# Management's Discussion and Analysis

## of Northland Power's Financial Position and Operating Results

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# SECTION 1: OVERVIEW

## *Introduction*

The purpose of this Management's Discussion and Analysis ("**MD&A**") is to explain the financial results of Northland Power Inc. ("**Northland**" or the "**Company**") 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 the Company. This MD&A should be read in conjunction with Northland's audited consolidated financial statements for the year ended December 31, 2021, and 2020, and Northland's most recent Annual Information Form ("2021 **AIF**"). This material is available on SEDAR at www.sedar.com and on Northland's website at www.northlandpower.com.

This MD&A, dated February 24, 2022, compares Northland's financial results and financial position for the year ended December 31, 2021, with those for the year ended December 31, 2020. 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 24, 2022; actual results may differ materially. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans. Readers are cautioned that such statements may not be appropriate for other purposes. Northland's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, the events anticipated by the forward-looking statements may or may not transpire or occur. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects," "anticipates," "plans," "predicts," "believes," "estimates," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions or future or conditional verbs such as "may," "will," "should," "would" and "could." These statements may include, without limitation, statements regarding future Adjusted EBITDA, Free Cash Flow and Adjusted Free Cash Flow, respective per share amounts, dividend payments and dividend payout ratios, guidance, the timing for the completion of construction, attainment of commercial operations, the potential for future production from project pipelines, 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 the outlook of Northland and its subsidiaries. These statements are based upon certain material factors or assumptions that were applied in developing the forward-looking statements, including the design specifications of development projects, the provisions of contracts to which Northland or a subsidiary is a party, management's current plans and its perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Although these forward-looking statements are based upon management's current reasonable expectations and assumptions, they are subject to numerous risks and uncertainties. Some of the factors include, but are not limited to, risks associated with sales contracts, impact of COVID-19 pandemic, Northland's reliance on the performance of its offshore wind facilities at Gemini, Nordsee One and Deutsche Bucht for approximately 50% of its Adjusted EBITDA and Free Cash Flow, counterparty risks, contractual operating performance, variability of sales from generating facilities powered by intermittent renewable resources, offshore wind concentration, natural gas and power market risks, operational risks, recovery of utility operating costs, Northland's ability to resolve issues/delays with the relevant regulatory and/or government authorities, permitting, construction risks, project development risks, acquisition risks, financing risks, interest rate and refinancing risks, liquidity risk, credit rating risk, currency fluctuation risk, variability of cash flow and potential impact on dividends, taxation, natural events, environmental risks, health and worker safety risks, market compliance risk, government regulations and policy risks, utility rate regulation risks, international activities, reliance on information technology, labour relations, reputational risk, insurance risk, risks relating to co-ownership, bribery and corruption risk, legal contingencies, and the other factors described in this MD&A and the 2021 AIF. Northland's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur. The forward-looking statements contained in this MD&A are based on assumptions that were considered reasonable as of the date hereof. 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 includes references to the Company's adjusted earnings before interest, income taxes, depreciation and amortization ("**Adjusted EBITDA**"), Free Cash Flow, Adjusted Free Cash Flow and applicable payout ratios 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. Non-IFRS financial measures are presented as at Northland's share of underlying operations. These measures should not be considered alternatives to net income (loss), cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. Rather, these measures are provided to complement IFRS measures in the analysis of Northland's results of operations from management's perspective. Management believes that Northland's non-IFRS financial measures and applicable payout ratio and per share amounts are widely accepted and understood 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 financial measures to their nearest IFRS measure, refer to *Section 5.5: Adjusted EBITDA* for a reconciliation of consolidated net income (loss) under IFRS to reported Adjusted EBITDA and *Section 5.6: Free Cash Flow and Adjusted Free Cash Flow* for a reconciliation of cash provided by operating activities under IFRS to reported Free Cash Flow and Adjusted Free Cash Flow.

### *Adjusted EBITDA*

Adjusted EBITDA represents core operating performance of the business excluding leverage, income tax and non-core accounting items. Adjusted EBITDA is calculated as Northland's share of net income (loss) adjusted for the provision for (recovery of) income taxes; depreciation of property, plant and equipment; amortization of contracts and other intangible assets; net finance costs; interest income from Gemini; fair value (gain) loss on derivative contracts; unrealized foreign exchange (gain) loss; (gain) loss on sale of development assets; equity accounting; costs attributable to an asset or business acquisition and other adjustments as appropriate, such as management and incentive fees earned by Northland from non-wholly owned assets. For clarity, Northland's Adjusted EBITDA reflects a reduction for its share of general and administrative costs during development and construction that do not qualify for capitalization.

Management believes Adjusted EBITDA is a meaningful measure of Northland's operating performance because it excludes certain items included in the calculation of net income (loss) that may not be appropriate determinants of long-term operating performance.

### *Free Cash Flow*

Free Cash Flow represents the cash generated from the business that management believes is representative of cash available to pay dividends, while preserving the long-term value of the business. Free Cash Flow is calculated as Northland's share of cash provided by operating activities adjusted for short-term changes in operating working capital; non-expansionary capital expenditures; interest incurred on outstanding debt; scheduled principal repayments and upfinancings; major maintenance and debt reserves; interest income from Northland's subordinated loan to Gemini; proceeds from government grants; preferred share dividends; net proceeds from sale of development assets and where net proceeds are received in respect of certain transactions entered in to generate cash flow as part of an active asset management strategy of the overall portfolio; and other adjustments as appropriate. Free Cash Flow excludes pre-completion sales required to service debt and related operating costs for projects under construction and excludes costs attributable to an asset or business acquisition.

For clarity, Northland's Free Cash Flow reflects a reduction for expenditures on development activities until an advanced project qualifies for capitalization under IFRS. Free Cash Flow for EBSA includes proceeds from ongoing planned debt upsizing in excess of expansionary capital expenditures. Where Northland controls the distribution policy of its investments, Free Cash Flow reflects Northland's share of the investment's underlying Free Cash Flow, otherwise, Northland includes the cash distributions received from the investment. Free Cash Flow from foreign operations is translated to Canadian dollars at the exchange rate Northland realizes on cash distributions.

Management believes Free Cash Flow is a meaningful measure of Northland's ability to generate cash flow, after on-going obligations, to fund dividend payments.

### *Adjusted Free Cash Flow*

Adjusted Free Cash Flow is calculated by excluding growth-related expenditures from Free Cash Flow. Management believes this measure provides a relevant presentation of cash flow generated from the business before investment-related decisions (refer to *Section 5.3: Growth Expenditures* for additional information). Management believes Adjusted Free Cash Flow is a meaningful measure of Northland's ability to generate cash flow, after on-going obligations, to reinvest in growth and fund dividend payments.

The Free Cash Flow and Adjusted Free Cash Flow payout ratios, calculated using the respective financial measure, demonstrate the proportion of the respective measure paid as dividends, whether in cash, or in shares under Northland's dividend reinvestment plan (**DRIP**). The net payout ratios indicate the proportion of Free Cash Flow paid as cash dividends. The payout ratios generally reflect Northland's ability to fund growth-related expenditures and sustain dividends.

## SECTION 2: STRATEGY AND KEY FACTORS SUPPORTING SUSTAINABLE PERFORMANCE AND GROWTH

### *Business Objective*

Northland's objective is to provide its shareholders with a total return comprising dividends and share value growth from the successful management of its assets, businesses and investments related to the production, delivery and sale of energy-related products.

### *Vision*

Northland's vision is to be a top global developer, owner, and operator of sustainable infrastructure assets, with the ambition of helping develop a carbon free world by inspiring its people to achieve a sustainable and prosperous future for all of its stakeholders by embracing and living Northland's values on a daily basis.

### *Business Strategy*

Northland's business strategy is centered on establishing a significant global presence as a sustainable power provider with a primary focus on offshore wind. Northland aims to increase shareholder value by leveraging its expertise and early mover advantage to create and operate high-quality, sustainable projects in key target markets that are supported by long-term sales contracts that deliver predictable cash flows. Northland utilizes its operational knowledge and the application of appropriate technology to optimize the performance of its operating facilities to ensure delivery of essential power to its offtake counterparties.

To successfully execute its strategy, Northland focuses on each of the following strategic objectives:

#### *(i) Winning Business*

The global shift to renewable energy is accelerating as government de-carbonization polices and corporate net-zero targets are expected to drive significant growth in renewable development over the next decade. This creates significant opportunities for renewable energy developers, like Northland, who are seeking to help reduce greenhouse gas emissions to meet de-carbonization targets. Northland is well positioned through its regional development offices to capture development opportunities that should help facilitate the global advancement of renewable energy targets. Northland develops, constructs, and operates sustainable infrastructure projects across a range of clean and green technologies, such as wind (offshore and onshore), solar as well as supplying energy through a regulated utility. Northland is focused on pursuing renewable growth opportunities in jurisdictions that meet its risk management criteria such as North America, Europe, Latin America, and Asia. Northland seeks to 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 that earn recurring income from long-term sales contracts with creditworthy counterparties (i.e. government or corporate offtakers). Northland exercises judgment, discipline and acumen in its construction activities to ensure maximum success. Northland's successful record of 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 sales and predetermined costs through sales contracts with creditworthy counterparties. For renewable power generation facilities, Northland does not incur an associated cost of sales, and generally enters into long-term operating and maintenance (**O&M**) contracts with leading service providers at predetermined rates. For the efficient natural gas generation facilities, the key terms of our operating facilities' long-term power purchase agreements (**PPA**) and fuel supply contracts are aligned such that revenues and cost escalations are substantially linked for each facility. Northland's utility asset operates under a regulatory framework with the vast majority of sales derived from its regulated methodology, which provides it with substantially fixed remuneration and pass-through of major costs to customers. This approach provides largely predictable operating income and cash flow, while ensuring ongoing environmental sustainability and the health and safety of stakeholders.

Northland's management aims to maximize returns through a focus on efficient and effective facility operations; longer-term asset management; and structuring sales supply and maintenance agreements to maximize sales, while carefully managing risk. In addition, Northland applies an active approach to overall portfolio management, which may result in optimizations from asset sales and financing/re-financing opportunities as part of its return objectives and funding strategy.

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: human resources and talent management; construction; environmental management; health and safety; finance and accounting; management information systems, Environmental, Social and Governance (ESG) strategy and reporting, and communications. Our growth ambitions require a robust human capital strategy to ensure we have the necessary competencies and capabilities to delivery on our strategy. Within offshore wind, a key differentiator will be attracting and retaining the best talent to develop, construct, and operate large complex projects. Management is committed to organizational effectiveness as an essential component of Northland's long-term success and continued growth.

# SECTION 3: NORTHLAND'S BUSINESS

As of December 31, 2021, Northland owns or has a net economic interest in 2,817 megawatts (**MW**) of power-producing facilities with a total gross operating capacity of approximately 3,240MW and a regulated utility. Northland's facilities produce electricity from clean energy sources for sale primarily under long-term PPAs or other revenue arrangements with creditworthy counterparties. Northland's utility is a distributor and retailer of electricity compensated under a regulated framework. These operating assets provide stable cash flow and are primarily located in Canada, Germany, the Netherlands, Spain and Colombia. Northland's significant assets under construction and development are located in Mexico, Taiwan, Poland, Germany, Colombia and the United States. Refer to the 2021 AIF for additional information on Northland's key operating facilities as of December 31, 2021, and refer to *SECTION 9: DEVELOPMENT, ACQUISITION AND CONSTRUCTION ACTIVITIES* for additional information on Northland's key development projects.

Northland's MD&A and audited consolidated financial statements include the results of its operating facilities, as summarized in the following table:

| | Geographic region | Gross Production Capacity (MW) | Net Production Capacity (MW) (1) |
|---|---|---|---|
| **Offshore Wind** | The Netherlands/ Germany | 1,184 | 894 |
| **Efficient Natural Gas** | Canada | 973 | 943 |
| **Onshore Renewable** | | | |
| Canadian Wind | Canada | 394 | 314 |
| Canadian Solar | Canada | 130 | 115 |
| Spanish Wind | Spain | 443 | 435 |
| Spanish Solar | Spain | 116 | 116 |
| **Utility** | Colombia | n/a | n/a |
| **Total** | | **3,240** | **2,817** |

(1) Presented at Northland's economic interest.

(2) As at December 31, 2021, Northland's economic interest was unchanged from December 31, 2020, with the exception of the Spanish portfolio (refer to *Section 4.1: Significant Events)*, which Northland acquired on August 11, 2021. The Spanish portfolio's results are consolidated in Northland's financial results as of the acquisition date.

In addition to operational assets, summarized below are Northland's most significant projects under construction and under development as well as other identified projects. The table below excludes the Company's larger pipeline of earlier stage development opportunities which may or may not be secured.

| Project | Geographic Region | Technology | Gross Capacity (MW) | Current ownership | Development Stage | Contract type | Estimated COD |
|---|---|---|---|---|---|---|---|
| **Construction Projects** | | | | | | | |
| Ball Hill | United States | Onshore Wind | 108 | 100% | Under construction | 20-year PPA | 2022 |
| Bluestone | United States | Onshore Wind | 112 | 100% | Under construction | 20-year PPA | 2022 |
| La Lucha | Mexico | Solar | 130 | 100% | Under construction | TBD | 2022 |
| Helios | Colombia | Solar | 16 | 100% | Under construction | 12-year PPA | 2022 |
| **Total** | | | **366** | | | | |
| **Capitalized Growth Projects** | | | | | | | |
| Suba | Colombia | Solar | 130 | 50% | Late-Stage | 15-year PPA | 2023 |
| High Bridge | United States | Onshore Wind | 100 | 100% | Mid/Late-Stage | 20-year PPA | 2023 |
| Hai Long | Taiwan | Offshore Wind | 1,044 | 60% | Late-Stage | 20-year PPA | 2026/2027 |
| Baltic Power | Poland | Offshore Wind | Up to 1,200 | 49% | Mid/Late-Stage | 25-year CfD | 2026 |
| Nordsee Two | Germany | Offshore Wind | 433 | 49% | Mid-Stage | TBD (1) | 2026 |
| **Total** | | | **2,907** | | | | |
| **Identified Growth Projects** | | | | | | | |
| Nordsee Three | Germany | Offshore Wind | 420 | 49% | Mid-Stage | 2027 - 2030+ | |
| Nordsee Delta | Germany | Offshore Wind | 480 | 49% | Mid-Stage | | |
| Chiba | Japan | Offshore Wind | 600 | 50% | Early/Mid-Stage | | |
| Dado Ocean | South Korea | Offshore Wind | Up to 1,000 | 100% | Early/Mid-Stage | | |
| Scotwind | Scotland | Offshore Wind | 2,340 | 100% | Early-Stage | | |
| Hecate | Canada | Offshore Wind | 400 | 100% | Early-Stage | | |
| **Total** | | | **5,240** | | | | |
| **Total Pipeline (2)** | | | **8,513** | | | | |

(1) Nordsee Two has secured interconnection rights for zero subsidy bid, with the intention to secure a long-term corporate power purchase agreement.

(2) Excludes ~5,900MW of other pipeline projects.

# SECTION 4: CONSOLIDATED HIGHLIGHTS

## *4.1: Significant Events*

Significant events during 2021 and through the date of this MD&A are described below. Refer to *SECTION 9: DEVELOPMENT, ACQUISITION AND CONSTRUCTION ACTIVITIES* for additional information on projects and acquisitions.

***COVID-19 and Business Update***

The COVID-19 pandemic ("**COVID-19**") has had significant effects across global economies and sectors, including reduced power demand within the renewable energy sector. Each of Northland's operating facilities are deemed to be essential infrastructure and, as such, operations have continued uninterrupted to date.

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

There have been no material adverse effects on Northland's ability to meet working capital requirements, debt covenants, or continue future growth activities as a result of COVID-19. As such, there are currently no impairment indicators identified for Northland's financial and non-financial assets as a result of COVID-19. As the situation evolves, management will continue to assess if any material changes to the key assumptions for the recoverable amounts of Northland's assets have taken place.

While the vast majority of Northland's sales are contracted under long-term agreements with creditworthy counterparties, there is some, yet limited, exposure to the wholesale market price of electricity at the offshore wind facilities and to unpaid curtailment from negative prices. Refer to *Section 5.1: Operating Results* for additional information. Refer to *SECTION 13: FINANCIAL RISKS AND UNCERTAINTIES* for additional information on risks associated with COVID-19.

The Company continues to have sufficient liquidity available to execute on its growth objectives. As at December 31, 2021, Northland had access to $776 million of cash and liquidity, comprising $748 million of liquidity available under a syndicated revolving facility and $28 million of corporate cash on hand.

### *Balance Sheet and Environmental, Social and Governance Advancements:*

***Renewal and upsizing of EBSA's Credit Facility to $533 million***

In December 2021, Northland restructured and upsized EBSA's long-term, non-recourse financing (the "EBSA Facility"), resulting in $84 million of incremental cash proceeds to Northland, net of closing costs. The aggregate amount of the financing was upsized to $533 million, driven primarily by expected growth in EBSA's EBITDA. The restructured facility is denominated in Canadian dollars and the principal amount is 100% hedged against the Colombian peso.

***Extension of $1 Billion Revolving Corporate Credit Facility and Completion of Sustainability Linked Loan Overlay***

In September 2021, Northland extended its $1 billion revolving corporate credit facility with a syndicate of both Canadian and global financial institutions to 2026 (from 2024) and executed several amendments to increase liquidity available to fund growth. Concurrently, the Company implemented a Sustainability Linked Loan (**SLL**) overlay. The SLL is based on achieving defined targets related to both increasing renewable generating capacity and reducing carbon emissions intensity and is expected to provide Northland with cost savings if the targets are met. The SLL is an important step in integrating Northland's ESG performance with its financing objectives. All margin savings are expected to be used to fund the Company's global sustainability initiatives.

***Nordsee One Component Issue***

As disclosed in early 2021, Northland identified a component defect on several wind turbines at Nordsee One affecting the main rotor shaft assembly (**RSA**) and upon further assessment, management concluded the defect could affect all 54 of the wind turbines, and commenced replacement of the rotor shaft assembly of all turbines. Refer to the *Section 5.1: Operating Results* for additional information.

***Green Financings Executed***

Northland introduced its Green Financing Framework in February 2021, to allow the Company and its subsidiaries to issue green bonds, loans (corporate and project level) and other financing instruments for Eligible Green Projects. Northland successfully executed its first two green financings with its onshore wind projects in New York and Helios solar project in Colombia; the latter being one of the first renewable project financings in the country.

***Canadian Solar Portfolio Debt Restructuring***

In the third quarter of 2021, Northland restructured and upsized the senior debt on a number of its Canadian solar facilities, resulting in one-time cash distributions to Northland totaling $40 million. This refinancing constitutes green project financing supporting Northland's ESG initiatives.

***Fitch Rating***

In September 2021, Northland received a second corporate credit rating of BBB (stable) from Fitch Ratings Inc., a global rating agency, in addition to S&P which also has a BBB (stable) rating.

***Equity Offering***

In April 2021, Northland completed a bought deal equity offering (the "2021 Share Offering") of 22.5 million common shares for aggregate gross proceeds of $990 million. The net proceeds of the 2021 Share Offering were used to fund the cash purchase price of the Spanish portfolio and equity capital requirements.

***Deutsche Bucht Refinancing***

In March 2021, Deutsche Bucht amended its debt facility agreement to reduce the interest rate on the facility's senior debt to 2.3% (from approximately 2.6%). The amendment also included the addition of a debt service reserve facility, which released €50 million ($74 million) from funds previously restricted for debt service.

## *Growth Updates:*

To achieve our long-term growth objectives, Northland has established regional development offices to secure certain growth opportunities across the globe. The activity from these offices has generated a robust portfolio of projects at various stages of development and construction. The successful achievement of commercial operations of these projects is expected to deliver long-term, sustainable growth in the Company's Adjusted EBITDA, Free Cash Flow and Adjusted Free Cash Flow. The following provides updates on the progress being made on Northland's active development portfolio.

***Spanish Renewables Acquisition***

In August 2021, Northland completed the acquisition of the Spanish portfolio with a total combined net capacity of 551MW. Total cash consideration at closing was €348 million ($511 million), including working capital amounts, with the assumption of debt totaling €766 million ($1,124 million).

***Enhanced Dispatch Contract (EDC) executed for Kirkland Lake Facility***

In March 2021, Northland entered into an EDC for its Kirkland Lake facility with Ontario's Independent Electricity System Operator. Effective July 2021, the EDC succeeded the baseload PPA for the remainder of its term to 2030.

***New York Onshore Wind Projects***

Two of Northland's New York State ("**NY Wind**") onshore wind projects, Ball Hill and Bluestone, comprising 220MW, achieved financial close and the start of construction in 2021. The projects secured green financing in the form of a non-recourse project/construction loan, tax equity bridge loan and letters of credit. Northland expects to secure permanent tax equity investments for the two projects ahead of commercial operations in 2022. In early 2020, the three projects were awarded 20-year indexed Renewable Energy Certificate (REC) agreements with the New York State Energy Research and Development Authority as part of renewable energy solicitations.

***La Lucha Mexican Solar Project Update***

The 130MW solar project in the State of Durango, Mexico, completed its activities relating to the physical construction, however, certain activities relating to the energization of the project continue to be delayed. Final approvals, energization, testing and interconnection of renewable power projects have generally been delayed in Mexico by pandemic related government and CFE temporary office closures and reduced operating capacity. In addition, these processes have seen further delays that are likely related to the uncertainty created by the Mexican government's so far unsuccessful attempts to amend electricity sector regulations and constitutionally embedded legislation and timelines remain uncertain as a result. Efforts to secure commercial offtake and project financing are expected to be finalized only after commercial operations.

### *Helios Colombian Solar Project*

Northland's 16MW Helios solar project in Colombia achieved financial close in 2021. The project secured a green loan and commenced construction, with commercial operations expected in the first quarter of 2022. Helios secured a 12-year PPA with EBSA, which, in turn, will secure offtake agreements with non-regulated customers.

### *Hai Long 1,044MW Offshore Wind Project*

In July 2021, Hai Long received an amendment to the project's Environmental Impact Assessment ("**EIA**") from Taiwan's Environmental Protection Agency to accommodate a larger, 14MW turbine with longer blade lengths and in April 2021, the project received confirmation from the Taiwan Bureau of Energy that Hai Long 2A had secured approval for the Industrial Relevance Proposal, which sets out Northland's commitments to local supply chain and procurement. The project continues to progress towards financial close expected in the second half of 2022.

### *Baltic Power, Polish Offshore Wind Project*

In March 2021, Northland completed its acquisition of a 49% interest in the Baltic Power offshore wind project ("**Baltic Power**") in the Baltic Sea with a total capacity of up to 1,200MW of offshore wind generation, for total cash consideration of PLN 255 million ($82 million).

In June 2021, the Baltic Power project, secured a 25-year Contract for Differences ("**CfD**") from Poland's Energy Regulatory Office under the Polish Offshore Wind Act at a guaranteed a price of PLN 319.60 per MWh. Construction of Baltic Power is expected to commence in 2023 following financial close, with commercial operations anticipated in 2026.

### *Nordsee Offshore Wind Cluster*

Subsequent to December 31, 2021, Northland and its German partner, RWE Renewables GmbH (**RWE**), announced the formation of a 1,333MW Nordsee Offshore Wind Cluster partnership encompassing Nordsee Two (433MW), Nordsee Three (420MW) and Nordsee Delta (480MW).

Northland holds a 49% interest in the new partnership, with RWE holding 51%. The projects are expected to be developed and managed on a joint basis by both parties and are expected to achieve commercial operations between 2026 and 2028.

### *Colombian 130MW Solar Projects*

In November 2021, Northland, in partnership with EDF Renewables, a subsidiary of Électricité de France S.A. (EPA:EDF), were awarded the right to build two solar projects with a total combined capacity of 130MW. The solar projects will benefit from a 15-year Power Purchase Agreement (**PPA**) with multiple energy distribution and commercial entities in Colombia, starting in 2023. Northland has a 50% interest in the projects with commercial operations expected in the second half of 2023.

### *Japan Offshore Wind Projects*

In September 2021, the Japanese government designated four new sea areas as "promising areas" for the development of offshore wind projects under its Round Three process. Included in these four areas was Isumi City, Chiba Prefecture, and the Akita Prefecture, where Northland is exploring the Chiba and Katagami offshore wind projects. These two projects could have a total productive capacity of up to 900MW when complete.

### *Scotwind Offshore Wind Project*

On January 17, 2022, Northland announced that it was awarded two offshore wind leases in the Crown Estate Scotland auction with a total combined capacity of 2,340MW. The two leases, one fixed foundation (840MW) and one floating foundation (1,500MW), will extend Northland's development runway into the next decade, with commercial operations expected at the end of 2029/2030 for the fixed and early 2030s for the floating.

NORTHLAND POWER

## 4.2: Operating Highlights

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

***Summary of Consolidated Results***

| Year ended December 31, | 2021 | 2020 | 2019 |
|---|---|---|---|
| **FINANCIALS** | | | |
| Sales | **$ 2,093,255** | $ 2,060,627 | $ 1,658,977 |
| Gross profit | **1,879,762** | 1,858,298 | 1,542,689 |
| Operating income | **808,650** | 900,213 | 813,700 |
| Net income (loss) | **269,879** | 485,057 | 451,754 |
| Adjusted EBITDA (a non-IFRS measure) | **1,137,004** | 1,170,097 | 984,736 |
| Cash provided by operating activities | **1,609,295** | 1,321,601 | 1,224,415 |
| Free Cash Flow (a non-IFRS measure) | **307,401** | 343,588 | 318,480 |
| Adjusted Free Cash Flow (a non-IFRS measure) | **386,366** | 415,398 | 362,275 |
| Cash dividends paid (1) | **172,755** | 217,918 | 216,373 |
| Total dividends declared (2) | **264,200** | 245,067 | 216,373 |
| Total assets (3) | **12,877,331** | 11,399,470 | 10,478,668 |
| Total non-current liabilities (3) | **$ 8,507,075** | $ 8,336,835 | $ 7,569,921 |
| **Per Share** | | | |
| Weighted average number of shares - basic (000s) | **218,861** | 198,774 | 180,322 |
| Net income (loss) - basic | **$ 0.82** | $ 1.86 | $ 1.71 |
| Free Cash Flow - basic (a non-IFRS measure) | **1.40** | 1.73 | 1.77 |
| Adjusted Free Cash Flow - basic (a non-IFRS measure) | **1.77** | 2.09 | 2.01 |
| Total dividends declared (4) | **$ 1.20** | $ 1.20 | $ 1.20 |
| **ENERGY VOLUMES** | | | |
| Electricity production in gigawatt hours (**GWh**) | **8,879** | 9,449 | 9,060 |

(1) Reduction in cash dividends paid in 2021 compared to 2020 is due to the reinstatement of the DRIP in September 2020.

(2) Represents total dividends paid to common and class A shareholders including dividends in cash or in shares under the DRIP. In September 2020, all Class A shares were converted into common shares on a ono-for-one basis.

(3) As at December 31.

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

# SECTION 5: RESULTS OF OPERATIONS

## 5.1: Operating Results

### *Offshore Wind Facilities*

The following table summarizes operating results of the offshore wind facilities:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Sales/gross profit (1) (2)** | **$ 334,034** | $ 263,430 | **$ 1,107,236** | $ 1,179,779 |
| **Operating costs (2)** | **49,136** | 42,247 | **173,742** | 166,282 |
| **Operating income** | **195,091** | 127,153 | **569,453** | 653,792 |
| **Adjusted EBITDA** | **205,972** | 179,101 | **665,351** | 759,692 |
| **Free Cash Flow (2)** | **$ 80,145** | $ 40,393 | **$ 142,466** | $ 217,145 |

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

(2) For 2020, the sales/gross profit and operating costs includes $93 million pre-completion sales and $9 million related operating costs at Deutsche Bucht. 2020 Free Cash Flow included excess pre-completion revenue in form of the Deutsche Bucht Completion Distribution.

Northland's three offshore wind facilities, Gemini, Nordsee One and Deutsche Bucht, are located off the coasts of the Netherlands and Germany. Wind power generation harnesses renewable wind energy by converting the kinetic energy of wind into electrical energy. Wind facilities are subject to seasonality, and accordingly, tend to produce more electricity during winter due to denser air and higher winds compared to summer, the effect of which is reflected in the respective fiscal quarter's results. In addition, variability in offshore wind facilities results in similar fluctuations in quarter-to-quarter financial results. Factors such as exposure to market prices, and turbine or grid availability can also have a significant effect on financial results, though typically to a lesser extent than variability in wind resource. For the year ended December 31, 2021, Gemini, Nordsee One and Deutsche Bucht contributed approximately 20%, 17% and 17%, respectively, of Northland's reported Adjusted EBITDA from facilities.

Results for Northland's offshore wind facilities are also affected by foreign exchange rate fluctuations between the Euro and Canadian dollar, which primarily affect sales, net income and Adjusted EBITDA. Northland has entered into long-term foreign exchange rate hedges, at an average rate of 1.60/€ for 2022 compared to $1.60/€ for 2021 ($1.59/€ for 2020) for a substantial portion of anticipated euro-denominated Free Cash Flow, mitigating the effects of foreign exchange rate fluctuations with respect to this metric.

***Variability within Operating Results***

Gemini has subsidy agreements with the Government of the Netherlands which expire in 2031. Under these agreements, revenue is earned through a combination of annual average Dutch wholesale market price (**APX**), a subsidy top-up (**SDE**) and a markup to compensate for annual profile and imbalance (**P&I**) costs, which are variable from year to year. The SDE mechanism tops-up the APX to effectively a set price of €211 per MWh for up to 1,908 gigawatt hours of annual production ("**Gemini Subsidy Cap**"). The SDE mechanism is designed to ensure the full subsidy is received by Gemini annually. For production beyond the Gemini Subsidy Cap, revenue is earned at the APX less P&I costs. Full APX prices are earned only when production exceeds 2,385GWh.

The SDE is subject to an annual contractual floor price ("**SDE floor**"), thereby exposing Gemini to market price risk when the APX falls below the effective annual SDE floor of €51/MWh for 2021. The APX has been below the SDE floor for the majority of Gemini's five years of operation, with the exception of 2021. Northland has purchased financial put contracts for the majority of production in 2022 to mitigate risk should the APX fall below the SDE floor. These put options were entered into with a strike price approximately equal to the SDE floor, and only became commercially viable in 2021 as the APX increased substantially above the SDE floor. The incremental cost of the put options acquired is $2 million for 2022 and is expected to be similar for 2023. Management intends to enter into further put contracts as appropriate for future years, in accordance with Northland's risk management policy.

Nordsee One and Deutsche Bucht have a Feed-In Tariff contract with the German government whereby the associated tariff is added to the German wholesale market price, effectively generating a fixed unit price for energy sold. Under the German Renewable Energy Sources Act, while the tariff compensates for most production curtailments required by the system operator, the facilities do not receive revenue for periods where the market power price remains negative for longer than six consecutive hours (“**negative prices**”). The facilities are also subject to unpaid curtailments by the German system operator for scheduled and unscheduled grid repairs (“**grid outages**”) of up to 28 days annually at each facility, which can have a significant effect on earnings depending on the season.

*Gemini APX Hedges*

In 2020, Gemini experienced a significant decline in the APX below the SDE floor as a result of reduced energy consumption caused by COVID-19 pandemic-related lockdowns in Europe. As a result, and due to the uncertainty relating to the duration of the pandemic, in the second quarter of 2020, Northland entered into financial derivatives for 2021, and to a lesser extent 2022 and 2023. At the time, with APX declining below the SDE floor, these derivatives were intended to mitigate further deterioration of the APX, with some exposure to lost sales should the APX increase above the SDE floor.

Through the first quarter of 2021, the APX commenced increasing above the SDE floor, in part prompted by continued rising natural gas and carbon prices in Europe, resulting in lost sales for Gemini. As a result, in the second quarter 2021, Northland entered into offsetting financial derivatives to limit the potential lost sales for 2021 to 2023 under the original financial derivatives. While limiting sales losses in the future, the offsetting derivatives crystallized financial losses (“**APX hedge losses**”) for Northland. For the year ended December 31, 2021, the aforementioned factors resulted in the recognition of $37 million of financial losses. Losses crystallized for 2022 have been incorporated within Financial Guidance in *SECTION 10: FINANCIAL OUTLOOK*.

*Nordsee One Component Issue*

As disclosed in early 2021, Northland identified a component defect on several wind turbines at Nordsee One affecting the main rotor shaft assembly (**RSA**) and upon further assessment, management concluded the defect could affect all 54 of the wind turbines, and commenced replacement of the rotor shaft assembly of all turbines (the “**replacement campaign**”).

In 2021, Nordsee One replaced 10 of 54 RSAs and will continue the replacement campaign in 2022 and 2023. Management expects to replace all remaining RSAs between 2022 and 2023 during seasonally low wind resource periods. In some cases, Nordsee One may curtail the performance of turbines in order to briefly extend their life, which will reduce electricity production (“**turbine availability**”) and sales in 2022 and, to a lesser extent, 2023. This issue is not expected at Gemini and Deutsche Bucht, which utilize different turbines.

Management expedited the replacement campaign in 2021 to minimize future downtime of the wind turbines, however, Nordsee One incurred lost sales, due to turbine availability, of €7 million ($9 million at Northland’s share) in 2021. The ten RSAs were replaced at a cost of €13 million ($16 million at Northland’s share) and the total cost to replace the remaining 44 RSAs is expected to be within a range of €40 million and €50 million ($50 million and $60 million at Northland’s share). The costs are expected to be almost fully covered by the warranty bond settlement received in 2020 relating to outstanding warranty obligations of Nordsee One’s turbine manufacturer. Management’s estimate of lost sales in 2022 of €12 million ($15 million Northland share) resulting from the Nordsee One component issue have been included within its 2022 Financial Guidance summarized in *SECTION 10: FINANCIAL OUTLOOK.*

An important indicator for the offshore wind facilities is the historical average of the power production of each offshore wind facility, where available. The following table summarizes actual electricity production and the historical average, high and low for the applicable operating periods of each offshore facility:

| | Three months ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2021** (1) | **2020** (1) | **Historical Average** (2) | **Historical High** (2) | **Historical Low** (2) |
| Electricity production (GWh) | | | | | |
| Gemini | **743** | 786 | 771 | 824 | 739 |
| Nordsee One | **333** | 299 | 324 | 346 | 298 |
| Deutsche Bucht | **320** | 310 | 315 | 320 | 310 |
| **Total** | **1,396** | 1,395 | | | |

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2021** [(1)] | **2020** [(1)] | **Historical Average** [(2)] | **Historical High** [(2)] | **Historical Low** [(2)] |
| Electricity production (GWh) | | | | | |
| Gemini | **2,193** | 2,496 | 2,358 | 2,496 | 2,193 |
| Nordsee One | **968** | 1,065 | 1,050 | 1,084 | 968 |
| Deutsche Bucht | **927** | 978 | 948 | 968 | 927 |
| **Total** | **4,088** | 4,539 | | | |

(1) Includes GWh produced and excludes unpaid curtailments.

(2) Represents the historical power production for the period since the commencement of commercial operation of the respective facility 2017 for Gemini and Nordsee One and 2020 for Deutsche Bucht) and excludes unpaid curtailments.

*Electricity production* for the three months ended December 31, 2021, was in line with the same quarter of 2020 primarily due to lower wind resource, partially offset by fewer uncompensated outages. Electricity production for the year ended December 31, 2021, decreased 10% or 451GWh compared to 2020 primarily due to the historically low wind resource, as well as reduced turbine availability at Nordsee One due to the RSA replacement campaign discussed above, partially offset by fewer uncompensated outages in Germany.

*Sales* of $334 million for the three months ended December 31, 2021, increased 27% or $71 million compared to the same quarter of 2020 largely due to higher electricity prices on German production above the Subsidy Cap and the factors affecting electricity production, as shown below. Foreign exchange rate fluctuations resulted in $26 million lower sales compared to the same quarter of 2020. Sales of $1,107 million for the year ended December 31, 2021, decreased 6% or $73 million compared to 2020 primarily due to lower wind resource in the North Sea compared to last year and losses at Nordsee One due to turbine availability, partially offset by fewer periods of uncompensated outages and of negative prices in Germany. Foreign exchange rate fluctuations resulted in $32 million lower sales for the year ended December 31, 2021, compared to 2020.

Sales were also adversely affected by factors other than wind resource, as summarized in the following table:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Effect of Gemini price hedge (2021) or effect of APX below the SDE floor (2020) [(1)] | **$ 13,773** | $ 4,692 | **$ 37,215** | $ 26,696 |
| Lower turbine availability at Nordsee One (due to RSA campaign) | **3,142** | — | **8,887** | — |
| Unpaid curtailment due to negative prices and grid outages in Germany | **$ 4,094** | $ 23,397 | **$ 21,843** | $ 60,023 |

(1) Realized APX hedge losses in 2021 are not reported in Sales but do affect Adjusted EBITDA and Free Cash Flow. Lost sales in 2020 was a result of the APX of €28/MWh, below the SDE floor of €44/MWh.

*Operating costs* of $49 million for the three months ended December 31, 2021, increased 16% or $7 million primarily due to timing of repairs and maintenance as well as the expected renewal of the turbine maintenance contract at Gemini. Operating costs of $174 million for the year ended December 31, 2021, increased 4% or $7 million compared to 2020 primarily due to same factor as above.

*Operating income* of $195 million for the three months ended December 31, 2021, increased 53% or $68 million compared to the same quarter of 2020 largely due to higher wholesale market prices at Gemini. Operating income of $569 million for the year ended December 31, 2021, decreased 13% or $84 million compared to 2020 primarily due to low wind resource in the North Sea and losses at Nordsee One due to turbine availability, partially offset by fewer periods of uncompensated outages and of negative prices in Germany.

*Adjusted EBITDA* of $206 million for the three months ended December 31, 2021, increased 15% or $27 million largely due to higher electricity prices at Gemini and fewer periods of unpaid curtailments at the two German facilities. Adjusted EBITDA of $665 million for the year ended December 31, 2021, decreased 12% or $94 million compared 2020 largely due to low wind resource in the North Sea, losses at Nordsee One due to turbine availability and foreign exchange fluctuations partially offset by fewer periods of uncompensated outages and of negative prices in Germany.

## *Onshore Renewable Facilities*

The following table summarizes the operating results of the onshore renewable facilities:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Electricity production (GWh) (1) (4)** | **598** | 376 | **1,603** | 1,364 |
| **LTA production (GWh) (1) (2)** | **303** | 353 | **1,220** | 1,273 |
| **Sales/gross profit (3) (4)** | **$ 113,623** | $ 51,078 | **$ 299,325** | $ 217,705 |
| **Operating costs (4)** | **17,766** | 8,041 | **45,532** | 29,418 |
| **Operating income** | **58,547** | 20,535 | **133,009** | 98,784 |
| **Adjusted EBITDA** | **83,692** | 31,452 | **211,591** | 145,946 |
| **Free Cash Flow** | **$ 37,137** | $ 12,950 | **$ 80,851** | $ 57,550 |

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

(2) LTA is the average of the historical power production since 2015 for Canadian facilities.

(3) Onshore renewable facilities do not have cost of sales and as a result, the reported sales figures equal gross profit.

(4) For 2021, production, sales/gross profit and operating costs include results from the Spanish portfolio acquired on August 11, 2021.

Northland's onshore renewables comprise onshore wind and solar facilities located in Canada and Spain. Onshore wind facilities are similar in nature operationally to offshore wind; however, with lower operating costs and generally lower wind resources. Solar power facilities have lower fixed operating costs per unit of capacity than other renewable power technologies. Electricity production from solar facilities tends to be less variable than wind but is limited to available sunlight, which is generally higher in the summer than in the winter. For the year ended December 31, 2021, Northland's onshore renewable facilities in Canada and Spain contributed approximately 17% of reported Adjusted EBITDA from facilities.

The Spanish portfolio, acquired in August 2021, includes 33 operating assets comprised of onshore wind (435MW), solar photovoltaic (66MW), and a concentrated solar (50MW) located throughout Spain. The portfolio operates under a regulated asset base (RAB) framework that guarantees a specified pre-tax rate of return of 7.4% for 23 sites and 7.1% for 10 sites, over the full regulatory life of the facilities, regardless of settled wholesale power prices ("**pool prices**"). Under the regulatory framework, regulated revenues are adjusted at the start of every 3- or 6-year periods, for onshore wind and solar, respectively, to offset the variability of spot wholesale market prices in the preceding 3- or 6-year regulatory period. The next regulatory semi-period will start January 2023.

Under the Spanish framework, the majority of Northland's Spanish facilities are entitled to receive a guaranteed rate of return until 2032, with ten solar sites' rate of return to be reassessed in 2026. As of December 31, 2021, the weighted average remaining regulatory life of the portfolio is 12 years, with estimated useful life of an additional ten years. The average remaining regulatory life of onshore wind facilities and solar facilities is 8 year and 19 years, respectively, after which, power can be re-contracted with alternate offtake and/or sold at prevailing wholesale pool prices.

Revenue from the Spanish facilities is primarily comprised of two main components, return on investment ("**Ri**") as well as a larger component based on pool prices. While a renewables operator may collect the settled pool price per MWh produced, under IFRS 15, revenue is only recognized at the pool price originally forecasted by the Spanish regulator at the start of the regulatory semi-period. Under IFRS, any pool price revenue collected significantly in excess of (or below) the stated pool price in the current regulatory semi-period (known as "**band adjustments**") is deferred and recognized over the remaining regulatory periods. Accordingly, cash amounts collected from higher pool prices in the second half of 2021 are expected to be primarily realized in sales commencing in 2023, over the remaining regulatory life of the asset, in adherence with IFRS.

In addition, Northland has entered into long-term Euro denominated foreign exchange hedges, at an average rate of $1.73/€, which hedges approximately 76% of projected distributions from the Spanish portfolio from 2021-2035 to mitigate foreign exchange rate volatility, consistent with its corporate risk mitigation strategy.

*Electricity production* at the onshore renewable facilities for the three months ended December 31, 2021, was 59% or 222 GWh higher than the same quarter of 2020 due to the contribution from the Spanish portfolio. Electricity production for the year ended December 31, 2021, was 18% or 239GWh higher than 2020 due to the same.

From August 11, 2021 to December 31, 2021, the Spanish portfolio generated 286GWh from onshore wind and 81GWh from onshore solar.

Financial results and *Adjusted EBITDA* for the three months and year ended December 31, 2021, were higher than 2020 due to the acquisition of the portfolio of solar and wind facilities in Spain. Excluding the contribution from the Spanish portfolio, for the three months ended December 31, 2021, production, sales and Adjusted EBITDA were 12%, 7% and 10% lower, respectively, primarily due to lower resource.

The Spanish portfolio generated sales, Adjusted EBITDA and Free Cash Flow of $92 million, $74 million and $30 million, respectively.

## *Efficient Natural Gas Facilities*

The following table summarizes the operating results of the efficient natural gas facilities:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Electricity production (GWh)** | **956** | 876 | **3,188** | 3,546 |
| **Sales** (1) | **$ 127,475** | $ 112,516 | **$ 433,554** | $ 415,551 |
| Less: cost of sales | **38,065** | 28,484 | **123,533** | 103,334 |
| **Gross profit** | **$ 89,410** | $ 84,032 | **$ 310,021** | $ 312,217 |
| **Operating costs** | **14,787** | 17,391 | **51,483** | 54,154 |
| **Operating income** | **56,856** | 57,064 | **172,160** | 219,624 |
| **Adjusted EBITDA** (2) | **83,159** | 67,618 | **274,155** | 264,094 |
| **Free Cash Flow** | **$ 60,535** | $ 41,715 | **$ 168,580** | $ 155,907 |

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

(2) Includes management and incentive fees earned by Northland.

The contractual structures of Northland's efficient natural gas facilities ensure each facility's gross profit is generally stable, within a seasonal profile, regardless of production or sales levels, so long as the plant is available. Under some PPAs, the facility is reimbursed for certain costs of sales by the counterparty. Management also aims to maximize returns through the re-marketing of natural gas storage and transportation ("**gas optimization**") through its energy marketing initiatives. For the year ended December 31, 2021, Northland's six efficient natural gas facilities contributed approximately 22% of reported Adjusted EBITDA from facilities, with the three largest, North Battleford, Iroquois Falls and Thorold accounting for approximately 19%.

*Electricity production* for the three months ended December 31, 2021, increased 9% or 80GWh compared to the same quarter of 2020 due to higher on-peak production and an increase in dispatches, partially offset by the effect of Kirkland Lake operating under the enhanced dispatch contract compared to the baseload PPA in prior periods. Electricity production for the year ended December 31, 2021, decreased 10% or 359GWh compared to 2020 due to planned major maintenance outages at two facilities and due to Kirkland Lake operating under the terms of the EDC. The EDC has the effect of lower electricity production under dispatch, lower sales but higher gross profit.

*Sales* of $127 million for the three months ended December 31, 2021, increased 13% or $15 million compared to the same quarter of 2020 largely due to higher production and annual rate escalations at multiple facilities. Sales of $434 million for the year ended December 31, 2021, increased 4% or $18 million compared to 2020 largely due to annual rate escalations at multiple facilities offset by the effect of Kirkland Lake's EDC.

*Operating income* of $57 million for the three months ended December 31, 2021, was in line with the same quarter of 2020 as a result of higher gross profits offset by an increase in amortization expense at Iroquois Falls as a result of the expiry of its PPA in December 2021. Operating income of $172 million for the year ended December 31, 2021, decreased 22% or $47 million compared to 2020 primarily due to planned outages and the increase in amortization expense noted.

*Adjusted EBITDA* of $83 million and $274 million for the three months and year ended December 31, 2021, increased 23% or $16 million and 4% or $10 million compared to the same periods of 2020 largely due to the factors described above.

### *Utility*

The following table summarizes the operating results of EBSA:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Sales (1)** | **$ 58,949** | $ 58,065 | **$ 225,349** | $ 218,982 |
| Less: cost of sales | **18,567** | 18,001 | **68,923** | 69,567 |
| **Gross profit** | **$ 40,382** | $ 40,064 | **$ 156,426** | $ 149,415 |
| **Operating costs** | **14,939** | 14,047 | **57,137** | 51,062 |
| **Operating income** | **16,360** | 15,157 | **59,798** | 52,567 |
| **Adjusted EBITDA** | **24,112** | 23,053 | **91,510** | 89,765 |
| **Free Cash Flow** | **$ 16,532** | $ 886 | **$ 45,659** | $ 27,925 |

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

EBSA holds the sole franchise rights for electricity distribution in the Boyacá region of Colombia and is an electricity retailer for the regulated residential sector in the region. EBSA owns and operates an extensive distribution network, serving about half a million customers. EBSA's net sales are almost entirely regulated, of which the vast majority is earned from its distribution business and the remainder primarily from its electricity retail business. EBSA's results are affected by exchange rate fluctuations between the Canadian dollar and the Colombian peso. For 2021 Free Cash Flow, Northland hedged the foreign exchange rate at COP$2880:CAD$1 for nearly all of the anticipated Colombian peso-denominated cash flow, mitigating the effects of fluctuations with respect to this metric (2020: COP$2,704:CAD$1). For the year ended December 31, 2021, utility operations contributed approximately 7% of reported Adjusted EBITDA from facilities.

EBSA earns revenue by charging customers a rate approved under the regulatory framework administered by the local regulator, the Comisión de Regulación de Energía y Gas ("**CREG**"). The rate charged is set for an expected five-year period and includes amounts retained by EBSA, as retailer and distributor, and amounts passed through to other electricity system participants, such as the transmission operator. The rate base takes into account the depreciated cost of existing equipment and anticipated future investments for maintenance and growth. EBSA's portion of the rate also includes standardized allowances set by the regulator intended to cover fixed and variable operating costs, including expected increases in corporate tax rates in 2022. The rate is designed to ensure EBSA earns a predictable and stable return.

*Sales and Gross profit* of $59 million and $40 million for the three months ended December 31, 2021, were in line with the same quarter of 2020. Sales and Gross profit of $225 million and $156 million for the year ended December 31, 2021, increased 3% or $6 million and 5% or $7 million compared to 2020 primarily due to certain optimizations of operations.

*Operating income* of $16 million and $60 million for the three months and year ended December 31, 2021, increased 8% or $1 million and 14% or $7 million compared to the same periods of 2020 primarily due to the factors described above.

*Adjusted EBITDA* of $24 million for the three months ended December 31, 2021, increased 5% or $1 million compared to the same quarter of 2020 mainly due to the factors described above. Adjusted EBITDA of $92 million for the year ended December 31, 2021, was slightly higher compared to 2020.

In December 2021, Northland restructured and upsized EBSA's long-term, non-recourse financing (the "EBSA Facility"), resulting in $84 million of incremental cash proceeds to Northland, net of closing costs. The aggregate amount of the financing was upsized to $533 million, driven primarily by expected growth in EBSA's EBITDA.

Upsizing proceeds in excess of EBSA's expansionary capital expenditures of approximately $4 million are included in Free Cash Flow for the fourth quarter, prorated for the timing of closing. Depending on the level of expansionary capital investments in 2022, management expects to recognize $35 to $45 million of net proceeds into Free Cash Flow in 2022, which has been included within the Financial Guidance presented in *SECTION 10: FINANCIAL OUTLOOK*.

For EBSA, non-expansionary capital expenditure is the expenditure required to maintain its regulated asset base under the requirements of the local regulator. Such expenditure is largely driven by the requirements of the regulatory framework, though the timing of the capital expenditures can vary from year to year and can be seasonal, therefore, affecting Free Cash Flow as reported.

## 5.2: General and Administrative Costs

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

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Corporate G&A | **$ 16,328** | $ 15,366 | **$ 43,303** | $ 36,158 |
| Operations G&A (1) | **5,611** | 13,024 | **24,380** | 32,135 |
| **Total G&A costs** | **$ 21,939** | $ 28,390 | **$ 67,683** | $ 68,293 |

(1) Operations G&A is included in the respective segment's Adjusted EBITDA and Free Cash Flow presented in *Section 4.1 Operating Results.*

*Corporate G&A* costs of $16 million and $43 million for the for the three months and year ended December 31, 2021, were 6% or $1 million and 20% or $7 million higher than the same periods of 2020, respectively, primarily due to higher personnel and other costs in support of Northland's global growth.

*Operations G&A* is incurred at the operating facilities, and for the for the three months and year ended December 31, 2021, were 57% or $7 million and 24% or $8 million lower than 2020 primarily due to certain non-recurring costs incurred at EBSA in 2020 and lower facility personnel costs in the fourth quarter of 2021.

## 5.3: Growth Expenditures

The following table summarizes development costs under IFRS and growth expenditures for non-IFRS financial measures:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Business development | **$ —** | $ 6,087 | **$ 21,756** | $ 11,530 |
| Project development | **13,861** | 8,286 | **14,968** | 29,600 |
| Development overhead | **11,229** | 5,375 | **33,270** | 26,011 |
| Acquisition costs (1) | **1,659** | — | **7,666** | 7,474 |
| **Development costs** | **$ 26,749** | $ 19,748 | **$ 77,660** | $ 74,615 |
| Joint venture project development costs (2) | **581** | 2,679 | **8,971** | 4,669 |
| **Growth expenditures (3)** | **$ 25,671** | $ 22,427 | **$ 78,965** | $ 71,810 |
| Growth expenditures on a per share basis | | | **$ 0.36** | $ 0.36 |

(1) Relates to successful acquisition costs only. Excluded from growth expenditures.

(2) Includes Northland's share of development costs incurred at Baltic Power ($3 million before its capitalization in the third quarter of 2021), Chiba and other joint venture projects.

(3) Excludes acquisition costs but includes share of project development costs incurred by joint ventures.

To achieve its long-term growth objectives, Northland expects to deploy early-stage investment capital (growth expenditures) to advance its projects. With regional development offices in Europe, Asia, North America and Latin America fully functional and with a pipeline of growth opportunities currently secured, Northland expects to incur higher growth expenditures and capital investments in future years to fund its identified development pipeline and opportunities sourced through the regional development offices.

Early-stage growth expenditures reduce near-term Free Cash Flow until projects achieve commercial operation but should deliver sustainable growth in Free Cash Flow over the long-run. These growth expenditures are excluded from Adjusted Free Cash Flow.

*Business development costs* are incurred to identify and explore prospective business and development opportunities, which are expected to result in identifiable development projects intended to be pursued to completion, and include costs incurred for projects not ultimately pursued to acquisition or to completion. Business development costs for the year ended December 31, 2021, were higher compared to the same periods of 2020 due to a higher level of development activities pursuing opportunities.

*Project development costs* are attributable to identified early- to mid-stage development projects under active development that are likely to generate cash flow over the long-run. For the year ended December 31, 2021, project developments costs were lower due to timing of activities at the identified projects and the commencement of capitalization for the Hai Long project in mid-2020. Refer to *SECTION 9: DEVELOPMENT, ACQUISITION AND CONSTRUCTION ACTIVITIES* for additional information on identified development projects.

*Development overhead* primarily relates to personnel, rent and other office costs not directly attributable to specific development projects. Development overhead reflects Northland's resources and development offices in key target jurisdictions focused on securing long-term growth opportunities in those jurisdictions.

*Acquisition costs* are generally third-party transaction-related costs directly attributable to an executed business acquisition, such as the Spanish portfolio, and are excluded from Northland's non-IFRS financial measures. For the year ended December 31, 2021, acquisition costs totaled $8 million based on costs incurred on successful acquisition pursuits.

## 5.4: Consolidated Results

The following discussion of the significant factors contributing to the consolidated financial results should be read in conjunction with Northland's audited consolidated financial statements for the year ended December 31, 2021.

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Electricity production (GWh) | **2,950** | 2,646 | **8,879** | 9,449 |
| **Sales** | **$ 640,090** | $ 492,834 | **$ 2,093,255** | $ 2,060,627 |
| Less: Cost of sales | **60,212** | 57,223 | **213,493** | 202,329 |
| **Gross profit** | **$ 579,878** | $ 435,611 | **$ 1,879,762** | $ 1,858,298 |
| **Expenses** | | | | |
| Operating costs | **83,716** | 81,726 | **327,894** | 300,916 |
| General and administrative costs | **21,939** | 28,390 | **67,683** | 68,293 |
| Development costs | **26,749** | 19,748 | **77,660** | 74,615 |
| Depreciation of property, plant and equipment | **155,356** | 132,392 | **612,755** | 529,569 |
| | **$ 287,760** | $ 262,256 | **$ 1,085,992** | $ 973,393 |
| Investment income | **482** | 716 | **3,218** | 3,285 |
| Finance lease income | **2,880** | 2,973 | **11,662** | 12,023 |
| **Operating income** | **$ 295,480** | $ 177,044 | **$ 808,650** | $ 900,213 |
| Finance costs, net | **99,611** | 95,094 | **342,417** | 365,168 |
| Amortization of contracts and intangible assets | **(5,594)** | 14,712 | **23,284** | 43,361 |
| Impairment | **—** | — | **29,981** | — |
| Foreign exchange (gain) loss | **29,429** | 19,654 | **81,318** | (71,344) |
| Fair value (gain) loss on derivative contracts | **(53,021)** | (497) | **(116,621)** | (11,271) |
| Other expense (income) | **15,639** | (1,020) | **25,040** | (25,769) |
| **Income (loss) before income taxes** | **$ 209,416** | $ 49,101 | **$ 423,231** | $ 600,068 |
| **Provision for (recovery of) income taxes** | | | | |
| Current | **35,112** | 21,628 | **84,410** | 90,282 |
| Deferred | **44,776** | 676 | **68,942** | 24,729 |
| Provision for (recovery of) income taxes | **$ 79,888** | $ 22,304 | **$ 153,352** | $ 115,011 |
| **Net income (loss)** | **$ 129,528** | $ 26,797 | **$ 269,879** | $ 485,057 |
| **Net income (loss) per share - basic** | **$ 0.45** | $ 0.11 | **$ 0.82** | $ 1.86 |
| **Net income (loss) per share - diluted** | **$ 0.45** | $ 0.11 | **$ 0.82** | $ 1.85 |

## *Fourth Quarter*

*Sales* and *gross profit* of $640 million and $580 million, respectively, increased 30% or $147 million and 33% or $144 million compared to the same quarter of 2020 primarily due to contributions from the Spanish portfolio acquired in August 2021 and improved results from the offshore wind facilities relative to 2020, partially offset by the effect of unfavourable foreign exchange rate fluctuations.

*Operating costs* of $84 million increased 2% or $2 million compared to the same quarter of 2020 primarily due to additional costs from the Spanish portfolio and the effect of foreign exchange rate fluctuations

*G&A costs* of $22 million decreased 23% or $6 million compared to the same quarter of 2020. Of this, operations G&A decreased by $7 million primarily due to certain non-recurring costs incurred at EBSA in 2020 and lower facility personnel costs in the fourth quarter of 2021 while corporate G&A costs increased by $1 million primarily due to the higher personnel and other costs in support of Northland's global growth.

*Development costs* of $27 million increased 35% or $7 million compared to the same quarter of 2020 primarily due to timing of costs incurred to advance early-stage development projects.

*Finance costs*, *net* (primarily interest expense) of $100 million increased 5% or $5 million compared to the same quarter of 2020 primarily as a result of the increase in Northland's debt associated with the acquisition of the Spanish Portfolio.

*Fair value gain on derivative contracts* was $53 million primarily due to net movements in the fair value of derivatives related to the Gemini market price, interest rates and foreign exchange contracts.

*Foreign exchange loss* of $29 million is primarily due to unrealized loss from fluctuations in the closing foreign exchange rates.

*Net income* increased $103 million in the fourth quarter of 2021 compared to the same quarter of 2020 primarily as a result of the factors described above, combined with a $58 million higher tax expense.

## *2021*

*Sales* of $2.1 billion increased 2% or $33 million compared to 2020 primarily due to contributions from the Spanish portfolio acquired in August 2021 and rate escalations at the efficient natural gas facilities, primarily offset by lower offshore wind resource, lower production at Nordsee One due to lower turbine availability, and the effect of unfavourable foreign exchange rate fluctuations.

*Gross profit* of $1.9 billion increased 1% or $21 million compared to 2020 primarily due to the same factors affecting sales described above, partially offset by increased gas costs at the efficient natural gas facilities.

*Operating costs* of $328 million increased 9% or $27 million compared to 2020 primarily due to additional costs from Spanish portfolio, the expected renewal of the turbine maintenance contract at Gemini and the effect of foreign exchange rate fluctuations.

*G&A costs* of $68 million were in line with 2020 primarily due to higher personnel and other costs in support of Northland's global growth offset by lower operations G&A.

*Development costs* of $78 million increased 4% or $3 million compared to the compared to 2020 due to the timing and nature of development activities to pursue development projects and opportunities.

*Finance costs*, *net* (primarily interest expense) of $342 million decreased 6% or $23 million compared to 2020 primarily as a result of scheduled repayments on facility-level loans and repayment of borrowings on the corporate revolving facility in April 2021. 2020 also included interest on convertible debentures redeemed in May 2020.

*Impairment expense of* $30 million as a result of a goodwill write-off for Iroquois Falls, as its PPA expired in December 2021.

*Foreign exchange loss* of $81 million is primarily due to unrealized loss from fluctuations in the closing foreign exchange rate.

*Fair value gain on derivative contracts* was $117 million compared to a $11 million gain in 2020 primarily due to the movement in the fair value of interest rate swaps and foreign exchange contracts.

*Other expenses* of $25 million were $51 million higher for the year ended December 31, 2021, primarily due to share of increasing joint venture development costs and non-cash write-downs of receivables, while other income in 2020 included proceeds received from the sale of turbines at Deutsche Bucht as well as insurance proceeds related to its construction.

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Net income decreased $215 million for the year ended December 31, 2021 compared to 2020 mainly due to the factors described above, partially offset by a $38 million higher tax expense.

## 5.5: Adjusted EBITDA

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

| | Three months ended December 31, 2021 | Three months ended December 31, 2020 | Year ended December 31, 2021 | Year ended December 31, 2020 |
|---|---|---|---|---|
| **Net income (loss)** | **$ 129,528** | $ 26,797 | **$ 269,879** | $ 485,057 |
| Adjustments: | | | | |
| Finance costs, net | **99,611** | 95,094 | **342,417** | 365,168 |
| Gemini interest income | **3,843** | 4,069 | **15,810** | 16,075 |
| Share of joint venture project development costs | **3,510** | (2,679) | **(4,880)** | (4,669) |
| Acquisition costs | **1,659** | — | **7,666** | 7,474 |
| Provision for (recovery of) income taxes | **79,888** | 22,304 | **153,352** | 115,011 |
| Depreciation of property, plant and equipment | **155,356** | 132,392 | **612,755** | 529,569 |
| Amortization of contracts and intangible assets | **(5,594)** | 14,712 | **23,284** | 43,361 |
| Fair value (gain) loss on derivative contracts | **(78,047)** | (497) | **(153,536)** | (11,271) |
| Foreign exchange (gain) loss | **29,429** | 19,654 | **81,318** | (71,344) |
| Impairment loss | **—** | — | **29,981** | — |
| Elimination of non-controlling interests | **(74,593)** | (41,895) | **(260,567)** | (278,709) |
| Finance lease (lessor) | **(1,113)** | (5,657) | **(7,137)** | (1,803) |
| Other adjustments | **20,171** | 4,222 | **26,662** | (23,822) |
| **Adjusted EBITDA** | **$ 363,648** | $ 268,516 | **$ 1,137,004** | $ 1,170,097 |

*Gemini interest income* reflects interest earned on Northland's €117 million subordinated debt to Gemini. Semi-annual principal payments to Northland 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. Gemini interest income is included in Northland's consolidated Adjusted EBITDA because it reflects returns generated from an investment in core assets.

*Other adjustments* primarily include non-cash loss on equity investments for the year ended December 31, 2021. For the year ended December 31, 2020, other adjustments primarily include proceeds from sale of two turbines and insurance proceeds received.

### Fourth Quarter

Adjusted EBITDA of $364 million for the three months ended December 31, 2021, increased 35% or $95 million compared to the same quarter of 2020. The significant factors increasing Adjusted EBITDA include:

- $55 million contribution from the Spanish portfolio of onshore wind and solar facilities acquired in August 2021;
- $30 million increase in operating results at Gemini primarily due to slightly higher hedged wholesale market prices realized on production above the Gemini Subsidy Cap relative to 2020; and
- $14 million increase in operating results from EBSA and the efficient natural gas facilities primarily due to contributions from optimized operations and annual escalations.

### Full Year

Adjusted EBITDA of $1,137 million for the year ended December 31, 2021, decreased 3% or $33 million compared to the same period of 2020. The significant factors decreasing Adjusted EBITDA include:

- $49 million decrease in operating results at Gemini primarily due to historically low wind resource and realized APX hedge losses;

- $45 million decrease in operating results at the German offshore wind facilities primarily due to low wind resource and losses at Nordsee One due to turbine availability, partially offset by fewer periods of uncompensated outages and of negative prices in Germany; and
- $7 million increase in growth expenditures primarily driven by an increasing level of business development activities; and a $7 million increase in corporate G&A primarily due to higher personnel and other costs in support of Northland's global growth.

The factors partially offsetting the decrease in Adjusted EBITDA were:

- $74 million contribution from the Spanish portfolio of onshore wind and solar facilities acquired in August 2021; and
- $4 million increase in operating results primarily due to contributions from EBSA and the efficient natural gas facilities.

## 5.6: Free Cash Flow and Adjusted Free Cash Flow

The following table reconciles cash flow from operations to Free Cash Flow and Adjusted Free Cash Flow:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Cash provided by operating activities** | **$ 559,368** | $ 310,499 | **$ 1,609,295** | $ 1,321,601 |
| Adjustments: | | | | |
| Net change in non-cash working capital balances related to operations | **(111,986)** | 13,648 | **(292,499)** | 32,333 |
| Non-expansionary capital expenditures | **(7,734)** | (15,793) | **(40,558)** | (28,324) |
| Restricted funding for major maintenance, debt and decommissioning reserves | **2,294** | (3,902) | **(7,505)** | (15,756) |
| Interest paid, net | **(100,842)** | (110,062) | **(277,908)** | (309,077) |
| Scheduled principal repayments on facility debt | **(278,667)** | (233,773) | **(635,901)** | (789,778) |
| Funds set aside (utilized) for scheduled principal repayments | **119,951** | 104,140 | **635** | 179,792 |
| Preferred share dividends | **(2,710)** | (2,707) | **(10,811)** | (11,364) |
| Consolidation of non-controlling interests | **(40,240)** | (26,151) | **(90,022)** | (123,609) |
| Deutsche Bucht Completion Distribution | **—** | — | **—** | 93,144 |
| Cash from operating activities from projects under construction | **—** | — | **—** | (66,853) |
| Lease payments | **(2,169)** | (2,447) | **(8,966)** | (9,210) |
| Investment income (1) | **4,750** | 5,432 | **20,153** | 22,450 |
| Nordsee One proceeds from government grant and warranty settlement | **10,764** | 7,809 | **38,636** | 28,281 |
| Share of joint venture project development costs | **(581)** | (2,679) | **(8,971)** | (4,669) |
| Foreign exchange | **(2,682)** | 855 | **9,902** | 5,072 |
| Other (2) | **6,825** | 11,507 | **1,921** | 19,555 |
| **Free Cash Flow** | **$ 156,341** | $ 56,376 | **$ 307,401** | $ 343,588 |
| **Add back**: Growth expenditures | **25,671** | 22,427 | **78,965** | 71,810 |
| **Adjusted Free Cash Flow** | **$ 182,012** | 78,803 | **$ 386,366** | $ 415,398 |

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

(2) Other includes adjustments for Nordsee One interest on shareholder loans, equity accounting, acquisition costs and non-cash expenses adjusted in working capital excluded from Free Cash Flow in the period.

*Adjusted Free Cash Flow*, is a supplementary non-IFRS cash flow measure including associated per share amounts and payout ratios. Adjusted Free Cash Flow is calculated by excluding growth-related expenditures from Free Cash Flow. Management believes this measure provides a relevant presentation of cash flow generated from the business before investment-related decisions (refer to *Section 5.3: Growth Expenditures* for additional information). Management believes Adjusted Free Cash Flow is a meaningful measure of Northland's ability to generate cash flow, after on-going obligations, to reinvest in growth and fund dividend payments. Reinvesting in growth is a key part of Northland's long-term strategy.

*Scheduled principal repayments on facility debt* reflect repayments as paid. *Funds set aside (utilized) for scheduled principal repayments* allocates repayments across the quarters in order to more clearly reflect the Company's performance. Gemini's principal repayment schedule is weighted towards the first payment of the year to align with Gemini's expected annual cash flow profile, while Nordsee One and Deutsche Bucht's principal repayments are equally weighted. For 2022, Northland's share of Gemini, Nordsee One and Deutsche Bucht's scheduled principal repayments are €84 million, €82 million and €77 million, respectively (2021 - €83 million, €87 million and €78 million; 2020 - €82 million, €80 million, €84 million, respectively). For 2022, the Spanish portfolio's principal repayment is €60 million (2021 - €23 million).

*Interest expense* is reflected each quarter as accrued in net income and working capital or paid.

In 2014, Nordsee One was awarded a grant under the European Commission's NER 300 program. The total grant value of €70 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, and with the final cash payments expected in 2023 for production in 2022. Proceeds under the grant attributable to Nordsee One's production are included in Free Cash Flow. For the year ended December 31, 2021, and December 31, 2020, proceeds from this program, based on production, totaled $16 million and $18 million, respectively.

### *Fourth Quarter*

Free Cash Flow of $156 million for the three months ended December 31, 2021, was 177% or $100 million higher than the same quarter of 2020. The significant factors increasing Free Cash Flow were:

- $51 million increase in overall earnings across all facilities, excluding the Spanish portfolio, as described in Adjusted EBITDA, primarily at the offshore wind facilities due to fewer periods of unpaid curtailments and negative prices at the German facilities and higher electricity prices on German production above the Subsidy Cap;
- $27 million contribution from the Spanish portfolio of onshore wind and solar facilities acquired in August 2021;
- $10 million decrease in net interest costs due to scheduled principal repayments on facility-level loans; and
- $9 million decrease in non-expansionary capital expenditures primarily at EBSA.

Adjusted Free Cash Flow, which excludes all non-capitalized growth expenditures, amounted to $182 million for the three months ended December 31, 2021, and was 131% or $103 million higher than the same quarter of 2020. The significant factors increasing Adjusted Free Cash Flow were as described for Free Cash Flow but exclude the $3 million increase in growth expenditures (refer to *Section 5.3: Growth Expenditures* for more information).

### *Full Year*

Free Cash Flow of $307 million for the year ended December 31, 2021, was 11% or $36 million lower compared to 2020. The significant factors decreasing Free Cash Flow include:

- $88 million decrease in overall earnings across all facilities, as described in Adjusted EBITDA, but primarily due to low wind resource at the three offshore wind facilities and turbine availability issues at Nordsee One.

The factors partially offsetting the decrease in Free Cash Flow were:

- $30 million contribution, net of debt and interest payments, from the Spanish portfolio; and
- $18 million decrease in net interest costs due to lower interest costs as a result of scheduled principal repayments on facility-level loans.

Adjusted Free Cash Flow, which excludes growth expenditures, amounted to $386 million for the year ended December 31, 2021, and was 7% or $29 million lower than 2020 due to the same factors affecting Free Cash Flow but exclude the $7 million increase in growth expenditures.

The following table summarizes cash and total dividends paid and respective Free Cash Flow payout ratios as well as per share amounts:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Cash dividends paid to common and Class A shareholders | **$ 44,688** | $ 40,652 | **$ 172,755** | $ 217,918 |
| Free Cash Flow payout ratio - cash dividends (1) | | | **56 %** | 63 % |
| Adjusted Free Cash Flow payout ratio - cash dividends (1) | | | **45 %** | 52 % |
| Total dividends paid to common and Class A shareholders (2) | **$ 67,938** | $ 60,555 | **$ 261,730** | $ 242,923 |
| Free Cash Flow payout ratio - total dividends (1) (2) | | | **84 %** | 71 % |
| Adjusted Free Cash Flow payout ratio - total dividends (1) | | | **67 %** | 58 % |
| Weighted avg. number of shares - basic (000s) (3) | **226,568** | 201,962 | **218,861** | 198,774 |
| Weighted avg. number of shares - diluted (000s) (4) | **226,568** | 201,962 | **218,861** | 201,169 |
| **Per share ($/share)** | | | | |
| Dividends paid (5) | **$ 0.30** | $ 0.30 | **$ 1.20** | $ 1.20 |
| Free Cash Flow — basic | **$ 0.69** | $ 0.28 | **$ 1.40** | $ 1.73 |
| Free Cash Flow — diluted | **$ 0.69** | $ 0.28 | **$ 1.40** | $ 1.72 |
| Adjusted Free Cash Flow — basic | **$ 0.80** | $ 0.39 | **$ 1.77** | $ 2.09 |
| Adjusted Free Cash Flow — diluted | **$ 0.80** | $ 0.39 | **$ 1.77** | $ 2.07 |

(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. In September 2020, all Class A shares were converted into common shares on a one-for-one basis.

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

At December 31, 2021, the rolling four quarter Free Cash Flow and the Adjusted Free Cash Flow net payout ratio were 56% and 45%, respectively, calculated on the basis of cash dividends paid, compared to 63% and 52% for the same period ending December 31, 2020. The improvement in the Free Cash Flow net payout ratio, despite lower Free Cash Flow reported in 2021, was due a higher share count – see table below for DRIP amounts and Equity offering proceeds during the period. The Adjusted Free Cash Flow net payout ratio was similarly improved compared to the same period ending December 31, 2020.

***Sources of Liquidity in Addition to Free Cash Flow to Fund Growth***

In addition to generated Free Cash Flow, Northland utilizes additional sources of liquidity to fund growth and capital investments. Additional liquidity sourced by management during the year ended December 31, 2021, is summarized as follows:

| | | Year ended December 31, | | |
|---|---|---|---|---|
| | | **2021** | | **2020** |
| Dividend Reinvestment Program (DRIP) | **$** | **88,975** | $ | 21,983 |
| Release of funds from debt service reserve (1) | | **73,723** | | 60,079 |
| EBSA financing, net of prior debt repayment and costs (2) | | **83,959** | | 113,645 |
| Proceeds from Canadian facility up-financing(s) | | **39,600** | | 51,942 |
| Proceeds from sale of monobucket foundations and related and insurance proceeds | | **—** | | 32,367 |
| **Total Liquidity Generated Before Equity Offering** | **$** | **286,257** | $ | 280,016 |
| Equity offering (net proceeds) | | **950,421** | | — |
| **Total Liquidity Generated After Equity Offering** | **$** | **1,236,678** | $ | 280,016 |

(1) 2021 represents the release of cash from Deutsche Bucht's debt service reserve account following the implementation of a debt service reserve facility when the senior debt was restructured. 2020 represents the release of cash from Gemini's debt service reserve account following the implementation of a debt service reserve facility.

(2) Of the $84 million distribution received from the EBSA financing, a total of $3.9 million was included in Free Cash Flow.

# SECTION 6: CHANGES IN FINANCIAL POSITION

The following table provides a summary of account balances derived from the audited consolidated statements of financial position as at December 31, 2021 and December 31, 2020.

| **As at** | | **December 31, 2021** | | **December 31, 2020** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | **$** | **673,692** | $ | 434,989 |
| Restricted cash | | **155,631** | | 192,530 |
| Trade and other receivables | | **383,308** | | 372,137 |
| Other current assets | | **77,950** | | 66,379 |
| Property, plant and equipment | | **9,586,466** | | 8,679,959 |
| Contracts and other intangible assets | | **497,635** | | 533,171 |
| Investment in joint ventures | | **131,134** | | 1,759 |
| Other assets (1) | | **1,037,913** | | 1,017,433 |
| | **$** | **12,543,729** | $ | 11,298,357 |
| **Liabilities** | | | | |
| Trade and other payables | | **504,583** | | 252,691 |
| Facility-level loans and borrowings | | **7,592,214** | | 7,237,200 |
| Net derivative liabilities (2) | | **215,618** | | 582,631 |
| Net deferred tax liability (2) | | **470,015** | | 300,567 |
| Other liabilities (3) | | **795,588** | | 922,497 |
| | **$** | **9,578,018** | $ | 9,295,586 |
| **Total equity** | | **2,965,711** | | 2,002,771 |
| | **$** | **12,543,729** | $ | 11,298,357 |

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

(2) Presented on a net basis.

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

Significant changes in Northland's audited consolidated statements of financial position were as follows:

- *Restricted cash* decreased by $37 million primarily due to the release of funds set aside for debt service at Deutsche Bucht, which were reclassified to cash, as a result of an amendment to Deutsche Bucht's debt facility agreement, partially offset by funds set aside for semi-annual bond payments.
- *Property, plant and equipment* increased by $907 million primarily due to the consolidation of the Spanish portfolio and construction-related activities at Northland's identified projects, partially offset by depreciation and foreign exchange fluctuation.
- *Equity investment* increased by $129 million mainly as a result of the purchase price of Baltic Power and the additional equity contribution accrued in pursuance of the purchase agreement.
- *Other assets* increased by $20 million primarily due to the consolidation of the Spanish portfolio, partially offset by the write-off of Iroquois Falls' goodwill, as a result of the expiry of its purchase price agreement in December 2021 and foreign exchange fluctuation.
- *Trade and other payables* increased by $252 million primarily due to consolidation of the Spanish portfolio, construction activities and purchase price commitments payable for Baltic Power.
- *Facility-level loans and borrowings* increased by $355 million mainly due to consolidation of the Spanish portfolio and the EBSA refinancing, partially offset scheduled principal repayments on facility-level debt and foreign exchange fluctuation.
- *Other liabilities* decreased by $127 million primarily due to repayment of the revolving corporate credit facility outstanding from the proceeds of the equity offering in May 2021.

# 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 growth 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, securing partnerships, 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.

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## *Equity and Convertible Unsecured Subordinated Debentures*

The change in shares during 2021 and 2020 was as follows:

| | **December 31, 2021** | **December 31, 2020** |
|---|---|---|
| | **Shares** | Shares |
| Shares outstanding, beginning of year | **202,171,075** | 179,441,219 |
| Conversion of subscription receipts | **—** | 14,289,000 |
| Equity offering | **22,500,500** | — |
| Conversion of debentures | **—** | 6,896,136 |
| Conversion of Class A shares | **—** | 1,000,000 |
| Shares issued under the LTIP | **21,967** | — |
| Shares issued under the DRIP | **2,189,209** | 544,720 |
| **Total common and convertible shares outstanding, end of period** | **226,882,751** | 202,171,075 |

Preferred shares outstanding as at December 31, 2021, and 2020 were as follows:

| **As at** | **December 31, 2021** | **December 31, 2020** |
|---|---|---|
| **Preferred shares outstanding** | | |
| Series 1 | **4,762,246** | 4,762,246 |
| Series 2 | **1,237,754** | 1,237,754 |
| Series 3 | **4,800,000** | 4,800,000 |
| **Total** | **10,800,000** | 10,800,000 |

In their most recent report issued in March 2021, 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 September 2021, Northland received a second corporate credit rating of BBB (stable) from Fitch Ratings Inc., a global rating agency.

At December 31, 2021, Northland had 226,882,751 common shares outstanding (as at December 31, 2020 - 202,171,075) with no change in preferred shares outstanding from December 31, 2020.

As of February 24, 2022, Northland has 227,268,708 common shares outstanding with no change in preferred shares outstanding from December 31, 2021.

## *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,** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Cash and cash equivalents, beginning of period** | **$ 533,079** | $ 487,037 | **$ 434,989** | $ 268,193 |
| Cash provided by operating activities | **559,368** | 310,499 | **1,609,295** | 1,321,601 |
| Cash (used in) investing activities | **(242,302)** | (82,336) | **(1,030,864)** | (839,272) |
| Cash (used in) provided by financing activities | **(151,112)** | (281,611) | **(225,678)** | (389,533) |
| Effect of exchange rate differences | **(25,341)** | 1,400 | **(114,050)** | 74,000 |
| **Cash and cash equivalents, end of period** | **$ 673,692** | $ 434,989 | **$ 673,692** | $ 434,989 |

## *Fourth Quarter*

Cash and cash equivalents for the fourth quarter of 2021 increased $187 million from September 30, 2021, due to cash provided by operations of $559 million, partially offset by cash used by investing activities of $242 million, cash used in financing activities of $151 million and $25 million effect of foreign exchange translation.

The increase in cash and cash equivalents during the quarter was largely due to higher cash provided by operations, partially offset by inclusion of the Spanish portfolio, construction-related activities at Northland's identified projects and foreign exchange rate differences.

### *2021*

Cash and cash equivalents for the year ended December 31, 2021, increased $239 million due to cash provided by operations of $1.6 billion and $114 million effect of foreign exchange translation, partially offset by $1.0 billion of cash used in investing activities and $226 million in financing activities.

Cash provided by operating activities for the year ended December 31, 2021, was $1.6 billion comprising:

- $270 million of net income;
- $1.0 billion in non-cash and non-operating items such as depreciation and amortization, finance costs, changes in fair value of financial instruments and deferred taxes; and
- $292 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, 2021, was $1.0 billion, primarily comprising:

- $502 million paid primarily for the acquisition of the Spanish portfolio and Baltic Power, net of cash acquired;
- $470 million used for the purchase of property, plant and equipment, mainly for the ongoing construction at New York Wind, La Lucha and Hai Long projects; and
- $55 million of restricted cash used mainly related to the ongoing New York Wind construction.

Cash used in financing activities for the year ended December 31, 2021, was $226 million, primarily comprising:

- $897 million in principal repayments on project debt including EBSA refinancing in December 2021;
- $303 million in net repayment under the corporate syndicated revolving facility;
- $281 million of common and preferred share dividends as well as dividends to non-controlling shareholders; and
- $281 million in interest payments.

Factors partially offsetting cash used in financing activities include:

- $950 million received from common shares issued in April 2021;
- $518 million of draws on project debt primarily for EBSA refinancing and for construction of the projects in New York;
- $76 million change in restricted cash, primarily from funds released from debt service reserve at Deutsche Bucht, partially offset by funds set aside for debt service.

Movement of foreign currencies, including primarily the Euro and Colombian peso, against the Canadian dollar decreased cash and cash equivalents by $114 million for the year ended December 31, 2021. Northland aims to mitigate the effects of exchange rate fluctuations through a variety of mechanisms, including foreign exchange hedges and natural hedges by corporate debt denominated in USD or Euro for operating expenditures.

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## *Property, Plant and Equipment*

The following table provides a continuity of the cost of property, plant and equipment for the year ended December 31, 2021:

| | Cost balance as at Dec 31, 2020 | Acquired | Additions | Other [1] | Exchange rate differences | Cost balance as at Dec 31, 2021 |
|---|---|---|---|---|---|---|
| **Operations:** | | | | | | |
| Offshore wind | $ 7,174,847 | $ — | $ 19,533 | $ (2,620) | $ (546,819) | **$ 6,644,941** |
| Efficient natural gas[2] | 1,769,426 | — | 14,461 | (5,960) | — | **1,777,927** |
| Onshore renewable | 1,753,440 | 1,573,274 | 1,929 | 1,934 | (34,581) | **3,295,996** |
| Utility | 597,731 | — | 32,984 | (1,631) | (100,114) | **528,970** |
| **Construction:** | | | | | | |
| Onshore renewable | 163,928 | — | 369,124 | (969) | (4,189) | **527,894** |
| **Corporate** [3] | 91,998 | — | 89,122 | (876) | (3,758) | **176,486** |
| **Total** | $ 11,551,370 | **$ 1,573,274** | **$ 527,153** | **$ (10,122)** | **$ (689,461)** | **$ 12,952,214** |

(1) Includes disposal of assets and amounts accrued under the long term incentive plan ("LTIP").

(2) Excludes Spy Hill lease receivable accounting treatment.

(3) Additions primarily related to Hai Long capitalization in construction-in-progress.

## *Long-term Debt*

Northland's operating facilities and projects under construction are financed primarily with non-recourse project debt with fixed or hedged interest rates and repayment schedules tied to the terms of the project offtake agreement. Following the commercial operations date (**COD**), each project is structured 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 opportunities.

The following table provides a continuity of Northland's debt for the year ended December 31, 2021:

| | Balance as at Dec 31, 2020 | Acquired | Financings, net of costs | Repayments | Amort. of costs/fair value | Exchange rate differences | Balance as at Dec 31, 2021 |
|---|---|---|---|---|---|---|---|
| **Operations:** | | | | | | | |
| Offshore wind | $ 4,837,429 | $ — | $ (9,926) | $ (476,188) | $ 19,704 | $ (360,983) | **$ 4,010,036** |
| Efficient natural gas | 953,458 | — | — | (52,280) | 1,380 | — | **902,558** |
| Onshore renewable | 997,261 | 1,124,187 | 39,592 | (107,431) | 2,258 | (23,959) | **2,031,908** |
| Utility | 449,052 | — | 359,190 | (261,433) | 711 | (29,424) | **518,096** |
| **Construction:** | | | | | | | |
| Onshore renewable | — | — | 129,625 | — | — | — | **129,625** |
| **Corporate** | 351,402 | — | 371,315 | (674,433) | (136) | (6,332) | **41,816** |
| **Total** | $ 7,588,602 | **$ 1,124,187** | **$ 889,796** | **$ (1,571,765)** | **$ 23,917** | **$ (420,698)** | **$ 7,634,039** |

Additionally, as at December 31, 2021, $94 million of letters of credit were outstanding under non-recourse project-level credit facilities for operational use.

In March 2021, Deutsche Bucht amended its debt facility agreement to reduce the interest rate on the facility's senior debt to 2.3% (from approximately 2.6%). The amendment also included the addition of a debt service reserve facility, which released €50 million ($74 million) from funds previously restricted for debt service.

In June 2021, Northland entered into non-recourse construction loan, tax equity bridge loan and term loan for Ball Hill and Bluestone onshore wind projects in New York, amounting to US$381 million (approximately C$475 million), at a 1.45% interest rate during construction. The maturity date of the loan is December 31, 2024, two years after COD.

In the third quarter, Northland restructured and upsized the senior debt on a number of its Canadian solar facilities, resulting in one-time cash distribution to Northland totaling $40 million. This refinancing constitutes green project financing supporting Northland's ESG initiatives. In 2021, Northland received cash distributions of $113 million from optimizing and upsizing project finance and other debt structures to further enhance liquidity to fund growth. These cash distributions are not included in Free Cash Flow or Adjusted Free Cash Flow.

In December 2021, Northland restructured and upsized EBSA's long-term, non-recourse financing resulting in $84 million of incremental cash proceeds to Northland, net of closing costs. The EBSA Facility is structured as a $521 million term loan and a $12 million debt service reserve credit facility. The restructured facility is denominated in Canadian dollars, and the principal amount is currently 100% hedged against the Colombian peso. The interest rate on the debt facility, before foreign exchange hedging costs is 3.7%. In addition, the EBSA Facility now has longer term (3 years compared to 2 years previously). The upsizing proceeds are expected provide Northland with additional liquidity to fund its Capitalized Growth Projects. Under the terms of the EBSA Facility, management intends to execute recurring upsizings of the debt, supported by continued growth in EBSA's EBITDA.

### *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 and preferred shareholders. Most operating subsidiaries hold non-recourse debt, which typically prohibits distributions if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark debt service coverage ratio, which is the ratio of EBITDA to scheduled principal and interest payments over a specified time period. Northland and its subsidiaries were in compliance with all debt covenants for the period ended December 31, 2021.

### *Corporate Credit Facilities and Letters of Credit*

Northland's corporate credit facilities are available for general corporate purposes, to support operational, construction and development opportunities and to provide letters of credit issued on behalf of Northland. The corporate credit facilities are summarized in the following table:

| **As at December 31, 2021** | **Facility size** | **Amount drawn** | **Outstanding letters of credit** | **Available capacity** | **Maturity date** |
|---|---|---|---|---|---|
| Syndicated revolving facility | $ 1,000,000 | $ 44,722 | $ 206,802 | $ 748,476 | Sep. 2026 |
| Bilateral letter of credit facility | 150,000 | — | 143,765 | 6,235 | Mar. 2023 |
| Export credit agency backed letter of credit facility | 100,000 | — | 50,801 | 49,199 | Mar. 2022 |
| Export credit agency backed letter of credit facility | 50,000 | — | 39,367 | 10,633 | n/a[1] |
| **Total** | **$ 1,300,000** | **$ 44,722** | **$ 440,735** | **$ 814,543** | |
| Less: deferred financing costs | | 2,897 | | | |
| **Total, net** | | **$ 41,825** | | | |

(1) The $50 million facility does not have a specified maturity date.

- Of the $441 million of corporate letters of credit issued as at December 31, 2021, $235 million relates to projects under advanced development or construction.
- In September 2021, Northland extended its $1 billion revolving corporate credit facility with a syndicate of both Canadian and global financial institutions to 2026 (from 2024) and executed several amendments to increase liquidity available to fund growth. Concurrently, the Company implemented a Sustainability Linked Loan (**SLL**) overlay. The implementation of the SLL is an important milestone for Northland and is aligned with the Company's ESG initiatives and green financing framework introduced in February 2021. The SLL is based on achieving defined targets related to both increasing renewable generating capacity and reducing carbon emissions intensity and is expected to provide Northland with cost savings if the targets are met.
- In July 2021, Northland entered into a new $50 million export credit agency backed corporate letter of credit facility to support its global growth.
- During the year ended December 31, 2021, Northland made net repayments of $303 million on the syndicated revolving facility, with remaining movement in the period due to foreign exchange fluctuations.

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

### *Exposure to LIBOR and EURIBOR*

LIBOR and EURIBOR are the two key global benchmark rates used to determine interest rates and value government and corporate bonds, loans, currency and interest rate swaps and many other financial products. Global regulators have been working with industry groups and policymakers over the past several years to identify and transition to more robust reference rates. In Europe, regulators have transitioned to a hybrid calculation methodology for EURIBOR. In the United States, regulators have identified the secured overnight financing rate (SOFR) as the successor rate for USD LIBOR. Effective December 31, 2021, USD LIBOR will not be used for new loans, and interest rate swaps will be converted to Term SOFR by June 30, 2023.

As at December 31, 2021, Northland had €3.8 billion and US$132 million of EURIBOR-linked borrowings and derivatives, respectively, that extend beyond 2021.

Management is monitoring industry developments and has developed a transition plan, which includes a comprehensive review of financial exposures, proactive discussions with lenders and an amendment to its corporate credit agreement and applicable project-level financing agreements to preserve the intended economics. Management does not currently expect a material financial impact to Northland and continues to monitor and manage the transition.

### *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, 2021, are summarized in the following table:

| | 2022 | 2023 | 2024 | 2025 | 2026 | >2026 |
|---|---|---|---|---|---|---|
| **Derivative contracts** | | | | | | |
| Euro foreign exchange contracts | 184,304 | 178,830 | 181,034 | 184,819 | 178,076 | 1,285,441 |
| Colombian peso foreign exchange contracts | 390,178 | 4,693 | — | — | — | — |
| U.S. dollar foreign exchange contracts | 18,394 | 129,625 | — | — | — | — |
| U.S. dollar interest rate swaps | 3,803 | — | — | — | — | — |
| US La Lucha interest rate swaps | 667 | 627 | 583 | 580 | 528 | 1,588 |
| Power financial contracts | 17,032 | 8,963 | 685 | — | — | — |
| **Facility-level debt at Northland's share** | | | | | | |
| Gemini | € 84,125 | € 89,410 | € 94,266 | € 99,436 | € 101,405 | € 479,632 |
| Nordsee One | 88,411 | 86,767 | 88,119 | 83,029 | 92,194 | 14,100 |
| Deutsche Bucht | 76,507 | 78,071 | 78,853 | 91,091 | 92,824 | 393,120 |
| Spain | 60,901 | 62,764 | 63,868 | 64,138 | 62,855 | 406,318 |
| Total in Euro | € 309,944 | € 317,012 | € 325,106 | € 337,694 | € 349,278 | €1,293,170 |
| New York Wind | US$ — | US$ — | US$102,600 | US$ — | US$ — | US$ — |
| Total in Canadian dollar (1) | 467,453 | 478,112 | 490,320 | 509,305 | 526,776 | 1,950,338 |
| EBSA (2) | — | — | 514,987 | — | — | — |
| All other facilities (3) | 115,435 | 131,915 | 130,098 | 126,429 | 137,369 | 995,734 |
| Total operating facility liabilities | 582,889 | 610,029 | 1,266,922 | 635,733 | 664,144 | 2,946,072 |
| Interest payments including swap derivative contracts | 220,968 | 200,455 | 186,133 | 150,638 | 190,091 | 369,233 |
| **Corporate liabilities** | | | | | | |
| Corporate credit facilities, including interest | 83 | 84 | 94 | 94 | 44,793 | — |
| **Total** | **$1,418,318** | **$1,133,306** | **$ 1,635,451** | **$ 971,864** | **$1,077,632** | **$4,602,334** |

(1) Debt balance was reported at 100% ownership.

(1) Using long-term foreign exchange rates.

(2) EBSA Facility is expected to be renewed annually.

(3) Other includes debt service costs of the efficient natural gas and onshore renewable facilities.

## *Non-Financial Commitments and Contractual Obligations*

The following table summarizes all material fixed contractual commitments and obligations as at December 31, 2021, 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 $1.51 and Canadian dollar/U.S. dollar exchange rate of $1.28. 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.

| | 2022 | 2023 | 2024 | 2025 | 2026 | >2026 |
|---|---|---|---|---|---|---|
| Maintenance agreements | $ 180,194 | $ 167,805 | $ 154,813 | $ 138,962 | $ 666,548 | $ 718,898 |
| Construction, excluding debt, interest and fees | 1,210 | 1,235 | 1,259 | 1,284 | 1,310 | 40,652 |
| Natural gas supply and transportation, fixed portion | 16,833 | 15,362 | 12,727 | 12,965 | 13,223 | 45,549 |
| Leases | 54,059 | 53,060 | 51,314 | 49,708 | 45,567 | 129,197 |
| Decommissioning liabilities | 14,301 | 14,301 | 14,301 | 14,302 | 14,304 | 59,685 |
| Management fees | 5,819 | 3,966 | 1,082 | 1,094 | 1,106 | 10,159 |
| **Total** | **$ 272,416** | **$ 255,729** | **$ 235,496** | **$ 218,315** | **$ 742,058** | **$1,004,140** |

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

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# SECTION 8: SUMMARY OF QUARTERLY CONSOLIDATED RESULTS

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

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

| *In millions of dollars, except per share information* | Q4 2021 | Q3 2021 | Q2 2021 | Q1 2021 | Q4 2020 | Q3 2020 | Q2 2020 | Q1 2020 |
|---|---|---|---|---|---|---|---|---|
| Total sales | $ 640 | $ 432 | $ 408 | 613 | $ 493 | $ 471 | $ 429 | $ 668 |
| Operating income | 295 | 89 | 118 | 306 | 177 | 179 | 149 | 395 |
| Net income (loss) | 130 | (5) | (6) | 151 | 27 | 109 | 74 | 275 |
| Adjusted EBITDA | 364 | 211 | 203 | 360 | 269 | 254 | 227 | 421 |
| Cash provided by operating activities | 559 | 280 | 361 | 408 | 310 | 278 | 365 | 368 |
| Free Cash Flow | 156 | 11 | 6 | 134 | 56 | 58 | 17 | 211 |
| Adjusted Free Cash Flow | 182 | 35 | 22 | 147 | 79 | 74 | 38 | 224 |
| **Per share statistics** | | | | | | | | |
| Net income (loss) - basic (1) | $ 0.45 | $ (0.06) | $ (0.09) | $ 0.54 | $ 0.11 | $ 0.43 | $ 0.28 | $ 1.08 |
| Net income (loss) - diluted (1) | 0.45 | (0.06) | (0.09) | 0.54 | 0.11 | 0.42 | 0.28 | 1.04 |
| Free Cash Flow - basic | 0.69 | 0.05 | 0.03 | 0.66 | 0.28 | 0.30 | 0.09 | 1.10 |
| Adjusted Free Cash Flow - basic | 0.80 | 0.15 | 0.10 | 0.73 | 0.38 | 0.41 | 0.21 | 1.17 |
| Total dividends declared (2) | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 |

(1) Net income (Loss), basic and diluted per share are adjusted due to correction of historical net income allocated to common shareholders and non-controlling interests ("NCI") in 2021 and 2020.

(2) Q1 2020 excludes $0.40 of dividend equivalent payments declared and paid upon conversion of 14,289,000 subscription receipts.

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# SECTION 9: DEVELOPMENT, ACQUISITION AND CONSTRUCTION ACTIVITIES

In addition to completed acquisitions and investments made this year, summarized below are Northland's most significant projects under construction and under development as:

***Scotwind Offshore Wind Project***

On January 17, 2022, Northland announced that it was awarded two offshore wind leases in the Crown Estate Scotland auction with a total combined capacity of 2,340MW. The two leases, one fixed foundation (840MW) and one floating foundation (1,500MW), will extend Northland's development runway into the next decade, with commercial operations expected at the end of 2029/2030 for the fixed and early 2030s for the floating.

***Nordsee Offshore Wind Cluster***

Subsequent to December 31, 2021, Northland and its German partner, RWE announced the formation of a 1,333MW Nordsee Offshore Wind Cluster partnership encompassing Nordsee Two (430MW), Nordsee Three (420MW) and Nordsee Delta (480MW). The formation of the cluster is expected to allow the realization of synergies in development, construction as well as operating costs, leading to enhanced returns for the projects. In September 2021, Northland and RWE exercised their step-in rights to secure the lease for Nordsee Two, following a competitive auction that resulted in the winning bid being a zero bid. Northland and RWE also have similar step-in rights for Nordsee Three and Delta, which are expected to come to auction in 2023.

Northland holds a 49% interest in the new partnership, with RWE holding 51%. The projects are expected to be developed and managed on a joint basis by both parties and are expected to achieve commercial operations between 2026 and 2028.

***Colombian 130MW Solar Projects***

In November 2021, Northland, in partnership with EDF Renewables, a subsidiary of Électricité de France S.A. (EPA:EDF), successfully submitted a joint-bid into the renewables auction in Colombia and was awarded the right to build two solar projects with a total combined capacity of 130MW. The solar projects will benefit from a 15-year PPA with multiple energy distribution and commercial entities in Colombia, starting in 2023. The PPA will be denominated in Colombian pesos and will have annual indexation to the Colombian Producer Price index (**PPI**). In addition, the projects will receive a reliability charge in US dollars, which is expected to account for approximately 10% of total revenues of the projects. Northland has a 50% interest in the projects with commercial operations expected in the second half of 2023. These projects represent further execution on Northland's growth platform in Colombia, leveraging its existing position in EBSA to secure and develop additional renewable projects.

***Japanese Offshore Wind Projects***

In September 2021, the Japanese government designated four new sea areas as "promising areas" for the development of offshore wind projects under its Round Three process. Included in these four areas was Isumi City, Chiba Prefecture, where Northland is progressing with the development of its Chiba offshore wind project, in consortium with Shizen Energy Inc. (**Shizen Energy)** and Tokyo Gas. Additionally, Northland continues to explore an opportunity, the Katagami offshore wind project, in the Akita Prefecture, through a consortium with Mitsui and Osaka Gas, that was also designated in the promising areas list. The designation as "promising areas" for these two regions is a key milestone in the early-stage development processes for these two projects, that could have a total productive capacity of up to 900MW when complete.

***Spanish Renewables Acquisition***

In August 2021, Northland completed the acquisition of the Spanish portfolio with a total combined net capacity of 551MW. The transaction included the acquisition of minority interests not included in the initial announced transaction. The portfolio includes 33 operating assets comprised of onshore wind (435MW), solar photovoltaic (66MW), and a concentrated solar (50MW) located throughout Spain. Total cash consideration at closing was €348 million ($511 million), including working capital amounts $53 million, with the assumption of debt totaling €766 million ($1,124 million). The acquisition was funded using proceeds from Northland's common equity offering completed on April 14, 2021.

In 2020, the Spanish government made a commitment to achieve 70% of electricity generation from renewable energy sources by 2030 as part of the Law on Climate Change and Energy Transition. The 2030 target translates into a requirement for an estimated 35 to 40GW of additional renewables capacity. In support of its 2030 goal, the Spanish government is expected to auction a further 16.5GW of solar and onshore wind capacity over the next five years. In addition, the Spanish market has developed into one of the most active corporate offtake markets in Europe, which together with the expected procurement noted above and an attractive merchant power market, offer several routes to market for new renewables. Spain has also announced a 2030 target of 4GW of hydrogen and 20GW of storage, which align with Northland's energy transition growth objectives. Northland intends to leverage the acquisition of the Spanish portfolio to build a platform with asset management, development, and operations and maintenance capabilities that can competitively pursue onshore renewables acquisition and development opportunities across Europe over the next decade.

The Spanish portfolio aligns well with Northland's priority to diversify and add high-quality, contracted or regulated cash flows to the business. All the acquired assets are governed under the Spanish regulatory framework, which provides a regulated return based on a standard set of operating parameters. Once an asset reaches the end of its regulatory life, it is expected that the project will either sell its generation output in the merchant power market in Spain or secure a commercial or utility PPA. The framework provides the assets with a regulated sales stream for the remaining regulatory life, which averages 13 years across the Spanish portfolio, increasing Northland's average contracted life of its entire power generation portfolio.

Based on the transaction metrics upon closing, Northland expects the acquisition to be immediately accretive to Free Cash Flow per share and Adjusted Free Cash Flow per share.

***New York Onshore Wind Projects***

Northland continues to progress its three onshore wind projects in New York State ("**NY Wind**"), with two of the projects, Ball Hill and Bluestone, comprising 220MW, having achieved financial close in the second quarter of 2021 and secured green financing in the form of a non-recourse project/construction loan, tax equity bridge loan and letters of credit, with a consortium of lenders totaling US$381 million (approximately C$476 million), at a 1.45% interest rate during construction. Northland funded investment in the two projects from the equity offering in April 2021 and also expects to secure permanent tax equity investments for the two projects ahead of commercial operations in 2022. Construction activities for both projects are in progress. The total capital cost for the first two projects is expected to be approximately $0.6 billion. Northland's third New York onshore wind project, High Bridge (100MW), is under active development. In early 2020, the three projects were awarded 20-year indexed Renewable Energy Certificate (**REC**) agreements with the New York State Energy Research and Development Authority as part of renewable energy solicitations.

The New York projects form part of Northland's broader strategy for onshore renewable development in the United States, where the Company is targeting a total portfolio of 1GW and has hired a dedicated local team of people to execute on this strategy. The projects will offer social, economic and environmental benefits to New York State and once complete, are expected to contribute to the State's green energy production, helping fulfill New York's clean energy transformation.

***Helios Colombian Solar Project***

Northland's 16MW Helios solar project in Colombia achieved financial close in 2021. The project secured a green loan and commenced construction, with commercial operations expected in the first quarter of 2022. Helios represents Northland's first development project in Colombia which capitalizes on EBSA's grandfathered rights, allowing it to expand into the energy generation market in Colombia, to service the power needs of non-regulated municipal, commercial and industrial (**C&I**) customers. Helios has secured a 12-year PPA with EBSA, which, in turn, will secure offtake agreements with non-regulated customers. The total capital cost for Helios is expected to be under $20 million.

***Baltic Power Polish Offshore Wind Project***

In March 2021, Northland completed its acquisition of a 49% interest in the Baltic Power offshore wind project ("**Baltic Power**") in the Baltic Sea with a total capacity of up to 1,200MW of offshore wind generation, for total cash consideration of PLN 255 million ($82 million). Baltic Power is a mid-development stage project located approximately 23 kilometers offshore from Poland's coast in the Baltic Sea with a total capacity of up to 1,200MW. The project, which has secured its location permit, filed its environmental permit application in 2020 and signed its grid connection agreement, will allow Northland to capitalize on the growth in renewable energy demand in a growing Central European market. Baltic Power adds to Northland's offshore wind portfolio and provides a new market to enhance the geographic and regulatory diversity in its asset portfolio.

In June 2021, the Baltic Power project, secured a 25-year Contract for Differences ("**CfD**") from Poland's Energy Regulatory Office under the Polish Offshore Wind Act. Under the 25-year contract, the project is guaranteed a price of PLN 319.60 per megawatt hour (MWh), which is adjusted to annual indexation by Poland's annual average consumer price index. The CfD is subject to review and final approval from Polish authorities and the European Commission. Upon successful achievement of all necessary approvals, construction of Baltic Power is expected to commence in 2023 following financial close, with commercial operations anticipated in 2026.

Pursuant to the joint venture agreement, Northland made development commitments of approximately €33 million ($49 million) to be funded over the next two years, of which $7 million was funded during 2021. As contractual milestones are met, Northland expects to contribute additional development funding.

### *La Lucha Mexican Solar Project*

The 130MW solar project in the State of Durango, Mexico, completed its activities relating to the physical construction, however, certain activities relating to the energization of the project continue to be delayed. In order to achieve commercial operations, the facility requires energization followed by testing, which is conducted by CENACE (Independent System Operator) and CFE (Federal Electricity Commission). Final approvals, energization, testing and interconnection of renewable power projects have generally been delayed in Mexico by pandemic related government and CFE temporary office closures and reduced operating capacity. In addition, these processes have seen further delays that are likely related to the uncertainty created by the Mexican government's so far unsuccessful attempts to amend electricity sector regulations and constitutionally embedded legislation and timelines remain uncertain as a result. Efforts to secure commercial offtake and project financing are expected to be finalized only after commercial operations. As a result of the aforementioned delays, total capital costs for the project are expected to be around $200 million.

### *Chiba Offshore Wind Projects*

Northland and Shizen Energy Inc. are jointly developing an early-stage offshore wind development opportunities ("**Chiba**") in Japan. The prospective projects have an expected combined capacity of approximately 600MW. In 2020, Shizen divested a portion of its investment in Chiba to Tokyo Gas, thereby reducing Northland's share of the growth expenditures.

### *Hai Long 1,044MW Offshore Wind Project*

The Hai Long project owned 60% by Northland and its 40% partner, Yushan Energy, was allocated a total of 1,044MW (626MW net to Northland) by the Bureau of Energy of Taiwan under a FIT program and an auction process in 2019. Key aspects of the Hai Long project are presented in the following table:

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

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

In July 2021, Hai Long received an amendment to the project's EIA from Taiwan's Environmental Protection Agency to accommodate a larger, 14MW turbine with longer blade lengths. Receipt of the EIA amendment allows Hai Long to complete further fieldwork to improve wind generation yields. In April 2021, Hai Long received confirmation from the Taiwan Bureau of Energy that Hai Long 2A had secured approval for the Industrial Relevance Proposal, which sets out Northland's commitments to local supply chain and procurement, marking the achievement of a significant milestone.

Hai Long expects to execute additional preferred supplier agreements with major contractors in the near-term. Having executed a 20-year PPA with Taipower for the Hai Long 2A offshore wind project in 2019, Northland expects to execute corporate and industrial offtake agreements for the two other sub-projects in the first half of 2022, though opportunities also exist to enter into economically favourable commercial PPAs to augment the economics of the sub-projects. The project continues to progress towards financial close expected in the second half of 2022.

# SECTION 10: FINANCIAL OUTLOOK

***Adjusted EBITDA***

For 2022, management expects Adjusted EBITDA to be in the range of $1.15 billion to $1.25 billion.

***Free Cash Flow and Adjusted Free Cash Flow***

In 2022, management expects Free Cash Flow to be in the range of $1.20 to $1.40 per share and Adjusted Free Cash Flow to be in the range of $1.65 to $1.85 per share.

As a growth company with a significant pipeline of development projects, Northland is committed to unlocking the value in this pipeline by deploying early-stage investment capital (growth development expenditures) to advance its projects. As in 2021, with the regional development offices fully functional and several growth opportunities secured, Northland expects to incur higher development expenditures in 2022. These expenses are expected to be approximately $100 million in 2022 compared to $79 million in 2021, which are included in the aforementioned variance explanations. Early-stage development investments will reduce near-term Free Cash Flow until the projects achieve commercial operations but are expected to deliver long-term, sustainable growth in earnings and Free Cash Flow.

In addition, any gains from the future sell-down of ownership interests in development assets would be included in Free Cash Flow and Adjusted Free Cash Flow as they relate to capturing development profits at key milestones. Currently, the 2022 guidance for Free Cash Flow and Adjusted Free Cash Flow does not incorporate any sell-down proceeds and as such, net proceeds would increase reported Free Cash Flow in the event they occur in 2022.

***Long-Term Outlook***

Currently, Northland has 366MW of additional capacity in construction, with the expectation for completion in 2022. The Company also has almost 3GW of gross capacity mid- to late-stage development projects that are scheduled for financial close and commencement of construction within the next two years. Once these projects are complete, Northland's total gross capacity will nearly double to more than 6.5GW by 2027. Longer-term, the Company continues to advance a pipeline of over 10GW encompassing its identified projects and additional opportunities to support the sustained growth of the Company. Northland's investor day materials provide more details on our growth ambitions including an illustration of our funding plan and specific project milestones achieved since last year that are expected to create value for shareholders over the long-term.

The Company continues to have sufficient liquidity available to execute on its growth objectives. As at December 31, 2021, Northland had access to $776 million of cash and liquidity, comprising $748 million of liquidity available under a syndicated revolving facility and $28 million of corporate cash on hand.

# SECTION 11: LITIGATION, CLAIMS AND CONTINGENCIES

Litigation, claims and other contingencies arise from time to time in the ordinary course of business for Northland. None of these contingencies, individually or in aggregate, are expected to result in a liability that would have a material adverse effect on Northland. Refer to Note 25 of the audited consolidated financial statements for additional information including any contingencies arising as a result of completed acquisitions.

# SECTION 12: ESG AND CLIMATE CHANGE

## *ESG at Northland*

Northland's primary focus of its Environmental, Social and Governance (ESG) strategy is to build a sustainable and carbon-free world. Northland's ability to achieve its objectives is based on its ability to safely supply reliable, affordable, and clean energy while delivering long-term economic value for shareholders. This has been Northland's commitment for over 34 years and continues to be core to how projects are developed, constructed, and operated.

The focus of Northland's ESG framework is on the continued decarbonization efforts through our renewable energy developments, while effectively managing our resources. This entails developing and empowering our people, creating meaningful and collaborative relationships and partnerships with local and Indigenous communities, and upholding the highest standards of good and responsible governance.

As Northland continue to focus on enhancing the reporting around its ESG-related activities, programs, and performance the Company will be reporting this in line with the recommendations of the Task Force for Climate Related Disclosure (TCFD).

*Climate-related risks and opportunities*

As a growth company with a significant pipeline of development projects, Northland is focused on growing its renewable energy portfolio to support ongoing global de-carbonization efforts. Building on its history of providing clean energy solutions, Northland's strategy reflects the demands and complexities of this transition in the short-, medium- and long-term. Over the next 1-5 years Northland will leverage its existing portfolio and expertise to build out its pipeline of greenfield and brownfield offshore and onshore development projects in key markets across North America, Latin America, Europe and Asia. Refer to the 2021 AIF for a summary of regulatory developments in the markets where Northland operates.

Longer-term the Company's efforts are centered on expanding its offshore wind presence through continued development of early-stage projects in Europe and Asia. In addition, Northland is also focused on establishing and expanding a position in new emerging technologies such as energy storage and green hydrogen. The goal is to create sustainable renewable and green infrastructure assets that meet the energy demands for accessible and reliable energy, while supporting global emissions reduction targets. Northland has also committed to reducing its own carbon intensity through the growth of its renewable energy portfolio and its commitment towards making no further investment in efficient natural gas assets.

Northland recognizes the risks and opportunities associated with climate (both from the transition to a lower carbon economy and from weather impact). Climate-related risks and opportunities are assessed throughout the project lifecycle.

Northland prioritizes risks and opportunities as part of its decision-making process and incorporates them into its planning assumptions, investment decision process, project development and operational processes. Northland employs a strategy that focuses on identifying opportunities in key markets through project management, operations, market analysis, regulatory assessments, and monitoring.

Northland continues to identify opportunities for access to capital, growth opportunities in new areas (energy storage and hydrogen), markets and human capital growth. Northland continues to view the climate-related risks as being associated with the variability of results, risks from acute, chronic weather changes on its physical assets and the potential for increasing costs due to more stringent regulatory and policy requirements.

*Risk Management*

Identification and assessment of climate –related risks are done throughout the project life cycle as well as considered as part of the Enterprise Risk Management (ERM) process and as part of the ESG Steering Committee. Northland's risk identification, assessment, response planning, reporting and monitoring are integrated into routine business activities, with ownership of key risks delegated to the functional leads throughout the organization. Any identified risks are escalated to the Executive Team, and Board of Directors, and are monitored to ensure appropriate responses.

# SECTION 13: FINANCIAL RISKS AND UNCERTAINTIES

Northland's activities expose it to a variety of risks. Refer to the 2021 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 and ensure stable cash levels available to pay dividends to shareholders and fund growth. 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 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 Northland's future cash flows from financial instruments will fluctuate because of changes in market prices. Financial instruments affected by market risk include loans and borrowings and derivative financial instruments. Types of market risk to which Northland is exposed are discussed below.

*(i) Interest Rate Risk*

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

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

*(ii) Credit Spread Risk*

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

*(iii) Currency Risk*

Currency risk arises because the Canadian dollar equivalent of transactions, assets or liabilities denominated in foreign currencies may vary due to changes in -foreign exchange rates. Northland is exposed to changes in the euro, U.S. dollar, Colombian peso, Taiwan dollar, Polish zloty, and to a lesser degree, Japanese yen and Korean won for the early stage projects in those countries. Primary exposure to Northland arises from the euro-denominated financial statements and cash distributions at Gemini, Nordsee One, Deutsche Bucht,and the Spanish Portfolio, and Colombian peso-denominated financial statements and cash distributions from EBSA, and development spending at the pipeline projects. Management manages this risk by hedging material net foreign currency cash flows to the extent practical and economical to minimize material cash flow fluctuations.

Northland has entered into long-term foreign exchange contracts to fix foreign exchange conversion rates on the majority of forecasted euro-denominated cash inflows from Gemini, Nordsee One, Deutsche Bucht, and the Spanish Portfolio. Northland has entered into a short-term rolling hedge program to fix foreign exchange conversion rates on a portion of distributions from EBSA.

*(iv) Commodity Price Risk*

Commodity price risk arises where: (i) PPA revenues for efficient natural gas 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 is exposed to changes in the Dutch wholesale power price at Gemini.

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. Northland has entered into derivatives to stabilize the effect of changes in Dutch wholesale power prices.

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, 2021, the average wholesale market price was above the contractual floor price, so the revenue was fully compensated by the feed-in-tariff mechanism.

Northland has indirect exposure to German electricity market prices under the Nordsee One and Deutsche Bucht PPAs whereby the facilities do not receive revenue for periods where the market power price remains negative for longer than six consecutive hours.

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

## *Counterparty Risk*

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

Northland manages counterparty risk by contracting with highly creditworthy counterparties wherever possible, such as government-related entities and large financial institutions. Northland's cash, derivative financial instruments, unfunded loan commitments and insurance policies are contracted with creditworthy financial institutions and/or cleared on exchanges. Northland's gas, transportation, equipment, maintenance and construction contracts are with highly rated and/ or large, well-capitalized counterparties wherever possible. Northland also manages counterparty risk by conducting comprehensive initial credit analyses on potential counterparties to material and/or long-term contracts and monitoring counterparties over time.

The nature of Northland's business and contractual arrangements, and the 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, 2021, 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 25 in the audited consolidated financial statements for the year ended December 31, 2021, for additional information related to Northland's commitments and obligations.

## *Risks related to COVID-19 pandemic*

Each of Northland's operating facilities are deemed to be essential infrastructure and, as such, operations have continued uninterrupted to date. Additionally, Northland's long-term agreements with creditworthy counterparties have significantly reduced the risk of material expected credit losses. However, certain risks relating to lower demand for power globally include increased negative pricing at Nordsee One and Deutsche Bucht, lower wholesale market-based prices at Gemini, higher unpaid curtailments in general, increased volatility in the value of financial instruments and reduction in sales and net earnings. Other risks include potential delays in construction timelines as a result of construction services and contractor unavailability or unavailability of key personnel resulting in the interruption of production and lower availability of power infrastructure, thus affecting sales, operating costs and net earnings.

Management has considered the risks above and determined that there have been no material adverse effects on Northland's ability to meet working capital requirements, debt covenants, or continue future growth activities due to COVID-19. As such, there are currently no impairment indicators as a result of COVID-19 identified for Northland's financial and non-financial assets. As the situation evolves, management will continue to assess if any changes to the key assumptions for the recoverable amounts of Northland's assets have taken place.

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

### *Taxation*

In September 2021, the Dutch Ministry of Finance submitted the 2022 Budget and Tax Plan to parliament for approval, which included rules within the corporate income tax act to limit the ability to deduct interest from 30% to 20% of tax EBITDA (as defined in the Dutch budget) and to increase the corporate income tax rate from 25% to 25.8%. These proposals were enacted by parliament in December and came into effect on January 1, 2022. These new rules will have a negative impact on Gemini's free cash flow and have been incorporated within the 2022 Financial Guidance.

On February 4, 2022, the Department of Finance released for public comment, draft legislative proposals (and accompanying explanatory notes) to implement most of the remaining measures from the 2021 federal budget, including the proposed interest limitation rules that are anticipated to become effective January 1, 2023. The proposed interest limitation rules would limit net interest deductions to 40% of tax EBITDA in 2023 and 30% of tax EBITDA starting January 1, 2024.

On October 8, 2021, the Organization for Economic Co-operation and Development ("OECD") reconfirmed their commitment to global tax reform, including a new 15% global minimum tax rate on a country-by-country basis. In December 2021, the OECD released an updated version of the proposed rules that provide a template for countries to translate into domestic law. In addition, the European Commission published a proposed European Union ("EU") Directive on ensuring a global minimum level of taxation for multinational groups in the EU that closely follows the OECD proposals. The OECD and EU proposals are expected to come into effect as early as January 1, 2023.

If enacted, the Canadian interest limitation rules and the OECD/EU minimum tax of 15%, along with any other potential tax law changes that could be enacted, may impact Northland's Free Cash Flow starting in 2023. Further analysis will be required as additional details and final legislation are released.

### *Potential Future Taxation Rate Changes*

On April 19, 2021, the Canadian Federal Finance Minister tabled the 2021/2022 budget, which included a proposal to introduce interest limitation rules in Canada effective January 1, 2023, with net interest deductions limited to 40% of 'Tax EBITDA' (still to be defined) in 2023 and 30% of Tax EBITDA starting January 1, 2024. Draft legislation containing details on the proposed interest limitation rules is anticipated to be released in the first half of 2022.

On October 8, 2021, the Organization for Economic Co-operation and Development ("OECD") reconfirmed its commitment to global tax reform, including a new 15% global minimum tax rate on a country-by-country basis. In December 2021, the OECD released an updated version of the proposed rules that provide a template for countries to translate into domestic law. In addition, the European Commission published a proposed European Union Directive on ensuring a global minimum level of taxation for multinational groups in the EU that closely follows the OECD proposals. The OECD and EU aim for the global minimum tax to come into effect as early as January 1, 2023.

The Canadian interest limitation rules and the OECD/EU minimum tax of 15% may impact Northland's financial results in future years beyond 2022 if ultimately enacted and passed into law.

# SECTION 14: CRITICAL ACCOUNTING ESTIMATES

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

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

Additional information on the significant estimates, judgments and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed in Note 3 in the audited consolidated financial statements for the year ended December 31, 2021.

# SECTION 15: FUTURE ACCOUNTING POLICIES

Management assesses each new IFRS or amendment to determine whether it may have a material impact on Northland's consolidated financial statements. As at December 31, 2021, there have been no accounting pronouncements by the International Accounting Standards Board expected to materially affect Northland's consolidated financial statements beyond those described in Note 2.18 of the annual audited consolidated financial statements.

# SECTION 16: CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

## *Disclosure Controls and Procedures*

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

An evaluation of the effectiveness of the design and operation of Northland's disclosure controls and procedures was conducted as of December 31, 2021, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, with the exception of the limitation on scope as described below of design and operation related to the Spanish portfolio, 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" (NI 52-109), 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, 2021, by and under the supervision of management, including the CEO and CFO, with the exception of the limitation on scope as described below of design and operation related to the Spanish portfolio. 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 for the year ended December 31, 2021.

## *Limitation on Scope*

Northland completed the acquisition of the Spanish portfolio on August 11, 2021. Management has not yet fully completed its review of internal controls over financial reporting for the Spanish portfolio and has limited the scope of design, operation and evaluation of disclosure controls and procedures and internal controls over financial reporting. Such scope limitation is permitted in accordance with NI 52-109, since the Spanish portfolio was acquired less than 365 days before the financial year end. Management has performed procedures to assess the accuracy and completeness of the Spanish portfolio's financial information for the period covered by this MD&A, as summarized below.

| **As at** | | **December 31, 2021** |
|---|---|---|
| Sales (1) | **$** | **92,310** |
| Net income (1) | | **37,177** |
| Current assets | | **206,661** |
| Non-current assets | | **1,788,054** |
| Current liabilities | | **127,935** |
| Non-current liabilities | **$** | **1,330,320** |

(1) Results from August 11, 2021 to December 31, 2021.