

# Management’s Discussion and Analysis

The purpose of this Management’s Discussion and Analysis (“**MD&A**”) is to help the reader understand the nature and importance of changes and trends as well as the risks and uncertainties that may affect Northland Power Inc.’s (“**Northland’s**” or the “**Company’s**”) operating results and financial position. This MD&A should be read in conjunction with Northland’s interim condensed unaudited consolidated financial statements for the three months and six months ended June 30, 2016 and 2015, as well as its audited consolidated financial statements for the years ended December 31, 2015 and 2014. This material is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Northland’s website at [www.northlandpower.ca](http://www.northlandpower.ca). Additional information about Northland, including the most recent Annual Report and Annual Information Form dated February 29, 2016 (**AIF**) can be found on SEDAR.

This MD&A contains forward-looking statements that are based on certain estimates and assumptions that were considered reasonable on August 10, 2016; actual results may differ materially. Please see SECTION 11: Forward-Looking Statements section in this MD&A for additional information.

## Non-IFRS Financial Measures

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

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## SECTION 1: CONSOLIDATED HIGHLIGHTS

### *1.1 Significant events*

Significant events which occurred during the second quarter of 2016 and through the date of this MD&A, are described below.

#### *Advancements on Gemini and Nordsee One Offshore Wind Projects*

Northland continues to reach significant milestones on the construction of the 600 MW Gemini offshore wind project located in the North Sea and remains on time and within budget. As of the date hereof, 138 wind turbines, representing over 90% of the total wind turbines, have been installed with 105 wind turbines producing power and earning pre-completion revenues. Installation of the wind turbines will continue throughout 2016. Full commercial operations are expected by mid 2017.

The 332 MW Nordsee One offshore wind project located in the North Sea continued to progress as expected during the second quarter of 2016 and remains on time and within budget. In April 2016, the project announced that all 54 foundation monopiles and transition pieces had been successfully installed. In July 2016, installation of the offshore substation was successfully completed. Installation of the in-field cables continues to progress well. Wind turbine production is ongoing, with installation expected to commence in early 2017. Full commercial operations are expected by the end of 2017.

#### *Standard and Poor's Reconfirms Credit Rating*

On July 27, 2016, Standard and Poor's reaffirmed Northland's credit rating of BBB (Stable).

#### *Northland to Explore Opportunities to Enhance Growth and Shareholder Value*

On July 12, 2016, Northland's Board of Directors announced that it has commenced a review of strategic alternatives to further enhance the Company's growth, shareholder value and ability to capitalize on a growing pipeline of clean energy infrastructure development opportunities. Northland does not intend to provide ongoing updates on this review until its completion unless further disclosure is otherwise required.

#### *Settlement Reached with H.B. White Canada Corp.*

On July 7, 2016, Northland entered into agreements 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 five ground-mounted solar projects 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* (the **CCAA**) in Ontario. The settlement agreements between White and Northland are 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. Northland also expects that, upon successful conclusion of the CCAA process, all of White's liens and filed claims relating to Northland's projects will be released. Northland expects the letters of credit (which as of this date total approximately \$65.4 million) posted to remove the liens from the projects will be returned in their entirety once the claims of the subcontractors have been resolved. All ongoing arbitration and claims between White and Northland have been suspended pending the outcome of the CCAA proceeding. See more details in *SECTION 7: Litigation, Claims and Contingencies*.

#### *Court Decision Regarding Appeal of Global Adjustment Case*

On June 23, 2016, the Ontario Electricity Financial Corporation (**OEFC**) filed an application for leave to appeal to the Supreme Court of Canada the decision of the Ontario Court of Appeal. Cochrane Power Corporation, Iroquois Falls Power Corporation, Kirkland Lake Power Corporation (collectively, the "**Northland Applicants**") and the other applicants intend to oppose the OEFC's application for leave to appeal to the Supreme Court. Pursuant to the Superior Court's decision, the Northland Applicants are entitled to retroactive payments totaling approximately \$95 million (including interest, originally estimated to be \$90 million) of lost revenue from the period prior to the decision. The OEFC applied to the Ontario Court of Appeal for a stay of the retroactive payments pending the

outcome of its application for leave to appeal to the Supreme Court. On August 5, 2016, the Ontario Court of Appeal ruled in favour of the Northland Applicants and the other industry applicants and denied the OEFC's application for a stay of the retroactive payments. Northland expects to include the retroactive payments in income when received. See more details in *SECTION 7: Litigation, Claims and Contingencies*.

#### *Grand Bend Onshore Wind Project Declares Commercial Operations*

On April 19, 2016, the 100 MW Grand Bend onshore wind farm declared commercial operations under its 20-year Ontario Feed-In-Tariff (**FIT**) contract, with all 40 wind turbines producing revenue and operating as planned. Capital cost of the project was under budget by approximately \$19 million and commercial operations occurred ahead of schedule due to the contractors and suppliers taking advantage of favourable weather conditions. The project also successfully achieved term conversion under its senior project debt facility on July 29, 2016.

#### *Preliminary Base Shelf Prospectus*

In April 2016, Northland filed a renewal of its expiring short form base shelf prospectus with the securities regulatory authorities in each of the provinces of Canada. This filing will continue to enable Northland to offer an aggregate of up to \$500 million of common shares, preferred shares, debentures and subscription receipts, or any combination thereof, over a 25-month period. Northland has no immediate intent to issue securities as a result of this renewal filing.

## **1.2 Operating highlights**

### **Summary of Consolidated Second Quarter Results**

In thousands of dollars except per share and energy unit amounts

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
<b>FINANCIALS</b>				
Sales	<b>176,626</b>	167,289	<b>354,754</b>	368,885
Gross Profit	<b>138,026</b>	114,234	<b>267,368</b>	244,391
Operating Income	<b>59,405</b>	59,503	<b>126,429</b>	133,819
Net Income (Loss)	<b>23,376</b>	140,281	<b>(68,275)</b>	109,665
Adjusted EBITDA <sup>(1)</sup>	<b>103,930</b>	91,370	<b>207,867</b>	188,503
Cash Provided by Operating Activities	<b>107,762</b>	88,237	<b>216,582</b>	207,849
Free Cash Flow <sup>(1)</sup>	<b>46,316</b>	34,584	<b>91,182</b>	84,829
Cash Dividends Paid to Common and Class A Shareholders	<b>34,559</b>	35,141	<b>71,025</b>	65,253
Total Dividends Declared to Common and Class A Shareholders <sup>(2)</sup>	<b>46,318</b>	45,681	<b>92,486</b>	88,021
<b>Per Share</b>				
Free Cash Flow <sup>(1)</sup>	<b>0.270</b>	0.204	<b>0.531</b>	0.520
Total Dividends Declared to Common and Class A Shareholders <sup>(2)</sup>	<b>0.270</b>	0.270	<b>0.540</b>	0.540
<b>ENERGY VOLUMES</b>				
Electricity (megawatt hours)	<b>1,204,987</b>	1,137,123	<b>2,614,710</b>	2,687,299

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

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

- **Sales** at \$176.6 million for the second quarter of 2016 were 6% higher than the same quarter in 2015 primarily due to additional contributions from the Grand Bend wind farm which reached commercial operations in April 2016, the completion of additional ground-mounted solar facilities, and positive

contributions from Iroquois Falls associated with the OEFC court decision. These variances were partially offset by lower sales at Kirkland Lake resulting from the amended baseload gas-fired PPA rates, the pass-through of lower natural gas costs and electricity prices at North Battleford (affecting sales but not gross profit) and the loss of revenue from Cochrane in 2016, whose operations ceased in May 2015 due to its PPA expiry;

- **Gross profit** of \$138 million for the second quarter of 2016 was \$23.8 million higher than the second quarter of 2015 primarily due to the completion of additional ground-mounted solar facilities, the Grand Bend wind farm, and higher PPA rates at Iroquois Falls, offset by lower baseload gas-fired PPA rates at Kirkland Lake and the expiration of Cochrane's PPA in 2015;
- **Adjusted EBITDA** (a non-IFRS measure) for the second quarter of 2016 increased by 14% over the same period in 2015 to \$103.9 million primarily driven by positive contributions from Northland's operating facilities, including results from Grand Bend and the completed ground-mounted solar facilities. See *SECTION 3.2: Consolidated Results* for additional details on the above variances;
- **Operating income** for the three months ended June 30, 2016 was in line with the second quarter of 2015. The increase in gross profit was offset by increased depreciation of property, plant and equipment, higher plant operating costs and corporate management and administration costs; and
- **Net income** for the quarter was \$23.4 million compared to \$140.3 million in the second quarter of 2015. The decrease in net income was primarily caused by the marked-to-market non-cash adjustments on Northland's financial derivative contracts that include the interest rate swaps on the facilities' non-recourse project debt and foreign exchange contracts. These fair value adjustments are non-cash items which will reverse over time, and have no impact on the cash obligations of Northland or its projects.

### ***1.3 Liquidity and capital resource highlights***

- **Cash provided by operating activities** increased by \$19.5 million from the same quarter in 2015 primarily due to the increase in gross profit;
- **Free cash flow** (a non-IFRS measure) for the second quarter of 2016 of \$46.3 million was 34% higher than the second quarter of 2015 primarily due to an increase in adjusted EBITDA, partially offset by higher interest and debt repayments largely related to the completed ground-mounted solar facilities; and
- **Quarterly free cash flow per share** was \$0.27 in the second quarter of 2016 versus \$0.20 in the second quarter of 2015 primarily due to the increase in adjusted EBITDA.

## **SECTION 2: DESCRIPTION OF BUSINESS**

As of June 30, 2016, Northland owns or has a net economic interest in completed power producing facilities with a total operating capacity of approximately 1,394 MW. Northland's operating assets comprise facilities that produce electricity from renewable resources and natural gas for sale primarily under long-term PPAs with creditworthy customers in order to provide cash flow stability. Additionally, as of June 30, 2016, Northland had the following projects under construction: 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. The Grand Bend wind project declared commercial operations in April 2016. Furthermore, Northland has a portfolio of projects in early stages of development.

Northland's interim condensed unaudited 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 127.5 MW wind farm located in the Gaspésie region of Quebec, 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 Quebec, together herein referred to as “**Mont Louis**”;
- viii. DK Windpark Kavelstorf GmbH & Co. KG and DK Burgerwindpark Eckolstädt GmbH & Co. KG, which own two wind farms totalling 21.5 MW located in eastern Germany, together herein referred to as the “**German wind farms**”;
- ix. Ground-mounted solar partnerships, which consist of 13 operating 10 MW solar facilities. The 9 solar facilities totalling 90 MW in eastern and central Ontario are together herein referred to as “**NPI Ground-Mounted Solar**”; and the final four facilities totalling 40 MW (25 MW net interest to Northland) located in northern Ontario are, together herein referred to as “**Cochrane Solar**”;
- x. McLean’s Mountain Wind Limited Partnership, which owns the 60 MW (30 MW net interest to Northland) wind farm on Manitoulin Island in Ontario, together herein referred to as “**McLean’s**”;
- xi. Grand Bend Wind Limited Partnership, which owns the 100 MW (50 MW net interest to Northland) wind farm located in southern Ontario, together herein referred to as “**Grand Bend**”;
- xii. ZeeEnergie C.V. and Buitengaats C.V., which collectively own the 600 MW (360 MW net interest to Northland) offshore wind 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 of the North Sea “**Nordsee One**”.

Northland’s interim unaudited condensed consolidated financial statements include the financial results for facilities owned by Kirkland Lake Power Corp. (“**Kirkland Lake**”) and Cochrane Power Corporation (“**Cochrane**”) facilities. Northland continues to manage Cochrane and Kirkland Lake on behalf of these corporations, which are owned by third-party, non-voting shareholders and Canadian Environmental Energy Corporation (**CEEC**) in which Northland has a 68% interest. Northland also has a 75% equity interest in four small rooftop solar facilities in Ontario and receives management fees from Chapais Énergie, Société en Commandite (“**Chapais**”) for managing its 28 MW biomass-fired power facility in Chapais, Quebec. In addition, as a result of obtaining a controlling interest in Gemini in May 2014 and Nordsee One in September 2014, Northland’s interim condensed consolidated financial statements also include Gemini’s and Nordsee One’s financial results. Significant Gemini and Nordsee One items included in Northland’s interim condensed unaudited consolidated financial statements are as follows:

- Cash and cash equivalents of \$1.4 million;
- Restricted cash of \$275.8 million;
- Current assets (excluding cash and cash equivalents and restricted cash) of \$8.8 million;
- Property, plant and equipment of \$4.3 billion;
- Contracts and other intangibles of \$159.3 million;
- Current liabilities of \$426.8 million;
- Interest-bearing loans and borrowings (excludes intercompany amounts) of \$3.1 billion; and
- Cumulative unrealized fair value loss on the long-term derivative contracts of \$382.6 million.

## SECTION 3: DISCUSSION OF OPERATIONS

### 3.1 Facility results

#### Northland's Thermal Facilities

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

in thousands of dollars except as indicated	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Electricity Production (MWh)</b>				
Iroquois Falls	156,182	153,301	360,376	361,717
Kingston	171,397	176,924	371,513	372,997
Other <sup>(1)</sup>	583,544	564,411	1,306,006	1,425,483
	<b>911,123</b>	894,636	<b>2,037,895</b>	2,160,197
<b>Sales</b>				
Iroquois Falls	23,350	18,218	56,547	45,114
Kingston	26,993	26,001	56,365	56,615
Thorold	20,527	19,301	41,137	46,527
Spy Hill <sup>(2)</sup>	5,395	5,762	11,495	11,296
North Battleford	32,242	36,905	73,063	81,200
	<b>108,507</b>	106,187	<b>238,607</b>	240,752
Less finance lease adjustment	<b>(4,046)</b>	(4,047)	<b>(8,093)</b>	(8,094)
<b>Sales as reported</b>	<b>104,461</b>	102,140	<b>230,514</b>	232,658
<b>Cost of sales</b>	<b>32,836</b>	38,205	<b>74,022</b>	89,947
<b>Gross profit</b>				
Iroquois Falls	14,513	9,071	36,591	25,742
Kingston	14,419	13,499	30,288	29,849
Thorold	16,591	15,491	32,732	30,419
Spy Hill <sup>(2)</sup>	4,779	4,652	9,752	9,323
North Battleford	25,369	25,269	55,222	55,472
	<b>75,671</b>	67,982	<b>164,585</b>	150,805
Less finance lease adjustment	<b>(4,046)</b>	(4,047)	<b>(8,093)</b>	(8,094)
<b>Gross profit as reported</b>	<b>71,625</b>	63,935	<b>156,492</b>	142,711

*Thermal Facilities - continued*

in thousands of dollars except as indicated	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Plant operating costs</b>				
Iroquois Falls	2,147	2,225	4,533	4,313
Kingston	1,290	1,217	2,705	2,630
Thorold	2,105	2,035	4,538	4,389
Spy Hill	372	361	828	687
North Battleford	3,384	3,505	6,577	6,485
	<b>9,298</b>	9,343	<b>19,181</b>	18,504
<b>Operating income</b>	<b>50,661</b>	42,620	<b>113,999</b>	100,402
<b>Adjusted EBITDA<sup>(3)</sup></b>				
Iroquois Falls	12,367	6,825	32,041	21,364
Kingston	13,079	12,215	27,462	27,106
Thorold	14,477	13,441	28,178	25,997
Spy Hill	4,402	4,285	8,914	8,624
North Battleford	21,978	21,757	48,632	48,974
	<b>66,303</b>	58,523	<b>145,227</b>	132,065
<b>Capital expenditures<sup>(4)</sup></b>	<b>101</b>	58	<b>101</b>	68

(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 interim consolidated statement of income (loss) based on the terms of those contracts.

Northland's thermal assets comprise both baseload and dispatchable facilities. The Iroquois Falls and Kingston baseload plants are operated at full output with the objective of generating 100% of contracted on-peak and off-peak production volumes and receive a fixed price for all electricity sold. Production levels and sales at these two facilities have an impact on gross profit.

The North Battleford baseload plant is operated to generate at full output during on-peak periods and at reduced output during off-peak periods. 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 at [www.sedar.com](http://www.sedar.com) under Northland's profile.

Electricity production during the three months ended June 30, 2016 was 16,487 MWh higher than the same quarter of 2015 largely due to additional economic production periods at the Thorold facility. Electricity production for the six months ended June 30, 2016 was 122,302 MWh lower than the same period in 2015 primarily due to a decrease in production at Thorold during the first quarter which was only partially offset by the increase in production during the second quarter. The overall decrease in production at Thorold was due to fewer economic production periods and dispatch requests during the first quarter of 2016, and was partially offset by higher production at the Spy Hill and North Battleford facilities in the first and second quarters of 2016. Changes in the volume of electricity produced at Thorold, Spy Hill, and North Battleford have a minimal impact on gross profit given the nature of those facilities' PPAs.

Sales during the second quarter of 2016 of \$104.5 million were \$2.3 million higher than the second quarter of 2015 primarily due to an increase in the electricity revenue earned at the Iroquois Falls facility (\$5.1 million) associated with the price escalation resulting from the OEFC court decision (see *SECTION 7: Litigation, Claims and Contingencies*) and an increase in the electricity revenue earned at the Thorold facility (\$1.2 million) as a result of higher electricity production volumes. These results were partially offset by decreased electricity revenue at the North Battleford facility (\$4.7 million) as a result of lower flow-through natural gas costs. Sales during the six month period ending June 30, 2016 of \$230.5 million were \$2.1 million lower than the comparable period in 2015, primarily due to lower flow-through natural gas costs at the North Battleford facility (\$8.1 million), as well as a decrease in electricity revenue earned at the Thorold facility (\$5.4 million). These results were partially offset by increased electricity sales at the Iroquois Falls facility (\$11.4 million) arising for the price escalation described above.

Gross profit during the second quarter of 2016 at \$71.6 million was \$7.7 million higher than the comparable period in 2015 primarily due to Iroquois Falls' contribution (\$5.4 million) arising from increased volume and a higher PPA price, as described above. Gross profit during the six months ended June 30, 2016 at \$156.5 million was \$13.8 million higher than the comparable period in 2015 as a result of Iroquois Falls' contribution (\$10.8 million), as well as a one-time charge of \$2.3 million incurred by the Thorold facility in the first quarter of 2015 related to a settlement for plant start-up costs.

Plant operating costs at \$9.3 million and \$19.2 million, respectively, for the three months and six months ended June 30, 2016 were consistent with the comparable periods in 2015.

Adjusted EBITDA and operating income for the three months and six months ended June 30, 2016 were higher than the comparable period in 2015 for the same reasons as the gross profit variance described above.

### *Northland's Renewable Facilities*

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

in thousands of dollars except as indicated	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Electricity Production (MWh) - Actual</b>	<b>293,864</b>	242,487	<b>576,815</b>	527,102
<b>Electricity Production (MWh) - Long Term Forecast</b>	<b>305,013</b>	238,704	<b>591,588</b>	523,779
<b>Sales/Gross Profit<sup>(1)</sup></b>				
Jardin	<b>5,399</b>	5,873	<b>12,854</b>	13,565
Mont Louis	<b>4,790</b>	5,712	<b>11,681</b>	12,475
German Wind Farms	<b>695</b>	729	<b>2,034</b>	2,043
McLean's	<b>5,032</b>	5,035	<b>11,363</b>	12,346
Grand Bend	<b>7,354</b>	-	<b>7,354</b>	-
Ground-mounted solar	<b>33,670</b>	21,578	<b>46,577</b>	30,339
	<b>56,940</b>	38,927	<b>91,863</b>	70,768

Renewable Facilities - continued

in thousands of dollars except as indicated	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Plant operating costs</b>				
Jardin	1,221	1,512	2,695	2,970
Mont Louis	1,604	1,451	2,911	2,633
German Wind Farms	244	446	557	825
McLean's	1,020	956	2,105	1,959
Grand Bend	1,019	-	1,019	-
Ground-mounted solar	1,091	855	2,227	1,457
	<b>6,199</b>	<b>5,220</b>	<b>11,514</b>	<b>9,844</b>
<b>Operating income</b>	<b>27,795</b>	<b>19,472</b>	<b>38,422</b>	<b>32,404</b>
<b>Adjusted EBITDA<sup>(2)</sup></b>				
Jardin	4,167	4,354	10,143	10,580
Mont Louis	3,181	4,253	8,759	9,827
German Wind Farms	411	318	1,312	1,112
McLean's <sup>(5)</sup>	2,050	2,081	4,718	5,281
Grand Bend	3,517	-	3,517	-
Ground-mounted solar <sup>(3)</sup>	28,815	20,683	39,483	28,840
	<b>42,141</b>	<b>31,689</b>	<b>67,932</b>	<b>55,640</b>
<b>Capital expenditures<sup>(4)</sup></b>	<b>1,416</b>	<b>-</b>	<b>1,416</b>	<b>48</b>

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

(2) A non-IFRS measure.

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

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

Electricity production during the three months ended June 30, 2016 was 51,377 MWh higher than the comparable period in 2015 primarily due to a 37,586 MWh contribution from the Grand Bend facility, which declared commercial operations on April 19, 2016, as well as an additional 26,654 MWh of production primarily from four additional ground-mounted solar sites in operation compared to the same quarter of 2015, and as a result of higher solar resources and more favourable weather conditions. These results were partially offset by a 12,863 MWh decrease in production at the other wind facilities caused by lower wind resources. Electricity production during the six months ended June 30, 2016 was 49,713 MWh higher than the comparable period in 2015 primarily due to the contribution from the Grand Bend facility and the additional ground-mounted solar sites, partially offset by a net decrease in production at the other wind facilities caused by lower wind resources.

During the second quarter of 2016, sales of \$56.9 million were \$18 million higher and plant operating costs of \$6.2 million were \$1 million higher than the second quarter of 2015, primarily due to the incremental contribution from the Grand Bend facility and the additional ground-mounted solar facilities in operation. Similarly, during the six months ended June 30, 2016, sales of \$91.9 million were \$21.1 million higher and plant operating costs of \$11.5 million were \$1.7 million higher than the comparable period in 2015, primarily due to the incremental contribution from the Grand Bend facility and the additional ground-mounted solar sites.

Operating income of \$27.8 million and \$38.4 million during the three months and six months ended June 30, 2016 was \$8.3 million and \$6 million, respectively, higher than the comparable periods in 2015 as a result of the inclusion of the Grand Bend facility and additional ground-mounted solar facilities, partially offset by the inclusion of depreciation for those facilities. Adjusted EBITDA of \$42.1 million and \$67.9 million for the three months and six months ended June 30, 2016 was \$10.5 million and \$12.3 million, respectively, higher than the same quarter of 2015, as explained above.

### *Northland's Managed Facilities*

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

in thousands of dollars	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Sales</b>	<b>13,425</b>	25,998	<b>30,550</b>	64,827
<b>Cost of sales</b>	<b>5,764</b>	14,850	<b>13,364</b>	34,547
<b>Gross profit</b>	<b>7,661</b>	11,148	<b>17,186</b>	30,280
<b>Plant operating costs</b>	<b>3,257</b>	4,019	<b>6,700</b>	8,492
<b>Operating Income</b>	<b>3,300</b>	5,393	<b>7,753</b>	18,254
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>3,703</b>	5,949	<b>8,883</b>	11,284

(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 for the three months and six months ended June 30, 2016 were lower than the comparable periods in 2015 primarily due to lower electricity revenue earned at the Kirkland Lake facility from the 2015 amendment to the baseload gas-fired PPA rates and lower electricity production, as well as the closure of the Cochrane facility.

Operating income for the three months and six months ended June 30, 2016 was lower than the comparable periods in 2015 largely due to the reduction in gross profit, partially offset by a reduction in plant operating costs at the Cochrane facility.

Adjusted EBITDA (i.e. management and incentive fees) for the three months and six months ended June 30, 2016 was \$2.2 million and \$2.4 million, respectively, lower than the comparable periods in 2015 primarily due to the amendment of the gas-fired PPA rates at the Kirkland Lake Facility.

### *Northland's Offshore Wind Facilities*

Northland's offshore wind facilities consist of the 600 MW Gemini wind farm, located off the coast of the Netherlands, and the 332 MW Nordsee One wind farm, located off the coast of Germany. Both Gemini and Nordsee One are currently under construction. For additional details on each of these facilities, please see *SECTION 6: Construction Activities*.

See the chart below for offshore wind operational results for the three months and six months ended June 30, 2016. 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 reported for Gemini. Sales and operating costs will increase over time as additional wind turbines are commissioned. Sales represents pre-completion revenues for power sold at local market prices until the government grant (SDE subsidy) is invoked by Gemini in the coming months once it is economically attractive to do so. At that time the operating results will reflect significantly higher prices per MWh generated. The operating results include 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	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Sales/Gross Profit</b> <sup>(1)(2)</sup>	<b>1,800</b>	-	<b>1,827</b>	-
<b>Plant operating costs</b> <sup>(2)</sup>	<b>3,478</b>	-	<b>4,643</b>	-
<b>Management and administration costs</b>	<b>2,103</b>	472	<b>2,893</b>	1,267
<b>Adjusted EBITDA</b> <sup>(3)</sup>	<b>(3,781)</b>	(472)	<b>(5,709)</b>	(1,267)
<b>Adjusted EBITDA</b> <sup>(3)</sup> - Northland's share	<b>(2,306)</b>	(331)	<b>(3,549)</b>	(905)

(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.

### Corporate, including Other Income

The following is a discussion of financial results related to Northland's other services, including investment income for the three and six months ended June 30.

### Other Sales and Income

in thousands of dollars	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Gemini interest income	<b>4,538</b>	3,699	<b>9,119</b>	7,281
Other facilities	<b>1,353</b>	1,164	<b>2,401</b>	1,394
Adjusted EBITDA <sup>(1)</sup>	<b>5,891</b>	4,863	<b>11,520</b>	8,675

(1) A non-IFRS measure.

"Gemini interest income" 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 are still included in Northland's consolidated adjusted EBITDA.

"Other facilities" in the above table 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 the "Other facilities" for the three months ended June 30, 2016, is in line with the comparable period in 2015. Adjusted EBITDA from the "Other facilities" for the six months ended June 30, 2016, is \$1 million higher than the comparable period in 2015 primarily due to inclusion of interest earned on the loan receivable from Grand Bend's equity partner, which was issued in March 2015.

in thousands of dollars	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Management and administration costs				
Operations <sup>(1)</sup>	<b>8,503</b>	6,071	<b>14,848</b>	12,553
Development	<b>6,302</b>	3,484	<b>11,441</b>	7,142
Total management and administration costs	<b>14,805</b>	9,555	<b>26,289</b>	19,695
Less: facility management and administration costs	<b>(3,003)</b>	(911)	<b>(4,143)</b>	(2,120)
Corporate management and administration costs	<b>11,802</b>	8,644	<b>22,146</b>	17,575
Corporate adjusted EBITDA <sup>(2)(3)</sup>	<b>(11,802)</b>	(9,323)	<b>(22,146)</b>	(18,256)

(1) Includes facility management and administration costs.

(2) A non-IFRS measure.

(3) 2015 adjusted EBITDA includes legal costs associated with sale of Cochrane Solar projects.

Corporate management and administration costs for the three months and six months ended June 30, 2016 were \$3.2 million and \$4.6 million higher, respectively, than the comparable periods in 2015, largely due to higher early-stage development activities across a range of geographic locations.

Facility management and administration costs for the three months and six months ended June 30, 2016 were \$2.1 million and \$2 million higher, respectively, than the comparable periods in 2015, primarily as a result of an increase in management and administration costs at Gemini (\$1.7 million). As Gemini 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.

### ***3.2 Consolidated results***

The following discussion of the consolidated financial condition and results of operations of Northland should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six month period ended June 30, 2016, Northland's 2015 Annual Report and AIF. Readers should note that a significant number of variances on the unaudited interim condensed consolidated statements of income (loss) are the result of Northland consolidating the financial results for Gemini and Nordsee One.

#### ***Second Quarter***

Net income for the three months ended June 30, 2016 of \$23.4 million was lower than the same quarter of 2015 primarily due to the non-cash fair value gains associated with Northland's derivative contracts (\$17.3 million gain in the second quarter of 2016 versus a \$168.9 million gain in the second quarter of 2015). A portion of the non-cash losses represents the fair value accounting treatment of Gemini and Nordsee One's interest rate swaps and foreign exchange contracts that are marked-to-market and consolidated within Northland's operating results.

The following describes the significant factors contributing to the change in net income for the quarter ended June 30, 2016:

*Total Sales* at \$176.6 million for the second quarter of 2016 were 6% higher than the same quarter of 2015 for reasons discussed in *Section 3.1: Facility Results* and primarily due to additional contributions from the Grand Bend wind farm, the newly operating ground-mounted solar facilities, and contributions from Iroquois Falls associated with the OEFC court decision. These variances were partially offset by lower sales at Kirkland Lake resulting from the amended baseload gas-fired PPA rates, and lower flow-through natural gas costs and electricity prices at North Battleford (affecting sales but not gross profit).

*Gross Profit* of \$138 million for the second quarter of 2016 was \$23.8 million higher than the same quarter of 2015 primarily due to the contributions from the newly operating ground-mounted solar facilities, the Grand Bend wind farm, and higher PPA rates at Iroquois Falls, offset by lower baseload gas-fired PPA rates at Kirkland Lake and the expiration of Cochrane's PPA in 2015, as discussed in *SECTION 3.1: Facility Results*.

*Plant operating costs* increased by \$3.9 million largely due to the inclusion of costs from the Gemini wind farm now that wind turbines are in operation, the addition of costs from the Grand Bend facility and the ground-mounted solar facilities, partially offset by costs avoided due to the shutdown of the Cochrane facility.

*Management and administration costs* at \$14.8 million were \$5.3 million higher than the second quarter of 2015 largely due to early-stage development activities, higher costs at Gemini as more wind turbines are commissioned and the inclusion of Grand Bend, as previously discussed.

*Finance costs, net* (primarily interest expense), increased by \$11 million from the second quarter of 2015 due to the inclusion of interest from Gemini, Grand Bend and the additional four ground-mounted solar facilities debt.

*Amortization of contracts and other intangible assets* at \$4.8 million was in line with the second quarter of 2015.

*Non-cash fair value gains* of \$18.3 million in the second quarter of 2016 (compared to a \$167.5 million gain in the second quarter of 2015) is comprised of a \$17.3 million gain in the fair value of Northland's financial derivative contracts that include the 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 \$1 million unrealized foreign exchange gain. A portion (a \$28 million loss) of the second quarter of 2016 non-cash fair value gain represents the consolidated marked-to-market adjustment on the interest rate swaps entered into by the Gemini and Nordsee One projects.

*Other costs* of \$7.3 million in the second quarter of 2015 represent the provision relating to decommissioning and employee severance costs at Cochrane.

The factors described above, combined with a \$3.9 million provision for current taxes and deferred income taxes, resulted in net income of \$23.4 million for the second quarter of 2016, compared to \$140.3 million for the second quarter of 2015.

### ***Year-to-Date***

Net loss for the six months ended June 30, 2016 of \$68.3 million was primarily due to the non-cash fair value loss associated with Northland's derivative contracts (\$122.7 million loss in the first six months of 2016 versus an \$83 million gain in the first six months of 2015). Of the non-cash fair value loss on the derivative contracts for the first six months of 2016, \$153.1 million was associated with Gemini's and Nordsee One's interest rate swap contracts.

The following describes the significant factors contributing to the change in net income for the six months ended June 30, 2016:

*Sales* were lower in the first six months of 2016 compared to the prior year as discussed in *SECTION 3.1: Facility Results* and primarily due to lower sales at Kirkland Lake resulting from the amended baseload gas-fired PPA rates, the expiration of Cochrane's PPA in May 2015, lower production and dispatch opportunities at Thorold (affecting sales but not gross profit), and lower flow-through of natural gas costs and electricity prices at North Battleford (affecting sales but not gross profit). These variances were partially offset by positive contributions from Iroquois Falls associated with the OEFC court decision and the additional contributions from the Grand Bend wind farm and ground-mounted solar facilities.

*Gross Profit* of \$267.4 million for the first six months of 2016 was \$23 million higher than the same quarter of 2015 primarily due to the higher PPA rates at Iroquois Falls and contributions from the newly operating Grand Bend wind farm and ground-mounted solar facilities, offset by lower baseload gas-fired PPA rates at Kirkland Lake and the loss of revenue from Cochrane in 2016, as discussed in *SECTION 3.1: Facility Results*.

*Plant operating costs* increased by \$5.2 million largely due to the inclusion of costs from the Gemini wind farm now that wind turbines are in operation, Grand Bend and the ground-mounted solar facilities, partially offset by costs avoided due to the shutdown of the Cochrane facility.

*Management and administration* costs increased by \$6.6 million from the prior period largely due to early-stage development activities, higher costs at Gemini as more wind turbines are commissioned, and the inclusion of Grand Bend, as previously discussed.

*Finance costs, net* (primarily interest expense), increased by \$15.7 million from the first half of 2015 due to the inclusion of interest from Gemini, Grand Bend and the additional four ground-mounted solar facilities debt.

*Non-cash fair value loss* of \$124 million (compared to an \$83.3 million gain in 2015) is comprised of a \$122.7 million loss in the fair value of Northland's financial derivative contracts and a \$1.3 million unrealized foreign

exchange loss. A significant portion (\$153.1 million) represents the consolidated marked-to-market adjustment on the interest rate swaps entered into by the Gemini and Nordsee One projects.

*Impairments of contracts and other intangible assets* of \$12.6 million in 2015 is due to the expiration of the Cochrane PPA.

The factors described above, combined with a \$2.5 million provision for current income taxes and a \$23.5 million recovery of deferred income taxes, resulted in a net loss of \$68.3 million for the six months ended June 30, 2016, compared to a net income of \$109.7 million for the six months ended June 30, 2015.

### **Adjusted EBITDA**

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

Northland loaned €80 million of subordinated debt to Gemini. The loan balance increases through accrued interest until the start of commercial operations, which is anticipated to be 2017, after which it will be repaid with semi-annual blended principal and interest payments. Northland consolidates the financial results of Gemini, and as a result Northland's loan receivable and investment income earned are eliminated upon consolidation. However, the investment income is included in Northland's adjusted EBITDA as "Gemini subordinated debt interest" but will be included in free cash flow only when cash payments are received, which is anticipated to commence in the second half of 2017.

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

in thousands of dollars	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Net Income (Loss)</b>	<b>23,376</b>	140,281	<b>(68,275)</b>	109,665
Adjustments:				
Provision for (recovery of) income taxes	<b>3,896</b>	27,471	<b>(21,024)</b>	19,229
Depreciation of property, plant and equipment	<b>45,736</b>	30,914	<b>81,333</b>	61,912
Amortization of contracts and other intangible assets	<b>4,826</b>	4,656	<b>9,652</b>	9,312
Finance costs, net	<b>45,799</b>	34,766	<b>82,255</b>	66,578
Gemini subordinated debt interest	<b>4,538</b>	3,699	<b>9,119</b>	7,281
Fair value (gain) loss on derivative contracts	<b>(17,310)</b>	(168,858)	<b>122,674</b>	(83,007)
Foreign exchange loss (gain)	<b>(976)</b>	1,422	<b>1,360</b>	(174)
Gain on sale of development assets	-	-	-	(7,555)
Impairments	-	12,581	-	12,581
Elimination of non-controlling interests	<b>(6,756)</b>	3,694	<b>(10,816)</b>	(8,791)
Finance lease and equity accounting	<b>801</b>	744	<b>1,589</b>	1,472
<b>Adjusted EBITDA</b>	<b>103,930</b>	91,370	<b>207,867</b>	188,503

Northland's adjusted EBITDA for the three months ended June 30, 2016 was \$12.6 million higher than the second quarter of 2015. Significant factors increasing and decreasing adjusted EBITDA for the comparative quarter are described below:

- \$10.5 million increase in operating results from Northland's renewable facilities largely due to the contributions from Grand Bend and the additional ground-mounted solar facilities;
- \$7.8 million increase in operating results from Northland's thermal facilities largely due to the contribution from the Iroquois Falls facility associated with revision to the price escalator of the PPA rates resulting from the OEFC court decision; and
- \$0.8 million higher investment income earned on Northland's portion of the Gemini subordinated debt

and the interest earned on the loan receivable from Grand Bend's equity partner.

These favourable results were partially offset by:

- \$2.5 million increase in corporate management and administration costs primarily related to early-stage development projects;
- \$2.2 million decrease in management fees from Kirkland Lake primarily due to the amended baseload gas-fired PPA rates; and
- \$1.8 million increase in plant operating costs associated with the operational wind turbines for Gemini.

Northland's adjusted EBITDA for the six months ended June 30, 2016 was \$19.4 million higher than 2015. Significant factors increasing and decreasing adjusted EBITDA for the comparative quarter are described below:

- \$13.2 million increase in operating results from Northland's thermal facilities;
- \$12.3 million increase in operating results from Northland's renewable facilities; and
- \$2.8 million higher investment income earned on Northland's portion of the Gemini subordinated debt and the loan receivable from Grand Bend's equity partner.

These favourable results were partially offset by:

- \$3.8 million increase in corporate management and administration costs primarily related to early-stage development projects;
- \$2.7 million increase in plant operating costs associated with the operational turbines for Gemini; and
- \$2.4 million decrease in management fees from Kirkland Lake.

### 3.3 Summary of historical consolidated quarterly results and trends

\$ millions, except Per share information	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Total sales	176.6	178.1	171.5	187.7	167.3	201.6	188.2	172.5
Operating income	59.4	67.0	60.6	79.7	59.5	74.3	60.1	54.3
Net income (loss)	23.4	(91.7)	8.9	(91.1)	140.3	(30.6)	(70.5)	(43.8)
Adjusted EBITDA <sup>(1)</sup>	103.9	103.9	94.4	119.2	91.4	97.1	93.2	86.8
Cash provided by operating activities	107.8	108.8	72.9	118.0	88.2	119.6	74.6	74.5
Free cash flow <sup>(1)</sup>	46.3	44.9	34.3	63.1	34.6	50.2	41.2	35.6
<b>Per share statistics</b>								
Net income (loss) - basic	0.20	(0.32)	0.01	(0.51)	0.53	(0.12)	(0.34)	(0.11)
Net income (loss) - diluted	0.20	(0.32)	0.02	(0.51)	0.48	(0.12)	(0.34)	(0.11)
Free cash flow <sup>(1)</sup>	0.27	0.26	0.20	0.37	0.20	0.33	0.28	0.24
Total dividends declared	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27

(1) Non-IFRS measures.

Northland's consolidated financial results are affected by seasonal factors that result in quarterly variations. At the Iroquois Falls and managed facilities (Kirkland Lake and Cochrane prior to the expiry of the PPA), 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 facilities follow a seasonal pattern that is the opposite of Northland's wind farms because the solar facilities are expected to generate higher output and revenue during the summer months due to longer daylight hours. Consolidated seasonality is also mitigated at the Kingston, Thorold, Spy Hill, and North Battleford facilities because the contract provisions of these facilities provide for generally consistent earnings throughout the year. Quarterly variations in financial results are also affected by facilities completing construction activities and entering into commercial operations.

Northland's quarterly net income (loss) also varies due to any non-cash impairments/recoveries and foreign exchange adjustments required to translate U.S. dollar- and euro-denominated balances to the appropriate quarter-

end Canadian-dollar equivalent and due to fair value movements of financial derivative contracts.

## SECTION 4: CHANGES IN FINANCIAL POSITION

The following table provides a summary of account balances derived from the unaudited interim condensed consolidated balance sheets as at June 30, 2016 and December 31, 2015.

As at, in thousands of dollars

	June 30, 2016	December 31, 2015
<b>Assets</b>		
Cash and cash equivalents	166,383	151,927
Restricted cash	348,813	283,820
Trade and other receivables	136,296	118,807
Other current assets	32,706	34,168
Property, plant and equipment	6,890,883	5,964,438
Contracts and other intangible assets	239,994	257,406
Other assets <sup>(1)</sup>	381,992	415,396
	<b>8,197,067</b>	<b>7,225,962</b>
<b>Liabilities</b>		
Trade and other payables	523,560	237,030
Interest-bearing loans and borrowings	5,348,364	4,586,567
Net derivative financial liabilities <sup>(2)</sup>	537,545	431,704
Net deferred tax liability <sup>(2)</sup>	9,644	29,116
Other liabilities <sup>(3)</sup>	560,579	534,477
	<b>6,979,692</b>	<b>5,818,894</b>
<b>Total equity</b>	<b>1,217,375</b>	<b>1,407,068</b>
	<b>8,197,067</b>	<b>7,225,962</b>

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

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

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

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

- Restricted cash increased by \$65 million primarily due to the funds set aside for construction at the Gemini and Nordsee One offshore wind farms.
- Trade and other receivables increased by \$17.5 million mainly due to the timing of receipts for electricity sales and investment tax credits related to construction activities.
- Property, plant and equipment increased by \$926.4 million from December 31, 2015 primarily due to construction-related activities at Grand Bend, Gemini and Nordsee One.
- Contracts and other intangible assets decreased by \$17.4 million mainly due to contract amortization and foreign exchange translation differences.
- Trade and other payables increased by \$286.5 million primarily due to the timing of construction-related payables, including amounts owing at Gemini and Nordsee One offshore wind farms.
- Interest-bearing loans and borrowings increased by \$761.8 million mainly due to Gemini's and Nordsee

- One's senior debt drawings, and partially offset by scheduled loan repayments.
- Net derivative financial liabilities (derivative financial liabilities less derivative financial assets) of \$537.5 million increased by \$105.8 million primarily due to the non-cash fair value marked-to-market adjustments on foreign exchange contracts and Iroquois Falls' natural gas financial derivative contract, and interest rate swaps (\$136.3 million relates to Gemini's and Nordsee One's interest rate swaps).
- Net deferred tax liability (deferred tax liabilities less deferred tax assets) of \$9.6 million decreased by \$19.5 million due to movements in accounting versus tax balances; in particular fair value losses on derivative contracts.

## SECTION 5: EQUITY, LIQUIDITY AND CAPITAL RESOURCES

### *Equity and Convertible Unsecured Subordinated Debenture Information*

As at June 30, 2016, Northland had 170,744,100 common shares outstanding (as at December 31, 2015 – 169,645,251), 4,501,565 Series 1 Preferred Shares, 1,498,435 Series 2 Preferred Shares, 4,800,000 Series 3 Preferred Shares and 1,000,000 Class A Shares. During the quarter, \$0.1 million of the 2020 convertible debentures were converted into 5,462 common shares.

During the first six months of 2016, Northland's total equity decreased by \$189.7 million primarily due to the \$113 million increase in the deficit and the \$76.3 million reduction in non-controlling interests. The increase in common shares was primarily due to the issuance of additional shares under Northland's DRIP programs, as well as the debentures converted during the quarter. 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 the Nordsee entities by their non-controlling partners, Northland's total equity includes non-controlling interests, which totals \$337.6 million at June 30, 2016. Readers should refer to Note 8 to the interim condensed consolidated financial statements for the period ending June 30, 2016 for additional details related to Northland's non-controlling interests. Shareholders' equity also includes \$10.7 million in accumulated other comprehensive losses which arise 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 170,962,305 common shares, 4,501,565 Series 1 Preferred Shares, 1,498,435 Series 2 Preferred Shares, 4,800,000 Series 3 Preferred Shares, 1,000,000 Class A Shares, \$78.8 million of the 2019 Debentures and \$157 million of the 2020 Debentures. If the 2019 Debentures and 2020 Debentures were converted in their entirety, an additional 10.9 million shares would be issued and outstanding.

### *Liquidity and Capital Resources*

in thousands of dollars	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Cash and cash equivalents, beginning of period</b>	<b>177,805</b>	242,788	<b>151,927</b>	193,412
Cash provided by operating activities	<b>107,762</b>	88,237	<b>216,582</b>	207,849
Cash used in investing activities	<b>(563,742)</b>	(561,255)	<b>(959,643)</b>	(1,164,057)
Cash provided by financing activities	<b>432,358</b>	531,809	<b>741,046</b>	1,051,204
Effect of exchange rate differences	<b>12,200</b>	(11,216)	<b>16,471</b>	1,955
<b>Cash and cash equivalents, end of period</b>	<b>166,383</b>	290,363	<b>166,383</b>	290,363

Cash and cash equivalents for the six months ended June 30, 2016 were \$166.4 million, which increased by \$14.5 million from December 31, 2015, due to \$216.6 million in cash provided by operating activities and \$741 million in cash provided by financing activities, partially offset by \$959.6 million in cash used in investing activities.

Cash provided by operating activities for the six months ended June 30, 2016 was \$216.6 million, comprising a net loss of \$68.3 million, \$272.7 million in non-cash and non-operating items such as depreciation and amortization, unrealized foreign exchange losses, and changes in fair value of financial instruments, combined with a \$12.2 million decrease in working capital from December 31, 2015 due to the timing of payables, receivables, and

deposits.

Cash used for investing activities for the six months ended June 30, 2016 was \$959.6 million, primarily due to: (i) \$1.2 billion used for the purchase of property, plant and equipment, mostly for the construction of the Gemini, Nordsee One, and Grand Bend projects; (ii) a \$291.1 million change in working capital related to the timing of construction payables (\$301.2 million is associated with construction payables at Gemini and Nordsee One); and (iii) a net reserve increase of \$76.8 million primarily associated with the transfer of funds related to construction expenditures (\$134.3 million is associated with construction activities at Gemini and Nordsee One).

Cash provided by financing activities for the six months ended June 30, 2016 was \$741 million, comprising: (i) \$938.8 million of proceeds from Gemini and Nordsee One's third-party senior debt, GMS project financing and Kirkland Lake; and (ii) \$2.4 million of proceeds from the repayment of a loan made to McLean's equity partner; partially offset by: (i) \$76.6 million of common, Class A and preferred share dividends; (ii) \$77.6 million in interest payments; (iii) \$39.7 million in scheduled loan repayments; and (iv) \$6.3 million in dividends to the non-controlling shareholders largely associated with McLean's.

Due to the weakening of the Canadian dollar versus the euro, Northland's June 30, 2016 consolidated cash and cash equivalents was positively impacted by \$16.5 million as a result of translating euro-denominated cash and cash equivalents held by Gemini and Nordsee One into Canadian dollars. The effect of exchange rate differences on cash and cash equivalents for Northland's Europe projects will fluctuate from quarter to quarter as the Canadian dollar/euro exchange rate fluctuates. However, euro-denominated cash will be utilized by Gemini and Nordsee One for expenditures and the purchase of euro-denominated property, plant and equipment.

During the quarter, cash and cash equivalents decreased by \$11.4 million due to cash provided by operations of \$107.8 million and cash provided by financing activities of \$432.4 million, offset by \$563.7 million of cash used in investing activities.

The decrease in cash and cash equivalents during the quarter was largely due to: (i) construction and development related expenditures, mostly associated with Gemini, Nordsee One, and Grand Bend projects; (ii) interest payments associated with borrowings; (iii) a net reserve increase primarily associated with the transfer of funds related to construction expenditures; and (iv) scheduled debt repayments. These variances were partially offset by: (i) debt proceeds from the Gemini and Nordsee One's third-party senior debt and GMS project financing; (ii) overall favourable operating results from Northland's operating facilities; and (iii) \$217.7 million change in working capital related to the timing of construction payables;

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

in thousands of dollars	Cost balance as of Dec. 31, 2015	Purchases	Recovery (Write- offs)	Other <sup>(1)</sup>	Exchange Rate Differences	Transfers	Cost balance as of Jun. 30, 2016
<b>Operations:</b>							
Thermal <sup>(2)</sup>	1,601,165	101	-	-	-	-	1,601,266
Renewable	1,394,614	1,416	(2,476)	27,112	(1,714)	356,621	1,775,573
	2,995,779	1,517	(2,476)	27,112	(1,714)	356,621	3,376,839
<b>Construction:</b>							
Renewable	284,752	71,869	-	-	-	(356,621)	-
Gemini	2,990,571	662,515	-	2,521	(163,958)	-	3,491,649
Nordsee One	400,421	435,099	-	1,237	(31,464)	-	805,293
	3,675,744	1,169,483	-	3,758	(195,422)	(356,621)	4,296,942
<b>Managed<sup>(3)</sup></b>	224,052	2,571	-	-	-	-	226,623
<b>Corporate<sup>(4)</sup></b>	16,986	1,284	-	-	-	-	18,270
<b>Total</b>	6,912,561	1,174,855	(2,476)	30,870	(197,136)	-	7,918,674

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

(2) Excludes Spy Hill lease receivable accounting treatment.

(3) Kirkland Lake facility.

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

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

in thousands of dollars	Balance as of Dec. 31, 2015	Financings	Repayments	Amortization of costs/ Fair Value	Transfers	Exchange Rate Differences	Balance as of Jun. 30, 2016
<b>Operations:</b>							
Thermal <sup>(1)</sup>	1,096,523	-	(19,357)	1,096	-	-	1,078,262
Renewable <sup>(2)</sup>	877,531	9,070	(20,353)	444	325,645	-	1,192,337
	1,974,054	9,070	(39,710)	1,540	325,645	-	2,270,599
<b>Construction:</b>							
Renewable	325,645	-	-	-	(325,645)	-	-
Gemini <sup>(3)</sup>	2,185,063	514,768	-	-	-	(119,606)	2,580,225
Nordsee One	101,805	412,384	-	-	-	(19,248)	494,941
	2,612,513	927,152	-	-	(325,645)	(138,854)	3,075,166
<b>Managed<sup>(4)</sup></b>	-	2,600	-	-	-	-	2,600
<b>Corporate<sup>(5)</sup></b>	250,064	-	-	352	-	(2,457)	247,959
<b>Total</b>	4,836,631	938,822	(39,710)	1,892	-	(141,311)	5,596,324

(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 facility.

(5) Excludes convertible unsecured subordinated debentures.

### Long-term Project Debt

In March 2016, Kirkland Lake closed a \$25 million bank financing consisting of a \$15 million term loan and a \$10 million letter of credit facility. The financing will fund the costs of plant upgrades associated with the baseload PPA contract extension negotiated in the summer of 2015, the security for long-term gas transportation costs and

the financing requirements for the new peaking facility's PPA. The term loan is due in March 2023 and bears an all-in interest rate of 2.82%. The plant upgrades are expected to be completed by the third quarter of 2016 with minimal impact on operations.

### ***Debt Covenants***

Northland generally conducts its business indirectly through separate subsidiary legal entities and is dependent on the distribution of cash from those entities to defray its corporate expenses 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 if the loan is in default. Northland and its subsidiaries were in compliance with all debt covenants for the period ended June 30, 2016 except as noted below. Readers should refer to Northland's 2015 AIF dated February 29, 2016, for additional details concerning its debt covenants.

In April 2016, the last seven ground-mounted solar facilities were not in compliance with certain covenants under their credit agreements as a result of SunEdison, Inc. and several of its subsidiaries (collectively, "SunEdison") filing for Chapter 11 bankruptcy protection in April 2016. SunEdison supplied the solar modules and provided long-term module power output warranties and materials and workmanship warranties. The last seven Ground-mounted Solar facilities do not have any claims outstanding under the power output warranties and have a minor claim under the materials and workmanship warranties. As at June 30, 2016, Northland obtained a waiver from the bank that defers the bank's right to demand repayment of the loan and that is in effect for a 12-month period ending on June 30, 2017. Subsequent to June 30, 2016, the credit agreements were amended to rectify the breach and remove the provisions which were the source of non-compliance.

### ***Corporate Facility and Letters of Credit***

As of June 30, 2016, Northland's corporate credit facilities total \$800 million. The facilities are available for general corporate purposes, to support operational, construction and development opportunities and to provide letters of credit issued on behalf of Northland as described below.

The corporate credit facility includes the following:

- A \$450 million revolving facility in place until March 2020 with successive annual renewals at Northland's option, subject to lender approval, of which \$246.1 million has been drawn;
- A \$250 million term facility that matures in March 2018 with a one-year renewal at Northland's option, subject to lender approval, of which \$248 million has been drawn; and
- A \$100 million corporate letter of credit facility in place until March 2018 with successive annual renewals at Northland's option, subject to lender approval, of which \$99.9 million has been issued.

As of June 30, 2016, Northland and its subsidiaries had \$391.4 million of letters of credit outstanding, of which \$346 million were issued as security under Northland's corporate credit facilities for certain projects in operation, advanced development and construction, and \$45.4 million was issued under specific subsidiaries' non-recourse credit facilities.

### ***Free Cash Flow and Dividends to Shareholders***

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

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

Free cash flow is calculated as cash provided by operating activities, 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, as 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), as these amounts would have been included in scheduled repayments of principal on debt if not for the timing of holidays and weekends;
- Funds identified as being set aside or reserved (or utilized) for future maintenance;
- Consolidation of non-controlling interests (see below for additional details);
- Timing of distributions received from equity accounted investments;
- Net proceeds on the sale of development assets; and
- Preferred share dividends.

in thousands of dollars	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
<b>Cash provided by operating activities</b>	<b>107,762</b>	88,237	<b>216,582</b>	207,849
<b>Northland adjustments:</b>				
Net change in non-cash working capital balances related to operations	5,065	3,405	(12,242)	(25,273)
Capital expenditures, net non-expansionary	(468)	(287)	(631)	(447)
Interest paid, net	(52,057)	(42,358)	(76,622)	(61,017)
Scheduled principal repayments on term loans	(27,171)	(21,541)	(39,107)	(30,302)
Funds (set aside) for quarterly scheduled principal repayments	7,168	6,447	(760)	-
Restricted cash (funding) for major maintenance	(704)	(1,220)	(1,128)	(2,838)
Consolidation of non-controlling interests	8,323	5,474	8,464	(3,686)
Equity accounting	240	(300)	311	(244)
Net proceeds from the sale of development assets <sup>(1)</sup>	-	-	-	7,529
Grand Bend investment income on First Nations loan	951	878	1,899	878
Other	-	(682)	-	(682)
Preferred share dividends	(2,793)	(3,469)	(5,584)	(6,938)
<b>Free cash flow<sup>(2)</sup></b>	<b>46,316</b>	34,584	<b>91,182</b>	84,829
<b>Cash Dividends paid to common and Class A shareholders</b>	<b>34,559</b>	35,141	<b>71,025</b>	65,253
Free cash flow payout ratio - net dividends <sup>(2)/(3)</sup>	75%	102%	78%	77%
<b>Total Dividends<sup>(4)</sup> paid to common and Class A shareholders</b>	<b>45,762</b>	45,620	<b>91,886</b>	86,310
Free cash flow payout ratio - total dividends <sup>(2)/(3)</sup>	99%	132%	101%	102%
Free cash flow payout ratio - total dividends since initial public offering <sup>(2)/(3)</sup>			102%	103%
<b>Weighted average number of shares - basic (thousands of share)<sup>(5)</sup></b>	<b>171,739</b>	169,416	<b>171,739</b>	163,193
<b>Weighted average number of shares - fully diluted (thousands of share)<sup>(6)</sup></b>	<b>171,739</b>	184,847	<b>171,739</b>	179,351
<b>Per share (\$/share)</b>				
Free cash flow - basic <sup>(2)</sup>	0.27	0.20	0.53	0.52
Free cash flow - fully diluted <sup>(2)</sup>	0.27	0.19	0.53	0.47

(1) Amount is net of deferred development costs.

(2) Non-IFRS measures.

(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 is the sum of the weighted average number of common shares and Class A Shares of Northland, both of which are eligible to receive dividends and do not include any common shares which may be issuable in respect of the conversion of Northland's outstanding convertible debentures.

(6) Average number of shares diluted is the sum of the weighted average number of common shares and Class A shares in the basic

Free cash flow of \$46.3 million for the second quarter of 2016 was \$11.7 million higher than the corresponding period in 2015. Significant factors increasing or decreasing free cash flow are described below.

Factors increasing free cash flow were:

- \$18.3 million increase from Northland's operating facilities primarily due to the additional contributions from completed construction projects; and
- \$0.7 million decrease in operations-related capital expenditures.

Factors decreasing free cash flow were:

- \$3.8 million increase in scheduled debt repayments related to the additional ground-mounted solar facilities; and
- \$3.6 million increase in net interest expense increase primarily due to the inclusion of Grand Bend and the additional ground-mounted solar project debt.

For the three months ended June 30, 2016, common share and Class A Share dividends declared for the quarter totalled \$0.27 per share. The increase in quarterly free cash flow from 2015, described above, was the primary reason for the decrease in the quarterly cash payout ratio to 75% or 100% if all dividends were paid out in cash (i.e. excluding the effect of dividends re-invested through Northland's DRIP).

Free cash flow of \$91.2 million for the six months ended June 30, 2016 was \$6.4 million higher than the same period in 2015. Favourable changes from the same period for 2015 included:

- \$25.5 million increase from Northland's operating facilities primarily due to the additional contributions from completed construction projects;
- \$1.7 million decrease in funds set aside for future maintenance; and
- \$1.5 million decrease in preferred share dividends due to the rate reset on September 30, 2015.

Partially offsetting these favourable variances were:

- \$7.5 million net proceeds received in 2015 from the sale of Frampton and land leases and options associated with early-stage development projects;
- \$7.5 million net interest expense increase, related to the inclusion of Grand Bend and additional ground-mounted solar facilities debt; and
- \$7.3 million increase in scheduled debt repayments as a result of additional ground-mounted solar facilities.

## SECTION 6: CONSTRUCTION ACTIVITIES

### *Gemini 600 MW Offshore Wind Project – Netherlands*

In May 2014, Northland acquired a 60% interest in Gemini, which is 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 a 15-year electricity subsidy agreement with the Government of the Netherlands. Under a two-contract project structure, Siemens will supply and erect the turbines, and Van Oord will construct the balance of the wind farm.

Construction has been progressing well with the final in-field cables were installed on all 150 sections in April 2016. As of the date hereof, 138 wind turbines, representing over 90% of the total wind turbines, have been installed with 105 wind turbines producing power and earning pre-completion revenues. Installation of the wind turbines will continue throughout 2016. Full commercial operations are expected by mid 2017.

Gemini's total capital cost is approximately €2.8 billion (CAD\$4 billion as at June 30, 2016). The project remains on time and within budget.

### *Nordsee One 332 MW Offshore Wind Farm – Germany*

In September 2014, Northland acquired an 85% equity stake from RWE Innogy GmbH (**RWE**) in Nordsee One, a 332 MW, €1.2 billion offshore wind development located in the North Sea, 40 kilometres north of Juist Island in German territorial waters. RWE, retains a 15% equity interest in the wind farms. Nordsee One is entitled to a FIT subsidy for approximately ten 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 continues to progress as expected. Installation of all 54 foundation monopiles and transition pieces was achieved in April 2016. In July 2016, installation of the offshore substation was successfully completed. Installation of the in-field cables continues to progress well. 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 (CAD\$1.7 billion as at June 30, 2016). The project remains on time and within budget.

## **SECTION 7: 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 Projects and Burks Falls West Solar Project***

In late December 2014, Northland terminated its engineering, procurement and construction ("**EPC**") contract with White for default of White's obligations to construct the Cochrane Solar projects. Under the terms of the EPC contract, the Cochrane Solar subsidiaries commenced a claim in arbitration for approximately \$159 million against White and White Construction, Inc. ("**White US**"), guarantor under the White EPC contract, for costs, losses and damages for breaches of the EPC contract. White and White US had counterclaimed in this arbitration proceeding for approximately \$74 million. White registered a lien and filed a claim for approximately \$32 million against the Cochrane Solar entities relating to the termination of the EPC contract. As a result of duplication in the White lien claim, Northland removed the lien from title by posting a letter of credit for approximately \$16.6 million.

In addition to the claim by White, a number of White's subcontractors involved in the construction of the Cochrane Solar projects registered liens and filed claims against White and Northland's Cochrane Solar subsidiaries. Northland had arranged for the subcontractors' liens to be removed from title by posting letters of credit for approximately \$26.8 million. Northland had retained a holdback of \$7.4 million in accordance with the Ontario Construction Lien Act. Northland contends that its liability to the subcontractors is limited to this holdback amount.

In September 2015, White registered liens for approximately \$22 million against the Burks Falls West solar project. As of the date of this report, Northland has posted approximately \$22 million of letters of credit to remove liens from title to the Burks Falls West solar project.

On July 7, 2016, Northland entered into agreements 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 projects 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 CCAA in Ontario. The settlement agreements between White and Northland are conditional upon 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. Northland also expects that, upon successful conclusion of the CCAA process, all of White's liens and filed claims relating to Northland's projects will be released. Northland expects the letters of credit (which as of this date total approximately \$65.4 million) posted to remove the liens from the projects will be returned in their entirety once the claims of the subcontractors have been resolved. All ongoing arbitration and claims between White and Northland have been suspended pending the outcome of the CCAA proceeding.

### ***(ii) Global Adjustment***

On April 19, 2016, the Ontario Court of Appeal released its decision upholding the March 12, 2015 decision of the Ontario Superior Court of Justice in favour of 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 June 23, 2016, the OEFC filed an application for leave to appeal to the Supreme Court of Canada the decision of the Ontario Court of Appeal. The Northland Applicants and the other applicants intend to oppose the OEFC's application for leave to appeal to the Supreme Court.

The Northland Applicants estimate their share of past and future lost revenue over the life of the relevant agreements, based on their interpretation of the price escalator as upheld by the courts, would be in the range of \$225 million (originally estimated to be \$200 million), as compared to the OEFC's interpretation. Such revenue would be lost if the OEFC is ultimately successful in obtaining leave to appeal to the Supreme Court and is successful on appeal in reversing the lower courts' decisions.

Starting in the third quarter of 2015, the OEFC has calculated and made increased payments for power sold to the Northland Applicants and the other applicants effective February 2015 based on the Superior Court's decision. Going forward, rates under the contracts will continue to be indexed according to the interpretation confirmed by the courts, consistent with the rates that have been applied since 2015. However, if the OEFC is ultimately successful in obtaining leave to appeal to the Supreme Court and is successful on appeal, the increase in the payments since 2015 will be required to be repaid to the OEFC, with interest.

Pursuant to the Superior Court's decision, the Northland Applicants are entitled to retroactive payments totaling approximately \$95 million (including interest, originally estimated to be \$90 million) of lost revenue from the period prior to the decision. The OEFC applied to the Ontario Court of Appeal for a stay of the retroactive payments pending the outcome of its application for leave to appeal to the Supreme Court. The Northland Applicants and the other industry applicants opposed the OEFC's stay application. The stay hearing was heard on July 28, 2016. On August 5, 2016, the Ontario Court of Appeal ruled in favour of the Northland Applicants and the other industry applicants and denied the OEFC's application for a stay of the retroactive payments. Accordingly, subject to the OEFC's exercise of any further appeals rights, the Northland Applicants are entitled to receive retroactive payments, of which Northland's share totals approximately \$95 million. Northland expects to include the retroactive payments in income when received.

Northland anticipates that the approximately \$95 million in retroactive payments will be received in 2016. The Northland Applicants' entitlement to retain the \$95 million in retroactive payments will be subject to the outcome of the OEFC's motion for leave to appeal and the outcome of the appeal if leave is granted. If the OEFC is ultimately successful on appeal, the Northland Applicants will be required to repay the retroactive payment to the OEFC, with interest, as well as the other increased payments received since February 2015 of approximately \$36.5 million.

## **SECTION 8: OUTLOOK**

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

During the first six months of 2016 and through the date of this report, Northland continued to expand its early stage development pipeline, pursuing opportunities that meet the Company's investment criteria in targeted markets including, but not limited to, Canada, United States, Europe, Mexico, and Taiwan. Northland has identified a number of new opportunities in these jurisdictions, in addition to several projects already under development. Northland's sustained focus is on purposefully advancing those development opportunities that align with the Company's business strategy while prudently managing the cost exposure of earlier-stage projects.

Management continues to expect adjusted EBITDA in 2016 to be approximately \$500 to \$530 million. This adjusted EBITDA guidance includes Northland's share of pre-completion revenues from Gemini (€80 to €90 million at an assumed average exchange rate of CA\$1.43/euro) but excludes the lump-sum retroactive payments to Northland from past amounts owed by the OEFC pursuant to the global adjustment decision which is estimated at approximately \$95 million. The settlement payments are subject to OEFC's applications for leave to appeal to the Supreme Court of Canada as previously described.

In 2016, commensurate with adjusted EBITDA guidance, management continues to estimate the free cash flow per share range guidance of \$0.93 to \$1.08 per share. This free cash flow per share guidance includes a \$28 million partial payment against the purchase price of the sale of 37.5% of four ground-mounted solar projects that is subject to meeting certain conditions. Similar to adjusted EBITDA guidance, free cash flow per share guidance excludes the impact from the expected lump-sum retroactive payments pursuant to the global adjustment settlement.

Northland's Board and management are committed to maintaining the current monthly dividend of \$0.09 per share (\$1.08 per share on an annual basis). Northland's management and Board have anticipated the impact of growth 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, if necessary, use of its line of credit or external financing. Management expects to continue its DRIP to provide an additional source of liquidity.

## **SECTION 9: RISKS AND UNCERTAINTIES**

For information concerning Northland's risks, uncertainties, financial instruments and contractual commitments please refer to Northland's 2015 Annual Report and its AIF which are filed electronically at [www.sedar.com](http://www.sedar.com) under Northland's profile.

Except as described in more detail below, management believes that there have been no material changes in the business environment or risks faced by Northland during the quarter that have not been disclosed in the AIF or the 2015 Annual Report.

Northland's overall risk management approach seeks to mitigate the financial risks to which it is exposed in order to maintain stable and sustainable levels of cash available to pay dividends to shareholders. Northland does not seek to mitigate fair value risk. Northland classifies financial risks into the categories of market risk, counterparty risk and liquidity risk. Readers should refer to Note 4 to the 2015 annual consolidated financial statements for additional information on Northland's risk management.

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

## **SECTION 10: MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION**

A rigorous and comprehensive financial governance framework is in place at Northland and its subsidiaries. Northland's 2015 Annual Report contains a statement signed by Northland's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. Northland filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators in February 2016 in association with the filing of the 2015 Annual Report and other annual disclosure documents. In those filings, Northland's CEO and CFO certified, as required in Canada by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in Northland's annual filings and the effectiveness of Northland's disclosure controls and procedures. The CEO and CFO have certified to securities regulators the appropriateness of the financial disclosures in Northland's interim filings for the period ended June 30, 2016, and that they are responsible for the design of disclosure controls and procedures and internal controls over financial reporting. The interim filings include this MD&A and the

accompanying unaudited interim condensed consolidated financial statements.

There have been no changes in internal controls over financial reporting during the quarter ended June 30, 2016 that have materially affected or are reasonably likely to materially affect Northland's internal controls over financial reporting.

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

## **SECTION 11: FORWARD-LOOKING STATEMENTS**

*This MD&A contains certain forward-looking statements that are provided for the purpose of presenting information about management's current expectations and plans. Readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects," "anticipates," "plans," "predicts," "believes," "estimates," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions or future or conditional verbs such as "may," "will," "should," "would" and "could." These statements may include, without limitation, statements regarding future adjusted EBITDA, free cash flows, dividend payments and dividend payout ratios; the construction, completion, attainment of commercial operations, cost and output of development projects; the resolution of the legal claims and proceedings; plans for raising capital; and the future operations, business, financial condition, financial results, priorities, ongoing objectives, strategies and outlook of Northland and its subsidiaries. These statements are based upon certain material factors or assumptions that were applied in developing the forward-looking statements, including the design specifications of development projects, the provisions of contracts to which Northland or a subsidiary is a party, management's current plans and its perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Although these forward-looking statements are based upon management's current reasonable expectations and assumptions, they are subject to numerous risks and uncertainties. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, natural events, construction risks, counterparty risks, operational risks, risks relating to co-ownership, the variability of revenues from generating facilities powered by intermittent renewable resources, power market risks and possible inflation risks and the other factors described in this MD&A and Northland's 2015 Annual Report and the 2015 Annual Information Form dated February 29, 2016, both of which can be found at [www.sedar.com](http://www.sedar.com) under Northland's profile and on Northland's website at [www.northlandpower.ca](http://www.northlandpower.ca). Northland's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur. The forward-looking statements contained in this MD&A are based on assumptions that were considered reasonable on August 10, 2016. 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.*