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 ended March 31, 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 and on Northland's website at 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 May 11, 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, 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 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.

This MD&A is organized as follows:

SECTION 1: CONSOLIDATED HIGHLIGHTS

1.1 Significant events

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

Board of Directors

In March 2016, Northland announced that V. Peter Harder had been appointed as the Canadian Liberal government's Representative in the Senate, and as a result resigned from Northland's board of directors effective March 18, 2016.

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. In February 2016, Northland announced that the first wind turbine was installed and commenced producing power. As of the date hereof, 50 wind turbines, representing over a third of the total wind turbines, have been installed with 27 wind turbines producing power and earning pre-completion revenues. Installation of the wind turbines will continue throughout 2016, and may continue into early 2017. The project, which is expected to be completed in 2017, remains on time and within budget.

The 332 MW Nordsee One offshore wind project located in the North Sea continues to progress as expected during the first 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. The offshore substation jacket foundation was also successfully installed in early May 2016. Construction of the offshore substation topside continues on schedule for installation in the summer of 2016. Production of in-field cables is nearly complete and production of the wind turbines has commenced. Full commercial operations are expected by the end of 2017.

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 revenues and operating as planned. Commercial operations was ahead of previously disclosed timing due to the contractors and suppliers taking advantage of favourable weather conditions and providing additional staff to advance commissioning. Capital cost of the project was within budget.

Court Decision Regarding Appeal of Global Adjustment Case

On April 19, 2016, the Ontario Court of Appeal released its decision upholding the March 12, 2015 decision by the Ontario Superior Court of Justice in relation to the interpretation of Northland's and other industry participants' power purchase agreements with the Ontario Electricity Financial Corporation (**OEFC**) with respect to the price escalator for power sold under such agreements. Northland estimates its share of past and future lost revenue over the life of the relevant agreements would have been in the range of $225 million (originally estimated to be $200 million) had the appeal overturned the original decision. The OEFC has the right to seek leave to appeal the Court of Appeal's decision to the Supreme Court of Canada on the basis that the matter is of national or public importance. Subject to the right to seek leave to appeal, and the outcome of the appeal if leave is granted, Northland anticipates that approximately $90 million of retroactive payments, of the $225 million, will be received in 2016. 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 February 2015. See more details in *SECTION 7: Litigation, Claims and Contingencies*.

Kirkland Lake Financing

In March 2016, Kirkland Lake closed a $25 million bank credit facility consisting of a $15 million term loan and a $10 million letter of credit facility. The financing will fund the costs of plant upgrades associated with the baseload PPA contract extension negotiated in the summer of 2015, the long-term gas transportation costs and the credit requirements of the new peaking facility's PPA. The term loan is due in March 2023 and bears an underlying interest rate and an applicable loan credit spread, which is expected to be finalized in the second quarter of 2016.

Preliminary Base Shelf Prospectus

In April 2016, Northland filed a short form base shelf prospectus with the securities regulatory authorities in each of the provinces of Canada. This filing replaced Northland's expiring base shelf prospectus and 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 First Quarter Results

In thousands of dollars except per share and energy unit amounts

	Three months ended March 31,	
	2016	2015
FINANCIALS		
Sales	**178,128**	201,596
Gross Profit	**129,342**	130,157
Operating Income	**67,024**	74,316
Net Loss	**(91,651)**	(30,616)
Adjusted EBITDA(1)	**103,937**	97,133
Cash Provided by Operating Activities	**108,820**	119,612
Free Cash Flow(1)	**44,866**	50,245
Cash Dividends Paid to Common and Class A Shareholders	**36,466**	30,112
Total Dividends Declared to Common and Class A Shareholders(2)	**46,168**	42,340
Per Share		
Free Cash Flow(1)	**0.262**	0.330
Total Dividends Declared to Common and Class A Shareholders(2)	**0.270**	0.270
ENERGY VOLUMES		
Electricity (megawatt hours)	**1,409,723**	1,550,176

(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 $178.1 million for the first quarter of 2016 were 12% lower than the same quarter in 2015 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 oppportunities at Thorold (affecting sales but not gross profit), and the pass-through of lower natural gas costs and electricity prices at Thorold and 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 ground-mounted solar facilities;

- **Gross profit** of $129.3 million for the first quarter of 2016 was in line with the first quarter of 2015 primarily due to the higher PPA rates at Iroquois Falls and contributions from the newly operating ground-mounted solar facilities, offset by lower baseload gas-fired PPA rates at Kirkland Lake and the loss of revenue from Cochrane in 2016, whose operations ceased in May 2015 due to its PPA expiry;
- **Operating income** for the three months ended March 31, 2016 was $7.3 million lower than the first quarter of 2015 primarily due to increased depreciation of property, plant and equipment, higher plant operating costs, and corporate management and administration costs;
- **Net loss** for the quarter was $91.7 million compared to a net loss of $30.6 million in the first quarter of 2015. The increase was primarily caused by 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; and
- **Adjusted EBITDA** (a non-IFRS measure) for the first quarter of 2016 increased by 7% over the same period in 2015 to $103.9 million primarily driven by positive contributions from thermal and renewable operating segments and the establishement of decommissioning reserves in 2015 related to the Cochrane facility. See *SECTION 3.2: Consolidated Results* for additional details on the above variances.

1.3 Liquidity and capital resource highlights

- **Cash provided by operating activities** decreased by $10.8 million from the same quarter in 2015, primarily as a result of the decrease in operating income, and the timing of payables, receivables, and deposits;
- **Free cash flow** (a non-IFRS measure) for the first quarter of 2016 of $44.9 million was 11% lower than the first quarter of 2015 primarily due to higher interest and debt repayments related to the additional ground-mounted solar facilities combined with the 2015 sale of development assets, partially offset by an increase in adjusted EBITDA; and
- **Quarterly free cash flow per share** was $0.26 in the first quarter of 2016 versus $0.33 in the first quarter of 2015 primarily due to net proceeds received in 2015 from the sale of the Frampton wind farm and higher debt payments relating to the newly operating ground-mounted solar facilities.

SECTION 2: DESCRIPTION OF BUSINESS

As of March 31, 2016, Northland owns or has a net economic interest in completed power producing facilities with a total operating capacity of approximately 1,338 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 March 31, 2016, Northland had the following projects under construction: 600 MW (360 MW net interest to Northland) Gemini offshore wind project, 332 MW (282 MW net interest to Northland) Nordsee One offshore wind project, and 100 MW (50 MW net interest to Northland) Grand Bend wind project. The Grand Bend wind project declared commercial operations in April 2016. Furthermore, Northland has an extensive portfolio of projects in earlier 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 projects **(**collectively, the **"GMS Projects")** in Eastern and Central Ontario and the final four projects totalling 40 MW (25 MW net interest to Northland) located in Northern Ontario and 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 Kirkland Lake Power Corp. (**"Kirkland Lake"**) and Cochrane Power Corporation (**"Cochrane"**) facilities that Northland continues to manage on behalf of third-party, non-voting shareholders and Canadian Environmental Energy Corporation (**CEEC**). Northland also has a 75% equity interest in four small rooftop solar projects in Ontario and receives management fees from Chapais Énergie, Société en Commandite (**"Chapais"**) for managing its 28 MW biomass-fired power facility in Chapais, Quebec. In addition, as a result of obtaining a controlling interest in Gemini in May 2014 and Nordsee in September 2014, Northland's interim condensed consolidated financial statements also include Gemini's and Nordsee's financial results. Significant Gemini and Nordsee items included in Northland's interim condensed unaudited consolidated financial statements are as follows:

- Cash and cash equivalents of $1.7 million;
- Restricted cash of $186.6 million;
- Current assets (excluding cash and cash equivalents and restricted cash) of $14.2 million;
- Property, plant and equipment of $3.7 billion;
- Contracts and other intangibles of $164.3 million;
- Current liabilities of $222.3 million;
- Interest-bearing loans and borrowings (excludes intercompany amounts) of $2.6 billion; and
- Unrealized fair value loss on the long-term derivative contracts of $364.2 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 months ended March 31.

	Three months ended March 31,	
in thousands of dollars except as indicated	**2016**	2015
Electricity Production (MWh)		
Iroquois Falls	**204,194**	208,416
Kingston	**200,116**	196,073
Other(1)	**722,462**	861,072
	1,126,772	1,265,561
Sales		
Iroquois Falls	**33,197**	26,896
Kingston	**29,372**	30,614
Thorold	**20,610**	27,226
Spy Hill(2)	**6,100**	5,534
North Battleford	**40,821**	44,295
	130,100	134,565
Less finance lease adjustment	**(4,047)**	(4,047)
Sales as reported	**126,053**	130,518
Cost of sales	**41,186**	51,742
Gross profit		
Iroquois Falls	**22,078**	16,671
Kingston	**15,869**	16,350
Thorold	**16,141**	14,928
Spy Hill(2)	**4,973**	4,671
North Battleford	**29,853**	30,203
	88,914	82,823
Less finance lease adjustment	**(4,047)**	(4,047)
Gross profit as reported	**84,867**	78,776

Thermal Facilities - continued

in thousands of dollars except as indicated	Three months ended March 31, **2016**	2015
Plant operating costs		
Iroquois Falls	**2,386**	2,088
Kingston	**1,415**	1,413
Thorold	**2,433**	2,354
Spy Hill	**456**	326
North Battleford	**3,193**	2,980
	9,883	9,161
Operating income	**63,338**	57,782
Adjusted EBITDA(3)		
Iroquois Falls	**19,674**	14,539
Kingston	**14,383**	14,891
Thorold	**13,701**	12,556
Spy Hill	**4,512**	4,339
North Battleford	**26,654**	27,217
	78,924	73,542
Capital expenditures(4)	**-**	10

(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** under Northland’s profile.

Electricity production during the three months ended March 31, 2016 was 138,789 MWh lower than the same quarter of 2015 primarily due to a decrease in production at Thorold as a result of fewer economic production periods and dispatch requests. These results were partially offset by increases in production at Spy Hill and North Battleford due to higher dispatch requests than the same quarter of 2015. However, the quantity of electricity produced at those three facilities had a minimal impact on gross profit given the nature of their PPAs.

Sales during the first quarter of 2016 of $126.1 million were $4.5 million lower than the first quarter of 2015 primarily due to a decrease in electricity revenue earned at the Thorold facility ($6.6 million), as well as a lower energy tariff (driven by lower natural gas costs) at the North Battleford facility ($3.5 million). These results were partially offset by increased electricity revenue at the Iroquois Falls facility ($6.3 million) associated with the price escalation court decision with the OEFC (see *SECTION 7: Litigation, Claims and Contingencies*).

Gross profit during the first quarter of 2016 at $84.9 million was $6.1 million higher than the same period in 2015 primarily due to Iroquois Falls' contribution ($5.4 million), as described above, as well as a one-time charge of $2.3 million incurred by Thorold in the first quarter of 2015 related to a settlement for plant start-up costs.

Plant operating costs during the first quarter of 2016 at $9.9 million were consistent with the first quarter of 2015.

Adjusted EBITDA and operating income for the three months ended March 31, 2016 were $5.4 and $5.6 million, respectively, higher than the same 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 months ended March 31.

	Three months ended March 31,	
in thousands of dollars except as indicated	**2016**	2015
Electricity Production (MWh)	**282,951**	284,615
Electricity Production (MWh) - Long Term Forecast	**298,183**	285,075
Sales/Gross Profit[(1)]		
Jardin	**7,455**	7,692
Mont Louis	**6,891**	6,763
German Wind Farms	**1,339**	1,314
McLean's	**6,331**	7,311
Ground-mounted solar	**12,907**	8,761
	34,923	31,841

in thousands of dollars except as indicated	**Three months ended March 31, 2016**	2015
Plant operating costs		
Jardin	**1,474**	1,458
Mont Louis	**1,307**	1,182
German Wind Farms	**313**	379
McLean's	**1,085**	1,003
Ground-mounted solar	**1,136**	602
	5,315	4,624
Operating income	**10,627**	12,932
Adjusted EBITDA(2)		
Jardin	**5,976**	6,226
Mont Louis	**5,578**	5,574
German Wind Farms	**901**	795
McLean's(3)	**2,668**	3,200
Ground-mounted solar (3)	**10,668**	8,156
	25,791	23,951
Capital expenditures(4)	**-**	48

(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 March 31, 2016 was 1,664 MWh lower than the same period in 2015 primarily due to a net 10,485 MWh decrease in production at the wind facilities caused by lower wind resources. This decrease was partially offset by an additional 8,821 MWh of production from the ground-mounted solar sites due to the additional ground-mounted solar facilities in operation compared to the first quarter of 2015.

During the first quarter of 2016, sales of $34.9 million were $3.1 million higher and plant operating costs of $5.3 million were $0.7 million higher than the first quarter of 2015, primarily due to the incremental contribution from the additional ground-mounted solar sites in operation.

Operating income of $10.6 million during the first quarter of 2016 was $2.3 million lower than the first quarter of 2015 largely due to the inclusion of depreciation on the additional ground-mounted solar facilities.

Adjusted EBITDA of $25.8 million in the first quarter of 2016 was $1.8 million 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 months ended March 31.

	Three months ended March 31,	
in thousands of dollars	**2016**	2015
Sales	**17,125**	39,237
Cost of sales	**7,600**	19,697
Gross profit	**9,525**	19,540
Plant operating costs	**3,443**	4,473
Operating Income	**4,453**	13,269
Adjusted EBITDA(1)	**5,180**	5,335

(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 expiry of the PPA.

Sales and gross profit for the three months ended March 31, 2016 were lower than the first quarter of 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 the closure of the Cochrane facility. Operating income was lower than the first quarter of 2015 largely due to the reduction in gross profit.

Adjusted EBITDA (i.e. management and incentive fees) for the first quarter of 2016 was in line with the first quarter of 2015 despite lower gross profit. For the first quarter of 2016, management and incentive fees from Kirkland Lake were lower than the first quarter of 2015 primarily due to the amendment of the gas-fired PPA rates, offset by the withholding of management fees to fund cash reserves for severance and decommissioning costs associated with the non-renewal of the Cochrane PPA.

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 ended March 31, 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. New for the first quarter of 2016, 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. The government grant (SDE subsidy) will be invoked by Gemini in the coming months once it is economically attractive to do so, and 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.

	Three months ended March 31,	
in thousands of dollars	**2016**	2015
Sales/Gross Profit(1)(2)	**27**	-
Plant operating costs (2)	**1,165**	-
Management and administration costs	**790**	795
Adjusted EBITDA(3)	**(1,928)**	(795)
Adjusted EBITDA(3) - Northland's share	**(1,243)**	(574)

(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 months ended March 31.

Other Sales and Income

	Three months ended March 31,	
in thousands of dollars	**2016**	2015
Gemini interest	**4,581**	3,582
Other facilities	**1,048**	230
Adjusted EBITDA (1)	**5,629**	3,812

(1) A non-IFRS measure.

"Gemini interest" represents interest earned on the subordinated debt that Northland has loaned to Gemini. Due to Northland acquiring the controlling interest in Gemini in May 2014, Northland consolidates the financial results of Gemini. Therefore, the subordinated debt receivable and related investment income eliminate on consolidation but 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 March 31, 2016, is higher than the comparable period in 2015 primarily due to interest earned on the loan receivable from Grand Bend's equity partner, which was granted in March 2015.

	Three months ended March 31,	
in thousands of dollars	**2016**	2015
Management and administration costs		
Operations(1)	**6,345**	6,482
Development	**5,139**	3,658
Total management and administration costs	**11,484**	10,140
Less: facility management and administration costs	**(1,140)**	(1,207)
Corporate management and administration costs	**10,344**	8,933
Corporate adjusted EBITDA(2)(3)	**(10,344)**	(8,933)

(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 ended March 31, 2016 of $10.3 million were $1.4 million higher than the first quarter of 2015 largely due to higher project development costs.

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 month period ended March 31, 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 loss are the result of Northland consolidating the financial results for Gemini and Nordsee One.

First Quarter

Net loss for the three months ended March 31, 2016 of $91.7 million was primarily due to the non-cash fair value losses associated with Northland's derivative contracts ($140.0 million loss in the first quarter of 2016 versus a $85.9 million loss in the first 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 March 31, 2016:

Total Sales at $178.1 million for the first quarter of 2016 were 12% lower than the same quarter of 2015 for reasons 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 the pass-through of lower natural gas costs and electricity prices at Thorold and 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 ground-mounted solar facilities.

Gross Profit of $129.3 million for the first quarter of 2016 was in line with the same quarter of 2015 primarily due to the higher PPA rates at Iroquois Falls and contributions from the newly operating ground-mounted solar facilities, offset by lower baseload gas-fired PPA rates at Kirkland Lake and the loss of revenue from Cochrane in 2016, whose operations ceased in May 2015 due to its PPA expiry, as discussed in *SECTION 3.1: Facility Results.*

Plant operating costs increased by $1.3 million largely due to the inclusion of costs from the Gemini wind farm now that wind turbines are in operation, and the four new ground-mounted solar facilities, partially offset by costs avoided due to the shutdown of the Cochrane facility.

Management and administration costs at $11.5 million were $1.3 million higher than the first quarter of 2015, as previously discussed.

Investment income was $0.8 million higher in the first quarter of 2016 than the same quarter of 2015 and represents interest earned on the loan receivable from Grand Bend's equity partner, as discussed previously.

Finance costs, net (primarily interest expense), increased by $4.6 million from the first quarter of 2015 due to the inclusion of interest on the final four ground-mounted solar project debt.

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

Non-cash fair value loss of $142.3 million in the first quarter of 2016 (compared to a $84.3 million loss in the first quarter of 2015) is comprised of a $140.0 million loss 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 $2.3 million unrealized foreign exchange loss. A portion ($125.1 million) of the first quarter of 2016 non-cash fair value loss represents the consolidated marked-to-market adjustment on the interest rate swaps entered into by the Gemini and Nordsee One projects.

The factors described above, combined with a $1.4 million provision for current taxes and a $26.4 million recovery of deferred income taxes, resulted in a net loss of $91.7 million for the first quarter of 2016, compared to a net loss of $30.6 million for the first quarter of 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 loss to its adjusted EBITDA:

	Three months ended March 31,	
in thousands of dollars	**2016**	2015
Net Loss	**(91,651)**	(30,616)
Adjustments:		
Recovery of income taxes	**(24,920)**	(8,242)
Depreciation of property, plant and equipment	**35,597**	30,998
Amortization of contracts and other intangible assets	**4,826**	4,656
Finance costs, net	**36,456**	31,812
Gemini subordinated debt interest	**4,581**	3,582
Fair value loss on derivative contracts	**139,984**	85,851
Foreign exchange loss (gain)	**2,336**	(1,596)
Gain on sale of development assets	**-**	(7,555)
Elimination of non-controlling interests	**(4,060)**	(12,479)
Finance lease and equity accounting	**788**	722
Adjusted EBITDA	**103,937**	97,133

Northland's adjusted EBITDA for the three months ended March 31, 2016 was $6.8 million higher than the first quarter of 2015. Significant factors increasing and decreasing adjusted EBITDA for the comparative quarter are described below:

- $5.4 million increase in operating results from Northland's thermal facilities largely due to the contribution from the Iroquois Falls facility associated with the OEFC court decision's revision to the price escalator of the PPA rates;
- $2.1 million increase in management fees from Cochrane due to the establishment of decommissioning reserves in 2015;

- $1.9 million higher investment income earned on Northland's portion of the Gemini subordinated debt, which is now included in investment income since some wind turbines are operational, and the interest earned on the loan receivable from Grand Bend's equity partner; and
- $1.8 million increase in operating results from Northland's renewable facilities largely due to the contribution from the additional ground-mounted solar facilities.

These favourable results were partially offset by:
- $2.3 million increase in corporate management, administration, and other costs; and
- $2.0 decrease in management fees from Kirkland Lake primarily due to the amended baseload gas-fired PPA rates.

3.3 Summary of historical consolidated quarterly results and trends

$ millions, except Per share information	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Total sales	**178.1**	171.5	187.7	167.3	201.6	188.2	172.5	170.0
Operating income	**67.0**	60.6	79.7	59.5	74.3	60.1	54.3	50.4
Net income (loss)	**(91.7)**	8.9	(91.1)	140.3	(30.6)	(70.5)	(43.8)	(91.8)
Adjusted EBITDA(1)	**103.9**	94.4	119.2	91.4	97.1	93.2	86.8	81.4
Cash provided by operating activities	**108.8**	72.9	118.0	88.2	119.6	74.6	74.5	166.1
Free cash flow(1)	**44.9**	34.3	63.1	34.6	50.2	41.2	35.6	31.4
Per share statistics								
Net income (loss) - basic	**(0.32)**	0.01	(0.51)	0.53	(0.12)	(0.34)	(0.11)	(0.44)
Net income (loss) - diluted	**(0.32)**	0.02	(0.51)	0.48	(0.12)	(0.34)	(0.11)	(0.44)
Free cash flow(1)	**0.26**	0.20	0.37	0.20	0.33	0.28	0.24	0.21
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 projects follow a seasonal pattern that is the opposite of Northland's wind farms because the solar projects are expected to generate higher output and revenue during the summer months. Consolidated seasonality is also mitigated at the Kingston, Thorold, Spy Hill, and North Battleford facilities because the contract provisions of these projects 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.

NORTHLAND POWER

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 March 31, 2016 and December 31, 2015.

As at, in thousands of dollars

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	**177,805**	151,927
Restricted cash	**295,242**	283,820
Trade and other receivables	**105,284**	118,807
Other current assets	**31,680**	34,168
Property, plant and equipment	**6,318,698**	5,964,438
Contracts and other intangible assets	**249,778**	257,406
Other assets(1)	**415,039**	415,396
	7,593,526	7,225,962
Liabilities		
Trade and other payables	**313,687**	237,030
Interest-bearing loans and borrowings	**4,913,920**	4,586,567
Net derivative financial liabilities(2)	**564,435**	431,704
Net deferred tax liability(2)	**4,427**	29,116
Other liabilities(3)	**535,452**	534,477
	6,331,921	5,818,894
Total equity	**1,261,604**	1,407,068
	7,593,526	7,225,962

(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 $11.4 million primarily due to the funds set aside for construction at the Gemini and Nordsee One offshore wind farms.
- Trade and other receivables decreased by $13.5 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 $354.3 million from December 31, 2015 primarily due to construction-related activities at Grand Bend and Gemini.
- Contracts and other intangible assets decreased by $7.6 million mainly due to contract amortization and foreign exchange translation differences.
- Trade and other payables increased by $76.7 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 $327.4 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 $564.4 million increased by $132.7 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 ($125.1 million relates to Gemini's and Nordsee One's interest rate swaps).

- Net deferred tax liability (deferred tax liabilities less deferred tax assets) of $4.4 million decreased by $24.7 million from 2015 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 March 31, 2016, Northland had 170,180,539 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 first three months of 2016, Northland's total equity decreased by $145.5 million primarily due to the $101.0 million increase in the deficit and the $48.8 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 a result of the acquisition of the controlling interests in CEEC, Gemini and Nordsee and the equity funding of McLean's, Grand Bend, Gemini, and Nordsee by their non-controlling partners, Northland's total equity includes non-controlling interests, which totals $365.1 million at March 31, 2016. Readers should refer to Note 8 to the interim condensed consolidated financial statements for the period ending March 31, 2016 for additional details related to Northland's non-controlling interests. Shareholders' equity also includes $8.0 million in accumulated other comprehensive income which arises as the CAD/EUR exchange rate fluctuates and Gemini and Nordsee results are translated into Canadian dollars.

As of the date of this MD&A, Northland has outstanding 170,355,328 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 $157.5 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 March 31, 2016**	2015
Cash and cash equivalents, beginning of period	**151,927**	193,412
Cash provided by operating activities	**108,820**	119,612
Cash used in investing activities	**(395,901)**	(602,802)
Cash provided by financing activities	**308,688**	519,395
Effect of exchange rate differences	**4,271**	13,171
Cash and cash equivalents, end of period	**177,805**	242,788

Cash and cash equivalents for the three months ended March 31, 2016 were $177.8 million, which increased by $25.9 million from December 31, 2015, due to $108.8 million in cash provided by operating activities and $308.7 million in cash provided by financing activities, partially offset by $395.9 million in cash used in investing activities.

Cash provided by operating activities for the three months ended March 31, 2016 was $108.8 million, comprising a net loss of $91.7 million, $183.2 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 $17.3 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 three months ended March 31, 2016 was $395.9 million, primarily due to:

(i) $454.9 million used for the purchase of property, plant and equipment, mostly for the construction of the Gemini, Nordsee One, and Grand Bend projects; (ii) a net reserve increase of $14.9 million primarily associated with the transfer of funds related to construction expenditures ($36.7 million is associated with construction activities at Gemini and Nordsee One); and (iii) a $73.4 million change in working capital related to the timing of construction payables ($91.3 million is associated with construction payables at Gemini and Nordsee).

Cash provided by financing activities for the three months ended March 31, 2016 was $308.7 million, comprising: (i) $387.0 million of proceeds from Gemini and Nordsee's third-party senior debt and GMS project financing; and (ii) $2.4 million of proceeds from the repayment of a loan made to McLean's equity partner; partially offset by: (i) $39.3 million of common, Class A and preferred share dividends; (ii) $25.0 million in interest payments; (iii) $12.6 million in scheduled loan repayments; and (iv) $3.8 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 March 31, 2016 consolidated cash and cash equivalents was positively impacted by $4.3 million as a result of translating euro-denominated cash and cash equivalents held by Gemini and Nordsee 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 for expenditures and the purchase of euro-denominated property, plant and equipment.

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**	**Other(1)**	**Exchange Rate Differences**	**Cost balance as of Mar. 31, 2016**
Operations:					
Thermal(2)	1,601,165	**-**	**-**	**-**	**1,601,165**
Renewable	1,394,614	**-**	**-**	**(619)**	**1,393,995**
	2,995,779	-	-	**(619)**	**2,995,160**
Construction:					
Renewable	284,752	**19,695**	**464**	**-**	**304,911**
Gemini	2,990,571	**254,477**	**1,450**	**(58,765)**	**3,187,733**
Nordsee	400,421	**179,519**	**628**	**(8,776)**	**571,792**
	3,675,744	**453,691**	**2,542**	**(67,541)**	**4,064,436**
Managed(3)	224,052	**760**	**-**	**-**	**224,812**
Corporate(4)	16,986	**403**	**-**	**-**	**17,389**
Total	6,912,561	**454,854**	**2,542**	**(68,160)**	**7,301,797**

(1) Includes the accrual for asset retirement obligations for accounting purposes, tax credits, LTIP shares granted and write-offs of deferred development costs.
(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	Exchange Rate Differences	Balance as of Mar. 31, 2016
Operations:						
Thermal(1)	1,096,523	**-**	**(5,450)**	**521**	**-**	**1,091,594**
Renewable(2)	877,531	**9,070**	**(7,140)**	**221**	**-**	**879,682**
	1,974,054	**9,070**	**(12,590)**	**742**	**-**	**1,971,276**
Construction:						
Renewable	325,645	**-**	**-**	**-**	**-**	**325,645**
Gemini(3)	2,185,063	**178,688**	**-**	**-**	**(41,096)**	**2,322,655**
Nordsee	101,805	**198,395**	**-**	**-**	**(6,656)**	**293,544**
	2,612,513	**377,083**	**-**	**-**	**(47,752)**	**2,941,844**
Managed(4)	-	**800**	**-**	**-**	**-**	**800**
Corporate(5)	250,064	**-**	**-**	**176**	**(887)**	**249,353**
Total	4,836,631	**386,953**	**(12,590)**	**918**	**(48,639)**	**5,163,273**

(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 credit facility 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 long-term gas transportation costs and the credit requirements for the new peaking facility's PPA. The term loan is due in March 2023 and bears an underlying interest rate and an applicable loan credit spread, which is expected to be finalized in the second quarter of 2016. 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 receipt of cash from those entities to defray its corporate expenses and to pay cash dividends to common, Class A and preferred shareholders. Certain of those entities have outstanding debt arising from non-recourse project financing at the subsidiary entity. Under the credit agreements or trust indentures for such debt, distributions of cash to Northland are typically prohibited if the coverage ratios or other covenants are not met and/or the loan is in default (notably for non-payment of principal or interest or if certain debt service coverage ratios are not met). Northland and its subsidiaries were in compliance with all debt covenants for the period ended March 31, 2016. Readers should refer to Northland's 2015 AIF dated February 29, 2016, for additional details concerning its debt covenants.

As at the date of this MD&A, the last seven GMS projects are 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 to the last seven of Northland's GMS projects and provided long-term module power output warranties and materials and workmanship warranties. The last seven GMS projects do not have any claims outstanding under the power output warranties and have a minor claim under the materials and workmanship warranties. Northland has no indications that the solar modules will not perform according to original specifications after up to 35 months of operating experience to date. There are cure periods under the credit agreements. Discussions are underway with the project lenders and Northland expects that the technical non-compliance will be resolved. Northland does not expect the bankruptcy filing by SunEdison to have a material impact on the financial results of the last seven GMS projects. In the event that the technical non-compliance is not resolved, Northland will be required to reclassify the debt of approximately $293.3 million associated with the last seven GMS projects from long-term liabilities to current liabilities on the interim consolidated balance sheet in the second quarter of 2016.

Corporate Facility and Letters of Credit

As of March 31, 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 as security against letters of credit issued on behalf of Northland.

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;
- A $250 million term facility that matures in March 2018 with a one-year renewal at Northland's option, subject to lender approval; 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.

As of March 31, 2016, Northland and its subsidiaries had $396.3 million of letters of credit outstanding, of which $352.9 million were issued as security under Northland's corporate credit facilities for certain projects in operation, advanced development and construction, and $43.4 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 March 31, 2016	2015
Cash provided by operating activities	**108,820**	119,612
Northland adjustments:		
Net change in non-cash working capital balances related to operations	**(17,307)**	(28,678)
Capital expenditures, net non-expansionary	**(163)**	(160)
Interest paid, net	**(24,565)**	(18,659)
Scheduled principal repayments on term loans	**(11,936)**	(8,761)
Funds (set aside) for quarterly scheduled principal repayments	**(7,928)**	(6,447)
Restricted cash (funding) for major maintenance	**(424)**	(1,618)
Consolidation of non-controlling interests	**141**	(9,160)
Equity accounting	**71**	56
Net proceeds from the sale of development assets(1)	**-**	7,529
Other	**948**	-
Preferred share dividends	**(2,791)**	(3,469)
Free cash flow(2)	**44,866**	50,245
Cash Dividends paid to common and Class A shareholders	**36,466**	30,112
Free cash flow payout ratio - net dividends(2)/(3)	**81%**	60%
Total Dividends(4) paid to common and Class A shareholders	**46,123**	40,690
Free cash flow payout ratio - total dividends(2)/(3)	**103%**	81%
Free cash flow payout ratio - total dividends since initial public offering(2)/(3)	**102%**	102%
Weighted average number of shares - basic (thousands of share)(5)	**171,181**	152,357
Weighted average number of shares - fully diluted (thousands of share)(6)	**184,899**	168,515
Per share ($/share)		
Free cash flow - basic(2)	**0.26**	0.33
Free cash flow - fully diluted(2)	**0.24**	0.32

(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 issueable 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 calculation plus the number of common shares that would be issued assuming conversion of the 2019 and 2020 Debentures.

Free cash flow of $44.9 million for the first quarter of 2016 was $5.4 million lower than the corresponding period in 2015; significant factors increasing or decreasing free cash flow are described below.

Factors decreasing free cash flow were:

- $7.5 million net proceeds received in 2015 from the sale of the Frampton wind farm and land leases and options associated with early stage development projects;
- $3.9 million net interest expense increase primarily due to the inclusion of additional GMS project debt; and
- $3.5 million increase in scheduled debt repayments also related to the GMS projects.

Factors increasing free cash flow were:

- $6.8 million higher adjusted EBITDA from Northland's operating facilities reduced by $1.0 million of investment income from Gemini, which will be included in free cash flow only when cash is received; and
- $1.2 million decrease in funds set aside for future maintenance.

For the three months ended March 31, 2016, common share and Class A Share dividends declared for the quarter totalled $0.27 per share. The decrease in quarterly free cash flow from 2015, described above, was the primary reason for the increase in the quarterly cash payout ratio to 81% or 103% if all dividends were paid out in cash (i.e. excluding the effect of dividends re-invested through Northland's DRIP).

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.

In February 2016, Northland announced that the first wind turbine was installed and commenced producing power. As of the date hereof, 50 wind turbines, representing over a third of the total wind turbines, have been installed with 27 wind turbines producing power and pre-completion revenues. Installation of the wind turbines will continue throughout 2016, and may continue into early 2017. Also, in April 2016, the final infield cables were installed on all 150 sections.

Gemini's total capital cost is approximately €2.8 billion (CAD$4.1 billion as at March 31, 2016). The project remains on time and within budget. Full commercial operations are expected by 2017.

Nordsee One 332 MW Offshore Wind Farm – Germany

In September 2014, Northland acquired an 85% equity stake from RWE Innogy GmbH (**RWE**) (formerly RWE Innogy GmbH) 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. In April 2016, the project announced that all 54 foundation monopiles and transition pieces had been successfully installed. The offshore substation jacket foundation for the offshore substation was also successfully installed in early May 2016. Construction of the offshore substation topside continues on schedule for installation in the summer of 2016. Production of in-field cables is nearly complete and production of the wind turbines has commenced.

Nordsee's total capital cost is approximately €1.2 billion (CAD$1.8 billion as at March 31, 2016). The project remains on time and within budget. Full commercial operations are expected by the end of 2017.

Grand Bend 100 MW Wind Project – Ontario

Northland and an entity created by the Aamjiwnaang First Nation and Bkejwanong Territory (Walpole Island First Nation) are jointly developing the 100 MW (50 MW net to Northland) Grand Bend wind farm project under a 50/50 partnership. The project has a 20-year PPA with the IESO under the FIT program.

On April 19, 2016, the 100 MW Grand Bend onshore wind farm declared commercial operations, with all 40 wind turbines producing revenues and operating as planned. Commercial operations was ahead of previously disclosed timing due to the contractors and suppliers taking advantage of favourable weather conditions and providing additional staff to advance commissioning. Capital cost of the project was within budget.

SECTION 7: LITIGATION, CLAIMS AND CONTINGENCIES

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

(i) Cochrane Solar Projects

In late December 2014, Northland terminated its engineering, procurement and construction **(EPC)** contract with H.B. White Canada Corp. **("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 have 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. Northland's claim and White's counterclaim are proceeding through the arbitration process and the outcome at this time is unknown.

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 has arranged for the subcontractors' liens to be removed from title by posting letters of credit for approximately $28.5 million. Northland has 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. The proceedings in relation to these claims are ongoing, and the outcome at this time is unknown.

As of the date of this report, Northland has posted approximately $45.1 million of letters of credit to remove liens from these projects, which Northland expects will be returned in their entirety once the claims of the subcontractors have been resolved.

(ii) Burks Falls West Solar Project

In September 2015, White registered liens for approximately $22 million against the Burks Falls West solar project. Northland disputes White's claim, which is ongoing, and the outcome at this time is unknown. 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.

(iii) Global Adjustment

Starting in the third quarter of 2015, the OEFC calculated and made payments based on the Ontario Superior Court of Justice decision in favour of Northland and a number of other power producers in Ontario in relation to the interpretation of past and future price escalator provisions in their respective PPAs with the OEFC. The decision was appealed by the OEFC.

On April 19, 2016, the Ontario Court of Appeal released its decision upholding the March 12, 2015 decision by the Ontario Superior Court of Justice in relation to the interpretation of Northland's and other industry participants' power purchase agreements with the Ontario Electricity Financial Corporation (OEFC) with respect to the price escalator for power sold under such agreements. Northland estimates its share of past and future lost revenue over the life of the relevant agreements would have been in the range of $225 million (originally estimated to be $200 million) had the appeal overturned the original decision. The OEFC has the right to seek leave to appeal the Court of Appeal's decision to the Supreme Court of Canada on the basis that the matter is of national or public importance. Subject to the right to seek leave to appeal, and the outcome of the appeal if leave is granted, Northland anticipates that approximately $90 million of retroactive payments, of the $225 million, will be received in 2016. 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 February 2015.

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 three months of 2016 and through the date of this report, Northland continued to expand its earlier-stage development pipeline, pursuing opportunities that meet the Company's investment criteria in targeted markets including, but not limited to, North America, Europe, and Mexico. Northland has identified a number of 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 rate of CA$1.48/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 $90 million. The settlement is pending a decision by the OEFC to appeal with 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 $28 million of expected proceeds from 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 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 March 31, 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 March 31, 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 arbitration claims; plans for raising *capital; and the future operations, business, financial condition, financial results, priorities, ongoing objectives, strategies and outlook of Northland and its subsidiaries. These statements are based upon certain material factors or assumptions that were applied in developing the forward-looking statements, including the design specifications of development projects, the provisions of contracts to which Northland or a subsidiary is a party, management's current plans and its perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. 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 under Northland's profile and on Northland's website at www.northlandpower.ca. Northland's actual results could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur. The forward-looking statements contained in this MD&A are based on assumptions that were considered reasonable on May 11, 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.*