Pattern Energy Group Inc.
Form 10-Q
November 07, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016.
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-36087

PATTERN ENERGY GROUP INC.
(Exact name of Registrant as specified in its charter)

Delaware	90-0893251
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Pier 1, Bay 3, San Francisco, CA 94111
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (415) 283-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No
As of November 2, 2016, there were 87,469,506 shares of Class A common stock outstanding with par value of $0.01 per share.

PATTERN ENERGY GROUP INC.
REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016
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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information in this Quarterly Report on Form 10-Q (Form 10-Q) may constitute “forward-looking statements.” You can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will," "would," or similar words. You should read statements that contain these words carefully because they discuss our current plans, strategies, prospects, and expectations concerning our business, operating results, financial condition, and other similar matters. While we believe that these forward-looking statements are reasonable as and when made, there may be events in the future that we are not able to predict accurately or control, and there can be no assurance that future developments affecting our business will be those that we anticipate. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

- our ability to complete the acquisition of power projects;
- our ability to complete construction of our construction projects and transition them into financially successful operating projects;
- fluctuations in supply, demand, prices and other conditions for electricity, other commodities and renewable energy credits (RECs);
- our electricity generation, our projections thereof and factors affecting production, including wind and other conditions, other weather conditions, availability and curtailment;
- changes in law, including applicable tax laws;
- public response to and changes in the local, state, provincial and federal regulatory framework affecting renewable energy projects, including the U.S. federal production tax credit (PTC), investment tax credit (ITC) and potential reductions in Renewable Portfolio Standards (RPS) requirements;
- the ability of our counterparties to satisfy their financial commitments or business obligations;
- the availability of financing, including tax equity financing, for our power projects;
- an increase in interest rates;
- our substantial short-term and long-term indebtedness, including additional debt in the future;
- competition from other power project developers;
- development constraints, including the availability of interconnection and transmission;
- potential environmental liabilities and the cost and conditions of compliance with applicable environmental laws and regulations;
- our ability to operate our business efficiently, manage capital expenditures and costs effectively and generate cash flow;
- our ability to retain and attract executive officers and key employees;
- our ability to keep pace with and take advantage of new technologies;
- the effects of litigation, including administrative and other proceedings or investigations, relating to our wind power projects under construction and those in operation;
- conditions in energy markets as well as financial markets generally, which will be affected by interest rates, foreign currency exchange rate fluctuations and general economic conditions;
- the effectiveness of our currency risk management program;
- the effective life and cost of maintenance of our wind turbines and other equipment;
- the increased costs of, and tariffs on, spare parts;
- scarcity of necessary equipment;
- negative public or community response to wind power projects;
- the value of collateral in the event of liquidation; and
- other factors discussed under “Risk Factors.”

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see Part II, "Item 1A. Risk Factors" in this Form 10-Q and Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Pattern Energy Group Inc.
Consolidated Balance Sheets
(In thousands of U.S. Dollars, except share data)
(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents (Note 5)	$ 65,733	$ 94,808
Restricted cash (Note 5)	11,562	14,609
Funds deposited by counterparty	46,643	—
Trade receivables (Note 5)	39,395	45,292
Related party receivable	913	734
Derivative assets, current	19,197	24,338
Prepaid expenses (Note 5)	15,529	14,498
Deferred financing costs, current, net of accumulated amortization of $9,111 and $5,192 as of September 30, 2016 and December 31, 2015, respectively	2,117	2,121
Other current assets (Note 5)	8,445	6,929
Total current assets	209,534	203,329
Restricted cash (Note 5)	13,652	36,875
Property, plant and equipment, net of accumulated depreciation of $540,774 and $409,161 as of September 30, 2016 and December 31, 2015, respectively (Note 5)	3,182,054	3,294,620
Unconsolidated investments	87,168	116,473
Derivative assets	30,259	44,014
Deferred financing costs	4,598	4,572
Net deferred tax assets	10,280	6,804
Finite-lived intangible assets, net of accumulated amortization of $9,441 and $4,357 as of September 30, 2016 and December 31, 2015, respectively (Note 5)	92,550	97,722
Other assets (Note 5)	23,879	25,183
Total assets	$ 3,653,974	$ 3,829,592
Liabilities and equity		
Current liabilities:		
Accounts payable and other accrued liabilities (Note 5)	$ 32,868	$ 42,776
Accrued construction costs (Note 5)	1,155	23,565
Counterparty deposit liability	46,643	—
Related party payable	1,965	1,646
Accrued interest (Note 5)	3,071	9,035
Dividends payable	35,282	28,022
Derivative liabilities, current	14,945	14,343
Revolving credit facility	35,000	355,000
Current portion of long-term debt, net of financing costs of $3,623 and $3,671 as of September 30, 2016 and December 31, 2015, respectively	46,324	44,144
Other current liabilities (Note 5)	2,668	2,156
Total current liabilities	219,921	520,687
Long-term debt, net of financing costs of $18,515 and $22,632 as of September 30, 2016 and December 31, 2015, respectively	1,145,428	1,174,380

Convertible senior notes, net of financing costs of $4,172 and $5,014 as of September 30, 2016 and December 31, 2015, respectively	201,504	197,362
Derivative liabilities	64,837	28,659
Net deferred tax liabilities	23,303	22,183
Finite-lived intangible liability, net of accumulated amortization of $4,770 and $2,168 as of September 30, 2016 and December 31, 2015, respectively	55,530	58,132
Other long-term liabilities (Note 5)	59,234	52,427
Total liabilities	1,769,757	2,053,830
Commitments and contingencies (Note 15)		
Equity:		
Class A common stock, $0.01 par value per share: 500,000,000 shares authorized; 87,469,506 and 74,644,141 shares outstanding as of September 30, 2016 and December 31, 2015, respectively	875	747
Additional paid-in capital	1,180,512	982,814
Accumulated loss	(108,065)	(77,159)
Accumulated other comprehensive loss	(94,149)	(73,325)
Treasury stock, at cost; 68,344 and 65,301 shares of Class A common stock as of September 30, 2016 and December 31, 2015, respectively	(1,641)	(1,577)
Total equity before noncontrolling interest	977,532	831,500
Noncontrolling interest	906,685	944,262
Total equity	1,884,217	1,775,762
Total liabilities and equity	$ 3,653,974	$ 3,829,592

See accompanying notes to consolidated financial statements.

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Pattern Energy Group Inc.
Consolidated Statements of Operations
(In thousands of U.S. Dollars, except share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue:				
Electricity sales	$89,919	$88,256	$266,952	$235,252
Related party revenue	1,574	955	4,121	2,630
Other revenue	421	486	1,918	1,352
Total revenue	91,914	89,697	272,991	239,234
Cost of revenue:				
Project expense	31,384	28,848	96,989	82,075
Depreciation and accretion	43,693	38,599	130,782	101,997
Total cost of revenue	75,077	67,447	227,771	184,072
Gross profit	16,837	22,250	45,220	55,162
Operating expenses:				
General and administrative	11,191	7,218	31,122	22,309
Related party general and administrative	3,553	1,887	7,381	5,316
Total operating expenses	14,744	9,105	38,503	27,625
Operating income	2,093	13,145	6,717	27,537
Other income (expense):				
Interest expense	(19,798)	(19,941)	(62,134)	(56,802)
Gain (loss) on undesignated derivatives, net	1,825	(6,091)	(17,685)	(5,313)
Realized loss on designated derivatives	—	(11,221)	—	(11,221)
Earnings (loss) in unconsolidated investments, net	4,685	(9,951)	15,755	768
Related party income	1,593	605	3,697	2,029
Early extinguishment of debt	—	(4,113)	—	(4,113)
Net loss on transactions	(314)	(74)	(353)	(2,663)
Other income (expense), net	177	128	2,297	(1,280)
Total other expense	(11,832)	(50,658)	(58,423)	(78,595)
Net loss before income tax	(9,739)	(37,513)	(51,706)	(51,058)
Tax (benefit) provision	1,311	(2,181)	4,038	676
Net loss	(11,050)	(35,332)	(55,744)	(51,734)
Net loss attributable to noncontrolling interest	(7,037)	(5,927)	(24,838)	(16,747)
Net loss attributable to Pattern Energy	$(4,013)	$(29,405)	$(30,906)	$(34,987)
Weighted average number of shares:				
Class A common stock - Basic and diluted	81,531,775	72,789,583	76,821,811	69,233,698
Loss per share				
Class A common stock:				
Basic and diluted loss per share	$(0.05)	$(0.40)	$(0.40)	$(0.51)
Dividends declared per Class A common share	$0.40	$0.36	$1.17	$1.06

See accompanying notes to consolidated financial statements.

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Pattern Energy Group Inc.
Consolidated Statements of Comprehensive Loss
(In thousands of U.S. Dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net loss	$(11,050)	$(35,332)	$(55,744)	$(51,734)
Other comprehensive loss:				
Foreign currency translation, net of zero tax impact	(1,768)	(12,208)	9,874	(21,900)
Derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax benefit of $198, $892, $4,300 and $948, respectively	(329)	(15,600)	(30,990)	(16,257)
Reclassifications to net loss due to termination/de-designation of interest rate derivatives, net of zero tax impact	—	11,221	—	11,221
Reclassifications to net loss, net of tax impact of $284, $170, $867 and $511, respectively	2,736	2,590	8,359	9,546
Total change in effective portion of change in fair market value of derivatives	2,407	(1,789)	(22,631)	4,510
Proportionate share of equity investee’s derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax benefit of $244, $1,627, $4,213 and $2,486, respectively	(676)	(4,513)	(11,684)	(6,895)
Reclassifications to net loss, net of tax impact of $70, $194, $992 and $571, respectively	195	537	2,752	1,582
Total change in effective portion of change in fair market value of derivatives	(481)	(3,976)	(8,932)	(5,313)
Total other comprehensive income (loss), net of tax	158	(17,973)	(21,689)	(22,703)
Comprehensive loss	(10,892)	(53,305)	(77,433)	(74,437)
Less comprehensive loss attributable to noncontrolling interest:				
Net loss attributable to noncontrolling interest	(7,037)	(5,927)	(24,838)	(16,747)
Derivative activity:				
Effective portion of change in fair market value of derivatives, net of tax (provision) benefit of ($35), $268, $472 and $285, respectively	164	(1,023)	(1,206)	(2,008)
Reclassifications to net loss, net of tax impact of $39, $51, $126 and $153, respectively	106	138	341	1,959
Total change in effective portion of change in fair market value of derivatives	270	(885)	(865)	(49)
Comprehensive loss attributable to noncontrolling interest	(6,767)	(6,812)	(25,703)	(16,796)
Comprehensive loss attributable to Pattern Energy	$(4,125)	$(46,493)	$(51,730)	$(57,641)

See accompanying notes to consolidated financial statements.

Pattern Energy Group Inc.
Consolidated Statements of Stockholders' Equity
(In thousands of U.S. Dollars, except share data)
(Unaudited)

	Class A Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Loss	Accumulated Other Comprehensive Loss	Total	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount						
Balances at December 31, 2014	62,088,306	$621	(25,465)	$(717)	$723,938	$(44,626)	$(45,068)	$634,148	$530,586	$1,164,734
Issuance of Class A common stock, net of issuance costs	12,435,000	124	—	—	316,848	—	—	316,972	—	316,972
Issuance of Class A common stock under equity incentive award plan	186,136	2	—	—	(2)	—	—	—	—	—
Repurchase of shares for employee tax withholding	—	—	(12,027)	(331)	—	—	—	(331)	—	(331)
Stock-based compensation	—	—	—	—	3,234	—	—	3,234	—	3,234
Dividends declared	—	—	—	—	(75,117)	—	—	(75,117)	—	(75,117)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(4,382)	(4,382)
Acquisition of Post Rock	—	—	—	—	—	—	—	—	205,100	205,100
Conversion option of convertible senior notes, net of issuance costs	—	—	—	—	23,754	—	—	23,754	—	23,754
Buyout of noncontrolling interests	—	—	—	—	16,715	—	(7,944)	8,771	(95,047)	(86,276)
Contribution from noncontrolling interests	—	—	—	—	—	—	—	—	191,251	191,251

Other	—	—	—	—	11	—	—	11	—	11
Net loss	—	—	—	—	—	(34,987)	—	(34,987)	(16,747)	(51,734)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(22,654)	(22,654)	(49)	(22,703)
Balances at September 30, 2015	74,709,442	$747	(37,492)	$(1,048)	$1,009,381	$(79,613)	$(75,666)	$853,801	$810,712	$1,664,513

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Pattern Energy Group Inc.
Consolidated Statements of Stockholders' Equity
(In thousands of U.S. Dollars, except share data)
(Unaudited)

	Class A Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Loss	Accumulated Other Comprehensive Loss	Total	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount						
Balances at December 31, 2015	74,709,442	$747	(65,301)	$(1,577)	$982,814	$(77,159)	$(73,325)	$831,500	$944,262	$1,775,762
Issuance of Class A common stock, net of issuance costs	12,540,504	125	—	—	286,115	—	—	286,240	—	286,240
Issuance of Class A common stock under equity incentive award plan	287,904	3	—	—	(3)	—	—	—	—	—
Repurchase of shares for employee tax withholding	—	—	(3,043)	(64)	—	—	—	(64)	—	(64
Stock-based compensation	—	—	—	—	4,362	—	—	4,362	—	4,362
Dividends declared	—	—	—	—	(92,818)	—	—	(92,818)	—	(92,818
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(11,771)	(11,771
Other	—	—	—	—	42	—	—	42	(103)	(61
Net loss	—	—	—	—	—	(30,906)	—	(30,906)	(24,838)	(55,744
Other comprehensive loss, net of tax	—	—	—	—	—	—	(20,824)	(20,824)	(865)	(21,689
Balances at September 30, 2016	87,537,850	$875	(68,344)	$(1,641)	$1,180,512	$(108,065)	$(94,149)	$977,532	$906,685	$1,884,217

See accompanying notes to consolidated financial statements.

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Pattern Energy Group Inc.
Consolidated Statements of Cash Flows
(In thousands of U.S. Dollars)
(Unaudited)

	Nine months ended September 30,	
	2016	2015
Operating activities		
Net loss	$(55,744)	$(51,734)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and accretion	130,782	102,108
Amortization of financing costs	5,242	5,581
Amortization of debt discount/premium, net	3,147	798
Amortization of power purchase agreements, net	2,278	1,175
Loss on derivatives, net	29,757	793
Stock-based compensation	4,362	3,234
Deferred taxes	3,681	340
Earnings in unconsolidated investments	(15,755)	(813)
Distributions from unconsolidated investments	377	—
Realized loss on derivatives, net	—	10,192
Early extinguishment of debt	—	3,958
Other reconciling items	44	1,221
Changes in operating assets and liabilities:		
Funds deposited by counterparty	(46,643)	—
Trade receivables	6,078	5,657
Prepaid expenses	(1,005)	3,994
Other current assets	(3,554)	(6,583)
Other assets (non-current)	865	(2,022)
Accounts payable and other accrued liabilities	(2,658)	4,180
Counterparty deposit liability	46,643	—
Related party receivable/payable	164	506
Accrued interest	(6,017)	1,970
Other current liabilities	492	764
Long-term liabilities	4,835	83
Increase in restricted cash	(1,972)	(2,120)
Net cash provided by operating activities	105,399	83,282
Investing activities		
Cash paid for acquisitions, net of cash acquired	(4,024)	(406,284)
Decrease in restricted cash	23,293	41,820
Increase in restricted cash	(79)	(33,890)
Capital expenditures	(31,554)	(315,954)
Distributions from unconsolidated investments	40,066	23,494
Other assets	1,619	4,650
Other investing activities	(136)	—
Net cash provided by (used in) investing activities	29,185	(686,164)

Pattern Energy Group Inc.
Consolidated Statements of Cash Flows
(In thousands of U.S. Dollars)
(Unaudited)

	Nine months ended September 30,	
	2016	2015
Financing activities		
Proceeds from public offering, net of issuance costs	$286,583	$317,822
Proceeds from issuance of convertible senior notes, net of issuance costs	—	219,557
Repurchase of shares for employee tax withholding	(64)	(331)
Dividends paid	(85,159)	(63,455)
Payment for deferred equity issuance costs	—	(1,940)
Buyout of noncontrolling interest	—	(121,224)
Capital contributions - noncontrolling interest	—	193,064
Capital distributions - noncontrolling interest	(11,771)	(4,382)
Decrease in restricted cash	41,054	41,429
Increase in restricted cash	(36,027)	(41,184)
Refund of deposit for letters of credit	—	3,425
Payment for deferred financing costs	(134)	(8,445)
Proceeds from revolving credit facility	20,000	295,000
Repayment of revolving credit facility	(340,000)	(100,000)
Proceeds from construction loans	—	294,502
Repayment of long-term debt	(39,322)	(405,036)
Payment for interest rate derivatives	—	(11,061)
Other financing activities	(569)	—
Net cash provided by (used in) financing activities	(165,409)	607,741
Effect of exchange rate changes on cash and cash equivalents	1,750	(3,319)
Net change in cash and cash equivalents	(29,075)	1,540
Cash and cash equivalents at beginning of period	94,808	101,656
Cash and cash equivalents at end of period	$65,733	$103,196
Supplemental disclosures		
Cash payments for income taxes	$233	$293
Cash payments for interest expense, net of capitalized interest	59,172	49,239
Acquired property, plant and equipment from acquisitions	—	579,712
Schedule of non-cash activities		
Change in property, plant and equipment	6,132	20,744
Non-cash increase in additional paid-in capital from buyout of noncontrolling interests	—	16,715
Equity issuance costs paid in prior period related to current period offerings	—	433

See accompanying notes to consolidated financial statements.

Pattern Energy Group Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Organization

Pattern Energy Group Inc. (Pattern Energy or the Company) was organized in the state of Delaware on October 2, 2012. Pattern Energy is an independent energy generation company focused on constructing, owning and operating energy projects with long-term energy sales contracts located in the United States, Canada and Chile. Pattern Development owns a 19% interest in the Company. Pattern Development is a leading developer of renewable energy and transmission projects.

The Company consists of the consolidated operations of certain entities and assets contributed by, or purchased principally from, Pattern Development, except for purchases of Lost Creek, Post Rock and certain additional interests in El Arrayán (each as defined below, which were purchased from third-parties). Each of the Company's wind projects are consolidated into the Company's subsidiaries which are organized by geographic location as follows:

- Pattern US Operations Holdings LLC (which consists primarily of 100% ownership of Hatchet Ridge Wind, LLC (Hatchet Ridge), Spring Valley Wind LLC (Spring Valley), Pattern Santa Isabel LLC (Santa Isabel), Ocotillo Express LLC (Ocotillo), Pattern Gulf Wind LLC (Gulf Wind) and Lost Creek Wind, LLC (Lost Creek), as well as the following consolidated controlling interest in Pattern Panhandle Wind LLC (Panhandle 1), Pattern Panhandle Wind 2 LLC (Panhandle 2), Post Rock Wind Power Project, LLC (Post Rock), Logan's Gap Wind LLC (Logan's Gap) and Fowler Ridge IV Wind Farm LLC (Amazon Wind Farm Fowler Ridge));
- Pattern Canada Operations Holdings ULC (which consists primarily of 100% ownership of St. Joseph Windfarm Inc. (St. Joseph) and noncontrolling interests in South Kent Wind LP (South Kent), Grand Renewable Wind LP (Grand) and K2 Wind Ontario Limited Partnership (K2), which are accounted for as equity method investments); and
- Pattern Chile Holdings LLC (which includes a controlling interest in Parque Eólico El Arrayán SpA (El Arrayán)).

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the results of wholly-owned and partially-owned subsidiaries in which the Company has a controlling interest with all significant intercompany accounts and transactions eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and Article 10 of Regulation S-X issued by the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the interim financial information reflects all adjustments of a normal recurring nature, necessary for a fair presentation of the Company’s financial position at September 30, 2016, the results of operations and comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015, respectively, and the cash flows for the nine months ended September 30, 2016 and 2015, respectively. The consolidated balance sheet at December 31, 2015 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. This Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates, and such differences may be material to the financial statements.

Reclassification
Certain prior period balances have been reclassified to conform to the current period presentation in the Company's consolidated financial statements and the accompanying notes.
Funds Deposited by Counterparty
As a result of a counterparty's credit rating downgrade, the Company received cash collateral related to an energy derivative agreement, as discussed in Note 10, Derivative Instruments. The Company does not have the right to pledge, invest, or use the cash collateral for general corporate purposes. As of September 30, 2016, the Company has recorded a current asset of $46.6 million to funds deposited by counterparty and a current liability of $46.6 million to counterparty deposit liability representing the cash collateral received and corresponding obligation to return the cash collateral, respectively. The cash was deposited into a separate custodial account for which the Company is not entitled to the interest earned on the cash collateral.
Recently Issued Accounting Standards
In addition to recently issued accounting standards disclosed in Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, the Company is evaluating or has adopted the following recently issued accounting standards.
In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which provides guidance on specific cash flow issues. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of ASU 2016-15 during the third quarter of fiscal 2016 did not have a material impact on the Company's consolidated financial statements and related disclosures.
In June 2016, the FASB issued ASU 2016-13, Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), which requires the measurement of all expected credit losses for financial assets including trade receivables held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures.
In May 2014, the FASB issued ASU 2014-09, which creates FASB Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers and supersedes ASC Topic 605, Revenue Recognition (ASU 2014-09). The guidance replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the guidance is that an entity should recognize revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires the entity to disclose further quantitative and qualitative information regarding the nature and amount of revenues arising from contracts with customers, as well as other information about the significant judgments and estimates used in recognizing revenues from contracts with customers. The effective date of ASU 2014-09 was deferred by the issuance of ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, (Topic 606) by one year to make the guidance of ASU 2014-09 effective for annual reporting periods beginning after December 15, 2017, including interim periods therein. Early adoption is permitted, but not prior to the original effective date, which was for annual reporting periods beginning after December 15, 2016. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606) Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies how to apply the implementation guidance on principal versus agent considerations related to the sale of goods or services to a customer as updated by ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing, which clarifies two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas, as updated by ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (ASU 2016-12), which makes narrow scope amendments to Topic 606 including implementation issues on collectability, non-cash consideration and completed contracts at transition. The Company is currently assessing the

future impact of this guidance on its consolidated financial statements and related disclosures and expects to adopt these updates beginning January 1, 2018.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), which simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (ASU 2016-05), which clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria remain intact. ASU 2016-05 is effective for annual periods beginning after December 15, 2017, including interim reporting periods therein, with early adoption permitted. The adoption of ASU 2016-05 on January 1, 2016 had no impact on the Company's consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments (ASU 2015-16), which requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments under ASU 2015-16 require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. ASU 2015-16 also requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods, if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those fiscal years. The amendments in this update should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The adoption of ASU 2015-16 on January 1, 2016 did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis (ASU 2015-02), which modifies the analysis that companies must perform in order to determine whether a legal entity should be consolidated. ASU 2015-02 simplifies current guidance by reducing the number of consolidation models; eliminating the risk that a reporting entity may have to consolidate based on a fee arrangement with another legal entity; placing more weight on the risk of loss in order to identify the party that has a controlling financial interest; reducing the number of instances that related party guidance needs to be applied when determining the party that has a controlling financial interest; and changing rules for companies in certain industries that ordinarily employ limited partnership or variable interest entity (VIE) structures. ASU 2015-02 is effective for public companies for fiscal years beginning after December 15, 2015 and interim periods within those fiscal periods. The adoption of ASU 2015-02 in the quarter ended March 31, 2016 resulted in certain entities formerly consolidated under the voting interest consolidation model to be consolidated in accordance with the variable interest model as further described in Note 5, Variable Interest Entities. The adoption of ASU 2015-02 did not result in the deconsolidation of any previously consolidated entities or the consolidation of any previously unconsolidated entities and had no impact on the Company's results of operations, and cash flows.

In June 2014, the FASB issued ASU 2014-12, Compensation – Stock Compensation (ASU 2014-12), which requires an entity to treat a performance target that affects vesting that could be achieved after an employee completes the requisite service period as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved.

ASU 2014-12 is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted either prospectively or retrospectively to all prior periods presented. The adoption of ASU 2014-12 on January 1, 2016 had no impact on the Company's consolidated financial statements and related disclosures.

3. Acquisitions

On May 15, 2015, pursuant to a Purchase and Sale Agreement, the Company acquired 100% of the membership interests in Lost Creek Wind Finco, LLC (Lost Creek Finco) from Wind Capital Group LLC, an unrelated third party, and 100% of the membership interests in Lincoln County Wind Project Holdco, LLC (Lincoln County Holdco) from Lincoln County Wind Project Finco, LLC, an unrelated third party. Lost Creek Finco owns 100% of the Class B membership interests in Lost Creek Wind Holdco, LLC (Lost

Creek Wind Holdco), a company which owns a 100% interest in the Lost Creek wind project. Lincoln County Holdco owns 100% of the Class B membership interests in Post Rock Wind Power Project, LLC, a company which owns a 100% interest in the Post Rock wind project. The acquisition of 100% of the membership interests in Lost Creek Finco and Lincoln County Holdco was for an aggregate consideration of approximately $242.0 million, paid at closing. The Company also assumed certain project level indebtedness and ordinary course performance guarantees securing project obligations. Lost Creek is a 150 MW wind project in King City, Missouri, and Post Rock is a 201MW wind project in Ellsworth and Lincoln Counties, Kansas.

The Company acquired assets and operating contracts for Lost Creek and Post Rock, including assumed liabilities. The identifiable assets and liabilities assumed were recorded at their fair values, which corresponded to the sum of the cash purchase price and the fair value of the other investors' noncontrolling interests. The accounting for the Lost Creek and Post Rock acquisitions is final.

Supplemental pro forma data

The unaudited pro forma statement of operations data below gives effect to the Lost Creek and Post Rock acquisitions as if they had occurred on January 1, 2014. The pro forma net income (loss) for the three and nine month periods ended September 30, 2015 was adjusted to exclude nonrecurring transaction related credits of $0.2 million and expenses of $1.7 million, respectively. The unaudited pro forma data is presented for illustrative purposes only and is not intended to be indicative of actual results that would have been achieved had these acquisitions been consummated as of January 1, 2014. The unaudited pro forma data should not be considered representative of the Company's future financial condition or results of operations.

Unaudited pro forma data (in thousands)	Three months ended September 30, 2015	Nine months ended September 30, 2015
Pro forma total revenue	$ 89,697	$ 260,497
Pro forma total expenses	125,261	315,976
Pro forma net loss	(35,564)	(55,479)
Less: pro forma net loss attributable to noncontrolling interest	(5,927)	(23,539)
Pro forma net loss attributable to Pattern Energy	$ (29,637)	$ (31,940)

The following table presents the amounts included in the consolidated statements of operations for Lost Creek and Post Rock since their respective dates of acquisition:

Unaudited data (in thousands)	Three months ended September 30, 2015	Nine months ended September 30, 2015
Total revenue	$ 10,081	$ 15,253
Total expenses	15,197	21,547
Net loss	(5,116)	(6,294)
Less: net loss attributable to noncontrolling interest	(1,965)	(2,765)
Net loss attributable to Pattern Energy	$ (3,151)	$ (3,529)

4. Property, Plant and Equipment

The table below presents the categories within property, plant and equipment as follows (in thousands):

	September 30, 2016	December 31, 2015
Operating wind farms	$ 3,713,775	$ 3,700,140
Furniture, fixtures and equipment	8,912	3,500
Land	141	141
Subtotal	3,722,828	3,703,781
Less: accumulated depreciation	(540,774)	(409,161)
Property, plant and equipment, net	$ 3,182,054	$ 3,294,620

The Company recorded depreciation expense related to property, plant and equipment of $43.0 million and $128.7 million for the three and nine months ended September 30, 2016, respectively, and recorded $38.1 million and $100.6 million for the same periods in the prior year.

5. Variable Interest Entities

As of January 1, 2016, certain operating entities that were formerly consolidated under the voting interest consolidation model are now consolidated in accordance with the VIE consolidation model as a result of the adoption of ASU 2015-02 as further discussed in Note 2, Summary of Significant Accounting Policies.

The operating entities determined to be VIEs by the Company are Logan's Gap, Panhandle 1, Panhandle 2, Post Rock and Amazon Wind Farm Fowler Ridge primarily because the tax equity interests lack substantive kick-out and participating rights. The Company determined that as the managing member it is the primary beneficiary of each VIE by reference to the power and benefits criterion under ASC 810, Consolidation. The Company considered responsibilities within the contractual agreements, which grant it the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. Such activities include management of the wind farms' operations and maintenance, budgeting, policies and procedures. In addition, the Company has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIEs on the basis of the income allocations and cash distributions.

The following presents the carrying amounts of the consolidated VIEs' assets and liabilities included in the consolidated balance sheet (in thousands). Assets presented below are restricted for settlement of the consolidated VIEs' obligations and all liabilities presented below can only be settled using the VIE resources.

	September 30, 2016
Assets	
Current assets:	
Cash and cash equivalents	$ 12,433
Restricted cash	4,289
Trade receivables	3,953
Prepaid expenses	3,919
Other current assets	1,771
Total current assets	26,365
Restricted cash	3,202
Property, plant and equipment, net	1,443,557
Finite-lived intangible assets, net	2,113
Other assets	16,155
Total assets	$ 1,491,392
Liabilities	
Current liabilities:	
Accounts payable and other accrued liabilities	$ 8,919
Accrued construction costs	754
Accrued interest	127
Other current liabilities	1,481
Total current liabilities	11,281
Other long-term liabilities	15,675
Total liabilities	$ 26,956

6. Unconsolidated Investments

The following projects are accounted for under the equity method of accounting and are presented in the Company's consolidated balance sheets for the periods below (in thousands):

			Percentage of Ownership			
	September 30, 2016	December 31, 2015	September 30, 2016		December 31, 2015	
South Kent [1]	$ —	$ 6,185	50.0	%	50.0	%
Grand [1]	—	5,735	45.0	%	45.0	%
K2	87,168	104,553	33.3	%	33.3	%
Unconsolidated investments	$ 87,168	$ 116,473				

[1]As of September 30, 2016, the equity method investment balances in South Kent and Grand were $0. In accordance with ASC 323, Investments - Equity Method and Joint Ventures, the Company has suspended recognition of South Kent's and Grand's equity method earnings or losses and accumulated other comprehensive income (loss), if applicable, until such time as South Kent's and Grand's subsequent cumulative equity method earnings and other comprehensive income exceed cumulative distributions received, cumulative equity method losses and, where applicable, cumulative other comprehensive income (loss) during the suspension period. During the periods when South Kent's and Grand's equity method earnings or losses are suspended, the Company will record cash distributions received as gains in earnings (losses) in unconsolidated investments, net on the Company's consolidated statements of operations.

The following table summarizes the components of suspension during the period which are included in earnings (loss) in unconsolidated investments, net on the Company's consolidated statements of operations and components of suspension included in other comprehensive income (loss) (in thousands):

	Three months ended September 30, 2016	Nine months ended September 30, 2016
Earnings (loss) in unconsolidated investments, net		
Gains on distributions from unconsolidated investments	$ 5,777	$ 15,017
Suspended equity losses	$ 2,662	$ 4,556
Suspended other comprehensive income	$ (535)	$ (659)

The following table summarizes the aggregated operating results of the unconsolidated investments for the three and nine months ended September 30, 2016 and 2015, respectively (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue	$40,863	$35,697	$167,426	$122,483
Cost of revenue	21,552	20,444	62,561	48,120
Operating expenses	2,675	3,133	8,734	8,447
Other expense	21,553	31,476	89,820	59,925
Net income (loss)	$(4,917)	$(19,356)	$6,311	$5,991

Significant Equity Method Investee

The following table presents summarized statements of operations information for the three and nine months ended September 30, 2016 and 2015, in thousands, as required for the Company's significant equity method investee, South Kent, pursuant to Regulation S-X Rule 10-01 (b)(1):

South Kent

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue	$15,128	$17,137	$65,033	$69,883
Cost of revenue	7,888	8,518	22,663	23,640
Operating expenses	879	1,056	2,916	3,763
Other expense	7,319	19,727	40,276	39,159
Net income (loss)	$(958)	$(12,164)	$(822)	$3,321

7. Accounts Payable and Other Accrued Liabilities

The following table presents the components of accounts payable and other accrued liabilities (in thousands):

	September 30, 2016	December 31, 2015
Accounts payable	$ 1,848	$ 625
Other accrued liabilities	9,420	9,583
Operating wind farm upgrade liability	1,012	4,909
Turbine operations and maintenance payable	836	985
Purchase agreement obligations	—	5,749
Land lease rent payable	1,396	2,513
Spare-parts inventory payables	550	1,181
Payroll liabilities	6,268	5,345
Property tax payable	10,391	11,145
Sales tax payable	1,147	741
Accounts payable and other accrued liabilities	$ 32,868	$ 42,776

8. Revolving Credit Facility

As of September 30, 2016, $433.3 million was available for borrowing under the $500.0 million Revolving Credit Facility. The Revolving Credit Facility is secured by pledges of the capital stock and ownership interests in certain of the Company’s holding company subsidiaries. The Revolving Credit Facility contains a broad range of covenants that, subject to certain exceptions, restrict the Company’s holding company subsidiaries' ability to incur debt, grant liens, sell or lease assets, transfer equity interests, dissolve, pay distributions and change its business. As of September 30, 2016, the Company's holding company subsidiaries were in compliance with covenants contained in the Revolving Credit Facility.

As of September 30, 2016 and December 31, 2015, outstanding loan balances under the Revolving Credit Facility were $35.0 million and $355.0 million, respectively. In addition, as of September 30, 2016 and December 31, 2015, letters of credit of $31.7 million and $27.2 million, respectively, were issued under the Revolving Credit Facility.

9. Long-term Debt

The Company's long-term debt for the following periods is presented below (in thousands):

	September 30, 2016	December 31, 2015	As of September 30, 2016 Contractual Interest Rate	Effective Interest Rate	Maturity
Project-level					
Fixed interest rate					
El Arrayán EKF term loan	$ 103,904	$ 107,160	5.56 %	5.56 %	March 2029
Santa Isabel term loan	107,656	109,973	4.57 %	4.57 %	September 2033
Variable interest rate					
Ocotillo commercial term loan [1]	194,378	208,119	2.59 %	3.79 % [2]	August 2020
Lost Creek term loan	103,846	110,846	2.89 %	6.50 % [2]	September 2027
El Arrayán commercial term loan	94,458	97,418	3.98 %	5.69 % [2]	March 2029
Spring Valley term loan	131,409	132,670	2.59 %	5.31 % [2]	June 2030
Ocotillo development term loan	103,400	104,500	2.94 %	4.39 % [2]	August 2033
St. Joseph term loan [1]	166,431	158,181	2.52 %	3.84 % [2]	November 2033
Imputed interest rate					
Hatchet Ridge financing lease obligation	207,181	214,580	1.43 %	1.43 %	December 2032
	1,212,663	1,243,447			
Unamortized premium, net [3]	1,227	1,380			
Unamortized financing costs	(22,138)	(26,303)			
Current portion [4]	(46,324)	(44,144)			
Long-term debt, less current portion	$ 1,145,428	$ 1,174,380			

(1) The amortization for the Ocotillo commercial term loan and the St. Joseph term loan are through June 2030 and September 2036, respectively, which differs from the stated maturity date of such loans due to prepayment requirements.

(2) Includes impact of interest rate derivatives. Refer to Note 10, Derivative Instruments, for discussion of interest rate derivatives.

(3) Amount is related to the Lost Creek term loan.

(4) Amount is presented net of the current portion of unamortized financing costs of $3.6 million and $3.7 million as of September 30, 2016 and December 31, 2015, respectively.

Interest and commitment fees incurred and interest expense for long-term debt, the Revolving Credit Facility, Convertible Senior Notes and other finance related interest expense consisted of the following (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest and commitment fees incurred	$ 16,854	$ 19,144	$ 53,356	$ 55,682
Capitalized interest, commitment fees, and letter of credit fees	—	(2,083)	—	(5,656)
Amortization of debt discount/premium, net	1,073	830	3,147	798
Amortization of financing costs	1,745	1,916	5,242	5,581
Other interest	126	134	389	397
Interest expense	$ 19,798	$ 19,941	$ 62,134	$ 56,802

Convertible Senior Notes due 2020

In July 2015, the Company issued $225.0 million aggregate principal amount of 4.00% convertible senior notes due 2020 (Convertible Senior Notes or 2020 Notes). The 2020 Notes bear interest at a rate of 4.00% per year, payable semiannually in arrears on January 15 and July 15 of each year, beginning on January 15, 2016. The 2020 Notes will mature on July 15, 2020. The 2020 Notes were sold in a private placement.

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The following table presents a summary of the equity and liability components of the 2020 Notes (in thousands):

	September 30, 2016	December 31, 2015
Principal	$ 225,000	$ 225,000
Less:		
Unamortized debt discount	(19,324)	(22,624)
Unamortized financing costs	(4,172)	(5,014)
Carrying value of convertible senior notes	$ 201,504	$ 197,362
Carrying value of the equity component [1]	$ 23,743	$ 23,743

(1) Included in the consolidated balance sheets within additional paid-in capital, net of $0.7 million in equity issuance costs.

During the three and nine months ended September 30, 2016, in relation to the 2020 Notes, the Company recorded contractual coupon interest of $2.4 million and $6.9 million, amortization of financing costs of $0.3 million and $0.8 million and amortization of debt discount of $1.1 million and $3.3 million, respectively, in interest expense in the consolidated statements of operations.

10. Derivative Instruments

The Company employs a variety of derivative instruments to manage its exposure to fluctuations in electricity prices, interest rates and foreign currency exchange rates. Energy prices are subject to wide swings as supply and demand are impacted by, among many other unpredictable items, weather, market liquidity, generating facility availability, customer usage, storage, and transmission and transportation constraints. Interest rate risk exists primarily on variable-rate debt for which the cash flows vary based upon movement in market prices. Additionally, the Company is exposed to foreign currency exchange rate risk primarily from its business operations in Canada and Chile. The Company's objectives for holding these derivative instruments include reducing, eliminating and efficiently managing the economic impact of these exposures as effectively as possible. The Company does not hedge all of its electricity price risk, interest rate risks, and foreign currency exchange rate risks, thereby exposing the unhedged portions to changes in market prices.

As of September 30, 2016, the Company had other energy-related contracts that did not meet the definition of a derivative instrument or qualified for the normal purchase normal sale scope exception and were therefore exempt from fair value accounting treatment.

The following tables present the fair values of the Company's derivative instruments on a gross basis as reflected on the Company's consolidated balance sheets (in thousands):

	September 30, 2016			
	Derivative Assets		Derivative Liabilities	
	Current	Long-Term	Current	Long-Term
Fair Value of Designated Derivatives				
Interest rate swaps	$—	$ —	$10,293	$ 50,166
Fair Value of Undesignated Derivatives				
Interest rate swaps	$—	$ —	$3,957	$ 14,605
Energy derivative	18,457	30,256	—	—
Foreign currency forward contracts	740	3	695	66
Total Fair Value	$19,197	$ 30,259	$14,945	$ 64,837

	December 31, 2015			
	Derivative Assets		Derivative Liabilities	
	Current	Long-Term	Current	Long-Term
Fair Value of Designated Derivatives				
Interest rate swaps	$—	$ —	$10,034	$ 24,360
Fair Value of Undesignated Derivatives				
Interest rate swaps	$—	$ 559	$4,309	$ 4,299
Energy derivative	20,856	42,827	—	—
Foreign currency forward contracts	3,482	628	—	—
Total Fair Value	$24,338	$ 44,014	$14,343	$ 28,659

The following table summarizes the notional amounts of the Company's outstanding derivative instruments (in thousands except for MWh):

	Unit of Measure	September 30, 2016	December 31, 2015
Designated Derivative Instruments			
Interest rate swaps	USD	$ 367,824	$379,808
Interest rate swaps	CAD	$ 196,650	$196,988
Undesignated Derivative Instruments			
Interest rate swaps	USD	$ 259,469	$275,424
Energy derivative	MWh	1,322,387	1,707,350
Foreign currency forward contracts	CAD	$ 267,700	$62,300

Derivatives Designated as Hedging Instruments

Cash Flow Hedges

The Company has interest rate swap agreements to hedge variable rate project-level debt. Under these interest rate swaps, the projects make fixed-rate interest payments and the counterparties to the agreements make variable-rate interest payments. For interest swaps that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (loss) and reclassified into earnings in the period or periods during which a cash settlement occurs. The designated interest rate swaps have remaining maturities ranging from approximately 11.0 years to 20.0 years.

The following table presents gains and losses on derivative contracts designated and qualifying as cash flow hedges recognized in accumulated other comprehensive income (loss), as well as amounts reclassified to earnings for the following periods (in thousands):

		Three months ended September 30,		Nine months ended September 30,	
	Description	2016	2015	2016	2015
Gains (losses) recognized in accumulated OCI	Effective portion of change in fair value	$(329)	$(15,600)	$(30,990)	$(16,257)
Gains (losses) reclassified from accumulated OCI into:					
Interest expense, net of tax	Derivative settlements	$(2,736)	$(2,590)	$(8,359)	$(9,546)
Realized loss on designated derivatives, net	Termination of derivatives	$—	$(11,221)	$—	$(11,221)
Gains (losses) recognized in interest expense	Ineffective portion	$365	$—	$(147)	$—

The Company estimates that $7.9 million in accumulated other comprehensive loss will be reclassified into earnings over the next twelve months.

Gulf Wind

On July 28, 2015, in connection with the early extinguishment of Gulf Wind's term loan, the Company terminated the related interest rate swaps which resulted in the reclassification of $11.2 million in accumulated other comprehensive loss to realized loss on designated derivatives, net in the consolidated statements of operations.

Derivatives Not Designated as Hedging Instruments

The following table presents gains and losses on derivatives not designated as hedges (in thousands):

Derivative Type	Financial Statement Line Item	Description	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Interest rate derivatives	Gain (loss) on undesignated derivatives, net	Change in fair value, net of settlements	$2,305	$(7,570)	$(10,513)	$(5,264)
Interest rate derivatives	Gain (loss) on undesignated derivatives, net	Derivative settlements	$(1,272)	$(1,383)	$(3,878)	$(3,302)
Energy derivative	Electricity sales	Change in fair value, net of settlements	$(818)	$4,630	$(14,970)	$1,600
Energy derivative	Electricity sales	Derivative settlements	$3,144	$2,969	$16,629	$15,066
Foreign currency forward contracts	Gain (loss) on undesignated derivatives, net	Change in fair value, net of settlements	$487	$2,480	$(4,128)	$2,871
Foreign currency forward contracts	Gain (loss) on undesignated derivatives, net	Derivative settlements	$305	$382	$834	$382

Interest Rate Swaps

The Company has interest rate swap agreements to hedge variable rate project-level debt. Under these interest rate swaps, the projects make fixed-rate interest payments and the counterparties to the agreements make variable-rate interest payments. For interest rate swaps that are not designated and do not qualify as cash flow hedges, the changes in fair value are recorded in gain (loss) on undesignated derivatives, net in the consolidated statements of operations as these hedges are not accounted for under hedge accounting. The undesignated interest rate swaps have remaining maturities ranging from approximately 4.5 years to 13.8 years.

Energy Derivative

In 2010, Gulf Wind acquired an energy derivative instrument to manage its exposure to variable electricity prices over the life of the arrangement. The energy price swap fixes the price for a predetermined volume of production (the notional volume) over the life of the swap contract, through April 2019, by locking in a fixed price per MWh. The notional volume agreed to by the parties is approximately 504,220 MWh per year. The energy derivative instrument does not meet the criteria required to adopt hedge accounting. As a result, changes in fair value are recorded in electricity sales in the consolidated statements of operations.

As a result of the counterparty's credit rating downgrade, the Company received cash collateral related to the energy derivative agreement. The Company does not have the right to pledge, invest, or use the cash collateral for general corporate purposes. As of September 30, 2016, the Company has recorded a current asset of $46.6 million to funds deposited by counterparty and a current liability of $46.6 million to counterparty deposit liability representing the cash collateral received and corresponding obligation to return the cash collateral, respectively. The cash was deposited into a separate custodial account for which the Company is not entitled to the interest earned on the cash collateral.

Foreign Currency Forward Contracts

The Company has established a currency risk management program. The objective of the program is to mitigate the foreign exchange rate risk arising from transactions or cash flows that have a direct or underlying exposure in non-U.S. dollar denominated currencies in order to reduce volatility in the Company's cash flow, which may have an adverse impact to our short-term liquidity or financial condition. A majority of the Company's power sale agreements and operating expenditures are transacted in U.S. dollars, with a growing portion transacted in currencies other than the U.S. dollar, primarily the Canadian dollar. The Company enters into foreign currency forward contracts at various times to mitigate the currency exchange rate risk on Canadian dollar denominated cash flows. These instruments have remaining maturities ranging from one to twenty-one months. The foreign currency forward contracts are considered non-designated derivative instruments and are not used for trading or speculative purposes. As a result, changes in fair value and settlements are recorded in gain (loss) on undesignated derivatives, net in the consolidated statements of operations.

11. Accumulated Other Comprehensive Loss

The following tables summarize the changes in the accumulated other comprehensive loss balance, net of tax, by component as follows (in thousands):

	Foreign Currency	Effective Portion of Change in Fair Value of Derivatives	Proportionate Share of Equity Investee's OCI	Total
Balances at December 31, 2014	$(19,338)	$(26,672)	$(7,903)	$(53,913)
Other comprehensive loss before reclassifications	(21,900)	(16,257)	(6,895)	(45,052)
Amounts reclassified from accumulated other comprehensive loss due to termination of interest rate derivatives	—	11,221	—	11,221
Amounts reclassified from accumulated other comprehensive loss	—	9,546	1,582	11,128
Net current period other comprehensive loss	(21,900)	4,510	(5,313)	(22,703)
Balances at September 30, 2015	$(41,238)	$(22,162)	$(13,216)	$(76,616)
Less: accumulated other comprehensive loss attributable to noncontrolling interest, September 30, 2015	—	(950)	—	(950)
Accumulated other comprehensive loss attributable to Pattern Energy, September 30, 2015	$(41,238)	$(21,212)	$(13,216)	$(75,666)

	Foreign Currency	Effective Portion of Change in Fair Value of Derivatives	Proportionate Share of Equity Investee's OCI	Total
Balances at December 31, 2015	$(48,285)	$(13,462)	$(12,131)	$(73,878)
Other comprehensive income (loss) before reclassifications	9,874	(30,990)	(11,684)	(32,800)
Amounts reclassified from accumulated other comprehensive loss	—	8,359	2,752	11,111
Net current period other comprehensive income (loss)	9,874	(22,631)	(8,932)	(21,689)
Balances at September 30, 2016	$(38,411)	$(36,093)	$(21,063)	$(95,567)
Less: accumulated other comprehensive loss attributable to noncontrolling interest, September 30, 2016	—	(1,418)	—	(1,418)
Accumulated other comprehensive loss attributable to Pattern Energy, September 30, 2016	$(38,411)	$(34,675)	$(21,063)	$(94,149)

Amounts reclassified from accumulated other comprehensive loss into net loss for the effective portion of change in fair value of derivatives is recorded to interest expense in the consolidated statements of operations. Amounts reclassified from accumulated other comprehensive loss into net loss for the Company's proportionate share of equity investee's other comprehensive loss is recorded to earnings (loss) in unconsolidated investments, net in the consolidated statements of operations.

12. Fair Value Measurements

The Company's fair value measurements incorporate various factors, including the credit standing and performance risk of the counterparties, the applicable exit market, and specific risks inherent in the instrument. Nonperformance and credit risk adjustments on risk management instruments are based on current market inputs when available, such as credit default hedge spreads. When such information is not available, internal models may be used.

Assets and liabilities recorded at fair value in the consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to valuation of these assets or liabilities are set forth below. Transfers between levels are recognized at the end of each quarter. The Company did not recognize any transfers between levels during the periods presented.

Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2—Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuations technique and the risk inherent in the inputs to the model.

Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities approximates their fair value, based on the nature and short maturity of these instruments, and they are presented in the Company's financial statements at carrying cost. The fair values of cash and cash equivalents and restricted cash are classified as Level 1 in the fair value hierarchy. Certain other assets and liabilities were measured at fair value upon initial recognition and unless conditions give rise to an impairment, are not remeasured.

Financial Instruments Measured at Fair Value on a Recurring Basis

The Company's financial assets and liabilities which require fair value measurement on a recurring basis are classified within the fair value hierarchy as follows (in thousands):

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Energy derivative	$—	$—	$48,713	$48,713
Foreign currency forward contracts	—	743	—	743
	$—	$743	$48,713	$49,456
Liabilities				
Interest rate swaps	$—	$79,021	$—	$79,021
Foreign currency forward contracts	—	761	—	761
	$—	$79,782	$—	$79,782

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Interest rate swaps	$—	$559	$—	$559
Energy derivative	—	—	63,683	63,683
Foreign currency forward contracts	—	4,110	—	4,110
	$—	$4,669	$63,683	$68,352
Liabilities				
Interest rate swaps	$—	$43,002	$—	$43,002
	$—	$43,002	$—	$43,002

Level 2 Inputs

Derivative instruments subject to re-measurement are presented in the financial statements at fair value. The Company's interest rate swaps were valued by discounting the net cash flows using the forward LIBOR curve with the valuations adjusted by the Company's credit default hedge rate. The Company's foreign currency forward contracts were valued using the income approach based on the present value of the forward rates less the contract rates, multiplied by the notional amounts.

Level 3 Inputs

The fair value of the energy derivative instrument is determined based on a third-party valuation model. The methodology and inputs are evaluated by management for consistency and reasonableness by comparing inputs used by the third-party valuation provider to another third-party pricing service for identical or similar instruments and also agreeing inputs used in the third-party valuation model to the derivative contract for accuracy. Any significant changes are further evaluated for reasonableness by obtaining additional documentation from the third-party valuation provider.

The energy derivative instrument is valued by discounting the projected net cash flows over the remaining life of the derivative instrument using forward electricity prices which are derived from observable prices, such as forward gas curves, adjusted by a non-observable heat rate for when the contract term extends beyond a period for which market data is available. The significant unobservable input in calculating the fair value of the energy derivative instrument is forward electricity prices. Significant increases or decreases in this unobservable input would result in a significantly lower or higher fair value measurement.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements were as follows (in thousands, for fair value):

September 30, 2016	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Energy derivative	$48,713	Discounted cash flow	Forward electricity prices	$14.9 - $69.2(1)
			Discount rate	0.85% - 1.04%

December 31, 2015	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Energy derivative	$63,683	Discounted cash flow	Forward electricity prices	$12.48 - $74.94(1)
			Discount rate	0.61% - 1.46%

(1) Represents price per MWh

The following table presents a reconciliation of the energy derivative contract measured at fair value on a recurring basis using significant unobservable inputs (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Balances, beginning of period	$49,531	$61,445	$63,683	$64,475
Net gains included in electricity sales	2,326	7,599	1,659	16,666
Settlements	(3,144)	(2,969)	(16,629)	(15,066)
Balances, end of period	$48,713	$66,075	$48,713	$66,075

During the three and nine months ended September 30, 2016, the Company recognized unrealized losses on the energy derivative of $0.8 million and $15.0 million, respectively, and unrealized gains of $4.6 million and $1.6 million, respectively, for the same periods in the prior year, which were all recorded to electricity sales on the consolidated statements of operations.

Financial Instruments Not Measured at Fair Value

The following table presents the carrying amount and fair value and the fair value hierarchy of the Company’s financial liabilities that are not measured at fair value in the consolidated balance sheets, but for which fair value is disclosed (in thousands):

	As reflected on the balance sheet	Fair Value Level 1	Level 2	Level 3	Total
September 30, 2016					
Convertible senior notes	$ 201,504	$ —	$ 212,545	$ —	$ 212,545
Long-term debt, including current portion	$ 1,191,752	$ —	$ 1,192,317	$ —	$ 1,192,317
December 31, 2015					
Convertible senior notes	$ 197,362	$ —	$ 189,863	$ —	$ 189,863
Long-term debt, including current portion	$ 1,218,524	$ —	$ 1,192,286	$ —	$ 1,192,286

Long-term debt and the convertible senior notes are presented on the consolidated balance sheets, net of financing costs, discounts and premiums. The fair value of variable interest rate long-term debt is approximated by its carrying cost. The fair value of fixed interest rate long-term debt is estimated based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied, using the net present value of cash flow streams over the term using estimated market rates for similar instruments and remaining terms.

13. Stockholders' Equity

Common Stock

On August 12, 2016, the Company completed an underwritten public offering of its Class A common stock. In total, 10,000,000 shares of the Company's Class A common stock were sold. In connection with the equity offering, the underwriters had a 30-day option to purchase up to an additional 1,500,000 shares of Class A common stock to cover over-allotments. On August 22, 2016, the underwriters partially exercised their over-allotment option and purchased an additional 1,300,000 shares of Class A common stock. Aggregate net proceeds of the equity offering, including the proceeds of the over-allotment option, were approximately $258.6 million after deduction of underwriting discounts, commissions, and transaction expenses.

On May 9, 2016, the Company entered into an Equity Distribution Agreement with RBC Capital Markets, LLC, KeyBanc Capital Markets Inc. and Morgan Stanley & Co. LLC (collectively, the Agents). Pursuant to the terms of the Equity Distribution Agreement, the Company may offer and sell shares of the Company’s Class A common stock, par value $0.01 per share, from time to time through the Agents, as the Company’s sales agents for the offer and sale of the shares, up to an aggregate sales price of $200.0 million. The Company intends to use the net proceeds from the sale of the shares for general corporate purposes, which may include the repayment of indebtedness and the funding of acquisitions and investments. For the three and nine months ended September 30, 2016, the Company sold 1,240,504 shares under the Equity Distribution Agreement and net proceeds under the issuances were $27.6 million and the aggregate compensation paid by the Company to the Agents with respect to such sales was $0.3 million.

Dividends

The following table presents cash dividends declared on Class A common stock for the periods presented:

	Dividends Per Share	Declaration Date	Record Date	Payment Date
2016:				
Third Quarter	$ 0.4000	August 3, 2016	September 30, 2016	October 31, 2016
Second Quarter	$ 0.3900	May 4, 2016	June 30, 2016	July 29, 2016
First Quarter	$ 0.3810	February 24, 2016	March 31, 2016	April 29, 2016

Noncontrolling Interests

The table below presents the balances for noncontrolling interests by project as follows (in thousands):

	September 30, 2016	December 31, 2015
El Arrayán	$ 32,125	$ 34,224
Logan's Gap	183,681	190,397
Panhandle 1	192,117	195,791
Panhandle 2	173,841	184,773
Post Rock	185,636	196,346
Amazon Wind Farm Fowler Ridge	139,285	142,731
Noncontrolling interest	$ 906,685	$ 944,262

The table below presents the components of total noncontrolling interest as reported in stockholders' equity and the consolidated balance sheets as follows (in thousands):

	Capital	Accumulated Income (Loss)	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balances at December 31, 2014	$ 529,539	$ 9,892	$ (8,845)	$ 530,586
Distributions to noncontrolling interests	(4,382)	—	—	(4,382)
Acquisition of Post Rock	205,100	—	—	205,100
Buyout of noncontrolling interests	(88,747)	(14,244)	7,944	(95,047)
Contribution from noncontrolling interests	191,251	—	—	191,251
Net loss	—	(16,747)	—	(16,747)
Other comprehensive loss, net of tax	—	—	(49)	(49)
Balances at September 30, 2015	$ 832,761	$ (21,099)	$ (950)	$ 810,712
Balances at December 31, 2015	$ 972,241	$ (27,426)	$ (553)	$ 944,262
Distributions to noncontrolling interests	(11,771)	—	—	(11,771)
Other	(103)	—	—	(103)
Net loss	—	(24,838)	—	(24,838)
Other comprehensive loss, net of tax	—	—	(865)	(865)
Balances at September 30, 2016	$ 960,367	$ (52,264)	$ (1,418)	$ 906,685

14. Loss Per Share

Basic loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the reportable period. Diluted loss per share is computed by adjusting basic loss per share for the effect of all potential common shares unless they are anti-dilutive. For purpose of this calculation, potentially dilutive securities are determined by applying the treasury stock method to the assumed exercise of in-the-money stock options and the assumed vesting of outstanding restricted stock awards (RSAs) and release of deferred restricted stock units (RSUs). Potentially dilutive securities related to convertible senior notes are determined using the if-converted method.

The Company's vested deferred RSUs have non-forfeitable rights to dividends prior to release and are considered participating securities. Accordingly, they are included in the computation of basic and diluted loss per share, pursuant to the two-class method. Under the two-class method, distributed and undistributed earnings allocated to participating securities are excluded from net loss attributable to common stockholders for purposes of calculating basic and diluted loss per share. However, net losses are not allocated to participating securities since they are not contractually obligated to share in the losses of the Company.

For the three and nine months ended September 30, 2016, the Company excluded 8,121,850 and 8,115,741, respectively, and excluded 5,578,764 and 2,027,347 for the same periods in the prior year, of potentially dilutive securities from the diluted loss per share calculation as their effect is anti-dilutive.

The computations for Class A basic and diluted loss per share are as follows (in thousands except share data):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Numerator for basic and diluted loss per share:				
Net loss attributable to Pattern Energy	$(4,013)	$(29,405)	$(30,906)	$(34,987)
Less: dividends declared on Class A common stock	(34,988)	(27,113)	(92,759)	(75,117)
Less: earnings allocated to participating securities	(16)	—	(36)	—
Undistributed loss attributable to common stockholders	$(39,017)	$(56,518)	$(123,701)	$(110,104)
Denominator for loss per share:				
Weighted average number of shares:				
Class A common stock - basic and diluted	81,531,775	72,789,583	76,821,811	69,233,698
Calculation of basic and diluted loss per share:				
Dividends	$0.43	$0.37	$1.21	$1.08
Undistributed loss	(0.48)	(0.78)	(1.61)	(1.59)
Basic and diluted loss per share	$(0.05)	$(0.40)	$(0.40)	$(0.51)
Dividends declared per Class A common share	$0.40	$0.36	$1.17	$1.06

15. Commitments and Contingencies

Acquisition Commitment

On September 21, 2016, the Company committed to acquire from Pattern Development a 50% interest in Armow, a 179 MW wind project in Ontario, Canada for a purchase price of approximately $133.0 million. The acquisition was completed on October 17, 2016 and was funded from cash available and draws under the Company's Revolving Credit Facility. See Note 17, Subsequent Events of this Form 10-Q for additional information.

On June 30, 2016, the Company committed to acquire from Pattern Development an 84% interest in Broadview, a 324 MW wind project and a 99% interest in the associated independent 35-mile 345 kV Western Interconnect transmission line for a purchase price of approximately $269.0 million (Broadview Acquisition), which will be funded at the commencement of commercial operations, currently estimated to occur in the first half of 2017.

Letters of Credit

Power Sale Agreements

The Company owns and operates wind power projects, and has entered into various long-term PSAs that terminate from 2019 to 2039. The terms of these agreements generally provide for the annual delivery of a minimum amount of electricity at fixed prices and in some cases include price escalation over the term of the agreement. Under the terms of these agreements, as of September 30, 2016, the Company issued irrevocable letters of credits to guarantee its performance for the duration of the agreements totaling $107.0 million.

Project Finance and Lease Agreements

The Company has various project finance and lease agreements which obligate the Company to provide certain reserves to enhance its credit worthiness and facilitate the availability of credit. As of September 30, 2016, the Company issued irrevocable letters of credit totaling $108.8 million to ensure performance under these various project finance and lease agreements, including the Revolving Credit Facility.

Contingencies

Turbine Operating Warranties and Service Guarantees

The Company has various turbine availability warranties and service guarantees from either its turbine manufacturers or service and maintenance providers. The service guarantees, primarily from one provider, are associated with long-term turbine service arrangements which commenced on various dates in 2014 and 2015 for certain wind projects. Pursuant to these warranties and service guarantees, if a turbine operates at less than minimum availability during the warranty period, the turbine manufacturer or service provider is obligated to pay, as liquidated damages, an amount for each percent that the turbine operates below the minimum availability threshold. In addition, if a turbine operates at more than a specified availability during the warranty period, the Company has an obligation to pay a bonus to the turbine manufacturer or service provider. As of September 30, 2016, the Company recorded liabilities of $3.4 million associated with bonuses payable to the turbine manufacturers and service providers.

Legal Matters

From time to time, the Company has become involved in claims and legal matters arising in the ordinary course of business. Management is not currently aware of any matters that will have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

Indemnity

The Company provides a variety of indemnities in the ordinary course of business to contractual counterparties and to its lenders and other financial partners. The Company is party to certain indemnities for the benefit of project finance lenders and tax equity partners of certain projects. These consist principally of indemnities that protect the project finance lenders from, among other things, the potential effect of any recapture by the U.S. Department of the Treasury of any amount of the Cash Grants previously received by the projects and eligibility of production tax credits and certain legal matters, limited to the amount of certain related costs and expenses.

16. Related Party Transactions

Management Services Agreement and Shared Management

The Company has entered into a bilateral Management Services Agreement with Pattern Development which provides for the Company and Pattern Development to benefit, primarily on a cost-reimbursement basis plus a 5% fee on certain direct costs, including the parties' respective management and other professional, technical and administrative personnel, all of whom report to the Company's executive officers. Costs and expenses incurred at Pattern Development or its subsidiaries on the Company's behalf will be allocated to the Company. Conversely, costs and expenses incurred at the Company or its subsidiaries on the behalf of Pattern Development will be allocated to Pattern Development.

Pursuant to the bilateral Management Services Agreement, certain of the Company's executive officers, including its Chief Executive Officer (shared PEG executives), also serve as executive officers of Pattern Development and devote their time to both the Company and Pattern Development as is prudent in carrying out their executive responsibilities and fiduciary duties. The shared PEG executives have responsibilities for both the Company and Pattern Development and, as a result, these individuals do not devote all of their time to the Company's business. Under the terms of the Management Services Agreement, Pattern Development is required to reimburse the Company for an allocation of the compensation paid to such shared PEG executives reflecting the percentage of time spent providing services to Pattern Development.

The following table presents net bilateral management service cost reimbursements included in the consolidated statements of operations (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Related party general and administrative	$(3,553)	$(1,887)	$(7,381)	$(5,316)
Related party income	1,593	605	$3,697	2,029
Total	$(1,960)	$(1,282)	$(3,684)	$(3,287)

As of September 30, 2016 and December 31, 2015, the net amounts payable to Pattern Development for bilateral management service cost reimbursements were $2.0 million and $1.6 million, respectively. In addition, the Company recorded a receivable of $0.1 million and $0.1 million as of September 30, 2016 and December 31, 2015, respectively, related to expense reimbursements due from Pattern Development.

Management Fees

The Company provides management services and receives a fee for such services under agreements with its joint venture investees, South Kent, Grand and K2, in addition to various Pattern Development subsidiaries. The following table presents revenue for these agreements included in the consolidated statements of operations (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Related party revenue	$ 1,574	$ 955	$4,121	$2,630
Total	$ 1,574	$ 955	$4,121	$2,630

A related party receivable of $0.9 million and $0.6 million was recorded in the consolidated balance sheets as of September 30, 2016 and December 31, 2015, respectively.

17. Subsequent Events

On November 4, 2016, the Company declared an increased dividend for the fourth quarter, payable on January 31, 2017, to holders of record on December 30, 2016, in the amount of $0.408 per Class A share, or $1.632 on an annualized basis. This is 2.0% increase from the third quarter of 2016.

On October 17, 2016, the Company acquired from Pattern Development a 50% limited partnership interest in SP Armow Wind Ontario LP (the Armow Project Company), as well as 100% of the issued and outstanding shares in the capital of Pattern Armow GP Holdings Inc. for consideration of approximately $133.0 million, plus accrued estimated proportionate debt of approximately $197.1 million U.S. dollar equivalent. The Armow Project Company operates the approximately 179 MW wind farm located in the Municipality of Kincardine in Bruce County, Ontario, Canada which achieved commercial operation in December 2015. The purchase price was funded through a draw under the Revolving Credit Facility and available cash.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2015 and our unaudited consolidated financial statements for the three and nine months ended September 30, 2016 and other disclosures (including the disclosures under "Part II. Item 1A. Risk Factors") included in this Quarterly Report on Form 10-Q. Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and are presented in U.S. dollars. Unless the context provides otherwise, references herein to "we," "our," "us," "our company" and "Pattern Energy refer to Pattern Energy Group Inc., a Delaware corporation, together with its consolidated subsidiaries.

Overview

We are an independent power company focused on owning and operating power projects with stable long-term cash flows in attractive markets with potential for continued growth of our business. We hold interests in 18 wind power projects, including the Armow project which we acquired on October 17, 2016, and the Broadview project which we have committed to acquire, located in the United States, Canada and Chile that use proven, best-in-class technology and have a total owned capacity of 2,644 MW. Each of our projects has contracted to sell all or a majority of its output pursuant to a long-term, fixed-price power sale agreement (PPA). Ninety-one percent of the electricity to be generated by our projects will be sold under our power sale agreements which have a weighted average remaining contract life of approximately 14 years.

We intend to maximize long-term value for our stockholders in an environmentally responsible manner and with respect for the communities in which we operate. Our business is built around three core values of creative energy and spirit, pride of ownership and follow-through, and a team first attitude, which guide us in creating a safe, high-integrity work environment, applying rigorous analysis to all aspects of our business, and proactively working with our stakeholders to address environmental and community concerns. Our financial objectives, which we believe will maximize long-term value for our stockholders, are to produce stable and sustainable cash available for distribution, selectively grow our project portfolio and our dividend per Class A share and maintain a strong balance sheet and flexible capital structure.

Our growth strategy is focused on the acquisition of operational and construction-ready power projects from Pattern Development and other third parties that we believe will contribute to the growth of our business and enable us to increase our dividend per Class A share over time. Pattern Development is a leading developer of renewable energy and transmission projects. We believe Pattern Development's ownership position in our company incentivizes Pattern Development to support the successful execution of our objectives and business strategy, including through the development of projects to the stage where they are at least construction-ready. Currently, Pattern Development has a 5,900 MW pipeline of development projects, all of which are subject to our right of first offer. We target achieving a total owned capacity of 5,000 MW by year end 2019 through a combination of acquisitions from Pattern Development and third parties capitalizing on the large fragmented global renewable energy market. In addition, we expect opportunities in Japan and Mexico will form part of our growth strategy.

The discussion and analysis below has been organized as follows:

- Recent Developments
- Key Metrics
- Results of Operations
- Liquidity and Capital Resources
  - Sources of Liquidity
  - Uses of Liquidity
- Critical Accounting Policies and Estimates

Recent Developments

On October 17, 2016, we acquired from Pattern Development a 50% limited partnership interest in SP Armow Wind Ontario LP (the Armow Project Company), as well as 100% of the issued and outstanding shares in the capital of Pattern Armow GP Holdings Inc. for consideration of approximately $133.0 million, plus accrued estimated proportionate debt of approximately $197.1 million

U.S. dollar equivalent. The Armow Project Company operates the approximately 179 MW wind farm located in the Municipality of Kincardine in Bruce County, Ontario, Canada which achieved commercial operations in December 2015. The purchase price was funded through a draw under our Revolving Credit Facility and available cash.

On August 12, 2016, we completed an underwritten public offering of our Class A common stock. In total, 10,000,000 shares of our Class A common stock were sold. In connection with the equity offering, the underwriters had a 30-day option to purchase up to an additional 1,500,000 shares of Class A common stock to cover over-allotments. On August 22, 2016, the underwriters partially exercised their over-allotment option and purchased an additional 1,300,000 shares of Class A common stock. Aggregate net proceeds of the equity offering, including the proceeds of the over-allotment option, were approximately $258.6 million after deduction of underwriting discounts, commissions, and transaction expenses.

On June 30, 2016, we committed to acquire from Pattern Development an 84% interest in Broadview, a 324 MW wind project and a 99% interest in the associated independent 35-mile 345 kV Western Interconnect transmission line for a purchase price of approximately $269.0 million (Broadview Acquisition), which will be funded at the commencement of commercial operations, currently estimated to occur in the first half of 2017. We can meet the contemplated cash purchase consideration using part of our available liquidity and long-term project holding company debt financing commitments arranged at the time of the purchase commitment which total up to $160.0 million with various maturities from five to ten years. We believe that we do not need to raise equity in order to complete the Broadview Acquisition; however, we retain the flexibility to use retained cash flow or raise equity, corporate debt, project holding company debt or other financing arrangements prior to the closing of the Broadview Acquisition in lieu of using one or more of project holding company debt financing commitments.

On May 9, 2016, we entered into an Equity Distribution Agreement with RBC Capital Markets, LLC, KeyBanc Capital Markets Inc. and Morgan Stanley & Co. LLC (collectively, the Agents). Pursuant to the terms of the Equity Distribution Agreement, we may offer and sell shares of our Class A common stock, par value $0.01 per share, from time to time through the Agents, as our sales agents for the offer and sale of the shares, up to an aggregate sales price of $200.0 million. We intend to use the net proceeds from the sale of the shares for general corporate purposes, which may include the repayment of indebtedness and the funding of acquisitions and investments. For the three and nine months ended September 30, 2016, we sold 1,240,504 shares under the Equity Distribution Agreement and net proceeds under the issuances were $27.6 million.

Below is a summary of our Identified Right of First Offer Projects that we expect to acquire from Pattern Development in connection with our purchase right.

Identified ROFO Projects	Status	Location	Construction Start [1]	Commercial Operations [2]	Contract Type	Capacity (MW) Rated [3]	Capacity (MW) Pattern Development-Owned [4]
Kanagi Solar	Operational	Japan	2014	2016	PPA	14	6
Futtsu Solar	Operational	Japan	2014	2016	PPA	42	19
Conejo Solar	Operational	Chile	2015	2016	PPA	104	104
Meikle	In construction	British Columbia	2015	2016	PPA	180	180
Belle River	Late stage development	Ontario	2016	2017	PPA	100	43
North Kent	Late stage development	Ontario	2017	2018	PPA	100	43
Grady	Late stage development	New Mexico	2018	2019	PPA	220	176
Henvey Inlet	Late stage development	Ontario	2017	2018	PPA	300	150
Mont Sainte-Marguerite	Late stage development	Québec	2016	2017	PPA	147	147
Ohorayama	Late stage development	Japan	2017	2018	PPA	33	31

Tsugaru	Late stage development	Japan	2017	2019	PPA	126	63
						1,366	962

(1) Represents year of actual or anticipated commencement of construction.

(2) Represents year of actual or anticipated commencement of commercial operations.

(3) Rated capacity represents the maximum electricity generating capacity of a project in MW. As a result of wind and other conditions, a project or a turbine will not operate at its rated capacity at all times and the amount of electricity generated will be less than its rated capacity. The amount of electricity generated may vary based on a variety of factors.

(4) Pattern Development-owned capacity represents the maximum, or rated, electricity generating capacity of the project in MW multiplied by Pattern Development's percentage ownership interest in the distributable cash flow of the project.

Key Metrics

We regularly review a number of financial measurements and operating metrics to evaluate our performance, measure our growth and make strategic decisions. In addition to traditional U.S. GAAP performance and liquidity measures, such as total revenue, cost of revenue, net loss and net cash provided by operating activities, we also consider cash available for distribution as a supplemental liquidity measure and Adjusted EBITDA, MWh sold and average realized electricity price in evaluating our operating performance. We disclose cash available for distribution, which is a non-U.S. GAAP measure, because management recognizes that it will be used as a supplemental measure by investors and analysts to evaluate our liquidity. We disclose Adjusted EBITDA, which is a non-U.S. GAAP measure, because management believes this metric assists investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that our management believes are not indicative of our core operating performance. Each of these key metrics is discussed below.

Cash Available for Distribution

We define cash available for distribution as net cash provided by operating activities as adjusted for certain other cash flow items that we associate with our operations. It is a non-U.S. GAAP measure of our ability to generate cash to service our dividends.

Cash available for distribution represents cash provided by operating activities as adjusted to (i) add or subtract changes in operating assets and liabilities, (ii) subtract net deposits into restricted cash accounts, which are required pursuant to the cash reserve requirements of financing agreements, to the extent they are paid from operating cash flows during a period, (iii) subtract cash distributions paid to noncontrolling interests, (iv) subtract scheduled project-level debt repayments in accordance with the related loan amortization schedule, to the extent they are paid from operating cash flows during a period, (v) subtract non-expansionary capital expenditures, to the extent they are paid from operating cash flows during a period, (vi) add cash distributions received from unconsolidated investments, to the extent such distributions were derived from operating cash flows and (vii) add or subtract other items as necessary to present the cash flows we deem representative of our core business operations.

The most directly comparable U.S. GAAP measure to cash available for distribution is net cash provided by operating activities. The following table is a reconciliation of our net cash provided by operating activities to cash available for distribution for the periods presented (unaudited and in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net cash provided by operating activities	$36,408	$34,682	$105,399	$83,282
Changes in operating assets and liabilities	(3,526)	(4,293)	2,772	(6,429)
Network upgrade reimbursement	—	618	—	1,854
Release of restricted cash to fund project and general and administrative costs	—	—	590	1,501
Operations and maintenance capital expenditures	(133)	27	(879)	(294)
Distributions from unconsolidated investments	8,292	9,647	40,066	23,494
Reduction of other asset - Gulf Wind energy derivative deposit	—	5,355	—	5,355
Other	(195)	(1,212)	(130)	273
Less:				
Distributions to noncontrolling interests	(3,584)	(2,871)	(11,771)	(4,382)
Principal payments paid from operating cash flows	(17,060)	(19,674)	(39,322)	(45,057)
Cash available for distribution	$20,202	$22,279	$96,725	$59,597

Cash available for distribution was $20.2 million for the three months ended September 30, 2016 as compared to $22.3 million for the same period in the prior year. This $2.1 million decrease in cash available for distribution was primarily due to the partial refund of deposit associated with the Gulf Wind energy derivative of $5.4 million received in 2015 offset by a reduction in principal payments of $2.6 million.

Cash available for distribution was $96.7 million for the nine months ended September 30, 2016 as compared to $59.6 million for the same period in the prior year. This $37.1 million increase in cash available for distribution was due to additional revenues of $51.4 million (excluding unrealized loss on energy derivative and amortization of PPAs) primarily from projects which were acquired since May 2015 or which commenced commercial operations in September 2015. In addition, we received an increase of $16.6 million in cash distributions from our unconsolidated investments when compared to the same period in the prior year due to a full period of operation at each of our unconsolidated investments in 2016. These increases were partially offset by increases in project expenses of $14.9 million and operating expenses of $10.9 million, primarily from projects which commenced commercial operations or were acquired during 2015, as well as, increased distributions to noncontrolling interests of $7.4 million.

Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) before net interest expense, income taxes, and depreciation, amortization and accretion, including our proportionate share of net interest expense, income taxes, and depreciation, amortization and accretion of unconsolidated investments. Adjusted EBITDA also excludes the effect of certain mark-to-market adjustments and infrequent items not related to normal or ongoing operations, such as early payment of debt, realized derivative gain or loss from refinancing transactions, gain or loss related to acquisitions or divestitures, and adjustments from unconsolidated investments. In calculating Adjusted EBITDA, we exclude mark-to-market adjustments to the value of our derivatives because we believe that it is useful for investors to understand, as a supplement to net income (loss) and other traditional measures of operating results, the results of our operations without regard to periodic, and sometimes material, fluctuations in the market value of such assets or liabilities.

During the nine months ended September 30, 2016, the equity method of accounting for our investments at South Kent and Grand has been suspended as the carrying values of our investments were reduced to zero. Our definition of Adjusted EBITDA has accordingly been modified within the current periods to include adjustments (gains on distributions and suspended equity losses) from unconsolidated investments.

The most directly comparable U.S. GAAP measure to Adjusted EBITDA is net income (loss). The following table reconciles net income (loss) to Adjusted EBITDA for the periods presented (unaudited and in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net loss	$(11,050)	$(35,332)	$(55,744)	$(51,734)
Plus:				
Interest expense, net of interest income	19,583	18,278	60,906	54,692
Tax (benefit) provision	1,311	(2,181)	4,038	676
Depreciation, amortization and accretion	45,755	40,241	136,974	104,082
EBITDA	55,599	21,006	146,174	107,716
Unrealized (gain) loss on energy derivative [1]	818	(4,630)	14,970	(1,600)
(Gain) loss on undesignated derivatives, net	(1,825)	6,091	17,685	5,313
Realized loss on derivatives	—	11,221	—	11,221
Early extinguishment of debt	—	4,113	—	4,113
Net loss on transactions	314	74	353	2,663
Adjustments from unconsolidated investments [2]	(8,439)	—	(19,573)	—
Plus, proportionate share from unconsolidated investments:				
Interest expense, net of interest income	7,634	6,466	22,778	17,085
Depreciation, amortization and accretion	6,660	6,746	19,624	16,246
Loss on undesignated derivatives, net	1,544			