510,411	—	510,411
Financial liabilities at amortized cost (3)	228,963	7,613,159	—	7,842,122

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

(2) Includes derivative financial instruments as at December 31, 2018 and December 31, 2017. Includes financial assets at fair value through profit and loss consisting of a $25.0 million third-party partner loan as at December 31, 2018 ($36.1 million as at December 31, 2017). See Note 14 for details.

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

The estimated fair value of other financial liabilities as at December 31, 2018 is $7.6 billion (2017 - $7.8 billion).

NORTHLAND POWER

During the year ended December 31, 2018, a fair value loss of $3.6 million (2017 - $10.3 million) was recorded in relation to non-derivative financial assets at fair value through profit and loss which appears in “other (income) expense“ on the consolidated statements of income (loss).

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

For the year ended December 31	2018	2017
Income (expense) on financial assets at amortized cost	$ 16,605	$ 16,770
Expense (income) on financial liabilities at amortized cost	336,492	333,132
Expense (income) on net financial liabilities at fair value through profit and loss	(84,035)	(40,539)

16.2 Derivative Financial Instruments

The derivative financial instruments consist of the following:

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

As at December 31, 2017	Current assets	Current liabilities	Long-term assets	Long-term liabilities	Total
Derivatives designated for hedge accounting					
Canadian dollar interest rate swaps	$ 52	$ (9,043)	$ 454	$ (38,714)	$ (47,251)
U.S. dollar foreign exchange contracts	895	—	1,217	—	2,112
Euro interest rate swaps	—	(84,678)	—	(197,234)	(281,912)
Euro foreign exchange contracts	6,120	(623)	1,769	(85,054)	(77,788)
Derivatives not designated for hedge accounting					
Canadian dollar interest rate swaps	1	(23,357)	4	—	(23,352)
Euro foreign exchange contracts	5,611	(1,319)	8,563	(25,924)	(13,069)
Gas forward contracts	—	(10,702)	237	(33,763)	(44,228)
Total	$ 12,679	$ (129,722)	$ 12,244	$ (380,689)	$ (485,488)

NORTHLAND POWER

The change in derivative financial instruments for the year ended December 31, 2018 and 2017 is as follows:

		Designated in hedge relationships					
	Balance as at Dec. 31, 2017 asset (liability)	**Changes in fair value recognized in OCI (1)**	**Cash and accrued payments / (receipts) (2)**	**Unrealized fair value changes (2)**	**Fair value changes on derivatives not designated in hedge relationships (2)**	**Foreign exchange gain (loss)**	**Balance as at Dec. 31, 2018 asset (liability)**
Canadian dollar interest rate swaps	$ (70,603)	**$ (4,452)**	**$ 10,267**	**$ 1,488**	**$ 1,787**	**$ —**	**$ (61,513)**
Euro interest rate swaps	(281,912)	**(85,363)**	**79,426**	**(11,393)**	**—**	**(11,090)**	**$ (310,332)**
Gas forward contracts	(44,228)	**—**	**—**	**—**	**2,554**	**—**	**$ (41,674)**
Power forward contracts	—	**1,282**	**—**	**—**	**—**		**$ 1,282**
U.S. dollar foreign exchange contracts	2,112	**856**	**(1,207)**	**63**	**—**	**—**	**$ 1,824**
Euro foreign exchange contracts	(90,857)	**(40,663)**	**(3,543)**	**23,599**	**(15,280)**	**—**	**$ (126,744)**
Total	**$ (485,488)**	**$ (128,340)**	**$ 84,943**	**$ 13,757**	**$ (10,939)**	**$ (11,090)**	**$ 309,274**

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

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

		Designated in hedge relationships					
	Balance as at Dec. 31, 2016 asset (liability)	**Changes in fair value recognized in OCI (1)**	**Cash and accrued payments / (receipts) (2)**	**Unrealized fair value changes (2)**	**Fair value changes on derivatives not designated in hedge relationships (2)**	**Foreign exchange gain (loss)**	**Balance as at Dec. 31, 2017 asset (liability)**
Canadian dollar interest rate swaps	$ (100,163)	$ 8,044	$ 14,816	$ 967	$ 5,733	$ —	$ (70,603)
Euro interest rate swaps	(323,239)	(9,047)	77,220	(7,400)	—	(19,446)	$ (281,912)
Gas forward contracts	(28,741)	—	—	—	(15,487)	—	$ (44,228)
U.S. dollar foreign exchange contracts	5,796	319	(1,798)	(1,917)	(288)	—	$ 2,112
Euro foreign exchange contracts	4,085	(73,892)	—	26,196	(47,246)	—	$ (90,857)
Total	$ (442,262)	$ (74,576)	$ 90,238	$ 17,846	$ (57,288)	$ (19,446)	$ (485,488)

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

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

The objective of Northland's hedges is to reduce volatility in its cash flow related to changes in foreign exchange, interest rates and market prices for gas and power. The nature of the risks that Northland is exposed to and the related hedge objectives did not change in the year ended December 31, 2018.

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

(a) Foreign exchange risk

Foreign exchange forward contracts		December 31, 2018		December 31, 2017
Carrying amount (asset/(liability))	**$**	**(110,551)**	$	(75,677)
Notional amount - EUR		**958,798**		923,967
Notional amount - USD		**5,550**		9,450
Maturity date		**January 2019 – August 2032**		February 2018 – August 2032
Hedge ratio (1)		**1:1**		1:1
Change in discounted spot value of outstanding hedging instruments since January 1	**$**	**(21,161)**	$	(20,616)
Change in value of hedged item used to determine hedge effectiveness	**$**	**(66,643)**	$	21,276
Weighted average hedged rate for the year (including forward points):				
USD foreign exchange forward contracts		**US$0.981:CAD$1**		US$0.981:CAD$1
EUR foreign exchange forward contracts		**€0.610:CAD$1**		€0.608:CAD$1

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

Foreign exchange hedge reserve		Euro contracts			U.S. dollar contracts		Total foreign exchange hedge reserve in AOCI
		Cost of hedging		Forward component	Forward component		
Opening balance as at January 1, 2018	$	(26,209)	$	(47,683)	$ 319	$	(73,573)
Add: Costs of hedging deferred during the year in OCI		25,875		—	—		25,875
Add: Change in fair value of hedging instrument recognized in OCI for the year (effective portion)(1)		—		(40,053)	856		(39,197)
Less: Re-classified to profit and loss		(26,485)		—	—		(26,485)
Closing balance as at December 31, 2018	**$**	**(26,819)**	**$**	**(87,736)**	**$ 1,175**	**$**	**(113,380)**

(1) The deferred tax applicable to the foreign exchange hedge reserve is a $10.0 million recovery, which has been recognized in OCI.

The hedge ineffectiveness recognized in "fair value (gain) loss on derivative contracts" in the consolidated statements of income (loss) related to foreign currency contracts (cash flow and net investment hedges) for the year ended December 31, 2018 was $1.6 million.

(b) Interest rate risk

Interest rate swaps		December 31, 2018		December 31, 2017
Carrying amount (asset/(liability))	**$**	**(350,279)**	$	(329,162)
Notional amount - CAD		**443,426**		652,995
Notional amount - EUR		**2,991,603**		2,907,354
Maturity date		**January 2019 – June 2033**		January 2018 – June 2033
Hedge ratio (1)		**1:1**		1:1
Change in fair value of outstanding hedging instruments since January 1	**$**	**(90,658)**	$	(1,003)
Change in value of hedged item used to determine hedge effectiveness	**$**	**81,901**	$	(8,328)

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

Interest rate hedge reserve		Canadian interest rate swaps		Euro interest rate swaps		Total interest rate hedge reserve
Opening balance as at January 1, 2018	$	8,044	$	(9,047)	$	(1,003)
Add: Change in fair value of hedging instrument recognized in OCI for the year (effective portion)(1)		(4,532)		(84,182)		(88,714)
Less: Re-classified to profit and loss		80		(1,180)		(1,100)
Closing balance as at December 31, 2018	**$**	**3,592**	**$**	**(94,409)**	**$**	**(90,817)**

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

The hedge ineffectiveness recognized in "fair value (gain) loss on derivative contracts" in the consolidated statements of income (loss) related to interest rate contracts (cash flow hedges) for the year ended December 31, 2018 was $1.8 million.

(c) Electricity price risk

Power forward contracts (1)		December 31, 2018
Carrying amount (asset/(liability))	$	**1,282**
Notional amount - CAD		**7,908**
Maturity date		**January-December 2019**
Hedge ratio (2)		**1:1**
Change in fair value of outstanding hedging instruments since 1 January	$	**1,282**
Change in value of hedged item used to determine hedge effectiveness	$	**(1,626)**

(1) The power forward contracts were entered into in 2018; therefore, prior year comparable information is not available.

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

Power forward hedge reserve		Power forward contract
Opening balance as at January 1, 2018	$	—
Add: Change in fair value of hedging instrument recognized in OCI for the year (effective portion)(1)		**1,282**
Less: Re-classified to profit and loss		—
Closing balance as at December 31, 2018	**$**	**1,282**

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

(d) Hedge ineffectiveness

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

Fair value of hedged items (hypothetical derivatives)		December 31, 2018		December 31, 2017
Cash flow hedge – interest rate risk	**$**	**90,229**	$	8,328
Cash flow hedge – electricity price risk		**(1,626)**		—
Cash flow hedge – foreign currency risk		**1,174**		153
Net investment hedge – foreign currency risk		**(87,736)**		(20,071)

17. Net Income (Loss) per Share

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

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

	Year ended December 31,	
	2018	**2017**
Net income (loss) for the year attributable to common shareholders	**$ 278,130**	$ 161,122
Less: preferred share dividends, net	**(11,554)**	(11,215)
Net income (loss) attributable to common shareholders for basic earnings	**$ 266,576**	$ 149,907
Add back: convertible unsecured subordinated debentures interest and amortization (1)	**9,909**	—
Net income (loss) attributable to common shareholders for diluted earnings	**$ 276,485**	$ 149,907

(1) The effect of convertible unsecured subordinated debentures was anti-dilutive for the year ended December 31, 2017. The increase in net income from adding back interest and amortization more than offsets the earnings per share impact of conversion of the outstanding debentures.

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

	Year ended December 31,	
	2018	**2017**
Weighted average number of Shares outstanding	**176,757,190**	174,382,516
Weighted average number of Class A shares	**1,000,000**	1,000,000
Weighted average number of Shares outstanding, basic	**177,757,190**	175,382,516
Effect of dilutive securities:		
Convertible unsecured subordinated debentures (1)	**11,835,891**	—
Weighted average number of Shares outstanding, diluted	**189,593,081**	175,382,516

(1) The effect of convertible unsecured subordinated debentures was anti-dilutive for the year ended December 31, 2017. The increase in net income from adding back interest and amortization more than offsets the earnings per share impact of conversion of the outstanding debentures.

18. Finance Costs

Net finance costs consist of the following:

	Year ended December 31,	
	2018	**2017**
Interest on debt, borrowings and bank fees	**$ 310,639**	$ 319,338
Amortization of deferred financing costs	**25,853**	13,794
Discount on provisions for decommissioning liability [Note 12.1]	**4,403**	3,748
Finance income	**(3,461)**	(3,411)
Finance costs, net	**$ 337,434**	$ 333,469

For the year ended December 31, 2018, $25.4 million (2017 - $26.5 million) in interest was incurred related to facilities under construction, which was capitalized and included in construction-in-progress.

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

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

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

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

The rates are as follows:

Pre-tax discount rates	
Applicable to PPA cash flows:	
October 1, 2018	5.9%
October 1, 2017	6.2%
Applicable to post-PPA cash flows:	
October 1, 2018	7.9%
October 1, 2017	8.2%

During the fourth quarter of 2018, Northland completed its annual comprehensive impairment assessment based on value-in-use estimates derived from the long-range forecasts and market values observed in the marketplace. Northland did not identify any impairments or reversals of prior impairments as a result of this review.

20. Deferred Income Taxes

20.1 Tax Expense and Temporary Difference

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

Year ended December 31,		**2018**		**2017**
Current taxes				
Based on taxable income of current year	**$**	**36,297**	$	11,643
Tax on dividend payments		**4,622**		4,486
Total current taxation expense	**$**	**40,919**	$	16,129
Deferred taxes				
Deferred tax on origination and reversal of temporary differences	**$**	**36,705**	$	29,399
Deferred tax due to changes in tax rates		**6,945**		—
Prior-year (under) over provision		**(948)**		317
Total deferred tax expense (recovery)	**$**	**42,702**	$	29,716
Total income tax expense (recovery)	**$**	**83,621**	$	45,845

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

Year ended December 31,	2018	2017
Deferred taxes related to origination and reversal of temporary differences related to financing fees	**$ 647**	$ 1,087
Deferred taxes related to change in fair value of hedged derivative contracts	**(28,390)**	(19,670)
Deferred taxes related to change in translation of net investment in foreign operations	**1,304**	(2,445)
Total income tax expense (recovery) in equity	**$ (26,439)**	$ (21,028)

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

Year ended December 31,	2018	2017
Combined basic Canadian federal and provincial income tax rate	**26.5%**	26.5%
Income (loss) before income taxes	**$ 489,129**	$ 321,681
Income tax expense (recovery) based on statutory rate	**129,619**	85,245
Adjustment for non-deductible (taxable) expenses and incentives	**(33,101)**	(25,293)
Deferred tax expense (recovery) relating to changes in tax rates or change in legal structure	**6,945**	—
Rate difference related to temporary differences in foreign jurisdictions	**(694)**	(723)
Manufacturing and processing rate reduction (cost)	**(2,277)**	(114)
Tax expense associated with payment of preferred share dividends	**4,622**	4,486
Minority interest	**(20,462)**	(20,363)
Other	**(1,031)**	2,607
Total income tax expense (recovery)	**$ 83,621**	$ 45,845

Northland, although resident in Canada, operates in a number of foreign jurisdictions. The enacted blended tax rates relevant to the computation of tax expense (recovery) are: Canada - 26.5% (2017 - 26.5%), Germany - 30.8% (2017 - 30.3%), the Netherlands - 25.0% (2017 - 25.0%) and Luxembourg - 26.0% (2017 - 27.1%). For Canada, the tax rate is computed using the average tax rate based on provincial allocations. In December 2018, the Dutch government enacted a tax plan to gradually reduce corporate tax rates to 22.6% in 2020 and 20.5% in 2021 onwards.

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

As at December 31,	2018	2017
Deductible temporary differences		
Losses available for carryforward	**$ 47,880**	**$ 17,920**
Derivative financial instruments	**105,482**	**97,292**
Canadian renewable conservation expense	**21,158**	**21,096**
Financing fees	**18,162**	**25,048**
Tax credits	**3,177**	**2,658**
Other	**7,014**	**2,781**
	$ 202,873	$ 166,795
Taxable temporary differences		
Contracts	**$ 150,309**	$ 154,019
Fair value debt increments	**18,293**	20,797
Property, plant and equipment	**213,820**	155,349
	$ 382,422	$ 330,165

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

As at December 31,	2018	2017
Opening balance, net deferred tax liability	**$ 163,370**	$ 52,610
Tax liability recognized in business combination	**(105)**	103,966
Tax expense (recovery) recognized in income statement	**42,702**	29,716
Tax expense (recovery) on change in fair value of hedged derivative contracts in OCI	**(28,390)**	(19,670)
Tax expense (recovery) on change in translation of net investment in foreign operations in OCI	**1,304**	(2,445)
Tax expense (recovery) recognized in equity	**647**	1,087
Other	**21**	(1,894)
Ending net, deferred tax liability	**$ 179,549**	$ 163,370

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

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

Year ended December 31,	2018	2017
Non-capital losses carried forward	**$ 5,384**	$ 3,344
Net capital loss	**8,448**	7,390
Outside basis difference on shares of foreign affiliate	**5,184**	5,184
Total deductible temporary differences	**$ 19,016**	$ 15,918

Northland has operating losses available for carry forward in Canada, the Netherlands and Germany of $131.5 million, $50.4 million and $9.4 million, respectively, which expire beginning in 2023.

The operating losses are expected to expire as follows:

	Canada	Germany	Netherlands
2023 – 2027	$ —	$ 1,598	$ 50,430
2028 – 2032	856	7,799	—
2033 – 2037	8,668	—	—
2038 – 2042	121,945	—	—
Total	**$ 131,469**	**$ 9,397**	**$ 50,430**

20.2 Temporary Differences Associated with Northland Investments

The taxable temporary difference associated with investments in Northland's subsidiaries is $57.0 million (2017 - $51.0 million). A deferred tax liability associated with these investments has not been recognized because Northland controls the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

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

21. Operating Segment Information

Northland identified the following operating segments: (i) offshore wind, which includes Gemini, Nordsee One and Deutsche Bucht; (ii) thermal; (iii) on-shore renewables, and (iv) other, which includes investment income and the administration of Northland. The operating segments have been identified based upon the nature of operations and technology used in the generation of electricity. Kirkland Lake and Cochrane are included in the thermal segment, reflecting the primary technology used in these operations. Northland analyzes the performance of its operating segments based on their operating income, which is defined as revenue less operating expenses.

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

Year ended December 31, 2018	**External revenue**	**Inter-segment revenue**	**Total revenue**	**Depreciation of property, plant and equipment**	**Finance costs, net**	**Operating income (loss)**
Offshore wind	**$ 931,056**	**$ —**	**$ 931,056**	**$ 272,564**	**$ 195,307**	**$ 505,353**
Thermal	**405,956**	**—**	**405,956**	**49,732**	**58,587**	**204,547**
On-shore renewables	**214,266**	**—**	**214,266**	**90,827**	**58,399**	**91,003**
Other	**4,309**	**95,209**	**99,518**	**2,038**	**25,141**	**(68,055)**
Eliminations	**—**	**(95,209)**	**(95,209)**	**—**	**—**	**—**
Total	**$ 1,555,587**	**$ —**	**$ 1,555,587**	**$ 415,161**	**$ 337,434**	**$ 732,848**

Year ended December 31, 2017	**External revenue**	**Inter-segment revenue**	**Total revenue**	**Depreciation of property, plant and equipment**	**Finance costs, net**	**Operating income (loss)**
Offshore wind	$ 714,589	$ —	$ 714,589	$ 217,870	$ 182,257	$ 392,855
Thermal	450,102	377	450,479	49,701	60,928	220,930
On-shore renewables	211,565	—	211,565	91,930	63,423	88,614
Other	—	24,675	24,675	1,864	26,861	(70,273)
Eliminations	—	(25,052)	(25,052)	—	—	—
Total	$ 1,376,256	$ —	$ 1,376,256	$ 361,365	$ 333,469	$ 632,126

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

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

As at December 31, 2017	**Property, plant and equipment, net**	**Contracts and other intangibles, net**	**Goodwill**	**Equity-accounted investment**	**Total assets**
Offshore wind	$ 5,575,776	$ 514,049	$ —	$ —	$ 7,126,771
Thermal	998,048	69,938	150,201	—	1,574,239
On-shore renewables	1,347,293	2	54,741	—	1,502,467
Other	10,993	—	—	3,935	77,040
Total	$ 7,932,110	$ 583,989	$ 204,942	$ 3,935	$ 10,280,517

Information on operations by geographic area is as follows:

Sales

Year ended December 31,		**2018**		**2017**
Europe	**$**	**931,056**	$	717,122
Canada		**624,531**		659,134
Total	**$**	**1,555,587**	$	1,376,256

Property, plant and equipment, net

As at December 31		**2018**		**2017**
Europe	**$**	**5,883,408**	$	5,575,776
Canada		**2,222,437**		2,356,334
Total	**$**	**8,105,845**	$	7,932,110

22. Related-party Disclosures

22.1 Compensation of Key Management Personnel

Remuneration of key management personnel, consisting of the Board of Directors and members of executive management, expensed in the year ended December 31, 2018 is outlined in the table below. In 2018, Northland granted a total of 23,467 Shares to key management personnel. Share-based compensation is tied directly to executive seniority and the success of the development and construction of certain projects.

Year Ended December 31,		**2018**		**2017**
Salaries and short-term employee benefits	**$**	**6,463**	$	6,523
Share-based compensation (non-cash compensation expense)		**583**		519
Share-based compensation cash component		**2,477**		3,758
Total	**$**	**9,523**	$	10,800

22.2 Transactions with Shareholders

There were no material transactions during the year with shareholders of Northland.

22.3 Entity with Significant Influence Over Northland

As of December 31, 2018, James C. Temerty, Chair of Northland Power Inc., owns or has control or direction over 57,625,884 Shares (representing 32% of the outstanding Shares) (2017 - 56,698,622 Shares) and 1,000,000 Class A Shares (representing 100% of the Class A Shares). If all of the Class A Shares were converted into Shares, Mr. Temerty would beneficially own or have control or direction over 33% of the then outstanding Shares.

23. Litigation, Claims, Contingencies and Commitments

Litigation, claims and other contingencies arise from time to time in the ordinary course of business for Northland. None of these contingencies, individually or in aggregate, are expected to result in a liability that would have a material adverse effect on Northland.

23.1 Gemini Contingent Consideration

In connection with the acquisition of Gemini, Northland paid and expensed the contingent consideration of €10.4 million ($14.6 million) in 2017, which appears under "Other (income) expense" in the consolidated statements of income (loss).

23.2 Insurance Proceeds

During 2018, Northland received insurance proceeds related to construction, which appear in "other (income) expense" in the consolidated statements of income (loss).

23.3 Commitments

The following is a summary of the material commitments that Northland and its subsidiaries have entered into as at December 31, 2018, in addition to the commitments outlined in the above notes.

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

Certain Northland gas-fired facilities have entered into agreements for the purchase of natural gas for various terms. These agreements were entered into in the normal course of business to purchase natural gas for energy on terms that would protect the profitability of sales under the revenue contracts. Certain contracts include penalties for failure to purchase a minimum annual volume of natural gas based on the marketer's premium and the deficiency in volume purchased during the year.

Certain Northland gas-fired facilities have entered into agreements for natural gas transportation that incorporate standard industry terms, including the approval of tariffs by applicable regulatory authorities. The natural gas transportation agreements include substantial demand charges, which are incurred whether or not gas is shipped.

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

In the course of normal operations, Northland provides parental guarantees to subsidiaries. As at December 31, 2018, outstanding parental guarantees issued related to the purchase and re-marketing of natural gas and natural gas transportation.

23.4 Capital Commitments

In the normal course of operations, as at December 31, 2018, Northland has committed to future spending of approximately $804.2 million on capital projects, primarily relating to the construction of Deutsche Bucht.

Corporate Information

DIRECTORS AND EXECUTIVE OFFICERS OF NORTHLAND POWER INC.

DIRECTORS

Mr. James C. Temerty (Chair)
The Right Honourable John N. Turner
Ms. Linda L. Bertoldi
Dr. Marie Bountrogianni
Mr. John W. Brace
Mr. Barry Gilmour
Mr. Russell Goodman

EXECUTIVE OFFICERS

Mr. Mike Crawley
President and Chief Executive Officer

Mr. Paul J. Bradley
Chief Financial Officer

Mr. Troy Patton
Chief Operations Officer

Mr. Morten Melin
Executive Vice President, Construction

Mr. Michael D. Shadbolt
Vice President and General Counsel

Ms. Linda L. Bertoldi
Secretary

GENERAL INFORMATION

REGISTRAR AND TRANSFER AGENT

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

COMMON SHARES, DEBENTURES AND PREFERRED SHARES

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

DIVIDEND REINVESTMENT PLAN (DRIP)

The DRIP provides common shareholders and the Class A shareholder the opportunity to elect to reinvest their dividends in common shares of Northland.

TAX CONSIDERATIONS

Northland's common shares, preferred shares and convertible unsecured subordinated debentures are qualified investments for RRSPs and DPSPs under the Income Tax Act (Canada).

CONTACT INFORMATION

INVESTOR RELATIONS

Mr. Wassem Khalil
Senior Director,
Investor Relations and Strategy
647-288-1019

NORTHLAND POWER

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Our Vision:

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

NORTHLAND POWER

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