30 YEARS OF INTELLIGENT ENERGY

NORTHLAND POWER

2017 ANNUAL REPORT

NORTHLAND POWER INC.
21ST ANNUAL REPORT

Northland Power is an independent power producer. We develop, finance, build, own and operate power generation facilities in Canada and internationally that produce clean and green energy using wind, natural gas, biomass and solar technology. Our goal is to create long-term investor value by operating our fleet of assets to the highest standard, and investing in additional power projects that generate stable cash flows in a sustainable manner.

Highlights

For thirty years, Northland has generated intelligent energy, creating long-term value for shareholders and a more sustainable future for our planet.

In 2017, Northland completed two offshore wind construction projects totalling €4 billion, delivered on or ahead of schedule and on budget, and added a third €1.3 billion construction project to its offshore wind portfolio.

- Gemini – 600 MW (360 MW net Northland interest) offshore wind farm contracted to 2031
  - April – Final project completion achieved
  - Project has generated approximately $860 million in revenues to date
- Nordsee One – 332 MW (282 MW net Northland interest) offshore wind farm contracted to 2027
  - March – First power achieved
  - September – Turbine installation completed
  - December – Final project completion achieved
  - Project has generated $150 million in revenues to date
- Deutsche Bucht – 252 MW offshore wind farm contracted to 2032 – progressing well
  - August – Acquisition and Financial Close successfully achieved
  - Construction underway – Project components currently being manufactured
  - In-water construction expected to begin in 2018 and completion by end of 2019

Robust Operating and Financial Results

- Operating generating capacity increased to 2,029 MW, a 46% increase over 2016
- Operating income of $632 million, a 24% increase over 2016
- Adjusted EBITDA of $765 million, a 22% increase over 2016
- Free cash flow of $256 million, a 6% increase over 2016
- Total shareholder returns of 11% (annualized) since 2012
- Increased common share dividend of 11% beginning in December 2017 to $1.20 annually

Table of Contents

Highlights of Northland's Thirty-year History

1987
Northland Power is established – the company is one of Canada's first independent power producers.

2009
Northland completes a second on-shore wind farm in Québec: 133 MW Jardin D'Eole – contracted to 2029.

Northland Power Income Fund completes merger with NPI (private developer), a key milestone in the organization's growth trajectory.

2010
Thorold Cogeneration Station, a 265 MW thermal facility, begins operations in Ontario – contracted to 2030.

2011
Northland expands its geographical reach, opening its first thermal plant in Saskatchewan, the 86 MW Spy Hill Generating Station.

Mont Louis, a 101 MW on-shore wind farm, begins operations in Québec – contracted to 2031.

1990

Northland's first project, the 42 MW Cochrane, Ontario thermal facility, begins operations (closed in 2015). It was the first Canadian independent power plant to use unprocessed wood chips as fuel, providing a sustainable solution to off-takers as well as the forestry industry.

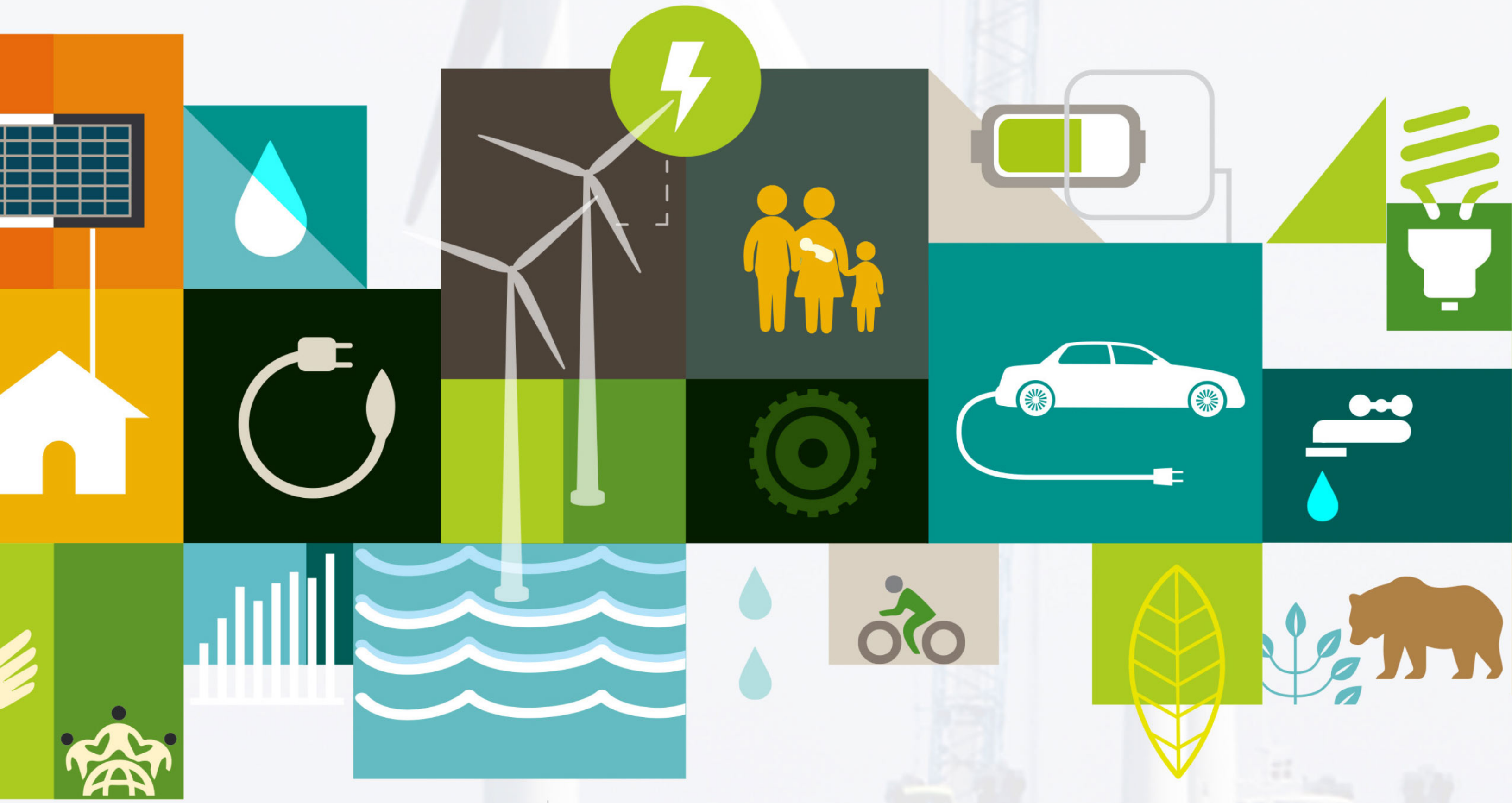
1991

Kirkland Lake begins operations – 132 MW baseload thermal plant located in Ontario and contracted to 2030. It was the first independent power project in Canada to attract institutional financing.

1997

Iroquois Falls 120 MW thermal facility begins operations in Ontario – contracted until 2021.

Northland's Initial Public Offering (IPO) on the Toronto Stock Exchange.



2013

In 2013, Northland successfully completed the 260 MW North Battleford Facility located in Saskatchewan, demonstrating an ability to deliver high-quality, large-scale energy infrastructure on time and on budget.

The Company expanded its sustainable footprint, beginning operations on the first of thirteen ground-mounted solar facilities in Ontario, each with 20-year power purchase agreements.

Northland makes a splash into offshore wind, announcing majority ownership of the 600 MW Gemini project. Northland was the first Canadian energy producer to enter this thriving sector.

2014

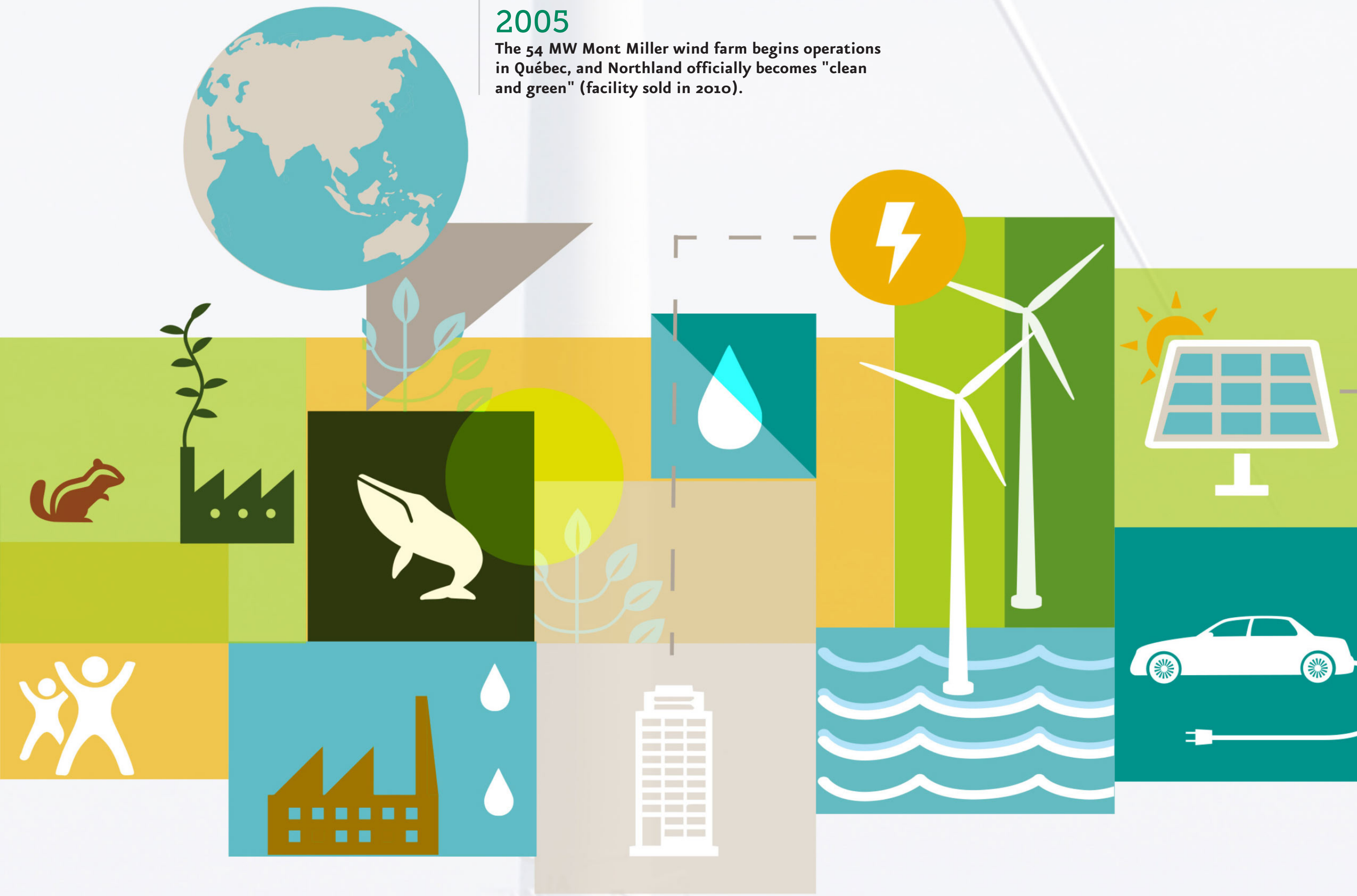
Northland acquires 85% ownership of a second offshore wind farm, 332 MW Nordsee One, located in the German North Sea (near Gemini).

McLean's Mountain, a 60 MW wind farm located on Manitoulin Island in Ontario, is completed. The project is a 50/50 partnership between Northland and the United Chiefs and Councils of Mnidoo Mnising.

2002
The Income Fund purchases its first slice of the 110 MW Kingston, Ontario thermal facility; Northland acquired full ownership of the facility in 2006.

2006
Northland acquires its first international projects – two operating wind farms in Germany with a total capacity of 22 megawatts (sold in 2017).

2005
The 54 MW Mont Miller wind farm begins operations in Québec, and Northland officially becomes "clean and green" (facility sold in 2010).



2017
Gemini and Nordsee One begin commercial operations – both projects are completed on or ahead of schedule and under budget.

Demonstrating its leadership in the European offshore wind sector, Northland acquires 100% ownership of a third project, 252 MW Deutsche Bucht, currently in construction.

2016
Northland completes construction of the 100 MW Grand Bend wind farm located in Ontario; the project is a 50/50 partnership with the Aamjiwnaang First Nation and Bkejwanong Territory.

2018
The energy sector, like the world around it, is changing rapidly. Northland is evolving right along with it, pursuing development prospects in gas, wind, solar and hydro in a number of jurisdictions, including, but not limited to, North America, Europe, Mexico and Taiwan. The future is bright.

Letter to Shareholders

2017

This was a year of milestones for Northland; our thirtieth year in business was highlighted by numerous development, construction, operational and financial achievements. Following more than three decades of successful operations, we continue to stand tall on our own foundation, and while we have experienced incredible growth, our roots are proudly Canadian. We remain firmly committed to supporting the long-term sustainability of our planet through our focus on clean and green power generation technologies.

Northland Power's vision is to be a top clean and green power producer, inspiring our people to achieve a sustainable and prosperous future for all stakeholders.

At Northland, success is realized by focusing on continued growth and robust financial results. Our actions are guided by a commitment to excellence and sustainability by all definitions – environmental, financial and operational.

Northland generates significant quantities of sustainable energy. Over the course of 2017, our operating generating capacity increased to over 2,458 MW (2,029 MW net Northland interest). This represents a 60% increase over 2016 and reflects the success of our bold move in 2014 to take a position in the European offshore wind sector. We achieved an increase in free cash flow of 6%, grew our adjusted EBITDA by 22% and increased our dividend by 11% beginning in December, 2017 demonstrating that we continue to create exceptional value for shareholders.

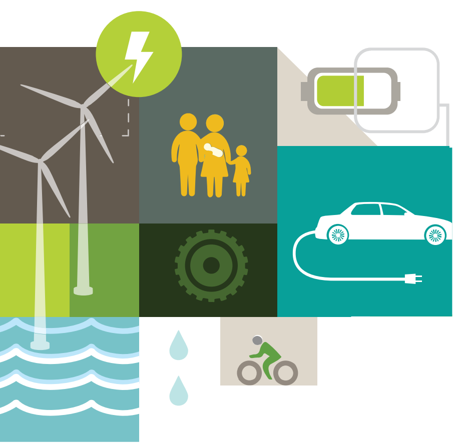
We successfully completed construction on the 600 MW Gemini and 332 MW Nordsee One offshore wind projects, with both now in full operation. Overall, our fleet of 27 high-quality power assets located across Canada and in Europe met or surpassed management's expectations in 2017. In August, we achieved financial close on the 252 MW Deutsche Bucht offshore wind project subsequent to its acquisition. It is Northland's third offshore wind project and is progressing well, according to schedule.

We continue to branch out, in both reach and capabilities. With a keen eye on the future, Northland's domestic and international growth continued apace in 2017. In addition to our home base in Toronto, we have established a strong international presence through our five international locations in Amsterdam, Hamburg, Mexico City, London and Taipei. Our strategic review, which was completed in August, confirmed that Northland Power is well positioned to deliver continued growth and value for shareholders well into the future as a respected Canadian publicly listed company. To that end, we continue to undertake a number of initiatives to ensure our corporate structure remains strong and agile, and that we have the competencies and resources to capitalize on a wide range of technological and geographical opportunities.

Financial Results

Northland achieved excellent financial results in 2017. At $765 million, total adjusted EBITDA significantly exceeded that of 2016 by 22%. This increase was primarily the result of growing contributions from the Gemini and Nordsee One offshore wind farms. Our free cash flow per share also increased to $1.46, an increase of 4% from 2016 results. The 11% dividend increase announced in December is a direct result of the company's strong performance, including the success of our offshore wind strategy, and reflects our confidence and excitement about Northland's future.

According to Wind Europe, Northland had the largest share of new grid-connected capacity in the first half of 2017.



Operations

We expend significant attention and effort ensuring that each of our operating facilities performs to its utmost potential. Our full lifecycle approach to developing, building and operating our projects ensures that this focus is established when a project is first conceived, and sustained through construction and the entirety of its operating life. The safe, efficient, and effective operation of our facilities produces the cash flow to pay our dividends while fostering the advancement of our growth initiatives.

The addition of Gemini and Nordsee One to our operating portfolio represents a significant change in our technology mix, with approximately 50% offshore wind, 30% thermal, 10% on-shore wind, and 10% solar, based on 2017 adjusted EBITDA for operating facilities. Northland's assets continue to be diversified both technologically and geographically, and are performing well, with an overall 95% operating availability.

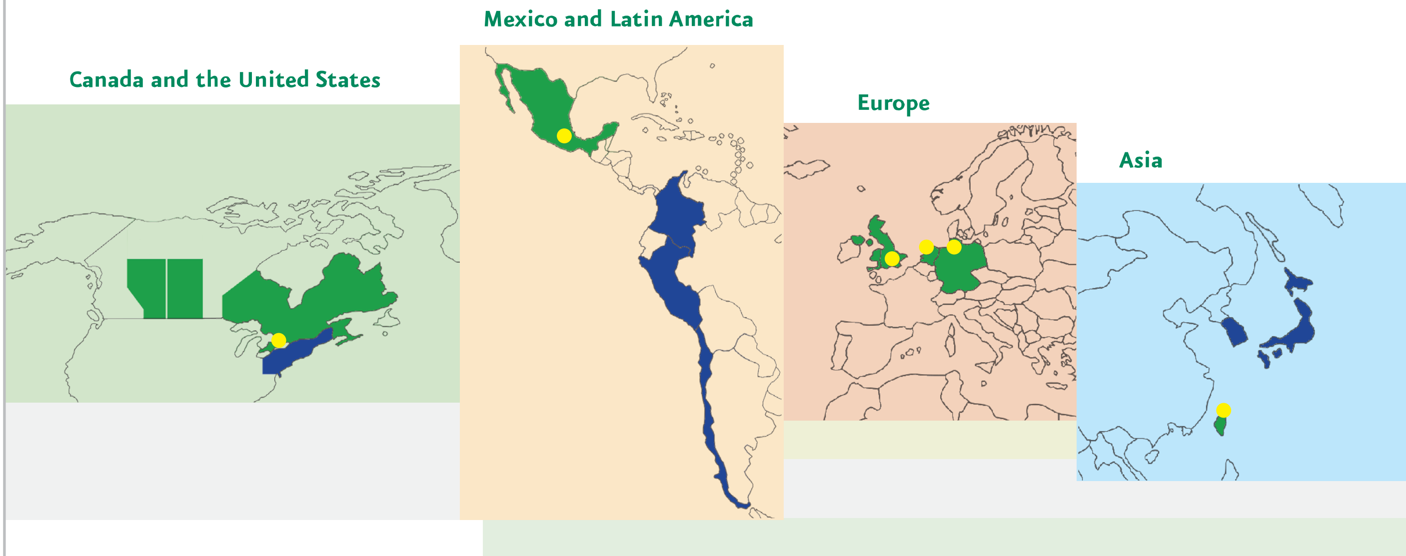
Growth

Over the course of 2017, we continued to establish our presence in new, promising markets that are consistent with our risk/reward profile, and our development team is pursuing a number of new actionable opportunities.

In only a few years, Northland has become a leader in the European offshore wind sector; according to Wind Europe, Northland had the largest share of new grid-connected capacity in the first half of 2017. Once Deutsche Bucht is completed, Northland's offshore wind portfolio is expected to generate enough sustainable energy to meet the needs of over 3 million people. It will reduce CO_2 emissions by over 2.6 million tonnes per year, supporting the European Union's CO_2 reduction targets. Northland's objective in Europe is to build a leading offshore wind ownership and operations platform with a full range of operating, development and investment activities, supporting further growth on a continental basis. We are also seeing offshore wind take hold in other jurisdictions, with projects currently being advanced in the United States, Taiwan and other international regions.

Around the world, the steep decline in costs over recent years is making renewables very competitive as compared to traditional technologies. At the same time, energy security has become a top-line issue for governments in various jurisdictions; domestically produced renewable energy sources offer a fitting solution to this challenge. The intermittent nature of some renewables can be effectively bridged by clean natural gas-fired generation, supporting the transition from higher-impact fossil fuels.

Development Markets

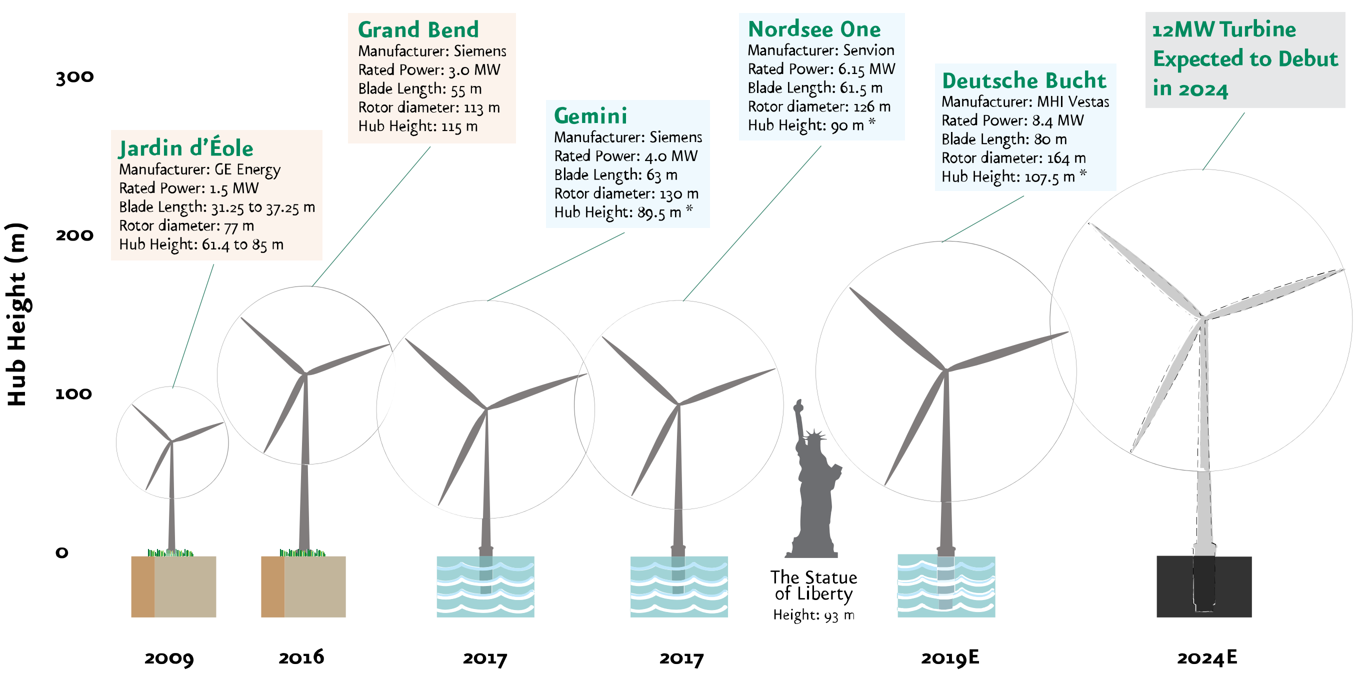


Actionable Opportunities

Potential Markets

International Locations (Toronto, Mexicio City, London, Amsterdam, Hamburg, Taipei)

Advancements in Wind Turbine Technology



* Hub height measure from the sea level

With a strong leadership team comprising over 200 years' experience in the energy industry, we are well positioned to manage our growing business.

These global decarbonization efforts offer significant opportunities for Northland. The European Union expects renewables to account for 70% of its total generation by 2040. Government policy changes and government incentives are driving a rise in renewables and coal retirement targets across the EU as well as Canada, the United States, Mexico, and other jurisdictions. In Asia, for example, approximately 1,700 GW of renewables capacity is expected to be added over the next 25 years – this represents an estimated $1.8 trillion (USD) in investment.

Our aim is to be a leading player in this global transition. In Taiwan, a region with some of the best wind resources in the world, the government has implemented a feed-in tariff program with long-term contracts designed to kick-start its offshore wind sector. Northland has established a meaningful presence in Taiwan, and is working closely with its local partners on advanced site development and to complete all required regulatory and permit-related work, which will enable us to obtain the approvals needed to secure a power purchase agreement, which we hope to announce in 2018.

In Canada, we continue to explore opportunities in provinces that are actively pursuing decarbonization targets. In Mexico and Latin America, economic and demographic shifts continue to create opportunities. We are also investigating opportunities in other jurisdictions that seek increased energy independence, sustainability and security and that meet Northland's market and technology assessment criteria.

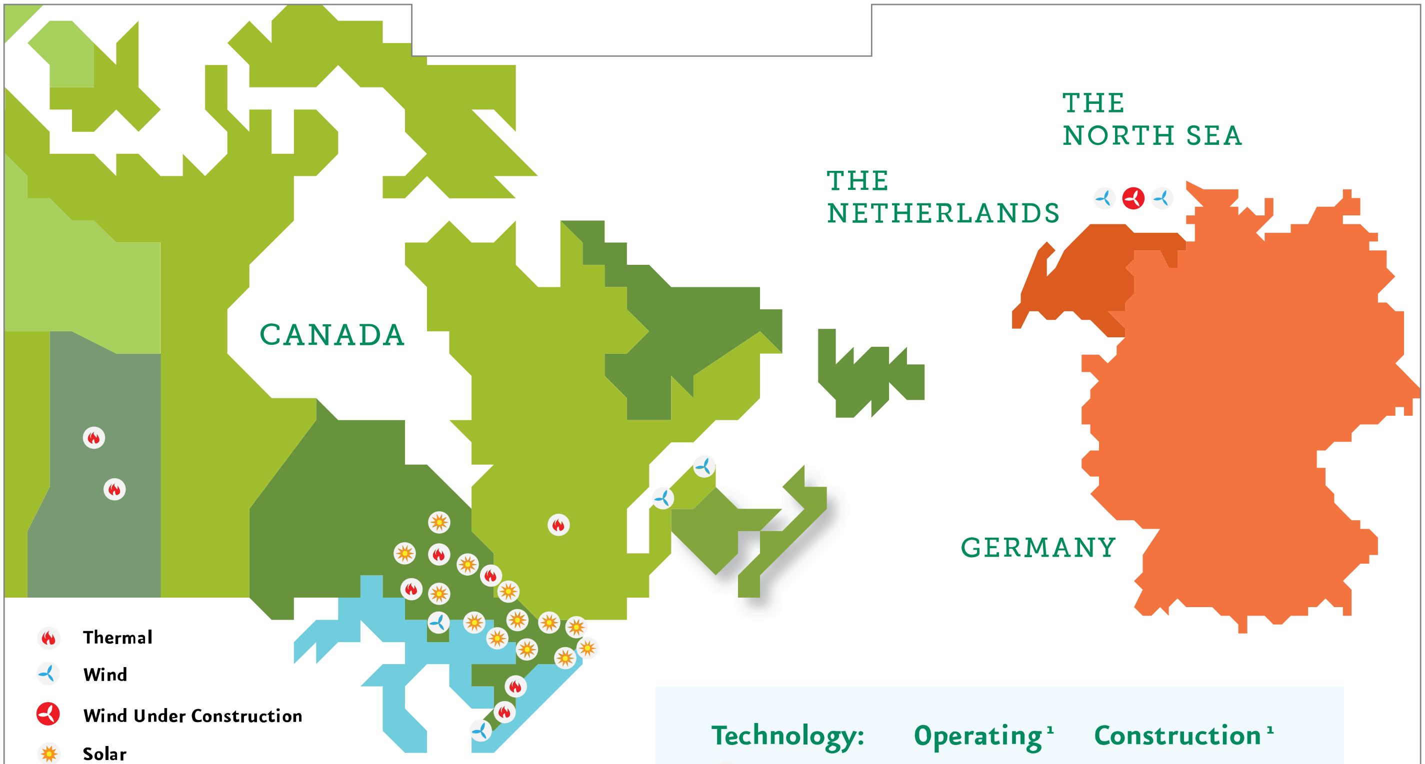
To underpin our international expansion and ensure our continued ability to attract top talent and win the best projects, we have added three experienced executives to our management team.

- In August, Morten Melin joined Northland as Executive Vice President, Construction. Morten has extensive experience working in the international renewable energy sector, including his involvement on more than 25 offshore and several on-shore wind projects. Throughout his career, Morten has successfully led his team's projects to completion on time, on budget and with an excellent health, safety and environment performance, while fostering a focus on global organizational effectiveness and maximizing project value through all phases of an asset's lifecycle.

- In September, Troy Patton joined Northland as Chief Operations Officer. Troy brings more than 20 years of experience in the power generation industry, including operations with naval nuclear reactors and gas turbines, wind and solar plants. Troy has worked extensively in Europe and Asia, the United States and Canada.

- In November, John Hannah joined Northland as Global Head of Human Resources. John has over 30 years of executive experience in human resources for international organizations, and brings a strong focus on strategy, business alignment, people development and health and safety.

With a strong leadership team comprising over 200 years' experience in the energy industry, we are well positioned to manage our growing business. We will continue to prioritize the development of our people, by providing them with the resources, processes and training that enable them to achieve and contribute to their utmost ability.



Northland's Asset Diversification

Technology:	Operating[1]	Construction[1]
Thermal	1,001 MW	–
Wind	1,326 MW	252 MW
Solar	131 MW	–
Total (Gross)	**2,458 MW**	**252 MW**
Total (Net)[2]	**2,029 MW**	**252 MW**

1. As of December 31, 2017
2. Represents Northland's net economic interest

Northland by the Numbers

- Over **$10 billion** of assets constructed since inception/currently under construction
- Operating availability over **95%**
- **90%** revenues from long-term fixed-price contracts
- Management team has over **200 years** of power industry experience
- **~300** employees
- **34%** ownership interest underscores management alignment

2018 and Beyond

Over the past thirty years, Northland has achieved a remarkable growth trajectory. We have a positive reputation for driving innovation and establishing early-mover advantages while remaining disciplined and effectively managing risk. Our company has achieved a number of firsts: we were the first Canadian power producer to build and own an offshore wind project; one of the first independent power producers to enter the Saskatchewan natural gas generation market; one of the first developers of on-shore wind in Québec; and a leader in structuring equity partnerships with First Nations for power generation projects, to name but a few.

As we look ahead to the future, our first-class team will continue to find, acquire, develop, build and operate high-quality projects, benefitting our shareholders and the environment. Over the next 15 years, Northland has identified approximately 150 GW of opportunities in our target markets. We look forward to continuing to create significant value for our shareholders and stakeholders – as well as the environment – in the coming years. With 34% ownership by management, our interests remain aligned with our shareholders.

Our values remain unchanged. Guided by our Board of Directors, our efforts each day focus on the health and safety of our employees and stakeholders, a commitment to achieving excellence in everything we do, and an unwavering promise to conduct our business with honesty and integrity. On behalf of the Board and Management, we would like to thank the Northland team for their ongoing commitment to excellence, and for the significant results achieved in the past year. And to our shareholders – thank you for your continued support and confidence.

Sincerely,

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

John W. Brace
Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Northland Power's Financial Position and Operating Results

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

Section 1: Overview

Introduction

The purpose of this Management's Discussion and Analysis ("**MD&A**") is to help the reader understand the nature and importance of changes and trends as well as the risks and uncertainties that may affect the operating results and financial position of Northland Power Inc. ("**Northland**" or the "**Company**"). This MD&A should be read in conjunction with Northland's audited consolidated financial statements for the years ended December 31, 2017 and 2016. Additional information relating to Northland can be found in the Company's most recent Annual Information Form ("**2017 AIF**"), which is filed electronically on SEDAR at www.sedar.com under Northland's profile and posted on Northland's website at www.northlandpower.ca. All dollar amounts set out herein are in thousands of Canadian dollars, unless otherwise stated.

This MDA, dated February 22, 2018, compares Northland's financial results and financial position for the year ended December 31, 2017, with those for the year ended December 31, 2016. 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.

Forward-Looking Statements

This MD&A contains forward-looking statements that are based on certain estimates and assumptions that were considered reasonable on February 22, 2018; actual results may differ materially. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans. Readers are cautioned that such statements may not be appropriate for other purposes. Northland's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur. Forward-looking statements are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects," "anticipates," "plans," "predicts," "believes," "estimates," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions or future or conditional verbs such as "may," "will," "should," "would" and "could." These statements may include, without limitation, statements regarding future adjusted EBITDA, free cash flow, dividend payments and dividend payout ratios; the construction, completion, attainment of commercial operations, cost and output of development projects; litigation claims; plans for raising capital; and the future operations, business, financial condition, financial results, priorities, ongoing objectives, strategies and outlook of Northland and its subsidiaries. These statements are based upon certain material factors or assumptions that were applied in developing the forward-looking statements, including the design specifications of development projects, the provisions of contracts to which Northland or a subsidiary is a party, management's current plans and its perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Forward-looking statements are subject to numerous risks and uncertainties, which include, but are not limited to, financial risks, construction risks, counterparty risks, operational risks, risks relating to co-ownership, variability of revenues from generating facilities powered by intermittent renewable resources, power market risks and possible inflation risks and the other factors described in this MD&A and the 2017 AIF. Other than as specifically required by law, Northland undertakes no obligation to update any forward-looking statements to reflect events or circumstances after such date or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Non-IFRS Financial Measures

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

The following describes the non-IFRS measures used by management in evaluating Northland's financial performance.

Adjusted EBITDA

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

Free Cash Flow

Free cash flow represents the cash generated from the business that management believes is representative of cash available to pay dividends while preserving long-term value of the business. Free cash flow is calculated as cash provided by operating activities adjusted for short-term changes in operating working capital; non-expansionary capital expenditures; interest paid on outstanding debt; scheduled principal repayments; future maintenance reserves; exclusion of pre-completion revenue and operating costs for projects under construction; non-controlling interests; timing of distributions received from equity investments; preferred share dividends; and net proceeds from sale of development assets. For clarity, Northland's free cash flow reflects the reduction for expenditures on development activities. Management believes free cash flow is a meaningful measure of Northland's operating performance because it adjusts the calculation of cash flow from operating activities for certain items to be reflective of long-term operating performance.

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

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

Enterprise Value and Total Debt

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

Section 2: Strategy and Key Factors Supporting Sustainable Performance

Business Objective

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

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, corporate funds and, as necessary, its line of credit or external capital. 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.

Business Strategy

For Northland to successfully deliver on its vision to be a top clean and green power producer, Northland must excel in each of the following strategic pillars:

(i) Winning Business

Northland pursues sustainable growth and value creation by developing high-quality clean and green power projects supported by long-term revenue contracts, while carefully managing and mitigating development risks. The global shift to renewable energy sources is creating opportunities based on favourable government policies aimed at sustainability, energy security, and reducing greenhouse gas emissions. Northland operates, develops and constructs projects across a range of clean and green technologies, such as wind (offshore and on-shore), thermal (natural-gas-fired and biomass) and solar. Clean-burning natural-gas-fired plants provide reliable baseload and dispatchable power, grid support and backup for renewable generation as needed by the customer. Northland remains focussed on pursuing growth in North America, Europe and Asia, in addition to other jurisdictions that meet Northland's risk management criteria. Northland manages its development processes prudently by regularly balancing costs and risks against the probability of success.

(ii) Building Facilities

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

(iii) Operating Facilities

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

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

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

(iv) Organizational Effectiveness

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

Section 3: Northland's Business and Operating Facilities

As of December 31, 2017, Northland owns or has a net economic interest in completed power-producing facilities with a total operating capacity of approximately 2,029 MW. Northland's operating assets comprise facilities that produce electricity from renewable resources and natural gas for sale primarily under long-term PPAs or other revenue arrangements with creditworthy customers in order to provide stable cash flow.

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

	Completion date	Geographic region (1)	Economic interest (2)	Gross Production Capacity (MW)	Net Production Capacity (MW)
Offshore Wind					
Gemini	April 2017	The Netherlands	60%	600	360
Nordsee One	December 2017	Germany	85%	332	282
Thermal					
Iroquois Falls	January 1997	Ontario	100%	120	120
Kingston	February 1997	Ontario	100%	110	110
Kirkland Lake (3)	August 1993	Ontario	77%	132	102
North Battleford	June 2013	Saskatchewan	100%	260	260
Spy Hill	October 2011	Saskatchewan	100%	86	86
Thorold	April 2010	Ontario	100%	265	265
On-shore Renewables					
Cochrane Solar	October 2015	Ontario	63%	40	25
Grand Bend	April 2016	Ontario	50%	100	50
Jardin	November 2009	Quebec	100%	133	133
McLean's	May 2014	Ontario	50%	60	30
Mont Louis	September 2011	Quebec	100%	101	101
Solar	September 2014	Ontario	100%	90	90
Other				29	15
Total				**2,458**	**2,029**

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

(2) As at December 31, 2017, Northland's economic interest was unchanged from December 31, 2016, with the exception of the sale of its German wind farms completed in November 2017. Refer to Operating Facilities Results section for additional information.

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

As of December 31, 2017, Northland had 252 MW of generating capacity under construction, representing the Deutsche Bucht Offshore Wind Project ("**Deutsche Bucht**" or "**DeBu**"). Furthermore, Northland has a portfolio of projects in various stages of development in Europe, North America and Asia.

Refer to the 2017 AIF for additional information on Northland's operating facilities and projects under construction.

Section 4: Consolidated Highlights

4.1 Significant Events

Significant events during 2017 and through the date of this MD&A are described below.

Nordsee One Offshore Wind Project

In December 2017, the Nordsee One offshore wind project achieved final completion, which marked the end of construction and the start of commercial operations, and commenced the term-loan phase of the project debt. The project was completed on schedule and under its total budget of €1.2 billion. Concurrently with final completion, Nordsee One renegotiated the project's €840 million senior debt reducing loan margins by 150 basis points.

Increase in Monthly Dividend

In December 2017, the Board of Directors declared an increased monthly dividend on Northland's common shares and Class A shares of $0.10 per month ($1.20 annually), an increase of 11% from the previous dividend of $0.09 per month ($1.08 annually) commencing with the dividend payable on January 15, 2018. The Board of Directors reviews the dividend policy periodically as part of Norhtland's overall capital allocation startegy to balance growth requirements and investor preferences.

Restructuring of Debt on Solar Facilities

In August 2017, Northland restructured the project debt relating to seven of its solar facilities, primarily to align the financing with Northland's ownership interest and reduce loan margins and certain reserving requirements.

Deutsche Bucht Offshore Wind Project

In August 2017, Northland acquired the Deutsche Bucht offshore wind project and achieved financial close, with full equity and debt commitments by Northland and project debt lenders. All key construction contracts have been signed, and manufacturing of the offshore substation, monopiles and transition pieces has commenced. Project completion is expected by the end of 2019. The total estimated project cost is approximately €1.3 billion. Northland has invested approximately $0.4 billion of corporate funds into the project to date. Refer to *Section 9: Construction and Development Activities* for additional information.

Enhanced Dispatch Contract for Iroquois Falls

In July 2017, Iroquois Falls executed an Enhanced Dispatch Contract (**EDC**) with the Independent Electricity System Operator (**IESO**) for the balance of the Iroquois Falls' PPA. The EDC, which succeeded an interim enhanced dispatch arrangement, took effect July 1, 2017, and has resulted in reduced greenhouse gas emissions, cost savings for Ontario electricity consumers and improved economics for Northland.

Completion of Gemini Offshore Wind Project

In April 2017, the Gemini offshore wind project achieved final completion. The project was completed ahead of schedule and under its total budget of €2.8 billion. Concurrently with final completion, Gemini renegotiated the project's €2 billion senior debt, reducing the weighted average all-in interest rate by 80 basis points and eliminated a cash sweep provision.

4.2 Operating Highlights

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

Year ended December 31,		2017		2016		2015
FINANCIALS						
Sales	**$**	**1,376,256**	$	1,099,000	$	728,141
Gross profit		**1,236,717**		905,760		502,449
Operating income		**632,126**		508,637		274,094
Net income		**275,836**		190,559		27,531
Adjusted EBITDA		**765,176**		626,879		402,107
Cash provided by operating activities		**849,007**		719,812		398,743
Free cash flow		**256,100**		242,324		182,158
Cash dividends paid to common and class A shareholders		**134,307**		139,890		137,852
Total dividends declared (1)		**189,981**		185,606		179,916
Total assets (2)		**10,280,517**		8,663,430		7,366,395
Total non-current liabilities (2)		**7,934,212**		6,806,663		5,542,986
Per Share						
Net income (loss) - basic	**$**	**0.85**	$	0.64	$	(0.07)
Free cash flow - basic	**$**	**1.46**	$	1.40	$	1.09
Total dividends declared (1)	**$**	**1.09**	$	1.08	$	1.08
ENERGY VOLUMES						
Electricity production in megawatt hours (**GWh**) (3)		**6,556**		6,392		5,245

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

(2) As at December 31.

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

Section 5: Results of Operations

5.1 Operating Facilities' Results

Offshore Wind Facilities

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

	Three months ended December 31,		Year ended December 31,	
	2017	**2016**	**2017**	**2016**
Electricity production (GWh)	**1,153**	623	**2,828**	1,003
Sales/gross profit (1) (2)	**$ 233,487**	$ 181,092	**$ 714,589**	$ 266,104
Plant operating costs (2)	**29,457**	16,352	**95,404**	31,765
Operating income	**133,542**	113,663	**392,855**	144,365
Adjusted EBITDA (3)	**144,513**	96,049	**397,276**	136,754

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

(2) The sales/gross profit and plant operating costs include pre-completion revenues and the allocated plant operating costs for the operational wind turbines at Gemini up to April 28, 2017, and at Nordsee One up to December 21, 2017, when the facilities achieved final completion. Full revenues on all GWh generated are reflected in Gemini's operating results for 2017.

(3) Adjusted EBITDA includes Northland's share of overhead costs (management and administration) during construction for Gemini and Nordsee One, which did not qualify for capitalization.

Northland's operating offshore wind facilities are located in the North Sea, off the coasts of the Netherlands and Germany. Wind power generation is a form of renewable energy that harnesses and converts kinetic energy of wind into electrical energy. Wind facilities tend to produce more electricity during the winter due to denser air and higher winds compared to the summer.

Gemini achieved final completion in April 2017, ahead of schedule and under its total budget of €2.8 billion. Final completion marked the end of construction and allowed for completion of term conversion. As a result of these significant milestones, Gemini made its first cash distribution to its owners in May 2017. Gemini commenced earning pre-completion revenue from the second quarter of 2016 until final completion; the cash generated was used to offset construction costs until full responsibility for a turbine had passed from the contractor to Northland. Northland's share of net pre-completion revenue in excess of the amount required by project lenders to fund construction costs (the "**Gemini Completion Distribution**") totalled approximately €31.0 million.

Gemini has two 15-year subsidy agreements with the Government of the Netherlands, the first subsidy agreement for one half of the turbines commenced March 1, 2016, and the second subsidy agreement for the other half commenced July 1, 2016. The subsidies top up the wholesale market-based revenue generated by Gemini to a fixed, contractual rate per megawatt hour (**MWh**). The subsidies are subject to an annual production ceiling (the "**Gemini Subsidy Cap**"), beyond which, production earns revenue at wholesale market rates. In addition, the top up to a fixed contractual rate is subject to a floor price, thereby exposing Gemini to market price risk when the wholesale prices fall below the contractual floor price. Based on expected wind resources and resultant electricity production volumes, the Gemini Subsidy Cap, and the associated earnings, are expected to be achieved during the third or fourth quarter of the calendar year, which Northland takes into account in its forecasts. For the year ended December 31, 2017, the impact of the floor price on sales was approximately €11 million.

Nordsee One achieved final completion in December 2017 on schedule and under its total budget of €1.2 billion. Nordsee One commenced earning pre-completion revenue from the first quarter of 2017, with revenues and costs recorded in operating income as individual wind turbines became operational during the construction stage until final completion in December.

Each turbine in Nordsee One is entitled to a feed-in tariff (**FIT**) subsidy for approximately 10 years from the date of its commissioning, which is added to the wholesale market rate, effectively generating a fixed unit price for energy sold. The FIT compensates for production curtailments which may be required by the system operator.

In addition to the above factors, Gemini and Nordsee One results can also be affected by foreign exchange rate fluctuations. Foreign exchange rate fluctuations primarily impact adjusted EBITDA because Northland has entered into foreign exchange rate swaps for a substantial portion of anticipated cash flow.

Electricity production, including pre-completion production, for the three months and year ended December 31, 2017, was higher by 530 GWh and 1,825 GWh, respectively, compared to the same periods last year. During 2016, Gemini's turbines were progressively installed and commissioned until all turbines were producing power by the end of the third quarter of 2016. The increase was primarily due to all of Gemini'sturbines producing power throughout 2017. Gemini operating results for 2017 reflect full revenues on all GWh generated.

For the year ended December 31, 2017, Nordsee One earned the equivalent of 475 GWh in pre-completion production, including paid curtailment, and began generating revenue as individual turbines were commissioned over the course of 2017.

Pre-completion revenue is recognized in sales when full responsibility for a turbine has passed from the contractor to Northland, generally following a series of reliability and other tests. The table below summarizes total pre-completion production and revenue earned by Gemini and Nordsee One and the portion recognized in sales and as a deduction from construction in progress.

	Three months ended December 31,		Year ended December 31,	
	2017	2016	**2017**	2016
Pre-completion electricity production (GWh)	**326**	623	**1,289**	1,003
Pre-completion revenue in sales/gross profit [1]	**$ 105,301**	$ 181,092	**$ 381,457**	$ 266,104
Pre-completion revenue in construction in progress	**2,098**	(1,770)	**18,034**	13,771
Total pre-completion revenue	**$ 107,399**	$ 179,322	**$ 399,491**	$ 279,875

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

Pre-completion revenue in construction in progress is negative for the three months ended December 31, 2016 due to an adjustment recorded during that period. Nordsee One earned pre-completion revenue of $149.3 million for the year ended December 31, 2017, of which $131.2 million was recorded in sales and $18.0 million was recorded as a deduction from construction in progress.

Sales and *adjusted EBITDA*, for the three months ended December 31, 2017, increased $52.4 million and $48.5 million, respectively, compared to the same quarter last year primarily as a result of pre-completion revenue from Nordsee One, partially offset by lower results at Gemini primarily due to the annual Gemini Subsidy Cap being reached in November 2017. Sales and adjusted EBITDA, for the year ended December 31, 2017, increased $448.5 million and $260.5 million, respectively, compared to last year primarily as a result of full production from Gemini and pre-completion revenue from Nordsee One. Although foreign exchange rate fluctuations had a minimal impact on full year results from Gemini and Nordsee One, foreign exchange rate fluctuations for the fourth quarter resulted in $13.9 million higher revenue compared to the same quarter last year.

Plant operating costs, for the three months and year ended December 31, 2017, increased $13.1 million and $63.6 million, respectively, compared to the same periods last year primarily due to higher production.

Thermal Facilities

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

	Three months ended December 31,		Year ended December 31,	
	2017	2016	**2017**	2016
Electricity production (GWh)	**591**	1,064	**2,384**	4,191
Sales (1)	**$ 112,139**	$ 248,947	**$ 450,102**	$ 640,841
Less: cost of sales	**29,585**	55,630	**139,539**	193,240
Gross profit	**82,554**	193,317	**310,563**	447,601
Plant operating costs	**14,093**	17,787	**51,051**	56,094
Operating income	**58,730**	165,909	**220,930**	342,853
Adjusted EBITDA (2)	**$ 71,514**	$ 164,367	**$ 271,134**	$ 388,599
Capital expenditures (3)	**$ 1,110**	$ 4,609	**$ 4,622**	$ 10,554

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

(2) Includes management and incentive fees earned by Northland for services provided to facilities not wholly owned by Northland.

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

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

Dispatchable facilities operate either when market conditions are economical or as requested by the PPA counterparty. These facilities receive contract payments that are largely dependent on their ability to operate according to contract parameters as opposed to maximizing production. Iroquois Falls, Thorold, Spy Hill and certain generators at Kirkland Lake operate as dispatchable facilities. Iroquois Falls operated as a baseload facility until January 1, 2017, and has operated as a dispatchable facility thereafter.

North Battleford, Thorold and Spy Hill have contractual structures that effectively allow for a pass-through of certain variable production costs and are therefore not financially impacted by changes in operating costs such as natural gas costs.

Subsequent to the expiration of Kingston's PPA on January 31, 2017, Ontario wholesale market prices have been insufficient to run the facility. Consequently, there was no production at Kingston from January 31, 2017. Sales for the year ended December 31, 2017, although minimal, were earned as a result of Kingston selling capacity in the New York Independent System Operator capacity market. Net income, adjusted EBITDA and free cash flow were commensurately lower than in the prior year since Kingston continues to incur certain fixed operating expenses. Collectively, Kingston's operations for the year are referred to as the "**Kingston Remarketing Initiative**".

Electricity production for the three months and the year ended December 31, 2017, decreased 473 GWh and 1,807 GWh, respectively, compared to the same periods last year primarily due to the Kingston Remarketing Initiative, the change in management's operating strategy at Iroquois Falls due to the EDC and fewer dispatches at Thorold. Changes in the volume of electricity produced at Iroquois Falls, Thorold, Spy Hill, and North Battleford have a minimal impact on gross profit under the terms of those facilities' PPAs.

Sales for the three months ended December 31, 2017 decreased $136.8 million to $112.1 million compared to the same quarter last year primarily due to the one-time receipt of retroactive payments in 2016 ($104.5 million), as well as the impact of the Kingston Remarketing Initiative ($25.8 million), and a planned maintenance shutdown at North Battleford ($9.1 million). The one-time retroactive payments were received from the Ontario Electricity Financial Corp (**OEFC**) and related to a legal dispute over the administration of PPA escalation indices at certain thermal facilities. The impact of these payments on sales was $104.5 million, and the impact on adjusted EBITDA and free cash flow, reflecting Northland's economic interest, was $94.7 million, as a result of facilities not wholly owned by Northland. Collectively, the impact of the one-time retroactive payments is referred to as the "**Global Adjustment Decision**". Sales for the year ended December 31, 2017, decreased $190.7 million to $450.1 million compared to last year, also primarily due to the Global Adjustment Decision impact of $104.5 million and the Kingston Remarketing Initiative impact of $95.3 million, partially offset by higher sales under the Iroquois Falls EDC ($9.5 million).

Gross profit for the three months and year ended December 31, 2017 decreased $110.8 million and $137.0 million, respectively, compared to the same periods last year due to similar factors as the sales variances described above, partially offset by lower cost of sales at Kingston.

Plant operating costs for the three months and year ended December 31, 2017, decreased $3.7 million and $5.0 million, respectively, compared to the same periods last year primarily as a result of maintenance agreement savings at Iroquois Falls and Kirkland Lake, service agreement savings at Thorold related to fewer dispatch starts, and lower costs due to the Kingston Remarketing Initiative.

Operating income for the three months and year ended December 31, 2017, decreased $107.2 million and $121.9 million, respectively, compared to the same periods last year as a result of lower gross profit, but was partially offset by lower plant operating and other costs described above.

Adjusted EBITDA for the three months and year ended December 31, 2017, was lower compared to the same periods last year due to the factors described above.

On-shore Renewable Facilities

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

	Three months ended December 31,		Year ended December 31,	
	2017	2016	**2017**	2016
Electricity production (GWh) - Actual	**381**	348	**1,344**	1,198
Electricity production (GWh) - Long-term forecast	**375**	285	**1,394**	1,076
On-shore wind	**$ 37,878**	$ 36,804	**$ 127,585**	$ 102,126
Solar	**11,107**	11,657	**83,980**	89,929
Sales/gross profit (1)	**48,985**	48,461	**211,565**	192,055
On-shore wind	**6,276**	6,045	**24,913**	20,978
Solar	**1,461**	1,567	**5,275**	4,914
Plant operating costs	**7,737**	7,612	**30,188**	25,892
Operating income	**18,106**	16,948	**88,614**	76,814
On-shore wind	**22,313**	20,188	**71,264**	59,342
Solar	**8,742**	9,372	**69,473**	75,784
Adjusted EBITDA (2)	**$ 31,055**	$ 29,560	**$ 140,737**	$ 135,126
Capital expenditures (3)	**$ 536**	$ (1,891)	**$ 4,302**	$ 2,533

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

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

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

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

Electricity production for the three months ended December 31, 2017, increased 33 GWh compared to the same quarter last year, primarily due to higher wind resources at Jardin and Mont Louis compared to last year. Electricity production for the year ended December 31, 2017, increased 146 GWh compared to last year primarily due to a full year of operations at Grand Bend, which declared commercial operations in April 2016 (the "**Grand Bend Commencement**"), as well as higher wind resources at Jardin, Mont Louis, and McLean's.

Sales for the three months ended December 31, 2017, of $49.0 million were consistent with the same quarter last year primarily due to higher production at Jardin and Mont Louis being offset by the impact of a shutdown at Grand Bend to complete a onetime planned substation reactor installation. Sales for the year ended December 31, 2017, increased $19.5 million to $211.6 million compared to last year primarily as a result of the impact of the Grand Bend Commencement being partially offset by the impact of higher-than-usual cloud cover at the solar facilities.

Plant operating costs for the three months ended December 31, 2017, were consistent with the same quarter last year. Plant operating costs for the year ended December 31, 2017, increased $4.3 million to $30.2 million compared to last year primarily due to the impact of the Grand Bend Commencement as well as higher variable service fees at McLean's due to higher production.

Operating income for the three months ended December 31, 2017, increased $1.2 million compared to the same quarter last year primarily as a result of a higher contribution from Jardin and Mont Louis due to higher wind resources. Operating income for the year ended December 31, 2017, increased $11.8 million compared to last year due to the impact of the Grand Bend Commencement, partially offset by the associated commencement of depreciation.

Adjusted EBITDA for the on-shore renewable facilities for the three months ended December 31, 2017, increased $1.5 million compared to the same quarter last year primarily due to higher operating income at Jardin and Mont Louis. Adjusted EBITDA for the year ended December 31, 2017, increased $5.6 million to $140.7 million compared to last year primarily due to the impact of the Grand Bend Commencement.

Sale of Asset

In November 2017, Northland completed the sale of its 22 MW German wind farms for approximately €3.7 million.

5.2 Corporate and Development Costs and Other Income

The following table summarizes corporate and development costs and other income:

	Three months ended December 31,		Year ended December 31,	
	2017	2016	**2017**	2016
Management and administration costs				
Corporate operations	**$ 6,921**	$ 8,306	**$ 31,845**	$ 25,801
Corporate development	**2,929**	2,849	**13,456**	11,083
Corporate development projects	**4,143**	8,495	**23,329**	20,172
Corporate management and administration costs	**13,993**	19,650	**68,630**	57,056
Facilities	**4,831**	2,442	**11,312**	8,223
Management and administration costs	**18,824**	22,092	**79,942**	65,279
Adjusted EBITDA				
Corporate (1)	**(13,887)**	(17,766)	**(65,019)**	(55,172)
Gemini interest income	**5,415**	4,825	**20,514**	18,680
Other	**65**	61	**534**	2,892
Adjusted EBITDA	**$ (8,407)**	$ (12,880)	**$ (43,971)**	$ (33,600)

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

Corporate development costs relate primarily to personnel, rent and other office costs that are not directly attributable to development projects. Corporate development projects costs are directly attributable to expenditures on development projects.

*Corporate management and administration (**M&A**) costs* for the three months ended December 31, 2017, decreased $5.7 million compared to the same quarter last year primarily due to the timing of early-stage development activities across a range of geographic locations ($4.4 million), as well as the impact of certain non-recurring costs incurred in the fourth quarter of last year, partially offset by higher personnel costs ($1.8 million). Corporate M&A costs for the year ended December 31, 2017, increased $11.6 million compared to last year primarily due to higher personnel costs ($8.3 million), including certain non-recurring costs ($1.3 million), and higher early-stage development activities across a range of geographic locations ($3.2 million).

Facility M&A costs for the three months and year ended December 31, 2017, increased $2.4 million and $3.1 million, respectively, compared to the same periods last year primarily due to higher costs at Gemini ($3.6 million and $4.4 million) as a result of partial capitalization of MD&A costs during commissioning in 2016.

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

5.3 Consolidated Results

The following discussion of the consolidated financial results of operations should be read in conjunction with Northland's audited consolidated financial statements for the year ended December 31, 2017.

	Three months ended December 31,		Year ended December 31,	
	2017	**2016**	**2017**	**2016**
Electricity production (GWh)	**2,125**	2,035	**6,556**	6,392
Sales	**$ 394,611**	$ 478,500	**$ 1,376,256**	$ 1,099,000
Less: Cost of sales	**29,585**	55,630	**139,539**	193,240
Gross profit	**365,026**	422,870	**1,236,717**	905,760
Expenses				
Plant operating costs	**51,287**	41,751	**176,643**	113,751
Management and administration costs - operations	**11,752**	10,748	**43,157**	34,024
Management and administration costs - development	**7,072**	11,344	**36,785**	31,255
Depreciation of property, plant and equipment	**102,087**	85,654	**361,365**	233,598
	172,198	149,497	**617,950**	412,628
Investment income	**418**	—	**418**	2,306
Finance lease income	**3,210**	3,276	**12,941**	13,199
Operating income	**196,456**	276,649	**632,126**	508,637
Finance costs, net	**94,468**	73,543	**333,469**	226,968
Amortization of contracts and intangible assets	**2,506**	(961)	**8,766**	13,517
Impairment	**—**	23,055	**—**	23,055
Foreign exchange (gain) loss	**(2,275)**	(4,373)	**(2,275)**	(2,022)
Fair value (gain) loss on derivative contracts	**(9,672)**	(173,108)	**(50,796)**	27,830
Other (income) expense	**6,633**	310	**21,281**	(27)
Income (loss) before income taxes	**104,796**	358,183	**321,681**	219,316
Provision for (recovery of) income taxes				
Current	**12,011**	6,915	**16,129**	10,749
Deferred	**10,504**	60,533	**29,716**	18,008
Provision for (recovery of) income taxes	**22,515**	67,448	**45,845**	28,757
Net income (loss)	**$ 82,281**	$ 290,735	**$ 275,836**	$ 190,559
Net income (loss) per share - basic	**$ 0.25**	$ 0.94	**$ 0.85**	$ 0.64
Net income (loss) per share - diluted	**$ 0.25**	$ 0.89	**$ 0.85**	$ 0.64

Fourth Quarter

Net income for the three months ended December 31, 2017, of $82.3 million was $208.5 million lower than the same quarter last year primarily due to a lower non-cash fair value gain on derivative contracts primarily as a result of the adoption of hedge accounting ($9.7 million gain compared to a $173.1 million gain in the fourth quarter of 2016), and receipt of one-time payments associated with the Global Adjustment Decision ($104.5 million) last year. These variances were partially offset by operating income from Gemini and Nordsee One, lower deferred taxes and no impairment charges during 2017.

The following describes the significant factors contributing to the change in net income for the quarter ended December 31, 2017:

Total Sales decreased $83.9 million and Gross profit decreased $57.8 million compared to the fourth quarter of last year primarily due to the impact of the Global Adjustment Decision, the annual Gemini Subsidy Cap this year and the Kingston Remarketing Initiative. These variances were partially offset by positive contributions from Nordsee One and the on-shore wind facilities.

Plant operating costs increased $9.5 million compared to the fourth quarter of last year primarily due to costs at Gemini and Nordsee One now that all wind turbines are in operation, partially offset by service agreement savings at Iroquois Falls and Kirkland Lake, and lower costs due to the Kingston Remarketing Initiative, as previously discussed.

Management and administration costs decreased $3.3 million compared to the fourth quarter of last year. Corporate M&A costs decreased $5.7 million primarily due to the timing of early-stage development activities as well as certain non-recurring costs in 2016, partially offset by higher personnel costs in 2017. Facility M&A costs increased $2.4 million primarily due to higher costs at Gemini as a result of partial capitalization of M&A costs during commissioning in 2016.

Finance costs, net (primarily interest expense) increased $20.9 million compared to the fourth quarter of last year primarily due to interest costs at Gemini and Nordsee One no longer being capitalized following completion of construction activities.

Impairments were nil in 2017. The $23.1 million charge in 2016 primarily related to changes in cash flow forecasts for the Kingston facility.

Non-cash fair value gains totalled $11.9 million, including a $9.7 million gain in the fair value of derivative contracts, compared to a $177.5 million gain in the fourth quarter of last year, primarily due to the impact of adopting hedge accounting. Effective January 1, 2017, Northland adopted hedge accounting under IFRS 9 in order to minimize mark-to-market adjustments in the statement of income resulting from volatility of foreign currency and interest rate movements. The fair value adjustments in 2017 are non-cash items which will reverse over time, and have no impact on the cash obligations of Northland or its projects. Refer to Notes 2 and 16 of the audited consolidated financial statements for the year ended December 31, 2017.

Other expense (income) increased $6.3 million compared to the fourth quarter of last year primarily due to a $10.3 million non-cash fair value adjustment under IFRS 9 on a loan receivable, partially offset by a gain on the sale of the German on-shore wind farms.

Mainly due to the factors described above, combined with a $16.4 million higher depreciation expense and a $50.0 million lower deferred income tax expense, net income was $82.3 million for the fourth quarter of 2017 compared to $290.7 million for the same quarter last year.

2017

Net income for the year ended December 31, 2017, of $275.8 million was $85.3 million higher than last year primarily due to the increase in operating income combined with the non-cash fair value gain associated with derivative contracts ($50.8 million gain compared to a $27.8 million loss in 2016). The positive variances were partially offset by higher depreciation and finance costs in connection with completed projects.

The following describes the significant factors contributing to the change in net income for the year ended December 31, 2017:

Total Sales increased $277.3 million compared to last year primarily due to contributions from Gemini, pre-completion revenue from Nordsee One and positive contributions from the on-shore wind facilities (primarily the Grand Bend Commencement). These variances were partially offset by the impact of the Global Adjustment Decision, the Kingston Remarketing Initiative, and lower production at Thorold.

Gross profit increased $331.0 million compared to last year primarily due to higher sales combined with a lower cost of sales at Kingston.

Plant operating costs increased $62.9 million compared to last year primarily due to the inclusion of costs from Gemini, Nordsee One and Grand Bend, partially offset by lower costs at Iroquois Falls, Kingston and Thorold.

Management and administration costs increased $14.7 million compared to last year primarily due to higher personnel costs and early-stage development activities, combined with increased facility M&A costs primarily due to higher costs at Gemini as a result of partial capitalization of M&A costs during commissioning in 2016.

Finance costs, net (primarily interest expense) increased $106.5 million compared to last year primarily due to interest costs at Gemini, Nordsee One and Grand Bend no longer being capitalized following completion of construction activities.

Non-cash fair value gains totalled $53.1 million compared to a $25.8 million loss last year. A significant portion of the current year gain ($69.8 million) represents the marked-to-market adjustment on the interest rate swaps and undesignated portions of foreign exchange contracts related to Gemini, Nordsee One and Deutsche Bucht.

Other expense (income) increased $21.3 million compared to last year primarily due to the €10.4 million ($14.6 million) of contingent consideration in connection with the acquisition of Gemini, and a $10.3 million non-cash fair value adjustment under IFRS 9 on a loan receivable, partially offset by a gain on the sale of the German wind farms.

Mainly due to the factors described above, combined with $17.1 million higher tax expense compared to the last year, net income was $275.8 million for the year ended December 31, 2017, compared to $190.6 million in 2016.

5.4 Adjusted EBITDA

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

	Three months ended December 31,		Year ended December 31,	
	2017	**2016**	**2017**	**2016**
Net income (loss)	**$ 82,281**	$ 290,735	**$ 275,836**	$ 190,559
Adjustments:				
Provision for (recovery of) income taxes	**22,515**	67,448	**45,845**	28,757
Depreciation of property, plant and equipment	**102,087**	85,654	**361,365**	233,598
Amortization of contracts and intangible assets	**2,506**	(961)	**8,766**	13,517
Finance costs, net	**94,468**	73,543	**333,469**	226,968
Gemini interest income	**5,415**	4,823	**20,514**	18,678
Fair value (gain) loss on derivative contracts	**(9,672)**	(173,108)	**(50,796)**	27,830
Foreign exchange (gain) loss	**(2,275)**	(4,321)	**(2,275)**	(1,942)
Net impairments	**—**	23,055	**—**	23,055
Elimination of non-controlling interests	**(66,123)**	(93,326)	**(255,862)**	(140,102)
Finance lease and equity accounting	**837**	834	**2,966**	3,241
Other	**6,636**	2,720	**25,348**	2,720
Adjusted EBITDA	**$ 238,675**	$ 277,096	**$ 765,176**	$ 626,879

Adjusted EBITDA includes interest income earned on Northland's €80.0 million subordinated debt to Gemini, which increased as a result of accrued interest to €117.0 million as at June 30, 2017. Cash interest payments commenced during the third quarter of 2017, and semi-annual principal payments will commence in 2027 until maturity in 2032. Northland consolidates the financial results of Gemini and, as a result, Northland's loan balances, investment income, and interest expense are eliminated upon consolidation. Interest income from Gemini ("**Gemini interest income**") has been included in adjusted EBITDA since inception of the subordinated debt and has been included in free cash flow upon commencement of cash interest payments during the third quarter of 2017.

Other adjustments to arrive at adjusted EBITDA for the year ended December 31, 2017 include a non-cash fair value adjustment under IFRS 9 on a loan receivable of $10.3 million and a one-time payment of $14.6 million of contingent consideration in connection with the acquisition of Gemini.

Adjusted EBITDA for the three months ended December 31, 2017, was $38.4 million lower than the same quarter last year. The significant factors decreasing adjusted EBITDA include:

- $94.7 million as a result of the one-time receipt in 2016 of retroactive payments in connection with the Global Adjustment Decision;
- $38.2 million as a result of lower sales at Gemini due to the annual Gemini Subsidy Cap having been achieved in November 2017, after which production generated revenue solely at wholesale market rates;
- $8.1 million as a result of the expiration of the PPA at Kingston in January 2017; and
- $5.3 million as a result of a planned major outage at North Battleford which did not occur in 2016.

Factors partially offsetting the decrease in adjusted EBITDA include:

- $87.4 million as a result of pre-completion revenue (net of certain operating costs) from Nordsee One;
- $10.4 million higher operating income from Northland's other operating facilities;
- $7.5 million as a result of higher operating income under the Enhanced Dispatch Contract executed by Iroquois Falls in 2017; and
- $3.9 million decrease in relevant corporate M&A costs related to timing of development projects partially offset by increased personnel costs.

Adjusted EBITDA for the year ended December 31, 2017, was $138.3 million higher than last year. The significant factors increasing adjusted EBITDA include:

- $155.0 million as a result of increasing contributions from Gemini as a result of achieving final completion in 2017;
- $106.5 million as a result of pre-completion revenue (net of certain operating costs) from Nordsee One;
- $12.3 million as a result of higher operating income under the Enhanced Dispatch Contract executed by Iroquois Falls in 2017;
- $11.0 million as a result of a full year of operations from Grand Bend; and
- $3.9 million higher operating income from Northland's other operating facilities.

Factors partially offsetting the increase in adjusted EBITDA include:

- $94.7 million as a result of the one-time receipt in 2016 of retroactive payments in connection with the Global Adjustment Decision;
- $40.4 million due to the expiration of the PPA at Kingston in January 2017;
- $9.8 million increase in relevant corporate M&A costs related to personnel costs and development projects; and
- $6.3 million as a result of lower production at solar facilities largely due to the impact of higher-than-usual cloud cover.

5.5 Free Cash Flow and Payout Ratios

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

	Three months ended December 31,		Year ended December 31,	
	2017	**2016**	**2017**	**2016**
Cash provided by operating activities	**$ 257,642**	$ 344,424	**$ 849,007**	$ 719,812
Adjustments:				
Net change in non-cash working capital balances related to operations	**57,514**	27,028	**94,820**	(2,343)
Capital expenditures, net non-expansionary	**(1,418)**	(643)	**(3,612)**	(3,695)
Restricted funding for major maintenance	**(1,238)**	(642)	**(2,087)**	(2,178)
Interest paid, net	**(112,047)**	(70,712)	**(272,256)**	(188,009)
Scheduled principal repayments on term loans	**(39,537)**	(30,067)	**(110,523)**	(79,998)
Funds set aside (utilized) for quarterly scheduled principal repayments	**4,737**	9,448	**(2,954)**	—
Preferred share dividends	**(2,823)**	(2,801)	**(11,215)**	(11,189)
Consolidation of non-controlling interests	**(95,597)**	(157,099)	**(292,807)**	(192,563)
Equity accounting	**—**	62	**(226)**	588
Gemini interest income	**6,081**	—	**11,720**	1,899
Foreign exchange and other	**(3,767)**	—	**(3,767)**	—
Free cash flow	**$ 69,547**	$ 118,998	**$ 256,100**	$ 242,324

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,	
	2017	**2016**	**2017**	**2016**
Cash dividends paid to common and Class A shareholders	**$ 34,254**	$ 34,790	**$ 134,307**	$ 139,890
Free cash flow payout ratio - cash dividends (1)			**52%**	58%
Total dividends paid to common and Class A shareholders (2)	**$ 47,239**	$ 46,761	**$ 188,005**	$ 184,459
Free cash flow payout ratio - total dividends (1) (2)			**73%**	76%
Free cash flow payout ratio - total dividends since initial public offering (1) (2)			**94%**	95%
Weighted average number of shares - basic (000s) (3)	**175,422**	172,323	**175,383**	172,910
Weighted average number of shares - diluted (000s) (4)	**186,244**	184,342	**186,232**	186,575
Per share ($/share)				
Dividends paid	**$0.27**	$0.27	**$1.08**	$1.08
Free cash flow - basic	**$0.40**	$0.69	**$1.46**	$1.40
Free cash flow - diluted	**$0.38**	$0.66	**$1.42**	$1.34

(1) On a rolling four-quarter basis.
(2) Represent dividends paid in cash and in shares under the DRIP.
(3) Includes common shares and class A shares and 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.

Free cash flow of $69.5 million for the fourth quarter of 2017 was $49.5 million lower than the fourth quarter last year. Factors decreasing free cash flow include:

- $94.7 million due to the one-time receipt in 2016 of retroactive payments in connection with the Global Adjustment Decision;
- $32.4 million increase in net interest expense primarily related to a full year of Gemini senior debt;
- $8.1 million decrease due to the expiration of the PPA at Kingston in January 2017; and
- $5.8 million increase in scheduled debt repayments related to Gemini and McLean's.

Factors partially offsetting the decrease in free cash flow include:

- $59.7 million increase in contributions from Gemini, partially offset by the impact of the annual Gemini Subsidy Cap being reached during the quarter;
- $7.5 million increase in operating income from the Enhanced Dispatch Contract at Iroquois Falls executed in 2017;
- $6.3 million decrease in relevant corporate M&A costs related to the timing of development projects;
- $6.1 million increase in Gemini interest income on the subordinated debt; and
- $4.6 million increase in operating income from Northland's other operating facilities.

Free cash flow of $256.1 million for the year ended December 31, 2017 was $13.8 million higher than last year. Factors increasing free cash flow include:

- $213.2 million increase as a result of a full year of contributions from Gemini, partially offset by the impact of the annual Gemini Subsidy Cap being reached in November 2017;
- $12.3 million increase in operating income from the Enhanced Dispatch Contract at Iroquois Falls executed in 2017;
- $11.0 million increase in contributions from the Grand Bend Commencement in April 2017;
- $9.4 million increase in Gemini interest income on the subordinated debt;
- $9.1 million increase in operating income from Northland's other operating facilities; and
- $5.5 million lower operations-related capital expenditures.

Factors partially offsetting the increase in free cash flow include:

- $94.7 million due to the one-time receipt in 2016 of retroactive payments in connection with the Global Adjustment Decision;
- $68.5 million increase in net interest expense primarily related to a full year of Gemini and Grand Bend debt;
- $40.4 million decrease due to the expiration of the PPA at Kingston in January 2017;
- $14.6 million of contingent consideration in connection with the acquisition of Gemini;
- $11.4 million increase in scheduled debt repayments related to Gemini and McLean's;
- $11.3 million increase in relevant corporate M&A costs related to personnel costs and development projects; and
- $6.3 million decrease in operating income at the solar facilities largely due the impact of higher-than-usual cloud cover.

For the year ended December 31, 2017, the free cash flow net payout ratio, calculated on the basis of cash dividends paid, was 52%, and 73% on a total dividend basis, compared to 58% and 76%, respectively, last year. The improvement in the free cash flow payout ratios from last year was primarily due to contributions from Gemini and certain thermal facilities as described above, partially offset by the Global Adjustment Decision in 2016 and higher finance costs.

Section 6: Changes in Financial Position

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

As at		December 31, 2017		December 31, 2016
Assets				
Cash and cash equivalents	**$**	**400,573**	$	307,521
Restricted cash		**287,609**		171,304
Trade and other receivables		**271,952**		158,007
Other current assets		**39,095**		33,445
Property, plant and equipment		**7,932,110**		7,157,401
Contracts and other intangible assets		**583,989**		234,328
Other assets (1)		**654,506**		435,671
	$	**10,169,834**	$	8,497,677
Liabilities				
Trade and other payables		**344,760**		231,186
Interest-bearing loans and borrowings		**6,667,056**		5,736,112
Net derivative financial liabilities (2)		**485,488**		442,262
Net deferred tax liability (2)		**163,370**		52,610
Other liabilities (3)		**1,051,275**		660,387
	$	**8,711,949**	$	7,122,557
Total equity		**1,457,885**		1,375,120
	$	**10,169,834**	$	8,497,677

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

(2) Presented on a net basis.

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

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

- *Restricted cash* increased $116.3 million primarily due to funds set aside for construction at Deutsche Bucht and an increase in Gemini's and Nordsee One's debt reserves to fund their semi-annual principal payments.
- *Trade and other receivables* increased $113.9 million mainly due to higher electricity sales at Gemini and Nordsee One partially offset by lower sales at Kingston.
- *Property, plant and equipment* increased $774.7 million primarily due to construction-related activities at Nordsee One, Deutsche Bucht, and changes in the foreign exchange translation.
- *Contracts and other intangible assets* increased $349.7 million mainly due to the Deutsche Bucht acquisition and changes in the foreign exchange translation.
- *Other assets* increased $218.8 million primarily due to vendor deposits associated with construction at Deutsche Bucht and a government grant expected to be received over a five-year period related to the construction of Nordsee One.
- *Interest-bearing loans and borrowings* increased $930.9 million mainly due to Gemini, Nordsee One and Deutsche Bucht construction activities, partially offset by scheduled loan repayments.
- *Deferred tax liability, net* increased $110.8 million largely due to the differences in accounting versus tax balances, acquired as part of the Deutsche Bucht acquisition; in particular, the contracts acquired.
- *Other liabilities* increased $390.9 million primarily due to borrowings on Northland's revolving facility utilized for the Deutsche Bucht acquisition, Nordsee One decommissioning costs recognized upon final completion and the portion of Nordsee One's shareholder loan due to the non-controlling interest partner, which was previously classified as current during the construction period.

Section 7: Equity, Liquidity and Capital Resources

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

Equity and Convertible Unsecured Subordinated Debentures

The change in shares and class A shares during 2017 and 2016 was as follows:

For year ended	**December 31, 2017**	**December 31, 2016**
Shares outstanding, beginning of year	**171,973,308**	169,645,251
Conversion of debentures	**56,848**	76,198
Shares issued under the LTIP	**22,284**	21,142
Shares issued under the DRIP	**2,387,641**	2,230,717
Shares outstanding, end of year	**174,440,081**	171,973,308
Class A shares	**1,000,000**	1,000,000
Total common and convertible shares outstanding, end of year	**175,440,081**	172,973,308

Preferred shares outstanding as at December 31, 2017 and 2016 are as follows:

As at	**December 31, 2017**	**December 31, 2016**
Series 1	**4,501,565**	4,501,565
Series 2	**1,498,435**	1,498,435
Series 3	**4,800,000**	4,800,000
Total	**10,800,000**	10,800,000

Under the DRIP, common shareholders and the Class A shareholder may elect to reinvest their dividends in common shares to be issued from treasury at up to a 5% discount to the market price.

As of February 22, 2018, Northland has 174,634,960 common shares outstanding with no change in Class A and preferred shares outstanding from December 31, 2017. If the convertible debentures outstanding as at December 31, 2017, totalling $233.4 million, were converted in their entirety, an additional 10.8 million common shares would be issued.

In their most recent report issued in September 2017, Standard & Poor's reaffirmed Northland's credit rating of BBB (Stable). In addition, Northland's preferred share rating and unsecured debt ratings were reaffirmed on Standard & Poor's global scale and Canada scale of BB+ and P-3 (high), respectively.

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,**	
	2017	**2016**	**2017**	**2016**
Cash and cash equivalents, beginning of period	**$ 360,537**	$ 229,875	**$ 307,521**	$ 151,927
Cash provided by operating activities	**257,642**	344,424	**849,007**	719,812
Cash used in investing activities	**(111,405)**	(255,499)	**(1,189,166)**	(1,536,277)
Cash provided by financing activities	**(127,670)**	(9,922)	**408,147**	971,068
Effect of exchange rate differences	**21,469**	(1,357)	**25,064**	991
Cash and cash equivalents, end of period	**$ 400,573**	$ 307,521	**$ 400,573**	$ 307,521

Fourth Quarter

Cash and cash equivalents for the fourth quarter of 2017 increased $40.0 million from September 30, 2017, due to cash provided by operations of $257.6 million and the impact of foreign exchange translation of $21.5 million, partially offset by cash used by financing activities of $127.7 million and $111.4 million of cash used in investing activities.

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

- overall favourable operating results from Northland's operating facilities;
- a net reserve decrease primarily associated with the release of funds related to construction expenditures; and
- debt proceeds from the Deutsche Bucht's construction loan and Nordsee One's third-party senior debt.

The increase was partially offset by:

- construction and development related expenditures, mostly associated with Nordsee One and Deutsche Bucht;
- interest payments associated with borrowings; and
- scheduled debt repayments.

2017

Cash and cash equivalents for the year ended December 31, 2017, increased $93.1 million from December 31, 2016, due to $849.0 million in cash provided by operating activities and $408.1 million in cash provided by financing activities, partially offset by $1.2 billion in cash used in investing activities.

Cash provided by operating activities for the year ended December 31, 2017, was $849.0 million, comprising: (i) net income of $275.8 million; (ii) $668.0 million in non-cash and non-operating items such as depreciation and amortization, unrealized foreign exchange gains, and changes in fair value of financial instruments; combined with (iii) a $94.8 million change in working capital from December 31, 2016, due to the timing of payables, receivables, and deposits.

Cash used for investing activities for the year ended December 31, 2017, was $1.2 billion, primarily comprising:

- $815.8 million used for the purchase of property, plant and equipment, mostly for the construction of Nordsee One and Deutsche Bucht;
- $301.3 million used to acquire the Deutsche Bucht project; and
- $218.0 million of restricted cash funding associated with construction expenditures at Deutsche Bucht and debt service reserve funding at Gemini and Nordsee One.

Cash provided by financing activities for the year ended December 31, 2017, was $408.1 million, comprising:

- $1.0 billion of proceeds primarily from Deutsche Bucht's construction loan, Gemini's and Nordsee One's third-party senior debt, draws on corporate credit facilities and Kirkland Lake financing.

Factors partially offsetting cash provided by financing activities include:

- $275.7 million in interest payments;
- $145.5 million of common, Class A and preferred share dividends;
- $140.7 million in scheduled loan repayments; and
- $62.5 million in dividends to the non-controlling shareholders.

Cash and cash equivalents increased by $25.1 million for the year ended December 31, 2017, due to the movement of the euro against the Canadian dollar upon translation of euro-denominated cash and cash equivalents held by Gemini, Nordsee One and Deutsche Bucht. Northland aims to mitigate the effects of exchange rate fluctuations through a variety of mechanisms including foreign exchange rate hedges and using euro-denominated corporate funds for ongoing expenditures and the purchase of euro-denominated property, plant and equipment by Gemini and Nordsee One.

The following table provides a continuity of the cost of property, plant and equipment for the year ended December 31, 2017:

	Cost balance as at Dec. 31, 2016	Acquired (1)	Additions (2)	Other (3)	Exchange rate differences	Transfers	Cost balance as at Dec. 31, 2017
Operations:							
Offshore wind	$ —	$ —	$ 362	$ (5,152)	$ 53,770	$ 5,426,440	**$ 5,475,420**
Thermal (4)	1,812,716	—	4,622	(486)	—	—	**1,816,852**
On-shore renewable	1,754,550	—	4,302	(39,413)	1,407	—	**1,720,846**
Construction:							
Offshore wind	4,746,285	68,036	804,448	(61,494)	280,710	(5,426,440)	**411,545**
Corporate	20,456	—	2,051	—	—	—	**22,507**
Total	$ 8,334,007	$ 68,036	$ 815,785	$ (106,545)	$ 335,887	$ —	**$ 9,447,170**

(1) Includes deferred development costs assumed upon the acquisition of Deutsche Bucht on August 17, 2017 that were reclassified to property, plant and equipment as construction in progress following the closing of project financing on August 18, 2017.

(2) Includes pre-completion revenue of $18.0 million for Nordsee One. See Operating Facilities Results section for additional information.

(3) Includes the accrual for asset retirement obligations and government grant receivable for accounting purposes at Nordsee One, amounts accrued under the LTIP, and the disposal of the German wind farms.

(4) Excludes Spy Hill lease receivable accounting treatment.

Long-term Debt

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

The following table provides a continuity of Northland's debt for the year ended December 31, 2017:

	Balance as at Dec. 31, 2016	Acquired	Financings	Repayments	Amort. of costs / fair value	Exchange rate differences	Transfers	Balance as at Dec. 31, 2017
Operations:								
Offshore wind	$ —	$ —	$ —	$ (36,767)	$ 11,900	$ 182,299	$ 4,124,755	**$ 4,282,187**
Thermal	1,068,228	—	3,572	(38,341)	2,523	—	—	**1,035,982**
On-shore renewable	1,173,317	—	5,546	(36,629)	948	—	—	**1,143,182**
Construction:								
Offshore wind (1)	3,494,567	(7,346)	754,073	—	16,362	72,804	(4,124,755)	**205,705**
Corporate (2)	247,741	—	269,401	(29,003)	696	6,688	—	**495,523**
Total	$ 5,983,853	$ (7,346)	$ 1,032,592	$ (140,740)	$ 32,429	$ 261,791	$ —	**$ 7,162,579**

(1) Includes deferred financing costs acquired related to Deutsche Bucht.

(2) Excludes convertible unsecured subordinated debentures.

In addition to the loans outstanding in the above table, as at December 31, 2017, $45.0 million of letters of credit were issued by Northland's non-recourse project-level credit facilities for operational use.

On December 29, 2017, Nordsee One achieved term conversion and renegotiated its €0.8 billion of senior debt, to reduce the weighted average all-in interest rate to 2.2% for the remaining 12-year.

On August 22, 2017, Northland restructured the project debt relating to seven of its solar facilities primarily to align the financing with Northland's ownership interest and reduce loan margins and certain reserve requirements. The Solar Phase II debt increased to $115.1 million from $73.2 million with a weighted average all-in swapped interest rate of 5.4% compared to 6.1% prior to the restructuring. Cochrane Solar debt balance decreased to $184.5 million from $216.5 million with a weighted average all-in swapped interest rate of 5.3% compared to 5.9% prior to the restructuring. The change in the principal debt balances is primarily due to the transfer of one solar facility to Solar Phase II to align with the Cochrane Solar structure.

On August 18, 2017, Northland achieved financial close on its Deutsche Bucht project, having obtained a €988 million non-recourse construction and term loan and related loan facilities from a syndicate of international commercial lenders. The interest rate on the Deutsche Bucht debt has been effectively fixed, with a weighted average all-in swapped interest rate of 2.8% during the construction period and 2.7% during the term period. The debt matures in 2033.

In April 2017, concurrent with achieving final completion, Gemini renegotiated the project's €2.0 billion senior debt on more favourable terms to reduce the weighted average all-in interest rate by 80 basis points to 3.8% for the remaining term and removed the cash sweep provision. The debt matures in 2030.

In March 2016, Kirkland Lake obtained a $25 million bank credit facility consisting of a $15 million term loan and a $10 million letter of credit facility (reduced to $4.1 million during 2017). The term loan is due in 2023 and bears an all-in interest rate of 2.8%.

Debt Covenants

Northland generally conducts its business indirectly through separate subsidiary legal entities and is dependent on the distribution of cash from those subsidiary entities to defray its corporate expenses, repay corporate debt, and to pay cash dividends to common, Class A and preferred shareholders. Certain of those entities have outstanding non-recourse project finance debt at the subsidiary entity. Under the credit agreements or trust indentures for such debt, distributions of cash to Northland are typically prohibited if the coverage ratios or other covenants are not met and/or if the loan is in default. Northland and its subsidiaries were in compliance with all debt covenants for the year ended December 31, 2017.

Corporate Credit Facilities and Letters of Credit

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

As at December 31, 2017	Facility size	Amount drawn	Outstanding letters of credit	Available borrowing capacity	Maturity date
Syndicated revolving facility	$ 450,000	$ 273,364	$ —	$ 176,636	March 2020
Syndicated term facility (1)	250,000	222,451	—	—	March 2019
Bilateral letter of credit facility	100,000	—	90,883	9,117	March 2019
Export credit agency backed letter of credit facility	100,000	—	89,529	10,471	March 2020
Total	$ 900,000	$ 495,815	$ 180,412	$ 196,224	
Less: deferred financing costs		(292)			
Total, net		$ 495,523			

(1) The term facility was fully drawn to assist in funding Northland's equity investment in Gemini. A partial repayment was made in 2017; however, the amount repaid cannot be redrawn.

- The syndicated term facility was extended during 2017 from March 2018 to March 2019. The amount shown reflects the Canadian equivalent based on period-end foreign exchange rates.
- Amounts drawn against the revolving facility include €181.0 million ($273.4 million) of borrowings related to the acquisition of Deutsche Bucht in August 2017.
- The $100 million letter of credit facility maturing March 2020, which Northland entered into during 2017, is supported by an export credit agency guarantee and allows successive annual renewals at Northland's option, subject to lender and export credit agency approval. The facility supports Northland's international activities.
- Of the $180.4 million of corporate letters of credit issued as at December 31, 2017, $89.5 million relate to projects under advanced development or construction.

Northland's corporate credit facilities, with the exception of the syndicated term facility, include provisions that allow for successive annual renewals at Northland's option, subject to approval by the lenders as applicable.

As at December 31, 2017, Northland's ratio of total debt to enterprise value was 63.1% compared to 59.4% as at December 31, 2016. The increase was primarily as a result of higher total debt due to draws on corporate credit facilities and project financing for offshore wind projects, partially offset by a higher number of common shares outstanding and higher closing share price.

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, 2017, are summarized below:

	2018	2019-2020	2021-2022	>2022
Derivative contracts				
Euro foreign exchange contracts	$ 215,245	$ 359,377	$ 372,893	$ 1,311,015
Financial natural gas contract	45,800	94,149	54,996	—
U.S. dollar foreign exchange contracts	4,906	6,982	—	—
Loans and borrowings				
Interest-bearing loans and borrowings - principal	369,359	1,001,961	1,205,352	5,653,075
Interest-bearing loans and borrowings - interest, including interest rate swaps	254,215	471,320	412,767	968,157
Corporate credit facilities, including interest	27,278	495,815	—	—
Convertible debentures, including interest	11,279	246,430	—	—
Total	**$ 928,082**	**$ 2,676,034**	**$ 2,046,008**	**$ 7,932,247**

Non-Financial Commitments and Contractual Obligations

The following table summarizes all material fixed contractual commitments and obligations as at December 31, 2017, 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 $1.52 and Canadian dollar/U.S. dollar exchange rate of $1.24. The table includes natural gas transportation demand charges for which Northland is liable whether or not natural gas is shipped and maintenance and services agreements. The majority of 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.

	2018	2019-2020	2020-2021	>2022
Maintenance agreements	$ 136,125	$ 289,953	$ 321,948	$ 2,492,545
Construction, excluding debt, interest and fees	389,878	604,328	—	—
Natural gas supply and transportation, fixed portion	50,232	59,136	36,919	21,128
Leases	9,320	17,612	16,919	100,474
Dismantlement funding	6,418	13,261	14,105	143,409
Management fees	1,019	2,070	2,114	14,570
Total	**$ 592,992**	**$ 986,360**	**$ 392,005**	**$ 2,772,126**

Except in circumstances where cancellation of the agreements would result in material penalties, the above table does not include variable contractual obligations of Northland (which typically relate directly to production or meeting performance criteria). Such obligations include natural gas purchase costs, variable natural gas transportation costs and variable payments to maintenance providers. Except for the Jardin, Mont Louis, Spy Hill and North Battleford PPAs, the electricity supply contracts contain no penalties for failure to supply. With respect to the supply of natural gas, certain contracts include penalties for failure to purchase a minimum annual volume of natural gas based on the marketer's premium and the deficiency in volume purchased during the year.

Section 8: Summary of Quarterly Consolidated Results

In millions of dollars, except per share information	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Total sales	$ 394.6	$ 295.2	$ 322.4	$ 364.1	$ 478.6	$ 265.7	$ 176.6	$ 178.1
Operating income	196.5	103.5	144.5	187.6	276.6	105.6	59.4	67.0
Net income (loss)	82.3	31.7	61.7	100.1	290.8	(31.9)	23.4	(91.7)
Adjusted EBITDA	238.7	160.2	168.2	198.1	277.2	141.9	103.9	103.9
Cash provided by operating activities	257.6	172.5	142.2	276.7	344.4	158.8	107.8	108.8
Free cash flow	69.5	45.3	99.7	41.5	119.0	32.1	46.3	44.9
Per share statistics								
Net income (loss) - basic	$ 0.25	$ 0.12	$ 0.19	$ 0.30	$ 0.94	$ (0.18)	$ 0.20	$ (0.32)
Net income (loss) - diluted	0.25	0.12	0.19	0.30	0.94	(0.18)	0.20	(0.32)
Free cash flow - basic	0.40	0.26	0.57	0.24	0.69	0.19	0.27	0.26
Total dividends declared	0.28	0.27	0.27	0.27	0.27	0.27	0.27	0.27

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

Northland's quarterly net income (loss) also varies due to any non-cash impairments/recoveries and foreign exchange adjustments required to translate euro- and U.S. dollar-denominated balances to the appropriate quarter-end Canadian-dollar equivalent and due to fair value movements of financial derivative contracts.

With the exception of the adoption of IFRS 9 effective January 1, 2017, and its associated impact on the results of Northland as described above and in Note 2.3 to the audited annual consolidated financial statements for the year ended December 31, 2017, accounting policies and principles have been applied consistently for all periods presented herein.

Section 9: Construction and Development Activities

Deutsche Bucht 252 MW Offshore Wind Project – Germany

On August 17, 2017, Northland acquired a 100% interest in Deutsche Bucht, with financial close on August 18, 2017. All key construction contracts have been signed, design certificates have been obtained and manufacturing of the offshore substation, monopiles and transition pieces has commenced. The installation of the foundations is expected to commence in late 2018, followed by the cables, offshore substation and wind turbines in 2019. Commercial operations are scheduled to commence by the end of 2019.

The total estimated project cost is approximately €1.3 billion. Northland has invested approximately $0.4 billion, sourced from corporate funds and €181.0 million from Northland's corporate revolving facility. The balance of the project cost will be funded with the €988.0 million non-recourse project finance debt entered into at financial close, and pre-completion revenues.

Northland is investigating the development of two additional demonstration turbines ("**Demonstrator Project**") utilizing suction bucket foundations. The final investment decision for the demonstration turbines is expected in the second half of 2018 and is subject to achieving certain development milestones. If built, they will contribute an additional 17 MW of capacity and increase total project cost by approximately €70 million, including Northland's equity investment by approximately €18 million. The balance of the Demonstrator Project costs would be funded by additional project debt that has already been committed as part of the existing project financing.

Section 10: Outlook

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

Adjusted EBITDA

In 2017, adjusted EBITDA of $765 million exceeded the most recent guidance range issued of $710 to $750 million primarily as a result of higher than expected wholesale market prices at Gemini in the fourth quarter, favourable foreign exchange movements and timing of certain early-stage development expenditures.

In 2018, management expects adjusted EBITDA to be in the range of $860 to $930 million, an increase of approximately 17% over 2017, assuming a CAD/euro exchange rate of 1.52.

The 2018 adjusted EBITDA is expected to increase from $765 million in 2017 primarily due to the following factors:

- $133 to $196 million higher operating income primarily as a result of higher production at Gemini and a full year of generation at Nordsee One.

The increase is expected to be offset by the following factors:

- $23 to $28 million higher planned corporate M&A costs related to the expanded scope of Northland's international development activities; and
- $8 to $10 million lower projected sales as a result of the Kingston Remarketing Initiative.

In 2020, once the construction of the Deutsche Bucht offshore wind project is completed and is fully operational, management expects Deutsche Bucht to generate adjusted EBITDA of approximately €155 to €175 million annually.

Free Cash Flow

In 2017, free cash flow of $1.46 per share exceeded the most recent guidance range issued of $1.18 to $1.30 per share primarily as a result of the same factors affecting adjusted EBITDA.

In 2018, management expects the free cash flow per share to be in the range of $1.70 to $2.00 per share, an increase of approximately 27% over 2017.

The 2018 free cash flow per share guidance is expected to be higher than the $1.46 per share in 2017 primarily due to the following factors:

- $84 to $126 million higher operating cash flow from Gemini and Nordsee One, partially offset by higher debt service, reserve funding and income taxes; and
- $16 million higher interest income on Northland's share of subordinated debt to Gemini.

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

- $23 to $28 million higher planned corporate M&A costs related to the expanded scope of Northland's international development activities;
- $9 to $11 million higher interest on the corporate borrowing used to fund Deutsche Bucht;
- $8 to $10 million lower projected revenue as a result of the Kingston Remarketing Initiative;
- $2 to $5 million higher debt service cost at thermal and on-shore renewables facilities; and
- An increase in the weighted average number of common shares outstanding as a result of the additional common shares expected to be issued through the DRIP and expected conversions from convertible debentures.

Section 11: Litigation, Claims and Contingencies

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

Section 12: Risk and Uncertainties

Northland's activities expose it to a variety of risks. Refer to the 2017 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 overall risk management approach seeks to mitigate the financial risks to which it is exposed in order to maintain stable and sustainable levels of cash available to pay dividends to shareholders. Northland does not seek to mitigate fair value risk. Northland classifies financial risks into market risk, counterparty risk and liquidity risk. The risks associated with Northland's financial instruments and Northland's policies for mitigating these risks are described below.

Market Risk

Market risk is the risk that the fair value of or future cash flows from financial instruments will fluctuate because of changes in market prices. Financial instruments affected by market risk include the loans and borrowings and derivative financial instruments. Components 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.

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

Changes in the fair value of 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 (in addition to the underlying interest rate) will increase, making the cost of debt capital more expensive. Exposure to this risk is limited to floating rate interest loans that mature prior to the full amortization period of the loan since fixed interest rate spreads cannot be hedged and could increase materially at loan maturity. Northland manages its exposure to credit spread risk by (i) entering into long-term fixed-rate financings when possible or feasible; and (ii) continually monitoring credit markets and making prudent decisions about the timing and method of loan refinancing or repricing opportunities.

(iii) Currency Risk

Currency risk arises because the Canadian dollar equivalent of transactions, assets or liabilities denominated in foreign currencies may vary due to changes in foreign exchange rates. Northland is exposed to changes in the euro and U.S. dollar, notably the euro-denominated consolidated financial statements of Gemini, Nordsee One and Deutsche Bucht project.

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

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

(iv) Commodity Price Risk

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

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

Counterparty Risk

Counterparty risk arises from a number of sources including: (i) cash and cash equivalents held with banks and financial institutions; (ii) counterparty exposures arising from: (a) contractual obligations, which include but are not limited to sales contracts, equipment supply and maintenance contracts, fuel supply and transportation agreements and construction contracts, (b) derivative financial instruments, (c) trade receivables due from customers, (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.

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

As at December 31, 2017, approximately 92% (2016 - 91%) of Northland's consolidated trade and other receivables, excluding third-party partner loan receivable, were owing from government-related entities.The reduction from last year was primarily the result of the growing portion of revenue earned by Gemini at market rates.

In 2017, approximately 89% (2016 - 99%) of Northland's consolidated revenue was derived indirectly from the sale of electricity to government-related entities. For electricity and other sales, Northland and its subsidiaries have not provided allowance accounts, do not hold collateral from counterparties and have not purchased credit derivatives to mitigate counterparty risk. All significant accounts receivable amounts reported as at December 31, 2017 are current.

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

Liquidity Risk

Liquidity risk arises through an excess of financial obligations over available financial assets at any point in time and includes the risk that:

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

Northland's objective in managing liquidity risk is to maintain sufficient cash or readily available funding in order to meet its expected liquidity requirements. Northland achieves this by: (i) maintaining prudent cash balances, availability under committed credit facilities and access to capital markets; (ii) selecting derivatives and hedging strategies to mitigate 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 since it conducts its business activities through separate legal entities (subsidiaries and affiliates) and is dependent on receipts of cash from those entities to defray its corporate expenses and to make dividend payments to shareholders. Certain of those entities have outstanding debt that was incurred to help fund the entities' original investments. Under the financing agreements for such debt, it is conventional for distributions of cash to Northland to be prohibited if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark debt service coverage ratio, which is the ratio of EBITDA for a specified time period to the scheduled loan principal and interest payments for the same time period. For the year ended December 31, 2017, Northland and its subsidiaries were in compliance with all debt covenants.

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

Refer to Note 23 to the audited consolidated financial statements for the year ended December 31, 2017, for additional information related to Northland's commitments and obligations.

Section 13: Critical Accounting Estimates

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

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

Additional information on the significant estimates, judgments and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed in Note 2.20 in the audited annual consolidated financial statements for the year ended December 31, 2017.

Section 14: Future Accounting Policies

A number of new standards, amendments and interpretations issued are not yet effective for the year ended December 31, 2017, and therefore have not yet been applied in preparing the consolidated financial statements. These standards include IFRS 15, "Revenue from Contracts with Customers" effective for annual reporting periods beginning on or after January 1, 2018, and IFRS 16, "Leases" effective for annual periods beginning on or after January 1, 2019.

Northland will assess each standard to determine whether it has a material impact on its consolidated financial statements. In 2017, management completed the detailed analysis of the contracts in scope of IFRS 15 that may be impacted by changes at the transition date, with no material impact identified. Management anticipates that all of the relevant standards will be adopted for the first period beginning on their respective effective dates. Refer to Note 2.19 in the audited annual consolidated financial statements for the year ended December 31, 2017, for additional information.

Section 15: 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, 2017, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Northland's disclosure controls and procedures, as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

Internal Controls Over Financial Reporting

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

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

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

An evaluation of the effectiveness of the design and operation of Northland's internal controls over financial reporting was conducted as of December 31, 2017, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Northland's internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of the audited consolidated financial statements in accordance with IFRS.

No changes were made in Northland's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, Northland's internal controls over financial reporting in the year ended December 31, 2017.

MANAGEMENT'S RESPONSIBILITY

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

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

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

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

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

(signed, John W. Brace)

John W. Brace
Chief Executive Officer

(signed, Paul J. Bradley)

Paul J. Bradley
Chief Financial Officer

Toronto, Canada
February 22, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Northland Power Inc.

We have audited the accompanying consolidated financial statements of Northland Power Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Northland Power Inc. and its subsidiaries as at December 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 22, 2018

CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

CONSOLIDATED BALANCE SHEETS

In thousands of Canadian dollars

As at		December 31, 2017		December 31, 2016
Assets				
Current assets				
Cash and cash equivalents	**$**	**400,573**	$	307,521
Restricted cash [Note 14]		**287,609**		171,304
Trade and other receivables [Note 15]		**271,952**		158,007
Other current assets [Notes 7, 8.1]		**39,095**		33,445
Derivative assets [Note 16.2]		**12,679**		1,811
Total current assets	**$**	**1,011,908**	$	672,088
Property, plant and equipment [Note 4]		**7,932,110**		7,157,401
Contracts and other intangible assets [Note 3, 5]		**583,989**		234,328
Goodwill [Note 6]		**204,942**		206,530
Finance lease receivable [Note 7]		**148,723**		152,250
Derivative assets [Note 16.2]		**12,244**		51,525
Long-term deposits [Note 8.2]		**171,646**		50,371
Deferred tax asset [Note 20]		**85,760**		112,417
Other assets [Notes 8.3, 14]		**128,195**		26,520
Total assets	**$**	**10,280,517**	$	8,663,430
Liabilities and equity				
Current liabilities				
Trade and other payables	**$**	**344,760**	$	231,186
Interest-bearing loans and borrowings [Note 10]		**395,783**		114,571
Dividends payable		**18,155**		15,568
Derivative liabilities [Note 16.2]		**129,722**		120,322
Total current liabilities	**$**	**888,420**	$	481,647
Interest-bearing loans and borrowings [Note 10]		**6,271,273**		5,621,541
Corporate credit facilities [Note 11.1]		**495,523**		247,741
Convertible debentures [Note 11.2]		**228,963**		228,093
Provisions and other liabilities [Note 12]		**308,634**		168,985
Derivative liabilities [Note 16.2]		**380,689**		375,276
Deferred tax liability [Note 20]		**249,130**		165,027
Total liabilities	**$**	**8,822,632**	$	7,288,310
Equity				
Common and Class A shares [Note 13.1]		**2,335,892**		2,281,516
Preferred shares [Note 13.2]	**$**	**260,880**	$	260,880
Long-Term Incentive Plan reserve [Note 13.1]		**8,872**		12,246
Contributed surplus		**582**		278
Accumulated other comprehensive loss		**(20,358)**		(20,475)
Deficit		**(1,640,041)**		(1,599,967)
Equity attributable to shareholders		**945,827**		934,478
Non-controlling interests [Note 14]		**512,058**		440,642
Total equity		**1,457,885**		1,375,120
Total liabilities and equity	**$**	**10,280,517**	$	8,663,430

See accompanying notes.

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

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

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

In thousands of Canadian dollars except per Share and Share information

	Year ended December 31, 2017	2016
Sales		
Electricity and related products	**$ 1,371,604**	$ 1,097,623
Other	**4,652**	1,377
Total sales	**1,376,256**	1,099,000
Cost of sales	**139,539**	193,240
Gross profit	**$ 1,236,717**	$ 905,760
Expenses		
Plant operating costs	**176,643**	113,751
Management and administration costs - operations	**43,157**	34,024
Management and administration costs - development	**36,785**	31,255
Depreciation of property, plant and equipment [Note 4]	**361,365**	233,598
	$ 617,950	$ 412,628
Investment income	**418**	2,306
Finance lease income [Note 7]	**12,941**	13,199
Operating income	**$ 632,126**	$ 508,637
Finance costs, net [Note 18]	**333,469**	226,968
Amortization of contracts and other intangible assets [Note 5]	**8,766**	13,517
Impairment of property, plant and equipment [Note 19]	**—**	23,055
Foreign exchange (gain) loss	**(2,275)**	(2,022)
Fair value (gain) loss on derivative contracts [Note 16]	**(50,796)**	27,830
Other (income) expense [Note 23.1]	**21,281**	(27)
Income (loss) before income taxes	**$ 321,681**	$ 219,316
Provision for (recovery of) income taxes [Note 20]		
Current	**16,129**	10,749
Deferred	**29,716**	18,008
	45,845	28,757
Net income (loss)	**$ 275,836**	$ 190,559
Net income (loss) attributable to:		
Non-controlling interests [Note 14]	**114,714**	69,095
Common shareholders	**161,122**	121,464
	$ 275,836	$ 190,559
Weighted average number of Shares outstanding - basic and diluted (000s) [Note 17]	**175,383**	172,910
Net income (loss) per share - basic and diluted [Note 17]	**$ 0.85**	$ 0.64

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

In thousands of Canadian dollars

		Year ended December 31,		
		2017		2016
Net income (loss)	**$**	**275,836**	$	190,559
Items that may be re-classified into net income (loss):				
Exchange rate differences on translation of foreign operations		**72,203**		(55,939)
Changes in fair value of hedged derivative contracts [Note 16]		**(74,576)**		—
Deferred tax recovery (expense) [Note 20]		**22,115**		(4,198)
Other comprehensive income (loss)	**$**	**19,742**	$	(60,137)
Total comprehensive income (loss)	**$**	**295,578**	$	130,422
Total comprehensive income (loss) attributable to:				
Non-controlling interests [Note 14]		**134,339**		45,503
Common shareholders		**161,239**		84,919
	$	**295,578**	$	130,422

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

In thousands of Canadian dollars

	Common and Class A shares	Preferred shares	Long-Term Incentive Plan reserve	Deficit	Contributed surplus	Accumulated other comprehensive income (loss)	Equity attributable to shareholders'	Non-controlling interests	Total equity
December 31, 2016	$ 2,281,516	$ 260,880	$ 12,246	$ (1,599,967)	$ 278	$ (20,475)	**$ 934,478**	$ 440,642	**$ 1,375,120**
Net income (loss)	—	—	—	161,122	—	—	**161,122**	114,714	**275,836**
Deferred income taxes [Notes 13.1, 20]	(1,087)	—	—	—	—	22,182	**21,095**	(67)	**21,028**
Change in translation of net investment in foreign operations	—	—	—	—	—	54,132	**54,132**	18,071	**72,203**
Change in fair value of hedged derivative contracts [Note 16]	—	—	—	—	—	(76,197)	**(76,197)**	1,621	**(74,576)**
LTIP shares and deferred rights	519	—	(3,374)	—	304	—	**(2,551)**	—	**(2,551)**
Non-controlling interest contributions [Note 14]	—	—	—	—	—	—	**—**	206	**206**
Common and Class A share and non-controlling interest dividends declared [Notes 13.3]	53,716	—	—	(189,981)	—	—	**(136,265)**	(63,129)	**(199,394)**
Preferred share dividends [Note 13.2]	—	—	—	(11,215)	—	—	**(11,215)**	—	**(11,215)**
Conversion of debentures	1,228	—	—	—	—	—	**1,228**	—	**1,228**
December 31, 2017	**$ 2,335,892**	**$ 260,880**	**$ 8,872**	**$ (1,640,041)**	**$ 582**	**$ (20,358)**	**$ 945,827**	**$ 512,058**	**$ 1,457,885**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

In thousands of Canadian dollars

	Common and Class A shares	Preferred shares	Long-Term Incentive Plan reserve	Deficit	Contributed surplus	Accumulated other comprehensive income (loss)	Equity attributable to shareholders'	Non-controlling interests	Total equity
December 31, 2015	$ 2,233,874	$ 261,080	$ 6,539	$ (1,524,636)	$ 241	$ 16,070	**$ 993,168**	$ 413,900	**$ 1,407,068**
Net income (loss)	—	—	—	121,464	—	—	**121,464**	69,095	**190,559**
Deferred income taxes [Notes 13.1, 20]	(1,089)	(200)	—	—	—	(4,198)	**(5,487)**	—	**(5,487)**
Change in translation of net investment in foreign operations	—	—	—	—	—	(32,347)	**(32,347)**	(23,592)	**(55,939)**
LTIP shares and deferred rights	516	—	5,707	—	37	—	**6,260**	—	**6,260**
Non-controlling interest contributions [Note 14]	—	—	—	—	—	—	**—**	1,386	**1,386**
Common and Class A share and non-controlling interest dividends declared [Note 13.3]	46,569	—	—	(185,606)	—	—	**(139,037)**	20,147	**(159,184)**
Preferred share dividends [Note 13.2]	—	—	—	(11,189)	—	—	**(11,189)**	—	**(11,189)**
Conversion of debentures	1,646	—	—	—	—	—	**1,646**	—	**1,646**
December 31, 2016	**$ 2,281,516**	**$ 260,880**	**$ 12,246**	**$ (1,599,967)**	**$ 278**	**$ (20,475)**	**$ 934,478**	**$ 440,642**	**$ 1,375,120**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars

		Year ended December 31,		
		2017		**2016**
Operating activities				
Net income (loss)	**$**	**275,836**	$	190,559
Items not involving cash or operations:				
Depreciation of property, plant and equipment [Note 4]		**361,365**		233,598
Amortization of contracts and other intangibles [Note 5]		**8,766**		13,517
Impairment of property, plant and equipment [Note 19]		**—**		23,055
Finance costs, net		**313,591**		220,397
Fair value (gain) loss on derivative contracts [Note 16]		**(50,796)**		27,830
Finance lease [Note 7]		**3,245**		2,989
Unrealized foreign exchange (gain) loss		**(2,275)**		(1,942)
Other		**4,379**		(10,542)
Deferred tax expense (recovery) [Note 20]		**29,716**		18,008
	$	**943,827**	$	717,469
Net change in non-cash working capital balances related to operations		**(94,820)**		2,343
Cash provided by operating activities	**$**	**849,007**	$	719,812
Investing activities				
Purchase of property, plant and equipment [Note 4]		**(815,785)**		(1,626,221)
Deutsche Bucht acquisition, net [Note 3]		**(301,316)**		—
Restricted cash utilization (funding)		**(217,667)**		103,657
Interest received		**3,411**		9,458
Proceeds from sale of assets [Note 4.1]		**5,508**		—
Net proceeds received on legal settlement		**—**		6,000
Other		**7,037**		—
Net change in working capital related to investing activities		**129,646**		(29,171)
Cash used in investing activities	**$**	**(1,189,166)**	$	(1,536,277)
Financing activities				
Proceeds from borrowings, net of transaction costs		**1,032,592**		1,382,224
Repayment of borrowings		**(140,740)**		(79,647)
Interest paid		**(275,667)**		(197,467)
Common and Class A share dividends [Note 13.3]		**(134,307)**		(139,890)
Dividends to non-controlling interests [Note 14]		**(62,516)**		(12,519)
Preferred share dividends [Note 13.2]		**(11,215)**		(11,189)
Non-controlling interest equity contribution		**—**		855
Other [Note 14]		**—**		28,701
Cash provided by financing activities	**$**	**408,147**	$	971,068
Effect of exchange rate differences on cash and cash equivalents		**25,064**		991
Net change in cash and cash equivalents during the year		**93,052**		155,594
Cash and cash equivalents, beginning of year		**307,521**		151,927
Cash and cash equivalents, end of year	**$**	**400,573**	$	307,521

See accompanying notes.

Notes to the Consolidated Financial Statements

1. Description of Northland's Business

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

Northland is a corporation domiciled in Canada with common shares ("**Shares**"), Series 1 cumulative rate reset preferred shares, ("**Series 1 Preferred Shares**"), Series 2 cumulative floating rate preferred shares, ("**Series 2 Preferred Shares**"), Series 3 cumulative rate reset preferred shares, ("**Series 3 Preferred Shares**"), Series B convertible unsecured subordinated debentures ("**2019 Debentures**") and Series C convertible unsecured subordinated debentures ("**2020 Debentures**") that are publicly traded on the Toronto Stock Exchange (**TSX**). Northland is the parent company for the operating subsidiaries that carry on Northland's business. Northland's registered office is located in Toronto, Ontario.

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

	Geographic region (1)	% voting ownership as at Dec. 31, 2017 (2)
Offshore Wind		
Buitengaats C.V. and ZeeEnergie C.V. ("**Gemini**")	The Netherlands	60.0%
Nordsee One GmbH ("**Nordsee One**")	Germany	85.0%
Northland Deutsche Bucht GmbH ("**Deutsche Bucht**" or "**DeBu**")	Germany	100.0%
Thermal		
Iroquois Falls Power Corp. ("**Iroquois Falls**")	Ontario, Canada	100.0%
Kingston CoGen Limited Partnership ("**Kingston**")	Ontario, Canada	100.0%
Kirkland Lake Power Corp. ("**Kirkland Lake**") (3)	Ontario, Canada	100.0%
North Battleford Power L.P. ("**North Battleford**")	Saskatchewan, Canada	100.0%
Spy Hill Power L.P. ("**Spy Hill**")	Saskatchewan, Canada	100.0%
Thorold CoGen L.P. ("**Thorold**")	Ontario, Canada	100.0%
On-shore Renewables		
Four solar facilities ("**Cochrane Solar**")	Ontario, Canada	62.5%
Grand Bend Wind L.P. ("**Grand Bend**")	Ontario, Canada	50.0%
Saint-Ulric Saint-Léandre Wind L.P. ("**Jardin**")	Québec, Canada	100.0%
McLean's Mountain Wind L.P. ("**McLean's**")	Ontario, Canada	50.0%
Mont-Louis Wind L.P. ("**Mont Louis**")	Québec, Canada	100.0%
Nine wholly owned solar facilities ("**Solar**")	Ontario, Canada	100.0%

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

(2) Northland's ownership interest was unchanged from December 31, 2016, with the exception of the acquisition of Deutsche Bucht completed in August 2017 and the sale of DK Windpark Kavelstorf GmbH & Co. KG and DK Bur Burgerwindpark Eckolstädt GmbH & Co. KG ("**German wind farms**") completed in November 2017.

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

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

2.1 Basis of Preparation and Statement of Compliance

These consolidated financial statements of Northland and its subsidiaries were prepared in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**) and are presented in Canadian dollars. All values are presented in thousands except when otherwise indicated. The comparative audited consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2017 consolidated financial statements.

The Consolidated Financial Statements for the year ended December 31, 2017 were approved by the Board of Directors on February 22, 2018.

2.2 Basis of Consolidation

The Consolidated Financial Statements comprise the financial statements of Northland and its subsidiaries at and for the year ended December 31, 2017. Subsidiaries are fully consolidated on the date that Northland obtains control and continue to be consolidated until the date that such control ceases. Control is achieved when Northland is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Northland reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated balance sheets and consolidated statements of income (loss) from the date Northland gains control until the date control ceases. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

2.3 Change in Accounting Policies

Northland elected to early adopt IFRS 9, “Financial Instruments” (“**IFRS 9**”), as issued by the IASB in 2014, because the new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows. The new accounting policies were applied from January 1, 2017 and, in accordance with the transitional provisions in IFRS 9, comparative figures were not restated. Northland adopted IFRS 9 retrospectively with transition adjustments recognized through equity as at January 1, 2017, except for the hedge accounting provisions of IFRS 9, which were applied prospectively effective January 1, 2017. The adoption of IFRS 9 did not result in any transition adjustments being recognized as at January 1, 2017.

IFRS 9 replaces certain provisions of IAS 39, “Financial Instruments Recognition and Measurement” (“**IAS 39**”) that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets; and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7, “Financial Instruments: Disclosures”.

(a) Changes to and impact of financial instrument accounting policies

The following accounting policies are applicable to the accounting for financial instruments from January 1, 2017 under IFRS 9 and differ from past practice under IAS 39.

Classification

From January 1, 2017, Northland classified its financial assets (other than equity investments) in the following measurement categories:

- Those measured at fair value through other comprehensive income (**FVOCI**);
- Those measured at fair value through profit and loss (**FVPL**); and
- Those measured at amortized cost.

The classification of financial assets (other than equity investments) depends on Northland's business objectives for managing the financial assets and whether contractual terms of the cash flows are considered solely payments of principal and interest. For assets measured at fair value, gains and losses will either be recorded in profit and loss or other comprehensive income (**OCI**) depending on the business objective. Northland reclassifies financial assets when and only when its business objective for managing those assets changes.

Classification of financial liabilities under IFRS 9 is unchanged from IAS 39.

As at January 1, 2017, the date of initial application, Northland's financial instruments and new classification categories under IFRS 9 were as follows:

	Classification category		**Carrying amount**	
	IAS 39	**IFRS 9**	**IAS 39 and IFRS 9**	
Current financial assets				
Cash and cash equivalents	Loans and receivables	Amortized cost	$	307,521
Restricted cash	Loans and receivables	Amortized cost		171,304
Trade and other receivables (1)	Loans and receivables	Amortized cost		112,337
Derivative assets	FVPL	FVPL		1,811
Financial assets at FVPL (1)	Loans and receivables	FVPL		45,670
Non-current financial assets				
Derivative assets	FVPL	FVPL		51,525
Long-term deposits	Loans and receivables	Amortized cost		50,371
Current financial liabilities				
Trade and other payables	Loans and borrowings	Amortized cost		231,186
Interest-bearing loans and borrowings	Loans and borrowings	Amortized cost		114,571
Dividends payable	Loans and borrowings	Amortized cost		15,568
Derivative liabilities	FVPL	FVPL		120,322
Non-current financial liabilities				
Interest-bearing loans and borrowings	Loans and borrowings	Amortized cost		5,621,541
Corporate term credit facilities	Loans and borrowings	Amortized cost		247,741
Convertible debentures	Loans and borrowings	Amortized cost		228,093
Derivative liabilities	FVPL	FVPL		375,276

(1) In the consolidated balance sheets, trade and other receivables' original amount is $158.0 million, consisting of $112.3 million plus $45.7 million shown above under the new IFRS 9 account, "Financial assets at FVPL".

As noted in the table above, part of Northland's trade and other receivables is classified as FVPL under IFRS 9. In 2015, Northland provided vendor financing of $28.2 million repayable on demand and $17.5 million repayable under a distribution policy to a corporation controlled by its First Nations partners. Under IAS 39, these loans were classified as loans and receivables and measured at amortized cost. Under IFRS 9, this lending arrangement does not qualify as solely payments of principal and interest because some features are not consistent with a basic lending arrangement, such as the timing of some cash flows that could be impacted by the performance of the underlying assets of the project. As a result, the arrangement is required to be classified and measured as FVPL.

Measurement

Under IFRS 9, embedded derivatives are not separated from financial assets, but variability in cash flows is considered in determining whether such cash flows are solely for payments of principal and interest. Accounting for embedded derivatives in financial liabilities and non-financial host contracts has not changed.

IFRS 9 requirements for measurement of financial liabilities are aligned with IAS 39, with the exception that IFRS 9 introduces an additional requirement to present the change in fair value due to changes in the company's own credit risk in OCI instead of profit and loss in the case of liabilities designated under the fair value option as FVPL.

Impairment

From January 1, 2017, Northland assesses on a forward-looking basis the expected credit losses (**ECL**) associated with its assets carried at amortized cost and FVOCI, including finance lease receivables. For trade and other receivables only, Northland applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The simplified approach to the recognition of ECL does not require Northland to track the changes in credit risk; rather, Northland recognizes a loss allowance at each reporting date based on the lifetime ECL since the date of initial recognition of the trade receivable.

Northland has two types of financial assets subject to IFRS 9's new ECL model: (i) Trade and other receivables; and (ii) Finance lease receivables. Northland was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. Other receivables include loans provided to equity partners, which were classified as FVPL, and therefore do not require any impairment assessment. Measurement of ECL resulted in immaterial amounts; therefore, an allowance for doubtful accounts was not recorded.

Refer to Note 2.14 for details of Northland's accounting policies for financial instruments up to December 31, 2016 under IAS 39 and from January 1, 2017 under IFRS 9.

(b) Application of hedge accounting

Northland did not apply hedge accounting under IAS 39. From January 1, 2017, Northland elected to apply hedge accounting under the IFRS 9 requirements.

In order to hedge its exposure to foreign currency and interest rate risks, Northland designated certain existing derivatives in hedge relationships for hedge accounting at the transition date. For all such derivatives, an economic relationship between the hedged item and the hedging instrument exists, credit risk does not dominate the fair value changes resulting from that economic relationship, and the hedge ratio is compliant with Northland's risk management strategy.

Refer to Note 2.14 for details of Northland's accounting policies for hedge accounting from January 1, 2017 under IFRS 9.

2.4 Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given and equity instruments issued, less the fair value of the liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition, irrespective of the extent of any minority interest. The acquired business's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" are recognized at their fair values at the acquisition date, except for (i) income taxes, which are measured in accordance with IAS 12, "Income Taxes"; (ii) share-based payments, which are measured in accordance with IFRS 2, "Share-based Payment"; and (iii) non-current assets that are classified as held for sale, which are measured at fair value less costs to sell in accordance with IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations." Northland did not designate any assets as held for sale in 2017.

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

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

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

2.5 Property, Plant and Equipment

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

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

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

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

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

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

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

2.6 Intangible Assets

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

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

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

Development costs

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

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

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

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

Contracts

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

2.7 Leases or Arrangements Containing a Lease

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

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

At the date of commercial operations, Northland separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

2.8 Impairment of Non-financial Assets

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

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

Goodwill

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

2.9 Inventories

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

2.10 Provisions

General

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

Decommissioning liabilities

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

2.11 Class A Shares

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

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

2.12 Share-Based Payments

As part of Northland’s Long-Term Incentive Plan (**LTIP**), Northland provides equity-settled share-based compensation to management and certain employees when projects achieve predetermined milestones or based upon duration of employment. Northland has the option to settle the LTIP in cash. The fair value of the awards is based on the grant date share price and, to the extent that services are provided in advance of the grant date, Northland’s reporting date share price. The estimated forfeiture rate reflects the Shares that will vest upon achieving those milestone and is revised if there is any indication that the number of Shares expected to vest has changed. For LTIP awards granted based on projects achieving certain milestones, the cost of the LTIP Shares awarded is recognized over the estimated vesting period and is capitalized for employees providing services directly involved in the development and construction of the project. The remainder vest when a project has met performance expectations. For LTIP awards granted based on duration of employment, the cost of LTIP Shares awarded is expensed over the estimated vesting period.

2.13 Cash and Cash Equivalents and Restricted Cash

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

2.14 Financial Instruments

The sections below outline Northland's accounting policies for financial instruments up to December 31, 2016 under IAS 39 and from January 1, 2017 onwards under IFRS 9. The adoption of IFRS 9 and associated impact on the Consolidated Financial Statements is explained in Note 2.3.

(a) Financial assets under IFRS 9

Under IFRS 9, regular purchases and sales of financial assets are recognized on the trade date, being the date on which Northland commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and Northland has transferred substantially all the risks and rewards of ownership.

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

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

- Amortized cost - Assets held for collection of contractual cash flows that represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment is recognized in profit and loss when the asset is derecognized or impaired. Interest income from these financial assets is included in "finance costs, net" using the effective interest rate method. Cash and cash equivalents, restricted cash, trade and other receivables and long-term deposits are included in this category.
- Fair value through other comprehensive income - Assets held to achieve a particular business objective, by collecting contractual cash flows and selling financial assets, where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. Changes in the carrying amount are recorded in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit and loss. Interest income from these financial assets is included in "finance costs, net" using the effective interest rate method. Northland has not classified any financial assets under this category.
- Fair value through profit and loss - Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a financial asset measured at FVPL that is not part of a hedging relationship is recognized in profit and loss and presented on a net basis in the in the period in which it arises. For derivative financial assets, gains and losses are shown within "fair value (gain) loss on derivative contracts". Northland classifies loans provided to First Nations partners (see Note 2.3, Note 14) at FVPL due to the fact that they do not meet the criteria for classification as amortized cost because the contractual cash flows are not solely payments of principal and interest. This is the only non-derivative financial asset measured at FVPL and related gains and losses are shown within "other (income) expense" in the consolidated statements of income (loss). Interest income from FVPL financial assets is included in "finance costs, net".

As described in Note 2.3, Northland accounts for impairment of financial assets based on a forward-looking expected credit loss approach under IFRS 9. ECL are measured as the difference in the present value of the contractual cash flows due to Northland under the contract and the cash flows that Northland expects to receive. Northland assesses all information available, including past due status, credit ratings, the existence of third-party insurance and forward-looking macro-economic factors in the measurement of the ECL associated with its assets carried at amortized cost and FVOCI. Northland measures ECL by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

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

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

(b) Financial assets under IAS 39

Under IAS 39, financial assets are classified into one of the four categories below. Northland determines the classification of its financial assets at initial recognition. The category determines subsequent measurements and whether any resulting income and expense are recognized in profit and loss or in comprehensive income (loss) for the year. All financial assets are initially recorded at fair value. Financial asset categories and accounting policies under IAS 39 include:

- Loans and receivables - Financial assets are classified as loans and receivables if they are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are carried at amortized cost using the effective interest rate method, with gains and losses recognized in profit and loss when the asset is derecognized. Northland's cash and cash equivalents, restricted cash, trade and other receivables, finance lease receivable, long-term deposit and other assets fall into this category of financial instruments.
- Fair value through profit and loss - Financial assets are classified as fair value through profit and loss if they are acquired for the purpose of selling in the near term (i.e. held for trading) or designated upon initial recognition. Financial assets at fair value through profit and loss are carried on the consolidated balance sheets at fair value, with gains or losses recognized in the consolidated statements of income (loss). Northland's derivatives, including separated embedded derivatives, are classified as fair value through profit and loss.
- Held-to-maturity investments - Financial assets are classified as held to maturity if management has the positive intention and ability to hold to maturity and they have fixed maturity dates with fixed or determinable payments. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, with gains and losses recognized when the asset is derecognized. Northland did not have any held-to-maturity investments as at December 31, 2016.
- Available for sale - Financial assets are classified as available for sale if they are designated as such or are not classified in any of the three preceding categories. Available-for-sale financial assets are carried at fair value, with unrealized gains and losses recorded in equity until the asset is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in the consolidated statements of income (loss). Northland did not have any available-for-sale investments as at December 31, 2016.

All financial assets except those classified as fair value through profit and loss are subject to review for impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

For equity investments classified as available for sale, objective evidence includes a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any prior impairment loss — is removed from equity and recognized in profit and loss. Impairment losses on equity investments are not reversed through profit and loss; increases in their fair value after impairment are recognized directly in the consolidated statements of changes in equity.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value, with gains or losses arising from changes in fair value recognized in the consolidated statements of income. Reassessment occurs only if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. Northland has determined that it does not have any embedded derivatives that are required to be accounted for separately.

(c) Financial liabilities under IFRS 9 and IAS 39

As discussed in Note 2.3 above, the accounting for financial liabilities under under IFRS 9 and IAS 39 is generally aligned.

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

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

(d) Offsetting of financial instruments

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

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

(e) Fair value of financial instruments

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

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

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

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

(f) Derivatives and hedging activities

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

Northland elected to apply hedge accounting to qualifying derivative instruments under IFRS 9 from January 1, 2017 onwards.

Northland designates its derivatives as hedges of:

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

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

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

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

Cash flow hedges that qualify for hedge accounting

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

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

Net investment hedges that qualify for hedge accounting

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

Hedge ineffectiveness

Northland's hedging policy only allows for the use of derivative instruments that form effective hedge relationships. Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. Except for the hedge relationships designated at January 1, 2017 (see Note 2.3), Northland enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, Northland uses the hypothetical derivative method to assess effectiveness.

2.15 Revenue Recognition

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

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

Sale of electricity and related products

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

Revenue from the sale of electricity at facilities under development and included in construction in progress is recorded as an offset to property, plant and equipment until certain operational testing requirements are satisfied.

Rendering of services

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

Interest and investment income

Interest and investment income are recognized as earned.

2.16 Borrowing Costs

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

2.17 Taxes

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

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

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

Sales taxes

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

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

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

2.18 Foreign Currency Translation

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

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

2.19 Future Accounting Policies

A number of new standards, amendments and interpretations issued are not yet effective for the year ended December 31, 2017, and therefore have not yet been applied in preparing the Consolidated Financial Statements. Northland will assess each standard to determine if it has an impact on its Consolidated Financial Statements. Management anticipates that all of the relevant standards will be adopted for the first period beginning on their respective effective dates.

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15")

In 2014, the IASB issued a new accounting standard, IFRS 15, effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 outlines a single comprehensive model to account for revenue arising from contracts with customers and will replace the majority of existing IFRS requirements on revenue recognition including IAS 18, "Revenue". The core principle of IFRS 15 is to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard provides a single, principles-based five-step model to be applied to all contracts with customers.

In 2017, management undertook planning sessions, developed a preliminary adoption plan, and identified major revenue streams and associated revenue contracts in scope of IFRS 15. Management has completed the detailed analysis of the contracts in scope that may be impacted by changes at the transition date, with no material impact identified. Next steps involve documenting the overall impact and revenue recognition policies, assessing any potential impact to information systems and internal controls, and preparing the additional disclosures required by the standard. Based on the work performed to date, management expects to apply the modified retrospective approach available under IFRS 15 with an immaterial impact on beginning retained earnings presented in the consolidated balance sheets as at January 1, 2018. Management also expects to include additional disclosures relating to its revenue recognition policies, performance obligations under PPAs and other revenue contracts and contract asset and liability balances.

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

In 2016, the IASB replaced IAS 17, "Leases" ("IAS 17"), IFRIC 4, "Determining Whether an Arrangement Contains a Lease", SIC-15, "Operating Leases - Incentives", and SIC-27, "Evaluating the Substance of Transactions Involving the Legal Form of a Lease" with a new accounting standard, IFRS 16, which sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model. At the commencement date of a lease, a lessee recognizes a liability to make lease payments and an asset representing the right to use the underlying asset. The standard includes two recognition exemptions - leases of "low-value" assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. In 2018, management plans to evaluate the impact of IFRS 16 on its Consolidated Financial Statements.

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

2.20 Significant Judgments in Applying Accounting Policies and Estimation Uncertainty

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

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

PP&E and intangible assets

PP&E and intangible assets are depreciated over their useful lives, taking into account estimated residual values, where appropriate. Assessments of useful lives and residual values are performed annually after considering factors such as technological innovation, maintenance programs, relevant market information and management considerations. In assessing residual values, Northland considers the remaining life of the asset, its projected disposal value and future market conditions. Management judgment is also required when Northland acquires entities and must allocate the purchase price to the fair value of the assets and liabilities acquired, which includes PP&E and intangible assets. The carrying amounts of PP&E and intangible assets are analyzed in Notes 4 and 5, respectively.

Deferred development costs

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

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

Leases

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

Decommissioning liabilities

Northland's decommissioning liabilities relate to wind, solar and closed thermal facilities. Future remediation costs, whether required under contract or by law, are recognized based on best estimates. These estimates are calculated at completion of construction and reviewed annually or more often if there is reason to believe the estimate has changed. Estimates depend on labour costs, efficiency of site restoration and remediation measures, inflation rates and pre-tax interest rates that reflect current market conditions or the time value of money, as well as risks specific to the liability. Northland also estimates the timing of expenses, which may change depending on the type of continuing operations. Expected future costs are inherently uncertain and could materially change over time. Subject to plant closures, Northland expects to use its installed assets at the thermal facilities for an indefinite period due to continuing equipment overhauls and ownership of the lands. As a result, management considers that a reasonable estimate of the fair value of any related decommissioning liabilities cannot be made until it is known that the thermal facilities are to be closed. See Note 12 for additional details.

Long-Term Incentive Plan

Northland's LTIP provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries. The costs of LTIP awards for employees whose activities are directly attributable to the development and construction of certain Northland facilities are included in property, plant and equipment, and the costs of LTIP awards relating to the performance of the facility are expensed during the year. The LTIP cost for a period is based on expected development profits for a project and recognized over the expected vesting period. The calculation of development profit is sensitive to the estimation of future cash inflows for each particular project and the discount rate used to discount those expected cash inflows.

Accounting for investments in non-wholly owned subsidiaries

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

Fair value of financial assets and financial liabilities

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

Impairment of non-financial assets

Northland's impairment tests for goodwill, other intangible assets and property, plant and equipment are based on value-in-use calculations that use a discounted cash flow model. The cash flows are derived from the forecasts over the remaining useful lives of the assets of the CGUs, less an allocation of forecasted corporate costs. The estimated recoverable amount is sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows. The key assumptions used to estimate the recoverable amount for the different CGUs are further explained in Note 19.

Income taxes

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

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

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

3. Acquisition of Deutsche Bucht Offshore Wind Project

On August 17, 2017, Northland acquired a 100% interest in the Deutsche Bucht offshore wind project by acquiring all of the outstanding shares of Northland Deutsche Bucht GmbH (formerly British Wind Energy GmbH) from a European developer. The project is located off the coast of Germany in the North Sea. Northland's investment included a cash payment of €205.6 million ($305.1 million) for the outstanding shares and funding of development costs incurred to date. Financial close occurred immediately following equity close on August 18, 2017. Deutsche Bucht is consolidated into Northland's Consolidated Financial Statements as of the date of acquisition.

The total consideration paid for the acquisition was preliminarily allocated to the fair value of the net assets acquired and liabilities assumed as follows:

As at		**August 17, 2017**
Working capital, including cash of $3.8 million	$	**(3,847)**
Contracts and other intangibles		**410,493**
Deferred taxes		**(103,966)**
Other long-term assets		**7,480**
Total identifiable net assets acquired	$	**310,160**
Cash consideration paid		**305,116**
Add: Contingent consideration for Demonstrator Project		**5,044**
Total purchase consideration	$	**310,160**

3.1 Consideration Transferred

The acquisition was settled by transferring $305.1 million of cash at the time of acquisition and financial close.

The rights and assets acquired include an option to construct two demonstrator turbines utilizing mono suction bucket foundations (the "**Demonstrator Project**"). Northland expects to decide whether to proceed with the Demonstrator Project in the second half of 2018. If Northland proceeds with the Demonstrator Project, additional consideration will be due at the time of the related final investment decision. Contingent consideration at a fair value of $5.0 million is recognized as part of the purchase consideration, reflecting Northland's expectation that the Demonstrator Project will proceed. This contingent consideration is recorded in trade and other payables on the consolidated balance sheets due to its short-term nature.

3.2 Identifiable Net Assets

The determination of the fair value of assets acquired and liabilities assumed is based on preliminary estimates and certain assumptions with respect to the fair values of the assets acquired and liabilities assumed except for deferred taxes, which are based on the full amount required under IAS 12 and are expected to be finalized within one year of acquisition.

Contracts and other intangibles acquired includes $68.0 million of deferred development costs reclassified to PP&E as construction in progress following the closing of project financing on August 18, 2017.

3.3 Deutsche Bucht's Contribution to Northland's Results

For the remainder of the construction phase, the majority of project costs will be capitalized. No material amounts of revenue or expenses have been recorded in the consolidated statements of income (loss) since the acquisition.

4. Property, Plant and Equipment

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

	Construction-in-progress	Plant and operating equipment	Land, buildings and leasehold improvements	Other equipment (3)	Total
Cost					
January 1, 2016	$ 3,630,172	$ 2,541,303	$ 676,447	$ 15,043	$ 6,862,965
Additions	1,627,325	10,216	176	2,755	1,640,472
Transfer from CIP	(354,214)	331,010	22,154	1,050	—
Foreign exchange	(243,792)	(2,112)	—	—	(245,904)
Pre-completion revenue (1)	(14,251)	—	—	—	(14,251)
Provisions, disposals and other (2)	108,479	12,329	(7,028)	—	113,780
Impairment	—	—	(23,055)	—	(23,055)
December 31, 2016	$ 4,753,719	$ 2,892,746	$ 668,694	$ 18,848	$ 8,334,007
Additions	**815,465**	**16,916**	**—**	**1,438**	**833,819**
Transfer from CIP	**(5,426,440)**	**4,185,880**	**1,237,893**	**2,667**	**—**
Foreign exchange	**280,710**	**41,197**	**13,980**	**—**	**335,887**
Pre-completion revenue (1)	**(18,034)**	**—**	**—**	**—**	**(18,034)**
Transfer from intangible assets	**67,847**	**—**	**—**	**189**	**68,036**
Provisions, disposals and other (2)	**(57,869)**	**(47,690)**	**(986)**	**—**	**(106,545)**
December 31, 2017	**$ 415,398**	**$ 7,089,049**	**$ 1,919,581**	**$ 23,142**	**$ 9,447,170**

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

(2) Provisions, disposals and other includes a net decrease in CIP of $61.2 million related to Nordsee One due to a $105.7 million decrease from recognition of a government grant and a $44.5 million increase from recognition of a decommissioning provision. Provisions, disposals and other includes a decrease in plant and operating equipment related to the sale of the onshore German wind farms.

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

Included in "Additions" above is $26.5 million (2016 - $120.9 million) of capitalized interest.

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

	Construction-in-progress	Plant and operating equipment	Land, buildings and leasehold improvements	Other equipment [1]	Total
Accumulated depreciation					
January 1, 2016	$ —	$ 804,064	$ 131,932	$ 12,127	$ 948,123
Foreign exchange	—	(4,851)	—	(6)	(4,857)
Depreciation	—	202,203	29,286	2,109	233,598
Disposals	—	(258)	—	—	(258)
December 31, 2016	$ —	$ 1,001,158	$ 161,218	$ 14,230	$ 1,176,606
Foreign exchange	**—**	**10,137**	**1,991**	**—**	**12,128**
Depreciation	**—**	**260,334**	**96,786**	**4,245**	**361,365**
Disposals	**—**	**(34,912)**	**(127)**	**—**	**(35,039)**
December 31, 2017	**$ —**	**$ 1,236,717**	**$ 259,868**	**$ 18,475**	**$ 1,515,060**
Net book value					
December 31, 2016	4,753,719	1,891,588	507,476	4,618	7,157,401
December 31, 2017	**$ 415,398**	**$ 5,852,332**	**$ 1,659,713**	**$ 4,667**	**$ 7,932,110**

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

4.1 Sale of Assets

In November 2017, Northland sold its 100% interest in its onshore German wind farms. Proceeds from the sale were $5.5 million, resulting in an accounting gain of $2.5 million.

5. Contracts and Other Intangible Assets

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

		Deferred development costs		Contracts		Total
Costs						
January 1, 2016	$	—	$	433,742	$	433,742
Foreign exchange		—		(9,561)		(9,561)
December 31, 2016	$	—	$	424,181	$	424,181
Acquired [Note 3]		**68,036**		**342,457**		**410,493**
Transfer to property, plant and equipment		**(68,036)**		**—**		**(68,036)**
Disposals		**—**		**(2,690)**		**(2,690)**
Foreign exchange		**—**		**16,523**		**16,523**
December 31, 2017	**$**	**—**	**$**	**780,471**	**$**	**780,471**
Accumulated amortization						
January 1, 2016	$	—	$	176,336	$	176,336
Amortization		—		13,517		13,517
December 31, 2016	$	—	$	189,853	$	189,853
Disposals		**—**		**(2,208)**		**(2,208)**
Amortization		**—**		**8,766**		**8,766**
Foreign exchange		**—**		**71**		**71**
December 31, 2017	**$**	**—**	**$**	**196,482**	**$**	**196,482**
Net book value						
December 31, 2016		—		234,328		234,328
December 31, 2017	**$**	**—**	**$**	**583,989**	**$**	**583,989**

Deferred development costs acquired in 2017 relate entirely to Deutsche Bucht and were subsequently transferred to property, plant and equipment.

For the year ended December 31, 2017, changes in the net book value of of contracts relate to the acquisition of Deutsche Bucht, the disposal of the German wind farms, amortization and changes in the foreign exchange rates applicable to contracts held by foreign subsidiaries.

6. Goodwill

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

		2017		2016
Balance, beginning of year	**$**	**206,530**	$	206,530
Disposals		**(1,588)**		—
Balance, end of year	**$**	**204,942**	$	206,530

For the year ended December 31, 2017 and 2016, no impairments, reversals of impairment or additions to goodwill were recognized. The goodwill balance as at December 31, 2017 includes accumulated impairments of $78.1 million (2016 - $78.1 million).

7. Leases

7.1 Northland as Lessor

Spy Hill's long-term PPA is classified as a finance lease arrangement, whereby Northland is considered to have leased the Spy Hill facility to Saskatchewan Power Corporation ("**SaskPower**") for 25 years. For the year ended December 31, 2017, finance lease income of $12.9 million (2016 - $13.2 million) was recognized.

The amounts receivable under finance lease accounting are as follows:

As at December 31	2017		2016	
Minimum lease payments	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Within one year	**$ 16,188**	**$ 3,528**	$ 16,187	$ 3,246
Two to five years	**64,753**	**17,443**	64,752	16,053
Long-term	**222,381**	**131,280**	238,569	136,197
	$ 303,322	**$ 152,251**	$ 319,508	$ 155,496
Less: Unearned finance income	**(151,071)**	**—**	(164,012)	—
Total finance lease receivable	**$ 152,251**	**$ 152,251**	$ 155,496	$ 155,496
Current portion		**$ 3,528**		$ 3,246
Long-term		**148,723**		152,250

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

7.2 Northland as Lessee

Northland and several of its facilities have entered into land and building leases with private landowners and public municipalities. The original terms of the leases range from three to 20 years.

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2017, are as follows:

As at December 31	2017
Within one year	**$ 9,320**
After one year but not more than five years	**34,531**
More than five years	**100,474**
Total	**$ 144,325**

8. Inventories, Long-term Deposits and Other Assets

8.1. Inventories

Inventories are included in "other current assets" on the consolidated balance sheets and consist of the following:

As at December 31	2017	2016
Natural gas	**$ 175**	$ 641
Spare parts and other inventory	**17,256**	15,503
Total	**$ 17,431**	$ 16,144

During 2017, Northland and its subsidiaries expensed $1.9 million (2016 - $3.2 million) of inventory to cost of sales and plant operating costs.

8.2. Long-term Deposits

Long-term deposits consist of the following:

As at December 31		2017		2016
Decommissioning deposit	$	**53,692**	$	50,371
Contractor deposits		**117,954**		—
Total	$	**171,646**	$	50,371

Gemini provided a letter of credit to the Dutch government to secure future decommissioning obligations for Gemini. The letter of credit is collateralized by a long-term deposit held by project lenders in a money market fund due in 2042 and earns interest at a rate of 6-month EURIBOR plus 1.35%.

Deutsche Bucht provided letters of credit to certain project contractors which are collateralized by funds held in a restricted account. The balance earns interest at the EURIBOR market rate and will be released when the performance obligations of the contractors are met.

8.3. Other Assets

Other assets consist of the following:

As at December 31		2017		2016
Government grant receivable	$	**105,721**	$	—
Other		**23,474**		26,520
Total	$	**129,195**	$	26,520

As at December 31, 2017, Nordsee One accrued a government grant in amount of €70.0 million related to the construction of the wind farm that will be collected from 2019 to 2022. The full amount is recorded as a reduction to PP&E in 2017.

9. Management of Capital

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

As at December 31, 2017, total managed capital was $8.8 billion (2016 - $7.6 billion), consisting of equity of $1.5 billion (2016 - $1.4 billion), interest-bearing loans and borrowings and corporate credit facilities totalling $7.1 billion (2016 - $6.0 billion) and convertible unsecured subordinated debentures of $0.2 billion (2016 - $0.2 billion).

In order to maintain or adjust the capital structure, Northland may exercise discretion in the amount of dividends declared to shareholders, the management of its Dividend Reinvestment Plan (**DRIP**), return of capital to shareholders, issuance of new Shares or preferred shares, repurchase of Shares from the market or issuance or redemption of convertible unsecured subordinated debentures.

To date, management's strategy with respect to debt has been to leverage primarily within individual project entities (subsidiaries of Northland). Other than the $495.5 million corporate credit facilities (see Note 11 for additional details), the majority of Northland's debt is non-recourse beyond the assets of the facility or project for which the debt was raised. This non-recourse debt generally has a fixed interest rate (or a fixed underlying rate for mini-perm loans) for its term and is fully repaid (amortized) over the life of the associated project's power contracts. This ensures that the project is debt-free at that point in its physical life when its economics are less predictable, particularly at the expiration of its original PPA.

10. Interest-bearing Loans and Borrowings

Northland generally finances projects and its operating facilities through secured credit arrangements at the subsidiary level that are non-recourse to Northland. The project facilities are summarized in the table below:

	Rate (1)	Maturity		Amount drawn as at Dec. 31, 2017 (2)		Amount drawn as at Dec. 31, 2016 (2)
Kirkland Lake	2.8%	2023	$	**12,322**	$	8,752
Jardin (3)	6.0%	2029		**99,760**		105,582
Thorold (3)	7.1%	2030		**295,168**		309,361
Nordsee One (3)	2.2%	2030		**1,187,434**		730,273
Gemini (3) (5)	3.8%	2030		**3,094,753**		2,764,294
Mont Louis	6.6%	2031/2032		**97,810**		102,392
Solar Phase I (3) (4)	4.4%	2032		**196,794**		207,706
Solar Phase II (4)	5.4%	2032		**112,028**		114,204
North Battleford (3)	5.0%	2032		**587,727**		606,194
Cochrane Solar (3)	5.3%	2033		**181,238**		182,588
Deutsche Bucht (3)	2.8%	2033		**205,709**		—
McLean's	6.0%	2034		**129,908**		135,200
Grand Bend	4.2%	2035		**325,645**		325,645
Spy Hill (3)	4.1%	2036		**140,760**		143,921
Total and weighted average	4.0%		$	**6,667,056**	$	5,736,112
Current				**395,783**		114,571
Long-term				**6,271,273**		5,621,541

(1) The weighted average interest rates of the subsidiary borrowings.
(2) Excludes letters of credit secured by facility or project-level credit agreements.
(3) Net of transaction costs and/or fair value adjustments.
(4) Solar Phase I and Solar Phase II include the nine entities that comprise Solar.
(5) Includes the amount drawn on the senior debt and the third-party portion of subordinated debt.

As at December 31, 2017, $45.0 million of letters of credit secured by facility or project-level credit agreements was outstanding (2016 - $49.5 million).

In April 2017, Gemini renegotiated its €2.0 billion senior debt. The renegotiation reduced the weighted average all-in interest rate to 3.8% for the remaining 13-year amortization period and removed the cash sweep provision.

On August 18, 2017, Northland achieved financial close on its Deutsche Bucht project, having obtained a €988 million non-recourse construction and term loan and related loan facilities from a syndicate of international commercial lenders. The interest rate on the Deutsche Bucht debt has been effectively fixed, with a weighted average all-in swapped interest rate of 2.8% during the construction period and 2.7% during the term period. The debt matures in 2033.

On August 22, 2017, Northland restructured the project debt relating to seven of its solar facilities primarily to align the financing with Northland's ownership interest and reduce loan margins and certain reserve requirements. The Solar Phase II debt increased to $115.1 million from $73.2 million with a weighted average all-in swapped interest rate of 5.4% compared to 6.1% prior to the restructuring. Cochrane Solar debt balance decreased to $184.5 million from $216.5 million with a weighted average all-in swapped interest rate of 5.3% compared to 5.9% prior to the restructuring. The change in the principal debt balances is primarily due to the transfer of one solar facility to Solar Phase II to align with the Cochrane Solar structure.

On December 29, 2017, Nordsee One achieved term conversion and renegotiated its €0.8 billion of senior debt, to reduce the weighted average all-in interest rate to 2.2% for the remaining 12-year debt term.

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

For the year ended December 31, 2017		Interest-bearing loans and borrowings		Corporate credit facilities (1)		Total
Total, beginning of the year	$	5,736,112	$	247,741	$	5,983,853
Acquired debt (financing costs)		(7,346)		—		(7,346)
Financings net of fees paid		763,191		269,401		1,032,592
Repayments		(111,737)		(29,003)		(140,740)
Other non-cash (2)		31,733		696		32,429
Foreign exchange		255,103		6,688		261,791
Total, end of the year	**$**	**6,667,056**	**$**	**495,523**	**$**	**7,162,579**

(1) Excludes convertible debentures.

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

11. Corporate Credit Facilities and Convertible Debentures

11.1 Corporate Credit Facilities

The corporate credit facilities are summarized in the table below:

		Facility size		Amount drawn as at Dec. 31, 2017		Outstanding letters of credit		Available borrowing capacity	Maturity		Amount drawn as at Dec. 31, 2016
Syndicated revolving facility	$	450,000	**$**	**273,364**	$	—	$	176,636	March 2020	$	—
Syndicated term facility (1)		250,000		**222,451**		—		—	March 2019		248,620
Bilateral letter of credit facility		100,000		**—**		90,883		9,117	March 2019		—
Export credit agency backed letter of credit facility		100,000		**—**		89,529		10,471	March 2020		—
Total	$	900,000	**$**	**495,815**	$	180,412	$	196,224		$	248,620
Less: deferred financing costs				**292**							879
Total, net			**$**	**495,523**						$	247,741

(1) The term facility was fully drawn to assist in funding Northland's equity investment in Gemini. There was a partial repayment in 2017; however, the amount repaid cannot be redrawn.

As at December 31, 2017, Northland's borrowings against its corporate facilities included €181.0 million ($273.4 million) of borrowings under a revolving facility related to the acquisition of Deutsche Bucht in August 2017.

On August 17, 2017, Northland extended its term loan facility maturity to March 7, 2019.

On June 15, 2017, Northland entered into a $100 million unsecured letter of credit facility with a member of its corporate banking syndicate.

Amounts drawn under the corporate credit facilities are principally collateralized by a debenture security and by general security agreements that constitute a first-priority lien on all of the real property of Iroquois Falls and Kingston and all of the present and future property and assets of Northland, Iroquois Falls and Kingston.

11.2 Convertible Debentures

Northland has two series of convertible unsecured subordinated debentures outstanding: 2019 Debentures with a maturity of June 30, 2019 and 2020 Debentures with a maturity of June 30, 2020. Both series may be converted Shares at a conversion price of $21.60 per share at any time prior to their final conversion date. The following table summarizes the outstanding debentures as at December 31, 2017:

		Outstanding as at Dec 31, 2017	Final conversion date	Maturity date	Number of additional shares if fully converted
2019 Debentures	$	77,272	June 2019	June 2019	3,577,407
2020 Debentures		156,104	June 2020	June 2020	7,226,806
Total	**$**	**233,376**			**10,804,213**
Less: deferred financing costs		4,413			
Total, net	**$**	**228,963**			

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

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

12. Provisions and Other Liabilities

12.1 Decommissioning Liabilities

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

No decommissioning liabilities are recognized for thermal facilities until the time Northland determines the facility will no longer be operated or maintained and should be decommissioned. As at December 31, 2017, a provision has been recognized for the closed Cochrane facility only. This provision is classified as current in the consolidated balance sheets.

Northland has estimated the fair value of its total decommissioning liabilities to be $221.0 million (2016 - $166.1 million), based on an estimated total future liability. A discount rate of 1.0% to 3.9% (2016 - 2.2% to 3.9%) and an inflation rate of 2.0% (2016 - 2.0%) were used to calculate the fair value of the decommissioning liabilities. Northland expects to use its installed assets for an indefinite period.

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

		2017		2016
Balance, beginning of year	$	168,409	$	36,452
Additions (1)		44,535		130,983
Accretion		3,748		1,422
Foreign exchange impact and other		6,460		(448)
Total decommissioning liabilities, end of year	**$**	**223,152**	**$**	**168,409**
Current portion included in "trade and other payables"		2,183		2,325
Long-term portion included in "provisions and other liabilities"	$	220,969	$	166,084

(1) Additions for 2017 includes an amount for decommissioning liabilities at Nordsee One of €29.5 million ($44.5 million).

12.2 Other Liabilities

As at December 31, 2017, provisions and other liabilities on the consolidated balance sheets included $84.7 million payable by Nordsee One to the third-party partner in the wind farm under a shareholder loan arrangement (2016 - $75.0 million).

13. Equity

13.1 Common Shares and Class A Shares

Northland is authorized to issue an unlimited number of Shares.

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

The change in Shares and Class A Shares during 2017 and 2016 was as follows:

	December 31, 2017			December 31, 2016		
	Shares		Amount	Shares		Amount
Shares outstanding, beginning of year	**171,973,308**	**$**	**2,266,901**	169,645,251	$	2,219,259
Conversion of debentures	**56,848**		**1,228**	76,198		1,646
Shares issued under LTIP	**22,284**		**519**	21,142		516
Shares issued under DRIP	**2,387,641**		**53,716**	2,230,717		46,569
Change in deferred taxes	**—**		**(1,087)**	—		(1,089)
Shares outstanding, end of year	**174,440,081**	**$**	**2,321,277**	171,973,308	$	2,266,901
Class A shares	**1,000,000**		**14,615**	1,000,000		14,615
Total common and convertible shares outstanding, end of year	**175,440,081**	**$**	**2,335,892**	172,973,308	$	2,281,516

Dividend Reinvestment Plan

The DRIP provides shareholders and the Class A shareholder the right to reinvest their dividends in Shares at a 5% discount to the market price as defined in the DRIP. Shares issued through the DRIP are currently from Northland's treasury at the election of Northland's Board of Directors. The issue price for the reinvested Shares on each dividend payment date is the volume weighted average trading price of the Shares on the TSX for the five trading days immediately preceding the dividend payment date less the 5% discount. Northland's Board of Directors has the discretion to alter or eliminate the 5% discount or to revert to market purchases of Shares at any time.

Share-based compensation

Northland's LTIP provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries. Shares may be awarded based on development profits, which arise from new projects or acquisitions ("**Development LTIP**"). The number of Shares awarded at each milestone is determined using the amount of expected development profits at that milestone date. As a result, the amount of Development LTIP costs recognized depends on the estimated number of Shares to be issued at each milestone date, which in turn is based on management's best estimate of a project's expected development profit. Changes in estimates related to the number of Shares to be issued, forfeiture rates and vesting dates and changes in fair value up to the grant date are recognized in the period of the change. Shares may also be awarded under the LTIP to recognize achievements or attract and retain executives ("**Deferred Rights**"). Grants of Deferred Rights vest over a maximum of a three-year period and the expected cost is expensed over the same period. For the year ended December 31, 2017, Northland capitalized $7.5 million (2016 – $5.6 million) and expensed $1.3 million (2016 – $0.1 million) of costs under the LTIP. No forfeitures are assumed to occur.

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

13.2 Preferred Shares

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

Series 1 and 2 Preferred Shares

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

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

The Series 2 Preferred Shares carry the same features as the Series 1 Preferred Shares, except that holders are entitled to receive quarterly floating-rate cumulative dividends, as and when declared by the Board of Directors, at an annual rate equal to the then three-month Government of Canada treasury bill yield plus 2.80% (3.57% as of December 31, 2017). The holders of Series 2 Preferred Shares will have the right to convert their shares back into Series 1 Preferred Shares on September 30, 2020, and on September 30 of every fifth year thereafter. As a result of the conversion in 2015, Northland has 1,498,435 Series 2 Preferred Shares outstanding.

As at December 31, 2017 and December 31, 2016, there were 4,501,565 Series 1 Preferred Shares outstanding, representing equity of $107.4 million.

As at December 31, 2017 and December 31, 2016, there were 1,498,435 Series 2 Preferred Shares outstanding, representing equity of $37.5 million.

Series 3 Preferred Shares

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

The holders of the Series 3 Preferred Shares had the right, at their option, to convert their shares into Series 4 Preferred Shares on December 31, 2017, and have such right on December 31 of every fifth year thereafter, subject to certain conditions. There were insufficient shares tendered for conversion on December 31, 2017 to result in the issuance of any Series 4 Preferred Shares.

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

Series 3 Preferred Shares at December 31, 2017 and December 31, 2016 are outlined in the table below:

	Preferred shares		Amount
January 1, 2016	4,800,000	$	116,237
Deferred income taxes	—		(200)
December 31, 2016	4,800,000		116,037
December 31, 2017	**4,800,000**	**$**	**116,037**

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

Year ended December 31,		**2017**		**2016**
Series 1	**$**	**3,954**	$	3,954
Series 2		**1,261**		1,235
Series 3		**6,000**		6,000
Total	**$**	**11,215**	$	11,189

13.3 Dividends

Dividends declared per Share and in aggregate were as follows:

Year ended December 31,		**2017**		**2016**
Dividends declared per share	**$**	**1.09**	$	1.08
Aggregate dividends declared				
Dividends in cash	**$**	**136,175**	$	138,026
Dividends in shares		**53,806**		47,580
Total	**$**	**189,981**	$	185,606

14. Non-Controlling Interests

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

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

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

December 31, 2016		Current assets [1]		Long-term assets		Current liabilities		Long-term liabilities
Gemini	$	74,848	$	3,653,548	$	159,327	$	3,063,109
Nordsee One		98,560		1,072,907		89,540		750,206
McLean's		9,085		155,934		6,726		142,667
Grand Bend		29,204		369,474		12,122		354,398
Cochrane Solar		14,417		342,811		17,792		193,993
CEEC		101,033		24,328		13,308		8,752
Total	$	327,147	$	5,619,002	$	298,815	$	4,513,125

(1) As at December 31, 2017, restricted cash of $263.5 million (2016 - $146.9 million) is included for Gemini and Nordsee One where the availability of funds is intended for debt repayments and final construction costs.

As at December 31, 2017, Northland had an outstanding receivable balance of $46.3 million with Cochrane Solar's First Nations partner (2016 - $45.9 million). This balance appears at a fair value of $36.1 million on the consolidated balance sheets, including $26.9 million classified as "trade and other receivables". Refer to Note 2.3 for details on the classification and measurement of this financial asset under IFRS 9 and IAS 39.

The change in non-controlling interests during 2017 and 2016 is as follows:

	Gemini	Nordsee One	McLean's	Grand Bend	Cochrane Solar	CEEC	Total
As at January 1, 2016	$ 197,031	$ 26,378	$ 14,500	$ 28,733	$ 55,604	$ 91,654	$ 413,900
Contribution of non-controlling interests	—	55	1,331	—	—	—	1,386
Net income (loss) attributable	1,049	(3,508)	446	1,109	(1,021)	71,020	69,095
Dividends and distributions declared	—	—	(5,647)	(12,900)	—	(1,600)	(20,147)
Allocation of other comprehensive income (loss)	(23,899)	307	—	—	—	—	(23,592)
As at December 31, 2016	$ 174,181	$ 23,232	$ 10,630	$ 16,942	$ 54,583	$ 161,074	$ 440,642
Contribution of non-controlling interests	**—**	**—**	**206**	**—**	**—**	**—**	**206**
Net income (loss) attributable	**83,729**	**7,734**	**1,240**	**6,387**	**1,708**	**13,916**	**114,714**
Dividends and distributions declared	**(32,704)**	**—**	**(4,195)**	**(15,050)**	**—**	**(11,180)**	**(63,129)**
Allocation of other comprehensive income	**16,308**	**2,259**	**—**	**—**	**1,058**	**—**	**19,625**
As at December 31, 2017	**$ 241,514**	**$ 33,225**	**$ 7,881**	**$ 8,279**	**$ 57,349**	**$ 163,810**	**$ 512,058**

Dividends payable on the consolidated balance sheets includes $0.6 million owed to CEEC at December 31, 2017 (2016 - $nil).

In 2016, Northland received $26.3 million of the outstanding receivable balance with Grand Bend, which is shown in “other“ financing activities on the consolidated statements of cash flows.

15. Financial Risk Management

Northland’s overall financial risk management approach seeks to mitigate the financial risks to which it is exposed in order to maintain stable and sustainable levels of cash available to pay dividends to shareholders. Northland does not seek to mitigate fair value risk. Northland classifies financial risks into the categories of market risk, counterparty risk and liquidity risk.

From time to time, Northland uses derivative financial instruments to manage its financial risks. Northland’s activities expose it to a variety of financial risks, including market risk (primarily foreign exchange risk and interest rate risk), counterparty risk and liquidity risk. Northland’s overall risk management activities address the unpredictability of financial markets and seek to minimize potential adverse effects on Northland’s financial performance. Northland’s lenders may impose obligations on Northland to minimize exposure to financial risks, particularly under non-recourse project financing arrangements. Financial risk is managed by the corporate treasury function, which identifies, evaluates and, where appropriate, mitigates financial risks. Material financial risks are monitored and are regularly discussed with the Audit Committee of the Board of Directors. Northland does not trade in any derivative financial instruments for speculative purposes.

The risks associated with Northland’s financial instruments and Northland’s policies for minimizing these risks are described below.

15.1 Market Risk

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

(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.

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

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

For the year ended December 31, 2017, if interest rates had been 100 basis points higher or lower with all other variables held constant, the change in income before income taxes, which includes the change in fair value of the interest rate swaps, would have been $393.3 million higher or lower. However, this change would have had no impact on Northland's cash flows.

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

(ii) Credit spread risk

Credit spread risk as it affects Northland refers to the risk that the loan margin charged by current or future lenders (in addition to the underlying interest rate) will increase, making the cost of debt capital more expensive. Exposure to this risk is limited to floating rate interest loans that mature prior to the full amortization period of the loan since fixed interest rate spreads cannot be hedged and could increase materially at loan maturity. Northland manages its exposure to credit spread risk by (i) entering into long-term fixed-rate financings when possible or feasible; and (ii) monitoring credit markets and making prudent decisions about the timing and method of loan refinancing or repricing opportunities.

(iii) Currency risk

Currency risk arises because the Canadian dollar equivalent of transactions, assets or liabilities denominated in foreign currencies may vary due to changes in foreign exchange rates. Northland is exposed to changes in the euro and U.S. dollar, notably the euro-denominated consolidated financial statements of Gemini, Nordsee One and Deutsche Bucht project.

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

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

At December 31, 2017, if the Canadian dollar had been 5% higher or lower against the U.S. dollar with all other variables held constant, income before taxes would have been $0.6 million higher or lower, which includes the fair value change in the U.S. dollar foreign exchange contracts. If the Canadian dollar had been 5% higher or lower against the euro with all other variables held constant, income before taxes would have been $99.6 million lower or higher, which includes the fair value change in the euro foreign exchange contracts.

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

(iv) Commodity price risk

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

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

For the year ended December 31, 2017, if commodity prices had been $1/gigajoule higher or lower with all other variables held constant, the change in income before income taxes, which includes the change in fair value of the financial commodity contracts, would have been $21.4 million higher or lower. This change would have had no impact on Northland's cash flows.

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

15.2 Counterparty Risk

Counterparty risk arises from a number of sources including: (i) cash and cash equivalents held with banks and financial institutions; (ii) counterparty exposures arising from (a) contractual obligations, which include but are not limited to sales contracts, equipment supply and maintenance contracts, fuel supply and transportation agreements and construction contracts, (b) derivative financial instruments, (c) trade receivables due from customers, (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.

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

As at December 31, 2017, approximately 92% (2016 - 91%) of Northland's consolidated trade and other receivables, excluding third-party partner loan reveivable, were owing from government-related entities.

In 2017, approximately 89% (2016 - 99%) of Northland's consolidated revenue was derived indirectly from the sale of electricity to government-related entities. For electricity and other sales, Northland and its subsidiaries have not provided allowance accounts, do not hold collateral from counterparties and have not purchased credit derivatives to mitigate counterparty risk. All significant accounts receivable amounts reported at December 31, 2017, are current.

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

15.3 Liquidity Risk

Liquidity risk arises through an excess of financial obligations over available financial assets at any point in time. Liquidity risk includes the risk that:

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

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

As at December 31, 2017, Northland and its subsidiaries were holding cash and cash equivalents of $400.6 million ($38.5 million held corporately) and had available borrowing capacity under corporate credit facilities of $196.2 million.

The contractual maturities of Northland's financial liabilities at December 31, 2017 are as follows:

	2018	2019-2020	2021 - 2022	>2022
Derivative contracts				
Euro foreign exchange contracts	$ 215,245	$ 359,377	$ 372,893	$ 1,311,015
Financial natural gas contract	45,800	94,149	54,996	—
U.S. dollar foreign exchange contracts	4,906	6,982	—	—
Loans and borrowings				
Interest-bearing loans and borrowings - principal	369,359	1,001,961	1,205,352	5,653,075
Interest-bearing loans and borrowings - interest, including interest rate swaps	254,215	471,320	412,767	968,157
Corporate credit facilities, including interest	27,278	495,815	—	—
Convertible debentures, including interest	11,279	246,430	—	—
Total	**$ 928,082**	**$ 2,676,034**	**$ 2,046,008**	**$ 7,932,247**

Northland is also subject to internal liquidity risk since it conducts its business activities through separate legal entities (subsidiaries and affiliates) and is dependent on receipts of cash from those entities to defray its corporate expenses and to make dividend payments to shareholders. Certain of those entities have outstanding debt to help fund the entities' original investments. Under the financing agreements for such debt, it is conventional for distributions of cash to Northland to be prohibited if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark debt service coverage ratio, which is the ratio of earnings before interest, taxes, depreciation and amortization (adjusted EBITDA, a non-IFRS performance indicator) for a specified time period to the scheduled loan principal and interest payments for the same time period. As at December 31, 2017, Northland and its subsidiaries were in compliance with all debt covenants.

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

16. Financial Instruments

16.1 Fair Value Measurement

The carrying values of Northland's financial instruments as at December 31, 2017 and 2016 are as follows:

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

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Loans and receivables (1)	$ 478,825	$ 386,137	$ —	$ 864,962
Financial assets at fair value through profit and loss (2)	—	53,336	—	53,336
Financial liabilities at fair value through profit and loss (2)	—	495,598	—	495,598
Other financial liabilities (3)	228,093	6,233,508	—	6,461,601

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

(2) Includes derivative financial instruments as at December 31, 2017 and December 31, 2016. Includes financial assets at fair value through profit and loss consisting of a $36.1 million third-party partner loan as at December 31, 2017, which was $45.7 million and classified as loans and receivables as at December 31, 2016. See Note 2.3 for details.

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

The estimated fair value of other financial liabilities as at December 31, 2017 is $7.8 billion (2016 - $6.7 billion).

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

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

For the year ended December 31		2017		2016
Income (expense) on financial assets at amortized cost	$	**16,770**	$	13,199
Expense (income) on financial liabilities at amortized cost		**333,132**		232,256
Expense (income) on net financial liabilities at fair value through profit and loss		**(40,539)**		27,830

16.2 Derivative Financial Instruments

The derivative financial instruments consist of the following:

As at December 31, 2017		**Current assets**		**Current liabilities**		**Long-term assets**		**Long-term liabilities**		**Total**
Derivatives designated for hedge accounting										
Canadian dollar interest rate swaps	**$**	**52**	**$**	**(9,043)**	**$**	**454**	**$**	**(38,713)**	**$**	**(47,250)**
U.S. dollar foreign exchange contracts		**895**		**—**		**1,217**		**—**		**2,112**
Euro interest rate swaps		**—**		**(84,678)**		**—**		**(197,234)**		**(281,912)**
Euro foreign exchange contracts		**6,120**		**(623)**		**1,769**		**(85,055)**		**(77,789)**
Derivatives not designated for hedge accounting										
Canadian dollar interest rate swaps		**1**		**(23,357)**		**4**		**—**		**(23,352)**
Euro foreign exchange contracts		**5,611**		**(1,319)**		**8,563**		**(25,924)**		**(13,069)**
Gas purchase swaps		**—**		**(10,702)**		**237**		**(33,763)**		**(44,228)**
Total	**$**	**12,679**	**$**	**(129,722)**	**$**	**12,244**	**$**	**(380,689)**	**$**	**(485,488)**

As at December 31, 2016		Current assets		Current liabilities		Long-term assets		Long-term liabilities		Total
Derivatives not designated for hedge accounting										
Canadian dollar interest rate swaps	$	—	$	(44,584)	$	202	$	(55,781)	$	(100,163)
Euro interest rate swaps		—		(71,774)		—		(251,465)		(323,239)
Gas purchase swaps		61		(3,964)		288		(25,126)		(28,741)
U.S. dollar foreign exchange contracts		1,545		—		4,251		—		5,796
Euro foreign exchange contracts		205		—		46,784		(42,904)		4,085
Total	$	1,811	$	(120,322)	$	51,525	$	(375,276)	$	(442,262)

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

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

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

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

(a) Foreign exchange risk

Northland is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the euro and U.S. dollar. Foreign exchange risk arises from net investment in foreign operations denominated in euro. This risk is measured by review of Northland's net investment in euros at each reporting date. The objective of the hedges is to reduce the volatility of the Canadian dollar translation in OCI relating to the consolidation of the European subsidiaries (Gemini, Nordsee One and Deutsche Bucht). Foreign exchange risk also arises from future long-term gas turbine maintenance fees denominated in U.S. dollars. This risk is measured through a forecast of highly probable U.S. dollar expenditures. The objective of the hedges is to minimize the volatility of the Canadian dollar cost of highly probable payments of service agreement fees.

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

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

Foreign currency hedge reserve				
	Euro foreign exchange contracts		**U.S. dollar contracts**	**Total foreign currency hedge reserve in AOCI**
	Cost of hedging	**Forward component**	**Forward component**	
Opening balance as at January 1, 2017	$ —	$ —	$ —	$ —
Add: Costs of hedging deferred during the year in OCI	(8,094)	—	—	(8,094)
Add: Change in fair value of hedging instrument recognized in OCI for the year (effective portion)	—	(47,683)	319	(47,364)
Less: Re-classified to profit and loss	(18,115)	—	—	(18,115)
Closing balance as at December 31, 2017 (1)	**$ (26,209)**	**$ (47,683)**	**$ 319**	**$ (73,573)**

(1) The deferred tax applicable to the foreign currency hedge reserve balance is a $18.5 million recovery, which has been recognized in OCI.

The hedge ineffectiveness recognized in “fair value (gain) loss on derivative contracts” in the consolidated statements of income (loss) related to foreign currency contracts (cash flow and net investment hedges) for the year ended December 31, 2017 was $0.9 million.

(b) Interest rate risk

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

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

Interest rate swap reserve		Canadian interest rate swaps		Euro interest rate swaps		Total interest rate swaps reserve
Opening balance as at January 1, 2017	$	—	$	—	$	—
Add: Change in fair value of hedging instrument recognized in OCI for the year (effective portion)		8,272		(7,701)		571
Less: Re-classified to profit and loss		(228)		(1,346)		(1,574)
Closing balance as at December 31, 2017 (1)	**$**	**8,044**	**$**	**(9,047)**	**$**	**(1,003)**

(1) The deferred tax applicable to the interest rate swaps reserve balance is $1.2 million recovery, which has been recognized in OCI.

The hedge ineffectiveness recognized in "fair value (gain) loss on derivative contracts" in the consolidated statements of income (loss) related to interest rate contracts (cash flow hedges) for the year ended December 31, 2017 was immaterial.

(c) Hedge ineffectiveness

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

Fair value of hedged items (hypothetical derivatives)		December 31, 2017
Cash flow hedge – interest rate risk	$	(8,328)
Cash flow hedge – foreign currency risk	$	153
Net investment hedge – foreign currency risk	$	(20,071)

17. Net Income (Loss) per Share

The calculation of basic net income (loss) per Share is based on the consolidated net income (loss) for the year, less preferred share dividends divided by the sum of the weighted average number of Shares outstanding and the weighted average number of Class A Shares. Diluted net income per Share is calculated by dividing consolidated net income (loss), net of preferred share dividends, plus expenses related to the debt that is assumed to be converted by the weighted average number of Shares used in the basic net income (loss) per Share calculation plus the number of Shares that would be issued assuming conversion of the 2019 Debentures and 2020 Debentures into Shares for accounting purposes during the year.

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

Year ended December 31,		2017		2016
Net income (loss) for the year attributable to common shareholders	**$**	**161,122**	$	121,464
Less: preferred share dividends, net		**(11,215)**		(11,189)
Net income (loss) attributable to common shareholders for basic and diluted earnings	**$**	**149,907**	$	110,275

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

Year ended December 31,	2017	2016
Weighted average number of Shares outstanding	**174,382,516**	171,910,421
Weighted average number of Class A shares	**1,000,000**	1,000,000
Weighted average number of Shares outstanding, basic and diluted	**175,382,516**	172,910,421

The impact of conversion of the convertible unsecured subordinated debentures has an anti-dilutive effect for all periods presented and has therefore been excluded from the calculation of the diluted net income (loss) and weighted average number of Shares.

18. Finance Costs

Net finance costs consist of the following:

Year ended December 31,		2017		2016
Interest on debts, borrowings and bank fees	**$**	**333,132**	$	235,004
Discount on provisions for decommissioning liability		**3,748**		1,422
Finance income		**(3,411)**		(9,458)
Finance costs, net	**$**	**333,469**	$	226,968

For the year ended December 31, 2017, $26.5 million (2016 –- $120.9 million) in interest was incurred related to facilities under construction, which was capitalized and included in construction in progress.

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

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

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

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

The rates are as follows:

Before tax discount rates	
Applicable to PPA cash flows:	
October 1, 2017	6.2%
October 1, 2016	5.5%
Applicable to post-PPA cash flows:	
October 1, 2017	8.2%
October 1, 2016	7.5%

During the fourth quarter of 2017, Northland completed its annual comprehensive impairment assessment based on value-in-use estimates derived from the long-range forecasts and market values observed in the marketplace. Northland did not identify any impairments or reversals of prior impairments as a result of this review.

In the year ended December 31, 2016, Northland recorded an impairment charge of $23.1 million against property, plant and equipment due to uncertainty of future cash flows related to the expiry of Kingston's PPA in January 2017.

20. Deferred Income Taxes

20.1 Tax Expense and Temporary Difference

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

Year ended December 31,		2017		2016
Current taxes				
Based on taxable income of current year	**$**	**11,643**	$	6,273
Tax on dividend payments		**4,486**		4,476
Total current taxation expense	**$**	**16,129**	$	10,749
Deferred taxes				
Deferred tax on origination and reversal of temporary differences		**29,399**		19,642
Prior-year (under) over provision		**317**		(1,634)
Total deferred tax expense (recovery)	**$**	**29,716**	$	18,008
Total income tax expense (recovery)	**$**	**45,845**	$	28,757

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

Year ended December 31,		2017		2016
Deferred taxes related to origination and reversal of temporary differences related to financing fees	**$**	**1,087**	$	1,289
Deferred taxes related to change in fair value of hedged derivative contracts		**(19,670)**		—
Deferred taxes related to change in translation of net investment in foreign operations		**(2,445)**		4,198
Total income tax expense (recovery) in equity	**$**	**(21,028)**	$	5,487

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

Year ended December 31,		2017		2016
Combined basic Canadian federal and provincial income tax rate		**26.5%**		26.5%
Income (loss) before income taxes	**$**	**321,681**	$	219,316
Income tax expense (recovery) based on statutory rate		**85,245**		58,119
Adjustment for non-deductible (taxable) expenses and incentives		**(25,293)**		(28,729)
Rate difference related to temporary differences in foreign jurisdictions		**(723)**		(107)
Manufacturing and processing rate reduction (cost)		**(114)**		(3,464)
Tax expense associated with payment of preferred share dividends		**4,486**		4,476
Minority interest		**(20,363)**		1,017
Other		**2,607**		(2,555)
Total income tax expense (recovery)	**$**	**45,845**	$	28,757

Northland, although resident in Canada, operates in a number of foreign jurisdictions. The enacted blended tax rates relevant to the computation of tax expense (recovery) are: Canada 26.5% (2016 - 26.5%), Germany 30.3% (2016 - 30.3%), the Netherlands 25.0% (2016 - 25.0%) and Luxembourg 27.1% (2016 - 29.2%). For Canada, the tax rate is computed using the average tax rate based on provincial allocations.

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

As at December 31,		2017		2016
Deductible temporary differences				
Losses available for carryforward	**$**	**17,920**	$	28,599
Derivative financial instruments		**97,292**		82,048
Financing fees		**25,048**		24,065
Canadian renewable conservation expense		**21,096**		7,382
Tax credits		**2,658**		1,432
Other		**2,781**		889
	$	**166,795**	$	144,415
Taxable temporary differences				
Property, plant and equipment		**155,349**		125,855
Contracts		**154,019**		50,568
Fair value debt increments20,797		**20,797**		20,602
	$	**330,165**	$	197,025

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

As at December 31,		2017		2016
Opening balance, net deferred tax liability	**$**	**52,610**	$	29,116
Tax liability recognized in business combination		**103,966**		—
Tax expense (recovery) recognized in income statement		**29,716**		18,008
Tax expense (recovery) on change in fair value of hedged derivative contracts in OCI		**(19,670)**		—
Tax expense (recovery) on change in translation of net investment in foreign operations in OCI		**(2,445)**		4,198
Tax expense (recovery) recognized in equity		**1,087**		1,289
Other		**(1,894)**		(1)
Ending net, deferred tax liability	**$**	**163,370**	$	52,610

Northland has recognized a deferred tax asset of $67.5 million for Gemini with respect to unused losses and other tax attributes available for carry forward. Management has assessed the probability of future taxable income arising within the available carry forward period of these tax benefits and has concluded that it is probable that the benefit will be realized based on its estimate of future cash flows.

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

Year ended December 31,		2017		2016
Non-capital losses carried forward	**$**	**3,344**	$	275
Net capital loss		**7,390**		1,539
Outside basis difference on shares of foreign affiliate		**5,184**		3,500
Total deductible temporary differences	**$**	**15,918**	$	5,314

Northland has operating losses available for carry forward in Canada, Germany, Luxembourg and the Netherlands of $9.3 million, $1.5 million, $0.5 million and $60.6 million, respectively, which expire beginning in 2023.

The operating losses are expected to expire as follows:

As at December 31	Canada	Germany	Luxembourg	Netherlands
2023 - 2027	$ —	$ 1,542	$ —	$ 60,633
2028 - 2032	1,375	—	—	—
2033 - 2037	7,896	—	485	—
Total	**$ 9,271**	**$ 1,542**	**$ 485**	**$ 60,633**

20.2 Temporary Differences Associated with Northland Investments

The taxable temporary difference associated with investments in Northland's subsidiaries is $30.0 million (2016 - $33.0 million). A deferred tax liability associated with these investments has not been recognized because Northland controls the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

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

21. Operating Segment Information

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

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

Year ended December 31, 2017	External revenue	Inter-segment revenue	Total revenue	Depreciation of property, plant and equipment	Finance costs, net	Operating income (loss)
Offshore wind	**$ 714,589**	**$ —**	**$ 714,589**	**$ 217,870**	**$ 182,257**	**$ 392,855**
Thermal	**446,359**	**377**	**446,736**	**49,701**	**60,928**	**217,187**
On-shore renewables	**211,565**	**—**	**211,565**	**91,930**	**63,423**	**88,614**
Other	**3,743**	**24,675**	**28,418**	**1,864**	**26,861**	**(66,530)**
Eliminations	**—**	**(25,052)**	**(25,052)**	**—**	**—**	**—**
Total	**$ 1,376,256**	**$ —**	**$ 1,376,256**	**$ 361,365**	**$ 333,469**	**$ 632,126**

Year ended December 31, 2016		External revenue		Inter-segment revenue		Total revenue		Depreciation of property, plant and equipment		Finance costs, net		Operating income (loss)
Offshore wind	$	266,104	$	—	$	266,104	$	84,286	$	80,675	$	144,365
Thermal		640,365		611		640,976		58,975		56,217		342,377
On-shore renewables		192,055		—		192,055		87,898		61,400		76,814
Other		476		74,442		74,918		2,439		28,676		(54,919)
Eliminations		—		(75,053)		(75,053)		—		—		—
Total	$	1,099,000	$	—	$	1,099,000	$	233,598	$	226,968	$	508,637

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

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

As at December 31, 2016		Property, plant and equipment, net		Contracts and other intangibles, net		Goodwill		Equity-accounted investment		Total assets
Offshore wind	$	4,665,460	$	157,528	$	—	$	—	$	5,129,740
Thermal		1,043,486		76,174		150,201		—		1,708,939
On-shore renewables		1,438,013		626		56,329		—		1,585,622
Other		10,442		—		—		4,257		239,129
Total	$	7,157,401	$	234,328	$	206,530	$	4,257	$	8,663,430

Information on operations by geographic area is as follows:

Sales

		Year ended December 31, 2017		**2016**
Canada	**$**	**659,134**	$	829,444
Europe		**717,122**		269,556
Total	**$**	**1,376,256**	$	1,099,000

Property, plant and equipment, net

As at		**December 31, 2017**		**December 31, 2016**
Canada	**$**	**2,356,334**	$	2,491,650
Europe		**5,575,776**		4,665,751
Total	**$**	**7,932,110**	$	7,157,401

22. Related-party Disclosures

22.1 Compensation of Key Management Personnel

Remuneration of key management personnel, consisting of the Board of Directors and members of executive management, expensed in the year ended December 31, 2017 is outlined in the table below. In 2017, Northland granted a total of 22,284 Shares to key management personnel. Share-based compensation is tied directly to executive seniority and the success of the development and construction of certain projects.

Year ended December 31,		2017		2016
Salaries and short-term employee benefits	**$**	**6,523**	$	4,917
Share-based compensation (non-cash compensation expense)		**519**		516
Share-based compensation cash component		**3,758**		535
Total	**$**	**10,800**	$	5,968

22.2 Transactions with Shareholders

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

22.3 Entity with Significant Influence Over Northland

As of December 31, 2017, James C. Temerty, Chair of Northland Power Inc., owns or has control or direction over 56,698,622 common shares (representing 33% of the outstanding Shares) (2016 - 56,258,692 common shares) and 1,000,000 Class A Shares (representing 100% of the Class A Shares). If all of the Class A Shares were converted into Shares, Mr. Temerty would beneficially own or have control or direction over 33% of the then outstanding Shares.

23. Litigation, Claims, Contingencies and Commitments

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

23.1 Gemini Contingent Consideration

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

23.2 Commitments

The following is a summary of the material commitments that Northland and its subsidiaries have entered into as at December 31, 2017, in addition to the commitments outlined in the above notes.

The majority of Northland’s revenues are earned under long-term PPAs with government-related entities including the Dutch government and German government for offshore wind facilities and Ontario’s OEFC, Independent Electricity System Operator, SaskPower and Hydro-Québec for Canadian facilities. Northland and its facilities are not obligated to deliver electricity under these contracts; however, in certain circumstances if a facility fails to meet the performance requirements under its respective PPA, liquidating damages may apply or the contract may be terminated after a specified period of time.

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

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

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

23.3 Capital Commitments

In the normal course of operations, as at December 31, 2017, Northland has committed to spending approximately $1.0 billion on capital projects, relating to the construction of Deutsche Bucht.

Corporate Information

DIRECTORS AND EXECUTIVE OFFICERS OF NORTHLAND POWER INC.

DIRECTORS

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

EXECUTIVE OFFICERS

Mr. John W. Brace
Chief Executive Officer

Mr. Paul J. Bradley
Chief Financial Officer

Mr. Troy Patton
Chief Operations Officer

Mr. Mike Crawley
Executive Vice President, Development

Mr. Morten Melin
Executive Vice President, Construction

Mr. Michael D. Shadbolt
Vice President and General Counsel

Ms. Linda L. Bertoldi
Secretary

GENERAL INFORMATION

REGISTRAR AND TRANSFER AGENT

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

COMMON SHARES, DEBENTURES AND PREFERRED SHARES

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

DIVIDEND REINVESTMENT PLAN (DRIP)

The DRIP provides common shareholders and the Class A shareholder the opportunity to elect to reinvest their dividends in common shares of Northland at a 5% discount to the market price.

TAX CONSIDERATIONS

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

SHARE INFORMATION

CONTACT

Ms. Barbara Bokla
Manager, Investor Relations
647-288-1438

Mr. Adam Beaumont
Senior Director, Corporate Finance
647-288-1929

TELEPHONE

(416) 962-6262

FACSIMILE

416-962-6262

EMAIL

investorrelations@northlandpower.ca

WEBSITE

northlandpower.ca

ADDRESS

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

Habitat Build Day

Northland Power was proud to support Habitat For Humanity GTA in 2017.

Employees from across the organization worked together to raise more than twice our fundraising goal, and in September, 20 Northlanders participated in a Build Day in Toronto, Ontario. Thanks to the Northland team for contributing their intelligent energy in support of building a brighter future for local families.

NORTHLAND POWER

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12th Floor
Toronto, Ontario, Canada
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