



INTELLIGENT ENERGY for a GREENER PLANET

2016 | Annual Report



Northland Power is an independent power producer. We develop, finance, build, own and operate facilities in Canada and internationally that produce clean and green energy using natural gas, biomass, wind and solar technology. Our goal is to create long-term shareholder value by investing in sustainable power projects that generate stable cash flows.

NORTHLAND POWER INC.

2016

20th Annual Report

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In 2016, Northland once again delivered on its commitments to stakeholders and shareholders alike.

Continued on-time, on-budget advancement of our ~\$6 billion construction portfolio

- **Gemini**

600 MW offshore wind farm – nearly complete, on schedule and within budget

- February – first power to shore
- August – turbine installation completed
- Today – all turbines generating power and pre-completion revenue; on track for full commercial operations in mid-2017

- **Nordsee One**

332 MW offshore wind farm – progressing on schedule and within budget

- April – installation of foundations (monopiles and transition pieces) completed ahead of schedule
- July – offshore substation installed
- Wind turbines to be installed starting in early 2017

- **Grand Bend**

100 MW wind farm – completed ahead of schedule and under budget

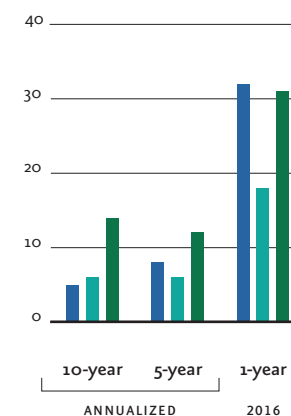
- April – achieved commercial operations

Strong Operating and Financial Performance

- Operating income of \$508.6 million, an 86% increase over 2015
- Adjusted EBITDA of \$626.9 million, a 56% increase over 2015
- Free cash flow of \$242.3 million, a \$60.2 million increase over 2015 (normalized basis)
- Total shareholder returns of approximately 31% since 2015
- Dividends of \$1.08 per share

Total Shareholder Return

Percentage



■ Peer Group*
 ■ S&P/TSX Capped Utilities Index
 ■ Northland Power

* Includes Algonquin Power, Boralex, Brookfield, Capstone, Capital Power, Innergex, TransAlta

Note: Total return includes dividend plus appreciation over the specified period.
 Source: Bloomberg, December 31, 2016

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 of our stakeholders.

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For us, success means delivering measured growth and strong financial results. It also means a commitment to excellence and sustainability by all definitions – environmental, financial and operational.



2016

Northland Power had another very successful year in 2016, delivering strong construction, operational and financial results. Our investments in offshore wind in Europe and other initiatives that contribute to long-term growth are now bearing fruit. We achieved an increase in free cash flow of 33% and in adjusted EBITDA of 56%. With a total shareholder return of 31%, including dividends of \$1.08 per share, we once again created superior value for shareholders.

We successfully completed construction of the 100 MW Grand Bend wind project, increasing our total net generating capacity to 1,394 MW. Overall, our fleet of 26 high-quality, long-term energy infrastructure assets, located across Canada and in Europe, met or exceeded management's expectations. We made great progress on our two offshore wind construction projects, which continue to advance on time and on budget. Subsequent to year-end, a long and arduous legal process related to contract revenues for three of Northland's operating facilities in Ontario was finally resolved in our favour.

To support our continued growth and our evolution into an international company, we have established a substantial business presence in Europe, Mexico and Taiwan and are undertaking a number of initiatives to bolster our corporate infrastructure. In concert with these initiatives, as announced in July, we are undertaking a strategic review to ensure that we are best positioned to capitalize on a growing pipeline of clean and green energy opportunities.

Financial Results

Financially, 2016 was an excellent year for Northland. At \$626.9 million, total adjusted EBITDA significantly exceeded 2015 by 56%. This increase was the result of additional revenue from the Grand Bend wind farm, the Ontario ground-mounted solar facilities and the Global Adjustment Decision. At \$1.40 per share, our free cash flow per share also increased from 2015 by 29%. We generated \$242.3 million in free cash flow and maintained a payout ratio below 100% despite raising a significant amount of capital in prior years to fund our current construction portfolio.

In July, Standard & Poor's reaffirmed Northland's credit rating of BBB (Stable).



GEMINI All turbines are installed and generating power.

On the whole, all of our operating assets met or exceeded our expectations in 2016 and to date in 2017.



Operations

We have always stressed the importance of ensuring that each of our operating facilities performs to its maximum potential. They provide the cash flow that allows us to pay our dividends and form the base upon which we can grow. Making sure that they run safely, efficiently and effectively throughout their operating lives is paramount.

Our portfolio is already made up of a diverse, sustainable technology mix, with approximately 60% thermal, 20% offshore wind, 10% onshore wind and 10% solar based on 2016 adjusted EBITDA. When Gemini transitions into full commercial operations this year, followed by Nordsee One, offshore wind will represent over half of Northland's portfolio. While this is a significant shift from today, we will benefit in many ways from the further technological and regional diversification that we will achieve.

We are disappointed that we have so far been unable to extend the power sales contract for our thermal facility in Kingston from its expiry in January 2017. Given the current market and political conditions in Ontario, we acknowledge that extending the contract with the Ontario government will be challenging. Nonetheless, we believe in the importance and competitiveness of the facility and are pursuing potential options to continue operations by servicing export markets.

In November 2016, the courts approved an application under the Companies' Creditors Arrangement Act (**CCAA**), submitted by the contractor of our five ground-mounted solar projects located in and around Cochrane and Burk's Falls, Ontario. Under the approved CCAA plan, Northland received a cash payment of \$6 million, all claims and liens by the contractor and its subcontractors were released and \$66 million in letters of credit posted to remove the liens were returned to Northland.

We are pleased to report that in January 2017, the legal case between some of Northland's subsidiaries and the Ontario Electricity Financial Corporation related to revenue calculations under power purchase agreements was definitively resolved by the Supreme Court of Canada. Final resolution of this case preserved over \$300 million in value for Northland.

Growth

Recognizing that continued growth means expanding our footprint outside of Canada, Northland's transformation to a global player in power generation continued in 2016. We have captured opportunities in new jurisdictions and technologies that leverage our expertise and are consistent with our risk/reward profile, establishing ourselves as an international leader in the clean and green energy sector.

In Europe, as mentioned above, our two offshore wind projects are proceeding well. Installation of all 150 turbines at the 600 MW Gemini project in the Netherlands was completed in August, ahead of schedule. Currently, all of the turbines are producing full power at contracted rates and, as of December 31, 2016, Gemini has generated €182 million of pre-completion revenue. The wind park is expected to achieve official completion mid-2017.

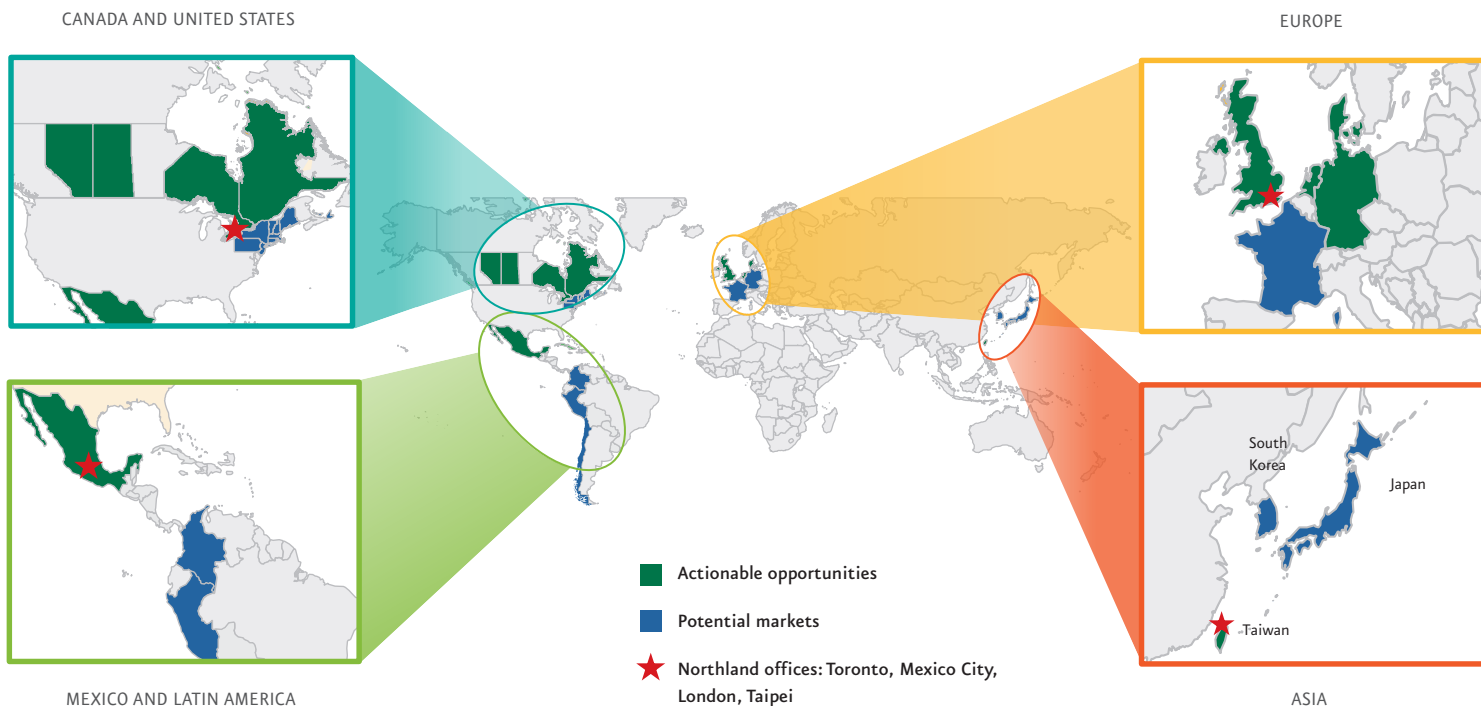
Our second offshore wind project, the 332 MW Nordsee One project in Germany, is also advancing on schedule and within budget. All 54 foundation monopiles and transition pieces, as well as the offshore substation and infield cables, were successfully installed in 2016. Production of the wind turbines is ongoing, with installation expected to commence in early 2017. We continue to expect full commercial operations by the end of 2017.

Domestically, in April we achieved commercial operation for Northland's 100 MW Grand Bend, Ontario, wind project under budget and ahead of schedule. The project is a 50/50 partnership with two First Nations and to date is performing according to plan.

As global demand for electricity increases and the world embraces more environmentally friendly energy sources, we are seeing more – and larger – opportunities to advance our well-defined strategy of pursuing growth. As mentioned above, we have established offices and a substantial business presence in Europe, Mexico and Taiwan, where new clean and green energy generation is needed and has been identified as a strategic priority by governments and electricity system planners.

In Canada, there are some encouraging signals for new generation procurements, particularly in provinces that are actively pursuing decarbonization targets. European offshore wind projects will continue to be a focus for us, given our positive experience and reputation in the sector thus far. Mexico also provides opportunities; the country is experiencing load growth as a result of economic and demographic shifts and a desire for a greener supply mix. We have significant development activity under way, led by our office in Mexico City. We are

Current Development Markets



working hard on our offshore development pipeline in Taiwan from our office in Taipei. We are also looking at other jurisdictions that meet Northland’s investment criteria and that may offer opportunities as a result of increased government focus on energy independence, sustainability and security.

To support our continued growth and international expansion, in 2016 we undertook a number of initiatives to bolster our corporate infrastructure. We implemented an enterprise resource planning system, which will generate streamlined financial and operational reporting for senior management and the Company, to facilitate timely information for decision-making and enable Northland to stay lean and flexible. As we grow in size, scope and location, we are further fortifying, documenting and formalizing our already robust risk management profile through an enterprise risk management program.

We recognize that by investing in effective processes and, most importantly, in our people, we will be best positioned to remain agile and efficient and to deliver the results you expect.

Through implementation of a number of employee engagement initiatives, along with a goals and feedback program, we continue to focus on actively empowering our employees to do the great things they are capable of. We would like to thank the Northland team for their discipline, focus and initiative and for generating the intelligent energy that powers our progress.

2017 and Beyond

With our 30th year in business under way, our priorities for 2017 are clear. We will focus on completing our existing projects on time and on budget. We will continue to drive measured growth by seeking out new, attractive projects that meet our stringent risk management criteria. And we will optimize our business and our team, which includes operating our existing facilities effectively and, wherever possible, extending their lifespans through the negotiation of new power purchase agreements.



GRAND BEND Northland's Grand Bend wind farm achieved commercial operations in April 2016.

As we continue to evolve as a company, we remain committed to our core values. Our focus remains on achieving excellence in everything that we do. This often means challenging ourselves: to find new opportunities, to find new – and improved – ways of doing things, to drive enhanced efficiency and quality throughout the organization. Our promise to you is to manage our business and our growth prudently.

The strategic review announced in July is currently under way and demonstrates our ongoing commitment to ensuring Northland remains a sustainable, scalable company long into the future. Regardless of the review's outcome, we remain well positioned to execute on future plans. As we made clear when we announced the review, we will embark on a new course only if it offers superior value for shareholders and an even stronger platform for future growth than the one we have today. Until the outcome is determined, our team remains focused on executing business plans and delivering shareholder value.

Guided by our Board of Directors, we remain steadfast in our commitment to generating intelligent energy and exceptional financial, environmental and operational results. We thank you for your continued support and look forward to keeping you informed on our progress in 2017.

Sincerely,



A handwritten signature in black ink, appearing to read 'James C. Temerty'.

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



A handwritten signature in black ink, appearing to read 'John W. Brace'.

John W. Brace
Chief Executive Officer

Management's Discussion and Analysis

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

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

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

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

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Section 1: Description of Business

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

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

- i. Iroquois Falls Power Corp., which owns a 120 MW natural-gas-fired cogeneration facility located in Northern Ontario, together herein referred to as "**Iroquois Falls**";
- ii. Kingston CoGen Limited Partnership, which owns a 110 MW natural-gas-fired combined-cycle facility located in Eastern Ontario, together herein referred to as "**Kingston**";
- iii. Thorold CoGen L.P., which owns a 265 MW natural-gas-fired cogeneration facility located in the Niagara region of Ontario, together herein referred to as "**Thorold**";
- iv. North Battleford Power L.P., which owns a 260 MW natural-gas-fired combined-cycle facility located near Saskatoon in central Saskatchewan, together herein referred to as "**North Battleford**";
- v. Spy Hill Power L.P., which owns an 86 MW natural-gas-fired peaking facility located in eastern Saskatchewan, together herein referred to as "**Spy Hill**";
- vi. Saint-Ulric Saint-Léandre Wind L.P., which owns a 133.3 MW wind farm located in the Gaspésie region of Québec, together herein referred to as "**Jardin**";
- vii. Mont-Louis Wind L.P., which owns a 100.5 MW wind farm located in the Gaspésie region of Québec, together herein referred to as "**Mont Louis**";
- viii. DK Windpark Kavelstorf GmbH & Co. KG and DK Burgerwindpark Eckolstädt GmbH & Co. KG, which own two wind farms totalling 21.5 MW located in eastern Germany, together herein referred to as the "**German wind farms**";
- ix. Ground-mounted solar partnerships, which consist of 13 operating 10 MW solar facilities (the nine solar facilities totalling 90 MW in eastern and central Ontario are together herein referred to as "**NPI Ground-mounted Solar**," and the final four facilities totalling 40 MW (25 MW net interest to Northland) in Northern Ontario are together herein referred to as "**Cochrane Solar**");
- x. McLean's Mountain Wind Limited Partnership, which owns the 60 MW (30 MW net interest to Northland) wind farm on Manitoulin Island in Ontario, together herein referred to as "**McLean's**";
- xi. Grand Bend Wind Limited Partnership, which owns the 100 MW (50 MW net interest to Northland) wind farm in southern Ontario, together herein referred to as "**Grand Bend**";

- xii. ZeeEnergie C.V. and Buitengaats C.V., which collectively own the 600 MW (360 MW net interest to Northland) offshore wind project under construction off the coast of the Netherlands in the North Sea, together herein referred to as “**Gemini**”; and
- xiii. Nordsee One GmbH, which owns the 332 MW (282 MW net interest to Northland) offshore wind project in construction off the German coast in the North Sea, “**Nordsee One**.”

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

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

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

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

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

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Section 2: Strategy and Key Factors Supporting Sustainability

Investment Objective

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

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Strategy

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

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

Northland prudently maintains sufficient liquidity to meet short- and medium-term cash needs and ensures that the Company has access to sufficient resources to capitalize on opportunities as they arise. Northland finances its projects primarily with non-recourse project debt with fixed or hedged interest rates and repayment tied to the terms of the projects' initial PPAs. Each project is undertaken as a special-purpose entity so that an adverse event at one facility would not affect Northland's other facilities. By owning and operating high-quality assets and applying its deep, long-term experience, Northland expects to continue to enjoy a competitive cost of capital, which maximizes returns from growth initiatives.

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Long-Term Contracts

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

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

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Operating and Managed Facilities

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

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

† Ontario Electricity Financial Corporation (OEFC).

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

- (1) Northland entered into a long-term financial natural gas contract primarily to stabilize the price of future natural gas purchases from 2017 until the end of the PPA in 2021.
- (2) Kingston's PPA expired as of January 31, 2017. Northland is continuing discussions with the OEFC to extend the PPA subject to economic terms and conditions.
- (3) Thorold purchases natural gas at spot market prices; the commodity cost and variable transportation charges are effectively recovered through sales of electricity to the Ontario wholesale electricity market.
- (4) SaskPower provides all required fuel to operate the facility and assumes all natural gas price risk under the long-term PPA.
- (5) Wind and solar availability is based on long-term site studies undertaken as part of the development decision-making process.
- (6) German electricity production is purchased by local power utilities at predetermined prices under German federal legislation.
- (7) In June 2015, Northland completed the sale of its 37.5% equity interest in Northland's Cochrane facilities to a corporation controlled by its First Nations partners.
- (8) In March 2015, Northland issued a 50% interest in Grand Bend Wind Limited Partnership to a corporation controlled by its First Nations partners.
- (9) Northland has a 68% controlling interest in CEEC, which owns the voting shares in Kirkland Lake and Cochrane, resulting in Northland having a 77% residual economic interest in these facilities.

Projects Under Construction

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

(1) From the commercial operations date.

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

Post-Contract Economics

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

Section 3: Facility Results

Northland's Thermal Facilities

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

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

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In thousands of dollars except as indicated	2016	2015	2014
Gross profit			
Iroquois Falls	116,973	69,066	48,044
Kingston	54,080	58,319	61,400
Thorold	66,381	62,645	69,044
Spy Hill ⁽²⁾	19,103	18,516	18,391
North Battleford	111,360	109,884	110,133
	367,897	318,430	307,012
Less finance lease adjustment	(16,188)	(16,188)	(16,186)
Gross profit as reported	351,709	302,242	290,826
Plant operating costs			
Iroquois Falls	9,447	9,356	8,686
Kingston	5,732	5,650	6,239
Thorold	9,540	9,305	9,867
Spy Hill	1,882	1,666	1,750
North Battleford	13,464	13,464	13,034
	40,065	39,441	39,576
Operating income	267,403	214,169	203,241

continued...

In thousands of dollars except as indicated	2016	2015	2014
Adjusted EBITDA⁽³⁾			
Iroquois Falls	107,545	58,440	39,274
Kingston	48,067	52,433	54,930
Thorold	56,811	53,248	59,081
Spy Hill	17,200	16,828	16,614
North Battleford	97,872	96,395	97,059
	327,495	277,344	266,958
Capital expenditures⁽⁴⁾	1,510	803	1,497

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

- (1) "Other" includes electricity production at North Battleford, Thorold and Spy Hill, which have contractual structures that effectively provide for a pass-through of variable production costs and are generally not affected financially by changes in production levels.
- (2) Northland accounts for its Spy Hill operations as a finance lease.
- (3) A non-IFRS measure.
- (4) Capital expenditures exclude construction-related capital items. The majority of gas turbine maintenance is provided under long-term, fixed-price contracts that are charged to the consolidated statement of income based on the terms of those contracts.

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

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

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

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

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

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

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

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

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

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

THERMAL FACILITIES OUTLOOK

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

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

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

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Northland's Renewable Facilities

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

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

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In thousands of dollars except as indicated	2016	2015	2014
Adjusted EBITDA⁽³⁾			
Jardin	17,966	19,159	18,086
Mont Louis	15,586	17,608	15,938
German wind farms	1,809	2,719	1,808
McLean's ⁽⁴⁾	9,550	10,312	5,561
Grand Bend ⁽⁴⁾	14,431	–	–
Ground-mounted Solar ⁽⁴⁾	75,784	61,277	49,198
	135,126	111,075	90,591
Capital expenditures⁽⁵⁾	2,533	64	563

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

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

(3) A non-IFRS measure.

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

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

Renewable Facility Performance

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

Excluding the incremental contribution from the Grand Bend facility, which was not included in the 2016 long-term forecast, wind production was 7% below the long-term forecast, largely due to lower wind resources at McLean's and Jardin and downtime at McLean's

during the third quarter of 2016. Solar production was 4% below the long-term production forecast largely due to unusually high cloud coverage at Cochrane Solar. The long-term production forecasts for Northland's wind farms and solar projects were prepared by specialized consulting firms prior to the start of construction.

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

RENEWABLE FACILITIES OUTLOOK

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

Northland's Managed Facilities

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

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

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

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

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

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

MANAGED FACILITIES OUTLOOK

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

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Northland's Offshore Wind Projects

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

See the chart below for offshore wind operational results for the years ended December 31. Although Northland's two offshore wind projects are under construction, certain revenues and costs are recorded in operating income as individual turbines become operational. Pre-completion revenue and an allocation of plant operating costs have been recorded for Gemini. Sales and operating costs will increase over time as additional wind turbines are commissioned. Previously, sales represented pre-completion revenue for power sold at local market prices. During the third quarter of 2016, Gemini retroactively commenced its two power contracts effective March 1, 2016, and July 1, 2016. Commencing the power contracts entitled the project to earn a subsidy on top of market revenues for 15 years, including

a subsidy on top of market revenues recorded in previous quarters. The operating results now reflect full revenues on all MWh generated from contract commencement, plus market revenue on MWh generated before contract commencement. The adjusted EBITDA includes Northland's share of the project overhead costs (management and administration), which do not qualify for capitalization or deferral under IFRS.

In thousands of dollars	2016	2015	2014
Sales/gross Profit⁽¹⁾⁽²⁾	226,104	—	—
Plant operating costs⁽²⁾	29,871	—	—
Management and administration costs	5,962	2,535	2,099
Adjusted EBITDA⁽³⁾	258,842	2,535	2,099
Adjusted EBITDA⁽³⁾ – Northland's share	136,754	1,740	1,443

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

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

(3) A non-IFRS measure.

OFFSHORE WIND OUTLOOK

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

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

Corporate, Including Other Income

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

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

(1) A non-IFRS measure.

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

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

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

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

(1) Excludes writeoffs of deferred development costs.

(2) A non-IFRS measure.

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

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

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

CORPORATE OUTLOOK

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

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Section 4: Non-IFRS Financial Measures

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

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

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Section 5: Consolidated Results

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

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

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

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

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

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

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

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

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Adjusted EBITDA

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

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

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

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

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

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

Section 6: Equity, Liquidity and Capital Resources

Equity and Convertible Unsecured Subordinated Debenture Information

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

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

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

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

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

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

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

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Liquidity and Capital Resources

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

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

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

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

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

Cash provided by financing activities for the year ended December 31, 2016, was \$971.1 million, comprising (i) \$1.4 billion of proceeds from Gemini and Nordsee One's third-party senior debt and Cochrane Solar and Kirkland Lake financing; (ii) \$26.3 million of proceeds from the repayment of a loan made to Grand Bend's equity partner; and (iii) \$2.4 million of proceeds from the repayment of a loan made to McLean's

equity partner. Partially offsetting these proceeds were (i) \$197.5 million in interest payments; (ii) \$151.1 million of common, Class A and preferred share dividends; (iii) \$79.6 million in scheduled loan repayments (including Kirkland Lake); and (iv) \$12.5 million of dividends to non-controlling shareholders.

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

Total Assets and Long-Term Liabilities

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

Consolidated Balance Sheet

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

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

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

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

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

(3) Excludes Spy Hill lease receivable accounting treatment.

(4) Kirkland Lake and Cochrane facilities.

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

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

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

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

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

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

(4) Kirkland Lake and Cochrane facilities.

(5) Excludes convertible unsecured subordinated debentures.

Long-Term Project Debt

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

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

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

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

Debt Covenants

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

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

Corporate Facility and Letters of Credit

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

The corporate credit facility includes the following:

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

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

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

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

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

In millions of dollars	Purpose	Amount
Corporate ⁽¹⁾	Operations	163.3
	Advanced development and construction	180.5
		343.8
Project entity ⁽²⁾	Operations	49.5
	Construction	—
		49.5
		393.3

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

(2) Secured by project-level credit agreements.

Sustainability of Cash Flows and Dividends

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

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

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

Free Cash Flow and Dividends to Shareholders

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

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

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

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

(1) Amount is net of deferred development costs.

(2) A non-IFRS measure.

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

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

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

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

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

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

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

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

Factors increasing free cash flow were:

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

Factors decreasing free cash flow were:

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

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

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

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Payout Ratio

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

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Section 7: Construction and Development Activities

Projects Under Construction

Gemini 600 MW Offshore Wind Project – The Netherlands

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

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

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

Nordsee One 332 MW Offshore Wind Farm – Germany

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

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

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

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Section 8: Outlook

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

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

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

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

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

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

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

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

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

The decreases were partially offset by the following factors:

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

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

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Section 9: Historical Consolidated Quarterly Results

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

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

(1) A non-IFRS measure.

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

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

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Section 10: Fourth-Quarter 2016 Results

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

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

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

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

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

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

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

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

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

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

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

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Section 11: Commitments/Contractual Obligations

Non-Financial Commitments/Contractual Obligations

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

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

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

Financial Commitments/Contractual Obligations

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

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

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Section 12: Litigation, Claims and Contingencies

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

(i) Cochrane Solar and Burks Falls West Solar

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

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

(ii) Global Adjustment

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

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

(iii) Gemini Contingent Consideration

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

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Section 13: Critical Accounting Estimates

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

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

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

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Deferral of Development Expenditures

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

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Long-Term Incentive Plan

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

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Impairment of Non-Financial Assets

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

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Income Taxes

Preparation of the audited consolidated financial statements requires an estimate of income taxes in each of the jurisdictions in which Northland operates. The process involves an estimate of Northland's current tax exposure and an assessment of temporary differences resulting from differing treatments of items such as depreciation and amortization for tax and accounting purposes. These differences result in deferred tax assets and liabilities that are included in Northland's consolidated balance sheets. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply during the year when the assets are realized or the liabilities settled, using the tax rates and laws enacted at the consolidated balance sheet dates.

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

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

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Fair Value of Financial Assets and Financial Liabilities

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

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Property, Plant and Equipment and Intangible Assets

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

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Accounting for Investments in Non-Wholly-Owned Subsidiaries

Management exercises judgment in determining that certain subsidiaries are controlled by Northland even though the subsidiaries are less than wholly owned. Non-wholly-owned subsidiaries that required management judgment to determine if Northland controlled the entities and therefore should be consolidated with Northland's financial statements include Kirkland Lake, Cochrane, CEEC, Cochrane Solar, Grand Bend, Gemini, Nordsee One and McLean's. Management judgment and estimation included the determination of (i) how the relevant activities of the subsidiary are directed (either through voting rights or contracts), (ii) whether Northland's rights are substantive or protective in nature, and (iii) Northland's ability to influence the returns of the subsidiary.

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Decommissioning Liabilities

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

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

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Section 14: Future Accounting Policies

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

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

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

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

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

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Section 15: Management's Responsibility for Financial Information

Disclosure Controls and Procedures

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

An evaluation of the effectiveness of the design and operation of Northland's disclosure controls and procedures was conducted as of December 31, 2016, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Northland's disclosure controls and procedures, as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

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Internal Controls Over Financial Reporting

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

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

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

An evaluation of the effectiveness of the design and operation of Northland's internal controls over financial reporting was conducted as of December 31, 2016, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Northland's internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of the audited consolidated financial statements in accordance with IFRS.

No changes were made in Northland's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, Northland's internal controls over financial reporting in the year ended December 31, 2016.

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Review and Approval of Financial Information

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

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Section 16: Risks and Uncertainties

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

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

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

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

The fair values of derivative financial instruments reflect the estimated amount that Northland would have been required to pay if forced to settle all unfavourable outstanding contracts or the amount that would be received if forced to settle all favourable contracts at year-end. The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions) without any deduction for transaction costs. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's-length market transactions, reference to the current fair value of another instrument that is

essentially the same, discounted cash flow analysis or other valuation models. Assessment of the significance of a particular input to the fair value measurement requires judgment; any changes in assumptions may affect the reported fair value of financial instruments. The fair values of Northland's financial derivatives are included in the consolidated balance sheets as "derivative financial instruments," and the changes in the fair value of Northland financial derivatives are included in the consolidated statements of income (loss) as "fair value (gain) loss on derivative contracts." The fair value represents a point-in-time estimate that may not be relevant in predicting Northland's future earnings or cash flows.

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

.....

Market Risk

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

Interest Rate Risk

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

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

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

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

Credit Spread Risk

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

Currency Risk

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

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

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

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

Commodity Price Risk

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

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

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

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Counterparty Risk

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

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

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

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

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

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Liquidity Risk

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

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

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

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

Northland is also subject to internal liquidity risk because it conducts its business activities through separate legal entities (subsidiaries and affiliates) and is dependent on receipts of cash from those entities to defray its corporate expenses and to make dividend payments to shareholders. Certain of those entities have outstanding debt that was incurred to help fund the entities' original investments. Under the credit agreements for such debt, it is conventional for distributions of cash to Northland to be prohibited if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark debt service coverage ratio, which is the ratio of EBITDA for a specified time period to the scheduled loan principal and interest payments for the same time period. For the year ended December 31, 2016, Northland and its subsidiaries were in compliance with all debt covenants.

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

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

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Section 17: Forward-Looking Statements

This MD&A contains certain forward-looking statements that are provided for the purpose of presenting information about management's current expectations and plans. Readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects," "anticipates," "plans," "believes," "estimates," "intends," "targets," "projects," "results of litigation and arbitration proceedings," "forecasts" or negative versions thereof and other similar expressions or future or conditional verbs such as "may," "will," "should," "would" and "could." These statements may include, without limitation, statements regarding future adjusted EBITDA, free cash flows, dividend payments and dividend payout ratios; the construction, completion, attainment of commercial operations, cost and output of development projects; plans for raising capital; and the future operations, business, financial condition, financial results, priorities, ongoing objectives, strategies and outlook of Northland and its subsidiaries. These statements are based upon certain material factors or assumptions that were applied in developing the forward-looking statements, including the design specifications of development projects, the provisions of contracts to which Northland or a subsidiary is a party, management's current plans and its perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Although these forward-looking statements are based upon management's current reasonable expectations and assumptions, they are subject to numerous risks and uncertainties. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, natural events, construction risks, counterparty risks, operational risks, risks relating to co-ownership, the variability of revenues from generating facilities powered by intermittent renewable resources, power market risks and possible inflation risks and the other factors described in Northland's 2016 Annual Information Form dated March 2, 2017, which can be found at www.sedar.com under Northland's profile and on Northland's website at www.northlandpower.ca. Northland's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will occur. The forward-looking statements contained in this MD&A are based on assumptions that were considered reasonable on March 2, 2017. Other than as specifically required by law, Northland undertakes no obligation to update any forward-looking statements to reflect events or circumstances after such date or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

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Management's Responsibility

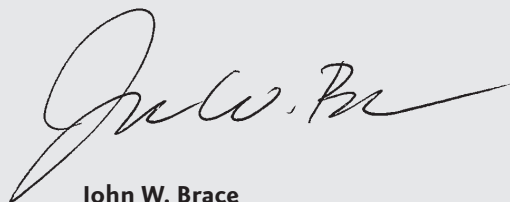
Management is responsible for the preparation of Northland's consolidated financial statements and annual report. Management has prepared the accompanying consolidated financial statements in accordance with International Financial Reporting Standards, and the financial information included in the annual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

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

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

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

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



John W. Brace
Chief Executive Officer
Northland Power Inc.



Paul J. Bradley
Chief Financial Officer
Northland Power Inc.

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, 2016 and 2015, and the consolidated statements of income, comprehensive income, 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 as issued by the International Accounting Standards Board 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.

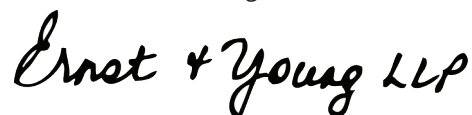
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 and 2015, 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.

Toronto, Canada

March 2, 2017

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Chartered Professional Accountants,

Chartered Accountants

Licensed Public Accountants

Consolidated Balance Sheets

As at December 31, in thousands
of Canadian dollars

Assets	2016	2015
Current assets		
Cash and cash equivalents [Note 3]	307,521	151,927
Restricted cash [Note 20]	171,304	283,820
Trade and other receivables [Note 3]	158,007	118,807
Inventories [Note 5]	16,144	14,438
Prepayments	14,055	16,743
Finance lease receivable [Note 8]	3,246	2,987
Derivative asset [Note 18]	1,811	4,567
<hr/>		
Total current assets	672,088	593,289
Finance lease receivable [Note 8]	152,250	155,498
Equity-accounted investment [Note 9]	4,257	4,445
Property, plant and equipment [Note 11]	7,157,401	5,914,842
Contracts and other intangible assets [Note 12]	234,328	257,406
Derivative asset [Note 18]	51,525	24,796
Deferred tax asset [Note 17]	112,417	111,070
Other assets [Note 20]	22,263	48,923
Long-term deposit [Note 10]	50,371	49,596
Goodwill [Note 13]	206,530	206,530
<hr/>		
Total assets	8,663,430	7,366,395

continued...

As at December 31, in thousands
of Canadian dollars

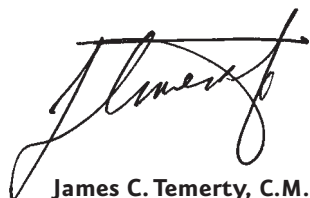
Liabilities and equity	2016	2015
Current liabilities		
Trade and other payables	231,186	237,030
Interest-bearing loans and borrowings [Note 14.2]	114,571	78,592
Dividends payable – non-controlling interest [Note 20]	–	602
Dividends payable	15,568	15,358
Derivative liability [Note 18]	120,322	84,759
Total current liabilities		
	481,647	416,341
Interest-bearing loans and borrowings [Note 14.2]	5,621,541	4,507,975
Corporate term loan facility [Note 14.1]	247,741	250,064
Convertible debentures [Note 15]	228,093	227,695
Other liabilities	2,901	4,306
Provisions [Note 16]	166,084	36,452
Derivative liability [Note 18]	375,276	376,308
Deferred tax liability [Note 17]	165,027	140,186
Total liabilities		
	7,288,310	5,959,327

continued...

As at December 31, in thousands
of Canadian dollars

Equity	2016	2015
Preferred shares [Note 19.1]	260,880	261,080
Common shares [Note 19.2]	2,266,901	2,219,259
Long-Term Incentive Plan reserve [Note 19.2]	12,246	6,539
Contributed surplus	278	241
Convertible shares [Note 19.3]	14,615	14,615
Accumulated other comprehensive income (loss)	(20,475)	16,070
Deficit	(1,599,967)	(1,524,636)
Equity attributable to shareholders	934,478	993,168
Non-controlling interests [Note 20]	440,642	413,900
Total equity	1,375,120	1,407,068
Total liabilities and equity	8,663,430	7,366,395

See accompanying notes.



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



Russell Goodman
Director and Chairman
of the Audit Committee

Consolidated Statements of Income

Years ended December 31,
in thousands of Canadian dollars
except per-share and share
information

	2016	2015
Sales		
Electricity and related products [Note 27.2]	1,097,623	727,220
Other	1,377	921
Total sales	1,099,000	728,141
Cost of sales	193,240	225,692
Gross profit	905,760	502,449
Expenses		
Plant operating costs	111,857	77,390
Management and administration costs – operations	35,918	25,496
Management and administration costs – development	31,255	16,345
Depreciation of property, plant and equipment [Note 11]	233,598	125,661
	412,628	244,892
Investment income	2,306	3,100
Finance lease income [Note 8]	13,199	13,437
Operating income	508,637	274,094
Finance costs [Note 23]	236,426	140,233
Equity investment gain [Note 9]	(337)	(288)
Amortization of contracts and other intangible assets [Note 12]	13,517	18,624
Impairment of property, plant and equipment [Note 21]	23,055	8,100
Impairment of goodwill [Note 21]	–	12,708
Foreign exchange (gain) loss	(2,022)	2,403
Finance income	(9,458)	(2,445)

continued...

Consolidated Statements of Income *continued*

Years ended December 31,
in thousands of Canadian dollars
except per-share and share
information

	2016	2015
Fair value loss on derivative contracts [Note 18]	27,830	80,424
Other expense (income)	310	(731)
Income before income taxes	219,316	15,066
Provision for (recovery of) income taxes [Note 17]		
Current	10,749	5,424
Deferred	18,008	(17,889)
	28,757	(12,465)
Net income for the year	190,559	27,531
Net income attributable to:		
Non-controlling interest [Note 20]	69,095	26,388
Common shareholders	121,464	1,143
	190,559	27,531
Weighted average number of Shares outstanding – basic and diluted (000s) [Note 24]	172,910	167,555
Net income (loss) per share – basic and diluted	\$0.64	\$(0.07)

See accompanying notes.

Consolidated Statements of Comprehensive Income

Years ended December 31,
in thousands of Canadian dollars

	2016	2015
Net income for the year	190,559	27,531
Items that may be reclassified into net income (loss):		
Exchange differences on translation of foreign operations	(55,939)	77,920
Deferred taxes	(4,198)	3,018
Other comprehensive income (loss)	(60,137)	80,938
Total comprehensive income	130,422	108,469
Total comprehensive income attributable to:		
Non-controlling interest [Note 20]	45,503	57,515
Common shareholders	84,919	50,954
	130,422	108,469

See accompanying notes.

Consolidated Statements of Changes in Equity

Year ended December 31, 2016

In thousands of Canadian dollars	Common shares	Convertible shares	Preferred shares	Long-Term Incentive Plan reserve	Deficit	Contributed surplus	Foreign currency translation reserve	Equity attribut- able to share- holders	Non- controlling interests	Total equity
December 31, 2015	2,219,259	14,615	261,080	6,539	(1,524,636)	241	16,070	993,168	413,900	1,407,068
Net income for the year	-	-	-	-	121,464	-	-	121,464	69,095	190,559
Deferred income taxes	(1,089)	-	(200)	-	-	-	(4,198)	(5,487)	-	(5,487)
Change in translation of net investment in foreign operation	-	-	-	-	-	-	(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 20]	-	-	-	-	-	-	-	-	1,386	1,386
Dividends to non-controlling interest	-	-	-	-	-	-	-	-	(20,147)	(20,147)
Common and Class A share dividends	46,569	-	-	-	(185,606)	-	-	(139,037)	-	(139,037)
Preferred share dividends	-	-	-	-	(11,189)	-	-	(11,189)	-	(11,146)
Conversion of debentures	1,646	-	-	-	-	-	-	1,646	-	1,646
Other	-	-	-	-	-	-	-	-	-	-
December 31, 2016	2,266,901	14,615	260,880	12,246	(1,599,967)	278	(20,475)	934,478	440,642	1,375,120

continued...

Year ended December 31, 2015										
	Common	Convertible	Preferred	Long-Term Incentive Plan	Deficit	Contributed	Foreign currency translation	Equity attribut- able to	Non- controlling	Total
In thousands of Canadian dollars	shares	shares	shares	reserve		surplus	reserve	share- holders	interests	equity
December 31, 2014	1,904,906	14,615	261,279	2,137	(1,319,713)	1,328	(33,741)	830,811	271,409	1,102,220
Net income for the year	–	–	–	–	1,143	–	–	1,143	26,388	27,531
Public offering and private placement [Note 19]	271,304	–	–	–	–	–	–	271,304	–	271,304
Deferred income taxes	1,497	–	(199)	–	239	–	3,018	4,555	–	4,555
Change in translation of net investment in foreign operation	–	–	–	–	–	–	46,793	46,793	31,127	77,920
LTIP shares and deferred rights	1,638	–	–	4,402	646	(1,087)	–	5,599	–	5,599
Non-controlling interest contributions [Note 20]	–	–	–	–	(13,158)	–	–	(13,158)	97,453	84,295
Dividends to non-controlling interest	–	–	–	–	–	–	–	–	(12,477)	(12,477)
Common and Class A share dividends	39,914	–	–	–	(179,916)	–	–	(140,002)	–	(140,002)
Preferred share dividends	–	–	–	–	(13,195)	–	–	(13,195)	–	(13,195)
Other	–	–	–	–	(682)	–	–	(682)	–	(682)
December 31, 2015	2,219,259	14,615	261,080	6,539	(1,524,636)	241	16,070	993,168	413,900	1,407,068

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended December 31,
in thousands of Canadian dollars
except per-share amounts

	2016	2015
Operating activities		
Net income for the year	190,559	27,531
Items not involving cash or operations:		
Depreciation of property, plant and equipment [Note 11]	233,598	125,661
Amortization of contracts and other intangibles	13,517	18,624
Writeoff and impairment of property, plant and equipment, contracts and other intangible assets and goodwill [Note 21]	23,055	20,808
Finance costs, net	220,397	133,217
Fair value loss on derivative contracts	27,830	80,424
Finance lease [Note 8]	2,989	2,750
Unrealized foreign exchange loss (gain)	(1,942)	2,525
Other	(10,542)	(5,270)
Deferred income tax expense (recovery) [Note 17]	18,008	(17,889)
	717,469	388,381
Net change in non-cash working capital balances related to operations	2,343	10,362
Cash provided by operating activities	719,812	398,743
Investing activities		
Purchase of property, plant and equipment [Note 11]	(1,626,221)	(1,936,435)
Cash reserves utilization (funding)	103,657	(229,856)
Increase in intangible assets [Note 12]	-	(73,252)
Interest received	9,458	2,445
Nordsee acquisition, net [Note 20]	-	(84,231)
Net change in working capital related to investing activities	(29,171)	73,512

continued...

Years ended December 31,
in thousands of Canadian dollars
except per-share amounts

	2016	2015
Net proceeds from the sale of development assets [Note 6.2]	–	10,782
Net proceeds received on legal settlement [Note 27.1]	6,000	–
Other	–	(682)
Cash used in investing activities	(1,536,277)	(2,237,717)
Financing activities		
Proceeds from borrowings, net of transaction costs	1,382,224	1,719,616
Proceeds from bank refinancing, net	–	179,589
Net proceeds common offerings and private placement [Note 19]	–	271,304
Repayment of borrowings	(79,647)	(244,211)
Interest paid	(197,467)	(131,726)
Non-controlling interest equity contribution [Note 20]	855	9,892
Dividends to non-controlling interests [Note 20]	(12,519)	(12,816)
Net proceeds convertible debenture offerings [Note 15]	–	150,643
Preferred share dividends [Note 19.1]	(11,189)	(13,195)
Common and Class A share dividends [Note 19.2]	(139,890)	(137,852)
Other [Note 20]	28,701	2,183
Cash provided by financing activities	971,068	1,793,427
Effect of exchange rate differences on cash and cash equivalents	991	4,062
Net change in cash and cash equivalents during the year	155,594	(41,485)
Cash and cash equivalents, beginning of year	151,927	193,412
Cash and cash equivalents, end of year	307,521	151,927
Per share		
Dividends declared to shareholders	\$1.08	\$1.08

See accompanying notes.

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December 31, 2016

1. Description of 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 renewable sources and natural gas for sale primarily under long-term power purchase agreements (**PPAs**) or other revenue arrangements to provide revenue stability. Northland’s operating assets and investments are located in Canada and Germany. Northland’s significant assets under construction are located in Germany and the Netherlands.

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

The 2016 audited consolidated financial statements include the results of Northland and its subsidiaries, of which the most significant are listed in the following table:

Entity name	Country of incorporation	Ownership December 31, 2016	Ownership December 31, 2015
Iroquois Falls Power Corp. (“ Iroquois Falls ”)	Canada	100%	100%
Kingston CoGen Limited Partnership (“ Kingston ”)	Canada	100%	100%
Thorold CoGen L.P. (“ Thorold ”)	Canada	100%	100%
Spy Hill Power L.P. (“ Spy Hill ”)	Canada	100%	100%
North Battleford Power L.P. (“ North Battleford ”)	Canada	100%	100%
Saint-Ulric Saint-Léandre Wind L.P. (“ Jardin ”)	Canada	100%	100%
Mont-Louis Wind L.P. (“ Mont Louis ”)	Canada	100%	100%
McLean’s Mountain Wind L.P. (“ McLean’s ”)	Canada	50%	50%
Nine ground-mounted solar facilities in Eastern and Central Ontario (“ NPI Ground-mounted Solar ”)	Canada	100%	100%

continued...

Entity name	Country of incorporation	Ownership December 31, 2016	Ownership December 31, 2015
Four ground-mounted solar facilities in Northern Ontario (" Cochrane Solar ")	Canada	62.5% ⁽¹⁾	62.5% ⁽¹⁾
Canadian Environmental Energy Corporation (" CEEC ")	Canada	68% ⁽²⁾	68% ⁽²⁾
Grand Bend Wind L.P. (" Grand Bend ")	Canada	50% ⁽³⁾	50% ⁽³⁾
Buitengaats C.V. and ZeeEnergie C.V. (" Gemini ")	Netherlands	60% ⁽⁴⁾	60% ⁽⁴⁾
DK Windpark Kavelstorf GmbH & Co. KG and DK Burgerwindpark Eckolstädt GmbH & Co. KG (" German wind farms ")	Germany	100%	100%
Nordsee One GmbH (" Nordsee One ")	Germany	85% ⁽⁵⁾	85% ⁽⁵⁾

(1) In June 2015, Northland completed the sale of a 37.5% equity interest in Northland's Cochrane Solar facilities to a corporation controlled by its First Nations partners; see Note 6.1 and Note 20.

(2) Northland has a 68% ownership interest in CEEC, which has voting control of Kirkland Lake Power Corp. ("**Kirkland Lake**") and Cochrane Power Corporation ("**Cochrane**"); see Note 20.

(3) In March 2015, Northland issued a 50% interest in Grand Bend Wind Limited Partnership to a corporation controlled by its First Nations partners; see Note 20.

(4) Northland has a 60% ownership interest in Gemini; see Note 20.

(5) Northland has an 85% ownership interest in Nordsee One; see Note 20.

Northland's consolidated financial statements also include a 75% equity interest in four rooftop solar facilities in Ontario and management fees received from Chapais Énergie, Société en Commandite ("**Chapais**") for managing its biomass-fired power facility in Chapais, Québec.

2. Summary of Significant Accounting Policies

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**).

These consolidated financial statements are presented in Canadian dollars, and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of Northland and its subsidiaries at December 31, 2016.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which 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 statements of income from the date Northland gains control until the date control ceases.

When Northland has less than a majority of the voting or similar rights of an investee, Northland considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- Northland's voting rights and potential voting rights.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

2.3 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 2016.

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

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 of 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.

2.4 Foreign Currency Translation

Northland's consolidated financial statements are presented in Canadian dollars, which is Northland's functional currency. Each entity in Northland determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. All of Northland's significant subsidiaries have a Canadian dollar functional currency with the exception of Gemini, Nordsee One and the German wind farms, for which the Euro is the functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange prevailing at the balance sheet date. All differences are taken to the consolidated statements of income. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates in effect at the date when the fair value was determined.

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 are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity (accumulated other comprehensive income). On disposal of a foreign operation, the deferred cumulative amount recognized in equity relating to the particular foreign operation is recognized in the consolidated statements of income.

2.5 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 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 by assets 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 and as work is performed.

Interest and investment income

Interest and investment income are recognized as they are earned.

2.6 Taxes

Current income tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used in the computations are those that are enacted or substantively enacted at the reporting date.

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

Deferred income tax

Deferred income tax is determined using the 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, carryforward 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 and not in the consolidated statement of income.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities 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 as part of receivables or payables in the consolidated balance sheets.

2.7 Financial Instruments

Northland determines the fair value of its financial instruments based on the following hierarchy:

- LEVEL 1 – Where financial instruments are traded in active financial markets, fair value is determined 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.

Northland uses derivative financial instruments to manage 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 uses derivative financial instruments to mitigate certain risk exposures. Northland does not trade in any derivative financial instruments for speculative purposes.

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.

Financial assets

Financial assets are classified into one of the following four categories: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. Northland 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 income (loss) or in comprehensive income (loss) for the year. All financial assets are initially recorded at fair value.

All financial assets except those at fair value through profit or loss are subject to review for impairment no less often than at each reporting 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, which are described below.

Northland's financial assets include cash and cash equivalents, restricted cash, trade and other receivables, finance lease receivable, derivative asset, long-term deposits and other assets.

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 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.

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by Northland that do not meet the hedge accounting criteria as defined by IAS 39, "Financial Instruments Recognition and Measurement" (**IAS 39**). Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated for accounting purposes as effective hedging instruments. Financial assets at fair value through profit or loss are carried on the consolidated balance sheets at fair value, with gains or losses recognized in the consolidated statements of income.

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.

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, or December 31, 2015.

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.

For available-for-sale financial investments, Northland assesses at each reporting date whether there is objective evidence that an investment or group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include 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 impairment loss on that investment previously recognized in the consolidated statement of income – is removed from equity and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income; increases in their fair value after impairment are recognized directly in the consolidated statements of equity.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, as loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Northland determines the classification of its financial liabilities at initial recognition. Northland's financial liabilities include trade and other payables, interest-bearing loans and borrowings, dividends payable, convertible debentures, the corporate term loan facility and derivative liabilities. Financial liabilities are initially measured at fair value, with subsequent measurement determined based on their classification as described below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by Northland that do not meet hedge accounting criteria as defined by IAS 39. Gains or losses on this type of liabilities are recognized in the consolidated statements of income.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized, as well as through the amortization process. Northland's financial liabilities classified as loans and borrowings include trade and other payables, interest-bearing loans and borrowings, dividends payable, a corporate term loan facility and convertible debentures.

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 there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The individual derivative financial instrument each subsidiary enters into will not be realized or settled simultaneously, and therefore derivative asset and derivative liability are not offset on the consolidated balance sheets.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions) without any deduction for transaction costs. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's-length market transactions, reference to the current fair value of another instrument that is essentially the same, discounted cash flow analysis or other valuation models.

Amortized cost of financial instruments

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.

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

In thousands of dollars

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 or loss ⁽²⁾	–	53,336	–	53,336
Financial liabilities at fair value through profit or loss ⁽²⁾	–	495,598	–	495,598
Other financial liabilities ⁽³⁾	228,093	6,230,607	–	6,458,700

In thousands of dollars

As at December 31, 2015	Level 1	Level 2	Level 3	Total
Loans and receivables ⁽¹⁾	435,747	375,811	–	811,558
Financial assets at fair value through profit or loss ⁽²⁾	–	29,363	–	29,363
Financial liabilities at fair value through profit or loss ⁽²⁾	–	461,067	–	461,067
Other financial liabilities ⁽³⁾	227,695	5,089,621	–	5,317,316

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

(2) Derivative financial instruments.

(3) Trade and other payables, dividends payable, interest-bearing loans and borrowings, corporate term facility and convertible debentures.

The estimated fair value of other financial liabilities as at December 31, 2016, is \$6.7 billion (2015 – \$5.4 billion).

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

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

2.8 Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such costs include the cost of replacing part of the property, plant and equipment 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 property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. See Note 2.17 for further information about the measurement of the decommissioning liabilities.

Depreciation is provided on a straight-line basis at rates designed to amortize the cost of the assets over their estimated useful lives as follows:

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

Assets included in construction in progress (**CIP**) are not amortized until 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 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 the consolidated statement of income in the year the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each balance sheet date and adjusted prospectively if appropriate.

2.9 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 property, plant and equipment 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 property, plant and equipment, it is classified as an operating lease.

Finance lease amounts due are recorded as finance lease receivables and 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.

2.10 Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset that necessarily 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 in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.11 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 the consolidated statements of income in the period in which the expenditure is incurred.

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. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each balance sheet date. 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. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible asset.

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 the consolidated statements of income when the asset is derecognized.

Deferred 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 earlier 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 have been 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 of the operating entities 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.

2.12 Inventories

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

2.13 Impairment of Non-Financial Assets

Northland assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists or when annual impairment testing for an asset is required, Northland estimates the asset's recoverable amount. An asset's estimated recoverable amount is the higher of an asset's or CGU's estimated fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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. 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 assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, Northland estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its estimated recoverable amount or exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income.

Goodwill

Goodwill is tested for impairment annually and also 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.

2.14 Cash and Cash Equivalents

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

2.15 Class A Shares

As part of the consideration for the 2009 merger between the then privately held Northland Power Inc. and 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.

2.16 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 employment time served. 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. A forfeiture rate has been estimated to reflect the Shares that will vest upon achieving those milestones. Estimates are subsequently revised if there is any indication that the number of Shares expected to vest differs from previous estimates. 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 to the extent that the employees are providing services during the year who are directly involved in the development and construction of a project. The remainder vest approximately one year thereafter, when a project has met performance expectations. For LTIP awards granted based on employment time served, the cost of LTIP Shares awarded is expensed over the estimated vesting period.

2.17 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 the consolidated statement of income 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

Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular 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 statement of income 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.

2.18 Significant Management Judgments in Applying Accounting Policies and Estimation Uncertainty

When preparing the consolidated financial statements, management 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 made by management and will seldom 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.

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 defer 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.

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 and do not include restructuring activities that Northland is not yet committed to. 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 21.

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.

Fair value of financial assets and financial liabilities

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

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are depreciated over their useful lives, taking into account 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. The carrying amounts are analyzed in Notes 11 and 12.

Long-Term Incentive Plan

Northland's LTIP provides for a maximum of 3.1 million Shares to be reserved and available for grant to employees of Northland and its subsidiaries. The costs of LTIP awards that are for employees whose activities are directly attributable to the development and construction of certain Northland facilities are included in property, plant and equipment, and the costs of LTIP awards relating to the performance of the facility are expensed during the year. The LTIP cost for a period is based on expected development 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.

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 property, plant and equipment, 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 used to discount those expected cash inflows.

Decommissioning liabilities

Northland's decommissioning liabilities relate primarily to wind and solar facilities 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 the end of each period, taking into account expected undiscounted outflows for each asset in question. Estimates depend on labour costs, efficiency of site restoration and remediation measures, inflation rates and pre-tax interest rates that reflect current market conditions or the time value of money, as well as risks specific to the liability. Management also estimates the timing of expenses, which may change depending on the type of continuing operations. Expected future costs are inherently uncertain and could materially change over time. 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 16 for additional details.

2.19 Future Accounting Policies

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

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company will adopt IFRS 9 effective January 1, 2017 and consequently, management will amend its accounting policy for financial instruments, impairment and hedge accounting to reflect this early adoption. As part of the Company's adoption of IFRS 9, the Company has designated

certain financial instruments for hedge accounting effective January 1, 2017, which the Company expects will have the effect of reducing gains and losses recognized in the consolidated statements of income related to fair value measurements of derivative financial instruments and increase gains and losses recognized in the consolidated statements of comprehensive income. The Company is in the process of determining other financial impacts that may result from its adoption of IFRS 9.

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

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

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

3. 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.

The risks associated with Northland's financial instruments and Northland's policies for minimizing these risks are as follows:

3.1 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: (i) interest rate risk; (ii) credit spread risk; (iii) currency risk; and (iv) commodity price risk. Financial instruments affected by market risk include the available-for-sale investments, loans and borrowings, and derivative financial instruments. Components of market risk to which Northland is exposed are discussed below.

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

For the year ended December 31, 2016, 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 \$346.2 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 (this percentage is in addition to the underlying interest rate) will increase, making the cost of debt capital more expensive. There are currently no products available to hedge credit spread risk. Northland manages its exposure to credit spread risk by: (i) entering into long-term fixed-rate financings when possible or feasible, and (ii) continually monitoring credit markets and by making prudent decisions about the timing and method of loan refinancing or repricing opportunities.

(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 was largely exposed to changes in the U.S. dollar and Euro, notably the Euro-denominated consolidated financial statements of Gemini, Nordsee One and the German wind farms.

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

Exchange gains and losses on the currency derivatives that have been recognized in other comprehensive income 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, 2016, 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 \$1.2 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 \$79.8 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, 2016, 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 \$31.2 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.

3.2 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 and (d) loan receivables due from partners and other entities; and (iii) unfunded loan commitments from financial institutions for the construction of projects. The maximum exposure to counterparty risk, other than for the loan commitments, is equal to the carrying value of the financial assets.

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

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

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

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

3.3 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, as a result of Northland operational liquidity requirements:

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

Northland's objective in managing liquidity risk is to maintain sufficient cash or readily available funding in order to meet its expected liquidity requirements. Northland achieves this by (i) maintaining prudent cash balances, availability under committed credit facilities, and access to capital markets; (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, 2016, Northland and its subsidiaries were holding cash and cash equivalents of \$307.5 million (\$173 million held corporately) and had an undrawn corporate line of credit available of \$206.2 million.

The contractual maturities of Northland's financial liabilities at December 31, 2016, are as follows:

In thousands of dollars	Currency	2017	2018	2019	2020	2021	>2021
U.S. dollar foreign exchange contracts	US\$	4,800	5,100	5,200	4,100	—	—
Euro foreign exchange contracts	Euro	3,716	103,556	104,505	119,058	112,047	807,220
Amortizing loans, including							
interest rate swaps and fees	CA\$	427,837	850,122	630,985	650,712	655,697	5,593,144
Financial gas contract	CA\$	32,982	26,240	27,045	28,657	30,222	3,230
Convertible subordinated							
debentures, including interest	CA\$	11,347	11,347	87,957	159,877	—	—

Northland is also subject to internal liquidity risk because it conducts its business activities through separate legal entities (subsidiaries and affiliates) and is dependent on receipts of cash from those entities to defray its corporate expenses and to make dividend payments to shareholders. Certain of those entities have outstanding debt that was incurred to help fund the entities' original investments. Under the 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. For the year ended December 31, 2016, Northland and its subsidiaries were in compliance with all debt covenants.

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

4. Management of Capital

Northland defines capital that it manages as the aggregate of its equity, including non-controlling interests, and interest-bearing loans and borrowings, including convertible unsecured subordinated debentures. Northland's objectives when managing capital are to (i) ensure the stability and sustainability of dividends to shareholders for the long term and (ii) finance assets with amortizing debt, primarily non-recourse debt, in line with the rate at which assets depreciate and PPAs and other contracts change or expire.

As at December 31, 2016, total managed capital was \$7.3 billion, consisting of equity of \$1.4 billion, interest-bearing debt of \$5.7 billion and convertible unsecured subordinated debentures of \$228.1 million.

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, 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 \$247.7 million term facility (see Note 14 for additional details), the significant majority of Northland's debt is non-recourse beyond the assets of the facility or project for which the debt was raised. Northland's 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 or supply 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 power contracts.

As at December 31, 2016, Northland's ratio of total debt to enterprise value was 59.4% (a non-IFRS performance indicator). For purposes of this calculation, management defines debt as the total of all borrowings (amortizing term loans and bank credit facilities) and convertible unsecured subordinated debentures and enterprise value as the summation of debt, as defined previously, plus Northland's equity capitalization at December 31, 2016, calculated by multiplying the number of outstanding Shares and Class A Shares by the closing Share price and adding the number of outstanding preferred shares multiplied by the closing preferred share price.

5. Inventories

Inventories consist of the following:

As at December 31, in thousands of dollars	2016	2015
Natural gas	641	569
Spare parts and other inventory	15,503	13,869
	16,144	14,438

During 2016, Northland and its subsidiaries expensed \$3.2 million (2015 – \$4.3 million) of inventory to cost of sales and plant operating costs.

6. Sale of Assets

6.1 Sale of 37.5% Interest in Cochrane Solar

In June 2015, Northland completed the sale of a 37.5% equity interest in Northland's Cochrane Solar to a corporation of First Nations by way of a vendor loan. The total consideration for the equity interest is approximately \$45.7 million, of which approximately \$17.5 million is expected to remain a Northland vendor loan repayable from the partner's net proceeds. The remaining \$28.2 million vendor loan repayment is subject to the partners successfully closing financing arrangements. The sale resulted in a non-cash loss of \$13.8 million (including \$0.7 million of transaction costs) recorded to shareholders' equity in 2015 because Northland continues to retain control over Cochrane Solar. The sale continues to be subject to reversal in the event that certain conditions and receipt of third-party approvals are not achieved.

6.2 Sale of Development Assets

In February 2015, Northland sold its 66.7% interest in an advanced-stage development wind project and certain Québec development rights and options. Net proceeds from these sales were \$10.8 million, resulting in an accounting gain of \$7.6 million.

7. Equity and Convertible Debentures Public Offering and Private Placement

In March 2015, Northland completed a public offering of 14,437,500 Shares (including Shares issued under the over-allotment option) at a price of \$16.00 per Share, representing gross proceeds of \$231 million (\$221.3 million after costs and underwriters' fees). Concurrently with the public offering of Shares, Northland completed a \$50 million private placement of 3,125,000 Shares to a subsidiary of Northland Power Holdings Inc., a company controlled by Mr. James C. Temerty, at the same terms and conditions and price per Share as the public offering. The proceeds from the public offering and private placement totalled \$281 million (\$271.3 million after costs and underwriters' fees) and were used by Northland to fund a portion of its equity contribution in Nordsee One and Grand Bend.

8. Leases

8.1 Northland as Lessor

For accounting purposes, Northland's Spy Hill long-term PPA qualified as a finance lease arrangement, whereby Northland is considered to lease the Spy Hill facility to Saskatchewan Power Corporation ("**SaskPower**") for 25 years. For the year ended December 31, 2016, finance lease income of \$13.2 million (2015 – \$13.4 million) was recognized.

The amounts receivable under finance lease accounting are as follows:

As at December 31, in thousands of dollars	2016		2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	16,187	3,246	16,187	2,987
Two to five years	64,752	16,053	64,751	14,774
Long-term	238,569	136,197	254,758	140,724
	319,508	155,496	335,696	158,485
Less: Unearned finance income	(164,012)	–	(177,211)	–
Total finance lease receivable	155,496	155,496	158,485	158,485

As at December 31, in thousands of dollars	2016	2015
Current	3,246	2,987
Long-term	152,250	155,498
Total finance lease receivable	155,496	158,485

The interest rate inherent in the lease is fixed for the entire lease term at the lease inception date at approximately 8.4% per annum.

8.2 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, 2016, are as follows:

In thousands of dollars	2016
Within one year	7,341
After one year but not more than five years	27,510
More than five years	64,124
	98,975

9. Equity-Accounted Investments

Northland has a 75% interest in four rooftop solar partnerships with Loblaw Companies Limited. Northland accounts for its interest in the partnerships using the equity method.

In thousands of dollars	2016	2015
Balance, beginning of year	4,445	4,666
Equity income	337	288
Distributions received	(525)	(509)
Balance, end of year	4,257	4,445

Summarized information on the results of operations and financial position relating to Northland's pro rata interest in the equity-accounted investment is as follows:

In thousands of dollars	2016	2015
Revenue	643	590
Expenses	(306)	(302)
Proportionate share of net income	337	288

In thousands of dollars	2016	2015
Current assets	671	565
Long-term assets	3,640	3,890
Current liabilities	(54)	(10)
Proportionate share of net assets	4,257	4,445

10. Long-Term Deposit

As at December 31, 2016, Gemini had provided a €35.6 million/CA\$50.4 million (2015 – €33 million/CA\$49.6 million) letter of credit to the Dutch government partially securing future decommissioning obligations for Gemini. The letter of credit is collateralized by a long-term deposit held by project lenders in a money market account due in 2042 and earns interest at a rate of 1-month EURIBOR plus 0.6%, which will change to an interest rate of 6-month EURIBOR plus 1.35% on July 1, 2017.

11. Property, Plant and Equipment

In thousands of dollars	Land	Buildings and foun- dations	Plant and equipment	Vehicles and meteor- ological towers	Office equipment, furniture and fixtures	Computers and computer software	Leasehold improve- ments	CIP	Total
COST									
January 1, 2015	4,563	393,396	2,320,951	5,299	2,377	5,682	117,902	1,709,009	4,559,179
Foreign exchange	—	—	2,433	—	—	—	—	209,218	211,651
Additions	—	19	181	—	—	812	366	1,935,057	1,936,435
Transfer from intangible assets	—	—	—	—	—	—	—	154,457	154,457
Transfer from CIP	828	106,868	222,678	—	—	906	52,505	(383,785)	—
Impairment	—	—	(7,638)	—	—	—	—	—	(7,638)
Provisions, disposals and other	—	—	2,698	(33)	—	—	—	6,216	8,881
December 31, 2015	5,391	500,283	2,541,303	5,266	2,377	7,400	170,773	3,630,172	6,862,965
Foreign exchange	—	—	(2,112)	—	—	—	—	(243,792)	(245,904)
Additions	—	175	10,216	163	—	2,592	1	1,627,325	1,640,472
Pre-completion revenue ⁽¹⁾	—	—	—	—	—	—	—	(14,251)	(14,251)
Transfer from CIP	600	15,662	331,010	150	—	900	5,892	(354,214)	—
Impairments	—	(23,055)	—	—	—	—	—	—	(23,055)
Provisions, disposals and other ⁽²⁾	—	(7,028)	12,329	—	—	—	—	108,479	113,780
December 31, 2016	5,991	486,037	2,892,746	5,579	2,377	10,892	176,666	4,753,719	8,334,007

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

(2) Provisions, disposals and other includes an increase in CIP of \$102.2 million related to recognition of a decommissioning provision for Gemini and an increase in plant and equipment of \$28.8 million related to the recognition of a decommissioning provision for Grand Bend and \$8.3 million (2015 – \$6.4 million) of LTIPs that were capitalized during the year ended December 31, 2016.

Included in “Additions” above are \$120.9 million (2015 – \$165.3 million) of borrowing costs (interest and commitment fees).

continued...

In thousands of dollars	Land	Buildings and foun- dations	Plant and equipment	Vehicles and meteor- ological towers	Office equipment, furniture and fixtures	Computers and computer software	Leasehold improve- ments	CIP	Total
ACCUMULATED DEPRECIATION									
January 1, 2015	—	94,057	704,164	3,903	1,189	4,641	12,250	—	820,204
Foreign exchange	—	—	2,258	—	—	—	—	—	2,258
Depreciation	—	19,925	97,642	350	61	1,983	5,700	—	125,661
Disposals	—	—	—	—	—	—	—	—	—
December 31, 2015	—	113,982	804,064	4,253	1,250	6,624	17,950	—	948,123
Foreign exchange	—	—	(4,851)	—	—	(6)	—	—	(4,857)
Depreciation	—	21,504	202,203	414	162	1,533	7,782	—	233,598
Disposals	—	—	(258)	—	—	—	—	—	(258)
December 31, 2016	—	135,486	1,001,158	4,667	1,412	8,151	25,732	—	1,176,606
NET BOOK VALUE									
December 31, 2015	5,391	386,301	1,737,239	1,013	1,127	776	152,823	3,630,172	5,914,842
December 31, 2016	5,991	350,551	1,891,588	912	965	2,741	150,934	4,753,719	7,157,401

12. Contracts and Other Intangible Assets

In thousands of dollars	Deferred development costs	Contracts	Total
COST			
January 1, 2015	106,188	399,685	505,873
Additions	73,252	–	73,252
Transfer to contracts	(17,464)	17,464	–
Transfer to property, plant and equipment	(154,457)	–	(154,457)
Impairments and writedowns [Note 21]	(3,254)	(16,562)	(19,816)
Reversal of prior-year impairments	–	16,100	16,100
Foreign exchange	(4,265)	17,055	12,790
December 31, 2015	–	433,742	433,742
Foreign exchange	–	(9,561)	(9,561)
December 31, 2016	–	424,181	424,181
ACCUMULATED AMORTIZATION			
January 1, 2015	–	(157,712)	(157,712)
Amortization	–	(18,624)	(18,624)
December 31, 2015	–	(176,336)	(176,336)
Amortization	–	(13,517)	(13,517)
December 31, 2016	–	(189,853)	(189,853)
NET BOOK VALUE			
December 31, 2015	–	257,406	257,406
December 31, 2016	–	234,328	234,328

12.1 Deferred Development Costs

Deferred development costs include pre-construction costs directly related to the development of new projects. 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. 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. For the year ended December 31, 2016, Northland had no write-offs of previously deferred development costs (2015 – \$3.3 million).

12.2 Contracts

The net book value relates to the fair value of the PPAs, natural gas purchase agreements, steam sales agreements of the operating entities, and management and operations agreements when they were acquired by Northland, net of amortization.

13. Goodwill

Acquired goodwill was allocated to CGUs that were expected to benefit from the synergies of the acquisition. See the goodwill continuity schedule below.

In thousands of dollars	2016	2015
COST		
January 1	284,626	284,626
December 31	284,626	284,626
IMPAIRMENT		
January 1	78,096	65,388
Impairment [Note 21]	–	12,708
December 31	78,096	78,096
NET BOOK VALUE		
December 31	206,530	206,530

14. Corporate Credit Facilities, Interest-Bearing Loans and Borrowings

14.1 Corporate Credit Facilities

Northland has a credit facility with a syndicate of banks establishing (i) a \$450 million revolving line of credit to assist in the funding of development activities, acquisitions and investments in projects, as well as for general corporate purposes and working capital, including letters of credit, and (ii) a \$250 million term facility, which was fully drawn in 2014.

On February 18, 2015, Northland completed an amendment to its syndicated credit facility, which: (i) obtained lender commitments for the \$100 million accordion feature of the revolving credit facility and increased the revolving facility from \$350 million to \$450 million; (ii) extended the revolving facility maturity date from March 2019 to March 2020; and (iii) made changes to certain financial ratios and sublimits in order to provide liquidity and support Northland's ongoing development activities. The maturity date of the \$250 million term facility remains unchanged at March 2018 and includes a one-year renewal option subject to lender approval.

On September 30, 2015, Northland closed financing on an additional \$100 million corporate letter of credit facility with two members of its corporate syndicate. The facility is used to issue letters of credit Northland provides as security and in support of its operating, construction and development activities.

As at December 31, 2016, Northland had \$100 million of letters of credit outstanding under the corporate letter of credit facility (2015 – \$100 million) and \$243.8 million of letters of credit outstanding under the revolving facility (2015 – \$238.6 million). No amounts were drawn under the revolving facility (2015 – \$nil), and \$250 million was drawn under the term facility (2015 – \$250 million), which appears on the consolidated balance sheets as \$247.7 million (2015 – \$250.1 million) due to the impact of foreign exchange.

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 all of the present and future property and assets of Iroquois Falls and Northland.

14.2 Interest-Bearing Loans and Borrowings

Northland generally finances projects through secured credit arrangements at the subsidiary level that are non-recourse to Northland.

Northland's subsidiaries' interest-bearing loans, bonds and borrowings include the following:

In thousands of dollars except as indicated	Note	Maturity	Rate ⁽¹⁾	2016 ⁽²⁾	2015
Thorold ⁽³⁾	(a)	2030	7.1%	309,361	323,778
Spy Hill ⁽³⁾	(b)	2036	4.1%	143,921	146,849
North Battleford ⁽³⁾	(c)	2032	5.0%	606,194	625,896
Jardin ⁽³⁾	(d)	2029	6.0%	105,582	111,032
Mont Louis	(e)	2031/2032	6.6%	102,392	106,711
Ground-mounted Solar Phase I ⁽³⁾	(f)	2032	4.4%	207,706	218,339
Ground-mounted Solar Phase II ⁽⁴⁾	(g)	2032	5.7%	75,085	78,799
Ground-mounted Solar Phase III ⁽⁵⁾	(h)	2033	5.6%	221,707	227,450
McLean's	(i)	2034	6.0%	135,200	135,200
Kirkland Lake	(j)	2023	2.8%	8,752	–
Gemini ⁽³⁾⁽⁶⁾	(k)	2031	4.8%	2,764,294	2,185,063
Nordsee One	(l)	2029	3.3%	730,273	101,805
Grand Bend	(m)	2035	4.2%	325,645	325,645
Total				5,736,112	4,586,567
Less: Current portion				(114,571)	(78,592)
Non-current				5,621,541	4,507,975

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

(2) Excludes \$49.5 million (2015 – \$32.6 million) of letters of credit secured by facility or project-level credit agreements.

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

(4) Ground-mounted Solar Phase II means Northland Power Solar Glendale L.P. and Northland Power Solar North Burgess L.P.

(5) Ground-mounted Solar Phase III means Northland Power Solar Abitibi L.P., Northland Power Solar Empire L.P., Northland Power Solar Long Lake L.P., Northland Power Solar Martin's Meadows L.P. and Northland Power Solar Burks Falls West L.P.

(6) Includes amount drawn on senior debt as of December 31, 2016, and the third-party portion of the subordinated debt at Gemini.

- (a) The Thorold LP senior loan is funded approximately 50% by bank lenders and 50% by institutional lenders. In March 2015, the original bank term loan was refinanced to a non-recourse bank term loan of \$183 million and a letter of credit facility of \$16 million along with an existing institutional debt of \$179 million. Both loans mature in March 2030. The average all-in interest rate is 6.3% on the institutional loan and 7.1% on the bank loan. Thorold LP entered into interest rate swap agreements that effectively fixed the interest rate of the bank tranche to March 2030. In the above table, certain fair value adjustments are \$17.3 million and \$19.2 million as at December 31, 2016, and December 31, 2015, respectively.
- (b) On January 21, 2013, Spy Hill LP issued \$156.3 million in 4.1% senior secured amortizing Series A bonds, which were used to repay the original bank term loan. The bonds are rated A (stable) by DBRS and will be fully amortized by their maturity in March 2036.
- (c) On September 20, 2013, North Battleford LP issued \$667.3 million in 5.0% senior secured amortizing Series A bonds, which were used to repay the original bank loan. The bonds are rated A (low) by DBRS and will be fully amortized by their maturity in December 2032.
- (d) On May 2, 2008, Jardin LP entered into a \$153.0 million institutional senior secured non-recourse term loan ("**Jardin Senior Loan**"), which is being repaid in full through quarterly blended payments of principal and interest at 6.0% until maturity on November 30, 2029. Certain fair value adjustments to the Jardin Senior Loan are \$5.8 million and \$6.2 million as at December 31, 2016 and December 31, 2015, respectively.
- (e) On November 12, 2010, Mont Louis LP entered into a \$106 million institutional senior secured non-recourse term loan ("**Mont Louis Senior Loan**"), which is being repaid in full through quarterly blended payments of principal and interest at 6.6% until maturity on September 16, 2031. Investissement Québec, a provincial government investment agency, also loaned \$14.8 million to Mont Louis; repayment of the loan is guaranteed by Northland. The Investissement Québec loan was interest-free until April 2015; interest has been charged at the annual rate of 5% until April 2017. After 2017 and until the loan's maturity in March 2032, interest will be charged at the annual rate of 5.5%. The principal balance outstanding is due upon maturity of the loan in March 2032.
- (f) On October 8, 2014, Northland Power Solar Finance One LP issued \$232 million in 4.4% senior secured amortizing Series A bonds, which were used to repay the original bank term loans of the Solar Phase I Projects. The bonds are rated BBB (high) by DBRS.
- (g) On September 24, 2013, Northland completed \$84 million of non-recourse project financing and a \$4.5 million letter of credit facility for Ground-mounted Solar Phase II with two commercial banks. After the conversion to a term loan in June 2014, the two projects began making fully amortizing blended payments of principal and interest until July 2032. Northland entered into interest rate swaps that effectively fix the variable interest rate of the non-recourse debt. The all-in rate including interest rate swaps and credit spreads is currently 5.7% escalating 25 basis points every four years with the first increase in the third quarter of 2018.

- (h) On April 24, 2014, Northland completed \$240 million of non-recourse project financing and a \$25 million letter of credit facility for Ground-mounted Solar Phase III with a syndicate of lenders.
- (i) On October 1, 2013, McLean's LP entered into a non-recourse credit facility with a syndicate of institutional lenders for a \$135 million senior secured construction and term loan. The senior debt will be fully repaid through quarterly blended payments of principal and interest starting on March 31, 2017, until maturity on March 31, 2034. The senior debt bears interest at a rate of 6.0%.
- (j) In March 2016, Kirkland Lake closed a \$25 million bank credit facility consisting of a \$15 million term loan and a \$10 million letter of credit facility. The term loan is due in March 2023 and bears an all-in interest rate, including interest rate swaps and credit spreads, of 2.8%. On November 13, 2003, Kirkland Lake entered into a \$30 million term loan to finance the natural gas peaking facility; the 7.1% loan was fully repaid at maturity on February 28, 2015.
- (k) On May 14, 2014, the Gemini project completed €2.0 billion of non-recourse project financing with a syndicate of international financial institutions and public financing agencies of which €1.8 billion was drawn down as at December 31, 2016. The project loans include a three-year construction period and a 14-year amortization period. If the loan is not fully repaid, refinanced or restructured by December 31, 2022, the credit agreement provides for an acceleration of principal payments, subject to available cash flow and the discontinuance of distributions to the equity partners. The interest rate for the project has been hedged over the full loan amortization period with an effective interest rate of approximately 4.8%.
- (l) On March 19, 2015, the Nordsee One project completed €0.9 billion of non-recourse project financing with a syndicate of international financial institutions including a €63 million facility of contingent debt of which €550 million was drawn down as at December 31, 2016. The project loans include a three-year construction period and an approximately 10-year amortization period. The majority of the interest rate exposure for the project has been hedged over the full loan amortization period with an effective interest rate of approximately 3.3%.
- (m) On March 31, 2015, Northland completed \$326 million of non-recourse project financing and a \$16 million letter of credit facility for the Grand Bend wind farm. After conversion to a term loan on July 29, 2016, the loan requires payments of interest only for a 42-month period, followed by scheduled payments of principal and interest to maturity over a 190-month amortization period. The all-in interest rate is 4.3%. At the time of financing, Northland also provided a loan to its First Nations partner for \$28.7 million for their equity contribution; that loan was repaid in full on term conversion in July 2016.

As of December 31, 2016, the principal repayments on subsidiary borrowings due within the next five years and thereafter, based on the current amounts borrowed, are as follows:⁽¹⁾

In thousands of dollars	2017	2018	2019	2020	2021	>2021
Thorold	16,344	18,017	18,264	19,449	20,691	236,861
Spy Hill	3,276	3,651	4,010	4,330	4,647	126,224
North Battleford	18,722	22,069	22,907	27,110	24,887	494,571
Jardin	6,487	6,919	7,329	7,079	7,506	75,764
Mont Louis	4,582	4,784	4,736	4,778	4,969	78,543
Ground-mounted Solar Phase I	11,088	11,337	11,589	11,901	12,227	152,276
Ground-mounted Solar Phase II	3,857	3,830	3,989	4,157	4,089	55,163
Ground-mounted Solar Phase III	10,519	10,910	10,822	11,256	11,716	166,484
McLean's	5,292	5,493	5,708	5,937	6,183	106,588
Kirkland Lake	—	—	—	—	—	8,752
Gemini	34,918	166,336	174,673	182,772	192,126	2,098,904
Nordsee One	—	83,257	122,057	135,157	146,495	697,045
Grand Bend	—	—	—	12,580	15,596	297,469
	115,085	336,603	386,084	426,506	451,132	4,594,644

(1) The table excludes the transaction costs and fair value adjustments referred to in the notes above.

15. Convertible Debentures

In January 2015, Northland completed a public offering of 4.75% convertible unsecured subordinated 2020 Debentures (**the “2020 Debentures”**) for gross proceeds of \$157.5 million (\$150.6 million after costs and underwriters’ fees). The 2020 Debentures mature on June 30, 2020.

As at December 31, 2016, approximately \$156.1 million of the 2020 Debentures were outstanding, which, if converted in their entirety, would result in an additional 7.2 million Shares being issued.

As at December 31, 2016, approximately \$78.5 million of the 2019 Debentures were outstanding, which, if converted in their entirety, would result in an additional 3.6 million Shares being issued.

Northland determined that the fair value of the embedded holder option at the time of issue was nominal, and as a result the entire amount of the 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.

16. Provisions

A portion of Northland's 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.

Northland has estimated the fair value of its total decommissioning liabilities to be \$166.1 million, based on an estimated total future liability. A discount rate of 2.00% to 3.93% (2015 – 2.20% to 3.93%) and an inflation rate of 2.0% (2015 – 2.0%) were used to calculate the fair value of the asset retirement obligations. These decommissioning liabilities relate primarily to Northland's offshore wind farms, onshore wind farms, ground-mounted solar sites, and closed thermal facility. Northland expects to use its installed assets for an indefinite period. Revisions to Northland's decommissioning liabilities will be made if new information is received.

In May 2015, the Cochrane facility ceased generating electricity for Ontario's power grid due to the expiry of the facility's PPA. To date, the facility has not been able to secure a further contract extension or replacement contract. In the second quarter of 2015, given the uncertainty of the future economic benefit of the facility, management recorded a provision of \$2.3 million relating to decommissioning; an impairment of \$12.6 million relating to contracts and other intangible assets; and property, plant and equipment was fully amortized to a net book value of \$nil.

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

In thousands of dollars	2016	2015
Balance, beginning of year	36,452	30,473
Additions ⁽¹⁾	130,983	5,042
Accretion	1,422	944
Foreign exchange impact	(2,773)	(7)
Balance, end of year	166,084	36,452

(1) Additions for 2016 includes an amount for decommissioning liabilities at Gemini of €72.1 million (CA\$102.2 million).

17. Deferred Income Taxes

The following table sets forth Northland's reported tax expense for the following years ended December 31:

In thousands of dollars

Consolidated income statement	2016	2015
Current		
Based on taxable income of current year	6,273	146
Tax on dividend payments	4,476	5,278
Total current taxation expense for the year	10,749	5,424
Deferred		
Deferred tax on origination and reversal of temporary differences	19,642	(17,719)
Prior-year under provision	(1,634)	(702)
Deferred tax due to writedown of tax asset	—	532
Total deferred tax expense (recovery) for the year	18,008	(17,889)
Total income tax expense (recovery)	28,757	(12,465)
Recognized directly in equity		
Deferred		
Deferred taxes related to origination and reversal of temporary differences related to financing fees	1,289	(1,398)
Total tax charged to equity	1,289	(1,398)

The following table sets forth a reconciliation of Northland's effective tax rate for the years ended December 31:

In thousands of dollars except for tax rate	2016	2015
Income before income taxes	219,316	15,066
Combined basic federal and provincial income tax rate	26.50%	26.50%
Income tax recovery based on statutory rate	58,119	3,992
Adjustment for non-deductible (taxable) expenses	(28,729)	(20,010)
Rate difference related to origination and reversal of temporary differences in foreign jurisdictions	(107)	(341)
Manufacturing and processing rate reduction (cost)	(3,464)	125
Deferred tax expense (recovery) related to temporary differences charged to equity	(1,289)	(1,093)
Tax expense associated with payment of preferred share dividends	4,476	5,278
Benefit not recognized	317	532
Minority interest	1,017	(492)
Adjustment with respect to prior years	(1,634)	(702)
Other	51	246
Actual tax expense (recovery)	28,757	(12,465)

The tax rate is computed using the average Canadian tax rate based on provincial allocations. 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% (2015 – 26.5%), Germany 30.3% (2015 – 30.2%), the Netherlands 25% (2015 – 25%) and Luxembourg 29.2% (2015 – 29.2%).

The following table sets forth the components of the deferred tax asset and liability at December 31:

In thousands of dollars	2016	2015
Deductible temporary differences		
Losses available for carryforward	28,599	47,180
Derivative financial instruments	82,048	81,458
Canadian renewable conservation expense	7,382	15,789
Financing fees	24,065	17,446
Tax credits – Ontario corporate minimum tax	1,432	1,950
Other	889	878
	144,415	164,701
Taxable temporary differences		
Contracts	50,568	57,223
Fair value debt increments	20,602	7,696
Property, plant and equipment	125,855	128,898
	197,025	193,817
Reconciliation of net deferred taxes		
Opening balance – deferred tax liability	29,116	46,299
Tax liability recognized in business combination	–	5,331
Tax expense (recovery) recognized in income statement	18,008	(17,889)
Tax expense recognized in equity	1,289	(1,398)
Effect of foreign exchange	4,198	(3,186)
Other	(1)	(41)
	52,610	29,116

Northland has recognized a deferred tax asset of \$80.1 million for Gemini and \$2.8 million for Nordsee with respect to unused losses and other tax attributes available for carryforward. Management has assessed the probability of future taxable income arising within the available carryforward 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 for the following years ended December 31:

In thousands of dollars	2016	2015
Deductible temporary differences		
Non-capital losses carried forward	275	551
Net capital loss	1,539	—
Outside basis difference on shares of foreign affiliate	3,500	3,500
Total deductible temporary differences	5,314	4,051

Northland has operating losses available for carryforward in Canada, Germany and the Netherlands of \$2.3 million, \$30.9 million and \$74.6 million, respectively, which expire beginning in 2023. The operating losses will expire as follows:

In thousands of dollars	Canada	Germany	Netherlands
2023	—	—	73,597
2024	—	—	984
2025	—	19,233	—
2026	—	11,637	—
2027	—	—	—
2028	—	—	—
2029	83	—	—
2030	6	—	—
2031	414	—	—
2032	1,343	—	—
2033	486	—	—
2034	3	—	—
2035	3	—	—
2036	1	—	—
Total	2,339	30,870	74,581

17.1 Temporary Differences Associated with Northland Investments

The taxable temporary difference associated with investments in Northland's subsidiaries is \$33 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 periodically 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 changes in tax laws. Although management believes they have 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.

18. Derivative Financial Instruments

The derivative financial instruments consist of the following:

In thousands of dollars	Current	Current	Long-term	Long-term	
As at December 31, 2016	assets	liabilities	assets	liabilities	Net
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
	1,811	(120,322)	51,525	(375,276)	(442,262)

In thousands of dollars	Current	Current	Long-term	Long-term	
As at December 31, 2015	assets	liabilities	assets	liabilities	Net
Canadian dollar interest rate swaps	–	(21,853)	–	(89,939)	(111,792)
Euro interest rate swaps	–	(57,566)	3,748	(192,508)	(246,326)
Gas purchase swaps	–	(5,338)	–	(25,335)	(30,673)
U.S. dollar foreign exchange contracts	4,291	–	6,365	–	10,656
Euro foreign exchange contracts	276	(2)	14,683	(68,526)	(53,569)
	4,567	(84,759)	24,796	(376,308)	(431,704)

The change in derivative financial instruments during 2016 and 2015 is as follows:

As at December 31, in thousands of dollars	2016	2015
Derivative financial instruments, beginning of year	(431,704)	(334,908)
Canadian dollar interest rate swaps	11,629	(20,106)
Euro interest rate swaps ⁽¹⁾	(94,185)	12,459
Gas purchase swaps	1,932	(19,238)
U.S. dollar foreign exchange contracts	(4,860)	5,350
Euro foreign exchange contracts ⁽²⁾	57,654	(58,889)
Foreign exchange	17,272	(16,372)
Derivative financial instruments, end of year	(442,262)	(431,704)

(1) Euro interest rate swaps include unrealized losses of \$64.3 million (2015 – unrealized gains of \$13.1 million) related to Gemini and unrealized losses of \$29.9 million (2015 – losses of \$0.6 million) related to Nordsee One.

(2) Euro foreign exchange contracts entered into by Northland to effectively fix the foreign exchange conversion rate on substantially all of Northland's projected Euro-dominated cash flows include unrealized gains of \$34.4 million (2015 – unrealized losses of \$14.9 million) related to Gemini and unrealized gains of \$23.2 million (2015 – unrealized losses of \$44 million) related to Nordsee One.

19. Equity

19.1 Preferred Shares

Northland's preferred shares balance contains Series 1, Series 2 and Series 3 Preferred Shares. See summary for each class below.

Series 1 Preferred Shares

On July 28, 2010, Northland issued six million Series 1 Preferred Shares at a price of \$25.00 per share for aggregate gross proceeds of \$150 million, as summarized below.

In thousands of dollars except for preferred shares	Preferred shares	Amount
January 1, 2015	6,000,000	144,843
Conversion to Series 2 Preferred Shares	(1,498,435)	(37,461)
December 31, 2015	4,501,565	107,382
December 31, 2016	4,501,565	107,382

Prior to September 30, 2015, the holders of Series 1 Preferred Shares were entitled to receive fixed cumulative preferential dividends at an annual rate of \$1.3125 per share, payable quarterly, as and when declared by Northland's Board of Directors. The Series 1 Preferred Shares yielded 5.25% annually for the initial five-year period ended September 30, 2015. The dividend rate reset on September 30, 2015, 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 Series 1 Preferred Shares were redeemable on September 30, 2015, and are redeemable on September 30 of every fifth year thereafter.

The holders of Series 1 Preferred Shares have the right to convert their shares into Series 2 Preferred Shares, subject to certain conditions, on September 30, 2015, and on September 30 of every fifth year thereafter. On September 30, 2015, Northland announced that 1,498,435 of its 6,000,000 Series 1 Preferred Shares converted on a one-for-one basis, into Series 2 Preferred Shares. Consequently, Northland now has 4,501,565 Series 1 Preferred Shares outstanding with fixed quarterly dividends payable at an annual rate of 3.51% until September 29, 2020. The Series 2 Preferred Shares are obligations of Northland and carry the same features as the Series 1 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 a rate equal to the then 90-day Government of Canada treasury bill yield plus 2.80%. 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.

Series 2 Preferred Shares

As described above, on September 30, 2015, Northland announced that 1,498,435 Series 1 Preferred Shares converted into Series 2 Preferred Shares with floating quarterly dividends payable at an annual rate of 2.80% over the annual yield on 90-day Government of Canada treasury bills (as determined on the relevant quarterly dividend determination date). The actual quarterly dividend rate with respect to the September 30, 2015 to December 30, 2015, dividend period for the Series 2 Preferred Shares was 0.80% (3.18% on an annualized basis), representing \$0.20 per share, payable on December 31, 2015.

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

Series 3 Preferred Shares

On May 24, 2012, Northland issued 4.8 million Series 3 Preferred Shares at a price of \$25.00 per share, for gross proceeds of \$120 million, as summarized below:

In thousands of dollars except for preferred shares	Preferred shares	Amount
January 1, 2015	4,800,000	116,436
Deferred income taxes	–	(199)
December 31, 2015	4,800,000	116,237
Deferred income taxes	–	(200)
December 31, 2016	4,800,000	116,037

The holders of the Series 3 Preferred Shares are entitled to fixed cumulative dividends at an annual rate of \$1.25 per share payable quarterly as and when declared by the Board of Directors of Northland. The Series 3 Preferred Shares yield 5% annually for the initial five-year period ending December 31, 2017. The dividend rate will reset on December 31, 2017, and every five years thereafter at a rate equal to the then five-year Government of Canada Bond yield plus 3.46%. The Series 3 Preferred Shares are redeemable on December 31, 2017, and on December 31 of every fifth year thereafter.

The holders of the Series 3 Preferred Shares have the right to convert their shares into cumulative floating rate Preferred Shares, Series 4 (“**Series 4 Preferred Shares**”), subject to certain conditions, on December 31, 2017, and on December 31 of every fifth year thereafter. The Series 4 Preferred Shares 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%. The holders of the Series 4 Preferred Shares have the right to convert their shares into Series 3 Preferred Shares on December 31, 2022, and on December 31 of every fifth year thereafter.

During the year ended December 31, 2016, a total of \$11.2 million of preferred share dividends were paid, excluding taxes (2015 – \$13.2 million).

19.2 Shares

Northland is authorized to issue an unlimited number of Shares. The change in Shares during 2016 and 2015 was as follows:

In thousands of dollars except for Shares	Shares	Amount
Outstanding as of January 1, 2015	149,409,892	1,904,906
Public offering, net of transaction costs	14,437,500	221,304
Private placement	3,125,000	50,000
Shares issued under LTIP ⁽¹⁾	115,298	1,638
Change in deferred taxes	—	1,497
Shares issued under DRIP ⁽²⁾	2,557,561	39,914
Outstanding as of December 31, 2015	169,645,251	2,219,259
Change in deferred taxes	—	(1,089)
Shares issued under LTIP ⁽¹⁾	21,142	516
Conversion of debentures	76,198	1,646
Shares issued under DRIP ⁽²⁾	2,230,717	46,569
December 31, 2016	171,973,308	2,266,901

(1) Long-Term Incentive Plan.

(2) Dividend Reinvestment Plan.

Issuance of common shares

On March 5, 2015, Northland completed a public offering of 14,437,500 Shares at a price of \$16.00 per Share, representing gross proceeds of \$231.0 million (\$221.3 million after costs and underwriters' fees). Concurrently with the public offering of Shares, Northland completed a \$50 million private placement of 3,125,000 Shares to a subsidiary of Northland Power Holdings Inc., a company controlled by Mr. James C. Temerty, at the same price per share as the Shares issued pursuant to the public offering.

Dividend Reinvestment Plan

Northland's 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 Toronto Stock Exchange 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.

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. There are two scenarios when LTIP Shares are awarded: when projects achieve predetermined milestones or based upon employment time served. The number of Shares awarded at each milestone is determined using the amount of expected development profits at that milestone date. As a result, the amount of LTIP costs recognized depends on the estimated number of Shares to be issued at each milestone date, which in turn is based on management's best estimate of a project's expected development profit. Changes in estimates about the number of Shares to be issued, forfeiture rates and vesting dates and changes in fair value up to the grant date are recognized in the period of the change. For the year ended December 31, 2016, Northland capitalized \$5.6 million (2015 – \$4.6 million) and expensed \$0.1 million (2015 – \$1.2 million) of costs under the LTIP. Forfeitures have been assumed to be \$nil.

Pursuant to Northland's LTIP, a total of 21,142 Shares were awarded during 2016 (2015 – 115,298 Shares).

19.3 Convertible Shares

The terms and conditions of Northland's Class A Shares are defined in Northland's Articles. As at December 31, 2016, a total of 1,000,000 Class A Shares remain outstanding totalling \$14.6 million. The Class A Shares are convertible into Shares on a one-for-one basis.

20. Non-Controlling Interests

Non-controlling interests relate to the interests not owned by Northland for McLean's (50%), Grand Bend (50%), Cochrane Solar (37.5%), Gemini (40%), Nordsee One (15%) and CEEC (32%). CEEC has voting control of the Kirkland Lake and Cochrane facilities and has an 8.78% economic interest in Kirkland Lake and an 11.5% economic interest in Cochrane.

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

In thousands of dollars	Current ⁽¹⁾	Long-term	Current	Long-term
As at December 31, 2016	assets	assets	liabilities	liabilities
CEEC	101,033	24,328	(13,308)	(8,752)
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)
Gemini	74,848	3,653,548	(159,327)	(3,063,109)
Nordsee One	98,560	1,072,907	(89,540)	(750,206)
Total	327,147	5,619,002	(298,815)	(4,513,125)

In thousands of dollars	Current ⁽¹⁾	Long-term	Current	Long-term
As at December 31, 2015	assets	assets	liabilities	liabilities
CEEC	32,127	18,133	(10,528)	–
McLean's	13,530	164,032	(6,200)	(147,616)
Grand Bend	118,024	283,245	(17,651)	(325,645)
Cochrane Solar	23,008	379,115	(31,776)	(219,443)
Gemini	13,998	2,981,758	(30,419)	(2,430,718)
Nordsee One	154,677	399,913	(99,755)	(102,475)
Total	355,364	4,226,196	(196,329)	(3,225,897)

(1) Included in current assets is restricted cash of \$146.9 million (2015 – \$247.6 million) for Gemini and Nordsee One, where the availability of funds is intended for the construction.

As at December 31, 2016, there were no dividends payable to the non-controlling interest shareholders (2015 – \$0.6 million payable to the non-controlling interest shareholders of CEEC).

As at December 31, 2016, Northland had outstanding receivable balances of \$45.9 million with the Cochrane Solar First Nations partner. The change in non-controlling interests during 2016 and 2015 is as follows:

In thousands of dollars	CEEC	McLean's	Grand Bend	Cochrane Solar	Gemini	Nordsee One	Total
As at January 1, 2015	75,516	18,001	—	—	161,360	16,532	271,409
Equity adjustment	—	—	—	13,158	—	—	13,158
Contribution of non-controlling interests	—	—	28,733	45,670	—	9,892	84,295
Net income (loss) attributable	24,258	856	—	(3,224)	4,652	(154)	26,388
Dividends declared	(8,120)	(4,357)	—	—	—	—	(12,477)
Allocation of other comprehensive income	—	—	—	—	31,019	108	31,127
As at December 31, 2015	91,654	14,500	28,733	55,604	197,031	26,378	413,900
Contribution of non-controlling interests	—	1,331	—	—	—	55	1,386
Net income (loss) attributable	71,020	446	1,109	(1,021)	1,049	(3,508)	69,095
Dividends declared	(1,600)	(5,647)	(12,900)	—	—	—	(20,147)
Allocation of other comprehensive income (loss)	—	—	—	—	(23,899)	307	(23,592)
As at December 31, 2016	161,074	10,630	16,942	54,583	174,181	23,232	440,642

In 2016, Northland received \$26.3 million of the outstanding receivable balance with Grand Bend. In 2015, Northland paid the remaining \$84.2 million share purchase price as part of the acquisition of Nordsee One.

21. 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. Property, plant and equipment, contracts 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, percentage

Applicable to PPA cash flows:

October 1, 2016	5.5%
October 1, 2015	6.8%

Applicable to post-PPA cash flows:

October 1, 2016	7.5%
October 1, 2015	8.8%

During the fourth quarter of 2016, 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. As a result, Northland recorded an impairment charge of \$23.1 million against property, plant and equipment due to uncertainty of future cash flows. The initial term of Kingston's PPA expired in January 2017, and Northland is continuing to work with the OEFC to extend the PPA; however, a mutually agreeable price and structure have not been reached to date.

During 2015, Northland recorded an impairment charge of \$16.6 million against contracts and other intangibles assets, \$12.7 million against goodwill and \$14.1 million against property, plant and equipment. The impairments were largely a result of changes in cash flow forecasts and the shutdown of the Cochrane facility, as described in Note 16. In addition, Northland reversed \$16.1 million of prior-year impairments and contracts and other intangibles and \$6.5 million on property, plant and equipment due to finalization of the amended future PPA pricing terms.

22. Dividends

Dividends totalling \$1.08 per share (2015 – \$1.08), being aggregate dividends of \$185.6 million (2015 – \$179.9 million), were declared for the year ended December 31, 2016. Total dividends declared for 2016 consists of \$138.0 million of cash dividends (2015 – \$140.0 million) and \$47.6 million of Share dividends (2015 – \$39.9 million) pursuant to Northland's DRIP.

23. Finance Costs

Finance costs consist of the following:

As at December 31, in thousands of dollars	2016	2015
Interest on debts, borrowings and bank fees	235,004	139,289
Discount on provisions for decommissioning liability	1,422	944
	236,426	140,233

24. Net Income (Loss) per Share

The calculation of basic net income (loss) per Share is based on the consolidated net income 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 contingent/exchangeable Shares and recognized as equity for accounting purposes. Diluted net income (loss) per Share is calculated by dividing consolidated net income, net of preferred share dividends, plus expenses related to the debt that is being 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 and 2020 Debentures into Shares for accounting purposes during the year.

The reconciliation of the numerator in calculating basic and diluted net income (loss) for the years ended December 31 is as follows:

In thousands of dollars	2016	2015
Net income for the year	121,464	1,143
Less: Preferred share dividends, net	(11,189)	(13,195)
Net income (loss) attributable to ordinary equity holders of Northland for basic and diluted earnings	110,275	(12,052)

The reconciliation of the denominator in calculating basic and diluted per-share amounts for the years ended December 31 is as follows:

	2016	2015
Weighted average number of Shares outstanding	171,910,421	166,554,763
Weighted average number of Class A Shares	1,000,000	1,000,000
Weighted average number of Shares outstanding, basic and diluted	172,910,421	167,554,763

The conversion of the convertible unsecured subordinated debentures are anti-dilutive for the years ended 2015 and 2016 and have, therefore, been excluded from the calculation of the diluted weighted number of shares.

25. Commitments

The following is a summary of the material commitments that Northland and its subsidiaries have entered into as at December 31, 2016, 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 such as the OEFC, the Independent Electricity System Operator, SaskPower, Hydro-Québec and the Dutch government. 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 electricity production and steam generation on terms that would protect the profitability of sales under the PPAs and the steam sales agreements. There are no penalties for failure to purchase natural gas under these contracts; however, failure to purchase the specified minimum quantities could reduce the suppliers' delivery obligations.

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.

25.1 Capital Commitments

In the normal course of operations, as at December 31, 2016, Northland has committed to spending approximately \$0.6 billion on capital projects, which relates to the construction of Gemini and Nordsee One.

26. Operating Segment Information

In accordance with IFRS 8, "Operating Segments," Northland has identified the following operating segments: (i) thermal; (ii) renewable; (iii) managed, management and operations services for Kirkland Lake, Cochrane and CEEC; (iv) offshore wind, including Gemini and Nordsee One; and (v) other, which includes investment income and wood-chipping operations, as well as the administration of Northland. The operating segments have been identified based upon the nature of operations and technology used in the generation of electricity. 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 statement of income is as follows:

In thousands of dollars						
Year ended December 31, 2016	External revenue	Inter- segment revenue	Total revenue	Depreciation of property, plant and equipment	Finance costs, net	Operating income (loss)
Thermal	516,450	611	517,061	56,419	60,579	267,403
Renewables	192,055	—	192,055	87,898	61,400	76,814
Managed ⁽¹⁾	123,915	—	123,915	2,556	(4,362)	74,974
Gemini	266,104	—	266,104	84,201	80,675	147,286
Nordsee One	—	—	—	85	—	(2,921)
Other ⁽²⁾	476	74,442	74,918	2,439	28,676	(54,919)
Eliminations ⁽³⁾	—	(75,053)	(75,053)	—	—	—
	1,099,000	—	1,099,000	233,598	226,968	508,637

In thousands of dollars						
Year ended December 31, 2015	External revenue	Inter- segment revenue	Total revenue	Depreciation of property, plant and equipment	Finance costs, net	Operating income (loss)
Thermal	475,606	4,171	479,777	60,408	65,270	214,169
Renewables	143,728	—	143,728	62,207	45,153	59,903
Managed ⁽¹⁾	107,956	—	107,956	2,594	(311)	35,385
Gemini	—	—	—	—	—	(1,658)
Nordsee One	—	—	—	—	(95)	(877)
Other ⁽²⁾	851	38,575	39,426	452	27,771	(32,828)
Eliminations ⁽³⁾	—	(42,746)	(42,746)	—	—	—
	728,141	—	728,141	125,661	137,788	274,094

(1) Includes Kirkland Lake, Cochrane and CEEC's consolidated operations.

(2) Includes management and operations fees, investment income, and management, administration and development expenditures.

(3) Inter-segment revenues are eliminated on consolidation.

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

In thousands of dollars

As at December 31, 2016	Property, plant and equipment	Equity- accounted investment	Contracts and other		Total assets
			intangibles, net	Goodwill	
Thermal	1,019,469	—	45,732	150,201	1,548,331
Renewables	1,438,013	—	626	56,329	1,585,622
Managed ⁽¹⁾	24,017	—	30,502	—	155,707
Gemini	3,613,170	—	56,076	—	3,874,587
Nordsee One	1,052,290	—	101,452	—	1,255,153
Other ⁽²⁾	10,442	4,257	(60)	—	244,030
	7,157,401	4,257	234,328	206,530	8,633,430

In thousands of dollars

As at December 31, 2015	Property, plant and equipment	Equity- accounted investment	Contracts and other		Total assets
			intangibles, net	Goodwill	
Thermal	1,098,920	—	55,562	150,201	1,653,572
Renewables	1,164,283	—	818	56,329	1,296,980
Managed ⁽¹⁾	17,529	—	33,996	—	88,004
Gemini	2,938,548	—	59,479	—	3,141,105
Nordsee One	402,848	—	107,611	—	668,884
Other ⁽²⁾	292,714	4,445	(60)	—	517,850
	5,914,842	4,445	257,406	206,530	7,366,395

(1) Includes Kirkland Lake, Cochrane and CEEC.

(2) Includes projects under construction that will be transferred to the appropriate segment once commercial operations have begun.

Information on operations by region is as follows:

For years ended December 31, in thousands of dollars

Sales	2016	2015
Canada	829,444	724,075
Europe	269,556	4,066
Total sales	1,099,000	728,141

As at December 31, in thousands of dollars

Property, plant and equipment, net	2016	2015
Canada	2,491,650	2,572,094
Europe	4,665,751	3,342,748
Total property, plant and equipment, net	7,157,401	5,914,842

As at December 31, 2016, all of Northland's assets and sales were in Canada and Europe. All of Northland's reported goodwill relates to operating segments located in Canada and Europe.

27. Litigation, Claims and Contingencies

27.1 Cochrane Solar and Burks Falls West Solar

Cochrane Solar Projects

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

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

27.2 Global Adjustment

In connection with the previously disclosed decision of the Ontario Court of Appeal dated April 19, 2016, involving Northland’s wholly-owned subsidiary, Iroquois Falls Power Corp., and Northland’s managed facilities, Cochrane Power Corporation and Kirkland Lake Power Corporation (**collectively, the “Northland Applicants”**) and other industry participants in relation to the interpretation of the price escalator for power sold under their power purchase agreements with the OEFC, on October 21, 2016, Northland announced that retroactive payments of approximately \$104.5 million were received from the OEFC. These payments were received in connection with previously disclosed litigation involving the Northland Applicants and other industry participants in relation to the interpretation of the price escalator for power sold under their power purchase agreements with the OEFC. The OEFC sought leave to appeal the Ontario Court of Appeal decision in its entirety to the Supreme Court of Canada. However, leave to appeal was not granted to the OEFC; see Note 29.1.

27.3 Gemini Contingent Consideration

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

28. Management and Related-Party Disclosures

28.1 Compensation of Key Management Personnel of Northland

Remuneration of key management personnel, consisting of the Board of Directors and members of the executive, expensed during 2016 includes \$4.9 million (2015 – \$6.5 million) of short-term employee benefits. Northland has granted a total of 21,142 Shares totalling \$0.5 million (2015 – \$1.6 million) and a cash component of \$0.5 million (2015 – \$0.6 million) to key management personnel during 2016 tied directly to executive time served and the success of the development and construction of certain projects.

28.2 Transactions with Shareholders

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

28.3 Entity with Significant Influence Over Northland

As of December 31, 2016, James C. Temerty, Chair of Northland Power Inc., owns or has control or direction over 56,258,692 common shares (representing 33% of the outstanding 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.

29. Post Reporting Date Events

29.1 Global Adjustment

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

30. Comparative Figures

The comparative audited consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2016 consolidated financial statements.

31. Authorization of Audited Consolidated Financial Statements

The audited consolidated financial statements for the year ended December 31, 2016 (including comparatives) were approved by the Board of Directors on March 2, 2017.

Corporate Information

Directors and Executive Officers of Northland Power Inc.

DIRECTORS

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

EXECUTIVE OFFICERS

Mr. John W. Brace <i>Chief Executive Officer</i>	Mr. Mike Crawley <i>Executive Vice President Development</i>
Mr. Salvatore Mantenuto <i>Chief Operating Officer and Vice Chair</i>	Mr. Michael D. Shadbolt <i>Vice President and General Counsel</i>
Mr. Paul J. Bradley <i>Chief Financial Officer</i>	Ms. Linda L. Bertoldi <i>Secretary</i>

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)

Northland's 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.

Shareholder Information

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