Pattern Energy Group Inc.
Form 10-K/A
March 29, 2019

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

FORM 10-K/A
(Amendment No. 1)

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2018.
-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.)

1088 Sansome Street, San Francisco, CA 94111
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (415) 283-4000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, par value $0.01 per share	Nasdaq Global Select Market Toronto Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated

filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ¨ No ý

The aggregate market value of the voting stock and non-voting stock held by non-affiliates of the registrant based upon the last trading price of the registrant's Class A common stock as reported on the Nasdaq Global Select Market on June 30, 2018 was approximately $1.5 billion. This excludes 16,829,692 shares of Class A common stock held by directors, officers, Pattern Renewables LP and certain of its affiliates, and Public Sector Pension Investment Board. Exclusion of shares does not reflect a determination that persons are affiliates for any other purpose.

The registrant's Class A common stock is listed on the Nasdaq Global Select Market and on the Toronto Stock Exchange under the symbol "PEGI".

On February 22, 2019, the registrant had 98,077,874 shares of Class A common stock, $0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2019 annual meeting of stockholders (the "2019 Proxy Statement") are incorporated by reference into Part III of this Form 10-K where indicated. The 2019 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

EXPLANATORY NOTE

On March 1, 2019, Pattern Energy Group Inc. (the “Company”) filed with the Securities and Exchange Commission (the “Commission”) its Annual Report on Form 10-K (the “Form 10-K”) for the year ended December 31, 2018.

The Company is filing this Amendment No. 1 to its Annual Report on Form 10-K (the “Form 10-K/A”) to include separate financial statements of Pattern Energy Group Holdings 2 LP (“PEGH 2”), pursuant to Rule 3-09 of Regulation S-X (“Rule 3-09”). The PEGH 2 financial statements were not available at the time the Company filed its Form 10-K. In accordance with Rule 3-09(b)(1), the PEGH 2 financial statements are being filed as an amendment to the Form 10-K within 90 days after the end of the Company's fiscal year.

This Form 10-K/A amends the Form 10-K solely by the addition of (i) the PEGH 2 financial statements (the “PEGH2 Financial Statements”) to Part IV, Item 15(a)(1)(e) and (ii) new consents of the independent auditors to Part IV, Item 15(a)(3) under Exhibits 23.1, 23.2 and 23.3 thereto. Pursuant to the requirements Rule 12b-15 promulgated by the Commission under the Securities Exchange Act of 1934, as amended, the Company has set forth the complete text of Item 15, Exhibits and Financial Statement Schedule, as amended. No changes have been made to any of the other financial statements or the financial statement schedule previously included under Item 15 in the Form 10-K previously filed on March 1, 2019.

No attempt has been made in this Form 10-K/A to update other disclosures presented in the Form 10-K and this Form 10-K/A does not reflect events occurring after the filing of the Form 10-K or modify or update those disclosures, including the exhibits to the Form 10-K affected by subsequent events.

This Form 10-K/A has been signed as of a current date and all certifications of the Company's Chief Executive Officer and Chief Financial Officer are given as of a current date. Accordingly, this Form 10-K/A should be read in conjunction with filings made by the Company with the Securities and Exchange Commission subsequent to the filing of the Form 10-K.

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PART IV

Item 15. Exhibits and Financial Statement Schedule.

(a) Documents filed as part of this report

(1) Consolidated financial statements—Pattern Energy Group Inc.

Financial statements—Equity Method Investments

(2) Financial statements Schedule—Pattern Energy Group Inc. Parent

(3) Exhibits

The following documents are filed or furnished as part of this Form 10-K/A. The Company will furnish a copy of any exhibit listed to requesting stockholders upon payment of the Company’s reasonable expenses in furnishing those materials.

Exhibit No.	Description Of Exhibits
3.1	Amended and Restated Certificate of Incorporation of Pattern Energy Group Inc. (Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1/A dated September 20, 2013 (Registration No. 333-190538)).
3.2	Amended and Restated Bylaws of Pattern Energy Group Inc. (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1/A dated September 3, 2013 (Registration No. 333-190538)).
4.1	Form of Class A Stock Certificate (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1/A dated September 3, 2013 (Registration No. 333-190538)).
4.2	Form of Senior Indenture (Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3 dated August 14, 2017 (Registration No. 333-219970)).
4.3	Form of Subordinated Indenture (Incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-3 dated August 14, 2017 (Registration No. 333-219970)).
4.4	Indenture, dated July 28, 2015, among Pattern Energy Group Inc., as issuer, Pattern US Finance Company LLC, as subsidiary guarantor, and Deutsche Bank Trust Company Americas, as trustee, related to 4.00% Convertible Senior Notes due 2020 (Incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K dated July 28, 2015).
4.5	Indenture, dated as of January 25, 2017, among Pattern Energy Group Inc., Pattern US Finance Company LLC, as guarantor, and Deutsche Bank Trust Company Americas, as trustee, related to 5.875% Senior Notes due 2024 (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated January 20, 2017).
10.1	Second Amended and Restated Credit and Guaranty Agreement, among Pattern US Finance Company LLC, Pattern Canada Finance Company ULC, as borrowers, certain subsidiaries of the borrowers, the lenders party thereto from time to time, Royal Bank of Canada, as Swingline Lender, Administrative Agent and Collateral Agent, Bank of Montreal, as Syndication Agent, Royal Bank of Canada, Bank of Montreal, Morgan Stanley Bank, N.A., Citibank N.A. and Bank of America, N.A. each as LC Issuing Bank, and Citibank, N.A. as Documentation Agent, dated as of November 21, 2017 (the “Amended and Restated Credit and Guaranty Agreement") (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 22, 2017).
10.2	Pattern Energy Group Inc. Amended and Restated 2013 Equity Incentive Award Plan (Incorporated by reference to Exhibit B to the Company's Definitive Proxy Statement on Schedule 14A dated April 14, 2017).
10.3	Form of Pattern Energy Group Inc. 2013 Incentive Bonus Plan. (Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1/A dated September 3, 2013 (Registration No. 333-190538)).
10.4	

	Form of Stock Option Agreement under 2013 Equity Incentive Award Plan (Incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1/A dated September 3, 2013 (Registration No. 333-190538)).
10.5	Form of Restricted Stock Agreement under 2013 Equity Incentive Award Plan. (Incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2018).
10.6	Form of Restricted Stock Unit Agreement under 2013 Equity Incentive Award Plan. (Incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1/A dated September 3, 2013 (Registration No. 333-190538)).
10.7	Form of Deferred Restricted Stock Unit Agreement under 2013 Equity Incentive Award Plan. (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 22, 2017).
10.8	Form of TSR Performance Restricted Stock Agreement under 2013 Equity Incentive Award Plan (Incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2018).
10.9	Form of Indemnification Agreement between the Registrant and each of its Executive Officers and Directors. (Incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1/A dated September 3, 2013 (Registration No. 333-190538)).
10.10	Registration Rights Agreement between the Company and Pattern Energy Group LP, dated as of October 2, 2013. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 26, 2013).
10.11	Management, Operation and Maintenance Agreement, dated as of December 20, 2013, by and between Pattern Panhandle Wind 2 LLC and Pattern Operators LP (PH2 MOMA) (Incorporated by reference to Exhibit 14 to the Company's Current Report on Form 8-K dated December 20, 2013).
10.12	Project Administration Agreement, dated as of December 20, 2013, by and between Pattern Panhandle Wind 2 LLC and Pattern Operators LP (PH2 PAA) (Incorporated by reference to Exhibit 15 to the Company's Current Report on Form 8-K dated December 20, 2013).
10.13	Employment Agreement between Pattern Energy Group Inc. and Michael M. Garland dated October 2, 2013 (Incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).

Exhibit No.	Description Of Exhibits
10.14	Employment Agreement between Pattern Energy Group Inc. and Hunter H. Armistead dated October 2, 2013 (Incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).
10.15	Employment Agreement between Pattern Energy Group Inc. and Daniel M. Elkort dated October 2, 2013 (Incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).
10.16	Employment Agreement between Pattern Energy Group Inc. and Esben Pedersen dated October 2, 2013 (Incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 dated April 25, 2014 (Registration No. 333-195488)).
10.17	Employment Agreement between Pattern Energy Group Inc. and Michael J. Lyon dated October 2, 2013 (Incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q dated May 7, 2015).
10.18	Assignment and Assumption of Lease and Consent of Landlord Agreement, effective as of January 1, 2016, by and between Pattern Energy Group LP, Pattern Energy Group Inc., and AMB Pier One, LLC (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 25, 2016).
10.19	Purchase Rights Agreement among Pattern Energy Group Inc., Pattern Energy Group 2 LP, and (solely with respect to Article III thereto) Pattern Energy Group Holdings 2 LP and Pattern Energy Group Holdings 2 GP LLC, dated as of December 8, 2016 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 8, 2016).
10.20	Service Mark License Agreement between Pattern Energy Group Inc. and Pattern Energy Group 2 LP, dated as of December 8, 2016 (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated December 8, 2016).
10.21	Amended and Restated Purchase Rights Agreement by and among Pattern Energy Group LP, Pattern Energy Group Inc., Pattern Energy Group Holdings LP (solely with respect to Article IV therein) and Pattern Energy GP LLC, dated as of June 16, 2017 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 19, 2017).
10.22	Amended and Restated Purchase Rights Agreement by and among Pattern Energy Group 2 LP, Pattern Energy Group Inc., Pattern Energy Group Holdings 2 LP (solely with respect to Article III therein) and Pattern Energy Group Holdings 2 GP LLC, dated as of June 16, 2017 (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 19, 2017).
10.23	Second Amended and Restated Non-Competition Agreement by and among Pattern Energy Group LP, Pattern Energy Group Inc. and Pattern Energy Group 2 LP, dated as of June 16, 2017 (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 19, 2017).
10.24	Amended and Restated Multilateral Management Services Agreement by and among Pattern Energy Group Inc., Pattern Energy Group LP and Pattern Energy Group 2 LP, dated as of June 16, 2017 (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed June 19, 2017).

10.25	Second Amended and Restated Limited Partnership Agreement of Pattern Energy Group Holdings 2 LP, dated as of June 16, 2017 (Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed June 19, 2017).
10.26	Joint Venture Agreement between PSP Investments and Pattern Energy Group Inc., dated as of June 16, 2017 (Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed June 19, 2017).
10.27	Sponsor Services Agreement between Pattern Energy Group Inc. and PSP Investments, dated as of June 16, 2017 (Incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed June 19, 2017).
10.28	Purchase and Sale Agreement by and among Pattern Energy Group Inc., Vertuous Energy Canada Inc. and Pattern Energy Group LP, dated as of June 16, 2017 (Meikle PSA) (Incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed June 19, 2017).
10.29	Purchase and Sale Agreement by and among Pattern Energy Group Inc., Vertuous Energy Canada Inc. and Pattern Energy Group LP, dated as of June 16, 2017 (MSM PSA) (Incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed June 19, 2017).
10.30	Purchase and Sale Agreement by and among Vertuous Energy LLC and Pattern Energy Group Inc., dated as of June 16, 2017 (Panhandle 2 PSA) (Incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K filed June 19, 2017).
10.31	Amended and Restated Limited Partnership Agreement among Pattern Canada Finance Company ULC, Vertuous Energy Canada Inc. and Meikle Wind Energy Corp. dated as of August 10, 2017 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 14, 2017).
10.32	Shareholders Agreement among Pattern Canada Finance Company ULC, Vertuous Energy Canada Inc. and Meikle Wind Energy Corp. dated as of August 10, 2017 (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed August 14, 2017).

Exhibit No.	Description Of Exhibits
10.33	Amended and Restated Limited Liability Company Agreement of PAN2 B2, LLC, a Delaware limited liability company, dated as of December 22, 2017 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 28, 2017).
10.34	Voting Agreement between Panhandle B Member 2 LLC and Vertuous Energy LLC made as of December 22, 2017 (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 28, 2017).
10.35	Letter Agreement between Pattern Energy Group Inc. and Public Sector Pension Investment Board, dated as of December 22, 2017 (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 28, 2017).
10.36	Reimbursement Agreement between Pattern Energy Group Inc. and Public Sector Pension Investment Board, dated as of December 22, 2017 (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated December 28, 2017).
10.37	Registration Rights Agreement (Side Letter) among PSP Investments and the Pattern Energy Group, Inc. dated as of October 27, 2017 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 30, 2017).
10.38	Purchase and Sale Agreement by and between Pattern Energy Group Inc. and Pattern Energy Group LP dated as of February 26, 2018 related to indirect interests in Green Power Tsugaru GK (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 27, 2018).
10.39	Purchase and Sale Agreement by and between Pattern Energy Group Inc. and Green Power Investment Corporation dated as of February 26, 2018 related to indirect interests in Green Power Tsugaru GK (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 27, 2018).
10.40	Purchase and Sale Agreement by and between Pattern Energy Group Inc. and Pattern Energy Group LP dated as of February 26, 2018 related to indirect interests in GK Green Power Kanagi, GK Green Power Otsuki and GK Green Power Futtsu (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated February 27, 2018).
10.41	Purchase and Sale Agreement by and between Pattern Energy Group Inc. and Green Power Investment Corporation dated as of February 26, 2018 related to indirect interests in GK Green Power Kanagi, GK Green Power Otsuki and Otsuki Wind Power Corporation (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated February 27, 2018).
10.42	Deferred Payment Agreement by and between Pattern Energy Group Inc. and Pattern Energy Group LP dated as of February 26, 2018 (Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated February 27, 2018).
10.43	Consent and Waiver Agreement dated as of May 21, 2018 entered into by Public Sector Pension Investment Board and Pattern Energy Group Inc. related to the Conejo Solar project (Incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K dated May 25, 2018).

10.44	Waiver Agreement dated as of May 21, 2018 entered into by Pattern Energy Group LP and the Company related to the Conejo Solar project (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 25, 2018).
10.45	Unanimous Shareholder Agreement of Pattern MSM GP Holdings Inc. among Pattern Canada Finance Company ULC, Vertuous Energy Canada Inc. and Pattern MSM GP Holdings Inc., dated as of August 10, 2018 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 10, 2018).
10.46	Amended and Restated Limited Partnership Agreement of MSM LP Holdings LP among Pattern Canada Finance Company ULC, Vertuous Energy Canada Inc. and Pattern MSM GP Holdings Inc., dated as of August 10, 2018 (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 10, 2018).
10.47	Shareholders Agreement of Pattern Development MSM Management ULC among Pattern Canada Finance Company ULC, Vertuous Energy Canada Inc. and Pattern Development MSM Management ULC, dated as of August 10, 2018 (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated August 10, 2018).
10.48	Amendment No. 2018-2 to Members' Agreement (Futtsu) dated as of August 14, 2018 by and between Green Power Generation GK and Green Power Investment Corporation (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 14, 2018).
10.49	Memorandum of Understanding dated as of August 16, 2018 entered into by Pattern Gulf Wind Holdings LLC and Pattern Western Development LLC (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 28, 2018).

Exhibit No.	Description Of Exhibits
10.50	Purchase and Sale Agreement by and among Pattern Energy Group Inc., Vertuous Energy LLC, and Pattern Energy Group 2 LP, dated as of November 20, 2018 (Stillwater) (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 20, 2018.
10.51	Amended and Restated Limited Liability Company Agreement of Stillwater New B Member LLC, between Pattern US Finance Company LLC and Vertuous Energy LLC (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 20, 2018).
10.52	Reimbursement Agreement between Pattern Energy Group Inc. and Public Sector Pension Investment Board, dated as of November 20, 2018 (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated November 20, 2018).
21.1	Subsidiaries of the Company (Incorporated by reference to Exhibit 21.1 to the Company's 2018 Annual Report on Form 10-K filed on March 1, 2019).
23.1**	Consent of Independent Registered Public Accounting Firm
23.2**	Consent of Independent Registered Public Accounting Firm
23.3**	Consent of PricewaterhouseCoopers LLP
24.1	Powers of Attorney (Incorporated by reference to Exhibit 24.1 to the Company's 2018 Annual Report on Form 10-K filed on March 1, 2019).
31.1**	Certifications of the Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2**	Certifications of the Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32*	Certifications of the Company’s Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document (Incorporated by reference to Exhibit 101.INS to the Company's 2018 Annual Report on Form 10-K filed on March 1, 2019).
101.SCH	XBRL Taxonomy Extension Schema Document (Incorporated by reference to Exhibit 101.SCH to the Company's 2018 Annual Report on Form 10-K filed on March 1, 2019).
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (Incorporated by reference to Exhibit 101.CAL to the Company's 2018 Annual Report on Form 10-K filed on March 1, 2019).
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (Incorporated by reference to Exhibit 101.DEF to the Company's 2018 Annual Report on Form 10-K filed on March 1, 2019).
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (Incorporated by reference to Exhibit 101.LAB to the Company's 2018 Annual Report on Form 10-K filed on March 1, 2019).
101.PRE	

XBRL Taxonomy Extension Presentation Linkbase Document (Incorporated by reference to Exhibit 101.PRE to the Company's Annual Report on Form 10-K filed on March 1, 2019).

* These certifications accompany this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed “filed” by the Company for purposes of Section 18 of the Exchange Act.

** Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date:	March 28, 2019	Pattern Energy Group Inc.
		By /s/ Michael M. Garland
		Michael M. Garland
		President and Chief Executive Officer

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Pattern Energy Group Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Pattern Energy Group Inc. and its subsidiaries (the “Company”) as of December 31, 2018, and the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity, and cash flows for the year then ended, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audit of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
San Francisco, California
March 1, 2019
We have served as the Company's auditor since 2018.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Pattern Energy Group Inc.
Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Pattern Energy Group Inc. (the Company) as of December 31, 2017, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the two years in the period ended December 31, 2017, and the related notes and financial statement Schedule I listed in the Index at Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pattern Energy Group Inc. at December 31, 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We did not audit the financial statements of SP Armow Wind Ontario LP, South Kent Wind LP and Grand Renewable Wind LP partnerships in which the Company has a 50%, 50% and 45% interest, respectively. In the consolidated financial statements, the Company's investment in SP Armow Wind Ontario LP, South Kent Wind LP and Grand Renewable Wind LP is stated at $145,652,000 at December 31, 2017, and the Company's equity in the net earnings (losses) of SP Armow Wind Ontario LP, South Kent Wind LP and Grand Renewable Wind LP is stated at $46,000,000 and $24,704,000 for the years ended December 31, 2017 and 2016, respectively. The statements for SP Armow Wind Ontario LP, South Kent Wind LP and Grand Renewable Wind LP were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for SP Armow Wind Ontario LP, South Kent Wind LP and Grand Renewable Wind LP, is based solely on the reports of the other auditors.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP
We served as the Company's auditor from 2012 to 2018
San Francisco, California
March 1, 2018

Pattern Energy Group Inc.
Consolidated Balance Sheets
(In millions of U.S. dollars, except share and par value data)

	December 31,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents (Note 8)	$101	$117
Restricted cash (Note 8)	4	9
Counterparty collateral	6	30
Trade receivables (Note 8)	50	55
Derivative assets, current	14	19
Prepaid expenses (Note 8)	18	18
Deferred financing costs, current, net of accumulated amortization of $3 and $3 as of December 31, 2018 and December 31, 2017, respectively	2	1
Other current assets (Note 8)	16	21
Total current assets	211	270
Restricted cash (Note 8)	18	12
Major construction advances	84	—
Construction in progress	259	—
Property, plant and equipment, net (Note 8)	4,119	3,965
Unconsolidated investments	270	311
Derivative assets	9	10
Deferred financing costs	8	8
Net deferred tax assets	5	6
Intangible assets, net (Note 8)	219	136
Goodwill	58	—
Other assets (Note 8)	34	24
Total assets	$5,294	$4,742

(Continued)

Pattern Energy Group Inc.
Consolidated Balance Sheets
(In millions of U.S. dollars, except share and par value data)

	December 31,	
	2018	2017
Liabilities and equity		
Current liabilities:		
Accounts payable and other accrued liabilities (Note 8)	$67	$54
Accrued construction costs (Note 8)	27	1
Counterparty collateral liability	6	30
Accrued interest (Note 8)	14	17
Dividends payable	42	41
Derivative liabilities, current	2	8
Revolving credit facility, current	198	—

Current portion of long-term debt, net	56	52
Contingent liabilities, current	31	3
Asset retirement obligations, current	24	—
Other current liabilities (Note 8)	11	12
Total current liabilities	478	218
Revolving credit facility	25	—
Long-term debt, net	2,004	1,879
Derivative liabilities	31	21
Net deferred tax liabilities	117	56
Intangible liabilities, net	56	51
Contingent liabilities	142	62
Asset retirement obligations (Note 8)	185	57
Other long-term liabilities (Note 8)	71	50
Advanced lease revenue	26	—
Total liabilities	3,135	2,394
Commitments and contingencies (Note 19)		
Equity:		
Class A common stock, $0.01 par value per share: 500,000,000 shares authorized; 98,051,629 and 97,860,048 shares outstanding as of December 31, 2018 and December 31, 2017, respectively	1	1
Additional paid-in capital	1,130	1,235
Accumulated loss	(27)	(112)
Accumulated other comprehensive loss	(52)	(26)
Treasury stock, at cost; 223,040 and 157,812 shares of Class A common stock as of December 31, 2018 and December 31, 2017, respectively	(5)	(4)
Total equity before noncontrolling interests	1,047	1,094
Noncontrolling interests	1,112	1,254
Total equity	2,159	2,348
Total liabilities and equity	$5,294	$4,742

(Concluded)

See accompanying notes to consolidated financial statements.

Pattern Energy Group Inc.
Consolidated Statements of Operations
(In millions of U.S. dollars, except share data)

	Year ended December 31,		
	2018	2017	2016
Revenue:			
Electricity sales	$464	$ 402	$ 346
Other revenue	19	9	8
Total revenue	483	411	354
Cost of revenue:			
Project expense	143	130	128
Transmission costs	26	19	1
Depreciation, amortization and accretion	250	199	175
Total cost of revenue	419	348	304
Gross profit	64	63	50
Operating expenses:			
General and administrative	40	39	35
Related party general and administrative	15	14	10
Impairment expense	7	—	—
Total operating expenses	62	53	45
Operating income	2	10	5
Other income (expense):			
Interest expense	(109)	(102)	(78)
Gain (loss) on derivatives	17	(10)	(3)
Earnings in unconsolidated investments, net	1	42	30
Early extinguishment of debt	(6)	(9)	—
Net earnings (loss) on transactions	69	(1)	—
Other income (expense), net	(11)	—	3
Total other expense	(39)	(80)	(48)
Net loss before income tax	(37)	(70)	(43)
Income tax provision	32	12	9
Net loss	(69)	(82)	(52)
Net loss attributable to noncontrolling interests	(211)	(64)	(35)
Net income (loss) attributable to Pattern Energy	$142	$ (18)	$ (17)
Weighted average number of common shares outstanding			
Basic	97,456,497	87,179,343	79,382,388
Diluted	97,651,591	87,179,343	79,382,388
Net income (loss) per share attributable to Pattern Energy			
Basic	$1.45	$ (0.20)	$ (0.22)
Diluted	$1.45	$ (0.20)	$ (0.22)

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,		
	2018	2017	2016
Net loss	$(69)	$(82)	$(52)
Other comprehensive income (loss):			
Change in foreign currency translation, net of tax impact of zero, $(4) and zero, respectively	(37)	15	5
Cash flow hedge activity:			
Change in unrealized losses on cash flow hedges, net of tax impact of $3, ($1) and $1, respectively	(4)	(3)	(7)
Reclassifications to net loss, net of tax impact of $(1), $(1) and $(1), respectively	5	11	7
Total change in cash flow hedge activity	1	8	—
Other comprehensive income related to equity method investee net of tax impact of less than $1 million, $(5) and $(2), respectively	2	14	6
Total other comprehensive income (loss), net of tax	(34)	37	11
Comprehensive loss	(103)	(45)	(41)
Less comprehensive loss attributable to noncontrolling interests, net of tax impact of less than $1 million for all years presented	(219)	(63)	(35)
Comprehensive income (loss) attributable to Pattern Energy	$116	$18	$(6)

See accompanying notes to consolidated financial statements.

Pattern Energy Group Inc.
Consolidated Statement of Stockholders’ Equity
(In millions of U.S. Dollars, except share data)

	Class A Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Loss	Accumulated Other Comprehensive Income (Loss)	Total	Noncontrolling Interests	Total Equity
	Shares	Amount	Shares	Amount						
Balances at December 31, 2015	74,709,442	$ 1	(65,301)	$ (2)	$ 983	$ (77)	$ (73)	$ 832	$ 944	$ 1,776
Issuance of Class A common stock, net of issuance costs	12,540,504	—	—	—	286	—	—	286	—	286
Issuance of Class A common stock under equity incentive award plan, net	271,705	—	—	—	—	—	—	—	—	—
Repurchase of shares for employee tax withholding	—	—	(45,663)	(1)	—	—	—	(1)	—	(1)
Stock-based compensation	—	—	—	—	5	—	—	5	—	5
Dividends declared ($1.58 per Class A common share)	—	—	—	—	(128)	—	—	(128)	—	(128)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(18)	(18)
Net loss	—	—	—	—	—	(17)	—	(17)	(35)	(52)
Other comprehensive income, net of tax	—	—	—	—	—	—	11	11	—	11
Balances at December 31, 2016	87,521,651	1	(110,964)	(3)	1,146	(94)	(62)	988	891	1,879
Issuance of Class A common stock, net of issuance costs	10,268,261	—	—	—	237	—	—	237	—	237
Issuance of Class A common stock under equity incentive award plan, net	227,948	—	—	—	—	—	—	—	—	—
Repurchase of shares for employee tax withholding	—	—	(46,848)	(1)	—	—	—	(1)	—	(1)
Stock-based compensation	—	—	—	—	5	—	—	5	—	5
Dividends declared ($1.67 per Class A common share)	—	—	—	—	(151)	—	—	(151)	—	(151)

Acquisitions	—	—	—	—	—	—	—	—	390	390
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(20)	(20)
Partial sale of subsidiary	—	—	—	—	(2)	—	—	(2)	56	54
Net loss	—	—	—	—	—	(18)	—	(18)	(64)	(82)
Other comprehensive income, net of tax	—	—	—	—	—	—	36	36	1	37
Balances at December 31, 2017	98,017,860	1	(157,812)	(4)	1,235	(112)	(26)	1,094	1,254	2,348
Issuance of Class A common stock under equity incentive award plan, net	256,809	—	—	—	—	—	—	—	—	—
Repurchase of shares for employee tax withholding	—	—	(65,228)	(1)	—	—	—	(1)	—	(1)
Stock-based compensation	—	—	—	—	4	—	—	4	—	4
Dividends declared ($1.69 per Class A common share)	—	—	—	—	(109)	(57)	—	(166)	—	(166)
Acquisitions	—	—	—	—	—	—	—	—	49	49
Sale of subsidiaries	—	—	—	—	—	—	—	—	(32)	(32)
Contribution from noncontrolling interests	—	—	—	—	—	—	—	—	98	98
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(38)	(38)
Net income (loss)	—	—	—	—	—	142	—	142	(211)	(69)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(26)	(26)	(8)	(34)
Balances at December 31, 2018	98,274,669	$ 1	(223,040)	$ (5)	$ 1,130	$ (27)	$ (52)	$ 1,047	$ 1,112	$ 2,159

See accompanying notes to consolidated financial statements.

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Pattern Energy Group Inc.
Consolidated Statements of Cash Flows
(In millions of U.S. dollars)

	Year ended December 31,		
	2018	2017	2016
Operating activities			
Net loss	$(69)	$(82)	$(52)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation, amortization and accretion	280	215	189
Impairment expense	7	—	—
Loss on derivatives	4	16	22
Stock-based compensation	5	5	5
Deferred taxes	16	15	8
Earnings in unconsolidated investments, net	(1)	(41)	(30)
Distribution from unconsolidated investments	48	54	15
Gain on transactions	(71)	—	—
Early extinguishment of debt	6	9	—
Other reconciling items	1	(5)	(4)
Changes in operating assets and liabilities:			
Counterparty collateral asset	24	14	(44)
Trade receivables	1	(10)	8
Other current assets	15	(14)	(4)
Other assets (non-current)	(6)	2	1
Accounts payable and other accrued liabilities	3	18	(3)
Counterparty collateral liability	(24)	(14)	44
Advanced lease revenue	34	—	—
Other current liabilities	26	15	2
Other long-term liabilities	(20)	21	7
Net cash provided by operating activities	279	218	164
Investing activities			
Cash paid for acquisitions and investments, net of cash and restricted cash acquired	(415)	(297)	(136)
Proceeds from sale of investments, net of cash and restricted cash distributed	214	—	—
Capital expenditures	(181)	(44)	(33)
Distribution from unconsolidated investments	10	13	42
Other assets	(1)	8	3
Net cash used in investing activities	(373)	(320)	(124)

Pattern Energy Group Inc.
Consolidated Statements of Cash Flows
(In millions of U.S. dollars)

	Year ended December 31,		
	2018	2017	2016
Financing activities			
Proceeds from public offering, net of issuance costs	—	237	286
Dividends paid	(165)	(145)	(120)
Capital contributions - noncontrolling interests	98	—	—
Capital distributions - noncontrolling interests	(38)	(20)	(18)
Payment for financing fees	(9)	(16)	—
Proceeds from short-term debt	562	333	175
Repayment of short-term debt	(402)	(513)	(350)
Proceeds from long-term debt and other	226	694	—
Repayment of long-term debt and other	(186)	(483)	(48)
Proceeds (payments) for termination of designated derivatives	1	(14)	—
Disposition of controlling interest, net	—	58	—
Other financing activities	(4)	(6)	(2)
Net cash provided by (used in) financing activities	83	125	(77)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(4)	6	—
Net change in cash, cash equivalents and restricted cash	(15)	29	(37)
Cash, cash equivalents and restricted cash at beginning of period	138	109	146
Cash, cash equivalents and restricted cash at end of period	$123	$138	$109
Supplemental disclosures			
Cash payments for income taxes	$2	$—	$—
Cash payments for interest expense	$97	$86	$70
Schedule of non-cash activities			
Change in property, plant and equipment	$224	$2	$1
Change in additional paid-in capital	$—	$(2)	$—

See accompanying notes to consolidated financial statements.

Pattern Energy Group Inc.
Notes to Consolidated Financial Statements

1. Organization

Pattern Energy Group Inc. (Pattern Energy or the Company) is a vertically integrated renewable energy company with a mission to transform the world to renewable energy. Our business consists of (i) an operating business segment which is comprised of a portfolio of high-quality renewable energy power projects located in many attractive markets that produces long-term stable cash flows and (ii) ownership interests in an upstream development platform aligned with our operating business which provides us access to a pipeline of projects and potential for higher returns through project development.

The Company holds ownership interests in 24 renewable energy projects with an operating capacity that totals approximately 4 gigawatts (GW) which are located in the United States, Canada and Japan.

Pattern Energy was organized in the state of Delaware in October 2012. The Company issued 100 shares in October 2012 to Pattern Renewables LP, a 100% owned subsidiary of Pattern Energy Group LP and subsequently in October 2013 conducted an initial public offering.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States (U.S. GAAP). They 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.

Use of Estimates

The preparation of 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 those estimates, and such differences may be material to the consolidated financial statements.

Out-of-Period Adjustment

During the year ended December 31, 2018, the Company identified a $1 million error in tax expense related to the recognition of net operating loss carryforwards in its Chilean entity. The Company concluded the error was not material to any previously reported period and is not material to the year ended December 31, 2018. The Company recorded the error as an out-of-period adjustment in the year ended December 31, 2018.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and highly liquid investments with original maturities of three months or less.

Restricted Cash

Restricted cash consists of cash balances which are restricted as to withdrawal or usage and includes cash to collateralize bank letters of credit related primarily to transmission interconnection rights, power sale agreements (PSA) and for certain reserves required under the Company’s loan agreements.

Reconciliation of Cash and Cash Equivalents and Restricted Cash as presented on the Statements of Cash Flows
The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows (in millions):

	December 31,		
	2018	2017	2016
Cash and cash equivalents	$101	$117	$84
Restricted cash - current	4	9	12
Restricted cash	18	12	13
Cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	$123	$138	$109

Counterparty Collateral and Collateral Liability
As a result of a counterparty's credit rating downgrade, the Company received collateral related to an energy derivative agreement, as discussed in Note 12, Derivative Instruments. The Company does not have the right to pledge, invest, or use the collateral for general corporate purposes. As of December 31, 2018, the Company has recorded a current asset of approximately $6 million to counterparty collateral and a current liability of approximately $6 million to counterparty collateral liability representing the collateral received and corresponding obligation to return the collateral, respectively.
Trade Receivables
The Company’s trade receivables are generated by selling energy and renewable energy credits primarily to creditworthy utilities and large commercial companies. The Company believes that all amounts are collectible and an allowance for doubtful accounts is not required as of December 31, 2018 and 2017. Although PG&E and PREPA, offtakers for Hatchet Ridge and Santa Isabel, respectively, have filed for reorganization and debt restructuring, the Company has assessed and determined that trade receivables at Hatchet Ridge and Santa Isabel were not impaired as of December 31, 2018.
Major Construction Advances
Major construction advances represent advances to (i) suppliers for the manufacture of wind turbines, transmission lines, and solar panels in accordance with component equipment supply agreements and (ii) builders in accordance with plant construction contracts. These construction advances are reclassified to construction in progress when the Company takes legal title to the equipment.
Derivatives
The Company may enter into interest rate swaps, interest rate caps, forwards and other agreements to manage its interest rate, electricity price and foreign exchange rate risk. The Company recognizes its derivative instruments as assets or liabilities at fair value in the consolidated balance sheets, unless the derivative instruments qualify for the "normal purchase normal sale" (NPNS) scope exception to derivative accounting.
Contracts used in normal business operations that are settled by physical delivery, among other criteria, are eligible for and may be designated as NPNS. NPNS contracts do not meet the definition of derivatives, and therefore, contracts associated with the sale of energy are recognized as electricity sales when revenue recognition criteria are met and contracts associated with the production of electricity are recognized as project expense when incurred on the consolidated statements of operations.
The Company does not have contracts subject to master netting agreements with counterparties, as such assets and liabilities are presented gross on the consolidated balance sheets. Accounting for changes in the fair value of a derivative instrument depends on whether it has been designated as part of a hedging relationship and on the type of hedging relationship. For derivative instruments that qualify and are designated as cash flow hedges, the change in unrealized losses on cash flow hedges, net of tax is reported as a component of other comprehensive income (loss) (OCI), and is reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of change in fair value is recorded as a component of net income (loss) on the consolidated statements of operations. The Company discontinues hedge accounting for its cash flow hedges prospectively when it has determined that the hedging relationship has materially changed since its inception or when the hedging instrument is no longer considered highly effective at offsetting the hedged risk. If the hedged transaction is no longer probable of occurring, any gain or loss previously deferred

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in OCI will be immediately recognized into earnings. If hedge accounting is discontinued for any other reason, any previously deferred gain or loss will remain in OCI and amortized into earnings as the hedged transaction affects future earnings. For undesignated derivative instruments, the change in fair value is reported as a component of net income (loss) on the consolidated statements of operations.

Fair Value of Financial Instruments

Accounting Standards Codification (ASC) 820, Fair Value Measurement, defines fair value as the price at which an asset could be exchanged or a liability transferred in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or derived from such prices. Where observable prices or inputs are not available, valuation models are applied which may involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. See Note 14, Fair Value Measurement.

Deferred Financing Costs

Financing costs incurred with securing a construction loan are recorded in the Company's consolidated balance sheets as an offset to the construction loan and amortized over the contractual life of the loan to construction in progress using the effective interest method. Financing costs incurred with securing a term loan are recorded in the Company's consolidated balance sheets as an offset to the term loan and amortized to interest expense in the Company's consolidated statements of operations over the contractual life of the loan using the effective interest method. If the term loan has not been drawn on, financing costs incurred with securing the term loan are recorded in the Company's consolidated balance sheets as an asset.

Financing costs related to a revolving credit facility or a letter of credit facility are recorded in the Company's consolidated balance sheets as an asset and amortized to interest expense in the Company's consolidated statements of operations on a straight-line basis over the contractual term of the arrangement.

Construction in Progress

Construction in progress represents the accumulation of project development costs and construction costs, including the costs incurred for the purchase of major equipment such as turbines for which the Company has taken legal title, civil engineering, electrical and other related costs. Other capitalized costs include reclassified deferred development costs, amortization of intangible assets, amortization of deferred financing costs, capitalized interest and other costs required to place a project into commercial operation. Deferred development costs represent the accumulated costs of initial permitting, environmental reviews, land rights and obligations and preliminary design and engineering work. The Company expenses all project development costs until a project is determined to be technically feasible and likely to achieve commercial success, typically when a power purchase agreement has been negotiated. The Company begins capitalizing deferred development costs as a component of construction in progress on the date the project commences construction. Once the project achieves commercial operation, the Company reclassifies the amounts recorded in construction in progress to property, plant and equipment.

Property, Plant and Equipment

Property, plant and equipment represents the costs of completed and operational projects transferred from construction in progress, as well as other costs incurred for purchasing assets such as land, computer equipment and software, furniture and fixtures, leasehold improvements and other equipment. Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the respective assets' useful lives. Wind farms for which construction began before 2011 are depreciated over 20 years and wind farms for which construction began after 2011 are depreciated over 25 to 30 years. Solar facilities are depreciated over 25 years. Transmission assets are depreciated over 50 years. The remaining assets are depreciated over two to five years. Improvements to property, plant and equipment deemed to extend the useful economic life of an asset are capitalized. Repair and maintenance costs are expensed as incurred.

Intangible Assets and Intangible Liabilities

Long-lived intangible assets and intangible liabilities primarily include power purchase agreements (PPAs), land easements, land options, tax savings and mining rights. PPAs obtained through acquisitions are valued as of the acquisition date and the difference between the contract price and the estimated fair value is recorded as an intangible asset or liability. If the contract price is higher than the estimated fair value, the Company will recognize an intangible asset. If the contract price is lower than the estimated fair value, the Company will recognize an intangible liability. Land easements, land options and mining rights are recognized at the carryover basis from the seller as their carrying costs approximate fair value.

The Company generally amortizes PPAs using the straight-line method over the remaining term of the related PPA. The Company amortizes land easements, land options, tax savings and mining rights using the straight-line method over the term of their estimated useful lives, which represents the term of the land easements, land option, tax savings and mining rights agreements, ranging from approximately 9 to 50 years. The Company periodically evaluates whether events or changes in circumstances have occurred that indicate the carrying amount of long-lived intangible assets may not be recoverable, or information indicates that impairment may exist.

Accounting for Impairment of Long-Lived Assets

The Company periodically evaluates long-lived assets for potential impairment whenever events or changes in circumstances have occurred that indicate that impairment may exist, or the carrying amount of the long-lived asset may not be recoverable. An impairment loss is recognized only if the carrying amount of a long-lived asset is not recoverable based on its estimated future undiscounted cash flows. An impairment loss is calculated based on the excess of the carrying value of the long-lived asset over the fair value of such long-lived asset, with the fair value determined based on an estimate of discounted future cash flows.

If the Company meets the criteria for assets held for sale, to calculate the fair value of the assets less costs to sell, the Company considers factors including current sales prices and any recent legitimate offers. If the estimated fair value less costs to sell of an asset is less than its current carrying value, the asset is written down to its estimated fair value less costs to sell. Due to uncertainties in the estimation process, it is possible that actual results could differ from the estimates used in the Company's historical analysis. The Company's assumptions about project sale prices require significant judgment because the current market is highly sensitive to changes in economic conditions. The Company estimates the fair values of assets held for sale based on current market conditions and assumptions made by management, which may differ from actual results and may result in additional impairments if market conditions deteriorate. When assets are classified as held for sale, the Company does not continue to record depreciation or amortization for the respective assets. For the year ended December 31, 2018, the Company recognized impairment expense of $7 million related to the sale of the Company's Chilean entities. See Note 4, Divested Operations.

Goodwill

The Company records goodwill when the purchase price of an acquired business exceeds its fair value as of the acquisition date. Goodwill is not amortized, but is subject to an assessment for impairment at least annually in the fourth quarter or more frequently if events occur or circumstances change that will more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company may first assess goodwill for qualitative factors to determine whether it is necessary to perform a quantitative impairment test. The qualitative analysis considers entity-specific and macroeconomic factors and their potential impact on the key assumptions used in the determination of the fair value of the reporting unit. A quantitative impairment test is performed if the results of the qualitative assessment indicate that it is more likely than not that the fair value of the reporting unit is less than its carrying value, or if a qualitative assessment is not performed. Quantitative tests compare the fair value of the asset to its carrying value.

Variable Interest Entities

VIEs are entities that do not qualify for a scope exception from the variable interest model and are therefore subject to consolidation under the variable interest model. An entity is considered to be a VIE if (1) the entity does not have enough equity to finance its own activities without additional support, (2) the entity’s at-risk equity holders lack the characteristics of a controlling financial interest, or (3) the entity is structured with non-substantive voting rights. ASC 810, Consolidation, defines the criteria for determining the existence of VIEs and provides guidance for consolidation. The Company consolidates VIEs where the Company is the primary beneficiary. The primary beneficiary of a VIE is the party that has the power to direct the activities that most significantly impact the performance of the entity and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the entity.

To the extent the entity does not meet the definition of a VIE, the ASC 810 guidance for voting interest entities (VOEs) is applied. The usual condition for a controlling financial interest, and therefore consolidation by the Company, is ownership of a majority voting interest of a corporation or a majority of kick-out rights for a limited partnership.

To the extent the entity is not consolidated under the VIE or VOE models, the Company uses the equity method of accounting. These amounts are included in unconsolidated investments in the consolidated balance sheets.

Acquisitions

Accounting Standards Update (ASU) 2017-01, Clarifying the Definition of a Business (ASU 2017-01) provides a screen test to determine when a set of assets and activities should not be considered a business. Under ASU 2017-01, the Company will perform an initial screening test as of the acquisition date that, if met, results in the conclusion that the set is not a business. If the initial screening test is not met, the Company evaluates whether the set is a business based on whether there are inputs and a substantive process in place. The definition of a business impacts whether the Company consolidates an acquisition under business combination guidance or asset acquisition guidance. When the Company's acquisition is recognized as an equity method investment, the definition of a business impacts whether equity method goodwill can be recognized.

Business Combinations

The Company accounts for its business combinations by recognizing the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date. The purchase is accounted for using the acquisition method, and the fair value of purchase consideration is allocated to the tangible and intangible assets acquired and the liabilities assumed, based on their estimated fair values. Contingent consideration is also recognized and measured at fair value as of the acquisition date. The excess, if any, of the fair value of the purchase consideration over the fair values of the identifiable net assets is recorded as goodwill. Conversely, the excess, if any, of the net fair values of the identifiable net assets over the fair value of the purchase consideration is recorded as a gain. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. These estimates and assumptions are inherently uncertain, and as a result, actual results may differ from estimates. Significant estimates include, but are not limited to, future expected cash flows, useful lives and discount rates. During the measurement period, which is up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with a corresponding offset to either goodwill or gain, depending on whether the fair value of purchase consideration is in excess of or less than net assets acquired. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings. Transaction costs associated with business combinations are expensed as incurred.

Asset Acquisitions

When the Company acquires assets and liabilities that do not constitute a business or a VIE of which the Company is the primary beneficiary, the fair value of the purchase consideration, including the transaction costs of the asset acquisition, is assumed to be equal to the fair value of the net assets acquired. The purchase consideration, including the transaction costs, is allocated to the individual assets and liabilities assumed based on their relative fair values. Contingent consideration associated with the acquisition is generally recognized only when the contingency is resolved. No goodwill is recognized in an asset acquisition.

When the Company acquires assets and liabilities that do not constitute a business but meet the definition of a VIE of which the Company is the primary beneficiary, the purchase is accounted for using the acquisition method described above for business combinations, except that no goodwill is recognized. To the extent that there is difference between the purchase consideration and the VIE's identifiable assets and liabilities recorded and measured at fair value, the difference is recognized as a gain or loss.

Equity Method Investments

When the Company acquires a noncontrolling interest in an entity where it is not the primary beneficiary, does not control any of the ongoing activities of the entity, and does not meet consolidation requirements of ASC 810 and ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, the investment is initially recognized as an equity method investment at cost. Any difference between the cost of an investment and the amount of underlying equity in net assets of an investee are considered basis differences. Basis differences related to the property, plant and equipment are amortized over the estimated economic useful life of the underlying long-lived assets while basis differences related to the PPA are amortized over the remaining term of the PPA. Transactions costs associated with equity method investments are included in the investment.

When the Company receives distributions in excess of the carrying value of its investment, and the Company is not liable for the obligations of the investee nor otherwise committed to provide financial support, the Company recognizes such excess distributions as equity method earnings in the period the distributions occur. Additionally, when the Company's carrying value in an unconsolidated investment is zero and the Company is not liable for the obligations of the investee nor otherwise committed to provide financial support, the Company will not recognize equity in earnings (losses) or equity in other comprehensive income of unconsolidated investments. When the investee subsequently reports income, the Company does not record its share of such income until it equals the amount of distributions in excess of the carrying value that were previously recognized in income and previously unrecognized losses. During the years ended December 31, 2018, 2017 and 2016, the Company had no such obligations, commitments or requirements to provide additional funding for unconsolidated investments with carrying values below zero during such years. Profits or losses related to intra-entity transactions with an equity method investment are eliminated until realized by the Company.

As a result, equity income or loss reported on the Company's income statement for certain unconsolidated investments may differ from a mathematical calculation of net income or loss attributable to the Company's equity interest based upon the factor of its equity interest and the net income or loss attributable to equity owners as shown on investee companies' income statements.

To the extent that cumulative comprehensive income exceeds cumulative distributions received, the Company records the distribution as distributions from unconsolidated investments on the Company's consolidated statements of cash flows within operating cash flows. All other distributions are recorded as distributions from unconsolidated investments on the Company's consolidated statements of cash flows within investing activities.

Noncontrolling Interests

Noncontrolling interests represent the portion of the Company’s net income (loss), net assets and comprehensive income (loss) that is not allocable to the Company and is calculated based on ownership percentage, for applicable projects.

For the noncontrolling interests in the Company’s Panhandle 1, Panhandle 2, Post Rock, Logan's Gap, Amazon Wind, Broadview Holdings, and Stillwater, the Company has determined that the operating partnership agreements do not allocate economic benefits pro rata to its two classes of investors and the appropriate methodology for calculating the noncontrolling interest balance that reflects the substantive profit sharing arrangement is a balance sheet approach using the hypothetical liquidation at book value (HLBV) method.

Under the HLBV method, the amounts reported as noncontrolling interest in the consolidated balance sheets and consolidated statements of operations represent the amounts the third party would hypothetically receive at each balance sheet reporting date under the liquidation provisions of the operating partnership agreement assuming the net assets of the projects were liquidated at recorded amounts determined in accordance with U.S. GAAP and distributed to the investors. The noncontrolling interest in the results of operations and comprehensive income (loss) is determined as the difference in noncontrolling interests in the consolidated balance sheets at the start and end of each reporting period, after taking into account any capital transactions between the projects and the third party. The noncontrolling interest balances in the projects are reported as a component of equity in the consolidated balance sheets.

Asset Retirement Obligation

The Company records asset retirement obligations (AROs) for the estimated costs of decommissioning turbines, removing above-ground installations and restoring sites, at the time when a contractual decommissioning obligation is incurred. AROs represent the present value of the expected costs and timing of the related decommissioning activities. The ARO assets and liabilities are recorded in property, plant and equipment and other long-term liabilities, respectively, in the consolidated balance sheets. The Company records accretion expense, which represents the increase in the asset retirement obligations, over the remaining or operational life of the associated wind project. Accretion expense is recorded as cost of revenue in the consolidated statements of operations using accretion rates based on credit adjusted risk-free interest rates. Changes resulting from revisions to the timing or amount of the original estimate of cash flows are recognized as an increase or a decrease in the asset retirement cost, or income when the asset retirement cost is depleted.

Accounting for Re-powering

The Company's commitment to a plan to re-power a project represents the decision to abandon the existing long-lived asset. The decision to abandon a long-lived asset is viewed as an indicator of impairment, and as such a recoverability test is required. If the recoverability test indicates that the carrying value is not recoverable, the fair value of the existing asset is compared to its net carrying value. If the fair value of the asset is less than its net carrying value, an impairment expense for the difference is recorded. The remaining useful life of the existing asset represents the period between the date the Company is committed to a plan to abandon the asset and the removal date. Due to the change in useful life, the Company will revise the estimated future cash flows of the asset retirement obligation. As a result, the Company will accelerate depreciation expense and accretion expense. In 2018, the Company committed to a plan to repower its Gulf Wind facility, as such the Company performed a recoverability test. The Company passed the recoverability test and did not recognize an impairment. However, beginning in the fourth quarter of 2018, the

Company revised the depreciable life for the portion of the Gulf Wind facility it expects to abandon to approximately 15 months. As of December 31, 2018, the Company's construction start date is not finalized and, as such the future depreciation rate may be adjusted as the timing of construction becomes more certain.

Contingent Liabilities

Contingent obligations that are acquired through business combinations are initially recorded at fair value on the date of acquisition while contingent obligations that are acquired through asset acquisitions are recorded when the contingency is resolved. Subsequent to the initial recognition of contingent obligations accounted for as a business combination, the Company accounts for these contingent obligations in a systematic and rational method in accordance with ASC 450, Contingencies.

The Company’s contingent liabilities related to turbine availability warranties with turbine manufacturers and turbine availability guarantees associated with long-term turbine service arrangements are reported at net realizable value. Pursuant to these warranties and guarantees, if a turbine operates at less than minimum availability during the warranty or guarantee period, the 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 at the end of the warranty period. However, the Company does not recognize liquidated damages that remain contingent until the end of the warranty period. In addition, pursuant to certain of these warranties and guarantees, if a turbine operates at more than a specified availability during the warranty or guarantee period, the Company has an obligation to pay a bonus to the turbine manufacturer or service provider at the end of the warranty period. The Company records contingent liabilities at each reporting period associated with these bonuses expected to be paid at the end of the warranty period.

Advanced lease revenue

Advanced lease revenue presented on the consolidated balance sheets represents advance payments the Company has received under a power purchase agreement. As the power purchase agreement is an operating lease, the advanced lease payments will be recorded as lease revenue on a straight-line basis over the 25-year term of the agreement.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, trade receivables, reimbursable interconnection costs and derivative instruments. The Company’s cash and cash equivalents are with high quality institutions. The Company has exposure to credit risk to the extent cash and cash equivalent balances, including restricted cash, exceed amounts covered by federal deposit insurance; however, the Company believes that its credit risk is immaterial. In addition, reimbursable interconnection costs are with large creditworthy utility companies and the Company’s derivative instruments are placed with counterparties that are creditworthy institutions. The Company generally does not require collateral. Although PG&E and PREPA, offtakers for Hatchet Ridge and Santa Isabel, respectively, have filed for reorganization and debt restructuring, the Company has assessed and determined that trade receivables at Hatchet Ridge and Santa Isabel were not impaired as of December 31, 2018.

The table below presents significant customers who accounted for greater than 10% of total revenue, PREPA and PG&E for the years ended December 31, 2018, 2017 and 2016:

	Year ended December 31,					
	2018		2017		2016	
	Revenue		Revenue		Revenue	
Morgan Stanley Capital Group Inc.	7.2	%	9.1	%	10.9	%
PG&E	5.3	%	6.8	%	8.5	%
PREPA	4.1	%	4.2	%	6.0	%
San Diego Gas & Electric	12.2	%	13.4	%	14.6	%
Southern California Edison Company	11.9	%	5.8	%	—	%

Revenue Recognition

Beginning in 2018, the Company adopted ASC 606 Revenue Recognition (ASC 606). See Note 3, Revenue, regarding our revenue recognition policy. The Company sells electricity and related RECs under the terms of PSAs, PPAs or at market prices. Revenue is recognized based upon the amount of electricity delivered at rates specified under the contracts, or at market prices for spot market transactions, assuming all other revenue recognition criteria are met. When renewable energy credits are sold as a separate component, revenue is recognized at the time title to the energy credits is transferred to the buyer. Depending on the terms of the PSA, the Company may account for the contracts as operating leases pursuant to ASC 840, Leases (ASC 840), or derivative instruments pursuant to ASC 815, Derivatives and Hedging (ASC 815). In considering ASC 840, it was determined that certain of the Company's PPAs are operating leases. ASC 840 requires minimum lease payments to be recognized over the term of the lease and contingent rents to be recorded when the achievement of the contingency becomes probable. All energy sales under the PPAs, which are considered leases, are contingent rent due to the inherent uncertainty and variability associated with a fuel source (i.e., wind or solar) that is outside the control of the parties to the PPA. None of the operating leases have minimum lease payments; therefore, revenue from these contracts and any related renewable energy attributes are recognized as electricity sales when delivered. Contingent rents for the years ending December 31, 2018, 2017 and 2016 were approximately $381 million, $317 million and $262 million, respectively. Contracts that meet the NPNS scope exception to derivative accounting are accounted for under the accrual method, where revenues are recorded in the period they are earned.

Energy derivative instruments that reduce exposure to changes in commodity prices may allow the Company to lock in a fixed price per megawatt hour (MWh) for a specified amount of annual electricity generation over the life of the swap contract. Monthly settlement amounts under energy hedges are accounted for as energy derivative settlements in the consolidated statements of operations. Changes in the fair value of energy hedges are recorded in electricity sales in the consolidated statements of operations.

The Company recognizes revenue for warranty settlements in other revenue upon resolution of outstanding contingencies. Any cash receipts for amounts subject to future adjustment or repayment are deferred in other liabilities until the final settlement amount is considered fixed and determinable.

Cost of Revenue

The Company's cost of revenue is comprised of direct costs of operating and maintaining its wind and solar project facilities, including labor, turbine service arrangements, land lease royalties, depreciation, accretion of asset retirement obligations, property taxes and insurance. These costs are recognized by the Company in the period in which they are incurred.

Stock-Based Compensation

The Company accounts for stock-based compensation related to stock options granted to employees by estimating the fair value of the stock-based awards using the Black-Scholes option-pricing model. The Black-Scholes option pricing model includes assumptions regarding dividend yields, expected volatility, expected option term, and risk-free interest rates. Expense is recognized by amortizing the fair value of the stock options granted using a straight-line method over the applicable vesting period. The Company estimates expected volatility based on the historical volatility of comparable publicly traded companies for a period that is equal to the expected term of the options. The risk-free interest rate is based on the U.S. treasury yield curve in effect at the time of grant for a period commensurate with the estimated expected term of the stock option. The expected term of options granted is derived using the "simplified" method as allowed under the provisions of the ASC 718, Compensation—Stock Compensation, and represents the period of time that options granted are expected to be outstanding.

The Company accounts for stock-based compensation related to restricted stock award grants and restricted stock unit grants by amortizing the fair value of the restricted stock award grants, which is the grant date market price, over the applicable vesting period. For certain restricted stock award grants, the Company measures the fair value at the grant date using a Monte Carlo simulation model and amortizes the fair value over the longer of the requisite period or performance period. The Monte Carlo simulation model includes assumptions regarding dividend yields, expected volatility, risk-free interest rates and initial total shareholder return (TSR) performance.

The Company accounts for forfeitures as they occur. The forfeitures are not material. Stock-based compensation expense is recorded as a component of general and administrative expenses in the Company's consolidated statements of operations.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The Company recognizes deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning and results of recent operations. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, it would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes. The Company records uncertain tax positions in accordance with ASC 740, Income Taxes, on the basis of a two-step process whereby (1) it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, it recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority. The Company has a policy to classify interest and penalties associated with uncertain tax positions together with the related liability, and the expenses incurred related to such accruals, if any, are included in the provision for income taxes.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss), net of tax. Other comprehensive income (loss), net of tax included in accumulated other comprehensive income (loss) in the consolidated statements of stockholders’ equity, is comprised primarily of changes in foreign currency translation adjustments and the effective portion of changes in the fair value of derivatives designated as cash flow hedges.

Foreign Currency Translation

The assets and liabilities of foreign subsidiaries, where the local currency is the functional currency, are translated from their respective functional currencies into U.S. dollars at the rates in effect at the balance sheet date and revenue and expense amounts are translated at average rates during the period, with resulting foreign currency translation adjustments recorded in other comprehensive income (loss), net of tax, in the consolidated statements of stockholders’ equity and comprehensive income (loss). Where the U.S. dollar is the functional currency, re-measurement adjustments are recorded in other income (expense), net in the accompanying consolidated statements of operations.

Segment Data and Geographic Information

Segment data

Operating segments are defined as components of a company about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company’s chief operating decision maker is the chief executive officer. Based on the financial information presented to and reviewed by the chief operating decision maker in deciding how to allocate the resources and in assessing the Company’s performance, the Company has determined it has two reportable segments: (i) the operating business segment, which is comprised of the portfolio of renewable energy power projects and (ii) the development investment, which consists of the Company's investment in Pattern Development.

Geographic information

The table below provides information, by country, about the Company’s consolidated operations. Revenue is recorded in the country in which it is earned and assets are recorded in the country in which they are located (in millions):

	Revenue			Property, Plant and Equipment, net	
	Year ended December 31,			December 31,	
	2018	2017	2016	2018	2017
United States	$346	$315	$285	$ 3,124	$ 3,121
Canada	83	62	39	745	550
Japan	33	—	—	250	—
Chile[1]	21	34	30	—	294
Total	$483	$411	$354	$ 4,119	$ 3,965

[1] The Company sold its interest in El Arrayán on August 20, 2018. See Note 4, Divested Operations.

Recently Adopted Accounting Standards

In August 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15), which amends alignment of the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company adopted ASU 2018-15 during the year ended December 31, 2018. The adoption did not have material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02), which allows a reclassification from Accumulated Other Comprehensive Income (AOCI) to retained earnings for the stranded tax effects resulting from the Tax Cuts and Jobs Act in December 2017 (Tax Act). The amount of the reclassification is calculated as the difference between the amount initially recorded to other comprehensive income (OCI) at the time of the previously enacted tax rate that remains in AOCI and the amount that would have been recorded using the newly enacted tax rate. The Company adopted ASU 2018-02 in its financial statements for the period ended December 31, 2018 and elected not to reclassify the stranded tax effects related to the Tax Act. Furthermore, the U.S. operations are in a net deferred tax asset position offset by a full valuation allowance. As a result, the adoption did not have an impact on the Company's consolidated financial statements. The Company’s accounting policy is to release stranded income tax effects from AOCI when the circumstances upon which the stranded tax effects are premised cease to exist.

In February 2017, the FASB issued ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets (ASU 2017-05). This ASU is meant to clarify the scope of ASC Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets and to add guidance for partial sales of nonfinancial assets. The Company adopted ASU 2017-05 as of January 1, 2018. The adoption did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Topic 605 “Revenue Recognition” (Topic 605) and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company adopted ASU 2014-09 as of January 1, 2018 using the modified retrospective transition method. The adoption did not have a material impact on the Company's consolidated financial statements, other than additional disclosures. See Note 3, Revenue for further details.

Recently Issued Accounting Standards Not Yet Adopted

In October 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities (ASU 2018-17). ASU 2018-17 requires reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety for determining whether a decision-making fee is a variable interest. The standard is effective for all entities for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. Entities are required to apply the amendments in ASU 2018-17 retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

In October 2018, the FASB issued ASU 2018-16, Derivatives and Hedging (Topic ASC 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (ASU 2018-16), which expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting. Because of concerns about the sustainability of LIBOR, the Federal Reserve Board and the Federal Reserve Bank of New York (Fed) initiated an effort to introduce an alternative reference rate in the United States. The SOFR is calculated by the Fed based on the interest rates banks charge one another in the overnight market, typically called repurchase agreements, and because it is based on transactions in the open market, it is more reflective of market conditions than LIBOR, which relies on judgment. The provisions of ASU 2017-12 (discussed below) and ASU 2018-16 are effective for fiscal years beginning after December 15, 2018, including interim periods, with early adoption permitted. Initial adoption of ASU 2017-12 is required to be reported using a modified retrospective approach, with the exception of the presentation and disclosure requirements which are required to be applied prospectively. The Company is currently in the process of determining the impact of adoption of the provisions of ASU 2017-12 and ASU 2018-16.

In August 2018, the FASB issued ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13), which amends changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of

measurement uncertainty which should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. ASU 2018-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those periods. Early application is permitted. The Company is currently assessing the impact of changes to the disclosure requirements for fair value measurement.
In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), which amends the presentation and disclosure requirements and changes how companies assess effectiveness. The amendments are intended to more closely align hedge accounting with companies’ risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. ASU 2017-12 is effective for annual periods beginning after December 15, 2018, including interim periods within those periods. The Company adopted the standard on January 1, 2019. ASU 2017-12

requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. While the Company continues to assess all potential impacts of the standard, the adoption is not expected to have a material impact on its future consolidated financial statements.

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. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, for the purposes of clarifying certain aspects of ASU 2016-13. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The adoption of ASU 2016-13 is not expected to have a material impact on the Company's consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (ASU 2016-02), as amended by subsequent ASUs, which requires lessees to recognize right-of-use assets and lease liabilities, for all leases, with the exception of short-term leases, at the commencement date of each lease. Under the new guidance, lessor accounting is largely unchanged. ASU 2016-02 simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and liabilities. The Company adopted the new standard effective January 1, 2019 using a modified retrospective method and will not restate comparative periods. As permitted under the transition guidance, the Company may carry forward the assessment of whether its contracts contain or are leases, its lease classification, initial direct costs and remaining lease terms. The Company may also elect the practical expedient related to land easements, allowing the Company to carry forward its accounting treatment for land easements on existing agreements as its intangible assets; however, the accounting for future land easements may not be accounted for as intangibles. The Company has lease agreements with lease and non-lease components and will elect not to separate them and treat them as a single lease component. The Company will make an accounting policy election whereby short-term leases with an initial term of 12 months or less will not be recorded on the consolidated balance sheets. The Company anticipates that certain PPAs will no longer be accounted for as leases. The adoption of ASU 2016-02 may have a material impact on the Company's consolidated balance sheets, primarily related to land and office leases. The Company does not expect this standard to have a material impact on its consolidated statements of operations.

3. Revenue

The Company sells electricity and related RECs under the terms of PSAs or at market prices. Depending on the terms of the PSAs, the Company may account for the contracts as operating leases pursuant to ASC 840, derivative instruments pursuant to ASC 815 or contracts with customers pursuant to Topic 606 (as defined below). A majority of the Company's revenues are accounted for under ASC 840 or ASC 815.

On January 1, 2018, the Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers, and all the related amendments (Topic 606) and applied Topic 606 to its PSA contracts previously accounted for under Topic 605, using the modified retrospective method. Results of the reporting period beginning January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605.

The Company did not record any adjustment to the opening retained earnings as of January 1, 2018 as a result of adopting Topic 606. Additionally, the adoption of Topic 606 does not materially change the presentation of revenue.

Revenue Recognition

Revenues from contracts with customers are recognized when control of promised goods and services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The following table presents the Company's total revenue recognized and, for revenue from contracts with customers, disaggregated by revenue sources (in millions):

	Year ended December 31,		
	2018	2017[1]	2016[1]
Revenue from contracts with customers			
Electricity sales			
Electricity sales under PSA	$74	$ 65	$ 69
Electricity sales to market	14	21	16
REC sales	7	7	5
Electricity sales from contracts with customers	95	93	90
Other revenue			
Related party management service fees	8	7	5
Other revenue from contracts with customers	8	7	5
Total revenue from contracts with customers	103	100	95
Other electricity sales [2]	369	309	257
Other revenue	11	2	2
Total revenue	$483	$ 411	$ 354

[1] As noted above, prior period amounts have not been adjusted under the modified retrospective method.

[2] Includes revenue from PSAs accounted for as leases and energy hedge contracts.

Electricity Sales

The Company generates revenues primarily by delivering electricity to customers under PSAs and market participants. The revenues are primarily determined by the price of the electricity under the PSAs or market price multiplied by the amount of electricity that the Company delivers.

The Company transfers control of the electricity over time and the customer simultaneously receives and consumes the benefits provided by the Company's performance as it performs. Accordingly, the Company has concluded that the sale of electricity over the term of the agreement represents a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. Each distinct transfer of electricity in MWh that the Company promises to transfer to the customer meets the criteria to be a performance obligation satisfied over time. The electricity sales are recognized based on an output measure, as each MWh is delivered to the customers. The Company recognizes revenue based on the amount metered and invoiced on the basis of the contract prices multiplied by MWh delivered. The Company does not determine the total transaction price at contract inception, allocate the transaction price to performance obligations, or disclose the value of the variable portion of the remaining performance obligations for contracts for which it recognizes revenue as invoiced.

Renewable Energy Credits Sales

Each promise to deliver RECs is a distinct performance obligation that is satisfied at a point in time as none of the criteria are met to account for such promise as performance obligation satisfied over time. The Company either delivers RECs with electricity under PSAs or on a standalone basis (in a contract that does not include electricity). When RECs are sold on a standalone basis, the revenue related to the RECs is recognized at the point in time at which control of the energy credits is transferred to customers. RECs delivered under PSAs with electricity are immaterial in the context of the contracts with customers and therefore not separately accounted for.

Remaining performance obligations represent the transaction price of standalone RECs for which RECs have not been delivered to the customer's account. The transaction price is determined on the basis of the stated contract price multiplied by RECs to be delivered. As of December 31, 2018, approximately $20 million of revenue is expected to be recognized from remaining performance obligations associated with existing contracts for the standalone sale of RECs. The Company expects to recognize revenue on approximately 61% of these remaining performance obligations over the next 24 months, with the balance recognized thereafter.

Related Party Management Service Fees
Related party revenue management service fees represent revenue recognized from the services provided by the Company, under Management, Operations and Maintenance Agreements (MOMAs) and Project Administration Agreements (PAAs) with certain wind farms that are consolidated subsidiaries of Pattern Development Companies or entities the Company accounts for as equity investments. Under these agreements, the Company provides services to the various wind farms, typically for a fixed annual fee payable in monthly installments, which escalates with the consumer price index (CPI) on an annual basis. The services provided by the Company to the wind farm under the agreement each month represent a single performance obligation, which is delivered to the project over time and is invoiced at a fixed price per month and will be recognized over time as invoiced to the respective wind farm. Remaining performance obligations represent the fixed monthly installments for which services have not been performed. The transaction price is determined on the basis of the stated contract price.
Transaction Price Allocated to the Remaining Performance Obligations
The Company expects to recognize revenue under PSAs and related party management service fees in the following amounts related to fixed consideration associated with remaining performance obligations in each of the future periods noted as of December 31, 2018 (in millions):

	Amount
2019	$ 79
2020	66
2021	67
2022	67
2023	67
Thereafter	276
Total	$ 622

Contract Balances
The Company did not record any contract assets as none of its right to payment was subject to something other than passage of time. The Company also did not record any contract liabilities as it recognizes revenue only at the amount to which it has the right to invoice for the electricity and RECs delivered; therefore, there are no advanced payments or billings in excess of electricity or RECs delivered.
4. Divested Operations
Chilean Sale
On May 21, 2018, the Company, through its indirect wholly-owned subsidiaries, entered into a stock purchase agreement with a third party pursuant to which the Company agreed to sell, and the buyer agreed to purchase, certain subsidiaries which hold approximately a 71% interest in El Arrayán Wind and assets and rights relating to ownership and operation of an extension of the trunk transmission system in Chile (Chilean Sale). El Arrayán Wind is a wind electric generation facility located approximately 400 kilometers north of Santiago on the coast of Chile in which the Company had an owned interest of approximately 81 megawatts (MW).
On August 20, 2018, the Company completed the Chilean Sale for cash proceeds of $70 million. The Company measured impairment expense as the difference between the carrying amount of the net assets and fair value less estimated costs to sell. As a result, the Company recorded a total impairment expense of $7 million for the year ended December 31, 2018 in the consolidated statements of operations.
The operating results of El Arrayán Wind were included on the consolidated statements of operations through the date of sale.

5. Acquisitions

All acquisitions completed during 2018 and 2017 were in alignment with the Company's strategy to expand its portfolio of power generating projects.

Stillwater Acquisition

On November 20, 2018, a subsidiary of the Company acquired 100% of Stillwater Wind LLC, an 80 MW wind project located in Stillwater County, Montana, for a total consideration of $111 million, net of cash acquired, in addition to $1 million of capitalized transaction-related expenses. PSP Investments and Allianz Renewable Energy Partners of America, LLC, whom are noncontrolling interests, contributed $95 million of the total consideration. The fair value of the purchase consideration, including transaction-related expenses of the asset acquisition, is allocated to the relative fair value of the individual assets, operating contracts and liabilities assumed. No gain or loss was recognized upon acquisition.

MSM Acquisition

On August 10, 2018, the Company subscribed for (1) a 51% limited partnership interest in MSM LP Holdings LP, which holds 99.98% of the economic interests in MSM. MSM operates the approximately 143 MW wind project located in the Chaudière-Appalaches region south of Québec City, Canada, which achieved commercial operation in the first quarter of 2018. The Company also acquired (1) 70% of the issued and outstanding shares in the capital of Pattern MSM GP Holdings Inc. and (2) 70% of the issued and outstanding shares in the capital of Pattern Development MSM Management ULC from Pattern Energy Group LP for aggregate consideration of $31 million, net of cash acquired.

MSM was determined to be a VIE, for which the Company is the primary beneficiary. The Company recorded the fair value of the individual assets, operating contracts and liabilities of the VIE, which did not meet the definition of a business. The noncontrolling interest was recorded at fair value estimated using the purchase price paid by PSP Investments pursuant to the purchase and sale agreement. No gain or loss was recognized upon acquisition. The Company incurred transaction-related expenses of $1 million which were recorded in net earnings (loss) on transactions in the consolidated statements of operations for the year ended December 31, 2018.

Japan Acquisitions

On March 7, 2018, the Company acquired (1) Tsugaru Holdings, which owns a 122 MW wind project company located in Aomori Prefecture, Japan that is expected to commence commercial operations in early to mid-2020; (2) Ohorayama, a 33 MW wind project company located in Kochi Prefecture, Japan that commenced commercial operations in March 2018; (3) Kanagi, a 10 MW solar project company located in Shimane Prefecture, Japan that commenced commercial operations in 2006; (4) Otsuki, a 12 MW wind project company located in Kochi Prefecture, Japan that commenced commercial operations in 2006; and (5) Futtsu, a 29 MW solar project company located in Chiba Prefecture, Japan that commenced commercial operations in 2016 (collectively referred to as the Japan Acquisition) for total consideration of $264 million, net of cash acquired, of which $106 million is a contingent payment. As part of the acquisition, the Company also assumed $181 million of debt. The Company incurred transaction related expenses of $1 million which were recorded in net earnings (loss) on transactions in the consolidated statements of operations for the year ended December 31, 2018.

Contingent purchase consideration with a fair value of $103 million, subject to foreign currency exchange rate changes, is contingent upon term conversion of the Tsugaru construction loan or the commencement of commercial operations of Tsugaru. Both the term loan conversion and commencement of commercial operations are expected to occur in 2020. Upon the term conversion of the Ohorayama construction loan in June 2018, the Company was obligated to make a $3 million payment, subject to foreign currency exchange rate changes, to Pattern Energy Group LP. The Company paid this consideration in July 2018. See Note 14, Fair Value Measurement for further discussion on the fair value of the contingent consideration. The Company recorded the fair value of the individual assets, operating contracts and assumed liabilities of the Japan acquisition. The noncontrolling interest was recorded at fair value estimated using a projected cash flow stream of distributable cash, discounted to present value with a discount rate reflecting the cost of equity adjusted for control premium. Deferred tax liabilities were established as part of acquisition accounting due to temporary tax to book basis differences as a result of the step up in fair value related to property, plant and equipment, which established goodwill for $60 million. The valuation of certain assets and liabilities in the Japan Acquisition is final as of December 31, 2018. The Japan Acquisition provides the Company with an established presence in Japan to support future growth plans and provides diversification which is of benefit to the risk profile of the Company's overall operating project portfolio.

As a result of the Japan Acquisition, for the year ended December 31, 2018, property, plant and equipment, net, increased by $7 million, construction in progress decreased by $3 million, other assumed liabilities increased by $6 million and deferred tax liabilities decreased by $2 million from the preliminary purchase price allocation primarily related to a change in the estimated cost of asset retirement obligations and deferred tax liabilities.

Broadview Acquisition

On April 21, 2017, the Company completed the acquisition of (1) a 99% ownership interest in Western Interconnect, a 35-mile 345 kV transmission line; and (2) a 100% ownership interest in Broadview Project which indirectly owns 100% of the Class B membership interest in Broadview Energy Holdings LLC (Broadview Holdings), which consists of the 324 MW Broadview wind power projects, for total consideration of $190 million, net of cash acquired and a post-closing payment of approximately $21 million contingent upon the commercial operation of the Grady Project. The Grady Wind Energy Center, LLC (the Grady Project) is a wind power project on the Identified ROFO Projects list being developed by Pattern Development. The identifiable assets, operating contracts and liabilities assumed for the Broadview Project were recorded at their fair values, which corresponded to the sum of the cash purchase price, contingent consideration payment, and the fair value of the other investors' noncontrolling interests.

Meikle Acquisition

On August 10, 2017, the Company acquired (1) a 50.99% limited partnership interest in Meikle, a 179 MW wind project company located in the Peace River Regional District of British Columbia, Canada, which achieved commercial operations in the first quarter of 2017; and (2) 70% of the issued and outstanding shares of Meikle Wind Energy Corp. for a total consideration of $58 million, net of cash acquired, in addition to $1 million of capitalized transaction-related expenses. The fair value of the purchase consideration, including transaction-related expenses of the asset acquisition, and fair value of the noncontrolling interest was allocated to the relative fair value of the individual assets, operating contracts and liabilities assumed. The noncontrolling interest was recorded at fair value estimated using the purchase price paid by the affiliate of PSP Investments pursuant to the purchase and sale agreement.

The aggregate purchase prices of the acquisitions were allocated as follows (in millions):

	December 31, 2018			2017	
	Japan Acquisition[1]	MSM[2]	Stillwater[2]	Broadview[1]	Meikle[2]
Purchase price					
Cash paid for acquisitions, net of cash and restricted cash acquired	$158	$ 31	$ 111	$169	$ 58
Contingent consideration	106	—	—	21	—
	$264	$ 31	$ 111	$190	$ 58
Allocation					
Property, plant and equipment, net	$269	$ 270	$ 120	$628	$ 376
Construction in progress	179	—	—	—	—
Intangibles	103	—	—	22	29
Goodwill	60	—	—	—	—
Other assets acquired	20	38	4	12	8
Debt	(181)	(196)	—	(51)	(266)
Deferred tax liabilities	(65)	—	—	—	—
Advanced lease revenue	—	(29)	—	—	—
Other liabilities assumed	(110)	(14)	(13)	(95)	(24)
Assets and liabilities assumed before noncontrolling interests	275	69	111	516	123
Less: noncontrolling interests	(11)	(38)	—	(326)	(65)
Total consideration allocated to acquired assets and liabilities	$264	$ 31	$ 111	$190	$ 58

1) Business Combination

2) Asset Acquisition

Supplemental pro forma data (unaudited)

Ohorayama commenced operations in March 2018 and until approximately one week before the Company's acquisition, Ohorayama was still under construction. In addition, Tsugaru is expected to commence commercial operations in early to mid-2020. Therefore, pro forma data for Ohorayama and Tsugaru have not been provided as there is no material difference between pro forma data that give effects to the Japan Acquisitions as if it had occurred on January 1, 2017 and the actual data reported for the years ended December 31, 2018 and 2017.

Broadview reached commercial operations in March 2017 and until approximately three weeks before acquisition, Broadview was still under construction. Therefore, pro forma data for Broadview has not been provided as there is no material difference between pro forma data that give effect to the Broadview Project acquisition as if it had occurred on January 1, 2016 and actual data reported for the years ended December 31, 2017 and 2016.

The unaudited pro forma statement of operations data below gives effect to the acquisition of Kanagi, Otsuki and Futtsu as if they had occurred on January 1, 2017. The pro forma net loss for the year ended December 31, 2018 was adjusted to exclude nonrecurring transaction related expenses of $1 million. 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, 2017. The unaudited pro forma data should not be considered representative of the Company’s future financial condition or results of operations.

	Year ended December 31,	
Unaudited pro forma data (in millions)	2018	2017
Pro forma total revenue	$487	$435
Pro forma total expenses	556	520
Pro forma net loss	(69)	(85)
Less: pro forma net loss attributable to noncontrolling interest	(211)	(65)
Pro forma net income (loss) attributable to Pattern Energy	$142	$(20)

The following table presents the amounts included in the consolidated statements of operations for the business combinations discussed above since their respective dates of acquisition:

	Year ended December 31,	
Unaudited data (in millions)	2018	2017
Total revenue	$ 96	$ 33
Total expenses	105	50
Net loss	(9)	(17)
Less: net loss attributable to noncontrolling interest	(48)	(17)
Net income attributable to Pattern Energy	$ 39	$ —

6. Property, Plant and Equipment

The following presents the categories within property, plant and equipment (in millions):

	December 31,	
	2018	2017
Operating wind farms	$4,972	$4,641
Transmission line	94	94
Furniture, fixtures and equipment	16	12
Subtotal	5,082	4,747
Less: accumulated depreciation	(963)	(782)
Property, plant and equipment, net	$4,119	$3,965

The Company recorded depreciation expense related to property, plant and equipment of $245 million, $195 million and $172 million for the years ended December 31, 2018, 2017 and 2016, respectively.

7. Intangible Assets and Liabilities and Goodwill

The following presents the major components of the long-lived intangible assets and liabilities (in millions):

	December 31, 2018			
	Weighted Average Remaining Life	Gross	Accumulated Amortization	Net
Intangible assets				
Power purchase agreement	15	$ 225	$ (31)	$ 194
Industrial revenue bond tax savings	23	13	(1)	12
Other intangible assets	33	14	(1)	13
Total intangible assets		$ 252	$ (33)	$ 219
Intangible liabilities				
Power purchase agreement	14	60	(13)	47
Leasehold interest	22	9	—	9
Total intangible liabilities		$ 69	$ (13)	$ 56

	December 31, 2017			
	Weighted Average Remaining Life	Gross	Accumulated Amortization	Net
Intangible assets				
Power purchase agreement	15	$ 127	$ (18)	$ 109
Industrial revenue bond tax savings	24	13	—	13
Other intangible assets	34	15	(1)	14
Total intangible assets		$ 155	$ (19)	$ 136
Intangible liability				
Power purchase agreement	15	$ 60	$ (9)	$ 51

Amortization of the PPA asset and PPA liability is reflected in electricity sales in the consolidated statements of operations, which resulted in net reduction of approximately $9 million, $4 million and $3 million in electricity sales for the years ended December 31, 2018, 2017 and 2016, respectively. For the years ended December 31, 2018, 2017 and 2016, the Company recorded amortization expense of less than $1 million related to other intangible assets in depreciation, amortization and accretion in the consolidated statements of operations.

As a result of the Japan Acquisition, the Company recorded a $103 million intangible PPA asset resulting from market prices that are lower than the contractual prices. In addition, the Company recorded a $9 million intangible leasehold interest liability, as a result of higher market prices compared to the contractual prices.

As part of the 2017 Broadview acquisition, the Company acquired an intangible asset related to future property tax savings resulting from the issuance of industrial revenue bonds during construction of the project.

The following table presents estimated future amortization for the next five years related to intangible assets and liabilities. The sum of estimated future amortization in the following table may differ from intangible assets and liabilities balances due to rounding.

Year ended December 31,	Power Purchase Agreements, Net	Industrial revenue bond tax savings	Other Intangible Assets	Leasehold Interest
2019	$ 10	$ 1	$ 1	$ —
2020	10	1	1	—
2021	10	1	1	—
2022	10	1	1	—
2023	10	1	1	—
Thereafter	101	9	10	(7)

Goodwill

In connection with the Japan Acquisition, the Company recognized goodwill of approximately $60 million, which was allocated to the operating business reporting segment.

The following table presents a reconciliation of the beginning and ending carrying amounts of goodwill (in millions):

	Total
Balances at December 31, 2017	$—
Net additions during the period	60
Foreign currency translation adjustment	(2)
Balances at December 31, 2018	$58

8. Variable Interest Entities

The Company consolidates VIEs in which it holds a variable interest and is the primary beneficiary. The Company has determined that Logan's Gap, Panhandle 1, Panhandle 2, Post Rock, Amazon Wind, Broadview Energy Holdings LLC (a subsidiary of Broadview Project), MSM, and Stillwater New Energy Holdings LLC are VIEs and as the managing member of the respective partnerships, it is the primary beneficiary 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, and establishing 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 Company’s equity method investment in Pattern Development is considered to be a VIE primarily because the total equity at risk is not sufficient to permit Pattern Development to finance its activities without additional subordinated financial support by the equity holders. The Company does not hold the power or benefits to be the primary beneficiary and does not consolidate the VIE. The carrying value of its unconsolidated investment in Pattern Development was $144 million as of December 31, 2018. The Company's maximum exposure to loss is equal to the carrying value of its investment in Pattern Development.

The following table summarizes the carrying amounts of major consolidated balance sheet items for consolidated VIEs as of December 31, 2018 and 2017 (in millions). All assets (excluding deferred financing costs, net and long-lived intangible assets, net) and liabilities included in the consolidated VIE presented below are (1) assets that can be used only to settle obligations of the VIE or (2) liabilities for which creditors do not have recourse to the general credit of the primary beneficiary.

	December 31,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$36	$33
Restricted cash	4	4
Trade receivables	13	13
Prepaid expenses	6	5
Other current assets	2	3
Total current assets	61	58
Restricted cash	3	3
Construction in progress	1	—
Property, plant and equipment, net	2,156	1,985
Deferred financing costs, net	2	2
Intangible assets, net	12	12
Other assets	12	13
Total assets	$2,247	$2,073
Liabilities		
Current liabilities:		
Accounts payable and other accrued liabilities	$27	$27
Accrued construction costs	1	1
Current portion of long-term debt, net	4	—
Other current liabilities	5	5
Total current liabilities	37	33
Long-term debt, net	149	—
Intangible liability, net	48	51
Asset retirement obligations	57	22
Other long-term liabilities	36	25
Deferred revenue	26	—
Total liabilities	$353	$131

9. Unconsolidated Investments

The Company's unconsolidated investments consist of the following for the periods presented below (in millions):

	December 31,		Percentage of Ownership December 31,			
	2018	2017	2018		2017	
South Kent	$ 5	$ 6	50.0	%	50.0	%
Grand	5	7	45.0	%	45.0	%
K2	—	103	—	%	33.3	%
Armow	116	133	50.0	%	50.0	%
Pattern Development	144	62	29.3	%	20.9	%
Unconsolidated investments	$ 270	$ 311				

K2

On November 6, 2018, the Company, through its indirect wholly-owned subsidiary, entered into a PSA for the sale of its minority interest in the K2 project. The Company had an owned interest of approximately 90 MW. On December 31, 2018, the Company completed the sale of the K2 project for cash proceeds of approximately $158 million and recorded a gain on sale of approximately $71 million, which is included in net earnings (loss) on transactions in the statements of operations for the year ended December 31, 2018.

South Kent

The Company is a noncontrolling investor in a joint venture established to develop, construct, and own a wind power project located in Ontario, Canada. The project has a 20-year PPA, and commenced commercial operation in March 2014.

Grand

The Company is a noncontrolling investor in a joint venture established to develop, construct, and own a wind power project located in Ontario, Canada. The project has a 20-year PPA and commenced commercial operation in December 2014.

Armow

The Company is a noncontrolling investor in a joint venture established to develop, construct, and own a wind power project located in Ontario, Canada. The project has a 20-year PPA, and commenced commercial operation in December 2015.

Pattern Development

Under the Second Amended and Restated Agreement of Limited Partnership of Pattern Development, the Company has the right to contribute up to $300 million to Pattern Development in order to secure and retain up to a 29% ownership interest in the partnership. On July 27, 2017, the Company funded an initial $60 million capital call. As of December 31, 2018, the Company has funded approximately $183 million in aggregate and holds an approximately 29% ownership interest in Pattern Development. The Company is a noncontrolling investor in Pattern Development, but has significant influence over Pattern Development. Accordingly, the investment is accounted for under the equity method of accounting.

The Company capitalized approximately $2 million of transaction costs for the year ended December 31, 2017. The Company's initial investment in Pattern Development of $60 million was approximately $41 million higher than the Company's underlying equity in the net assets of Pattern Development at the time of the initial funding. This equity method basis difference was primarily attributable to equity method goodwill.

Basis Amortization of Unconsolidated Investments

The cost basis of the net assets of the investment may be different than the Company's proportional interest in the equity of the investee. On the acquisition date, the Company determines the fair value of the identifiable assets and assumed liabilities in accordance with ASC 805, Business Combinations. The resulting fair values are compared with the assets and liabilities recorded in the investee's financial statements, and the resulting difference is basis difference. Basis differences for the Company's investments were primarily attributable to property, plant and equipment, PPAs, and equity method goodwill. The Company amortizes the basis difference attributable to property, plant and equipment, and PPAs over their useful life and contractual life, respectively. The Company does not amortize equity method goodwill. For the years ended December 31, 2018, 2017 and 2016, the Company recorded basis difference amortization for its unconsolidated investments of approximately $11 million, $11 million and $6 million, respectively, in earnings in unconsolidated investments, net on the consolidated statements of operations.

10. Debt

The Company's debt consists of the following for periods presented below (in millions):

	December 31,		December 31, 2018		
	2018	2017	Contractual Interest Rate	Effective Interest Rate	Maturity
Corporate-level					
Corporate Revolving Credit Facility	$198	$—	varies (1)	4.01 %	November 2022
2020 Notes	225	225	4.00 %	6.60 %	July 2020
2024 Notes	350	350	5.88 %	5.88 %	February 2024
Project-level					
Fixed interest rate					
El Arrayán EKF term loan (6)	—	99	— %	— %	N/A
Santa Isabel term loan	100	104	4.57 %	4.57 %	September 2033
Mont Sainte Marguerite-Med Term Loan	62	—	3.97 %	3.97 %	December 2029
Mont Sainte Marguerite-Long Term loan	93	—	5.04 %	5.04 %	June 2042
Variable interest rate					
Japan Credit Facility	25	—	varies (5)	1.82 %	August 2022
Ocotillo commercial term loan	281	289	4.30 %	4.01 % (3)	June 2033
El Arrayán commercial term loan (6)	—	90	— %	— %	N/A
Spring Valley term loan (6)	—	126	— %	— %	N/A
St. Joseph term loan (2)	152	172	4.06 %	4.11 % (3)	November 2033
Western Interconnect term loan (7)	52	54	4.19 %	4.21 % (3)	May 2034
Meikle term loan (2)	239	267	3.81 %	3.97 % (3)	May 2024
Futtsu term loan	75	—	1.07 %	1.85 % (3)	December 2033
Ohorayama term loan	93	—	0.87 %	0.88 % (3)	February 2036
Tsugaru Construction Loan	131	—	0.72 %	0.72 % (3)	March 2038
Tsugaru Holdings Loan Agreement	59	—	3.07 %	3.07 %	July 2022
Imputed interest rate					
Hatchet Ridge financing lease obligation	180	192	1.43 %	1.43 %	December 2032
	2,315	1,968			
Unamortized premium/discount, net (4)	(11)	(14)			
Unamortized financing costs	(21)	(23)			
Total debt, net	$2,283	$1,931			

As reflected on the consolidated balance sheets		
Revolving credit facility, current	$198	$—
Revolving credit facility	25	—
Current portion of long-term debt, net of financing costs	56	52
Long term debt, net of financing costs	2,004	1,879
Total debt, net	$2,283	$1,931

(1) Refer to Corporate Revolving Credit Facility for interest rate details.

(2) The amortization for the St. Joseph term loan and the Meikle term loan are through September 2036 and December 2038, respectively, which differs from the stated maturity date of such loans due to prepayment requirements.

(3) Includes impact of interest rate swaps. See Note 12, Derivative Instruments, for discussion of interest rate swaps.

(4) The discount relates to the 2020 Notes and MSM term loans.

(5) Refer to Japan Credit Facility for interest rate details.

(6) The El Arrayán EKF term loan and El Arrayán commercial term loan were included as part of the Chilean Sale on August 20, 2018. The Spring Valley term loan was prepaid in full on December 31, 2018.
(7) Refer to "Project Debt - Western Interconnect" below for additional borrowing details.

The following are principal payments, excluding deferred financing costs, due under the Company's debt as of December 31, 2018 for the following years (in millions):

	Amount
2019	$ 254
2020	288
2021	74
2022	154
2023	73
Thereafter	1,472
Total	$ 2,315

Interest and commitment fees incurred and interest expense for debt consisted of the following (in millions):

	Year ended December 31,		
	2018	2017	2016
Corporate-level interest and commitment fees incurred	$ 38	$ 34	$ 18
Project-level interest and commitment fees incurred	64	55	48
Capitalized interest, commitment fees, and letter of credit fees	(4)	—	—
Amortization of debt discount/premium, net	5	5	4
Amortization of financing costs	6	8	7
Other interest	—	—	1
Interest expense	$ 109	$ 102	$ 78

Corporate Level Debt

Corporate Revolving Credit Facility

On November 21, 2017, certain of our subsidiaries entered into a Second Amended and Restated Credit and Guaranty Agreement (the Revolving Credit Facility). The Revolving Credit Facility provides for a revolving credit facility of $440 million, decreased from the previous limit of $500 million. The facility has a five-year term and is comprised of a revolving loan facility, a letter of credit facility and a swingline facility. The facility is secured by pledges of the capital stock and ownership interests in certain of our holding company subsidiaries, in addition to other customary collateral.

As of December 31, 2018, $197 million was available for borrowing under the $440 million Revolving Credit Facility. 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 December 31, 2018, the Company's holding company subsidiaries are in compliance with covenants contained in the Revolving Credit Facility.

The loans under the Revolving Credit Facility are base rate loans, Eurodollar rate loans, Canadian prime rate loans or CDOR rate loans. The base rate loans accrue interest at the fluctuating rate per annum equal to the greatest of the (i) the U.S. dollar prime rate, (ii) the federal funds rate plus 0.50% and (iii) LIBOR one month plus 1.0%, plus an applicable margin ranging from 0.625% to 0.875% (corresponding to applicable leverage ratios of the borrowers). The Eurodollar rate loans accrue interest at a rate per annum equal to LIBOR, as published by Reuters plus an applicable margin ranging from 1.625% to 1.875% (corresponding to applicable leverage ratios of the borrowers). The Canadian prime rate loans accrue interest at a fluctuating rate per annum equal to the greater of (i) the Canadian dollar prime rate and (ii) the average CDOR rate for a 30 day term plus 0.50%, plus an applicable margin ranging from 0.625% to 0.875% (corresponding to applicable leverage ratios of the borrowers). The CDOR rate loans accrue interest at a rate per annum equal to CDOR, as published by Reuters plus an applicable margin ranging from 1.625% to 1.875% (corresponding to applicable leverage ratios of the borrowers). Under the facility, the Company pays a revolving commitment fee equal to a percentage per annum determined by reference to the leverage ratio of the borrowers, ranging from 0.30% to 0.50%. Letter of credit fees are also paid.

As of December 31, 2018 and 2017, letters of credit of $45 million and $48 million, respectively, were available to be issued under the Revolving Credit Facility.

2020 Notes

In July 2015, the Company issued $225 million aggregate principal amount of 4.00% convertible senior notes due 2020 (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. Upon conversion, the Company may, at its discretion, pay cash, shares of the Company's Class A common stock, or a combination of cash and stock. The 2020 Notes were set at an initial conversation rate of 35.4925 shares of Class A common stock per $1,000 principal amount of 2020 Notes, which is equivalent to an initial conversion price of approximately $28.175 per share of Class A common stock. The conversion rate is subject to adjustment in some events (including, but not limited to, certain cash dividends made to holders of the Company's Class A common stock which exceed the initial dividend threshold of $0.363 per quarter per share). The conversion rate would be adjusted to offset the effect of the portion of the dividend in excess of $0.363, provided that the adjustment would result a change of at least 1% in the then effective conversion rate. During the year ended December 31, 2017, the conversion rate increased to 35.8997 shares of Class A common stock per $1,000 principal amount of 2020 Notes. The conversion rate will not be adjusted for any accrued and unpaid interest. The 2020 Notes are not redeemable prior to maturity.

The 2020 Notes are guaranteed on a senior unsecured basis by a subsidiary of the Company and are general unsecured obligations of the Company. The obligations rank senior in rights of payment to the Company's subordinated debt, equal in right of payment to the Company's unsubordinated debt and effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness.

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

	December 31,	
	2018	2017
Principal	$225	$225
Less:		
Unamortized debt discount	(8)	(13)
Unamortized financing costs	(2)	(3)
Carrying value of convertible senior notes	$215	$209
Carrying value of the equity component [1]	$24	$24

[1] Included in the consolidated balance sheets as additional paid-in capital, net of $1 million in equity issuance costs.

Project Debt

The Company typically finances its wind projects through project entity specific debt secured by each project's assets with no recourse to the Company. Typically, these financing arrangements provide for a construction loan, which upon completion may be converted into a term loan or repaid through capital contributions from the Company and tax equity investors.

Collateral for project level facilities typically include each project's tangible assets and contractual rights and cash on deposit with the depository agents. Each loan agreement contains a broad range of covenants that, subject to certain exceptions, restrict each project's ability to incur debt, grant liens, sell or lease certain assets, transfer equity interests, dissolve, make distributions and change their business. As of December 31, 2018, all projects were in compliance with their financing covenants.

Western Interconnect

In December 2018, the Company refinanced Western Interconnect project's term loan of $52 million along with an associated letter of credit of $4 million and entered into a new term loan with a total loan capacity of $90 million expected to mature in May 2034 with an associated letter of credit of $5 million. The incremental borrowing of $38 million is anticipated to occur during the second quarter of 2019. The refinancing was treated as an extinguishment of debt for which the Company recognized a loss on extinguishment of debt of $2 million in other income (expense), net on the consolidated statements of operations for the year ended December 31, 2018. The $2 million loss on extinguishment includes $1 million paid to existing lenders.

Spring Valley
In December 2018, the Company prepaid 100% of the outstanding balance of the Spring Valley project's term loan of $119 million. A $4 million loss on the debt extinguishment was recorded in other income (expense), net in the consolidated statements of operations, primarily due to expensing previously recorded amounts in deferred financing costs. As a result of the early extinguishment of debt, the Company lost its cash flow hedge accounting treatment on the related interest rate swaps. See Note 12, Derivative Instruments, for additional information.

Japan Credit Facility
In August 2018, GPG entered into a credit agreement for a revolving credit facility (the Japan Credit Facility). Under the Japan Credit Facility, GPG may borrow up to $32 million and the Japan Credit Facility matures in August 2022. The base rate is based on the Japan Credit Facility Tokyo Interbank Offered Rate (TIBOR) plus an applicable margin between 1.75% and 2.25% plus an annual commitment fee of 0.30%. As of December 31, 2018, $7 million was available for borrowing.
Tsugaru Facility
In March 2018, Tsugaru entered into a credit agreement for a construction facility (Tsugaru Construction Loan), a term facility, a letter of credit facility (the LC Facility) and a Japanese consumption tax facility (the JCT Facility) (collectively, the Tsugaru Facility). Under the Tsugaru Facility, up to $371 million may be borrowed to fund the construction of Tsugaru which automatically converts to a term facility upon the earlier of completion of construction of the project (expected to be March 2020) or September 2020 (the Term Conversion Date). The Tsugaru Construction Loan, including the term facility and LC Facility, mature 18 years following the Term Conversion Date, not later than March 2039. The interest rate on the Tsugaru Construction Loan and term facility is TIBOR plus 0.65%. The LC Facility establishes a $20 million debt service reserve account letter of credit and an $8 million operations and maintenance reserve account letter of credit with amounts outstanding under the letters of credit owing interest at a rate of 1.10% and fees on the undrawn amounts of 0.30%. The JCT Facility provides for up to $34 million to pay Japanese consumption taxes arising from payment of project costs, with an interest rate of TIBOR plus 0.30% and a maturity date corresponding to the Term Conversion Date. A commitment fee of 0.3% is owed on any available amounts under the Construction Facility and the JCT Facility and on any undrawn amounts on the letters of credit up to the Term Conversion Date. Collateral for the credit facility includes Tsugaru's tangible assets and contractual rights and cash on deposit with the depository agent. The credit agreement contains a broad range of covenants that, subject to certain exceptions, restrict Tsugaru's ability to incur debt, grant liens, sell or lease certain assets, transfer equity interests, dissolve, make distributions or change its business. As of December 31, 2018, outstanding borrowings under the Tsugaru Construction Loan totaled $131 million.
Tsugaru Holdings Loan Agreement
In March 2018, Tsugaru Holdings entered into a loan agreement (Tsugaru Holdings Loan Agreement) that provides for borrowings of up to $70 million during the Tsugaru construction period, until no later than September 2020. The interest rate on outstanding borrowings under the Tsugaru Holdings Loan Agreement is TIBOR plus 3.0% with principal due July 2022 and a commitment fee of 0.50% on the unused portion of the Tsugaru Holdings Loan Agreement. The Tsugaru Holdings Loan Agreement is subject to certain covenants and is secured by the membership interests and other rights. As of December 31, 2018, outstanding borrowings under the Tsugaru Holdings Loan Agreement totaled $59 million.
Financing Lease Obligations
In December 2010, Hatchet Ridge entered into a sale-leaseback agreement to finance the project facility for 22 years. The Company evaluated the agreement in accordance with ASC 840 and ASC 360, Property Plant and Equipment, and determined that due to continuing involvement with the project facility, the Company is precluded from treating the agreement as a sale-lease back transaction and accounts for the agreement as a financing lease obligation. Collateral for the agreement includes Hatchet Ridge’s tangible assets and contractual rights and cash on deposit with the depository agent. Its loan agreement contains a broad range of covenants that, subject to certain exceptions, restrict Hatchet Ridge’s ability to incur debt, grant liens, sell or lease assets, transfer equity interests, dissolve, pay distributions and change its business.

Payments under the financing lease for the years ended December 31, 2018, 2017 and 2016, were $15 million, $13 million and $15 million, respectively.

11. Asset Retirement Obligations

The Company's asset retirement obligations represent the estimated cost of decommissioning the turbines, removing above-ground installations and restoring sites at the end of their estimated economic useful life.

In the third quarter of 2018, the Company committed to a plan to re-power its Gulf Wind project by the end of 2020. In connection with the decision to repower the facility and accelerate decommissioning of the existing facilities, the Company received updated cost information. This initiated a new decommissioning cost study for which the Company revised its estimated future cash flows to reflect the updated costs and timing for its asset retirement obligations. The Company recognized the revision by increasing the carrying amount of the liability for the asset retirement obligation and the carrying amount of the related property, plant and equipment. The change in estimate did not result in any charge to net income (loss) for the year ended December 31, 2018.

The following table presents a reconciliation of the beginning and ending aggregate carrying amounts of asset retirement obligations (in millions):

	December 31,	
	2018	2017
Beginning asset retirement obligations	$ 57	$ 45
Net additions during the year [1]	67	9
Foreign currency translation adjustment	(2)	—
Divested operations	(3)	—
Revision in estimated cash flows	85	—
Accretion expense	5	3
Ending asset retirement obligations	$ 209	$ 57

(1) Reflects non-cash additions due to acquisitions and construction during the year ended December 31, 2018. See Note 5, Acquisitions, for discussion of acquisitions.

12. 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 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 interest rates. Additionally, the Company is exposed to foreign currency exchange rate risk primarily from its business operations in Canada and Japan. 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 December 31, 2018, the Company had other energy-related contracts that did not meet the definition of a derivative instrument or qualified for the NPNS 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 millions):

	December 31, 2018			
	Derivative Assets		Derivative Liabilities	
	Current	Long-Term	Current	Long-Term
Fair Value of Designated Derivatives:				
Interest rate swaps	$—	$ 3	$ 2	$ 25
Fair Value of Undesignated Derivatives:				
Interest rate swaps	—	—	—	4
Energy derivative	7	—	—	—
Foreign currency forward contracts	6	6	—	2
Congestion revenue rights	1	—	—	—
Total Fair Value	$14	$ 9	$ 2	$ 31

	December 31, 2017			
	Derivative Assets		Derivative Liabilities	
	Current	Long-Term	Current	Long-Term
Fair Value of Designated Derivatives:				
Interest rate swaps	$—	$ 2	$ 4	$ 18
Fair Value of Undesignated Derivatives:				
Interest rate swaps	—	—	1	3
Energy derivative	19	8	—	—
Foreign currency forward contracts	—	—	3	—
Total Fair Value	$19	$ 10	$ 8	$ 21

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

		December 31,	
	Unit of Measure	2018	2017
Designated Derivative Instruments			
Interest rate swaps	USD	$319	$ 253
Interest rate swaps	CAD	$721	$ 736
Interest rate swaps	JPY	¥55,675	¥ —
Undesignated Derivative Instruments			
Interest rate swaps	USD	$138	$ 85
Energy derivative	MWh	193,252	697,471
Foreign currency forward contracts	CAD	$106	$ 128
Foreign currency forward contracts	JPY	¥11,589	¥ —
Congestion revenue rights	MWh	505	—

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 hedge is reported as a component of

accumulated other comprehensive 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 5.0 years to 24.3 years.

The following table presents the pre-tax effect of the hedging instruments designated as cash flow recognized in accumulated other comprehensive loss, amounts reclassified to earnings for the following periods, as well as, amounts recognized in interest expense (in millions):

		Year ended December 31,		
	Description	2018	2017	2016
Losses recognized in accumulated OCI	Effective portion of change in fair value	$(6)	$(2)	$(8)
Losses reclassified from accumulated OCI into:				
Interest expense	Derivative settlements	$(5)	$(10)	$(8)
Loss on derivatives	De-designation of derivatives	$—	$(2)	$—

The Company estimates that $1 million in accumulated other comprehensive loss will be reclassified into earnings over the next twelve months.

Derivatives Not Designated as Hedging Instruments

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

		Year ended December 31,		
Derivative Type	Financial Statement Line Item	2018	2017	2016
Interest rate derivatives	Gain (loss) on derivatives	$—	$(1)	$(2)
Energy derivative	Electricity sales	$(3)	$5	$(1)
Foreign currency forward contracts	Gain (loss) on derivatives	$16	$(7)	$(1)
Foreign currency option contract	Gain (loss) on derivatives	$1	$—	$—

Interest Rate Derivatives

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 loss on derivatives in the consolidated statements of operations as these hedges are not accounted for under hedge accounting. All of the Company's undesignated interest rate swaps have a remaining maturity of 11.5 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 collateral related to the energy derivative agreement. The Company does not have the right to pledge, invest, or use the collateral for general corporate purposes. As of December 31, 2018, the Company has recorded a current asset of $6 million to counterparty collateral and a current liability of $6 million to counterparty collateral liability representing the collateral received and corresponding obligation to return the collateral, respectively.

Foreign Currency Forward and Option 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 the Company's 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

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portion transacted in currencies other than the U.S. dollar, primarily the Canadian dollar and Japanese yen. The Company enters into foreign currency forward and option contracts at various times to mitigate the currency exchange rate risk on Canadian dollar and, beginning in 2018, Japanese yen denominated cash flows. These instruments have remaining maturities ranging from three months to 11 years. The foreign currency forward and option 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 derivatives in the consolidated statements of operations.

Congestion Revenue Rights

Congestion revenue rights are financial instruments which were acquired via auction in the ERCOT power market that enable the Company to manage variability in electric energy congestion charges due to transmission grid limitations. The Company's congestion revenue rights 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 derivatives in the consolidated statements of operations.

13. Accumulated Other Comprehensive Loss

The following table summarizes changes in the accumulated other comprehensive loss balance, net of tax, by component (in millions):

	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)	$ (14)	$ (12)	$(74)
Other comprehensive income (loss) before reclassifications	5	(7)	1	(1)
Amounts reclassified from accumulated other comprehensive loss	—	8	4	12
Net current period other comprehensive loss	5	1	5	11
Balances at December 31, 2016	(43)	(13)	(7)	(63)
Other comprehensive income (loss) before reclassifications	15	(3)	6	18
Amounts reclassified from accumulated other comprehensive loss	—	11	8	19
Net current period other comprehensive loss	15	8	14	37
Balances at December 31, 2017	(28)	(5)	7	(26)
Other comprehensive loss before reclassifications	(37)	(4)	(3)	(44)
Amounts reclassified from accumulated other comprehensive loss	—	5	5	10
Net current period other comprehensive income (loss)	(37)	1	2	(34)
Balances at December 31, 2018	$ (65)	$ (4)	$ 9	$(60)

14. Fair Value Measurement

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.

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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. 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 millions):

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Interest rate swaps	$ —	$ 3	$ —	$ 3
Energy derivative	—	—	7	7
Foreign currency forward contracts	—	12	—	12
Congestion revenue rights	—	—	1	1
	$ —	$ 15	$ 8	$ 23
Liabilities				
Interest rate swaps	$ —	$ 31	$ —	$ 31
Foreign currency forward contracts	—	2	—	2
Contingent consideration	—	—	130	130
	$ —	$ 33	$ 130	$ 163

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Interest rate swaps	$ —	$ 2	$ —	$ 2
Energy derivative	—	—	27	27
Foreign currency forward contracts	—	—	—	—
	$ —	$ 2	$ 27	$ 29
Liabilities				
Interest rate swaps	$ —	$ 26	$ —	$ 26
Foreign currency forward contracts	—	3	—	3
Contingent consideration	—	—	22	22
	$ —	$ 29	$ 22	$ 51

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
Energy Hedge
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 reconciling 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 with little or no market activity. Significant increases or decreases in this input would result in a significantly lower or higher fair value measurement.
The following table presents a reconciliation of the energy derivative contract measured at fair value on a recurring basis using significant unobservable inputs (in millions):

Energy Derivative	2018	2017
Balance, beginning of year	$27	$41
Total gain (loss) included in electricity sales	(3)	5
Settlements	(17)	(19)
Balance, end of year	$7	$27

During the years ended December 31, 2018, 2017 and 2016, the Company recognized losses of $20 million, $14 million, and $23 million relating to the energy derivative asset held at December 31, 2018, 2017 and 2016, respectively, which were recorded to energy sales in the consolidated statements of operations.
Contingent Consideration
As part of the Japan Acquisition, the Company is required to pay an additional earn-out of $118 million, which may be increased by $10 million if the final Tsugaru cost is less than or equal to the construction budget or may be decreased by $10 million if the final Tsugaru cost is greater than the construction budget, upon term conversion of the Tsugaru Construction Loan. The discounted fair value of the contingent consideration at the acquisition date was $103 million, subject to foreign currency exchange rate changes. In July 2018, the Company made a $3 million cash distribution payment to Pattern Energy Group LP upon term conversion of the Ohorayama construction loan in June 2018.
The Broadview Project acquisition includes contingent consideration, which requires the Company to make an additional payment upon the commercial operation of the Grady Project, a wind project being separately developed by Pattern Development. The contingent post-closing payment reflects the fair value of the Company's interest in the increase in the projected 25-year transmission wheeling revenue Western Interconnect will receive from the Grady Project, adjusted for the estimated production loss incurred by Broadview due to wake effects and transmission losses induced by the operation of the Grady Project. The fair value of the contingent consideration at the acquisition date was $21 million.
The estimated fair value of the contingent considerations was calculated by using a discounted cash flow technique which utilized unobservable inputs. This fair value measurement is based on significant inputs not observable in the market and thus represent a Level 3 measurement as defined in ASC 820, Fair Value Measurement. As of December 31, 2018, there were no significant changes in these unobservable inputs that may result in significant changes in fair value.

The following table presents a reconciliation of the contingent consideration liability measured at fair value on a recurring basis using significant unobservable inputs (in millions):

Contingent Consideration Liability	2018	2017
Balance, beginning of year	$22	$ —
Purchases	106	21
Total loss included in other income (expense), net	5	1
Settlements	(3)	—
Balance, end of year	$130	$ 22

During the years ended December 31, 2018, and 2017, the Company recognized loss on contingent liabilities of $2 million and $1 million, respectively, which were recorded to other income (expense), net in the consolidated statements of operations.

Congestion Revenue Rights

During the year ended December 31, 2018, the Company purchased $1 million of congestion revenue rights to hedge the financial risk of ERCOT-imposed congestion charges in the day-ahead market. Limited market data is available in the ERCOT auction and between auction dates; therefore, the Company utilizes historical prices to forecast forward prices. During the year ended December 31, 2018, the Company recognized loss on congestion revenue rights of less than $1 million, which was recorded to gain (loss) on derivatives in the consolidated statements of operations.

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

December 31, 2018	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Energy derivative	$7	Discounted cash flow	Forward electricity prices	$20.02 - $32.58[(1)]
			Discount rate	2.80% - 2.81%
Broadview contingent consideration	$25	Discounted cash flow	Discount rate	4.0% - 8.0%
			Annual energy production loss	0.70%
Tsugaru contingent consideration	$105	Discounted cash flow	Deferred purchase price	$109 - $128 million
			Discount rate	6.90%
Congestion revenue rights	$1	Market approach	Auction prices	$2.48 - $8.23[(1)]

December 31, 2017	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Energy derivative	$27	Discounted cash flow	Forward electricity prices	$14.44 - $71.45[(1)]
			Discount rate	1.69% - 1.96%
Broadview contingent consideration	$22	Discounted cash flow	Discount rate	4.0% - 8.0%
			Annual energy production loss	1.0%

(1) Represents price per MWh

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 millions):

	As reflected on the balance sheet	Fair Value Level 1	Level 2	Level 3	Total
December 31, 2018					
Total debt, net	$ 2,283	$ —	$ 2,240	$ —	$ 2,240
December 31, 2017					
Total debt, net	$ 1,931	$ —	$ 1,938	$ —	$ 1,938

Long-term debt is 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.

15. Income Taxes

The following table presents significant components of the provision for income taxes (in millions):

	Year ended December 31, 2018	2017	2016
Current:			
Federal	$—	$—	$ —
State	—	—	—
Foreign	16	—	—
Total current expense	16	—	—
Deferred:			
Federal	—	(3)	—
State	—	—	—
Foreign	16	15	9
Total deferred expense	16	12	9
Total provision for income taxes	$32	$12	$ 9

The following table presents the domestic and foreign components of net loss before income tax provision (in millions):

	Year ended December 31, 2018	2017	2016
U.S.	$(158)	$(119)	$(71)
Foreign	121	49	28
Total	$(37)	$(70)	$(43)

The following table presents a reconciliation of the statutory U.S. federal income tax rate to the Company's effective tax rate, as a percentage of income before taxes for the following periods:

	Year ended December 31,		
	2018	2017	2016
Computed tax at statutory rate	21.0 %	35.0 %	35.0 %
Adjustment for income in non-taxable entities allocable to noncontrolling interests	(125.2)%	(32.6)%	(25.6)%
Foreign rate differential			
Tax rate differential on pre-tax book income	(16.1)%	6.4 %	0.7 %
Dual taxpaying entities outside basis difference	(78.5)%	(23.0)%	(17.6)%
Local tax on branch profits/(losses)—Puerto Rico	(0.1)%	0.1 %	— %
Permanent book/tax differences (domestic only)	0.5 %	(0.1)%	(0.2)%
Valuation allowance change	38.9 %	47.7 %	(18.8)%
Subpart F income	(7.9)%	(3.5)%	— %
Capital gain exclusion - sale of partnership interest	24.7 %	— %	— %
Contingent consideration accretion	(4.9)%	— %	— %
Impairment	1.4 %	— %	— %
Tax credits	61.7 %	31.6 %	7.6 %
Effect of U.S. tax rate change under Tax Cuts and Jobs Act	— %	(78.1)%	— %
Other	(2.5)%	(0.1)%	(0.9)%
Effective income tax rate	(87.0)%	(16.6)%	(19.8)%

Significant components of the Company’s deferred tax assets and liabilities are as follows (in millions):

	Year ended December 31,	
	2018	2017
Deferred tax assets:		
Accruals and prepaids	$3	$3
Basis difference in derivatives	3	—
Hatchet Ridge financing	17	17
Asset retirement obligation	32	6
Unrealized loss on derivatives	—	2
Net operating loss carryforwards	230	274
Foreign currency translation adjustments	2	3
Other deferred tax assets	12	2
Tax credits	118	42
Total gross deferred tax assets	417	349
Less: Valuation allowance	(175)	(141)
Total gross deferred tax assets net of valuation allowance	$242	$208
Deferred tax liabilities:		
Property, plant and equipment	$(215)	$(189)
Intangibles	(24)	—
Partnership interest	(108)	(65)
Deferred interest, commitment fees and financing costs	(2)	(2)
Unrealized gain on derivatives	(2)	—
Basis difference in subsidiaries	(2)	(1)
Other deferred tax liabilities	(1)	(1)
Total gross deferred tax liabilities	(354)	(258)
Total net deferred tax assets/(liabilities)	$(112)	$(50)

On December 22, 2017, the Tax Act was enacted into law. The Tax Act contained several key provisions that affected corporations, including a reduction in the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. Included in the key provisions are a transition from a worldwide system of taxation to a primarily territorial tax system accompanied by a tax on deemed repatriation of undistributed and previously untaxed non-U.S. earnings, a tax on global intangible low-taxed income (“GILTI”), a tax determined by base erosion and anti-abuse benefits (BEAT) from certain payments between a U.S. corporation and foreign subsidiaries, a limitation on deductible executive compensation, and a net business interest expense limitation. In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period, not to exceed one year from the date of enactment, for companies to complete the accounting related to the Tax Act under ASC 740. As of December 2018, the Company had completed its accounting for the tax effects of the Tax Act. As part of the completion of such accounting, the Company elected to account for GILTI as a period cost.

The U.S. operations are in a net deferred tax asset position offset by a full valuation allowance. The change in net deferred tax assets before valuation allowance during the period ended December 31, 2018 includes deferred tax assets established for potential U.S. foreign tax credits of $52 million that may be generated by the reversal of the deferred tax liability related to temporary differences from Japan operations that were acquired in 2018 and are conducted through a branch for U.S. tax purposes. While the companies are disregarded entities for U.S. tax purposes, they are corporations for local tax purposes and are therefore subject to local and U.S. taxation.

In 2018, the Company operated entities in Canada, Japan, and Chile that are taxed in both local jurisdictions and the U.S. The Company's tax rate reflects the impact of double taxation from these entities.

On December 31, 2018, Pattern Canada Financing Company (“PCFC”) sold its entire minority interest in the K2 project for a net tax gain for Canada tax purposes of $12 million after utilization of a net operating loss carryforward and other tax attributes.

The Company recorded a valuation allowance against the majority of its deferred tax assets as of December 31, 2017 and December 31, 2018. The Company intends to continue maintaining a valuation allowance on certain deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. However, given its current earnings and anticipated future earnings, it believes there is a reasonable possibility that within the next 12 months, sufficient positive evidence may become available to allow it to reach a conclusion that a portion of the valuation allowance will no longer be needed. Release of a portion or all of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation release are subject to change on the basis of the level of profitability that the Company is able to achieve.

The net change in valuation allowance was an increase of $34 million for the tax year ended December 31, 2018. The increase was primarily driven by potential U.S. foreign tax credits related to Japan branch operations partially offset by a decrease of operating losses in the U.S. federal and state jurisdictions.

As of December 31, 2018, the Company has U.S federal and state net operating loss (NOL) carryforwards in the amount of $959 million and $190 million, respectively, which begin to expire in the year ending December 31, 2034 for federal and state purposes. The Company also has foreign net operating loss carryforwards in Canada in the amount of $31 million which begin to expire in the year ending December 31, 2029, foreign net operating loss carryforwards in Puerto Rico of $4 million that begins to expire in the year ending December 31, 2022, and foreign net operating loss carryforwards in Japan of $13 million that can be carried forward indefinitely.

The Company's production tax credits of $17 million begin to expire in the year ending December 31, 2033.

Internal Revenue Code Section 382 places a limitation (the Section 382 limitation) on the amount of taxable income that can be offset by NOL and credit carryforwards, as well as built-in losses, after a change in control (generally greater than 50% change in ownership) of a loss corporation. California has similar rules. The Company did not have any historic U.S. NOLs prior to October 2, 2013 except for NOLs from its Puerto Rico entity which may be subject to Section 382 limitation.

The Company experienced a change in ownership on May 14, 2014. As a result, the Company’s NOL carryforwards and credits generated through the date of change are subject to an annual limitation under Section 382. If the Company generates sufficient taxable income, its pre-change NOLs and credits are not expected to expire unutilized due to a Section 382 limitation.

The Company is required to recognize in the financial statements the impact of a tax position, if that position is not more likely than not of being sustained on audit, based on the technical merits of the position. As of December 31, 2018, the Company does not have any unrecognized tax benefits and does not have any tax positions for which it is reasonably possible that the amount of gross unrecognized tax benefits will increase or decrease within 12 months after the year ended December 31, 2018.

The Company files income tax returns in the U.S. federal jurisdiction, various state jurisdictions and foreign jurisdictions in Canada, Japan and Puerto Rico. The Company’s U.S., Canada and Puerto Rico income tax returns for 2015 and forward are subject to examination by taxing authorities. The statute of limitations in Japan is generally five years from the date of filing, plus extension. The Japan statute of limitations for transfer pricing is six years from the date of filing, and net operating losses generally extend the statute to ten years, depending on the year in which the loss originated.

The Company has a policy to classify accrued interest and penalties associated with uncertain tax positions together with the related liability, and the expenses incurred related to such accruals are included in the provision for income taxes. The Company did not incur any interest expenses or penalties or have outstanding liabilities on the balance sheet associated with unrecognized tax benefits for the year ended December 31, 2018.

The Company operates under a tax holiday in Puerto Rico which enacted a special tax rate of 4% for businesses dedicated to the production of energy for the consumption through the use of renewal sources. Act 73 of May 28, 2008 as amended, known as the "Economic Incentives for the Development of Puerto Rico Act" (the "Act"), promotes the development of green energy projects through economic incentives so as to reduce the island's dependency on oil. On September 15, 2016, the Company commenced operations under the Act 83 Grant while simultaneously surrendering operations under Act 73 Grant. The Act 83 Grant affords the Company identical tax benefits to the Act 73 Grant but has a duration of 25 years, thereby extending the Grant benefit for 25 years at the date of conversion. The

Act 83 Grant continues to provide for a 4% reduced income tax rate in Puerto Rico, and is scheduled to terminate on December 31, 2041. The impact of the tax holiday decreased foreign deferred tax expense by $0.4 million for the year ended December 31, 2018. The impact of the tax holiday on basic and diluted net income per share of Class A common stock for the year ended December 31, 2018 was $0.004.

16. Stockholders' Equity

Preferred Stock

The Company has 100,000,000 shares of authorized preferred stock issuable in one or more series. The Company’s Board of Directors is authorized to determine the designation, powers, preferences and relative, participating, optional or other special rights of any such series. As of December 31, 2018 and 2017, there was no preferred stock issued and outstanding.

Common Stock

On October 23, 2017, the Company completed an underwritten public offering of its Class A common stock. In total, 9,200,000 shares of the Company's Class A common stock were sold at a public offering price of $23.40 per share. This includes 1,200,000 shares purchased by the underwriters to cover over-allotments. Aggregate net proceeds of the equity offering, including the proceeds of the over-allotment option, were approximately $212 million after deduction of underwriting discounts, commissions, and transaction expenses.

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 $259 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 million. For the year ended December 31, 2018, the Company did not sell any shares under the Equity Distribution Agreement. For the years ended December 31, 2017 and 2016, the Company sold 1,068,261 and 1,240,504 shares, respectively, under the Equity Distribution Agreement; net proceeds under the issuances were $25 million and $28 million and the aggregate compensation paid by the Company to the Agents with respect to such sales was less than $1 million for December 31, 2017 and 2016, respectively. As of December 31, 2018, approximately $144 million in aggregate offering price remained available to be sold under the agreement.

Voting Rights

Holders of the Company’s Class A common stock as of December 31, 2018 are entitled to one vote per share on all matters submitted to a vote of stockholders and will vote as a single class under all circumstances.

Noncontrolling Interests

The following table presents the balances for noncontrolling interests by project (in millions).

	December 31,	
	2018	2017
El Arrayán [1]	$—	$32
Logan's Gap	132	171
Panhandle 1	131	175
Panhandle 2	176	208
Post Rock	116	160
Amazon Wind	101	134
Broadview Project	257	308
Futtsu	10	—
Meikle	57	66
MSM	37	—
Stillwater	95	—
Noncontrolling interests	$1,112	$1,254

[1] Noncontrolling interest of El Arrayán was derecognized as a result of the sale of the Company's operation in Chile.

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The following table presents the components of total noncontrolling interests as reported in stockholders' equity in the consolidated balance sheets (in millions).

	Capital	Accumulated Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
Balances at December 31, 2015	$972	$ (27)	$ (1)	$ 944
Distributions to noncontrolling interests	(18)	—	—	(18)
Net loss	—	(35)	—	(35)
Other comprehensive income, net of tax	—	—	—	—
Balances at December 31, 2016	954	(62)	(1)	891
Acquisitions	390	—	—	390
Distributions to noncontrolling interests	(20)	—	—	(20)
Partial sale of subsidiary	56	—	—	56
Net loss	—	(64)	—	(64)
Other comprehensive income, net of tax	—	—	1	1
Balances at December 31, 2017	$1,380	$ (126)	$ —	$ 1,254
Acquisitions	49	—	—	49
Contribution from noncontrolling interests	98	—	—	98
Distributions to noncontrolling interests	(38)	—	—	(38)
Sale of subsidiaries	(37)	5	—	(32)
Net loss [1]	—	(211)	—	(211)
Other comprehensive loss, net of tax	—	—	(8)	(8)
Balances at December 31, 2018	$1,452	$ (332)	$ (8)	$ 1,112

(1) On December 22, 2017, the Tax Act was signed into law, which enacted major changes to the U.S. federal income tax laws, including a permanent reduction in the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018. Reduction in the corporate income tax rate resulted in a one-time reduction in the noncontrolling interests attributable to partners in its tax equity partnerships. As part of the liquidation waterfall, the Company allocated significantly lower portions of the hypothetical liquidation proceeds to compensate certain noncontrolling interest investors for tax gains on the hypothetical sale calculated at the lowered rate of 21% as compared to the rate of 35% that was previously utilized. For the year ended December 31, 2018, included in net loss attributable to noncontrolling interests is a one-time adjustment of $150 million as a result of the decrease in the federal corporate income tax rate.

Pay-go Contribution

The Broadview Acquisition includes a partial pay as you go (Pay-go) funding arrangement under which, when the actual annual MWh production of Broadview exceeds a certain production threshold, the tax equity investors are obligated to make a cash contribution ("Pay-go contribution") to the Company. The Pay-go arrangement resulted in a lower initial investment by the tax equity partners and provided them with some protection from potential underperformance of Broadview. For the year ended December 31, 2018, the actual MWh production of Broadview exceeded the production threshold which resulted in a Pay-go contribution receivable from the tax equity partners in the amount of approximately $4 million. The Company classified the receivable as a component of noncontrolling interests in the accompanying consolidated balance sheets. The Company expects to receive the Pay-go contribution by the end of the first quarter of 2019.

Allocations of Distributions and Tax Allocations for Tax Equity Partnerships

Generally, tax equity partnerships have specific commercial terms that dictate distributions of cash and allocation of tax items among the partners, who are divided into one of two categories: tax equity and cash investor. A disproportionate share of income and cash is given to tax equity in order for them to achieve a target after-tax yield or “flip” near year 10 of project operations. The target yield and flip term vary by agreement and are dependent on project performance. Prior to the flip, tax items (income, US Federal production tax credits) are commonly allocated 99% to the tax equity. On the other hand, distributable cash is divided among the partners in percentages that do not match the tax items. Cash distribution percentages can be temporarily increased for tax equity in the event that certain cumulative distribution thresholds are not achieved. Once tax equity reaches their target yield, the allocations and distributions “flip” to different amounts. After the flip, income and cash are typically allocated 5% to the tax equity and 95% to the cash investor. REC sales are often specially addressed in each agreement with most of the cash and income directed to the cash investor both pre and post-flip.

Tax equity partnerships imposes a range of affirmative and negative covenants that are similar to what a term lender would require, such as, financial reporting, insurance maintenance and prudent operator standards. Most of these restrictions end once the flip point occurs and any deficit restoration obligation of the tax equity has been eliminated. There are also covenants that specifically seek to preserve the tax attributes of the project that are not customary for project term lenders.

If tax equity suffers any losses or damages as the result of a breach of representation, covenant, or other obligation by the cash investor in its capacity as managing member, tax equity may provide notice to the cash investor and require that any distributions otherwise required to be paid to the cash investor shall, instead, be paid to tax equity to cover any damages.

17. Equity Incentive Award Plan

Under the Amended and Restated 2013 Equity Incentive Award Plan (2013 Plan), the Company may issue 3,000,000 aggregate number of shares of Class A common stock for equity awards including incentive and nonqualified stock options, restricted stock awards (RSAs) and restricted stock units (RSUs) to employees, directors and consultants. RSAs provide the holder with immediate voting rights, but are restricted in all other respects until released. RSUs generally entitle the holders the right to receive the underlying shares of the Company's Class A common stock upon vesting. Upon cessation of services to the Company, any nonvested RSAs and RSUs will be forfeited. All nonvested RSAs and RSUs accrue dividends and distributions, which are subject to vesting and paid in cash upon release. Accrued dividends and distributions are forfeitable to the extent that the underlying awards do not vest. As of December 31, 2018, there were 1,780,006 aggregate number of Class A shares available for issuance under the 2013 Plan.

Stock-Based Compensation

Stock-based compensation expenses related to, RSAs, RSUs and stock options are recorded as a component of general and administrative expenses in the Company’s consolidated statements of operations and totaled \$5 million, \$5 million and \$5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Restricted Stock Awards

The Company granted time-based RSAs to certain employees and independent directors. The Company measures the fair value of the RSAs at the grant date and accounts for stock-based compensation by amortizing the fair value on a straight line basis over the related vesting period.

The following table summarizes RSA activity under the 2013 Plan for the year ended December 31, 2018:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2017	110,579	$ 19.26
Granted	138,817	$ 18.67
Vested	(127,268)	$ 19.03
Nonvested at December 31, 2018	122,128	$ 18.84

For the years ended December 31, 2018, 2017 and 2016, the total fair value of RSAs vested was \$3 million, \$3 million and \$2 million, respectively. The weighted-average grant date fair values per RSA granted during the same periods were \$18.67, \$20.35 and \$18.76, respectively.

As of December 31, 2018, the total unrecorded stock-based compensation expense for nonvested RSAs was \$2 million, which is expected to be amortized over a weighted-average period of 1.7 years.

RSAs that contain Market Conditions

The Company granted TSR-RSAs to certain senior management personnel. The number of awards granted represented the target number of shares of Class A common stock that may be earned; however, the number of vested TSR-RSAs is assessed at the end of a three-year performance period in accordance with the level of total shareholder return of the Company's stock price achieved relative to a peer group during the specified period. Following the date of grant, rights to dividends will accrue on the maximum number of shares and may be forfeited if the market or service conditions are not achieved.

The Company measures the fair value of these restricted stock awards at the grant date using a Monte Carlo simulation model and amortizes the fair value over the longer of the requisite period or performance period. The Company estimates expected volatility based on the actual volatility of the Company's daily closing share price since listing on September 27, 2013 and the historical volatility of comparable publicly traded companies for a period that is equal to the performance period. The risk-free interest rate is based on the yield on U.S. government bonds for a period commensurate with the performance period. The assumptions used to estimate the fair value of TSR-RSAs are as follows:

	Years ended December 31,		
	2018	2017	2016
Expected stock price volatility(1)	32%	34%	35%
Expected dividend yield	N/A	N/A	N/A
Risk-free interest rate	2.38%	1.60%	1.11%
Expected performance period in years(2)	2.8	2.8	2.8

(1) The expected volatility was estimated using the historical volatility derived from the Company's Class A common stock.

(2) The expected performance period was estimated based on the length of the remaining performance period from the grant date.

The following table summarizes TSR-RSAs activity under the 2013 Plan for the year ended December 31, 2018:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2017	218,877	$ 25.07
Granted	97,610	$ 18.20
Vested	(56,844)	39.16
Nonvested at December 31, 2018	259,643	$ 19.40

For the years ended December 31, 2018, 2017, and 2016, the weighted-average grant-date fair value per TSR-RSAs granted was $18.20, $19.48 and $20.63, respectively.

As of December 31, 2018, the total unrecorded stock-based compensation expense related to nonvested TSR-RSAs was $2 million, which is expected to be amortized over a weighted-average period of 1.8 years.

Restricted Stock Units

In 2018, 2017 and 2016, the Company granted time-based deferred RSUs to certain independent directors. Deferred RSUs are equity awards that entitle the holder the right to receive shares of the Company's Class A common stock upon vesting and are settled on, or as soon as administratively possible after the settlement date which is January 1 following the date of the director's termination of service. The Company measures the fair value of deferred RSUs at the grant date and accounts for stock-based compensation by amortizing the fair value on a straight line basis over the related vesting period.

During the year ended December 31, 2018, there were RSU grants of 25,885 shares, all of which vested. The total fair value of deferred RSUs vested for the years ended December 31, 2018, 2017 and 2016, was less than a million dollars, $1 million and $1 million, respectively. The weighted-average grant date fair value of stock awards granted during the same periods was $21.49, $18.99 and $20.29, respectively. As of December 31, 2018, there were no nonvested deferred RSUs.

Stock Options

During the years ended December 31, 2018, 2017 and 2016, no options were granted or exercised.

A summary of option activity under the employee share option plan as of December 31, 2018, and changes during the year then ended is presented below.

	Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2017	411,323	$ 22.00		
Forfeited or expired	(29,169)	$ 22.00		
Outstanding at December 31, 2018	382,154		4.7	—
Exercisable at December 31, 2018	382,154		4.7	—

18. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the reportable period. Diluted earnings (loss) per share is computed by adjusting basic earnings (loss) per share for the effect of all potential common shares unless they are anti-dilutive. For purposes 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 RSAs and release of deferred 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 earnings per share, pursuant to the two-class method; however, due to amounts being well below $1 million dollars, they are not shown in the table below. Under the two-class method, distributed and undistributed earnings allocated to participating securities are excluded from net earnings (loss) attributable to common stockholders for purposes of calculating basic and diluted earnings (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.

Potentially dilutive securities excluded from the calculation of diluted earnings (loss) per share because their effect would have been anti-dilutive were 9 million, 9 million and 8 million, respectively, for the years ended December 31, 2018, 2017 and 2016.

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

	Year ended December 31,		
	2018	2017	2016
Numerator for basic and diluted earnings (loss) per share:			
Net income (loss) attributable to Pattern Energy	$142	$ (18)	$ (17)
Less: earnings allocated to participating securities	—	—	—
Net income (loss) attributable to common stockholders	$142	$ (18)	$ (17)
Denominator for earnings (loss) per share:			
Weighted average number of shares:			
Class A common stock - basic	97,456,490	87,179,343	79,382,388
Add dilutive effect of:			
Restricted stock awards	193,910	—	—
Restricted stock units	1,184	—	—
Class A common stock - diluted	97,651,584	87,179,343	79,382,388
Earnings (loss) per share:			
Class A common stock:			
Basic	$1.45	$ (0.20)	$ (0.22)
Diluted	$1.45	$ (0.20)	$ (0.22)

Dividends declared per Class A common share	$1.69	$ 1.67	$ 1.58

19. Commitments and Contingencies

Commitments

The following table summarizes estimates of future commitments related to the various agreements that the Company has entered into as of December 31, 2018 (in millions):

	2019	2020	2021	2022	2023	Thereafter	Total
Transmission service agreements [1]	$24	$24	$ 24	$ 24	$ 24	$ 495	$615
Operating leases [2]	22	21	22	21	22	352	460
Service and maintenance agreements	32	30	30	27	26	68	213
Construction and other commitments	192	155	4	3	3	34	391
Total commitments	$270	$230	$ 80	$ 75	$ 75	$ 949	$1,679

[1]Future commitments under the transmission service agreements are based on current rates, which are subject to future changes.

[2]Certain operating leases have adjustments for market provisions. Amounts in the above table represent the best estimates of future payments to be made under these leases.

Transmission Service Agreements

In connection with the Broadview Project acquisition, the Company became a party to various long-term transmission service agreements expiring between 3-29 years. The Company recorded transmission service costs related to such agreements of $25 million for the year ended December 31, 2018.

Operating Leases

The Company has entered into various non-cancellable long-term operating lease agreements related to offices and lands for its wind farms expiring between 1-40 years. Certain of these arrangements contain contingent rental payment provisions based upon the volume of electricity generated at a particular windfarm. The Company recognizes rent expense under such arrangements on a straight-line basis. For the years ended December 31, 2018, 2017 and 2016, the Company recorded rent expenses of $18 million, $15 million and $13 million, respectively, in project expense in its consolidated statements of operations.

In March 2018, the Company entered into an operating lease for its new corporate headquarters in San Francisco, California. Total operating lease payments are approximately $35 million over the term of the lease which expires in December 2028.

Service and Maintenance Agreements

The Company has entered into service and maintenance agreements with third party contractors to provide turbine operations and maintenance services and modifications and upgrades for varying periods over the next 22 years. The computation of outstanding commitments includes an estimated annual price adjustment for inflation of 2%, where applicable. For the years ended December 31, 2018, 2017 and 2016, the Company recorded service and maintenance expense under these agreements of $38 million, $47 million and $53 million, respectively, in project expense in its consolidated statements of operations.

Construction and Other Commitments

Included in construction and other commitments are payments in lieu of taxes, Tsugaru construction, Gulf Wind re-powering, and various other commitments related to the Company's projects and operations of its business. Payments in lieu of taxes include payments the Company is required to make in lieu of taxes as a result of tax savings realized as part of the issuance of the industrial revenue bonds. See Note 7, Intangible Assets and Liabilities and Goodwill, for further discussion. Tsugaru is currently in construction and expected to commence commercial operations in early to mid-2020.

Gulf Wind Re-Powering Commitment

In September 2018, the Company committed to a plan to re-power the Gulf Wind project. In connection with the re-powering plan, the Company entered into a turbine purchase agreement for a maximum purchase price of $151 million plus certain storage costs, depending upon the number of turbines purchased. The Company has the option, exercisable by September 2, 2019, to reduce the number of turbines.

Separately, in September 2018, the Company exercised its option to purchase turbines from an affiliate of Pattern Development. Such affiliate of Pattern Development has until August 30, 2019 to determine the number of turbines to sell to the Company.

Letters of Credit

Power Sale Agreements

The Company owns and operates wind and solar power projects, and has entered into various long-term PSAs that terminate from 2019 to 2043. 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 December 31, 2018, irrevocable letters of credit totaling $156 million were available to be issued to guarantee the Company's performance for the duration of the agreements.

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 December 31, 2018, irrevocable letters of credit totaling $170 million which includes letters of credit available under the Revolving Credit Facility were available to be issued to ensure performance under these various project finance and lease agreements.

Contingencies

Turbine Operating Warranties and Service Guarantees

The Company has various turbine availability warranties from its turbine manufacturers and service guarantees from its service and maintenance providers. Pursuant to these guarantees, if a turbine operates at less than minimum availability during the guarantee measurement period, the service provider is obligated to pay, as liquidated damages at the end of the warranty measurement period, an amount for each percent that the turbine operates below the minimum availability threshold. In addition, pursuant to certain of these guarantees, if a turbine operates at more than a specified availability during the guarantee measurement period, the Company has an obligation to pay a bonus to the service provider at the end of the warranty measurement period. As of December 31, 2018, the Company recorded liabilities of less than $1 million associated with bonuses payable to turbine manufacturers and service providers.

Contingencies in connection with the Broadview Project Acquisition

The Company recorded a $7 million contingent obligation, payable to a third party who holds a 1% interest in Western Interconnect, at fair value upon the acquisition of the Broadview Project. These contingent payments are subject to certain conditions, including the actual energy production of Broadview in a production year and the continued operation of Broadview. Additionally, the Company initially recorded a $29 million contingent obligation, payable to the same counterparty, at fair value using a discount rate of approximately 5% upon the acquisition of the Broadview Project. The undiscounted contingent obligation is estimated to be approximately $50 million and is expected to be paid over the life of the PSA term. These contingent payments are subject to certain conditions, including the commercial operation of the Grady Project. The contingent payment is calculated as a percentage of additional transmission revenue earned by Western Interconnect upon the Grady Project's commercial operation.

Contingencies in connection with the Sale of Panhandle 2 interests

In connection with the sale of Panhandle 2, the Company agreed to indemnify PSP Investments up to $5 million to cover PSP Investments' pro rata share of the economic impacts resulting from planned transmission outages in the Texas market until December 31, 2019. As of December 31, 2018, the Company recorded a contingent liability of $4 million associated with the indemnity.

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.

The Company also enters into indemnity agreements in the ordinary course of business with surety bond providers that issue surety bonds to contractual counterparties in connection with the decommissioning projects and other performance obligations. Pursuant to the indemnity agreements, the Company is obligated, on a joint and several basis with the project company, to indemnify the surety in the event of a draw by the beneficiary. The indemnity obligation is limited to the amount of the bonds and certain related costs and expenses.

20. Related Party Transactions

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 Armow, in addition to various Pattern Energy Group LP subsidiaries and equity method investments. In connection with the Japan Acquisition, the Company receives management services related to the acquired projects and incurred a fee for such services under agreements with a subsidiary of Pattern Development in 2018.

Management Services Agreement and Shared Management

The Company has entered into a MSA with the Pattern Development Companies, which provides for the Company and the Pattern Development Companies to benefit, primarily on a cost-reimbursement basis, from 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 the Pattern Development Companies or their respective subsidiaries on the Company's behalf will be allocated to the Company. Conversely, costs and expenses incurred at the Company or its respective subsidiaries on the behalf of a Pattern Development Company will be allocated to the respective Pattern Development Company.

Pursuant to the MSA, certain of the Company's executive officers, including its Chief Executive Officer (shared PEG executives), also serve as executive officers of the Pattern Development Companies and devote their time to both the Company and the Pattern Development Companies as is prudent in carrying out their executive responsibilities and fiduciary duties. The shared PEG executives have responsibilities for both the Company and the respective Pattern Development Companies and, as a result, these individuals do not devote all of their time to the Company's business. Under the terms of the MSA, each of the respective Pattern Development Companies 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 such Pattern Development Company.

Employee Savings Plan

The Company participates in a 401(k) plan sponsored and maintained by Pattern Energy Group LP. For the years ended December 31, 2018, 2017 and 2016, the Company contributed $1 million, $1 million and $1 million, respectively, which was recorded as general and administrative expense on the consolidated statements of operations.

Related Party Transactions

The table below presents amounts due from and to related parties as included in the consolidated balance sheets for the following periods (in millions):

	December 31, 2018	
	2018	2017
Other current assets	$7	$ 13
Total due from related parties	$7	$ 13
Other current liabilities	$9	$ 11
Contingent liabilities, current	25	—
Contingent liabilities	105	21
Total due to related parties	$139	$ 32

The table below presents the revenue, reimbursement and (expenses) recognized for management services and under the MSA, as included in the statements of operations for the following periods (in millions):

		Years Ended December 31,		
Related Party Agreement	Financial Statement Line Item	2018	2017	2016
Management fees	Other revenue	$9	$8	$6
Management fees	Project expense	$1	$—	$—
MSA reimbursement	General and administrative	$12	$12	$5
MSA costs	Related party general and administrative expense	$(15)	$(14)	$(10)

Purchase and Sales Agreements

During the years ended December 31, 2018, and 2017, the Company consummated the following investment and acquisitions with Pattern Energy Group LP and Pattern Development which are further detailed in Note 5, Acquisitions (in millions):

Acquisitions from Pattern Development Companies	Date of Acquisition	Cash consideration net of acquired cash	Debt Assumed	Contingent Consideration
Japan projects	March 7, 2018	$ 158	$ 181	$ 106
MSM	August 10, 2018	$ 31	$ 196	$ —
Stillwater Wind LLC	November 20, 2018	$ 17	$ —	$ —
Broadview Project	April 21, 2017	$ 169	$ 51	$ 21
Meikle	August 10, 2017	$ 58	$ 266	$ —

Investment in Pattern Development

During 2018, the Company funded $115 million into Pattern Development of which approximately $23 million was used by Pattern Development to fund the redemption of Pattern Energy Group LP's interest. As of December 31, 2018, the Company has funded $183 million in aggregate and holds an approximate 29% ownership interest in Pattern Development 2.0.

Development Fee

In September 2018, upon reaching a project development milestone, Tsugaru paid a development fee of approximately $15 million to an affiliate of Pattern Development. Due to the Company's equity ownership in Pattern Development, the Company has eliminated its portion of the profits realized by Pattern Development with respect to this transaction.

PSP Investments Joint Venture

In June 2017, the Company entered into a Joint Venture Agreement with PSP Investments pursuant to which PSP Investments will have the right to co-invest up to an aggregate amount of approximately $500 million in projects acquired by the Company under Project Purchase Rights with the Pattern Development Companies, including investments in Meikle, MSM and Panhandle 2. PSP Investments acquired a 49% interest in Meikle and 49% of Class B membership in Panhandle 2 in 2017 and 49% interest in MSM and 49% of Class B membership in Stillwater in 2018. Prior to December 31, 2018, PSP Investments previously purchased approximately 9 million shares of the Company's common stock from Pattern Energy Group LP and an additional approximately 600,000 shares from the Company.

Sponsor Services Agreement

On June 16, 2017, the Company entered into a Sponsor Services Agreement with PSP Investments, pursuant to which the Company will provide certain mutually agreed services to PSP Investments and its affiliates with respect to the administration of the joint ownership of the project companies that PSP Investments invests in alongside the Company pursuant to the PSP Investments Joint Venture Agreement in exchange for certain fees set forth in the Sponsor Services Agreement. Related party fee amounts recorded during 2018 and 2017 were immaterial.

21. Segment Reporting

The Company defines its operating segments to reflect the manner in which the Company's chief operating decision maker, the chief executive officer, evaluates performance and allocates resources in managing the business. The Company evaluates its operations in two reportable segments: (i) the operating business segment, which is comprised of the portfolio of renewable energy power projects and (ii) the development investment, which consists of the Company's investment in Pattern Development. The operating business segment is engaged in the sale of energy from the power projects. The development investment segment develops and sells renewable energy projects and consists solely of the Company's proportional share of its investment in Pattern Development. Corporate, other and eliminations includes operating companies that provide services to the Company's renewable energy power projects, various Pattern Energy Group LP subsidiaries, and Pattern Development and its equity losses in Pattern Development, and is presented to reconcile to the consolidated financial statements.

The chief operating decision maker evaluates segment performance based on segment Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). The Company defines Adjusted EBITDA as net income (loss) before net interest expense, income taxes, and depreciation, amortization and accretion, including its proportionate share of net income (loss) before interest expense, income taxes, and depreciation, amortization and accretion of unconsolidated investments. Adjusted EBITDA also excludes the effect of certain mark-to-market adjustments, gain or loss related to acquisitions, divestitures, or refinancing transactions, adjustments from unconsolidated investments, and infrequent items not related to normal or ongoing operations. In calculating Adjusted EBITDA, the Company excludes mark-to-market adjustments to the value of the Company's derivatives because the Company believes 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 the Company's operations without regard to periodic, and sometimes material, fluctuations in the market value of such assets or liabilities.

Prior to 2018, the Company had one reportable segment. The development investment segment was acquired in July 2017 and had insignificant operations in 2017. As such, comparative periods are not material or meaningful.

Segment information for the year ended December 31, 2018 is presented in the table below.
For the Year Ended December 31, 2018

(in millions)	Operating Business	Development Investment[1]	Corporate, Other and Eliminations	Reconciling Amounts[2]	Consolidated
Total revenue	$ 475	$ 39	$ 8	$ (39)	$ 483
Depreciation, amortization and accretion	$ 247	$ —	$ 3	$ —	$ 250
Impairment expense	$ —	$ 11	$ 7	$ (11)	$ 7
Operating income (loss)	$ 45	$ (33)	$ (43)	$ 33	$ 2
Earnings (loss) in unconsolidated investments[3]	$ 41	$ 1	$ (40)	$ (1)	$ 1
Interest expense	$ 63	$ 1	$ 46	$ (1)	$ 109
Income tax provision	$ 11	$ 1	$ 21	$ (1)	$ 32
Net income (loss)	$ (38)	$ (35)	$ (31)	$ 35	$ (69)
Adjusted EBITDA	$ 391	$ (22)	$ (19)	$ 22	
Capital expenditures	$ (175)	$ (61)	$ (6)	$ 61	$ (181)
As of December 31, 2018					
Property, plant and equipment, net	$ 4,054	$ 2	$ 65	$ (2)	$ 4,119
Unconsolidated investments	$ 228	$ 10	$ 42	$ (10)	$ 270
Total assets	$ 8,990	$ 187	$ (3,696)	$ (187)	$ 5,294

(1) Amounts represent the Company's proportionate share in Pattern Development.

(2) The Company accounts for its investment in Pattern Development under the equity method. Therefore, the reconciling amounts are presented to eliminate Pattern Development and to reconcile to the consolidated totals.

(3) Included in Corporate, Other and Eliminations is a $35 million loss related to the Company's portion of the loss of Pattern Development and the elimination of intra entity profits of approximately $5 million.

Reconciliation of segment Adjusted EBITDA to the Company's consolidated net loss for the year ended December 31, 2018 is as follows:

(in millions)	Year ended December 31, 2018
Operating Business Adjusted EBITDA	$ 391
Development Investment Adjusted EBITDA	(22)
Corporate, Other and Eliminations Adjusted EBITDA	(19)
Reconciling Amounts Adjusted EBITDA	22
Less, proportionate share from unconsolidated investments	
Interest expense, net of interest income	(38)
Income tax provision	(1)
Depreciation, amortization and accretion	(35)
Gain on derivatives	1
Unrealized loss derivatives	(5)
Early extinguishment of debt	(6)
Impairment expense	(7)
Other	(2)
Gain on asset sales	71
Interest expense, net of interest income	(107)
Depreciation, amortization and accretion	(280)
Net loss before income tax	(37)
Income tax provision	(32)
Net loss	(69)

22. Selected Quarterly Financial Data (Unaudited)

The following tables summarize the Company’s unaudited quarterly consolidated statements of operations for each of the eight quarters in the two year period ended December 31, 2018. The quarterly consolidated statements of operations data were prepared on a basis consistent with the audited consolidated financial statements included in this Annual Report on Form 10-K.

Quarterly financial data in millions, except per share data:

	Three months ended			
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Revenue	$113	$118	$140	$112
Gross profit (loss)	$(14)	$20	$44	$14
Net loss	$(22)	$(32)	$(2)	$(13)
Net loss attributable to noncontrolling interests[(1)]	$(9)	$(19)	$(34)	$(149)
Net income (loss) attributable to Pattern Energy	$(13)	$(13)	$32	$136
Earnings (loss) per share				
Basic	$(0.15)	$(0.13)	$0.34	$1.39
Diluted	$(0.15)	$(0.13)	$0.34	$1.32
Cash dividends declared per Class A common share	$0.4220	$0.4220	$0.4220	$0.4220

(1) As discussed in Note 16. Stockholders' Equity, for the three months ended March 31, 2018, included in net loss attributable to noncontrolling interests is a one-time adjustment of $150 million as a result of the decrease in the federal corporate income tax rate.

	Three months ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Revenue	$110	$92	$108	$101
Gross profit (loss)	$16	$(2)	$21	$28
Net income (loss)	$(22)	$(48)	$(15)	$3
Net loss attributable to noncontrolling interests	$(14)	$(18)	$(29)	$(3)
Net income (loss) attributable to Pattern Energy	$(8)	$(30)	$14	$6
Basic and diluted earnings (loss) per share—Class A common stock	$(0.08)	$(0.34)	$0.16	$0.06
Cash dividends declared per Class A common share	$0.4220	$0.4200	$0.4180	$0.4138

23. Subsequent Events

On January 29, 2019, PG&E filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Hatchet Ridge, a 101 MW wind project, sells all of its output to PG&E through 2025 under a long-term PSA. As of December 31, 2018, Hatchet Ridge had approximately $138 million of net long-lived assets. The Company has also assessed and determined that Hatchet Ridge's long-lived assets are not impaired as of December 31, 2018. The Company is monitoring the bankruptcy proceedings for any changes in circumstances that would indicate the carrying amount of the net long-lived assets of Hatchet Ridge may not be recoverable.

On February 22, 2019, the Company approved a dividend for the first quarter 2019, payable on April 30, 2019, to holders of record on March 29, 2019, in the amount of $0.4220 per Class A share, which represents $1.688 on an annualized basis.

South Kent Wind LP

Financial Statements

in accordance with accounting principles
generally accepted in the United States
of America (U.S. GAAP)

December 31, 2018

(In thousands of Canadian Dollars)

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South Kent Wind LP

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Partners of South Kent Wind LP
Opinion on the financial statements
We have audited the accompanying balance sheet of South Kent Wind LP (the Partnership) as of December 31, 2017, and the related statements of operations and comprehensive income, statements of changes in partners' equity, and statements of cash flows for the years ended December 31, 2017 and 2016, including the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2017, and its results of operations and its cash flows for the years ended December 31, 2017 and 2016 in conformity with accounting principles generally accepted in the United States of America (US GAAP).
Basis for opinion
These financial statements are the responsibility of the Partnership’s management. Our responsibility is to express an opinion on the Partnership’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.
Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.
Change in accounting principle
As discussed in Note 2 to the financial statements, the Partnership changed the manner in which it accounts for restricted cash in the statements of cash flows in 2018, 2017 and 2016.
Other matters
The accompanying balance sheet of the Partnership as of December 31, 2018, and the related statements of operations and comprehensive income, statement of changes in partners' equity and statement of cash flows for the year ended December 31, 2018 are presented for purposes of complying with Rule 3-09 of SEC Regulation S-X; however, Rule 3-09 does not require the 2018 financial statements to be audited and they are therefore not covered by this report.

/s/ PricewaterhouseCoopers LLP
Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada

February 20, 2018, except for the change in the manner in which the Partnership accounts for restricted cash in the statements of cash flows discussed in Note 2 to the financial statements, as to which the date is February 15, 2019

We have served as the Partnership's auditor since 2011.

South Kent Wind LP
Balance Sheets
As of December 31, 2018* and 2017

(In thousands of Canadian Dollars)	2018*	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$21,888	$12,842
Restricted cash (note 3)	—	1,982
Accrued revenue (note 2)	14,597	20,911
Other current assets	338	386
Total current assets	36,823	36,121
Property, plant and equipment - net of accumulated depreciation of $145,511 and $116,245 in 2018 and 2017, respectively (note 4)	591,698	620,841
Intangible assets - net of accumulated amortization of $855 and $812 in 2018 and 2017, respectively (note 5)	583	626
Total assets	$629,104	$657,588
LIABILITIES & EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$3,837	$3,187
Accounts payable and other accrued liabilities - related parties (note 11)	193	217
Current portion of long-term debt, net of financing costs of $3,163 and $3,296 in 2018 and 2017, respectively (notes 2 and 6)	24,980	23,523
Current portion of contingent liabilities (note 10)	544	541
Derivative liabilities, current (note 8)	3,996	6,415
Other current liabilities	77	235
Total current liabilities	33,627	34,118
Long-term debt, net of financing costs of $4,932 and $8,095 in 2018 and 2017, respectively (notes 2 and 6)	556,047	581,027
Long-term contingent liabilities, net of current (note 10)	7,000	7,500
Derivative liabilities (note 8)	17,444	19,384
Asset retirement obligation (note 7)	6,853	6,493
Total liabilities	620,971	648,522
Commitments and contingencies (note 10)		
Equity:		
Partners' capital	(193,110)	(130,122)
Accumulated net income	201,243	139,188
Total partners' equity	8,133	9,066
Total liabilities and equity	$629,104	$657,588

*Not covered by the auditor's report
See accompanying notes to financial statements.

South Kent Wind LP
Statements of Operations and Comprehensive Income
For the years ended December 31, 2018*, 2017 and 2016

(In thousands of Canadian Dollars)

	2018*	2017	2016
Revenue (note 2):			
Energy delivered	$94,234	$65,867	$87,142
Compensation for forgone energy	35,449	64,739	38,326
Other revenue	2,113	2,376	2,297
Total revenue	131,796	132,982	127,765
Cost of revenue:			
Project expenses	10,439	10,900	13,064
Project expenses - related parties (note 11)	1,519	1,491	1,469
Depreciation, amortization and accretion	29,669	29,662	29,698
Total cost of revenue	41,627	42,053	44,231
Gross profit	90,169	90,929	83,534
Operating expenses:			
General and administrative	374	524	504
General and administrative - related parties (note 11)	533	523	516
Total operating expenses	907	1,047	1,020
Operating income	89,262	89,882	82,514
Other expense:			
Interest expense (note 6)	(30,628)	(31,477)	(32,596)
Unrealized gain on derivatives (note 8)	4,359	22,474	3,269
Other expense, net	(938)	(934)	(911)
Total other expense	(27,207)	(9,937)	(30,238)
Net income	62,055	79,945	52,276
Other comprehensive income	-	-	-
Comprehensive income	$62,055	$79,945	$52,276

*Not covered by the auditor's report
See accompanying notes to financial statements.

South Kent Wind LP
Statements of Changes in Partners' Equity
For the years ended December 31, 2018*, 2017 and 2016

(In thousands of Canadian Dollars)

	Partners' capital	Accumulated net income	Total
Balance at January 1, 2016	2,700	6,967	9,667
Cash distribution	(64,430)	—	(64,430)
Net income	—	52,276	52,276
Balance at December 31, 2016	(61,730)	59,243	(2,487)
Cash distribution	(68,392)	—	(68,392)
Net income	—	79,945	79,945
Balance at December 31, 2017	(130,122)	139,188	9,066
Cash distribution	(62,988)	—	(62,988)
Net income	—	62,055	62,055
Balance at December 31, 2018*	$(193,110)	$ 201,243	$8,133

*Not covered by the auditor's report
See accompanying notes to financial statements.

South Kent Wind LP
Statements of Cash Flows
For the years ended December 31, 2018*, 2017 and 2016

(In thousands of Canadian Dollars)

	2018*	2017 Restated	2016 Restated
Cash flows from operating activities:			
Net income	$62,055	$79,945	$52,276
Adjustment to reconcile net income to net cash provided by operating activities:			
Unrealized gain on derivatives	(4,359)	(22,474)	(3,269)
Depreciation, amortization and accretion	29,668	29,662	29,698
Amortization of deferred financing costs	3,297	3,426	3,546
Changes in assets and liabilities, net:			
Accrued revenue	6,314	794	(3,539)
Accounts payable and other accrued liabilities	629	(3)	103
Other, net	(111)	118	181
Net cash provided by operating activities	97,493	91,468	78,996
Cash flows from investing activities:			
Capital expenditures	(622)	(610)	(4,247)
Net cash used in investing activities	(622)	(610)	(4,247)
Cash flows from financing activities:			
Repayment of long-term debt	(26,819)	(25,773)	(22,109)
Distribution to partners	(62,988)	(68,392)	(64,430)
	(89,807)	(94,165)	(86,539)
Net change in cash and cash equivalents	7,064	(3,307)	(11,790)
Cash, cash equivalents and restricted cash - Beginning	14,824	18,131	29,921
Cash, cash equivalents and restricted cash - Ending	$21,888	$14,824	$18,131
Supplemental disclosure:			
Cash payments for interest and commitment fees	$27,486	$27,978	$28,894

*Not covered by the auditor’s report
See accompanying notes to financial statements.

South Kent Wind LP
Notes to Financial Statements
December 31, 2018 (not covered by the auditor's report), 2017 and 2016
(In thousands of Canadian Dollars)

1 General information

The Partnership

South Kent Wind LP (the Partnership), a limited partnership under the laws of the Province of Ontario, was formed on January 10, 2011, as a joint venture project between Samsung Renewable Energy Inc. (Samsung) and Pattern South Kent LP Holdings LP, a subsidiary of Pattern Renewable Holdings Canada ULC (PRHC), each as 49.99% limited partners of the Partnership, and South Kent Wind GP Inc. (the GP), as the 0.02% general partner of the Partnership. The Partnership was created to develop, build and operate a wind power project in the Regional Municipality of Chatham-Kent with generation capacity totaling approximately 270 megawatts (MW) of power (the Project).

On February 24, 2013, Samsung transferred all of its LP interest in the Partnership to SRE SKW LP Holdings LP, an affiliate of Samsung.

On October 2, 2013, in a series of transactions: (i) Pattern South Kent GP Holdings Inc., a wholly owned subsidiary of PRHC, transferred all of the general partner interests in Pattern South Kent LP Holdings LP to PRHC, causing Pattern South Kent LP Holdings LP to be dissolved by operation of law and PRHC to acquire the LP interests in the Partnership that previously were held by Pattern South Kent LP Holdings LP; (ii) PRHC transferred its LP interest in the Partnership and its ownership interest in Pattern South Kent GP Holdings Inc., which owned PRHC's ownership interest in the GP, to Pattern Canada Operations Holdings ULC (PCOH), a wholly owned subsidiary of Pattern Energy Group Inc. (Pattern); and (iii) Pattern South Kent GP Holdings Inc. was dissolved.

On December 17, 2014, PCOH transferred all of its LP interest in the Partnership to Pattern Canada Finance Company ULC, a wholly owned subsidiary of PCOH.

The Partnership is controlled by its general partner, the GP, also a joint venture controlled by affiliates of Samsung and Pattern. As of December 31, 2018 and 2017, the Partnership's ownership interests were distributed as follows:

	2018	2017
SRE SKW LP Holdings LP	49.99%	49.99%
Pattern Canada Finance Company ULC	49.99	49.99
South Kent Wind GP Inc.	0.02	0.02
Total	100.00%	100.00%

The Project

The Project is a 270 MW wind project consisting of 124 Siemens wind turbine generators located in the Regional Municipality of Chatham-Kent, Ontario. On March 28, 2014 the Project achieved the Commercial Operation Date ("COD") and commenced commercial operations.

The Partnership has a power purchase agreement ("PPA") with the Independent Electricity System Operator (IESO) for a period of 20 years from the COD. The IESO oversees the wholesale electricity market, where the price of energy is determined. It also administers the rules that govern the market and, through an arm's-length market monitoring function, ensures that it is operated fairly and efficiently. The IESO is an agent among the market participants in Ontario and is neither exposed to, nor benefits from, any transactions. In such capacity, the IESO executes agreements to help the market meet the renewable energy mandates of the government of the Province of Ontario. There are approximately 70 electric distribution companies in Ontario, all of which have government mandates to purchase renewable energy. The PPA provides for guaranteed pricing from IESO that removes volatility caused by fluctuations in market rates. The Ontario government established the Global Adjustment ("GA") which is designed to adjust consumer rates depending on the price of energy. The IESO establishes a monthly variable GA rate based on GA costs and Ontario electricity demand which effectively establishes a pass through mechanism to the consumer and eliminates the IESO's economic exposure to our contract price.

South Kent Wind LP
Notes to Financial Statements
December 31, 2018 (not covered by the auditor’s report), 2017 and 2016
(In thousands of Canadian Dollars)

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the periods presented, unless otherwise stated.

Basis of preparation

The accompanying financial statements are presented using accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of U.S. GAAP financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Because the use of estimates is inherent in the financial reporting process, actual results could differ from those estimates.

In recording transactions and balances resulting from business operations, the Partnership uses estimates based on the best information available. Estimates are used for such items as accrued revenue, asset retirement obligation, valuation of derivative contracts and contingencies.

These financial statements do not include assets, liabilities, revenue and expenses of the GP and limited partners. The financial statements of the Partnership reflect no provision or liability for income taxes because profits and losses of the Partnership are allocated to the partners and are included in the income tax returns of the partners. Income and losses for tax purposes may differ from the financial statement amounts and the partners’ equity reflected in the financial statements does not necessarily reflect their tax basis.

Functional and presentation currency

Items included in the financial statements of the Partnership are measured using the currency of the primary economic environment in which the Partnership operates (the functional currency). The financial statements are presented in Canadian Dollars, which is the Partnership’s functional and presentation currency.

Fair value of financial instruments

ASC 820, Fair Value Measurements, defines fair value as the price at which an asset could be exchanged or a liability transferred in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or derived from such prices. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments’ complexity.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Restricted cash

Restricted cash mainly consists of cash reserves required under the Partnership’s loan agreements and security deposits required to collateralize commercial bank letter of credit facilities related to easement rights (note 3).

Reconciliation of cash and cash Equivalents and restricted cash as presented on the statements of cash flows

South Kent Wind LP
Notes to Financial Statements
December 31, 2018 (not covered by the auditor's report), 2017 and 2016
(In thousands of Canadian Dollars)

	December 31		
	2018	2017	2016
Beginning			
Cash and cash equivalents at beginning of period	$12,842	$16,074	$23,370
Restricted cash - current	1,982	2,057	6,551
Restricted cash	—	—	—
Cash, cash equivalents and restricted cash	$14,824	$18,131	$29,921
Ending			
Cash and cash equivalents at end of period	$21,888	$12,842	$16,074
Restricted cash - current	—	1,982	2,057
Restricted cash	—	—	—
Cash, cash equivalents and restricted cash	$21,888	$14,824	$18,131
Net change in cash, cash equivalents and restricted cash	$7,064	$(3,307)	$(11,790)

Trade receivables
The Partnership's trade receivables are generated by selling energy in Ontario, Canada through the IESO as a settlement agent. The allowance for doubtful accounts, if needed, is computed based upon management's estimates of uncollectible accounts. As of December 31, 2018 and 2017, the Partnership has no outstanding trade receivables.
Accrued revenue
Accrued revenue represents revenues recognized on contracts for which billings have not been presented to customers as of the balance sheet date. These amounts are billed and generally collected within two months.
Concentration of credit risk
Financial instruments that potentially subject the Partnership to concentrations of credit risk consist primarily of cash and cash equivalents and restricted cash. The Partnership places its cash and cash equivalents and restricted cash with creditworthy institutions located in Canada, which the management believes to have minimal risk. At times, such balances may be in excess of the Canada Deposit Insurance Corporation (CDIC) insurance coverage limit. CDIC insurance currently covers up to $100 per depositor at each insured bank.
The Partnership's derivative agreements expose the Partnership to losses under certain circumstances, such as the counterparty defaulting on its obligations under the swap agreements or if the swap agreements provide an imperfect hedge. Counterparties to the Partnership's derivative contracts are major financial institutions that have been accorded investment grade ratings.
Property, plant and equipment
Property, plant and equipment are stated at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying value or recognized as separate assets, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Partnership and the cost of the item can be reliably measured.
The asset retirement obligation included in property, plant and equipment is stated at the present value of future cash flows of asset retirement obligation at the time of COD.
Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The power plant is depreciated over 25 years and the remaining assets are depreciated over 5 years. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. Repair and maintenance costs are expensed as incurred.

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South Kent Wind LP
Notes to Financial Statements
December 31, 2018 (not covered by the auditor's report), 2017 and 2016
(In thousands of Canadian Dollars)

Intangible assets (lease options)
Lease options are recognized at fair value at the acquisition date and subsequently accounted for at cost. Lease options have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of lease options over the period of expected future benefit (i.e., the contract period of each lease option). Separately acquired lease options are capitalized on the basis of the costs incurred to enter into the respective contract.
Impairment of long-lived assets
The Partnership periodically evaluates whether events have occurred that would require revision of the remaining useful life of equipment and improvements and purchased intangible assets or render them not recoverable. If such circumstances arise, the Partnership uses an estimate of the undiscounted value of expected future operating cash flows to determine whether the long-lived assets are impaired. If the aggregate undiscounted cash flows are less than the carrying amount of the assets, the resulting impairment charge to be recorded is calculated based on the excess of the carrying value of the assets over the fair value of such assets, with the fair value determined based on an estimate of discounted future cash flows. Through December 31, 2018, no impairment charges were recorded.
Deferred financing costs
Financing costs incurred in connection with obtaining construction and term financing, which include direct financing, legal and other upfront costs of borrowing, are capitalized and recorded as a reduction to long-term debt and amortized over the lives of the respective loans using the effective-interest method. Amortization of deferred financing costs is capitalized during construction or expensed following COD.
Derivatives
The Partnership recognizes its derivative instruments as either assets or liabilities in the balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it qualifies and has been designated as part of a hedging relationship and, further, on the type of hedging relationship. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that are attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (OCI). Changes in the fair value of these derivatives are subsequently reclassified into earnings in the period the hedged transaction affects earnings. The ineffective portion of changes in fair value is recorded as a component of net income in the statements of operations and comprehensive income.
For undesignated derivative instruments, their change in fair value is reported as a component of net income in the statements of operations and comprehensive income.
The Partnership enters into derivative transactions for the purpose of managing exposure to fluctuations in interest rates, such as interest rate swaps. Interest rate swaps are instruments used to fix the interest rate on variable interest rate debt.
Accounts payable and other accrued liabilities
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables with payment terms extended beyond one year from the balance sheet dates are presented as non-current liabilities.
Contingent liabilities
Contingent liabilities are recognized when: the Partnership has a present legal obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reasonably estimated.
Asset retirement obligation

South Kent Wind LP
Notes to Financial Statements
December 31, 2018 (not covered by the auditor's report), 2017 and 2016
(In thousands of Canadian Dollars)

The Partnership records an asset retirement obligation for the estimated costs of decommissioning turbines, removing above-ground installations and restoring sites, at the time when a contractual decommissioning obligation materializes. The Partnership records accretion expense, which represents the increase in the asset retirement obligation, over the remaining life of the associated wind project. Accretion expense is recorded as cost of revenue in the statements of operations and comprehensive income using accretion rates based on a credit adjusted risk free interest rate of 5.54%.

Revenue recognition

Revenue is recognized based upon the amount of electricity delivered or curtailed at rates specified under the contracts, assuming all other revenue recognition criteria are met. When curtailment revenue is earned, it is recorded as compensation for forgone revenue. The Partnership evaluates its PPA to determine whether it is in substance a lease or derivative and, if applicable, recognizes revenue pursuant to ASC 840, Leases and ASC 815, Derivatives and Hedging, respectively. As of December 31, 2018, the PPA was not considered a lease or a derivative instrument, as multiple market participants purchase the energy at market-based prices with IESO working as a settlement agent. As a result, revenue (including any revenue from the price guaranteed by IESO), is recognized on an accrual basis.
The Partnership recognizes revenue under other revenue for warranty settlements and liquidated damages from a turbine manufacturer upon resolution of outstanding contingencies and for economic development adder from the IESO based on the amount of energy delivered. Any cash receipts for amounts subject to future adjustment or repayment are deferred in other liabilities until the final settlement amount is considered fixed and determinable.

Cost of revenue

The Partnership's cost of revenue is comprised of direct costs of operating and maintaining its project facilities, including labor, turbine service arrangements, metering service and shadow settlement, environmental fee, land lease royalties, property tax, insurance, depreciation, amortization and accretion.

Comprehensive income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income is included in accumulated other comprehensive income in the accompanying statements of changes in partners' equity.

Recently adopted accounting standard

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The Company elected to early adopt the provisions of ASU 2016-18 as of December 31, 2018 and has restated its statements of cash flows for the years ended December 31, 2017 and 2016 to reflect amounts described as restricted cash and restricted cash equivalents included with cash and cash equivalents in the reconciliation of beginning of period and end of period total amounts shown on the statements of cash flows. Consequently, transfers between cash and restricted cash will not be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. A reconciliation of cash and cash equivalents and restricted cash as presented on the balance sheets to the statements of cash flows is included in the significant accounting policies above.

Recent accounting pronouncements

In August 2018, the FASB issued ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13), which amends changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty which should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. ASU 2018-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those periods. Early application is permitted. The Partnership is currently assessing the impact of changes to the disclosure requirements for fair value measurement.

South Kent Wind LP
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In February 2017, the FASB issued ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets (ASU 2017-05). ASU 2017-05 is meant to clarify the scope of ASC Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets and to add guidance for partial sales of nonfinancial assets. ASU 2017-05 is to be applied using a full retrospective method or a modified retrospective method as outlined in the guidance and is effective at the same time as ASU 2014-09. Further, the Partnership is required to adopt this guidance at the same time that it adopts the guidance in ASU 2014-09 which creates ASC Topic 606, Revenue from Contracts with Customers and supersedes ASC Topic 605, Revenue Recognition (ASU 2014-09). The Partnership has assessed the future impact of this guidance on its financial statements and related disclosures and expects to adopt these updates beginning January 1, 2019. The adoption of ASU 2017-05 is not expected to have a material impact on its 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, 2020. The adoption of ASU 2016-13 is not expected to have a material impact on its financial statements and related disclosures.
In February 2016, the FASB issued ASU 2016-02, Leases (ASU 2016-02), which requires lessees to recognize right-of-use assets and lease liabilities, for all leases, with the exception of short-term leases, at the commencement date of each lease. Under the new guidance, lessor accounting is largely unchanged. ASU 2016-02 simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and liabilities. ASU 2016-02 is effective for annual periods beginning after December 15, 2019 for non-public entities. Early adoption is permitted. The amendments of this update should be applied using a modified retrospective approach, which requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented. The Partnership is currently in the initial stages of evaluating the impact of the new standard on its accounting policies, processes and system requirements. The Partnership is also assessing the future accounting impact of this update on its financial statements and related disclosures as it applies to its PPA, land lease arrangements and other lease arrangements. As the Partnership progresses further in its analysis, the scope of this assessment could be expanded to review other types of contracts.
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 new standard replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the new standard 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 new standard 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 partnership expects to adopt these updates beginning January 1, 2019.The adoption of ASC 606 has been assessed and determined that there will not be a material impact on the financial statements.

3 Restricted cash

The following table presents the components of restricted cash:

	December 31	
	2018	2017

Completion reserve account	—	$ 1,982
Subtotal	—	1,982
Less: Current portion	—	(1,982)
Restricted cash, non-current	—	—

The amount in the completion reserve account is reserved to pay outstanding project costs specified during term conversion (note 6). Upon full payment of outstanding project costs, the remaining balance was released from restricted cash in 2018.

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4 Property, plant and equipment

The following is a summary of property, plant and equipment, at cost less accumulated depreciation, at:

	December 31,	
	2018	2017
Power plant	$731,212	$731,212
Furniture, fixtures and equipment	501	501
Asset retirement obligation - asset	5,263	5,263
Capital spares	233	110
Subtotal	737,209	737,086
Less: Accumulated depreciation	(145,511)	(116,245)
	$591,698	$620,841

Depreciation expense of $29,266, $29,279 and $29,332 was charged to the statements of operations and comprehensive income for the years ended December 31, 2018, 2017 and 2016, respectively.

5 Intangible assets

	December 31,	
	2018	2017
Beginning net book value	626	668
Amortization expense	(43)	(42)
Closing net book value	583	626

	December 31,	
	2018	2017
Cost	1,438	1,438
Accumulated amortization	(855)	(812)
Net book value	583	626

Amortization expense of $43, $42 and $43 was charged to the statements of operations and comprehensive income for the years ended December 31, 2018, 2017 and 2016, respectively.

6 Long-term debt

Upon achievement of the COD on March 28, 2014, and the construction facility converted to a term loan on August 28, 2014. On May 7, 2015, the Partnership amended the credit agreement to reduce the related interest rate to Canadian Dealer Offered Rate (CDOR) plus 1.625% per annum. A fee facility was added with a principal amount of $5,106 to cover all fees for the amendment. The modifications have resulted in a current effective interest rate of 3.935% with a maturity date of August 2021. In connection with the credit agreement, the Partnership entered into interest rate swaps that would fix the interest rate for 90% of the outstanding notional amount.

Collateral under the financing agreement consists of substantially all of the Partnership's assets. Its loan agreement contains a broad range of covenants that, subject to certain exceptions, restrict the Partnership's ability to incur debt, grant liens, sell or lease assets, transfer equity interest, dissolve, pay distributions and change its business. The Partnership is in compliance with all loan covenants. All of the limited and general partners and shareholders of general partners pledged shares of partnership units or common stock owned as collateral for the loan.

South Kent Wind LP
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Terms and conditions of outstanding borrowings were as follows:

	As of December 31, 2018				
	Principal	Deferred financing costs	Net of financing costs	Interest rate	Maturity date
Term loan	$589,122	$(8,095)	$581,027	3.935%	August 2021
Less: current portion	(28,143)	3,163	(24,980)		
Net of current	$560,979	$(4,932)	$556,047		

	As of December 31, 2017				
	Principal	Deferred financing costs	Net of financing costs	Interest rate	Maturity date
Term loan	$615,941	$(11,391)	$604,550	3.175%	August 2021
Less: current portion	(26,819)	3,296	(23,523)		
Net of current	$589,122	$(8,095)	$581,027		

Future maturities of long-term debt are as follows as of December 31, 2018:

2019	$28,143
2020	29,974
2021	37,033
2022	34,900
2023	37,859
Thereafter	421,213
	$589,122

The following table presents a reconciliation of interest expense presented in the Partnerships' statements of operations and comprehensive income for the years ended December 31:

	2018	2017	2016
Interest incurred	$27,331	$28,051	$29,050
Amortization of deferred financing costs	3,297	3,426	3,546
Interest expense	$30,628	$31,477	$32,596

Letters of credit facilities

On August 28, 2014, letters of credit of $40,600 and $12,000 were issued upon term conversion for a debt service reserve and operations and maintenance reserve, respectively, with a seven-year term. Funds, when and if drawn on the facility, accrue interest at 0.625% plus Prime Rate, and at the partners' option, the rate can be converted to a rate of CDOR plus 1.625% per annum. In addition, the Partnership shall pay letter of credit fees on the basis of the undrawn amount of the facility at 1.625% per annum. As of December 31, 2018 and 2017, the letters of credit facility did not have an outstanding balance, and no amounts were drawn in 2018 and 2017. Letter of credit fees of $855, $855 and $857 were charged to other expense in the statements of operations and comprehensive income for the years ended December 31, 2018, 2017 and 2016, respectively.

7 Asset retirement obligation

The Partnership's asset retirement obligation represents the estimated cost of decommissioning the turbines, removing above-ground installations and restoring the sites at the end of its estimated useful life.

The following table presents a reconciliation of the beginning and ending aggregate carrying amounts of the asset retirement obligation:

South Kent Wind LP
Notes to Financial Statements
December 31, 2018 (not covered by the auditor's report), 2017 and 2016
(In thousands of Canadian Dollars)

	December 31,	
	2018	2017
Asset retirement obligation - Beginning of year	$6,493	$6,153
Accretion expense	360	340
Asset retirement obligation - End of year	$6,853	$6,493

8 Derivatives

The Partnership uses interest rate derivatives to manage its exposure to fluctuations in interest rates. Interest rate risk exists primarily on variable-rate debt for which the cash flows vary based upon movement in market prices. The Partnership's objectives for holding these derivative instruments include reducing, eliminating and efficiently managing the economic impact of interest rate exposures as effectively as possible. The Partnership does not hedge all of its interest rate risks, thereby exposing the unhedged portions to changes in market prices.

The following tables present the fair values of the Partnership's derivative instruments on a gross basis as reflected on the Partnership's balance sheets:

	December 31, 2018 Derivative liabilities		December 31, 2017 Derivative liabilities	
	Current	Long-term	Current	Long-term
Fair value of undesignated derivatives:				
Interest rate swaps	$3,996	$ 17,444	$6,415	$ 19,384
Total fair value	$3,996	$ 17,444	$6,415	$ 19,384

The following table summarizes the notional amounts of the Partnership's outstanding derivative instruments:

		December 31,	
	Unit of measure	2018	2017
Undesignated derivative instruments			
Interest rate swaps	CAD	$525,614	$549,751

The changes in the fair value of these swaps are recognized directly into earnings as follows:

	December 31,		
	2018	2017	2016
Gains recognized in earnings	$4,359	$22,474	3,269

9 Fair value measurement

The Partnership'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. Non-performance and credit risk adjustments on risk management instruments are based on current market inputs when available, such as credit default swap spreads. When such information is not available, internal models are used.

Assets and liabilities recorded at fair value in the financial statements are categorized based on 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 as follows:

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

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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 valuation technique and the risk inherent in the inputs to the model.
Short-term financial instruments consist principally of cash and cash equivalents, restricted cash, and accounts payable and other accrued liabilities. Based on the nature and short maturity of these instruments, their fair value is approximated using carrying cost and they are presented in the financial statements at carrying cost.
Long-term debt is presented on the balance sheets at amortized cost. The fair value of variable interest rate for long-term debt is approximated by its carrying cost.
Derivatives are presented in the financial statements at fair value. The interest rate swaps were valued by discounting the net cash flows using the forward CDOR curve with the valuations adjusted by the Project's credit default swap rate.
The Partnership's financial assets (liabilities) which require fair value measurement on a recurring basis are classified within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3
December 31, 2018			
Interest rate swaps	$-	$(21,440)	$-
December 31, 2017			
Interest rate swaps	$-	$(25,799)	$-

10 Commitments and contingencies
1) Commitments
Land Lease Agreements
The Partnership has entered into various long-term land lease agreements. The annual fees range from minimum rent payments varying by lease to maximum rent payments of a certain percentage of energy delivered revenues, varying by lease.
Lease payments, including amortization of the lease option, of $3,436, $2,392 and $2,949 were charged to the statements of operations and comprehensive income for the years ended December 31, 2018, 2017 and 2016, respectively.
The future payments related to these leases as of December 31, 2018 are as follows:

2019	$4,163
2020	4,180
2021	4,198
2022	4,220
2023	4,244
Thereafter	44,113
Total	$65,118

South Kent Wind LP
Notes to Financial Statements
December 31, 2018 (not covered by the auditor's report), 2017 and 2016
(In thousands of Canadian Dollars)

Service and Maintenance Agreement

The Partnership has entered into service and maintenance agreements with Siemens to provide and carry out turbine maintenance and service activities for the Project until April 2020. Based on the terms of the agreements, Siemens shall be entitled to receive a daily base fee per turbine that may be subject to periodic price adjustments for inflation, over the terms of the agreements. As of December 31, 2018, outstanding commitments with Siemens were $4,343, including an estimated annual price adjustment for inflation of 2%, where applicable, payable over the full term of the agreement.

2) Contingencies

Community Fund Agreement

On April 17, 2013, the GP, in its capacity as general partner and on behalf of the Partnership, entered into the South Kent Wind Community Fund Agreement with Chatham-Kent Community Foundation, in which the Partnership committed to twenty annual contributions of $500 plus an initial contribution of $1,000. The remaining payments are recorded as a contingent liability in the amount of $7,500.

Turbine Availability Warranty

The Partnership has a turbine availability warranty from its turbine manufacturer. Pursuant to the warranty, if a turbine operates at less than minimum availability during the warranty period, the turbine manufacturer 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 Partnership has an obligation to pay a bonus to the turbine manufacturer. As of December 31, 2018, the Partnership recorded a liability of $44 associated with bonuses payable to the turbine manufacturer.

11 Related party transactions

The Partnership is controlled by the GP, which is jointly controlled by Samsung and Pattern in accordance with the terms of the Shareholder Agreement. Certain terms of the Samsung Pattern Joint Venture Wind Development Agreement, entered into between Samsung and an affiliate of PRHC on July 27, 2010, directed the responsibilities of Samsung and PRHC for the Project.

The following transactions were carried out with related parties:

a) Management, Operation, and Maintenance Agreement (MOMA)

On March 8, 2013, the Partnership entered into a MOMA with Pattern Operators Canada ULC, which is owned by PCOH to operate and manage the maintenance of the wind plant and to perform certain other services pertaining to the wind plant in accordance with terms and conditions set forth in the MOMA.

$1,519, $1,491 and $1,469 were charged to the project expense in the statements of operations and comprehensive income for the years ended December 31, 2018, 2017 and 2016, respectively.

b) Project Administration Agreement (PAA)

On March 8, 2013, the Partnership entered into the PAA with SRE Wind PA LP (PA), which is 100% owned by Samsung to supply project administrative services.

$533, $523 and $516 were invoiced to the Partnership for the years ended December 31, 2018, 2017 and 2016, respectively, and expensed as general and administrative expense in the statements of operations and comprehensive income.

c) The Partnership recorded the following balances with related parties:

South Kent Wind LP
Notes to Financial Statements
December 31, 2018 (not covered by the auditor's report), 2017 and 2016
(In thousands of Canadian Dollars)

	2018	2017
Related party payable to Pattern Operators Canada ULC	$143	$168
Related party payable to SRE Wind PA LP	50	49
	$193	$217

12 Subsequent events

The Partnership paid distributions to partners in the amount of $19,310 on February 14, 2019.

Grand Renewable Wind LP
Financial Statements
in accordance with accounting principles
generally accepted in the United States of
America (U.S. GAAP)

December 31, 2018
(In thousands of Canadian Dollars)

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Grand Renewable Wind LP

Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Partners of Grand Renewable Wind LP

Opinion on the Financial Statements

We have audited the accompanying balance sheet of Grand Renewable Wind LP (the Partnership) as of December 31, 2017, and the related statements of operations and comprehensive income, statements of changes in partners' equity, and statements of cash flows for the years ended December 31, 2017 and 2016, including the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2017, and its results of operations and its cash flows for the years ended December 31, 2017 and 2016 in conformity with accounting principles generally accepted in the United States of America (US GAAP).

Basis for Opinion

These financial statements are the responsibility of the Partnership’s management. Our responsibility is to express an opinion on the Partnership’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Change in accounting principle

As discussed in Note 2 to the financial statements, the Partnership changed the manner in which it accounts for restricted cash in the statements of cash flows in 2018, 2017 and 2016.

Other matters

The accompanying balance sheet of the Partnership as of December 31, 2018, and the related statements of operations and comprehensive income, statement of changes in partners' equity and statement of cash flows for the year ended December 31, 2018 are presented for purposes of complying with Rule 3-09 of SEC Regulation S-X; however, Rule 3-09 does not require the 2018 financial statements to be audited and they are therefore not covered by this report.

/s/ PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

February 20, 2018, except for the change in the manner in which the Partnership accounts for restricted cash in the statements of cash flows discussed in Note 2 to the financial statements, as to which the date is February 15, 2019

We have served as the Partnership's auditor since 2011.

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Grand Renewable Wind LP
Balance Sheets
As of December 31, 2018* and 2017
(In thousands of Canadian Dollars)

	2018*	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$5,079	$2,563
Restricted cash (note 3)	4,339	4,336
Accrued revenue (note 2)	6,396	11,043
Other current assets	300	312
Total current assets	16,114	18,254
Property, plant and equipment - net of accumulated depreciation of $70,792 and $53,439 in 2018 and 2017, respectively (note 4)	362,613	379,850
Intangible assets - net of accumulated amortization of $341 and $258 in 2018 and 2017, respectively (note 5)	1,331	1,414
Total assets	$380,058	$399,518
LIABILITIES & EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$2,425	$1,785
Accounts payable and other accrued liabilities - related parties (note 11)	163	355
Current portion of long-term debt, net of financing costs of $1,290 and $1,356 in 2018 and 2017, respectively (notes 2 and 6)	17,128	16,015
Derivative liabilities, current (note 8)	3,346	4,811
Other current liabilities (note 10)	86	603
Total current liabilities	23,148	23,569
Long-term debt, net of financing costs of $2,997 and $4,287 in 2018 and 2017, respectively (notes 2 and 6)	315,988	333,116
Derivative liabilities (note 8)	35,507	35,756
Asset retirement obligation (note 7)	3,187	2,992
Total liabilities	377,830	395,433
Commitments and contingencies (note 10)		
Equity:		
Partners' capital	(8,990)	8,350
Accumulated net income	19,930	8,148
Accumulated other comprehensive loss	(8,712)	(12,413)
Total partners' equity	2,228	4,085
Total liabilities and equity	$380,058	$399,518

*Not covered by the auditor's report
See accompanying notes to financial statements.

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Grand Renewable Wind LP
Statements of Operations and Comprehensive Income
For the years ended December 31, 2018*, 2017 and 2016
(In thousands of Canadian Dollars)

	2018*	2017	2016
Revenue (note 2):			
Energy delivered	$47,623	$39,693	$44,353
Compensation for forgone energy	13,846	24,866	19,172
Other revenue	851	713	713
Total revenue	62,320	65,272	64,238
Cost of revenue:			
Project expenses	7,172	8,780	8,270
Project expenses - related parties (note 11)	1,301	1,277	1,258
Depreciation, amortization and accretion	17,548	17,562	17,545
Total cost of revenue	26,021	27,619	27,073
Gross profit	36,299	37,653	37,165
Operating expenses:			
General and administrative	928	1,015	1,125
General and administrative - related parties (note 11)	426	419	412
Total operating expenses	1,354	1,434	1,537
Operating income	34,945	36,219	35,628
Other (expense):			
Interest expense (note 6)	(20,394)	(21,079)	(21,648)
Unrealized loss on derivatives (note 8)	(1,986)	(230)	(7,253)
Other (expense), net	(783)	(866)	(883)
Total other expense	(23,163)	(22,175)	(29,784)
Net income	11,782	14,044	5,844
Other comprehensive income (loss):			
Derivative activity (notes 8 and 10):			
Effective portion of change in fair value of derivatives	(1,420)	6,121	(826)
Reclassifications to net income	5,121	7,568	8,582
Total change in effective portion of change in fair market value of derivatives	3,701	13,689	7,756
Comprehensive income	$15,483	$27,733	$13,600

*Not covered by the auditor’s report
See accompanying notes to financial statements.

Grand Renewable Wind LP
Statements of Changes in Partners' Equity
For the years ended December 31, 2018*, 2017 and 2016
(In thousands of Canadian Dollars)

	Partners' capital	Accumulated net income (loss)	Accumulated other comprehensive loss	Total
Balance at January 1, 2016	47,680	(11,740)	(33,858)	2,082
Cash distribution	(19,450)	—	—	(19,450)
Other comprehensive income	—	—	7,756	7,756
Net income	—	5,844	—	5,844
Balance at December 31, 2016	28,230	(5,896)	(26,102)	(3,768)
Cash distribution	(19,880)	—	—	(19,880)
Other comprehensive income	—	—	13,689	13,689
Net income	—	14,044	—	14,044
Balance at December 31, 2017	8,350	8,148	(12,413)	4,085
Cash distribution	(17,340)	—	—	(17,340)
Other comprehensive income	—	—	3,701	3,701
Net income	—	11,782	—	11,782
Balance at December 31, 2018*	$(8,990)	$ 19,930	$ (8,712)	$ 2,228

*Not covered by the auditor's report
See accompanying notes to financial statements.

Grand Renewable Wind LP
Statements of Cash Flows
For the years ended December 31, 2018*, 2017 and 2016
(In thousands of Canadian Dollars)

	2018*	2017 Restated	2016 Restated
Cash flows from operating activities:			
Net income	$11,782	$14,044	$5,844
Adjustments to reconcile net income to net cash provided by operating activities			
Unrealized loss on derivatives	1,986	230	7,253
Depreciation, amortization and accretion	17,631	17,646	17,628
Amortization of deferred financing costs	1,356	1,413	1,248
Changes in assets and liabilities, net:			
Accrued revenue	4,646	42	(1,855)
Accounts payable and other accrued liabilities	43	(28)	(4,546)
Other, net	(98)	88	210
Net cash provided by operating activities	37,346	33,435	25,782
Cash flows from investing activities:			
Capital expenditures	(116)	(125)	(2,240)
Net cash used in investing activities	(116)	(125)	(2,240)
Cash flows from financing activities:			
Repayment of long-term debt	(17,371)	(14,538)	(13,897)
Distribution to partners	(17,340)	(19,880)	(19,450)
Net cash used in financing activities	(34,711)	(34,418)	(33,347)
Net change in cash and cash equivalents	2,519	(1,108)	(9,805)
Cash, cash equivalents and restricted cash - Beginning	6,899	8,007	17,812
Cash, cash equivalents and restricted cash - Ending	$9,418	$6,899	$8,007
Supplemental disclosure:			
Cash payments for interest and commitment fees	$19,147	$19,615	$20,291

*Not covered by the auditor's report
See accompanying notes to financial statements.

Grand Renewable Wind LP
Notes to Financial Statements
December 31, 2018 (not covered by the auditor's report), 2017 and 2016
(In thousands of Canadian Dollars)

1 General information

The Partnership

Grand Renewable Wind LP (the Partnership), a limited partnership under the laws of the Province of Ontario, was formed on January 10, 2011 as a joint venture project between Samsung Renewable Energy Inc. (Samsung) and Pattern Grand LP Holdings LP, a subsidiary of Pattern Renewable Holdings Canada ULC (PRHC), each as 49.99% limited partners of the Partnership, and Grand Renewable Wind GP Inc. (the GP), as the 0.02% general partner of the Partnership. The Partnership was created to develop, build and operate a wind power project in Haldimand County with generation capacity totaling approximately 149 megawatts (MW) of power (the Project).

On February 24, 2013, Samsung transferred its LP interest in the Partnership to SRE GRW LP Holdings LP, an affiliate of Samsung.

On December 20, 2013, in a series of transactions: (i) Pattern Grand GP Holdings Inc., a wholly owned subsidiary of PRHC, transferred all of the general partner interests in Pattern Grand LP Holdings LP to PRHC, causing Pattern Grand LP Holdings LP to be dissolved by operation of law and PRHC to acquire the LP interests in the Partnership that previously were held by Pattern Grand LP Holdings LP, (ii) PRHC transferred its LP interest in the Partnership and its ownership interest in Pattern Grand GP Holdings Inc., which owned PRHC's ownership interest in the GP, to Pattern Canada Operations Holdings ULC, (PCOH), a wholly owned subsidiary of Pattern Energy Group Inc. (Pattern), and (iii) Pattern Grand GP Holdings Inc. was dissolved.

On December 17, 2014, PCOH transferred all of its LP interest in the Partnership to Pattern Canada Finance Company ULC, a wholly owned subsidiary of PCOH.

Six Nations agreements

On May 25, 2012, the Partnership entered into certain agreements with the Six Nations of the Grand River, a band within the meaning of the Indian Act (Canada) through its elected council (the Six Nations), in which the Partnership provides an option for economic participation by way of an annual royalty from the Partnership or the right to purchase a 10% interest in the Partnership.

On June 11, 2013, the Six Nations exercised its option to purchase a 10% LP interest in the Partnership and the Partnership Agreement was amended and restated to reflect such ownership. Affiliates of Samsung and Pattern each maintain a 45% interest in the Partnership. The Six Nations is not involved in the GP.

The Partnership is controlled by its general partner, the GP, also a joint venture controlled by affiliates of Samsung and Pattern. The Partnership's ownership interests were distributed as follows:

	December 31,	
	2018	2017
SRE GRW LP Holdings LP	44.99%	44.99%
Pattern Canada Finance Company ULC	44.99	44.99
Six Nations of the Grand River	10.00	10.00
Grand Renewable Wind GP Inc.	0.02	0.02
Total	100.00%	100.00%

The Project

The Project is a 149 MW wind project consisting of 67 Siemens wind turbine generators located in Haldimand County, Ontario. On December 9, 2014 the Project achieved the Commercial Operation Date ("COD") and commenced commercial operations.

The Partnership has a power purchase agreement ("PPA") with the Independent Electricity System Operator ("IESO") for a period of 20 years from the COD. The IESO oversees the wholesale electricity market, where the price of energy is determined. It also administers the rules that govern the market and, through an arm's-length market monitoring function, ensures that it is operated fairly and efficiently. The IESO is an agent among the market participants in

Ontario and is neither exposed to, nor

benefits from, any transactions. In such capacity, the IESO executes agreements to help the market meet the renewable energy mandates of the government of the Province of Ontario. There are approximately 70 electric distribution companies in Ontario, all of which have government mandates to purchase renewable energy. The PPA provides for guaranteed pricing from IESO that removes volatility caused by fluctuations in market rates. The Ontario government established the Global Adjustment (“GA”) which is designed to adjust consumer rates depending on the price of energy. The IESO establishes a monthly variable GA rate based on GA costs and Ontario electricity demand which effectively establishes a pass through mechanism to the consumer and eliminates the IESO's economic exposure to our contract price.

A 100 MW solar facility developed by an affiliate of Samsung is sharing the usage and ownership of the transmission line and substation. The Project connected to the Ontario transmission grid by way of a 20 km transmission line sited in the municipal road allowance.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the periods presented, unless otherwise stated.

Basis of preparation

The accompanying financial statements are presented using accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of U.S. GAAP financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Because the use of estimates is inherent in the financial reporting process, actual results could differ from those estimates.

In recording transactions and balances resulting from business operations, the Partnership uses estimates based on the best information available. Estimates are used for such items as accrued revenue, asset retirement obligation, valuation of long-term derivative contracts and contingencies.

These financial statements do not include assets, liabilities, revenue and expenses of the GP and limited partners. The financial statements of the Partnership reflect no provision or liability for income taxes because profits and losses of the Partnership are allocated to the partners and are included in the income tax returns of the partners. Income and losses for tax purposes may differ from the financial statement amounts and the partners’ equity reflected in the financial statements does not necessarily reflect their tax basis.

Functional and presentation currency

Items included in the financial statements of the Partnership are measured using the currency of the primary economic environment in which the Partnership operates (the functional currency). The financial statements are presented in Canadian dollars, which is the Partnership’s functional and presentation currency.

Fair value of financial instruments

ASC 820, Fair Value Measurements, defines fair value as the price at which an asset could be exchanged or a liability transferred in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or derived from such prices. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments’ complexity.

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Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.
Restricted cash
Restricted cash mainly consists of cash reserves required under the Partnership's loan agreements (note 3).
Reconciliation of cash and cash Equivalents and restricted cash as presented on the statements of cash flows

	December 31		
	2018	2017	2016
Beginning			
Cash and cash equivalents at beginning of period	$2,563	$3,673	$5,371
Restricted cash - current	4,336	4,334	3,455
Restricted cash	—	—	8,986
Cash, cash equivalents and restricted cash	$6,899	$8,007	$17,812
Ending			
Cash and cash equivalents at end of period	$5,079	$2,563	$3,673
Restricted cash - current	4,339	4,336	4,334
Restricted cash	—	—	—
Cash, cash equivalents and restricted cash	$9,418	$6,899	$8,007
Net change in cash, cash equivalents and restricted cash	$2,519	$(1,108)	$(9,805)

Trade receivables
The Partnership's trade receivables are generated by selling energy in Ontario, Canada through the IESO as a settlement agent. The allowance for doubtful accounts, if needed, is computed based upon management's estimates of uncollectible accounts. As of December 31, 2018 and 2017, the Partnership has no outstanding trade receivables.
Accrued revenue
Accrued revenue represents revenues recognized on contracts for which billings have not been presented to customers as of the balance sheet date. These amounts are billed and generally collected within two months.
Concentration of credit risk
Financial instruments that potentially subject the Partnership to concentrations of credit risk consist primarily of cash and cash equivalents and restricted cash. The Partnership places its cash and cash equivalents and restricted cash with creditworthy institutions located in Canada, which the management believes to have minimal risk. At times, such balances may be in excess of the Canada Deposit Insurance Corporation (CDIC) insurance coverage limit. CDIC insurance currently covers up to $100 per depositor at each insured bank.
The Partnership's derivative agreements expose the Partnership to losses under certain circumstances, such as the counterparty defaulting on its obligations under the swap agreements or if the swap agreements provide an imperfect hedge. Counterparties to the Partnership's derivative contracts are major financial institutions that have been accorded investment grade ratings.
Property, plant and equipment

Property, plant and equipment are stated at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying value or recognized as separate assets, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Partnership and the cost of the item can be reliably measured.

The asset retirement obligation included in property, plant and equipment is stated at the present value of future cash flows of asset retirement obligation at the time of COD.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The power plant is depreciated over 25 years and the remaining assets are depreciated over 5 years. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. Repair and maintenance costs are expensed as incurred.

Intangible assets

Amortization is calculated using the straight-line method and recorded against revenue over the remaining term of the PPA.

Impairment of long-lived assets

The Partnership periodically evaluates whether events have occurred that would require revision of the remaining useful life of equipment and improvements and purchased intangible assets, or render them not recoverable. If such circumstances arise, the Partnership uses an estimate of the undiscounted value of expected future operating cash flows to determine whether the long-lived assets are impaired. If the aggregate undiscounted cash flows are less than the carrying amount of the assets, the resulting impairment charge to be recorded is calculated based on the excess of the carrying value of the assets over the fair value of such assets, with the fair value determined based on an estimate of discounted future cash flows. Through December 31, 2018, no impairment charges were recorded.

Deferred financing costs

Financing costs incurred in connection with obtaining construction and term financing, which include direct financing, legal and other upfront costs of borrowing, are capitalized and recorded as a reduction to long-term debt and amortized over the lives of the respective loans using the effective-interest method. Amortization of deferred financing costs is capitalized during construction or expensed following COD.

Derivatives

The Partnership recognizes its derivative instruments as either assets or liabilities in the balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it qualifies and has been designated as part of a hedging relationship and the type of hedging relationship.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that are attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (OCI) or loss (OCL). Changes in the fair value of these derivatives are subsequently reclassified into earnings in the period that the hedged transaction affects earnings. The ineffective portion of changes in fair value is recorded as a component of net income in the statements of operations and comprehensive income.

For undesignated derivative instruments, their change in fair value is reported as a component of net income in the statements of operations and comprehensive income.

The Partnership enters into derivative transactions for the purpose of managing exposure to fluctuations in interest rates, such as interest rate swaps. Interest rate swaps are instruments used to fix the interest rate on variable interest rate debt.

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Accounts payable and other accrued liabilities
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables with payment terms extended beyond one year from the balance sheet dates are presented as non-current liabilities.
Contingent liabilities
Contingent liabilities are recognized when: the Partnership has a present legal obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reasonably estimated.
Asset retirement obligation
The Partnership records an asset retirement obligation for the estimated costs of decommissioning turbines, removing above-ground installations and restoring sites, at the time when a contractual decommissioning obligation materializes. The Partnership records accretion expense, which represents the increase in the asset retirement obligation, over the remaining life of the associated wind project. Accretion expense is recorded as cost of revenue in the statements of operations and comprehensive income using accretion rates based on a credit adjusted risk free interest rate of 6.51%.
Revenue recognition
Revenue is recognized based upon the amount of electricity delivered or curtailed at rates specified under the contracts, assuming all other revenue recognition criteria are met. When curtailment revenue is earned, it is recorded as compensation for forgone revenue. The Partnership evaluates its PPA to determine whether it is in substance a lease or derivative and, if applicable, recognizes revenue pursuant to ASC 840 Leases and ASC 815 Derivatives and Hedging, respectively. As of December 31, 2018, the PPA was not considered a lease or a derivative instrument, as multiple market participants purchase the energy at market-based prices with IESO working as a settlement agent. As a result, revenue (including any revenue from the price guaranteed by IESO), is recognized on an accrual basis.
The Partnership recognizes revenue for warranty settlements and liquidated damages from a turbine manufacturer in other revenue upon resolution of outstanding contingencies. Any cash receipts for amounts subject to future adjustment or repayment are deferred in other liabilities until the final settlement amount is considered fixed and determinable.
Cost of revenue
The Partnership's cost of revenue is comprised of direct costs of operating and maintaining its project facilities, including labor, turbine service arrangements, metering service and shadow settlement, environmental fee, land lease royalties, property tax, insurance, depreciation, amortization and accretion.
Comprehensive income
Comprehensive income consists of net income and other comprehensive income. Other comprehensive income is included in accumulated other comprehensive income in the accompanying statements of changes in partners' equity.
Recently adopted accounting standard
In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The Company elected to early adopt the provisions of ASU 2016-18 as of December 31, 2018 and has restated its statements of cash flows for the years ended December 31, 2017 and 2016 to reflect

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amounts described as restricted cash and restricted cash equivalents included with cash and cash equivalents in the reconciliation of beginning of period and end of period total amounts shown on the statements of cash flows. Consequently, transfers between cash and restricted cash will not be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. A reconciliation of cash and cash equivalents and restricted cash as presented on the balance sheets to the statements of cash flows is included in the significant accounting policies above.

Recent accounting pronouncements

In August 2018, the FASB issued ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13), which amends changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty which should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. ASU 2018-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those periods. Early application is permitted. The Partnership is currently assessing the impact of changes to the disclosure requirements for fair value measurement.

In February 2017, the FASB issued ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets (ASU 2017-05). ASU 2017-05 is meant to clarify the scope of ASC Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets and to add guidance for partial sales of nonfinancial assets. ASU 2017-05 is to be applied using a full retrospective method or a modified retrospective method as outlined in the guidance and is effective at the same time as ASU 2014-09. Further, the Partnership is required to adopt this guidance at the same time that it adopts the guidance in ASU 2014-09 which creates ASC Topic 606, Revenue from Contracts with Customers and supersedes ASC Topic 605, Revenue Recognition (ASU 2014-09). The Partnership has assessed the future impact of this guidance on its financial statements and related disclosures and expects to adopt these updates beginning January 1, 2019. The adoption of ASU 2017-05 is not expected to have a material impact on its 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, 2020. The adoption of ASU 2016-13 is not expected to have a material impact on its financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (ASU 2016-02), which requires lessees to recognize right-of-use assets and lease liabilities, for all leases, with the exception of short-term leases, at the commencement date of each lease. Under the new guidance, lessor accounting is largely unchanged. ASU 2016-02 simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and liabilities. ASU 2016-02 is effective for annual periods beginning after December 15, 2019 for non-public entities. Early adoption is permitted. The amendments of this update should be applied using a modified retrospective approach, which requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented. The Partnership is currently in the initial stages of evaluating the impact of the new standard on its accounting policies, processes and system requirements. The Partnership is also assessing the future accounting impact of this update on its financial statements and related disclosures as it applies to its PPA, land lease arrangements and other lease arrangements. As the Partnership progresses further in its analysis, the scope of this assessment could be expanded to review other types of contracts.

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 new standard replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the new standard 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 new standard 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 partnership expects to adopt these updates beginning January 1, 2019.The adoption of ASC 606 has been assessed and determined that there will not be a material impact on the financial statements.

(In thousands of Canadian Dollars)

In October 2018, the FASB issued ASU 2018-16, Derivatives and Hedging (Topic ASC 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (ASU 2018-16), which expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting. Because of concerns about the sustainability of LIBOR, the Federal Reserve Board and the Federal Reserve Bank of New York (Fed) initiated an effort to introduce an alternative reference rate in the United States. The SOFR is calculated by the Fed based on the interest rates banks charge one another in the overnight market, typically called repurchase agreements, and because it is based on transactions in the open market, it is more reflective of market conditions than LIBOR, which relies on judgment. The provisions of ASU 2017-12 (discussed below) and ASU 2018-16 are effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Initial adoption of ASU 2017-12 is required to be reported using a modified retrospective approach, with the exception of the presentation and disclosure requirements which are required to be applied prospectively. The Partnership is currently in the process of determining the impact of adoption of the provisions of ASU 2017-12 and ASU 2018-16.

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), which amends the presentation and disclosure requirements and changes how companies assess effectiveness. The amendments are intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. ASU 2017-12 is effective for annual periods beginning after December 15, 2019. ASU 2017-12 requires a modified retrospective transition method in which the Partnership will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the balance sheet as of the date of adoption. While the Partnership continues to assess all potential impacts of the standard, the adoption is not expected to have a material impact on its future consolidated financial statements.

3 Restricted cash

The following table presents the components of restricted cash:

	December 31,	
	2018	2017
Completion reserve account	$4,339	$4,336
Subtotal	4,339	4,336
Less: Current portion	(4,339)	(4,336)
Restricted cash, non-current	$—	$—

The amount in the completion reserve account is reserved to pay outstanding project costs specified during term conversion (note 6). Upon full payment of outstanding project costs, the remaining balance will be released from restricted cash.

4 Property, plant and equipment

The following is a summary of property, plant and equipment, at cost less accumulated depreciation, at:

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	December 31,	
	2018	2017
Power plant	$430,421	$430,421
Furniture, fixtures and equipment	281	281
Asset retirement obligation - asset	2,463	2,463
Capital spares	240	124
Subtotal	433,405	433,289
Less: Accumulated depreciation	(70,792)	(53,439)
	$362,613	$379,850

Depreciation expense of $17,353, $17,379 and $17,373 was charged to the statements of operations and comprehensive income for the years ended December 31, 2018, 2017 and 2016, respectively.

5 Intangible assets

	December 31,	
	2018	2017
Beginning net book value	$1,414	$1,498
Amortization expense	(83)	(84)
Closing net book value	$1,331	$1,414

	December 31,	
	2018	2017
Cost	$1,672	$1,672
Accumulated amortization	(341)	(258)
Net book value	$1,331	$1,414

Amortization expense of $83, $84, and $83 was charged as a reduction to revenue in the statements of operations and comprehensive income for the years ended December 31, 2018, 2017 and 2016, respectively.

6 Long-term debt

Upon achievement of the COD in December 2014, the construction facility converted to term loan on July 29, 2015. The loan matures on July 29, 2022. In connection with the financing agreement, the Partnership entered into interest rate swaps on 90% of the loan commitment.

Collateral under the financing agreement consists of substantially all of the Partnership's assets. The loan agreement contains a broad range of covenants that, subject to certain exceptions, restrict the Partnership's ability to incur debt, grant liens, sell or lease assets, transfer equity interest, dissolve, pay distributions and change its business. The Partnership is in compliance with all loan covenants. All of the limited and general partners and shareholders of general partners pledged shares of partnership units or common stock owned as collateral for the loan.

Terms and conditions of outstanding borrowings were as follows:

	As of December 31, 2018				
	Principal	Deferred financing costs	Net of financing costs	Interest rate	Maturity date
Term loan	$337,403	$(4,287)	$333,116	4.56 %	July 2022
Less: Current portion	(18,418)	1,290	(17,128)		
Net of current	$318,985	$(2,997)	$315,988		

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	As of December 31, 2017				
	Principal	Deferred financing costs	Net of financing costs	Interest rate	Maturity date
Term loan	$354,774	$(5,643)	$349,131	3.80 %	July 2022
Less: Current portion	(17,371)	1,356	(16,015)		
Net of current	$337,403	$(4,287)	$333,116		

Future maturities of long-term debt are as follows as of December 31, 2018:

2019	$18,418
2020	19,525
2021	19,680
2022	17,901
2023	19,247
Thereafter	242,632
	$337,403

The following table presents a reconciliation of interest expense presented in the Partnerships' statements of operations and comprehensive income for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Interest incurred	$19,038	$19,666	$20,400
Amortization of deferred financing costs	1,356	1,413	1,248
Interest expense	$20,394	$21,079	$21,648

Letters of credit facilities

On July 29, 2015, letters of credit of $24,000, $8,000 and $5,000 were issued upon term conversion for a debt service reserve, operations and maintenance reserve, and decommissioning reserve, respectively, with a seven-year term. Funds, when and if drawn on the facility, accrue interest at 1.25% plus Prime Rate, and at the partners' option, the rate can be converted to a rate of CDOR plus 2.25% per annum. In addition, the Partnership shall pay letter of credit fees on the basis of the undrawn amount of the facility at 2.25% per annum. As of December 31, 2018, the letters of credit facility did not have an outstanding balance, and no amounts were drawn in 2018. Letter of credit fees of $832 and $832 were charged to other expense in the statements of operations and comprehensive income for the year ended December 31, 2018 and 2017, respectively.

7 Asset retirement obligation

The Partnership's asset retirement obligation represents the estimated cost of decommissioning the turbines, removing above-ground installations and restoring the sites at the end of its estimated useful life.

The following table presents a reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligation:

	December 31,	
	2018	2017
Asset retirement obligation - Beginning of year	$2,992	$2,809
Accretion expense	195	183
Asset retirement obligation - End of year	$3,187	$2,992

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8 Derivatives

The Partnership uses interest rate derivatives to manage its exposure to fluctuations in interest rates. Interest rate risk exists primarily on variable-rate debt for which the cash flows vary based upon movement in market prices. The Partnership’s objectives for holding these derivative instruments include reducing, eliminating and efficiently managing the economic impact of interest rate exposures as effectively as possible. The Partnership does not hedge all of its interest rate risks, thereby exposing the unhedged portions to changes in market prices.

The following tables present the fair values of the Partnership's derivative instruments on a gross basis as reflected on the Partnership’s balance sheets:

	December 31, 2018		December 31, 2017	
	Derivative liabilities		Derivative liabilities	
	Current	Long-term	Current	Long-term
Fair value of designated derivatives:				
Interest rate swaps	$3,3465	$ 5,366	$4,811	$ 7,601
Fair value of undesignated derivatives:				
Interest rate swaps	$—	$ 30,141	$—	$ 28,155
Total fair value	$3,346	$ 35,507	$4,811	$ 35,756

The following table summarizes the notional amounts of the Partnership's outstanding derivative instruments:

		December 31	
	Unit of measure	2018	2017
Designated derivative instruments			
Interest rate swaps	CAD	$306,364	$321,998

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

		December 31		
	Description	2018	2017	2016
Income recognized in accumulated OCL	Effective portion	$3,701	$13,689	$7,756
Losses recognized in earnings on other derivative contracts	Effective portion	$(1,986)	$(230)	$(7,253)
Losses reclassified from accumulated OCL into interest expense	Derivative settlements	$(5,121)	$(7,568)	$(8,582)

No ineffectiveness was recorded on these swaps for the years ended December 31, 2018 and 2017. The Partnership estimates that $3,250 in accumulated other comprehensive loss will be reclassified into earnings over the next twelve months.

9 Fair value measurement

The Partnership’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. Non-performance and credit risk adjustments on risk management instruments are based on current market inputs when available, such as credit default swap spreads. When such information is not available, internal models are used.

Assets and liabilities recorded at fair value in the 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 as follows:

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

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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 valuation technique and the risk inherent in the inputs to the model.

Short-term financial instruments consist principally of cash and cash equivalents, restricted cash, and accounts payable and other accrued liabilities. Based on the nature and short maturity of these instruments their fair value is approximated using carrying cost and they are presented in the financial statements at carrying cost.

Long-term debt is presented on the balance sheets at amortized cost. The fair value of variable interest rate for long-term debt is approximated by its carrying cost.

Derivatives are presented in the financial statements at fair value. The interest rate swaps were valued by discounting the net cash flows using the forward CDOR curve with the valuations adjusted by the Project's credit default swap rate.

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

	Level 1	Level 2	Level 3
December 31, 2018			
Interest rate swaps	$ —	$ (38,853)	$ —
December 31, 2017			
Interest rate swaps	$ —	$ (40,567)	$ —

10 Commitments and contingencies

1) Commitments

Land Lease Agreements

The Partnership has entered into various long-term land lease agreements. The annual fees range from minimum rent payments varying by lease to maximum rent payments of a certain percentage of energy delivered revenues, varying by lease.

Lease payments, including amortization of the lease option, of $1,889 $1,719 and $1,936 were charged to the statements of operations and comprehensive income for the years ended December 31, 2018, 2017, and 2016, respectively.

The future payments related to these leases as of December 31, 2018 are as follows:

2019	$ 1,878
2020	1,915
2021	1,953
2022	1,992
2023	2,031
Thereafter	27,784
Total	$ 37,553

Service and Maintenance Agreement

The Partnership has entered into service and maintenance agreements with Siemens to provide and carry out turbine maintenance and service activities for the Project until January 2021. Based on the terms of the agreements, Siemens shall be entitled to receive

a daily base fee per turbine that may be subject to periodic price adjustments for inflation, over the terms of the agreements. As of December 31, 2018, outstanding commitments with Siemens were $2,784, including an estimated annual price adjustment for inflation of 2%, where applicable, payable over the full term of the agreement.

Contingencies

Community Vibrancy Fund

On September 26, 2011, the Partnership entered into a Community Vibrancy Fund (CVF) Agreement with the Corporation of Haldimand County, in which the Partnership will make annual payments into a fund managed by the municipality in amounts of $3.5 per MW of the Project installed capacity plus $5 per kilometer (km) of high voltage overhead transmission line that is installed in municipal right-of-way. The payments are calculated annually and are owed for the 20-year term of the PPA. In exchange for CVF payments, the municipality undertakes certain obligations to support the Project, including entering into a road use agreement in which the Project may utilize municipal right-of-ways for collection and transmission lines.

Turbine Availability Warranty

The Partnership has a turbine availability warranty from its turbine manufacturer. Pursuant to the warranty, if a turbine operates at less than minimum availability during the warranty period, the turbine manufacturer 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 Partnership has an obligation to pay a bonus to the turbine manufacturer. As of December 31, 2018, the Partnership recorded a liability of $31 associated with bonuses payable to the turbine manufacturer.

11 Related party transactions

The Partnership is controlled by the GP, which is jointly controlled by Samsung and Pattern in accordance with the terms of the Shareholder Agreement. Certain terms of the Samsung and Pattern Joint Venture Wind Development Agreement, entered into between Samsung and an affiliate of PRHC on July 27, 2010, directed the responsibilities of Samsung and PRHC for the Project.

The following transactions were carried out with related parties:

a) Management, Operation, and Maintenance Agreement (MOMA)

Balance of Plant MOMA

On September 13, 2013, the Partnership entered into a MOMA with Pattern Operators Canada ULC, which is owned by PCOH to operate and manage the maintenance of the wind plant and to perform certain other services pertaining to the wind plant in accordance with terms and conditions set in the MOMA.

The amounts of $1,248, $1,225 and $1,206 were invoiced to the Partnership for the years ended December 31, 2018, 2017 and 2016, respectively, which were charged to the statements of operations and comprehensive income for the years ended December 31, 2018, 2017 and 2016, respectively.

Transmission Line MOMA (TL MOMA)

On September 13, 2013, the Partnership and Grand Renewable Solar LP entered into TL MOMA with Pattern Operators Canada ULC, which is 100% owned by an affiliate of Pattern, to operate and manage the maintenance of the transmission line and common assets of the substation and to perform certain other services pertaining to the wind plant in accordance with terms and conditions set in TL MOMA.

The amounts of $53, $52 and $52 were charged to the statements of operations and comprehensive income for the years ended December 31, 2018, 2017 and 2016, respectively.

(In thousands of Canadian Dollars)

In addition, the amounts of $96, $90 and $100 were charged to the statements of operations and comprehensive income as reimbursement of certain costs for the years ended December 31, 2018, 2017 and 2016, respectively.

b) Project Administration Agreement (PAA)

On September 13, 2013, the Partnership entered into PAA with SRE Wind PA LP (PA), which is 100% owned by Samsung to receive project administrative services.

$426, $419 and $412 were charged to the statements of operations and comprehensive income for the years ended December 31, 2018, 2017 and 2016, respectively.

c) Transmission Facilities Co-ownership Agreement (TFCA)

On March 8, 2013, the Partnership entered into the TFCA with a planned 100 MW solar project developed by an affiliate of Samsung which provides for the co-ownership of the transmission line and substation of the Project. Under the co-ownership agreement, the Project and the solar project each contributed 50% of the construction and operating costs of the transmission line and substation and each received a 50% undivided interest in such shared facilities.

d) The Partnership recorded the following balances with related parties:

	2018	2017
Related party payable to Pattern Operators Canada ULC	$123	$276
Related party payable to SRE Wind PA LP	40	79
	$163	$355

12 Subsequent events

The Partnership paid distributions to partners in the amount of $3,790 on February 14, 2019.

SP Armow Wind Ontario LP
Financial Statements
in accordance with accounting principles
generally accepted in the United States of
America (U.S. GAAP)

December 31, 2018
(In thousands of Canadian Dollars)

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SP Armow Wind Ontario LP

Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Partners of SP Armow Wind Ontario LP

Opinion on the Financial Statements

We have audited the accompanying balance sheet of SP Armow Wind Ontario LP (the Partnership) as of December 31, 2017, and the related statements of operations and comprehensive income, statements of changes in partners' equity, and statements of cash flows for the years ended December 31, 2017 and 2016, including the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2017, and its results of operations and its cash flows for the years ended December 31, 2017 and 2016 in conformity with accounting principles generally accepted in the United States of America (US GAAP).

Basis for Opinion

These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on the Partnership's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Change in accounting principle

As discussed in Note 2 to the financial statements, the Partnership changed the manner in which it accounts for restricted cash in the statements of cash flows in 2018, 2017 and 2016.

Other matters

The accompanying balance sheet of the Partnership as of December 31, 2018, and the related statements of operations and comprehensive income, statement of changes in partners' equity and statement of cash flows for the year ended December 31, 2018 are presented for purposes of complying with Rule 3-09 of SEC Regulation S-X; however, Rule 3-09 does not require the 2018 financial statements to be audited and they are therefore not covered by this report.

/s/ PricewaterhouseCoopers LLP
Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
February 20, 2018, except for the change in the manner in which the Partnership accounts for restricted cash in the statements of cash flows discussed in Note 2 to the financial statements, as to which the date is February 15, 2019
We have served as the Partnership's auditor since 2011.

SP Armow Wind Ontario LP
Balance Sheet
As of December 31, 2018* and 2017

(In thousands of Canadian Dollars)

	2018*	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$13,158	$10,685
Restricted cash (note 3)	3,172	10
Accrued revenue (note 2)	10,406	12,935
Other current assets	1,357	1,406
Total current assets	28,093	25,036
Restricted cash (note 3)	—	3,172
Property, plant and equipment - net of accumulated depreciation of $67,529 and $45,627 in 2018 and 2017, respectively (note 4)	479,802	501,405
Other assets	820	872
Total assets	$508,715	$530,485
LIABILITIES & EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$2,589	$2,440
Accounts payable and other accrued liabilities - related parties (note 10)	172	183
Current portion of long-term debt, net of financing costs of $1,284 and $1,338 in 2018 and 2017, respectively (notes 2 and 5)	22,068	18,972
Contingent liabilities (note 9)	605	579
Derivative liabilities, current (note 7)	1,761	3,703
Other current liabilities	1,899	1,938
Total current liabilities	29,094	27,815
Long-term debt, net of financing costs of $3,858 and $5,142 in 2018 and 2017, respectively (notes 2 and 5)	462,613	484,681
Derivative liabilities (note 7)	22,476	22,338
Asset retirement obligation (note 6)	5,537	5,274
Total liabilities	519,720	540,108
Commitments and contingencies (note 9)		
Equity:		
Partners' capital	(82,900)	(49,840)
Accumulated net income	96,132	66,258
Accumulated other comprehensive loss	(24,237)	(26,041)
Total partners' equity	(11,005)	-9,623
Total liabilities and equity	$508,715	$530,485

*Not covered by the auditor's report
See accompanying notes to financial statements.

SP Armow Wind Ontario LP
Statement of Operations and Comprehensive Income
For the years ended December 31, 2018*, 2017 and period October 18, 2016 to December 31, 2016

(In thousands of Canadian Dollars)

	2018*	2017	2016
Revenue (note 2):			
Energy delivered	$64,925	$55,718	$16,498
Compensation for forgone energy	21,968	34,284	6,473
Other revenue	1,183	1,014	300
Total revenue	88,076	91,016	23,271
Cost of revenue:			
Project expenses	10,229	9,633	2,040
Project expenses - related parties (note 10)	1,403	1,377	277
Depreciation, amortization and accretion	22,165	22,153	4,544
Total cost of revenue	33,797	33,163	6,861
Gross profit	54,279	57,853	16,410
Operating expenses:			
General and administrative	1,043	1,147	237
General and administrative - related parties (note 10)	420	413	83
Total operating expenses	1,463	1,560	320
Operating income	52,816	56,293	16,090
Other expense:			
Interest expense (note 5)	(22,440)	(22,838)	(4,898)
Other expense, net	(502)	(631)	(148)
Total other expense	(22,942)	(23,469)	(5,046)
Net income	29,874	32,824	11,044
Other comprehensive income (loss):			
Derivative activity (notes 7 and 8):			
Effective portion of change in fair value of derivatives	(2,359)	9,191	17,064
Reclassifications to net income	4,163	7,680	2,154
Total change in effective portion of change in fair market value of derivatives	1,804	16,871	19,218
Comprehensive income	$31,678	$49,695	$30,262

*Not covered by the auditor's report
See accompanying notes to financial statements.

SP Armow Wind Ontario LP
Statement of Changes in Partners' Equity
For the years ended December 31, 2018*, 2017 and period October 18, 2016 to December 31, 2016

(In thousands of Canadian Dollars)

	Partners' capital	Accumulated net income	Accumulated other comprehensive loss	Total
Balance at October 18, 2016	$25,020	$22,390	$(62,130)	$(14,720)
Other comprehensive income	—	—	19,218	19,218
Net income	—	11,044	—	11,044
Cash distribution	(11,453)	—	—	(11,453)
Balance at December 31, 2016	$13,567	$33,434	$(42,912)	$4,089
Other comprehensive income	—	—	16,871	16,871
Net income	—	32,824	—	32,824
Cash distribution	(63,407)	—	—	(63,407)
Balance at December 31, 2017	$(49,840)	$66,258	$(26,041)	$(9,623)
Other comprehensive income	—	—	1,804	1,804
Net income	—	29,874	—	29,874
Cash distribution	(33,060)	—	—	(33,060)
Balance at December 31, 2018*	$(82,900)	$96,132	$(24,237)	$(11,005)

*Not covered by the auditor's report
See accompanying notes to financial statements.

SP Armow Wind Ontario LP
Statement of Cash Flows
For the year ended December 31, 2018*, 2017 and the period from October 18, 2016 to December 31, 2016

(In thousands of Canadian Dollars)

	2018*	2017 Restated	2016 Restated
Cash flows from operating activities:			
Net income	$29,874	$32,824	$11,044
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	22,165	22,153	4,544
Amortization of deferred financing costs	1,338	1,381	285
Changes in assets and liabilities, net:			
Accrued revenue	2,529	181	(2,654)
Accounts payable and other accrued liabilities	256	(487)	424
Other, net	62	81	(4,869)
Net cash provided by operating activities	56,224	56,133	8,774
Cash flows from investing activities:			
Capital expenditures	(298)	(441)	(326)
Net changes in sales taxes recoverable and accounts payable and other accrued liabilities related to investing activities	(93)	(773)	(851)
Net cash used in investing activities	(391)	(1,214)	(1177)
Cash flows from financing activities:			
Repayment of long-term debt	(20,310)	(7,401)	—
Distribution to partners	(33,060)	(63,407)	(11,453)
Net cash used in financing activities	(53,370)	(70,808)	(11,453)
Net change in cash and cash equivalents	2,463	(15,889)	(3,856)
Cash, cash equivalents and restricted cash - Beginning	13,867	29,756	33,612
Cash, cash equivalents and restricted cash - Ending	$16,330	$13,867	$29,756
Supplemental non-cash activities disclosure:			
Effective portion of change in fair value of derivatives	$2,359	$(9,191)	$—
Schedule cash activities disclosure:			
Cash payments for interest	$21,141	$21,478	$7,482

*Not covered by the auditor's report
See accompanying notes to financial statements.

SP Armow Wind Ontario LP
Notes to Financial Statements
For the year ended December 31, 2018 (not covered by the auditor’s report), 2017 and the period from October 18, 2016 to December 31, 2016
(In thousands of Canadian Dollars)

1 General information

The Partnership

SP Armow Wind Ontario LP (the Partnership), a limited partnership under the laws of the Province of Ontario, was formed on August 29, 2011 as a joint venture project between Samsung Renewable Energy Inc. (Samsung) and Pattern Armow LP Holdings LP, a subsidiary of Pattern Renewable Holdings Canada ULC (PRHC), each as 49.99% limited partners of the Partnership, and SP Armow Wind Ontario GP Inc. (the GP), as the 0.02% general partner of the Partnership. The Partnership was created to develop, build and operate a wind power project in Kincardine, Bruce County with generation capacity totaling approximately 180 megawatts (MW) of power (the Project).

On August 6, 2014, Samsung transferred all of its LP interest in the Partnership to SRE Armow LP Holdings LP, an affiliate of Samsung.

On October 17, 2016, Pattern Armow LP Holdings LP transferred all of its LP interest in the Partnership to Pattern Canada Finance Company ULC, a wholly owned subsidiary of Pattern Energy Group Inc. (Pattern).

The Partnership is controlled by its general partner, the GP, also a joint venture controlled by affiliates of Samsung and Pattern. As of December 31, 2018 and 2017, the Partnership’s ownership interests were distributed as follows:

	2018	2016
SRE Armow LP Holdings LP	49.99 %	49.99 %
Pattern Canada Finance Company ULC	49.99 %	49.99 %
SP Armow Wind Ontario GP Inc.	0.02 %	0.02 %
	100.00 %	100.00 %

The Project

The Project is a 179 MW wind project consisting of 91 Siemens wind turbine generators located in Haldimand County, Ontario. On December 7, 2015 the Project achieved the Commercial Operation Date (“COD”) and commenced commercial operations.

The Partnership has a power purchase agreement ("PPA") with the Independent Electricity System Operator (“IESO”) for a period of 20 years from the COD. The IESO oversees the wholesale electricity market, where the price of energy is determined. It also administers the rules that govern the market and, through an arm's-length market monitoring function, ensures that it is operated fairly and efficiently. The IESO is an agent among the market participants in Ontario and is neither exposed to, nor benefits from, any transactions. In such capacity, the IESO executes agreements to help the market meet the renewable energy mandates of the government of the Province of Ontario. There are approximately 70 electric distribution companies in Ontario, all of which have government mandates to purchase renewable energy. The PPA provides for guaranteed pricing from IESO that removes volatility caused by fluctuations in market rates. The Ontario government established the Global Adjustment (“GA”) which is designed to adjust consumer rates depending on the price of energy. The IESO establishes a monthly variable GA rate based on GA costs and Ontario electricity demand which effectively establishes a pass through mechanism to the consumer and eliminates the IESO's economic exposure to our contract price.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the period presented, unless otherwise stated.

SP Armow Wind Ontario LP
Notes to Financial Statements
For the year ended December 31, 2018 (not covered by the auditor's report), 2017 and the period from October 18, 2016 to December 31, 2016
(In thousands of Canadian Dollars)

Basis of presentation

In accordance with Rule 3-09 of Regulation S-X, full financial statements of significant equity investments are required to be presented in the annual report of the investor. For purposes of S-X 3-09, the investee's separate annual financial statements should only depict the period of the fiscal year in which it was accounted for by the equity method by the investor. On Oct 17, 2016, Pattern purchased its interest in the partnership. Accordingly, comparatives financial statements have been prepared for the period from October 18, 2016 to December 31, 2016 (stub period).

Basis of preparation

The accompanying financial statements are presented using accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of U.S. GAAP financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Because the use of estimates is inherent in the financial reporting process, actual results could differ from those estimates.

In recording transactions and balances resulting from business operations, the Partnership uses estimates based on the best information available. Estimates are used for such items as accrued revenue, asset retirement obligation, valuation of derivative contracts and contingencies.

These financial statements do not include assets, liabilities, revenue and expenses of the GP and limited partners. The financial statements of the Partnership reflect no provision or liability for income taxes because profits and losses of the Partnership are allocated to the partners and are included in the income tax returns of partners. Income and losses for tax purposes may differ from the financial statement amounts and the partners' equity reflected in the financial statements does not necessarily reflect their tax basis.

Functional and presentation currency

Items included in the financial statements of the Partnership are measured using the currency of the primary economic environment in which the Partnership operates (the functional currency). The financial statements are presented in Canadian dollars, which is the Partnership's functional and presentation currency.

Fair value of financial instruments

ASC 820, Fair Value Measurements, defines fair value as the price at which an asset could be exchanged or a liability transferred in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or derived from such prices. Where observable prices or inputs are not available, valuation models are applied.

These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less.

Restricted cash

Restricted cash consists of cash reserves required under the Partnership's loan agreements and security deposits required to collateralize commercial bank letter of credit facilities related primarily to a power purchase agreement (PPA) and road use agreements (note 3).

SP Armow Wind Ontario LP
Notes to Financial Statements
For the year ended December 31, 2018 (not covered by the auditor's report), 2017 and the period from October 18, 2016 to December 31, 2016
(In thousands of Canadian Dollars)

Reconciliation of cash and cash Equivalents and restricted cash as presented on the statements of cash flows

	December 31		
	2018	2017	2016
Beginning			
Cash and cash equivalents at beginning of period	$10,685	$21,856	$2,661
Restricted cash - current	10	814	5,469
Restricted cash	3,172	7,086	15,744
Cash, cash equivalents and restricted cash	$13,867	$29,756	$23,874
Ending			
Cash and cash equivalents at end of period	$13,158	$10,685	$21,856
Restricted cash - current	3,172	10	814
Restricted cash	—	3,172	7,086
Cash, cash equivalents and restricted cash	$16,330	$13,867	$29,756
Net change in cash, cash equivalents and restricted cash	$2,463	$(15,889)	$5,882

Trade receivables
The Partnership's trade receivables are generated by selling energy in Ontario, Canada through the IESO as a settlement agent. The allowance for doubtful accounts, if needed, is computed based upon management's estimates of uncollectible accounts. As of December 31, 2018 and 2017, the Partnership has no outstanding trade receivables.
Accrued revenue
Accrued revenue represents revenues recognized on contracts for which billings have not been presented to customers as of the balance sheet date. These amounts are billed and generally collected within two months.
Concentration of credit risk
Financial instruments that potentially subject the Partnership to concentrations of credit risk consist primarily of cash and cash equivalents and restricted cash. The Partnership places its cash and cash equivalents and restricted cash with creditworthy institutions located in Canada, which management believes to have minimal risk. At times, such balances may be in excess of the Canada Deposit Insurance Corporation (CDIC) insurance coverage limit. CDIC insurance currently covers up to $100 per depositor at each insured bank.
The Partnership's derivative agreements expose the Partnership to losses under certain circumstances, such as the counterparty defaulting on its obligations under the swap agreements or if the swap agreements provide an imperfect hedge. Counterparties to the Partnership's derivative contracts are major financial institutions that have been accorded investment grade ratings.
Property, plant and equipment
Property, plant and equipment are stated at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying value or recognized as separate assets, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Partnership and the cost of the item can be reliably measured.
The asset retirement obligation included in property, plant and equipment is stated at the present value of future cash flows of asset retirement obligation at the time of COD.
Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The power plant is depreciated over 25 years and the remaining assets are depreciated over

5 years. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. Repair and maintenance costs are expensed as incurred.

Impairment of long-lived assets

The Partnership periodically evaluates whether events have occurred that would require revision of the remaining useful life of equipment and improvements or render them not recoverable. If such circumstances arise, the Partnership uses an estimate of the undiscounted value of expected future operating cash flows to determine whether the long-lived assets are impaired. If the aggregate undiscounted cash flows are less than the carrying amount of the assets, the resulting impairment charge to be recorded is calculated based on the excess of the carrying value of the assets over the fair value of such assets, with the fair value determined based on an estimate of discounted future cash flows. Through December 31, 2018, no impairment charges were recorded.

Deferred financing costs

Financing costs incurred in connection with obtaining construction and term financing, which include direct financing, legal and other upfront costs of borrowing, are capitalized and recorded as a reduction to long-term debt and amortized over the lives of the respective loans using the effective-interest method. Amortization of deferred financing costs is capitalized during construction or expensed following COD.

Derivatives

The Partnership recognizes its derivative instruments as either assets or liabilities in the balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it qualifies and has been designated as part of a hedging relationship and, further, on the type of hedging relationship. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that are attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income or loss (OCI or OCL). Changes in the fair value of these derivatives are subsequently reclassified into earnings in the period the hedged transaction affects earnings. The ineffective portion of changes in fair value is recorded as a component of net income in the statements of operations and comprehensive income.

For undesignated derivative instruments, their change in fair value is reported as a component of net income in the statements of operations and comprehensive income.

The Partnership enters into derivative transactions for the purpose of managing exposure to fluctuations in interest rates, such as interest rate swaps. Interest rate swaps are instruments used to fix the interest rate on variable interest rate debt.

Accounts payable and other accrued liabilities

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables with payment terms extended beyond one year from the balance sheet dates are presented as non-current liabilities.

Contingent liabilities

Contingent liabilities are recognized when: the Partnership has a present legal obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reasonably estimated.

Asset retirement obligation

The Partnership records an asset retirement obligation for the estimated costs of decommissioning turbines, removing above-ground installations and restoring sites, at the time when a contractual decommissioning obligation materializes. The Partnership records accretion expense, which represents the increase in the asset retirement obligation, over the remaining life of the associated wind project. Accretion expense is recorded as cost of revenue in the statements of operations and comprehensive income using accretion rates based on a credit adjusted risk free interest rate of 4.989%.

SP Armow Wind Ontario LP
Notes to Financial Statements
For the year ended December 31, 2018 (not covered by the auditor's report), 2017 and the period from October 18, 2016 to December 31, 2016
(In thousands of Canadian Dollars)

Revenue recognition

Revenue is recognized based upon the amount of electricity delivered or curtailed at rates specified under the contracts, assuming all other revenue recognition criteria are met. When curtailment revenue is earned it is recorded as compensation for forgone revenue. The Partnership evaluates its PPA to determine whether it is in substance a lease or derivative and, if applicable, recognizes revenue pursuant to ASC 840 Leases and ASC 815 Derivatives and Hedging, respectively. As of December 31, 2018, the PPA was not considered a lease or a derivative instrument, as multiple market participants purchase the energy at market-based prices with IESO working as a settlement agent. As a result, revenue (including any revenue from the price guaranteed by IESO), is recognized on an accrual basis.

The Partnership recognizes revenue for warranty settlements and liquidated damages from a turbine manufacturer in other revenue upon resolution of outstanding contingencies. Any cash receipts for amounts subject to future adjustment or repayment are deferred in other liabilities until the final settlement amount is considered fixed and determinable.

Cost of revenue

The Partnership's cost of revenue is comprised of direct costs of operating and maintaining its project facilities, including labor, turbine service arrangements, metering service and shadow settlement, environmental fee, land lease royalties, property tax, insurance, depreciation, amortization and accretion.

Comprehensive income

Comprehensive income consists of net income and other comprehensive loss. Other comprehensive loss is included in accumulated other comprehensive loss in the accompanying statements of changes in partners' equity.

Recently adopted accounting standard

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The Company elected to early adopt the provisions of ASU 2016-18 as of December 31, 2018 and has restated its statements of cash flows for the years ended December 31, 2017 and 2016 to reflect amounts described as restricted cash and restricted cash equivalents included with cash and cash equivalents in the reconciliation of beginning of period and end of period total amounts shown on the statements of cash flows. Consequently, transfers between cash and restricted cash will not be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. A reconciliation of cash and cash equivalents and restricted cash as presented on the balance sheets to the statements of cash flows is included in the significant accounting policies above.

Recent accounting pronouncements

In August 2018, the FASB issued ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13), which amends changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty which should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. ASU 2018-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those periods. Early application is permitted. The Partnership is currently assessing the impact of changes to the disclosure requirements for fair value measurement.

In February 2017, the FASB issued ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets (ASU 2017-05). ASU 2017-05 is meant to clarify the scope of ASC Subtopic

610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets and to add guidance for partial sales of nonfinancial assets. ASU 2017-05 is to be applied using a full retrospective method or a modified retrospective method as outlined in the guidance and is effective at the same time as ASU 2014-09. Further, the Partnership is required to adopt this guidance at the same time that it adopts the guidance in ASU

2014-09 which creates ASC Topic 606, Revenue from Contracts with Customers and supersedes ASC Topic 605, Revenue Recognition (ASU 2014-09). The Partnership has assessed the future impact of this guidance on its financial statements and related disclosures and expects to adopt these updates beginning January 1, 2019. The adoption of ASU 2017-05 is not expected to have a material impact on its 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, 2020. The adoption of ASU 2016-13 is not expected to have a material impact on its financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (ASU 2016-02), which requires lessees to recognize right-of-use assets and lease liabilities, for all leases, with the exception of short-term leases, at the commencement date of each lease. Under the new guidance, lessor accounting is largely unchanged. ASU 2016-02 simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and liabilities. ASU 2016-02 is effective for annual periods beginning after December 15, 2019 for non-public entities. Early adoption is permitted. The amendments of this update should be applied using a modified retrospective approach, which requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented. The Partnership is currently in the initial stages of evaluating the impact of the new standard on its accounting policies, processes and system requirements. The Partnership is also assessing the future accounting impact of this update on its financial statements and related disclosures as it applies to its PPA, land lease arrangements and other lease arrangements. As the Partnership progresses further in its analysis, the scope of this assessment could be expanded to review other types of contracts.

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 new standard replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the new standard 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 new standard 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 partnership expects to adopt these updates beginning January 1, 2019.The adoption of ASC 606 has been assessed and determined that there will not be a material impact on the financial statements.

In October 2018, the FASB issued ASU 2018-16, Derivatives and Hedging (Topic ASC 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (ASU 2018-16), which expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting. Because of concerns about the sustainability of LIBOR, the Federal Reserve Board and the Federal Reserve Bank of New York (Fed) initiated an effort to introduce an alternative reference rate in the United States. The SOFR is calculated by the Fed based on the interest rates banks charge one another in the overnight market, typically called repurchase agreements, and because it is based on transactions in the open market, it is more reflective of market conditions than LIBOR, which relies on judgment. The provisions of ASU 2017-12 (discussed below) and ASU 2018-16 are effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Initial adoption of ASU 2017-12 is required to be reported using a modified retrospective approach, with the exception of the presentation and disclosure requirements which are required to be applied prospectively. The

Partnership is currently in the process of determining the impact of adoption of the provisions of ASU 2017-12 and ASU 2018-16.

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), which amends the presentation and disclosure requirements and changes how companies assess effectiveness. The amendments are intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. ASU 2017-12 is effective for annual periods beginning after December 15, 2019. ASU 2017-12 requires a modified retrospective transition method in which the Partnership will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the balance sheet as of the date of adoption. While the Partnership continues to assess all potential impacts of the standard, the adoption is not expected to have a material impact on its future consolidated financial statements.

SP Armow Wind Ontario LP
Notes to Financial Statements
For the year ended December 31, 2018 (not covered by the auditor's report), 2017 and the period from October 18, 2016 to December 31, 2016
(In thousands of Canadian Dollars)

3 Restricted cash

The following table presents the components of restricted cash:

	December 31,	
	2018	2017
Completion reserve account	$3,172	$3,172
Security deposits for letters of guarantee	—	10
Subtotal	3,172	3,182
Less: Current portion	(3172)	(10)
Restricted cash, non-current	$—	$3,172

The amount completion reserve account is reserved to pay outstanding project costs specified during term conversion. Upon full payment of outstanding project costs, the remaining balance will be released from restricted cash.

The Partnership provided $50 to the County of Bruce as the security deposit for road use in 2014. The security deposit of $50 was reduced to $10 in 2016 and released in 2018.

4 Property, plant and equipment

The following is a summary of property, plant and equipment, at cost less accumulated depreciation, at:

	December 31,	
	2018	2017
Power plant	$542,095	$542,095
Machinery and equipment	169	169
Asset retirement obligation – asset	4,768	4,768
Capital spares	299	—
Subtotal	547,331	547,032
Less: Accumulated depreciation	(67,529)	(45,627)
	$479,802	$501,405

Depreciation expense of $21,902, $21,903 and $4,494 was charged to the statements of operations and comprehensive income for the years ended December 31, 2018 and 2017 and the stub period, respectively.

5 Long-term debt

Upon achievement of the COD in December 2015, the construction facility converted to term loan on May 20, 2016. The loan matures on May 20, 2023. In connection with the financing agreement, the Partnership entered into interest rate swaps on 90% of the loan commitment.

Collateral under the financing agreement consists of substantially all of the Partnership's assets. The loan agreement contains a broad range of covenants that, subject to certain exceptions, restrict the Partnership's ability to incur debt, grant liens, sell or lease assets, transfer equity interest, dissolve, pay distributions and change its business. The Partnership is in compliance with all loan covenants. All of the limited and general partners and shareholders of general partners pledged shares of partnership units or common stock owned as collateral for the loan.

Terms and conditions of outstanding borrowings were as follows:

SP Armow Wind Ontario LP
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(In thousands of Canadian Dollars)

As of December 31, 2018

	Principal	Deferred financing costs	Net of financing costs	Interest rate	Maturity date
Term loan	$489,823	$(5,142)	$484,681	3.875 %	May 20, 2023
Less: current portion	(23,352)	1,284	(22,068)		
Net of current	$466,471	$(3,858)	$462,613		

As of December 31, 2017

	Principal	Deferred financing costs	Net of financing costs	Interest rate	Maturity date
Term loan	$510,133	$(6,480)	$503,653	3.035 %	May 20, 2023
Less: current portion	(20,310)	1,338	(18,972)		
Net of current	$489,823	$(5,142)	$484,681		

The following are the amounts due for long-term debt as of December 31, 2018:

2019	$23,352
2020	25,250
2021	26,514
2022	27,836
2023	25,986
Thereafter	360,885
	$489,823

Interest and commitment fees incurred, and interest expense recorded in the Partnership's statements of operations and comprehensive income are as follows:

	2018	2017	2016
Interest incurred	$21,102	$21,457	$4,613
Amortization of deferred financing costs	1,338	1,381	285
Interest expense	$22,440	$22,838	$4,898

Letter of credit facilities

On May 20, 2016, letters of credit of $30,000 and $11,000 were issued upon term conversion for a debt service reserve and operations and maintenance reserve, respectively, with a seven-year term. Funds, when and if drawn on the facility, accrue interest at 0.625% plus Prime Rate, and at the partners' option, the rate can be converted to a rate of CDOR plus 1.625% per annum. In addition, the Partnership shall pay letter of credit fees on the basis of the undrawn amount of the facility at 1.625% per annum. As of December 31, 2018 and 2017, the letters of credit facility did not have an outstanding balance, and no amounts were drawn in 2018 and 2017. Letter of credit fees of $666, $666 and $140 were charged to other expense in the statements of operations and comprehensive income for the year ended December 31, 2018, 2017 and the stub period, respectively.

6 Asset retirement obligation

The Partnership's asset retirement obligation represents the estimated cost of decommissioning the turbines, removing above-ground installations and restoring the sites at a date that is 25 years from the commencement of commercial operations.

The following table presents a reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligation:

SP Armow Wind Ontario LP
Notes to Financial Statements
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(In thousands of Canadian Dollars)

	December 31,	
	2018	2017
Asset retirement obligation, beginning of period	$5,274	$5,023
Accretion expense	263	251
Asset retirement obligation, end of period	$5,537	$5,274

7 Derivatives

The Partnership uses interest rate derivatives to manage its exposure to fluctuations in interest rates. Interest rate risk exists primarily on variable-rate debt for which the cash flows vary based upon movement in market prices. The Partnership's objectives for holding these derivative instruments include reducing, eliminating and efficiently managing the economic impact of interest rate exposures as effectively as possible. The Partnership does not hedge all of its interest rate risks, thereby exposing the unhedged portions to changes in market prices.

The following tables present the fair values of the Partnership's derivative instruments on a gross basis as reflected on the Partnership's balance sheets:

	December 31, 2018		December 31, 2017	
	Derivative liabilities		Derivative liabilities	
	Current	Long-term	Current	Long-term
Fair value of designated derivatives:				
Interest rate swaps	$1,761	$ 22,476	$3,703	$22,338
Total fair value	$1,761	$ 22,476	$3,703	$22,338

The following table summarizes the notional amounts of the Partnership's outstanding derivative instruments:

		December 31,	
	Unit of measure	2018	2017
Designated derivative instruments			
Interest rate swaps	CAD	$440,840	$459,119

The following table presents losses on derivative contracts designated and qualifying as cash flow hedges recognized in accumulated other comprehensive loss for the following periods:

		December 31,		
	Description	2018	2017	2016
Income recognized in accumulated OCL	Effective portion	$1,804	$16,871	$19,218
Losses reclassified from accumulated OCL into interest expense	Derivative settlements	$4,163	$(7,680)	$(2,154)

No ineffectiveness was recorded on these swaps for the years ended December 31, 2018 and 2017 and the stub period. The Partnership estimates that $1,952 in accumulated other comprehensive loss will be reclassified into earnings over the next twelve months.

8 Fair value measurement

The Partnership'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. Non-performance and credit risk adjustments

SP Armow Wind Ontario LP
Notes to Financial Statements
For the year ended December 31, 2018 (not covered by the auditor's report), 2017 and the period from October 18, 2016 to December 31, 2016
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on risk management instruments are based on current market inputs when available, such as credit default swap spreads. When such information is not available, internal models are used.

Assets and liabilities recorded at fair value in the financial statements are categorized based on 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 as follows:

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 valuation technique and the risk inherent in the inputs to the model.

Short-term financial instruments consist principally of cash and cash equivalents, restricted cash, accounts payable and other accrued liabilities. Based on the nature and short maturity of these instruments their fair value is approximated using carrying cost and they are presented in the financial statements at carrying cost.

Long-term debt is presented on the balance sheets at amortized cost. The fair value of variable interest rate for long-term debt is approximated by its carrying cost.

Derivatives are presented in the financial statements at fair value. The interest rate swaps were valued by discounting the net cash flows using the forward CDOR curve with the valuations adjusted by the Project's credit default swap rate.

The following table presents the fair values according to each defined level.

Financial assets (liabilities) measured on a recurring basis:

	Level 1	Level 2	Level 3
December 31, 2018			
Interest rate swaps	$—	$(24,237)	$—
December 31, 2017			
Interest rate swaps	$—	$(26,041)	$—

9 Commitments and contingencies

1) Commitments

Land lease agreements

The Partnership has entered into various long-term land lease agreements. The annual fees range from minimum rent payments to maximum rent payments of a certain percentage of energy delivered revenues, varying by lease.

Lease payments, including amortization of the lease option, of $1,909, $1,735 and $369 were charged to the statements of operations and comprehensive income for the years ended December 31, 2018, 2017 and the stub period, respectively.

The future payments related to these leases as of December 31, 2018 are as follows:

SP Armow Wind Ontario LP
Notes to Financial Statements
For the year ended December 31, 2017 and the period from October 18, 2016 to December 31, 2016

(In thousands of Canadian Dollars)

2019	$2,051
2020	2,051
2021	2,054
2022	2,054
2023	2,054
Thereafter	34,333
Total	$44,597

Service and Maintenance Agreement

The Partnership has entered into service and maintenance agreements with Siemens to provide and carry out turbine maintenance and service activities for the Project until January 2019. Based on the terms of the agreements, Siemens shall be entitled to receive a daily base fee per turbine that may be subject to periodic price adjustments for inflation, over the terms of the agreements. As of December 31, 2018, outstanding commitments with Siemens were $308, including an estimated annual price adjustment for inflation of 2%, where applicable, payable over the full term of the agreement.

2) Contingencies

Development Agreement

On May 21, 2014, the Partnership entered into a Development Agreement (DA) with the Corporation of the Municipality of Kincardine, in which the Partnership committed to twenty annual contributions of $630 plus an initial contribution of $1,030. In exchange for DA payments, the municipality undertakes certain obligations to support the Project, including entering into a road use agreement.

Turbine Availability Warranty

The Partnership has a turbine availability warranty from its turbine manufacturer. Pursuant to the warranty, if a turbine operates at less than minimum availability during the warranty period, the turbine manufacturer 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 Partnership has an obligation to pay a bonus to the turbine manufacturer. As of December 31, 2018, the Partnership recorded a liability of $605 associated with bonuses payable to the turbine manufacturer.

10 Related party transactions

The Partnership is controlled by the GP, which is jointly controlled by Samsung and Pattern in accordance with the terms of the Shareholder Agreement. Certain terms of the Samsung Pattern Joint Venture Wind Development Agreement, entered into between Samsung and an affiliate of PRHC on July 27, 2010, directed the responsibilities of Samsung and PRHC for the Project.

The following transactions were carried out with related parties:

a) Management, Operation, and Maintenance Agreement (MOMA)

On October 24, 2014, the Partnership entered into a MOMA with Pattern Operators Canada ULC, which is owned by an affiliate of Pattern to operate and manage the maintenance of the wind plant and to perform certain other services pertaining to the wind plant in accordance with terms and conditions set forth in the MOMA.

$1,403, $1,377 and $277 were charged to the statements of operations and comprehensive income for the years ended December 31, 2018 and 2017 and the stub period, respectively.

SP Armow Wind Ontario LP
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For the year ended December 31, 2017 and the period from October 18, 2016 to December 31, 2016

(In thousands of Canadian Dollars)

b) Project Administration Agreement (PAA)
On October 24, 2014, the Partnership entered into the PAA with SRE Wind PA LP (PA), which is 100% owned by Samsung to supply project administrative services.
$420, $413 and $83 were charged to the statements of operations and comprehensive income for the years ended December 31, 2018 and 2017 and the stub period, respectively.
c) The Partnership recorded the following balances with related parties:

	2018	2017
Related party payable to Pattern Operators Canada ULC	$132	$144
Related party payable to SRE Wind PA LP	40	39
	$172	$183

FINANCIAL STATEMENTS
K2 Wind Ontario Limited Partnership
As of December 31, 2017 and
for the period January 1, 2018 to December 30, 2018 (unaudited) and
for the years ended December 31, 2017 and 2016

K2 Wind Ontario Limited Partnership
Financial Statements
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The Partners
K2 Wind Ontario Limited Partnership

We have audited the accompanying financial statements of K2 Wind Ontario Limited Partnership, which comprise the balance sheet as of December 31, 2017 and the related statements of operations and comprehensive income, changes in partners' capital (deficit) and cash flows for the two years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of K2 Wind Ontario Limited Partnership at December 31, 2017, and the results of its operations and its cash flows for the two years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP
San Francisco, California
February 28, 2018

K2 Wind Ontario Limited Partnership
Balance Sheet
(In thousands of Canadian Dollars)

	December 31, 2017
Assets	
Current assets:	
Cash and cash equivalents	$16,000
Trade receivables	21,344
Prepaid expenses	1,652
Other current assets	205
Deferred financing costs, current, net	61
Total current assets	39,262
Restricted cash	8,061
Property, plant and equipment, net	785,897
Deferred financing costs	877
Total assets	$834,097
Liabilities and members' capital	
Current liabilities:	
Accounts payable and other accrued liabilities	$2,457
Accrued interest	3,128
Accrued construction costs	624
Related party payable	157
Derivative liabilities, current	7,915
Other current liabilities	287
Current portion of long-term debt, net	32,429
Total current liabilities	46,997
Long-term debt, net	710,276
Derivative liabilities	59,400
Asset retirement obligation	5,278
Total liabilities	821,951
Commitments and contingencies (Note 8)	
Partners' capital (deficit):	
Capital (deficit)	(49,086)
Accumulated income	128,547
Accumulated other comprehensive income	(67,315)
Total partners' capital (deficit)	12,146
Total liabilities and partners' capital (deficit)	$834,097

See accompanying notes to financial statements.

K2 Wind Ontario Limited Partnership
Statements of Operations and Comprehensive Income
(In thousands of Canadian Dollars)

	For the period January 1, 2018 to December 30, 2018	Year ended December 31, 2017	2016
	(unaudited)		
Revenue:			
Electricity sales	$ 100,773	$ 87,012	$ 99,525
Compensation for forgone energy	32,949	56,089	40,389
Total revenue	133,722	143,101	139,914
Cost of revenue:			
Operations and maintenance	11,564	11,443	11,042
General and administrative	5,889	6,255	6,066
Depreciation and accretion	35,720	35,306	35,295
Total cost of revenue	53,173	53,004	52,403
Operating income	80,549	90,097	87,511
Other income (expense):			
Interest expense	(37,091)	(38,043)	(39,503)
Other income (expense), net	167	87	(1)
Total other expense	(36,924)	(37,956)	(39,504)
Net income	43,625	52,141	48,007
Other comprehensive income (loss):			
Change in unrealized gain (loss) on cash flow hedges	(3,878)	11,190	(15,597)
Reclassifications to net income	8,808	14,121	15,978
Total other comprehensive income (loss)	4,930	25,311	381
Total comprehensive income	$ 48,555	$ 77,452	$ 48,388

See accompanying notes to financial statements.

K2 Wind Ontario Limited Partnership
Statements of Changes in Members' Capital

(In thousands of Canadian Dollars)

	Contributed Surplus (Deficit)	Accumulated Income	Accumulated Other Comprehensive Income (Loss)	Total
Balances at January 1, 2016	$82,778	$ 28,399	$ (93,007)	$18,170
Distributions	(71,845)	—	—	(71,845)
Net income (loss)	—	48,007	—	48,007
Other comprehensive income (loss)	—	—	381	381
Balances at December 31, 2016	10,933	76,406	(92,626)	(5,287)
Distributions	(60,019)	—	—	(60,019)
Net income (loss)	—	52,141	—	52,141
Other comprehensive income (loss)	—	—	25,311	25,311
Balances at December 31, 2017	$(49,086)	$ 128,547	$ (67,315)	$12,146
Distributions (unaudited)	(58,236)	—	—	(58,236)
Net income (loss) (unaudited)	—	43,625	—	43,625
Other comprehensive income (loss) (unaudited)	—	—	4,930	4,930
Balances at December 30, 2018 (unaudited)	$(107,322)	$ 172,172	$ (62,385)	$2,465

See accompanying notes to financial statements.

K2 Wind Ontario Limited Partnership
Statements of Cash Flows
(In thousands of Canadian Dollars)

	For the period January 1, 2018 to December 30, 2018	Year ended December 31, 2017	2016
Operating activities	(unaudited)		
Net income	$ 43,625	$ 52,141	$ 48,007
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and accretion	35,720	35,306	35,295
Amortization of financing costs	1,346	1,401	1,460
Trade receivables	5,460	3,747	(5,717)
Prepaid expenses	79	99	(208)
Other current assets	(189)	(156)	215
Accounts payable and other accrued liabilities	1,335	(3,110)	2,337
Related party payable	98	(149)	(617)
Accrued interest	(102)	—	—
Other current liabilities	(287)	1	24
Net cash provided by operating activities	87,085	89,280	80,796
Investing activities			
Capital expenditures	—	(44)	(9,433)
Net cash (used in) investing activities	—	(44)	(9,433)
Financing activities			
Payment for deferred financing costs	(6)	—	(62)
Capital distributions	(58,228)	(60,019)	(71,845)
Repayment of long-term debt	(33,714)	(31,212)	(32,581)
Net cash used in financing activities	(91,948)	(91,231)	(104,488)
Net change in cash and cash equivalents and restricted cash	(4,863)	(1,995)	(33,125)
Cash and cash equivalents and restricted cash at beginning of period	24,061	26,056	59,181
Cash and cash equivalents and restricted cash at end of period	$ 19,198	$ 24,061	$ 26,056
Supplemental disclosures			
Cash payments for interest expense, net of capitalized interest	$ 35,847	$ 36,790	$ 38,780

See accompanying notes to financial statements.

K2 Wind Ontario Limited Partnership
Notes to Financial Statements

The period January 1, 2018 to December 30, 2018 is unaudited.

1. General information

Business

K2 Wind Ontario Limited Partnership (K2 Wind or the Company), a limited partnership under the laws of the Province of Ontario, was formed on July 27, 2011, as a joint venture project between Capital Power L.P., Samsung Renewable Energy Inc. (Samsung) and Pattern Renewable Holdings Canada ULC (PRHC), each holding a 33.33% ownership interest as limited partners of the Company, and K2 Wind Ontario Inc. (the GP), holding a 0.01% ownership interest as general partner of the Company.

The GP is a corporation jointly owned among affiliates of Samsung, Pattern Energy Group Inc. (Pattern), and Capital Power. The Samsung affiliate originally owned a 50% GP interest and the Pattern and Capital Power affiliates each originally owned a 25% GP interest.

On June 17, 2015, Pattern K2 LP Holdings LP transferred all of its interests in K2 Wind to PRHC and PRHC subsequently transferred all of its interests in K2 Wind to Pattern Canada Finance Company ULC, a wholly owned subsidiary of Pattern.

On March 15, 2016, Samsung transferred a portion of its GP interest so that each of the Samsung, Pattern and Capital Power affiliates then held equal 33.33% interests in the GP.

On July 7, 2016, CP K2 Holdings Inc.'s LP interest in K2 Wind, was transferred through an internal reorganization to Capital Power LP Holdings Inc., an entity wholly owned by Capital Power.

On August 5, 2016, Samsung sold its LP interest in K2 Wind to K2 Wind Co LP and its GP interest to K2 Wind Co GP Inc. K2 Wind Co LP and K2 Wind Co GP Inc. are owned by a consortium of Axium Infrastructure Canada II LP, ATRF INF (DB) LTD. and The Manufacturers Life Insurance Company.

On December 31, 2018, Pattern and Capital Power L.P. sold all of their interest in K2 Wind to K2 Wind Co LP and K2 Wind Co GP Inc. K2 Wind is continuing operations post sale and these financials have been prepared with K2 Wind operating as an ongoing venture. A balance sheet as of December 31, 2018 is not presented due to the change in ownership.

The partners' liability and losses for K2 Wind are limited to each limited partner's capital contribution plus any unpaid capital contributions agreed to by the partners. The partners shall not be required to make additional capital contributions, or have any personal liability, in respect of the liabilities or the obligations of K2 Wind.

These United States Generally Accepted Accounting Principles (U.S. GAAP) financials are presented for the purposes of inclusion in Pattern's annual report on Form 10-K under the requirements of SEC Rule S-X 3-09. The unaudited financial statements for 2018 present information only for the period in which Pattern held its interest in K2 Wind.

The Project

K2 Wind owns a 270 megawatt (MW) wind project consisting of 140 wind turbine generators located in the township of Ashfield Colborne Wawanosh in Ontario, Canada (the Project). The Project reached its commercial operation date (COD) on May 29, 2015.

The Company has a power purchase agreement (PPA) with the Independent Electricity System Operator (IESO) for a period of 20 years from the COD. The IESO oversees the wholesale electricity market, where the price of energy is determined. It also administers the rules that govern the market and, through an arm's-length market monitoring function, ensures that it is operated fairly and efficiently. The IESO is an agent among the market participants in Ontario and is neither exposed to, nor benefits from, any transactions. In such capacity, the IESO executes agreements to help the market meet the renewable energy mandates of the government of the Province of Ontario. There are approximately 70 electric distribution companies in Ontario, all of which have government mandates to purchase renewable energy. The PPA provides for guaranteed pricing from IESO that removes volatility caused by fluctuations in market rates. The Ontario government established the Global Adjustment (GA) which is designed to adjust consumer rates depending on the price of energy. The IESO establishes a monthly variable GA rate based on GA costs and Ontario electricity demand which effectively establishes a pass through mechanism to the consumer and eliminates the IESO's economic exposure to our contract price.

K2 Wind Ontario Limited Partnership
Notes to Financial Statements

2. Summary of Significant Accounting Policies
Basis of Presentation
The accompanying financial statements are presented using U.S. GAAP. The preparation of U.S. GAAP basis financial statements requires management to make certain estimates and assumptions that affect the reported amounts and disclosures in the financial statements and the reported amounts of assets and liabilities, and to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because the use of estimates is inherent in the financial reporting process, actual results could differ from those estimates.
These financial statements do not include assets, liabilities, revenue and expenses of the GP and limited partners.
Use of Estimates
The preparation of 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 those estimates, and such differences may be material to the financial statements.
Functional and Presentation Currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates, the (functional currency). The financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency.
Fair Value of Financial Instruments
ASC 820, Fair Value Measurement, defines fair value as the price at which an asset could be exchanged or a liability transferred in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or derived from such prices. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments’ complexity.
Cash and Cash Equivalents
Cash and cash equivalents consist of cash in banks and highly liquid investments with original maturities of three months or less.
Restricted Cash
Restricted cash consists of cash balances required to collateralize commercial bank letter of credit facilities related primarily to the PPA and for reserves required under the Company's credit agreements. Non-current restricted cash includes $5.0 million as of December 31, 2017 of construction completion costs that were moved into a restricted cash account upon conversion of the construction loan to term loan.
Reconciliation of Cash and Cash Equivalents and Restricted Cash as presented on the Statements of Cash Flows
Restricted cash consists of cash balances which are restricted as to withdrawal or usage and includes cash to collateralize bank letters of credit related primarily to interconnection rights, PPA and for certain reserves required under the Company's loan agreements. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheet that sum to the total of the same such amounts shown in the statements of cash flows (in thousands):

	Year ended December 31,	
	2017	2016
Cash and cash equivalents	$16,000	$17,975
Restricted cash	8,061	8,081
Cash, cash equivalents and restricted cash shown in the statements of cash flows	$24,061	$26,056

K2 Wind Ontario Limited Partnership
Notes to Financial Statements

Trade Receivables
The Company’s trade receivables are generated by selling energy in Ontario, Canada through the IESO as a settlement agent. The Company believes that all amounts are collectible and an allowance for doubtful accounts is not required.
Property, Plant and Equipment
The Project is recorded at historical cost on the balance sheets. The Project is being depreciated using the straight-line method over its 25-year life beginning at the COD. Capitalized assets acquired in support of the plant operations are recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset.
The remaining assets are depreciated over two to five years. Improvements to property, plant and equipment deemed to extend the useful economic life of an asset are capitalized. Repair and maintenance costs are expensed as incurred.
Impairment of Long-Lived Assets
The Company periodically evaluates long-lived assets for potential impairment whenever events or changes in circumstances have occurred that indicate that impairment may exist, or the carrying amount of the long-lived asset may not be recoverable. An impairment loss is recognized only if the carrying amount of a long-lived asset is not recoverable based on its estimated future undiscounted cash flows. An impairment loss is calculated based on the excess of the carrying value of the long-lived asset over the fair value of such long-lived asset, with the fair value determined based on an estimate of discounted future cash flows. During the period January 1, 2018 to December 30, 2018 and the years ended December 31, 2017 and 2016, no impairment losses were recorded in the statements of operations and comprehensive income.
Deferred Financing Costs
Financing costs incurred in connection with obtaining construction and term financing are deferred and amortized over the terms of the respective loans using the effective-interest method. Deferred financing costs are capitalized and recorded as an offset to the respective loans in the Company's balance sheets and are amortized to interest expense in the statements of operations and comprehensive income (loss). Deferred financing costs incurred in connection with obtaining letters of credit are recorded as a separate asset in the Company's balance sheets and are amortized using the straight-line method over the term of the letters of credit to interest expense in the statements of operations and comprehensive income.
Derivatives and Risk Management
The Company may enter into interest rate swaps, interest rate caps, forwards and other agreements to manage its interest rate risk. The Company recognizes its derivative instruments as assets or liabilities at fair value in the balance sheets. The Company does not have contracts subject to master netting agreements with counterparties, as such assets and liabilities are presented gross on the balance sheets.
Accounting for changes in the fair value of a derivative instrument depends on whether it has been designated as part of a hedging relationship and on the type of hedging relationship. For derivative instruments that qualify and are designated as cash flow hedges, the effective portion of change in fair value of the derivative is reported as a component of other comprehensive income (OCI) until the contract settles and the hedged item is recognized in earnings. The ineffective portion of change in fair value is recorded as a component of net income (loss) on the statements of operations and comprehensive income. The Company discontinues hedge accounting when it has determined that a derivative contract no longer qualifies as an effective hedge or when it is no longer probable that the hedged forecasted transaction will occur.
Concentration of Credit Risk
Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, debt, derivatives and revenue. The Company places its cash and restricted cash with high-quality institutions. The Company’s derivative instruments are placed with counterparties that are credit worthy institutions.
Contingent Liabilities
Contingent liabilities are recognized when the Company has a present legal obligation as a result of past events for which it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reasonably estimated. Contingent liabilities are not recognized for future operating losses.

K2 Wind Ontario Limited Partnership
Notes to Financial Statements

Other Liabilities
Other liabilities are recognized when the Company has a present legal obligation as a result of past events for which it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reasonably estimated.
Asset Retirement Obligation
The Company records an asset retirement obligation (ARO) for the estimated costs of decommissioning turbines, removing above-ground installations and restoring sites, at the time when a contractual decommissioning obligation is incurred. The ARO represents the present value of the expected costs and timing of the related decommissioning activities. The ARO asset and liability are recorded in property, plant and equipment and asset retirement obligation, respectively, on the accompanying balance sheets. The Company records accretion expense, which represents the increase in the asset retirement obligation, over the remaining or operational life of the Project. Accretion expense is recorded as operating costs in the statements of operations and comprehensive income using an accretion rate based on a credit adjusted risk-free interest rate. Changes resulting from revisions to the timing or amount of the original estimate of cash flows are recognized as an increase or a decrease in the asset retirement cost, or income when the asset retirement cost is depleted.
Income Taxes
The financial statements of the Company reflect no provision or liability for income taxes because profits and losses of the Company are allocated to the partners and are included in the income tax returns of the partners.
Income and losses for tax purposes may differ from the financial statement amounts and the partners’ capital (deficit) reflected in the financial statements does not necessarily reflect their tax basis.
Revenue Recognition
The Company sells the electricity it generates through the IESO. Revenue is recognized based upon the amount of electricity delivered or curtailed at rates specified under the contracts, assuming all other revenue recognition criteria are met. Revenue earned from curtailment is recorded as compensation for forgone energy in the statements of operations and comprehensive income (loss). The Company evaluates its PPA to determine whether it is in substance a lease or derivative and, if applicable, recognizes revenue pursuant to ASC 840, Leases, and ASC 815, Derivatives and Hedging, respectively. The PPA was not considered a lease or a derivative instrument, as multiple market participants purchase the energy at market-based prices with IESO working as a settlement agent. As a result, revenue (including any revenue from the price guaranteed by IESO), is recognized on an accrual basis in accordance with ASC 605, Revenue Recognition.
Cost of Revenue
The Company’s cost of revenue is comprised of direct costs of operating and maintaining its project facilities, including labor, turbine service arrangements, metering service and shadow settlements, environmental fees, land lease royalties, property taxes, insurance costs, depreciation of long-lived assets and accretion associated with the Company's ARO.
Recently Issued Accounting Standards Not Yet Adopted
In October 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-16, Derivatives and Hedging (Topic ASC 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (ASU 2018-16), which expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting. Because of concerns about the sustainability of LIBOR, the Federal Reserve Board and the Federal Reserve Bank of New York (Fed) initiated an effort to introduce an alternative reference rate in the United States. The SOFR is calculated by the Fed based on the interest rates banks charge one another in the overnight market, typically called repurchase agreements, and because it is based on transactions in the open market, it is more reflective of market conditions than LIBOR, which relies on judgment. The provisions of ASU 2017-12 (discussed below) and ASU 2018-16 are effective for fiscal years beginning after December 15, 2018, including interim periods, with early adoption permitted. Initial adoption of ASU 2017-12 is required to be reported using a modified retrospective approach, with the exception of the presentation and disclosure requirements which are required to be applied prospectively. The Company is currently in the process of determining

the impact of adoption of the provisions of ASU 2017-12 and ASU 2018-16.

K2 Wind Ontario Limited Partnership
Notes to Financial Statements

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), which amends the presentation and disclosure requirements and changes how companies assess effectiveness. The amendments are intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. ASU 2017-12 is effective for annual periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. The Company is currently assessing the future impact of this update on its 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 beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (ASU 2016-02), which requires lessees to recognize right-of-use assets and lease liabilities, for all leases, with the exception of short-term leases, at the commencement date of each lease. Under the new guidance, lessor accounting is largely unchanged. ASU 2016-02 simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and liabilities. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The amendments of this update should be applied using a modified retrospective approach, which requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented. The Company is in the initial stages of evaluating the impact of the new standard on its accounting policies, processes and system requirements. The Company is also assessing the accounting impact of ASU 2016-02 as it applies to its PPAs, land leases, office leases and equipment leases. As the Company progresses further in its analysis, the scope of this assessment could be expanded to review other types of contracts.

In May 2014, the FASB issued ASU 2014-09, which creates ASC Topic 606, Revenue from Contracts with Customers and supersedes ASC Topic 605, Revenue Recognition. The new standard replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the new standard 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 new standard 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 Company expects to adopt these updates beginning January 1, 2019. The adoption of ASC 606 has been assessed and determined that there will not be a material impact on the financial statements.

3. Property, Plant and Equipment

The aggregate cost of property, plant and equipment and accumulated depreciation were as follows (in thousands):

	December 31, 2017
Furniture, fixtures, and equipment	$ 52
Land	1,067
Operating wind farm	875,705
Subtotal	876,824
Accumulated depreciation	(90,927)
Property, plant and equipment, net	$ 785,897

The Company recorded depreciation expense related to property, plant and equipment of $35.2 million, $35.0 million and $35.0 million for the period January 1, 2018 to December 30, 2018 and for the years ended December 31, 2017 and 2016, respectively.

K2 Wind Ontario Limited Partnership
Notes to Financial Statements

4. Long-Term Debt
In November 2015, the Company entered into a term loan in the amount of $818.0 million with an amortization period of 18 years, at a variable rate interest at Canadian Dollar Offered Rate (CDOR) plus 1.75% per annum. The loan has a maturity date on November 20, 2022 due to prepayment requirements in the partnership's credit agreement. In connection with the term loan, the Company entered into interest rate swaps on 90% of the loan commitment. The interest rate swaps are organized in two tranches with fixed effective interest rates of 3.11% and 4.45% for years 1-7 and years 8-18, respectively. As of December 31, 2017, $754.2 million was outstanding under the term loan including the current portion, and no amount was drawn on the letter of credit facilities.
Collateral under the financing agreement consists of substantially all of the Company’s assets. Its loan agreement contains a broad range of covenants that, subject to certain exceptions, restrict the Company’s ability to incur debt, grant liens, sell or lease assets, transfer equity interest, dissolve, pay distributions and change its business. All the limited partners, general partners and shareholders of general partners pledged shares of partnership units or common stock owned as collateral for the loan. As of December 30, 2018, the Company was in compliance with all loan covenants.
Terms and conditions of outstanding borrowings were as follows (in thousands):

		As of December 31, 2017		
	December 31, 2017	Contractual Interest Rate	Effective Interest Rate	Maturity Date
Principal	$754,207	3.16%	4.69%	December 2025
Unamortized financing costs	(11,502)			
Current portion	(32,429)			
Long-term debt, less current portion	$710,276			

The following are the amounts due under the Partnership’s term loan for the next five years and thereafter as of December 31, 2017 (in thousands):

2018	$33,714
2019	37,328
2020	39,338
2021	41,467
2022	41,660
Thereafter	560,700
Total long-term debt, including current maturities	$754,207

Interest and commitment fees incurred and interest expense for long-term debt consisted of the following (in thousands):

	For the period January 1, 2018 to December 30,	Year ended December 31,	
	2018	2017	2016
Interest and commitment fees incurred	$ 34,686	$35,583	$36,984
Letter of credit fees incurred	1,059	1,059	1,059
Amortization of financing costs	1,346	1,401	1,460
Interest expense	$ 37,091	$38,043	$39,503

The Company has two letter of credit facilities available in the amount of $60.5 million as set out in the Company’s credit agreement. As of December 31, 2017 and during the period January 1 to December 31, 2018, no amounts had been drawn on these letters of credit.

5. Asset Retirement Obligation
The Company's ARO represents the estimated cost of decommissioning the turbines, removing above-ground installations and restoring the sites at a date that is 25 years from the COD. As of December 30, 2018 and December 31, 2017, the Company recorded \$23.3 million and \$5.3 million, respectively, in ARO using a project specific credit adjusted risk free rate at COD of 5.46%.

K2 Wind Ontario Limited Partnership
Notes to Financial Statements

In the third quarter of 2018, the Company initiated a new decommissioning cost study. As a result, the Company revised its estimated future cash flows to reflect the updated costs for its existing asset retirement obligations by approximately $175 million. The change in estimate did not result in any charge to net income (loss) for the year ended December 31, 2018.
The following table presents a reconciliation of the beginning and ending aggregate carrying amounts of the ARO for the following periods (in thousands):

	December 31, 2017
Beginning asset retirement obligation	$ 5,004
Revision in estimated future cash flows	—
Accretion expense	274
Ending asset retirement obligation	$ 5,278

For the period January 1, 2018 to December 30, 2018, the company recorded $0.5 million in accretion expense.

6. Derivatives and Risk Management
The Company uses interest rate derivatives to manage its exposure to fluctuation in interest rates. Interest rate risk exists primarily on variable-rate debt for which the cash flows vary based upon movement in interest rates. The Company's objectives for holding these derivative instruments include reducing, eliminating and efficiently managing the economic impact of interest rate exposure as effectively as possible. The Company does not hedge of all of its interest rate risk, thereby exposing the unhedged portion to changes in market prices.
The following tables present the fair values of the Company's designated derivative instruments on a gross basis as reflected on the Company's balance sheets (in thousands):

	December 31, 2017	
Derivative Liabilities	Current	Long-Term
Interest rate swaps	$7,915	$ 59,400
Total Fair Value	$7,915	$ 59,400

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

	Unit of Measure	December 31, 2017
Interest rate swaps	CAD	$678,786

The Company's interest rate swaps have remaining maturities ranging from approximately 3.7 years to 14.6 years.
The following table presents gains and losses on derivative contracts designated and qualifying as cash flow hedges recognized in accumulated other comprehensive income, as well as, amounts reclassified to earning for the following periods (in thousands):

	Description	For the period January 1, 2018 to December 30, 2018	December 31, 2017	December 31, 2016
Gains (losses) recognized in accumulated OCI	Effective portion	$ (3,878)	$11,190	$(15,597)
Gains (losses) reclassified from accumulated OCI into:				
Interest expense	Derivative settlements	$ 8,808	$14,121	$15,978

K2 Wind Ontario Limited Partnership
Notes to Financial Statements

The Company estimates that $4.9 million in accumulated other comprehensive income will be reclassified into earnings over the next twelve months.

No ineffectiveness was recorded on these swaps for the period January 1, 2018 to December 30, 2018 and for the years ended December 31, 2017 and 2016. The changes in the fair value of these swaps were recognized in other comprehensive income.

No margin cash collateral was received or recorded from the counterparty during the period January 1, 2018 to December 30, 2018 and for the year ended December 31, 2017.

7. 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. Non-performance 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 combined 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 as follows:

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.

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.

Long term debt is presented on the balance sheets at amortized cost. The fair value of variable interest rate long-term debt is approximated by its carrying cost, and is classified as Level 2 in the fair value hierarchy.

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):

	Fair Value Measurements Units		
	Level 1	Level 2	Level 3
December 31, 2017			
Interest rate swaps	$ —	$ 67,315	$ —
Total Fair Value	$ —	$ 67,315	$ —

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 Canadian dollar offered rate curve with the valuations adjusted by the Company's credit default hedge rate.

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K2 Wind Ontario Limited Partnership
Notes to Financial Statements

8. Commitments, Contingencies and Warranties
Commitments
The Company has entered into various purchase, construction, as well as other commitments, land leases, and turbine operations and maintenance agreements. Detailed below are estimates of future commitments under these arrangements as of December 30, 2018 (in thousands):

	2019	2020	2021	2022	2023	Thereafter	Total
Purchase and other commitments	$715	$718	$721	$724	$727	$ 8,014	$11,619
Land leases	2,955	2,956	2,957	2,958	3,007	60,998	75,831
Service and maintenance	2,633	2,633	1,536	—	—	—	6,802
Total Commitments	$6,303	$6,307	$5,214	$3,682	$3,734	$ 69,012	$94,252

Purchase and other commitments
The Company has entered into various commitments with service providers related to the projects and operations of its business. Outstanding commitments include those related to construction, and commitments related to donations to local community and government organizations.
In March 2013, the Company entered into an agreement with the local township in which the Company will make annual payments into a fund managed by the township in amounts of $2,600 per nameplate MW of the Project installed capacity. The payments are calculated annually and are owed for the 20-year term of the PPA. In exchange for payments, the township undertakes certain obligations to support the Project, including entering into a road use agreement in which the Project may utilize municipal right-of-ways for collection and transmission lines.
The Company has also made various public statements that payments will be made to local landowners, for which the Company will not receive any future benefits. The Company considers these statements to be cancellable and not legally binding; therefore the Company has not recognized a liability for these amounts, nor are the payments included in the table above. Payments under the statements are approximately $0.5 million per year, for the next 18 years.
Land leases
The Company has acquired leases for land where the wind farm will be located through the exercise of land options acquired from Capital Power and also executed new land lease agreements in 2014. The leases provide for the land interests necessary for the construction and operation of the project. The Company recorded $2.9 million, $2.9 million and $2.7 million of lease expense in the statements of operations and comprehensive income for the period January 1, 2018 to December 30, 2018 and the years ended December 31, 2017 and 2016, respectively.
Service and maintenance
The Company has entered into service and maintenance agreements with third party contractors to provide turbine operations and maintenance services and modifications and upgrades for a three year period beginning after the COD. The computation of outstanding commitments includes an estimated annual price adjustment for inflation of 2%, where applicable. For the period January 1, 2018 to December 30, 2018 and the years ended December 31, 2017 and 2016, the Company recorded service and maintenance expense under these agreements of $6.4 million, $7.3 million and $7.1 million, respectively, in project expense in the statements of operations.
Warranties and Guarantees
Turbine Operating Warranties and Service Guarantees
The Company entered in to a warranty agreement with Siemens for a two-year period from the commissioning of each turbine. Pursuant to the warranty, if the turbines operate at less than a specified percentage of availability during each consecutive thirty month period, Siemens is obligated to pay liquidated damages to the Company. In addition, the Company will pay Siemens a bonus if the availability of the turbines exceeds a certain specified availability percentage during the thirty-month period. The Company has not recorded any liability associated with bonuses to Siemens.

K2 Wind Ontario Limited Partnership
Notes to Financial Statements

Siemens
On March 8, 2013, an Operational Incentive Agreement was entered into among Samsung, an affiliate of PRHC and Siemens. The agreement defines operational objectives, the terms and conditions upon which the Company may make operational incentive payments to Siemens for achieving one or more of such operational objectives under the turbine supply agreements for joint development projects. Siemens earned an initial payment of $1.1 million, which was paid in 2013 for having satisfied the Peak Capacity Objective defined under the agreement. The Company has not recorded any liability related to the agreement.
Legal Proceedings
Renewable Energy Approval
During the third quarter of 2015, rights to appeal prior decisions granting the Renewable Energy Approval (REA) under Ontario's Environmental Protection Act for the Project were exhausted without further appeal. As a result, a stay of a previously filed civil suit against the Project pending final determination of the REA was lifted, allowing such suit to move forward if the claimants so chose to continue such suit. The Project has been awarded their legal fees in connection with the portion of the claim that was stricken, and has reached a settlement agreement under which the Project will waive entitlement to the legal fees and in return Plaintiff has agreed to full dismissal of all pending claims.

9. Related Party Transactions
The following transactions were carried out with the related parties:
Management, Operation, and Maintenance Agreement (MOMA)
On March 20, 2014, the Company entered into the MOMA with Pattern Operators Canada ULC (POC), which is owned by an affiliate of Pattern to operate and manage the maintenance of the wind plant and to perform certain other services pertaining to the wind plant in accordance with terms and conditions set in the MOMA.
The fixed annual fee for the service is $0.9 million pro-rated for the period from March 20, 2013 until the COD and thereafter the annual fee was increased to $1.4 million until expiry of the contract in 2035. Additionally, the Company recorded expense of $1.5 million, $1.5 million and $1.4 million to operations and maintenance expense in the statements of operations and comprehensive income for the period January 1, 2018 to December 30, 2018 and the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017, the Company recorded $0.2 million in related party payable.
Project Administration Agreement (PAA)
On March 20, 2014, the Company entered into the PAA with POC, which is 100% owned by an affiliate to receive project administrative services. A fixed annual fee of $0.4 million is payable during the period between the COD until expiry of the PPA in 2035. The Company recorded expense of $0.4 million, $0.4 million and $0.4 million to general and administrative expense in the statements of operations and comprehensive income for the period January 1, 2018 to December 30, 2018 and the years ended December 31, 2017 and 2016, respectively. The Company has not recorded any related party payable.

10. Subsequent Events
The Company evaluated subsequent events through February 28, 2019, which is the date these financial statements were available to be issued and noted that there were no subsequent events to disclose.

CONSOLIDATED FINANCIAL STATEMENTS

Pattern Energy Group Holdings 2 LP

As of December 31, 2018 (unaudited) and 2017
and for the year ended December 31, 2018 (unaudited) and for the period from
July 27, 2017 through December 31, 2017
with Report of Independent Auditors

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Pattern Energy Group Holdings 2 LP
Consolidated Financial Statements
As of December 31, 2018 (unaudited) and 2017
and for the year ended December 31, 2018 (unaudited)
and for the period from July 27, 2017 through December 31, 2017

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Report of Independent Auditors

To the Partners,
Pattern Energy Group Holdings 2 LP

We have audited the accompanying consolidated financial statements of Pattern Energy Group Holdings 2 LP, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of operations, comprehensive income (loss), changes in partners' capital and cash flows for the period from July 27, 2017 through December 31, 2017, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pattern Energy Group Holdings 2 LP at December 31, 2017, and the consolidated results of its operations and its cash flows for the period from July 27, 2017 through December 31, 2017 in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Francisco, California

March 28, 2019

Pattern Energy Group Holdings 2 LP
Consolidated Balance Sheets
(In thousands of U.S. Dollars)

	December 31, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$61,712	$53,504
Restricted cash, current	—	2,451
Notes receivable, related party	52,307	—
Short-term deposits	34,489	2,845
Prepaid expenses and other current assets	19,461	9,991
Total current assets	167,969	68,791
Restricted cash	51,983	21,140
Related party receivable, long-term	7,676	17,248
Notes receivable, long-term	2,476	—
Major equipment advances	147,618	51,667
Deferred development costs	5,727	19,537
Construction in progress	180,278	181,674
Property, plant and equipment, net	6,819	133,387
Unconsolidated investments	29,302	7,754
Long-term deposits	18,082	9,826
Other assets	22,752	15,837
Total assets	$640,682	$526,861
Liabilities and partners' capital		
Current liabilities:		
Accounts payable and accrued liabilities	$60,368	$35,040
Current portion of long-term debt, net	211,907	107,164
Related party payable, current	30,008	16,543
Total current liabilities	302,283	158,747
Long-term debt, net	—	74,891
Other long-term liabilities	10,394	25,548
Total liabilities	312,677	259,186
Commitments and contingencies (Note 15)		
Partners' capital:		
General partners	—	—
Limited partners	332,361	263,968
Accumulated other comprehensive income (loss)	(4,924)	(2,204)
Total capital before noncontrolling interest	327,437	261,764
Noncontrolling interest	568	5,911
Total partners' capital	328,005	267,675
Total liabilities and partners' capital	$640,682	$526,861

See accompanying notes to consolidated financial statements.

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Pattern Energy Group Holdings 2 LP
Consolidated Statements of Operations
(In thousands of U.S. Dollars)

	For the year ended December 31, 2018	For the period from July 27, 2017 through December 31, 2017
	(unaudited)	
Revenue:		
Electricity sales	$ 5,335	$ 9,974
Project sales	94,900	—
Project sales, related party	122,073	—
Services, related party	40,423	—
Total revenue	262,731	9,974
Cost of revenue:		
Electricity production	2,386	5,756
Project sales expense	89,016	—
Project sales expense, related party	83,692	—
Services expense, related party	2,187	—
Total cost of revenue	177,281	5,756
Operating expenses:		
Development expense	54,016	21,990
Impairment expense	38,835	1,535
General and administrative	19,500	7,199
Related party expenses	41,677	14,037
Total operating expenses	154,028	44,761
Operating loss	(68,578)	(40,543)
Other income (expense):		
Interest expense	(2,481)	(2,101)
Loss from unconsolidated investments, net	(2,324)	(1,962)
Net gain on transactions	23,623	—
Other income (expense), net	4,006	(374)
Total other income (expense)	22,824	(4,437)
Loss before income tax provision	(45,754)	(44,980)
Income tax provision	13,884	3,314
Net loss	(59,638)	(48,294)
Net income attributable to noncontrolling interest	298	1,101
Net loss attributable to controlling interest	$ (59,936)	$ (49,395)

See accompanying notes to consolidated financial statements.

Pattern Energy Group Holdings 2 LP
Consolidated Statements of Comprehensive Income (Loss)
(In thousands of U.S. Dollars)

	For the year ended December 31, 2018	For the period from July 27, 2017 through December 31, 2017
	(unaudited)	
Net loss	$ (59,638)	$ (48,294)
Other comprehensive income (loss)		
Foreign currency translation and other comprehensive income (loss), net	(306)	2,328
Comprehensive loss	(59,944)	(45,966)
Less comprehensive income (loss) attributable to noncontrolling interest:		
Net income attributable to noncontrolling interest	298	1,101
Foreign currency translation and other comprehensive income (loss), net	(234)	3,083
Comprehensive income attributable to noncontrolling interest	64	4,184
Comprehensive loss attributable to controlling interest	$ (60,008)	$ (50,150)

See accompanying notes to consolidated financial statements.

Pattern Energy Group Holdings 2 LP
Consolidated Statements of Changes in Partners' Capital
(In thousands of U.S. Dollars)

	General Partners	Limited Partners	Accumulated Other Comprehensive Income (Loss)	Total	Noncontrolling interest	Total Partners' Capital
Balances at July 27, 2017	$ —	$149,772	$ (1,449)	$148,323	$ 18,791	$167,114
Contributions[1]	—	280,626	—	280,626	—	280,626
Redemptions	—	(89,023)	—	(89,023)	—	(89,023)
Transactions with non-controlling interests[2]	—	(19,315)	—	(19,315)	(10,673)	(29,988)
Distributions[3]	—	(2,454)	—	(2,454)	(6,391)	(8,845)
Common control transactions	—	(6,243)	—	(6,243)	—	(6,243)
Net income (loss)	—	(49,395)	—	(49,395)	1,101	(48,294)
Other comprehensive income (loss), net of tax	—	—	(755)	(755)	3,083	2,328
Balances at December 31, 2017	$ —	$263,968	$ (2,204)	$261,764	$ 5,911	$267,675
Contributions[4] (unaudited)	—	406,891	—	406,891	—	406,891
Redemptions (unaudited)	—	(92,657)	—	(92,657)	—	(92,657)
Transactions with non-controlling interests[5] (unaudited)	—	(3,236)	—	(3,236)	806	(2,430)
Distributions[6] (unaudited)	—	(89,459)	(2,648)	(92,107)	(6,213)	(98,320)
Common control transactions[7] (unaudited)	—	(93,210)	—	(93,210)	—	(93,210)
Net income (loss) (unaudited)	—	(59,936)	—	(59,936)	298	(59,638)
Other comprehensive loss, net of tax (unaudited)	—	—	(72)	(72)	(234)	(306)
Balances at December 31, 2018 (unaudited)	$ —	$332,361	$ (4,924)	$327,437	$ 568	$328,005

[1] $50.7 million was contributed from Pattern Development 1.0 to Consolidated Japan Holdings for development purposes.
[2] Consolidated Japan Holdings acquired additional equity interests from noncontrolling interests, $30.0 million.
[3] $2.5 million was distributed from Consolidated Japan Holdings to Pattern Development 1.0.
[4] $11.8 million was contributed from Pattern Development 1.0 to Consolidated Japan Holdings for development purposes (unaudited).
[5] Consolidated Japan Holdings acquired additional equity interests from noncontrolling interests, $2.4 million (unaudited).
[6] On March 7, 2018, Consolidated Japan Holdings sold the equity interests in Green Power Tsugaru G.K., G.K. Green Power Otsuki, Green Power Kanagi, and Otsuki Wind Power Corporation. The $92.1 million distribution represents the cash attributable to the sale that was collected by Pattern Development 1.0 (unaudited).
[7] $43.2 million of $93.2 million was paid in excess of the net book value of Japan Holdings acquired in common control transaction (refer to Footnote 2. Summary of Significant Accounting Policies) (unaudited).

See accompanying notes to consolidated financial statements.

Pattern Energy Group Holdings 2 LP
Consolidated Statements of Cash Flows
(In thousands of U.S. Dollars)

	For the year ended December 31, 2018 (unaudited)	For the period from July 27, 2017 through December 31, 2017
Operating activities		
Net loss	$ (59,638)	$ (48,294)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,943	3,344
Amortization of financing costs	891	644
Amortization of power purchase agreements, net	—	316
Amortization of lease incentive assets	—	2
Unrealized loss on exchange rate changes	421	756
Net profit on project sales	(35,456)	—
Net gain on transactions	(23,623)	—
Deferred taxes	(100)	2,896
Impairment expense	38,835	1,535
Equity in losses of unconsolidated investments	2,324	1,962
Distribution from unconsolidated investments	1,784	—
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(35,186)	(3,351)
Related party receivable, long-term	—	47
Other assets	(9,335)	(653)
Accounts payable and accrued liabilities	12,249	10,043
Related party payable	10,812	5,371
Other long-term liabilities	1,499	860
Development expenditures	(163,598)	—
Net cash used in operating activities	(255,178)	(24,522)
Investing activities		
Assets acquired in common control transactions	(49,977)	(13,833)
Cash paid for asset acquisitions	(6,152)	(4,750)
Proceeds from sale of investments	156,946	—
Capital expenditures	(7,624)	(61,850)
Contribution to unconsolidated investments	(20,633)	(3,227)
Distribution from unconsolidated investments	500	—
Other current and non-current assets	—	(1,386)
Issuance of notes receivable	(2,431)	—
Issuance of notes receivable - related party	(52,307)	—
Net cash used in investing activities	18,322	(85,046)

Pattern Energy Group Holdings 2 LP
Consolidated Statements of Cash Flows
(In thousands of U.S. Dollars)

	For the year ended December 31, 2018 (unaudited)	For the period from July 27, 2017 through December 31, 2017
Financing activities		
Contributions - controlling interest	406,891	280,626
Distributions - controlling interest	(92,107)	(2,454)
Distributions - noncontrolling interest	—	(6,391)
Distributions in common control transactions	(43,233)	(6,243)
Redemptions	(92,657)	(89,023)
Payment for financing costs	(13,822)	(869)
Proceeds from short-term debt	259,347	—
Repayment of short-term debt	(192,635)	—
Proceeds from long-term debt	45,426	—
Repayment of long-term debt	—	(5,222)
Transactions with noncontrolling interest	(2,430)	(29,988)
Net cash provided by financing activities	274,780	140,436
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(1,324)	2,619
Net change in cash, cash equivalents, and restricted cash	36,600	33,487
Cash, cash equivalents, and restricted cash at beginning of period	77,095	43,608
Cash, cash equivalents, and restricted cash at end of period	$ 113,695	$ 77,095
Supplemental disclosure		
Cash payments for interest expense, net of capitalized interest	$ 6,625	$ 4,027
Schedule of non-cash activities:		
Change in capital expenditures	$ 41,972	
Change in other current and non-current assets	6,000	
Derecognition of noncontrolling interest	6,213	

See accompanying notes to consolidated financial statements.

Pattern Energy Group Holdings 2 LP
Notes to Consolidated Financial Statements
December 31, 2018 (unaudited), and the period from July 27, 2017 to December 31, 2017

1. Organization

On November 10, 2016, Pattern Energy Group Holdings 2 LP ("PEG LP 2") and its subsidiaries (collectively referred to as "Pattern Development 2.0", "we", "our", or the "Partnership") were formed as a Delaware limited partnership with the purpose, through its consolidated and equity method investees ("Project Entities"), to acquire and develop early to mid-stage renewable energy generation and electrical transmission assets for the purpose of further developing them for eventual sale.

On June 16, 2017, PEG LP 2’s General Partner executed the Second Amended and Restated Agreement of Limited Partnership of Pattern Energy Group Holdings 2 LP (“Capital and Redemption Agreement”) with R/C Wind II LP ("Riverstone"), Pattern Energy Group Holdings LP ("PEGH"), Management (together with PEGH, the "Existing LPs") and new investors, Riverstone Pattern Energy II Holdings LP (“Riverstone II”) and Pattern Energy Group, Inc. (“PEGI”). Per the terms of the Capital and Redemption Agreement, a capital call was approved by PEG LP 2’s Board of Directors. The Capital and Redemption Agreement became effective on July13, 2017 when PEG LP 2 received $205.0 million from the capital call. The capital call funds were used to redeem approximately 49% of the Existing LPs’ investment including all of PEGH’s investment, purchase Project Entities, and provide working capital funds. On December 26, 2017, PEG LP 2's Board of Directors approved an additional capital call of $25.0 million. Throughout 2018, the Board of Directors approved capital calls and sold additional Class A units receiving $395.0 million (unaudited). The capital call funds were used to redeem the remaining Existing LP units and to provide working capital for development activities.

Business

The Partnership is a developer of early to mid-stage renewable energy generation and electrical transmission projects in North America and Japan. The Partnership acquires projects and further develops them for sale once development is complete. The Partnership currently has some projects that are in the construction phase. The Partnership generally intends to sell its projects under construction prior to or when they reach commercial operation as the Partnership's business is not to hold projects during their operational phase.

On December 8, 2016, PEG LP 2 entered into a contribution agreement with PEGH. PEGH, through its wholly owned subsidiary, Pattern Energy Group LP ("Pattern Development 1.0"), contributed all of its equity interests in certain development subsidiaries to Pattern Development 2.0 in exchange for partnership interests in the Partnership (the “Contribution”). In June 2017, Pattern Development 1.0 and Pattern Development 2.0 entered into three separate agreements to transfer additional equity interests from Pattern Development 1.0 to the Partnership. PEGH sold equity interests in development subsidiaries in the United States, Canada, and Mexico (the “Second Contribution”) to the Partnership for $23.5 million.

On February 26, 2018, the Partnership entered into a Purchase and Sale Agreement (“Japan Purchase”) with Pattern Development 1.0 to acquire certain developmental renewable energy assets for $93.2 million (unaudited). The Japan Purchase closed on March 7, 2018. As further discussed in Footnote 2. Summary of Significant Accounting Policies, the financial results for all prior periods have been recast to reflect the operations obtained from the Japan Purchase.

As a result of the transactions with PEGH, the Partnership’s purchase of Project Entities from third parties, and the Partnership’s formation of greenfield Project Entities, the Partnership has varying interests in approximately 80 Project Entities (unaudited) in various degrees of development.

Liquidity

The Partnership evaluated its ability to continue as a going concern in preparing its consolidated financial statements. For the years ended December 31, 2018 and December 31, 2017, the Partnership had operating losses of $68.6 million and $40.5 million respectively and negative working capital as of December 31, 2018. Working capital as of December 31, 2018 is negative primarily due to our Project Entity, Grady Wind Energy Center LLC’s (“Grady”), loan facilities (refer to Footnote 12. Long-Term Debt) and material commitments related to the development and construction of our renewable energy generation projects. However, management believes that these conditions are temporary in nature and will be alleviated by our plans as described below.

- The Partnership has executed an Equity Contribution Commitment Agreement under which it will issue Class A shares to third party equity investors in our wholly owned Project Entity, Grady, in exchange for cash consideration. The equity contribution will occur when the Grady project reaches commercial operation which is expected to occur in the first half of 2019;
- The Partnership expects to sell its interest in Grady at commercial operation; and
- The Partnership has executed agreements with a third party to sell two additional project entities at construction completion, which is expected to occur in 2019.

Our plans to sell our interest in Grady and certain other Project Entities are expected to alleviate the potential substantial doubt about our ability to continue as a going concern as these transactions should provide working capital that will enable us to pay off the Grady loan facilities, our equity-back leveraged loan and other obligations. We consider these plans probable of implementation since there are executed agreements in place.

In addition to our plans to sell our interests in our Project Entities and obtain tax equity funding, the Partnership can make capital calls to its investors for funding. Our investor, PEGI, has committed to make capital commitments of up to $300.0 million to us as a part of approximately $1.0 billion of capital commitments which we have secured from long-term focused investors, such as pension and sovereign wealth funds. As of December 31, 2018, PEGI has invested a total of $183.0 million (unaudited) of the potential $300.0 million.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States ("U.S. GAAP"). They include the results of wholly-owned and partially-owned subsidiaries in which the Partnership has a controlling interest with all significant intercompany accounts and transactions eliminated.

As further discussed in Footnote 3. Japan Acquisition, the Japan Purchase is considered a transaction between entities under common control, and a change in reporting entity; therefore, the accompanying financial information presented has been recast to include the Japan Purchase for all periods presented. Accordingly, the accompanying consolidated financial statements include historical cost-basis accounts of the assets of the Japanese business prior to March 7, 2018, the date of the Japan Purchase.

When the Partnership acquires an entity under common control, the assets and liabilities from the entity are recorded on the Partnership's consolidated balance sheets at cost. If any cash was paid in excess of the net book value of the acquired assets and liabilities, the excess is recorded as a distribution. For the Japan Purchase, the Partnership paid $43.2 million in excess of the net book value of Japan Holdings and recorded as a distribution in common control transaction in Consolidated Statements of Change in Partners' Capital.

The consolidated financial statements include the accounts of PEG LP 2 and all other entities in which the Partnership has a controlling financial interest, including those variable interest entities ("VIEs") where the Partnership is the primary beneficiary. Results of operations of acquired entities are included from the date of acquisition. Results of operations of VIEs are included from the date at which the Partnership became the primary beneficiary.

Asset Acquisitions

When the Partnership acquires assets and liabilities that do not constitute a business or a VIE, the fair value of the purchase consideration, including the transaction costs for the asset acquisition, is assumed to be equal to the fair value of the net assets acquired. The purchase consideration, including transaction costs, is allocated to the individual assets and liabilities assumed based on their relative fair values. Contingent consideration associated with the acquisition is generally recognized when the contingency is resolved and the consideration is paid or becomes payable. No goodwill is recognized in an asset acquisition.

Variable Interest Entities

When we acquire a controlling interest in an entity that meets the definition of a VIE, but does not meet the definition of a business, the acquisition is accounted for using the acquisition method, except that no goodwill or bargain purchase is recognized. The fair value of the purchase consideration is allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values. Contingent consideration, if any exists, is also recognized and measured at fair value as of the acquisition date. To the extent that there is difference between the purchase consideration and the VIE's identifiable assets and liabilities recorded and measured at fair value, the difference is recognized as a gain or loss. Transaction costs associated with the acquisition of a VIE are expensed as incurred.

In the normal course of our business, we have 100% of the ownership interests in Project Entities that have been determined to be VIEs because the Project Entities lack sufficient equity at risk to develop, construct, and operate their project. The Partnership is the primary beneficiary since we have the power to direct the activities that most significantly impact the VIE's economic performance and exposure to the economics of the Project Entities through our obligation to fund the development of the project. When a Project Entity begins construction and obtains construction financing, we generally determine that the Project Entity is no longer a VIE because the entity has demonstrated that it has sufficient equity at risk to finance the construction without additional subordinated financial support. We also enter into joint venture agreements with third parties to develop and construct projects. We generally have a variable interest in these entities and an obligation to co-develop the project. Prior to construction financing these entities are usually VIEs, but we generally are not the primary beneficiary.

Equity Method Investments

We recognize our interests in Project Entities in which we have significant influence over, but do not control, as equity method investments. Our equity method investments are initially recognized at cost and subsequently adjusted for our share of the investee's income (losses). We reduce the carrying value of our equity method investments for any distributions from our investees that represent a return of capital. Our significant equity method investments are in our Project Entities where we have a development partner.

Noncontrolling Interests

Noncontrolling interests represent the portion of the Partnership's net income (loss), net assets and comprehensive income (loss) that is not allocable to the Partnership and is calculated based on ownership percentage, where applicable.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates and such differences may be material to the consolidated financial statements. Significant items subject to such estimates and assumptions include the useful lives of fixed assets and recoverability of long-lived assets.

Fair Value Measurements

The Partnership'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 either (i) actual market data or (ii) assumptions that other market participants would use in pricing and asset or liability, including estimates or risk. When such information is not available, internal models may be used. (Refer to Footnote 13. Fair Value Measurements).

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 as follows:

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.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of all cash balances and highly-liquid investments with original maturities of three months or less.

Restricted cash consists of cash balances which are restricted as to withdrawal or usage and includes cash held in reserves required under the Partnership's letter of credit ("LC") agreements.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows as of December 31 (in thousands):

Pattern Energy Group Holdings 2 LP
Notes to Consolidated Financial Statements
December 31, 2018 (unaudited), and the period from July 27, 2017 to December 31, 2017

Reconciliation of Cash, Cash Equivalents, and Restricted Cash as presented on the Consolidated Statements of Cash Flows

	December 31, 2018	For the period from July 27, 2017 through December 31, 2017
	(unaudited)	
Cash and cash equivalents at end of period	$ 61,712	$ 53,504
Restricted cash - current	—	2,451
Restricted cash	51,983	21,140
Cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	$ 113,695	$ 77,095

Major Equipment Advances

Major equipment advances represent amounts advanced to suppliers for the manufacture of wind turbines and solar panels in accordance with component equipment supply agreements and for which the Partnership has not taken title. These advances are reclassified to construction in progress when the Partnership takes legal title of the equipment.

Deferred Development Costs and Construction in Progress

The Partnership expenses all project development costs until a project is determined to be technically feasible and likely to achieve commercial success. When the project is deemed feasible, project development costs are recorded as deferred developments costs. Deferred development costs represent the accumulated cost of initial permitting, environmental reviews, land rights and obligations, and preliminary design and engineering work.

Upon commencement of construction, all construction costs along with applicable previously deferred development costs are recorded as a component of construction in progress. Construction in progress represents the accumulation of project development costs and construction costs, including costs incurred for the purchase of major equipment, such as turbines and modules for which the Partnership has taken legal title, civil engineering, electrical, and other related costs. Construction in progress is reclassified to property, plant and equipment when the project achieves commercial operation.

Capitalization of Other Costs

The Partnership capitalizes certain employee compensation and other indirect costs ("indirect costs") associated with development and construction projects. Indirect costs are capitalized based on time estimates spent on each project when the project is determined to be probable or technically feasible and likely to achieve commercial success.

The Partnership capitalizes interest and related financing fees related to the long-term debt used to finance projects in construction. Capitalization is discontinued when the project achieves commercial operation.

Property, Plant and Equipment

Property, plant and equipment represents the costs of completed and operational projects as well as land, computer software, and other equipment. Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the respective assets' useful lives. Land is not depreciated. Improvements to property, plant and equipment deemed to extend the useful economic life of an asset are capitalized. Repair and maintenance costs are expensed as incurred.

Impairment of Long-Lived Assets

The Partnership periodically evaluates long-lived assets for potential impairment whenever events or changes in circumstances have occurred that indicate that impairment may exist, or the carrying amount of the long-lived asset may not be recoverable. An impairment loss is recognized only if the carrying amount of a long-lived asset is not recoverable based on its estimated future undiscounted cash flows. An impairment loss is calculated based on the

excess of the carrying value of the long-lived asset over the fair value of such long-lived asset, with the fair value determined based on an estimate of discounted future cash flows.
Revenue Recognition

Pattern Energy Group Holdings 2 LP
Notes to Consolidated Financial Statements
December 31, 2018 (unaudited), and the period from July 27, 2017 to December 31, 2017

The Partnership has three sources of revenue: sale of completed energy-generating and transmission projects, services from management and administration, and electricity sales from completed projects before its eventual sale.

The Partnership develops and sells renewable energy generation and electrical transmission assets. These assets are developed in Project Entities that hold the land or leases for land on which the assets are being developed. The Partnership applies the guidance on sales of real estate in ASC 360-20 to account its sales of its interest in Project Entities. The Partnership recognizes revenue for its Project Sales under the full accrual method when a sale is consummated, the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the Project Entity, the Partnership's receivable, if any, is not subject to future subordination, and the Partnership has transferred to the buyer the usual risks and rewards of ownership. In evaluating whether the Partnership has transferred the usual risks and rewards of ownership, the Partnership evaluates whether it has any continuing involvement with the Project Entity and the nature of that involvement and its impact on the Partnership's revenue recognition for the transaction. If the buyer's initial investment is not adequate and the Partnership has provided funds that are significant relative to the sale transaction to the buyer, the Partnership will defer recognition of revenue for the sale and account for the transaction under the deposit method. If a sale meets the criteria for recognition under the full accrual method, the Partnership recognizes revenue when its interest in the Project Entity transfers to the buyer and reclassifies the Project Entity's assets to cost of sales.

The Partnership earns revenue from the Management, Operations and Maintenance Agreements ("MOMAs") and Project Administration Agreements ("PAAs") that it has with wind farms, which are owned by related parties. These agreements provide persuasive evidence that a contract exists between the Partnership and wind farm owner. Under each MOMA and PAA, the Partnership provides various services to the wind farms typically in exchange for a fixed annual fee, payable in equal monthly installments. The Partnership recognizes revenue for its services as they are rendered each month, based on the amount invoiced each month.

The Partnership sells electricity under the terms of Power Sale Agreements ("PSAs"), Power Purchase Agreements ("PPAs") or at market prices. Revenue is recognized based upon the amount of electricity delivered at rates specified under the contracts or at market prices, for spot market transactions, assuming all other revenue recognition criteria are met. Depending on the terms of the PSAs or PPAs, we may account for the contracts as operating leases. The Partnership's electricity revenue was earned by its Project Entity, Stillwater Wind, LLC, which was sold on November 20, 2018 to PEGI and unrelated third parties (refer to Footnote 4. Other Acquisitions and Dispositions).

Cost of Revenue

The Partnership's cost of revenue for its sale of its interests in Project Entities is the Project Entities' assets. The Project Entities' assets consist of deferred development costs and construction in progress and either the land or lease of land.

The Partnership’s other cost of revenue is comprised of direct costs of operating and maintaining its wind project facilities, including labor, turbine service arrangements, land lease royalties, depreciation, accretion, property taxes and insurance.

Income Taxes

The Partnership is organized as a pass-through entity for U.S. federal and state income tax purposes. Federal and state income taxes are assessed at the owner level and each owner is liable for its own tax payments. The Partnership is subject to other state-based taxes. Certain entities are corporations or have elected to be taxed as corporations. In these circumstances, income tax is accounted for under the asset and liability method. The Partnership is subject to Canada, Netherlands, Japan and Mexico income taxes based upon the tax laws and rates in effect in the countries in which operations are conducted.

The asset and liability method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The Partnership recognizes deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Partnership considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning and results of recent operations. If the Partnership determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, it would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Partnership records uncertain tax positions in accordance with ASC 740, Income Taxes, on the basis of a two-step process whereby (1) it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more likely than not recognition threshold, it recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Partnership has a policy to classify interest and penalties associated with uncertain tax positions together with the related liability and the expenses incurred related to such accruals, if any, are included in the provision for income taxes.

Concentration of Credit Risk

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist primarily of cash and cash equivalents, major equipment advances, and transmission security deposits. The Partnership’s cash and cash equivalents are with high quality institutions. The Partnership has exposure to credit risk to the extent cash and cash equivalent balances, including restricted cash, exceed amounts covered by federal deposit insurance. Exposure to credit risk for major equipment advances and transmission security deposits are limited by the amount of the deposit. Major equipment advances are with large creditworthy companies and transmission security deposits are held with public utilities. The Partnership believes that its credit risk is immaterial.

As of December 31, 2018 and 2017, the Partnership recorded in short-term and long-term deposits of $49.2 million (unaudited) and $7.3 million, respectively, for transmission security deposits to public utilities companies and $147.6 million (unaudited) and $51.7 million, respectively, in major equipment advances to major turbine suppliers.

Foreign Currency Translation

The assets and liabilities of foreign subsidiaries, where the local currency is the functional currency, are translated from their respective functional currencies into U.S. dollars (“USD”) at the rates in effect at the consolidated balance sheets date and revenue and expense amounts are translated at average rates during the period, with the resulting foreign currency translation adjustments recorded in other comprehensive income (loss), net of tax, in the consolidated statements of changes in partners’ capital and comprehensive income (loss). Where the USD is the functional currency, re-measurement adjustments are recorded in other (expense) income, net in the accompanying consolidated statements of operations.

Recently Adopted Accounting Standards

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business ("ASU 2017-01"), which provides a screen to determine when an integrated set of assets and activities (the "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods, with early application permitted. The Partnership adopted ASU 2017-01 on January 1, 2018 and applied prospectively to any transactions occurring within the period of adoption. The adoption of ASU 2017-01 did not have a significant impact on the Partnership as most of the Partnership's acquisitions prior to the adoption of ASU 2017-01 were accounted for as asset acquisitions. Additionally, the Partnership's sales of its interests in Project Entities are within the scope of Accounting Standards Codification ("ASC") 360-20.

Recently Issued Accounting Standards not yet Adopted

In October 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities ("ASU 2018-17"). ASU 2018-17 requires reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety for determining whether a decision-making fee is a variable interest. The standard is effective for all entities for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. Entities are required to apply the amendments in ASU 2018-17 retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The Partnership is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"), which amends changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty which should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. ASU 2018-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those periods. Early application is permitted. The Partnership is currently assessing the impact of changes to the disclosure requirements for fair value measurement.
In February 2017, the FASB issued ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets ("ASU

2017-05"). ASU 2017-05 is meant to clarify the scope of ASC 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets and to add guidance for partial sales of nonfinancial assets. ASU 2017-05 is required to be adopted concurrent with the Partnership's adoption of ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09" or "ASC 606"). ASU 2017-05 may be adopted using either a full retrospective method or a modified retrospective method. The Partnership will adopt ASU 2017-05 using a modified retrospective approach as this is the adoption method the Partnership is using for its adoption of ASU 2014-09. The Partnership does not expect this update will have a material impact on its 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. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses ("ASU 2018-19") clarifies that receivables arising from operating leases are not within the scope of ASC 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with ASC 842, Leases. ASU 2016-13 is effective for fiscal years beginning after December 15, 2020. The adoption of ASU 2016-13 is not expected to have a material impact on the Partnership's consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02" or "ASC 842"), which requires lessees to recognize right-of-use assets and lease liabilities, for all leases, with the exception of short-term leases, at the commencement date of each lease. Under the new guidance, lessor accounting is largely unchanged. ASU 2016-02 simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and liabilities. In 2018, the FASB issued ASU 2018-01, Leases (Topic 842):Land Easement Practical Expedient for Transition to Topic 842 ("ASU 2018-01"), ASU 2018-10, Codification Improvements to Topic 842, Leases ("ASU 2018-10"), ASU 2018-11, Leases (Topic 842) - Targeted Improvements ("ASU 2018-11") and ASU 2018-20, Leases (Topic 842): Narrow-Scope Improvements for Lessors ("ASU 2018-20"). The Partnership will adopt these ASUs concurrently with its adoption of ASU 2016-02.

The Partnership expects to elect the package of practical expedients permitted under the transition guidance within the new standard, which among other things, will allow the Partnership to carry forward prior conclusions related to contracts accounted for as leases, historical lease classification and initial direct costs for those arrangements with commencement dates prior to adoption. The Partnership will also elect the practical expedient related to land easements, allowing the Partnership to carry forward its accounting treatment for land easements on existing agreements with commencement dates prior to adoption as intangible assets. The Partnership has lease agreements with lease and non-lease components and is electing not to separate these and will treat as a single lease component. The Partnership will make an accounting policy election whereby short-term leases with an initial term of 12 months or less will not be recorded on the consolidated balance sheets. The Partnership will recognize those lease payments in the consolidated statements of operations on a straight-line basis over the lease term. The Partnership is implementing a number of system enhancements to facilitate the identification, tracking and reporting of leases based upon the requirements of the new lease standard. The Partnership is also assessing the accounting impact of ASU 2016-02 as it applies to its PPAs, land leases, office leases and equipment leases. The Partnership is not yet able to quantify the impact on the consolidated financial statements of adopting this standard.

In May 2014, the FASB issued ASU 2014-09. ASU 2014-09 replaces industry-specific guidance and establishes a single five-step model to recognize revenue. The core principle of this new standard 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. ASU 2014-09 also 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. Since its issuance, ASC 606 has been amended by several accounting standard updates issued by the FASB. These updates clarify how to apply the principal versus agent guidance, identify performance obligations and apply the licensing implementation guidance. The FASB also issued narrow scope amendments to ASC 606 regarding implementation issues on collectability, non-cash consideration, completed contracts at transition, related to loan guarantee fees, impairment testing of contract costs, provisions for losses on construction-type and production-type contracts. ASU 2014-09 and the related accounting standard updates (collectively, the "New Standard") are effective for annual reporting periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019 with early adoption permitted for annual reporting periods beginning after December 15, 2016. The Partnership plans to adopt the New Standard effective January 1, 2019 using the modified retrospective approach. Under the modified retrospective approach the Partnership will present the cumulative effect of initially applying the New Standard at the date of initial application. The Partnership will also present additional disclosures upon adoption of the New Standard.

The Partnership expects the adoption of ASC 606 to primarily affect sales of its development projects. Sales of development projects are currently accounted for under ASC 360-20 as they include the sale or transfer of a lease of real estate and development assets that are integral to the real estate. The Partnership's sales of its equity method investments in an entity that holds substantial real estate or a lease of real estate and development assets integral to the real estate are also accounted for under ASC 360-20 as the equity method investment is considered in substance real estate. Under ASC 360-20, the Partnership is required to assess how its continuing involvement in a development project affects the revenue recognition for the sale of a development project. Additionally, under ASC 360-20, the Partnership does not recognize contingent consideration from the sale of a development project until the contingency is resolved. ASC 606 supersedes the guidance in ASC 360-20 for sales of real estate and in substance real estate. Additionally, ASC 606 excludes from its scope sales of equity method investments. As such, upon the adoption of ASC 606, the Partnership will account for sales of its equity method investments in development projects under ASC 860. However, sales of consolidated development projects will be accounted for under ASC 606 as developing projects for the purpose of selling them is an output of the Partnership's ordinary activities. The Partnership anticipates that revenue from sales of consolidated development projects will be recognized earlier under ASC 606, specifically when the sale contains contingent consideration.

The Partnership does not expect the adoption of ASC 606 to significantly impact its accounting for its MOMAs and PAAs with wind farms. Revenue for these services is currently recognized over time. Under these agreements, the Partnership provides services to the various wind farms, typically for a fixed annual fee payable in monthly installments, which escalates with the consumer price index ("CPI") on an annual basis. The services provided by the Partnership to the wind farm each month represent a single performance obligation satisfied over time. The services are invoiced at a fixed price each month. Under ASC 606, the Partnership will be recognizing revenue for these agreements over time as it invoices the wind farm.

The Partnership is in the process of finalizing its evaluation of the impact of the new standard on its accounting policies, processes and system requirements. The Partnership's assessment efforts to date have included identification of its revenue streams, reviewing and updating accounting policies affected by the new standard, analyzing contracts to identify the impact of ASC 606 and assessing internal controls, processes, and systems requirements. The Partnership has determined that adoption of ASC 606 will not have a material impact on its consolidated financial statements in the period of adoption.

ASU 2014-09 also includes ASC 340-40, Other Assets and Deferred Costs—Contracts with Customers ("ASC 340-40"). ASC 340-40 requires that the Partnership capitalize both certain costs to obtain a contract with a customer and to fulfill a contract with a customer. The Partnership will adopt ASC 340-40 concurrently with its adoption of the New Standard. The Partnership will apply a modified retrospective approach for adoption, with the cumulative effect of initially applying ASC 340-40 at the date of initial application. The Partnership does not expect the adoption of ASC 340-40 to have a material impact.

3. Japan Acquisition

Acquisition of Pattern Development Japan Power Holdings LLC

On March 7, 2018, the Partnership acquired 100% of the membership interests in Pattern Development Japan Power Holdings LLC ("Japan Holdings") from Pattern Development 1.0 for a total cash consideration of $93.2 million (unaudited). The Japan Purchase is considered a transaction between entities under common control and a change in reporting entity. Accordingly, we have recast the Partnership's 2017 consolidated financial statements as if Japan Holdings had been part of the Partnership for all periods presented in these consolidated financial statements (the "Recast Period") using the pooling method of accounting.

Japan Holdings holds 93.42% of the equity interests in Green Power Investment Corporation ("GPI") and 100% of the equity interests in Pattern Development Japan G.K. ("PDJ"). GPI and PDJ are in the business of developing and operating renewable energy projects in Japan. Through the acquisition the Partnership acquired: a development pipeline in Japan; a development contract to develop Tsugaru; a minority interest in Futtsu; and management agreements for Ohorayama, Kanagi, and Otsuki, operating renewable energy projects owned by PEGI.

Recasted Financial Statements

During the Recast Period, these consolidated financial statements combine the consolidated Japan Holdings balance sheet and results of operations together with the Partnership's historical consolidated balance sheet and results of operations under the pooling method of accounting. Japan Holdings consolidates: Green Power Tsugaru G.K. ("Tsugaru"), G.K. Green Power Futtsu ("Futtsu"), GPI, Otsuki Wind Power Corporation ("Otsuki"), and G.K Green Power Kanagi ("Kanagi"). On March 7, 2018, some or all of Japan Holdings' equity interests in these projects were sold to PEGI.

Pattern Energy Group Holdings 2 LP
Notes to Consolidated Financial Statements
December 31, 2018 (unaudited), and the period from July 27, 2017 to December 31, 2017

Historical Financial Information

As a result of our acquisition of Japan Holdings, GPI, PDJ and all their consolidated entities ("Consolidated Japan Holdings") are included in the consolidated balance sheet as of December 31, 2017 under the pooling method. The following table presents our previously reported December 31, 2017 consolidated balance sheet, adjusted for the pooling of Japan Holdings:

	December 31, 2017		
	PEG LP 2 (As previously reported)	Consolidated Japan Holdings	PEG LP 2 (As currently reported)
Assets			
Current assets:			
Cash and cash equivalents	$40,211	$ 13,293	$53,504
Restricted cash, current	2,451	—	2,451
Short-term deposits	2,845	—	2,845
Prepaid expenses and other current assets	4,048	5,943	9,991
Total current assets	49,555	19,236	68,791
Restricted cash	14,242	6,898	21,140
Related party receivable	17,248	—	17,248
Major equipment advances	50,495	1,172	51,667
Deferred development costs	17,825	1,712	19,537
Construction in progress	164,288	17,386	181,674
Property, plant and equipment, net	2,710	130,677	133,387
Unconsolidated investments	6,063	1,691	7,754
Long-term deposits	9,642	184	9,826
Other assets	2,528	13,309	15,837
Total assets	$334,596	$ 192,265	$526,861
Liabilities and partners' capital			
Current liabilities:			
Accounts payable and accrued liabilities	$16,985	$ 18,055	$35,040
Current portion of long-term debt, net	101,920	5,244	107,164
Related party payable, current	11,565	4,978	16,543
Total current liabilities	130,470	28,277	158,747
Long-term debt, net	—	74,891	74,891
Other long-term liabilities	843	24,705	25,548
Total liabilities	131,313	127,873	259,186
Partners' capital:			
General partners	—	—	—
Limited partners	202,846	61,122	263,968
Accumulated other comprehensive income (loss)	98	(2,302)	(2,204)
Total capital before noncontrolling interest	202,944	58,820	261,764

Noncontrolling interest	339	5,572	5,911
Total partners' capital	203,283	64,392	267,675
Total liabilities and partners' capital	$334,596	$ 192,265	$526,861

Pattern Energy Group Holdings 2 LP
Notes to Consolidated Financial Statements
December 31, 2018 (unaudited), and the period from July 27, 2017 to December 31, 2017

As a result of our acquisition of Japan Holdings, Consolidated Japan Holdings are included in our operating results for the period from July 27, 2017 through December 31, 2017. The following table presents the previously reported consolidated statement of operations for the period from July 27, 2017 through December 31, 2017, adjusted for the pooling of Japan Holdings.

	For the period from July 27, 2017 through December 31, 2017		
	PEG LP 2 (As previously reported)	Consolidated Japan Holdings	PEG LP 2 (As currently reported)
Revenue:			
Electricity sales	$—	$ 9,974	$9,974
Total revenue	—	9,974	9,974
Cost of revenue:			
Electricity production	—	5,756	5,756
Total cost of revenue	—	5,756	5,756
Operating expenses:			
Development expense	18,065	3,925	21,990
Impairment expense	—	1,535	1,535
General and administrative	2,722	4,477	7,199
Related party expenses	11,777	2,260	14,037
Total operating expenses	32,564	12,197	44,761
Operating loss	(32,564)	(7,979)	(40,543)
Other income (expense):			
Interest expense	(1,240)	(861)	(2,101)
Loss from unconsolidated investments, net	(1,829)	(133)	(1,962)
Other income (expense), net	156	(530)	(374)
Total other expense	(2,913)	(1,524)	(4,437)
Net loss before income taxes	(35,477)	(9,503)	(44,980)
Income tax provision	—	3,314	3,314
Net loss	(35,477)	(12,817)	(48,294)
Net income attributable to noncontrolling interest	—	1,101	1,101
Net loss attributable to controlling interest	$(35,477)	$ (13,918)	$(49,395)

Pattern Energy Group Holdings 2 LP
Notes to Consolidated Financial Statements
December 31, 2018 (unaudited), and the period from July 27, 2017 to December 31, 2017

As a result of our acquisition of Japan Holdings, Consolidated Japan Holdings are included in our other comprehensive loss results for the period from July 27, 2017 through December 31, 2017. The following table presents the previously reported consolidated statement of other comprehensive loss for the period from July 27, 2017 through December 31, 2017, adjusted for the pooling of Japan Holdings.

	For the period from July 27, 2017 through December 31, 2017		
	PEG LP 2 (As previously reported)	Consolidated Japan Holdings	PEG LP 2 (As currently reported)
Net loss	$(35,477)	$ (12,817)	$(48,294)
Other comprehensive income			
Foreign currency translation and other comprehensive income, net	98	2,230	2,328
Comprehensive loss	(35,379)	(10,587)	(45,966)
Less comprehensive income attributable to noncontrolling interest:			
Net income attributable to noncontrolling interest	—	1,101	1,101
Foreign currency translation and other comprehensive income, net	—	3,083	3,083
Comprehensive income attributable to noncontrolling interest	—	4,184	4,184
Comprehensive loss attributable to controlling interest	$(35,379)	$ (14,771)	$(50,150)

Pattern Energy Group Holdings 2 LP
Notes to Consolidated Financial Statements
December 31, 2018 (unaudited), and the period from July 27, 2017 to December 31, 2017

On March 7, 2018, GPI completed the sale to PEGI of its equity interests in four projects in Japan, Tsugaru, Otsuki, Kanagi, and G.K. Green Power Otsuki for a total sales price of $99.1 million (unaudited). GPI recognized a gain of $23.6 million (unaudited) upon the deconsolidation of Futtsu, which is included in net gain on transactions on consolidated statements of operations. $10.4 million (unaudited) of the $23.6 million (unaudited) gain was related to re-measurement of GPI's retained interest in Futtsu at fair value.
As a result of the Partnership's acquisition of Japan Holdings, Consolidated Japan Holdings, the operations and sale of the four projects are included in our operating results through March 7, 2018 the date the four projects were sold. The continuing operations of GPI, PDJ and the remaining project assets after March 7, 2018 are part of the ongoing operation of the Partnership. The following table presents the consolidated statement of operations for the year ended December 31, 2018 (unaudited), adjusted to include the pre-acquisition results of Japan Holdings.

	Year ended December 31, 2018		
	PEG LP 2 (unaudited)	Consolidated Japan Holdings (unaudited)	PEG LP 2 (As reported) (unaudited)
Revenue:			
Electricity sales	$926	$ 4,409	$ 5,335
Project sales	94,900	—	94,900
Project sales, related party	22,950	99,123	122,073
Services, related party	17,481	22,942	40,423
Total revenue	136,257	126,474	262,731
Cost of revenue:			
Electricity production	122	2,264	2,386
Project sales expense	89,016	—	89,016
Project sales expense, related party	21,514	62,178	83,692
Services expense, related party	2,309	(122)	2,187
Total cost of revenue	112,961	64,320	177,281
Operating expenses:			
Development expense	52,742	1,274	54,016
Impairment expense	38,835	—	38,835
General and administrative	15,795	3,705	19,500
Related party expenses	40,868	809	41,677
Total operating expenses	148,240	5,788	154,028
Operating income (loss)	(124,944)	56,366	(68,578)
Other income (expense):			
Interest expense	(2,170)	(311)	(2,481)
Loss from unconsolidated investments, net	(2,040)	(284)	(2,324)
Net gain on transactions	—	23,623	23,623
Other income, net	274	3,732	4,006
Total other income (expense)	(3,936)	26,760	22,824
Net income (loss) before income taxes	(128,880)	83,126	(45,754)

Income tax provision	2,730	11,154	13,884
Net income (loss)	(131,610)	71,972	(59,638)
Net income (loss) attributable to noncontrolling interest	(189)	487	298
Net income (loss) attributable to controlling interest	$(131,421)	$ 71,485	$(59,936)

4. Other Acquisitions and Dispositions

The Partnership enters into agreements to purchase renewable energy assets in early to mid-stage development (the "Projects"). The Partnership further develops the Projects in its Project Entities typically with the intent to sell its interest in the Project Entities once the Partnership has completed development and, in some circumstances, construction of the Projects. From time to time, the Partnership may hold the Projects during their operational periods. The purchase agreements usually require an initial payment and contingent payments based on the Projects reaching certain milestones. For the year ended December 31, 2018 and for the period from July 27, 2017 through December 31, 2017, the Partnership paid $6.2 million (unaudited) and $4.8 million, respectively, in initial and milestone payments for the acquisitions of the Projects other than for the Japan Purchase (refer to Footnote 3. Japan Acquisition).

Sale of Stillwater

In the last quarter of 2018, the Partnership sold 100% of its interest in the Project Entity of Stillwater Wind LLC and its holding companies (together, "Stillwater") to PEGI and an unrelated third parties for an aggregate purchase price of $117.8 million (unaudited).

Sale of Project Entity in Mexico

In the last quarter of 2018, the Partnership sold its interests in a Project Entity in Mexico. The sale resulted in a loss to the Partnership of $1.6 million (unaudited). The loss was recognized upon the sale of the Project Entity in Mexico in project sales expense in the consolidated statements of operations. The corresponding revenue was not recognized for the sale as the Partnership accounted for the sale under the deposit method because we have a significant receivable from the Project Entity in Mexico. Under the deposit method, we recognized the consideration received as a deposit liability and did not de-recognize our investment in the Project Entity in Mexico. However, the Partnership wrote down the Project Entity in Mexico by the amount of the loss recognized and reclassified the Project Entity in Mexico to held for sale. The carrying amount of the Project Entity in Mexico is $2.2 million (unaudited), which is recorded in assets held for sale in other assets (refer to Footnote 7. Assets Held for Sale).

5. Notes Receivable, Related Party

In November 2018, the Partnership entered into funding agreements ("Notes") with two of its equity method investments in Mexico. The funding agreements are accruing interest at an annual rate of 8.6% (unaudited). The Notes are expected to be repaid upon completion of construction, which is expected to occur in the second half of 2019. The Notes are convertible into equity at the option of the Partnership and other investor at a fixed conversion rate.

6. Property, Plant and Equipment

The following table presents the categories within property, plant and equipment, and accumulated depreciation as of December 31 (in thousands):

	2018 (unaudited)	2017	Depreciable Life (Years)
Operating wind and solar farms	$ 752	$ 143,904	20 - 30
Development equipment	6,454	4,952	2-10
Computer software	82	28	3
Computer equipment	361	261	2 - 5
Furniture	273	107	2 - 5
Leasehold improvements	647	288	Shorter of their estimated useful lives or the remaining term of the lease.
Land	1,807	1,365	N/A
Other	67	118	2 - 5
	10,443	151,023	
Less: accumulated depreciation	(3,624)	(17,636)	
Property, plant and equipment, net	$ 6,819	$ 133,387	

The Partnership recorded depreciation expense in the consolidated statements of operations related to property, plant and equipment of $1.1 million (unaudited) and $3.5 million for the year ended December 31, 2018 and for the period from July 27, 2017 through December 31, 2017, respectively.

7. Assets Held for Sale

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December 31, 2018 (unaudited), and the period from July 27, 2017 to December 31, 2017

In August 2018, the Partnership, through one of its subsidiaries, executed a Memorandum of Understanding ("MOU") with Pattern Gulf Wind Holdings, LLC ("Gulf"), a 100% owned indirect subsidiary of PEGI. The MOU provided Gulf with the option to purchase turbines from the Partnership's subsidiary. In September 2018, Gulf exercised its option to purchase turbines. Pursuant to the MOU, the Partnership has the right to determine the number of turbines it will sell to Gulf. Since the MOU requires that the Partnership sell a minimum up to a maximum number of turbines to Gulf, the Partnership determined that as of December 31, 2018, the minimum number of turbines meet the criteria for held for sale.

Upon determining that the turbines are held for sale, the Partnership is required to record the turbines at the lower of their carrying amount or their fair value less cost to sell and thus recorded a loss of $5.9 million (unaudited). The loss is recorded in impairment expense in the consolidated statements of operations. The turbines are classified as held for sale and recorded in other assets on the consolidated balance sheets. The liabilities that are expected to transfer to Gulf as part of the sale of the turbines are classified as part of held for sale. The carrying amount of the turbines classified as held for sale is $9.4 million (unaudited) and the carrying amount of the liabilities classified as held for sale is $1.8 million (unaudited).

In the last quarter of 2018, the Partnership sold its interests in a Project Entity in Mexico. The sale is accounted for under deposit accounting (refer to Footnote 4. Other Acquisitions and Dispositions). As such, the Partnership did not de-recognize its investment in the Project Entity in Mexico. The Partnership reclassified the carrying amount of the Project Entity in Mexico, after recording the loss on sale, of $2.2 million (unaudited) to assets held for sale. The asset held for sale is in other assets on the consolidated balance sheets.

8. Impairment of Long-lived Assets Held and Used

The Partnership recorded an impairment of $29.3 million (unaudited) related to wind turbine equipment held for development projects. A review of the Partnership's development projects requiring the wind turbine equipment triggered an assessment of the recoverability of the wind turbine equipment. The Partnership determined that the carrying value of the wind turbine equipment is not fully recoverable through deployment at its development projects and that the fair value of the wind turbine equipment is less than the carrying value by $29.3 million (unaudited).

9. Variable Interest Entities

Consolidated Variable Interest Entities

We have Project Entities in North America and Japan in the development stage and construction stage. The Partnership consolidates Project Entities when it has a controlling financial interest in them. The Partnership consolidates Project Entities that are not VIEs when it holds the majority of the voting rights and there are no substantive participating or kick-out rights held by other parties. The Partnership consolidates Project Entities that are VIEs when it has the characteristics of a primary beneficiary and there are no participating or kick-out rights held by others that would prevent the Partnership from controlling the Project Entity.

Project Entities are generally VIEs during the development stage as they do not have sufficient equity at risk to finance their operations without additional subordinate support from the Partnership. Once the Project Entities have obtained third party financing for construction of the project, the Partnership reconsiders whether the Project Entity is a VIE and whether it is the primary beneficiary.

As a result of the Contribution and the Second Contribution, the Partnership became the direct and indirect parent of five Project Entity structures that are subject to a profit-sharing arrangement under an X/Y share structure. The X shares have 100% of the voting interests and will receive 10% of the distributions after the Partnership has been returned all of its invested capital. The Y shares are non-voting and have no obligations to fund capital into the projects. The Project Entities are in the development stage, are VIEs and the Partnership has been determined to be the primary beneficiary.

The following presents the carrying amounts of the consolidated VIEs' assets and liabilities included in the consolidated balance sheets as of December 31 (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's resources.

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	2018 (unaudited)	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 7,852	$7,679
Restricted cash, current	—	2,451
Short-term deposits	9,824	2,579
Prepaid expenses and other current assets	15,296	5,201
Total current assets	32,972	17,910
Related party receivable, long-term	—	17,248
Notes receivable, long-term	2,243	—
Major equipment advances	124,816	1,172
Deferred development costs	5,089	18,261
Construction in progress	60,468	204,883
Property, plant and equipment, net	2,749	2,146
Long-term deposits	16,123	6,597
Other assets	11,838	8,552
Total assets	$ 256,298	$276,769
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 34,131	$24,181
Current portion of long-term debt, net	211,907	134,038
Related party payable, current	169	22,365
Total current liabilities	246,207	180,584
Other long-term liabilities	9,212	3,733
Total liabilities	$ 255,419	$184,317

Unconsolidated Variable Interest Entities

The Partnership has formed Project Entities with third parties to develop certain projects. The Partnership and third party are both equity investors in these Project Entities. These Project Entities are VIEs. Since the Partnership does not have a controlling financial interest in these Project Entities, it does not consolidate them. The Partnership accounts for its interests in these Project Entities under the equity method of accounting (Refer to Footnote 10. Unconsolidated Investments).

As of December 31, 2018 and December 31, 2017, the Partnership’s maximum exposure to loss is estimated at $29.3 million (unaudited) and $7.8 million, respectively, which represents the carrying value of its investments in unconsolidated VIEs. The maximum exposure to loss represents the maximum loss that the Partnership could be required to recognize assuming all the investees’ assets are worthless, without consideration of the probability of a loss or any actions the Partnership may take to mitigate any such loss.

10. Unconsolidated Investments

Unconsolidated investments represent the Partnership’s equity interests in Project Entities in which it holds significant influence over, but does not control, the Project Entity’s operations. The Partnership does not control these Project Entities as it has development partners with significant equity interests in these Project Entities, and such partners hold substantive rights to participate in the significant activities of the Project Entities. The unconsolidated investments of

$29.3 million (unaudited) and $7.8 million as of December 31, 2018 and 2017, respectively, is comprised of investments in seven Project Entities and eleven Project Entities, respectively, with ownership percentages in these Project Entities varying from 9.0% to 50.0%.

The Partnership accounts for its unconsolidated investments under the equity method of accounting. The Partnership records its initial investment in these Project Entities at cost. The Partnership then increases or decreases the carrying cost of the investment for its share of income or loss from each Project Entity based upon its ownership percentage and recognizes corresponding income or loss in the its consolidated statements of operations. Any cash distributions from an unconsolidated Project Entity are accounted for as an increase in cash and a decrease in the carrying cost of our investment.

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In the event that cumulative allocated earnings or losses, distributions and other comprehensive income (loss) exceed the carrying balance of the investment, we will suspend the application of the equity method of accounting until such time as each Project Entity's cumulative equity method earnings and other comprehensive income exceed cumulative distributions received, cumulative equity method losses and cumulative other comprehensive income (loss) during the suspension period.

11. Prepaid Expenses and Other Current and Non-current Assets
The following table presents the major components of prepaid expenses and other current and non-current assets as of December 31 (in thousands):

	2018 (unaudited)	2017
Prepaid expenses and other current assets:		
Prepaid expenses	$ 1,245	$2,915
Trade receivables	32	2,700
Related party receivables, current	3,387	—
Deferred financing costs, current, net	141	1,571
Assets held for sale	11,537	—
Other current assets	3,119	2,805
Total prepaid expenses and other current assets	$ 19,461	$9,991
Other assets:		
Deferred financing costs	$ 1,274	$—
Finite-lived intangible assets, net	16,769	8,953
Other assets	4,709	6,884
Total other assets	$ 22,752	$15,837

12. Long-Term Debt
The Partnership's long-term debt is presented below as of December 31 (in thousands):

	2018 (unaudited)	2017	Contractual Interest Rate	Maturity
Grady equipment loan facility *	$ —	$103,443	LIBOR plus 3.25%	June 2018
Grady construction loan facility	170,155	—	LIBOR plus 1.00%	August 2019
GK Green Power Futtsu *	—	77,363	TIBOR plus 1.00%	December 2033
Otsuki Wind Power K.K *	—	4,582	TIBOR plus 1.40%	November 2021
Equity-backed leverage loan	45,426	—	LIBOR plus 5.00%	March 2020
	215,581	185,388		
Less: deferred financing costs	(3,674)	(3,333)		
Total debt	211,907	182,055		
Less: current portion of long-term debt	(211,907)	(107,164)		
Long-term debt, net	$ —	$74,891		

* Project debt was sold during 2018 and the debt was assumed by the buyer. The Grady equipment loan facility was extinguished in full prior to December 31, 2018.

For the year ended December 31, 2018 and for the period from July 27, 2017 through December 31, 2017, the Partnership incurred a total interest and amortized financing costs of $11.6 million (unaudited) and $4.3 million, respectively. Of these amounts, $9.1 million (unaudited) and $2.2 million were capitalized to construction in progress in the consolidated balance sheets as of December 31, 2018 and 2017, respectively.

Grady Construction Loan Facility

On July 13, 2018, the Partnership entered into a loan facility ("Loan Facility") with three lenders to fund the construction of the Grady wind project. The Loan Facility provides up to $274.1 million (unaudited) and accrues interest at LIBOR plus 1.00%. The Loan Facility is due in full in August 2019. Upon achieving commercial operation, the Partnership expects to receive cash contributions from its parent and a third-party tax equity investor in exchange for additional equity in the Partnership. These contributions will fund the entire repayment of the Loan Facility (refer to Footnote 1. Organization). Collateral for the Loan Facility includes the wind project's tangible assets, contractual rights and cash on deposit with the depository agents. The Loan Facility contains a broad range of covenants that, subject to certain exceptions, restrict Grady’s ability to incur debt, grant liens, sell or lease certain assets, transfer equity interests, dissolve, make distributions, or change their business. As of the date of these consolidated financial statements, no events or conditions which constitutes an event of default in relation to these covenants existed.

In addition to the Loan Facility, the Partnership entered into a Letter of Credit, Reimbursement and Loan Agreement ("LCRA") on July 13, 2018 for an LC facility of $56.7 million (unaudited) which can increase to $64.2 million (unaudited). The LCs provided are available from 1 to 18 years, and the Partnership has not drawn on the LC facility as of December 31, 2018 (refer to Footnote 15. Commitments and Contingencies).

Industrial Revenue Bond

On July 13, 2018, the Partnership executed several contracts related to the issuance of a $353.0 million (unaudited) industrial revenue bond ("IRB") by the Village of Grady, New Mexico (the "Village"). The IRB will provide certain sales tax benefits during construction as well as property tax savings during the operational phase of the project. Pursuant to the IRB-related agreements, title to the Grady project transferred from the Partnership to the Village and simultaneously leased back to the Partnership. Under the 30-year lease agreement with the Village, the Partnership retains all benefits and risks of ownership of the project and has a bargain purchase requirement at the end of the lease term. Due to our involvement in construction, the Partnership is deemed the owner of the leased project assets during construction. Upon completion of construction, we will continue to be deemed the owner of the leased project assets. The Partnership, as holder of the bond, earns interest at 4.5% per annum on any principal amounts advanced, receivable annually from the Village on each July 13th, beginning in 2019 and through 2048. This interest income is directly offset by the lease payments which are due from the Partnership to the Village at the same time and in the same amount as the interest income earned on the IRB. Principal payments are not due to the Partnership prior to the IRB's maturity date; however, early redemption is permissible. As of December 31, 2018, the Partnership has investments in IRB receivables for $158.2 million (unaudited) which includes accrued interest of $2.3 million (unaudited). Under terms of the IRB transaction, there is a contractual right of offset for the payments receivable under the IRB, including interest income, with the Partnership's lease payments to the Village. The receivable and payments are due at the same time as such, no cash payments are made by either party. As a result, the Partnership has netted the IRB receivable asset of $158.2 million (unaudited) with the related lease liability of $158.2 million (unaudited), which includes $2.3 million (unaudited) of lease expense, within the consolidated balance sheets.

In addition to the lease expense, the Partnership is committed to pay "Payment In-Lieu of Taxes" ("PILOT"), totaling to $7.4 million (unaudited) for a portion of the avoided property taxes, which are payable annually to various municipalities in New Mexico until year 2045 (refer to Footnote 15. Commitments and Contingencies).

Equity-backed Leverage Loan

On December 26, 2018, the Partnership entered into an equity-backed leverage loan ("EBL") of $48.8 million (unaudited) secured by our equity interests in two projects in Mexico. The EBL matures the earlier of the date we sell our equity interests in the projects or March of 2020. The EBL accrues interest at LIBOR plus 5.0%.

13. Fair Value Measurements

The carrying value of financial instruments classified as current assets and current liabilities approximates their fair value based on the nature of their short maturity, and these instruments are presented in the Partnership's consolidated financial statements at carrying cost as Level 1. The fair values of cash and cash equivalents and restricted cash are classified as Level 1 in the fair value hierarchy.

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The carrying value of debt is presented on the consolidated balance sheets, net of financing costs, discounts and premiums, which approximates the fair value of the variable interest rate debt. These debt fair values are Level 3 measurements because they are estimated based on the Partnership's incremental borrowing rates. (Refer to Footnote 2. Summary of Significant Accounting Policies).

The Partnership has financial liabilities which require fair value measurement on a recurring basis are classified within the fair value hierarchy as of December 31, 2018 as follows (in thousands):

	Fair Value			
	Level 1	Level 2	Level 3	Total
Liabilities				
Contingent liabilities (unaudited)	$—	$ —	$3,344	$3,344
	$—	$ —	$3,344	$3,344

There were no transfers between the fair value hierarchy during the periods presented.

Level 3 Measurements

The fair value of contingent liabilities is related to Grady, as represented in other long-term liabilities on the consolidated balance sheets. The fair value is measured by discounting the net cash flows using a discount rate representing an estimate of cost of debt to determine the present value. The significant primary unobservable input used for these assessments is the discount rate. Significant increases or decreases in this unobservable input would result in a significantly lower or higher fair value measurement.

Nonrecurring Fair Value Measurements

Certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

The Partnership periodically evaluates the carrying value of long-lived assets to be held and used when events or circumstances warrant such a review. Fair value is determined primarily using anticipated cash flows assumed by a market participant discounted at a rate commensurate with the risk involved. In 2018, the Partnership recognized an impairment of $3.7 million (unaudited) related to other assets that were deemed impaired due to determination that projects were no longer feasible.

In 2018, we recorded an impairment expense of $35.2 million (unaudited) against turbines that were purchased in 2016 (refer to Footnote 7. Assets Held for Sale and Footnote 8. Impairment of Long-lived Assets Held and Used). The fair values were determined using inputs that were not observable in the market; therefore, these values were classified as Level 3 in the fair value hierarchy.

14. Income Taxes

The following table presents significant components of the provision for income taxes for the year ended December 31, 2018 and for the period from July 27, 2017 through December 31, 2017 (in thousands):

	2018	For the period from July 27, 2017 through December 31, 2017
	(unaudited)	
Current		
U.S.	$ —	$ —
Foreign	13,984	418

	13,984	418
Deferred		
U.S.	—	—
Foreign	(100)	2,896
	(100)	2,896
Total income tax provision	$ 13,884	$ 3,314

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The Partnership recorded income tax expense of $13.9 million (unaudited) and $3.3 million for the year ended December 31, 2018 and for the period from July 27, 2017 through December 31, 2017, respectively. The income tax expense is comprised of estimated federal, state and provincial income taxes for the Partners' U.S., Canada, Netherlands, Japan, and Mexico companies.

The following table presents the domestic and foreign components of net income before income tax provision (benefit) for the year ended December 31, 2018 and for the period from July 27, 2017 through December 31, 2017 (in thousands):

	2018 (unaudited)	For the period from July 27, 2017 through December 31, 2017
U.S.	$(121,001)	$(34,391)
Foreign	75,247	(10,589)
Total	$(45,754)	$(44,980)

The following table presents a reconciliation of the statutory U.S. federal income tax rate to the Partnership's effective tax rate as a percentage of income before taxes for the year ended December 31, 2018 and for the period from July 27, 2017 through December 31, 2017:

	2018 (unaudited)	For the period from July 27, 2017 through December 31, 2017
Statutory U.S Federal Rate	21.00 %	35.00 %
Foreign rate differential	(4.70)%	0.13 %
Permanent book/tax differences	9.29 %	1.18 %
Valuation allowance	(27.61)%	(2.50)%
Withholding taxes	(0.91)%	— %
Other deferred true ups	0.44 %	(0.51)%
Partnership income not subject to taxes	(27.87)%	(40.71)%
Effective income tax rate	(30.36)%	(7.41)%

The following table presents the principal components of the Partnership’s net deferred tax assets and liabilities as of December 31 (in thousands):

	2018 (unaudited)	2017
Deferred tax assets/(liabilities):		
Net operating loss carryforwards	$ 3,490	$3,550
Accruals not currently deductible	—	42
Asset retirement obligation	—	1,217

Allowance for doubtful accounts	5,900	5,879
Other	1,214	3,388
Construction in progress	—	3,834
Property, plant and equipment	12,367	(1,740)
Capitalized start-up costs	54	75
Contingent consideration	3,181	—
Total gross deferred tax assets/(liabilities)	26,206	16,245
Less: valuation allowance	(26,206)	(23,720)
Total net deferred tax assets/(liabilities)	$ —	$(7,475)

The deferred tax assets and deferred tax liabilities resulted primarily from temporary differences between book and tax basis of assets and liabilities. The Partnership regularly assesses the likelihood that future taxable income levels will be sufficient to ultimately realize the tax benefits of the deferred tax assets. Should the Partnership determine that future realization of the tax benefits is more likely than not, an adjustment would be made to the deferred tax asset valuation allowance, which would reduce the provision for the income taxes in the period of such determination.

The net change in valuation allowance increased by $2.5 million (unaudited) during the year ended December 31, 2018 and $5.5 million for the period from July 27, 2017 through December 31, 2017. The increase in 2018 is mainly attributable to the Japan and Canada operations. As of December 31, 2018 the Partnership has net operating loss carryforwards in the amount of $15.1 million (unaudited), which will begin to expire commencing in 2029.

The Partnership is required to recognize in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. As of December 31, 2018, the Partnership does not have any unrecognizable tax benefits and does not have any tax positions for which it is reasonably possible that the amount of gross unrecognized tax benefits will increase or decrease within 12 months of the year ended December 31, 2018. The Partnership files income tax returns in the U.S. federal and state jurisdictions, and various foreign jurisdictions. The Partnership's U.S. and foreign income tax returns for 2015 and forward are subject to examination.

The Partnership has a policy to classify accrued interest and penalties associated with uncertain tax positions together with the related liability, and the expenses incurred related to such accruals are included in the provision for income taxes. The Partnership did not incur any interest expense or penalties associated with unrecognized tax benefits during the year ended December 31, 2018.

15. Commitments and Contingencies

From time to time, the Partnership becomes 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 consolidated results of operations or cash flows of the Partnership.

Commitments

The Partnership entered into various commitments with service providers related to the Partnership's Project Entities and operations of its business. Outstanding commitments with these vendors were $18.0 million (unaudited) and $13.7 million as of December 31, 2018 and 2017, respectively.

The Partnership has open commitments related to construction commitments of $123.8 million (unaudited) and $398.0 million as of December 31, 2018 and 2017, respectively. Of these amounts, $97.2 million (unaudited) and $123.3 million as of December 31, 2018 and 2017, respectively, are related to wind turbines and solar modules.

The following table summarizes estimates of future commitments related to the various agreements that the Partnership has entered into (in thousands):

	2019	2020	2021	2022	2023	Thereafter	Total
Service and maintenance (unaudited)	$1,577	$3,153	$1,577	$—	$—	$ —	$6,307
Land use agreements (unaudited)	12,871	5,212	4,208	3,765	3,009	22,096	51,161
PILOT payments (unaudited)	257	217	217	217	217	5,498	6,623
Total Commitments (unaudited)	$14,705	$8,582	$6,002	$3,982	$3,226	$ 27,594	$64,091

Service and Maintenance Agreements

The Partnership has entered into long-term service and maintenance agreements with various vendors to provide operations and maintenance services for its wind and solar projects that are in development and construction. The agreements have terms varying from 2 to 5 years with automatic renewal periods of 2 to 5 years.

Land Use Agreements

Rent expense recorded in the consolidated statements of operations as general and administrative expense was $5.6 million (unaudited) and $3.0 million for the year ended December 31, 2018 and for the period from July 27, 2017 through December 31, 2017, respectively.

The Partnership entered into various long-term land agreements for various projects. The land agreements have various terms based on the project's stage of development and most of the land agreements are cancellable if we do not proceed with construction or reach commercial operation. Some land agreements contain provisions that require us to purchase the property or part of the property if we reach commercial operation. Many of the land agreements have damage clauses that require us to pay for damages caused during our development activities. The land agreements include both fixed minimum and contingent rent based on us reaching development milestones and upon reaching commercial operation. If the project reaches commercial operation, the land agreement's contingent rent will generally be based on total megawatts of electricity produced and delivered to the grid. Contingent rental payments are generally recognized as rent expenses as incurred.

PILOT Payments

As a condition of the IRB, the Partnership is committed to make PILOT payments annually to local municipalities in New Mexico, totaling to $7.4 million, for a portion of the avoided property taxes until year 2045 (refer to Footnote 12. Long-term Debt). As of December 31, 2018, the Partnership recorded $0.8 million (unaudited) related to this commitment in construction in progress and accounts payable and accrued liabilities on the consolidated balance sheets.

Contingencies

Unrecorded Contingent Consideration

Unrecorded contingent consideration exists in our acquisition of Project Entities which are asset acquisitions. The nature of the contingencies may vary by contract but generally these contingent payments become due and payable upon (i) signing of a PPA, (ii) closing construction financing or (iii) the commercial operations date. In addition to achieving these milestones, the contingent consideration liabilities may also be subject to purchase price adjustments, such as the final amount of the PPA price, the name plate capacity or annual energy production level of the project. The amount of unrecorded contingent consideration is estimated to be $206.0 million (unaudited) and $54.5 million at December 31, 2018 and 2017, respectively.

The Partnership entered into agreements with law firms to engage them as counsel in connection with the development of one or more transmission expansion projects. Pursuant to the agreements, certain billings are only due if ground-breaking and construction financing occurs. As of December 31, 2018, we have not accrued any future payments under these agreements (unaudited).

Letters of Credits

During development activities, the Partnership routinely enters into long term agreements, many of which require security deposits to guarantee our performance under the agreements. As of December 31, 2018 and 2017, the Partnership has obtained LCs to provide security for four PPAs totaling $17.8 million (unaudited) and $14.5 million, respectively, one and three interconnection agreements totaling $9.4 million (unaudited) and $17.1 million, respectively, two development services agreements totaling $5.8 million (unaudited) and $0, respectively, and two purchase and sale agreements totaling $7.0 million (unaudited) and $0, respectively. In December 2018, the Partnership issued an LC for $12.0 million (unaudited) as security for the contingent consideration that it may owe for interconnection assets that the Partnership acquired in December 2018. These LCs are recorded on the consolidated balance sheets as of December 31, 2018 and 2017 as $52.0 million (unaudited) and $14.2 million in restricted cash, respectively, and $7.7 million (unaudited) and $17.2 million in related party receivable, respectively. The LCs are generally released when the project begins commercial operations.

16. Related Party Transactions

Multilateral Service Agreement

The Partnership entered into a Multilateral Management Services Agreement ("MSA") with PEGH and PEGI (collectively, the "Pattern Companies") which provides for the Partnership and the Pattern Companies to benefit, primarily on a cost-reimbursement basis, plus a 5.0% fee on certain direct costs, from the parties' respective management and other professional, technical and administrative personnel. Pursuant to the MSA, certain of PEGI's executive officers, including its Chief Executive Officer and executive officers of PEGH (collectively, "Shared Pattern Executives"), also serve as executive officers of the Partnership and devote their time to the Partnership and the other Pattern Companies as is prudent in carrying out their executive responsibilities and fiduciary duties. The Shared Pattern Executives have responsibilities for the Partnership, PEGI and PEGH and, as a result, these individuals do not devote all of their time to the Partnership's business. Under the terms of the MSA, the Partnership is required to reimburse the Pattern Companies for an allocation of the compensation paid to such Shared Pattern Executives reflecting the percentage of time spent providing services to the Partnership. The MSA costs are included in related party general and administrative expenses, as applicable on the consolidated statements of operations.

Other Arrangements with Pattern Companies

The Partnership entered into a purchase rights agreement that provides PEGI the right of first offer with respect to any power project that the Partnership decides to sell as well as a right of first offer with respect to the Partnership itself. Pattern Development 2.0 was formed in 2016 as a result of Project Entities contributed by Pattern Development 1.0 for a book value of assets in the amount of $25.6 million as well as cash in the amount of $82.5 million. In June 2017, Pattern Development 1.0 and Pattern Development 2.0 entered into the Second Contribution to transfer additional Project Entities to the Partnership for $23.5 million. Five of the Project Entities contributed to the Partnership have an X/Y equity structure. The structure is designed to provide residual returns of PEGH (refer to Footnote 9. Variable Interest Entities). In 2018, Pattern Development 2.0 entered into the Japan Purchase to acquire Japanese Project Entities from Pattern Development 1.0, executed development and operating agreements with PEGI related to the Japan Purchase, and sold Stillwater to PEGI (refer to Footnote 3. Japan Acquisition and Footnote 4. Other Acquisitions and Dispositions).

On December 28, 2016, PEGH contributed $10.0 million in exchange for partnership interest in the Partnership. From January 1, 2017 through April 27, 2017, Class A Limited Partners contributed $13.0 million in exchange for partnership interest in the Partnership. On July 12, 2017, PEG LP 2’s General Partner executed the Capital and Redemption Agreement with Existing LPs and new investors, Riverstone II and PEGI.

Per the terms of the Capital and Redemption Agreement, a capital call was approved by PEG LP 2’s Board of Directors on July 12, 2017. The capital call funds were used to redeem all of PEGH’s investment in the Partnership. PEGI contributed $60.0 million giving PEGI approximately 20% equity ownership in the Partnership. On December 26, 2017, PEGI contributed an additional $7.3 million increasing PEGI's equity ownership to approximately 21%. Throughout 2018 PEGI invested an additional $115.4 million (unaudited) increasing PEGI's equity ownership to approximately 29.3%.

In July 2018, PEG LP 2 guaranteed the performance obligations of Grady of its indemnification obligations under the ECCA and the payment of transaction expenses to the third-party tax equity investor. PEG LP 2 provided a guarantee of Grady’s equity contribution under the ECCA of up to $200.0 million (unaudited) and a guarantee to fund cost overruns for Grady's construction of up to $7.7 million (unaudited) to the lenders of the Loan Facility.

In September 2018, Gulf, a 100% owned indirect subsidiary of PEGI, exercised its option to purchase turbines from a subsidiary of the Partnership. Pursuant to the MOU, the Partnership has the right to determine the number of turbines it will sell to Gulf. Since the MOU requires that the Partnership sell a minimum up to a maximum number of turbines to Gulf, the Partnership determined that as of December 31, 2018, the minimum number of turbines meet the criteria for held for sale (refer to Footnote 7. Assets Held for Sale).

Services and Facilities Agreements

In 2017, Grady entered into a transmission service agreement with Western Interconnect LLC ("WI"), a subsidiary of PEGI, which enables Grady to connect to the grid once the wind farm is constructed and operational. Currently, no payments are due under this agreement. Grady provided an LC to WI through the LCRA (refer to Footnote 12. Long-term Debt).

Grady has a one-third undivided interest in common facilities shared with Broadview KW and Broadview JN (collectively "Broadview"), subsidiaries of PEGI. The three projects are parties to a common facilities operations and maintenance agreement with Pattern Operators LP, a subsidiary of PEGI. As a result of the undivided interest in the common shared facilities, Grady recorded a $2.4 million deemed contribution related to the construction of the shared facility with Broadview in 2016 prior to being consolidated under the Partnership. No other amounts are due or payable under the common facilities operations and maintenance agreement until Grady is operational at which time Grady is responsible for its pro rata share of costs.

Pattern Energy Group Holdings 2 LP
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The following table presents amounts receivable from related parties as included in the consolidated balance sheets as of December 31 (in thousands):

	2018 (unaudited)	2017
Related party receivable, current:		
Amounts due from Pattern Development 1. 0	$ 16	$—
Amounts due from PEGI	3,298	—
Other	73	—
Total related party receivable, current	$ 3,387	$—
Notes receivable, related party, current:		
Amounts due from Project Entities in Mexico	$ 52,307	$—
Total notes receivable, related party, current	$ 52,307	$—
Related party receivable, long-term:		
Amounts due from Pattern Development 1. 0	$ 7,676	$16,789
Amounts due from PEGI	—	459
Total related party receivable, long-term	$ 7,676	$17,248

The following table presents amounts payable from related parties recognized under the MSA as included in the consolidated balance sheets as of December 31 (in thousands):

	2018 (unaudited)	2017
Related party payable:		
Amounts due to Pattern Development 1.0	$ 25,966	$13,984
Amounts due to PEGI	4,042	2,559
Total related party payable, current	$ 30,008	$16,543

The table below presents revenues recognized for project sales and services provided to related parties, as included in the consolidated statements of operations for the year ended December 31, 2018 and for the period from July 27, 2017 through December 31, 2017 (in thousands):

	2018 (unaudited)	For the period from July 27, 2017 through December 31, 2017
Revenue:		
Related party revenue from Pattern Development 1.0	$ —	$ —
Related party project sales revenue from PEGI	122,073	—
Related party services revenue from PEGI	40,423	—
Total related party revenue	$ 162,496	$ —

Pattern Energy Group Holdings 2 LP
Notes to Consolidated Financial Statements
December 31, 2018 (unaudited), and the period from July 27, 2017 to December 31, 2017

The table below presents cost of revenue related to project sales and services provided to related parties and expenses recognized for management services under the MSA, as included in the consolidated statements of operations for the year ended December 31, 2018 and for the period from July 27, 2017 through December 31, 2017 (in thousands):

	2018 (unaudited)	For the period from July 27, 2017 through December 31, 2017
Cost of revenue:		
Related party expense from Pattern Development 1.0	$ —	$ —
Related party project sales expense from PEGI	83,692	—
Related party services expense from PEGI	2,187	—
Total cost of revenue from related party	$ 85,879	$ —
Operating expenses:		
Related party expense from Pattern Development 1.0	$ 36,563	$ 11,892
Related party expense from PEGI	7,370	2,145
Capitalized OH - Related party	(2,256)	—
Total operating expenses from related party	$ 41,677	$ 14,037

17. Partnership Capital
Class A and Class B Units
The Capital and Redemption Agreement effective July 27, 2017, authorized PEG LP 2 to issue Class A units to the Class A limited partners (the “Class A Partners”) and Class B units to the Class B limited partners (the “Class B Partners”).
PEG LP 2 is authorized to issue additional Class A units at $1.00 per share and admit additional Class A Partners with certain approvals and conditions as indicated in the Capital and Redemption Agreement. For the period from November 10, 2016 (Inception) through December 31, 2016, PEG LP 2 received cash contributions of $92.5 million from the Class A Partners. During 2017, the Partnership received cash contributions of $243.0 million from the Class A Partners and redeemed $89.0 million to existing Class A Partners. Throughout 2018, the Board of Directors approved capital calls and issued additional Class A units totaling $395.0 million (unaudited). The capital call funds were used to redeem the remaining Existing LP units and to provide working capital for development activities.
PEG LP 2 is authorized to issue up to 1,000,000 Class B units, of which a total of 802,500 Class B units (unaudited) have been issued to Class B Partners as of December 31, 2018.
Distributions and Allocations
Class A Partners are entitled to receive a Class A Preference Amount, which is equal to an annual pre-tax return of 8.0% compounded quarterly on all unreturned capital contributions.

Class A units are senior to the Class B units with respect to distributions. Upon sale or liquidation of the Partnership, distributions would occur in the following order:

- First, 100% to the Class A Partners in proportion to their unreturned capital contributions until unreturned capital contributions have been reduced to zero;
- Second, 100% to the Class A Partners in proportion to their unpaid preference amounts until unpaid preference amounts have been reduced to zero;
- Third, 50% to the Class A Partners in proportion to their respective Class A Unit Sharing Percentages and 50% to the Class B Limited Partners in proportion to their respective Class B Unit Sharing Percentages, until the Class B Payout occurs; and
- Thereafter, 85% to the Class A Partners and 15% to the Class B Partners.

Board of Directors and Voting Rights

The Board of Directors shall consist of not less than five Directors: (a) three of whom shall be appointed by Riverstone II ("Riverstone Delegates"), and (b) two of whom shall be appointed by the Class B Majority ("Class B Delegates"). Each Director shall have one vote; however, Riverstone Delegates may cast more than one vote in certain circumstances designed to always give the Riverstone Delegates three votes.

Noncontrolling interest

The noncontrolling interest in the Partnerships' Capital represents the noncontrolling interest held in GPI. GPI is a consolidated subsidiary of Japan Holdings, which is 100% owned and consolidated by the Partnership. Japan Holdings owns 93.42% of the equity interests in GPI. The noncontrolling interest in the Partnerships' Capital represents the equity interests in GPI not attributable to Japan Holdings or the Partnership. The noncontrolling interest includes the portion of GPI's net income (loss), net assets and comprehensive income (loss) that is not allocable to Japan Holdings or the Partnership. Net income (loss) and comprehensive income (loss) is allocated to Japan Holdings and the noncontrolling interests based on their equity ownership percent.

18. Subsequent Events

The Partnership has evaluated Type 1 subsequent events for recognition through March 1, 2019, which is the same subsequent event evaluation date as PEGI. The Partnership also evaluated subsequent events for Type 2 disclosures through March 28, 2019, which is the date these consolidated financial statements were available to be issued, and noted the following subsequent Type 2 disclosure events.

On February 19, 2019, the Board of Directors approved a capital call for the issuance of $25.0 million (unaudited) Class A Units.

On March 19, 2019, the Partnership received an Order on Preliminary Injunction limiting any further on-the-ground construction, road modifications, or physical on-site modifications for one of its Project Entities. As of December 31, 2018, the Project Entity had assets of $8.0 million. The Partnership considered the assets for impairment; however, the Partnership placed a low probability of success on the Plaintiffs' motions as of December 31, 2018 and did not recognize an impairment. Based on the preliminary order received on March 19, 2019, Management is continuing to evaluate whether there is an impairment in the first quarter of 2019 and the amount of such impairment, if any. Depending on Management's final assessment of the future of the Project Entity's assets, costs incurred by the Project Entity in the first quarter of 2019, and its contractual commitments, the total impairment may be greater or less than the total assets of the Project Entity as of December 31, 2018.

Schedule I - Condensed Parent-Company Financial Statements
Pattern Energy Group Inc.
Condensed Financial Information of Parent
Balance Sheets
(In millions of U.S. dollars, except share and par value data)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 3	$ 9
Derivative assets, current	4	—
Other current assets	17	26
Total current assets	24	35
Property, plant and equipment, net	2	4
Investments in subsidiaries	1,415	1,404
Investments in unconsolidated subsidiaries	270	311
Derivative assets	1	—
Intangible assets, net	1	1
Other assets	1	1
Total assets	$ 1,714	$ 1,756
Liabilities and equity		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 13	$ 12
Accrued interest	13	13
Dividend payable	42	41
Derivative liabilities, current	—	3
Contingent liabilities, current	29	—
Other current liabilities	3	9
Total current liabilities	100	78
Long-term debt, net of financing costs of $7 and $9 as of December 31, 2018 and 2017, respectively	560	553
Other long-term liabilities	7	32
Total liabilities	667	663
Equity:		
Class A common stock, $0.01 par value per share: 500,000,000 shares authorized; 98,051,629 and 97,860,048 shares outstanding as of December 31, 2018 and December 31, 2017, respectively	1	1
Additional paid-in capital	1,103	1,207
Accumulated income (loss)	—	(85)
Accumulated other comprehensive loss	(52)	(26)
Treasury stock, at cost; 223,040 and 157,812 shares of Class A common stock as of December 31, 2018 and 2017, respectively	(5)	(4)
Total equity	1,047	1,093
Total liabilities and equity	$ 1,714	$ 1,756

See accompanying notes to parent company financial statements

Pattern Energy Group Inc.
Condensed Financial Information of Parent
Statements of Operations and Comprehensive Income (Loss)
(In millions of U.S. dollars)

	Year ended December 31,		
	2018	2017	2016
Revenue	$ —	$ —	$ —
Expenses	35	34	34
Operating loss	(35)	(34)	(34)
Other income (expense):			
Interest expense	(37)	(35)	(15)
Equity in earnings from subsidiaries	203	14	3
Equity in earnings from unconsolidated subsidiaries, net	1	41	30
Gain (loss) on undesignated derivatives, net	10	(7)	(1)
Other income (expense), net	(1)	(1)	—
Total other income (expense), net	176	12	17
Net income (loss) before income tax	141	(22)	(17)
Tax provision (benefit)	—	(4)	—
Net income (loss)	141	(18)	(17)
Other comprehensive income (loss):			
Proportionate share of subsidiaries' other comprehensive income (loss), net of tax benefit (provision) of $2, $(5) and less than $(1), respectively	(27)	23	5
Proportionate share of affiliates' other comprehensive income (loss) activity, net of tax provision of less than $(1), $(5) and $(2), respectively	1	13	6
Total other comprehensive income (loss), net of tax	(26)	36	11
Comprehensive income (loss)	$ 115	$ 18	$ (6)

See accompanying notes to parent company financial statements

Pattern Energy Group Inc.
Condensed Financial Information of Parent
Condensed Statements of Cash Flows
(In millions of U.S. dollars)

	Year ended December 31,		
	2018	2017	2016
Operating activities			
Net income (loss)	$141	$(18)	$(17)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation, amortization and accretion	11	7	6
Amortization of financing costs			
Amortization of debt discount			
Deferred taxes	—	3	—
Intraperiod tax allocation	—	(3)	—
(Gain) loss on derivatives	(10)	5	3
Stock-based compensation	5	5	5
Equity in earnings from subsidiaries	(203)	(14)	(3)
Equity in earnings from unconsolidated investments, net	(1)	(41)	(30)
Other reconciling items	3	—	(1)
Changes in operating assets and liabilities:			
Other current assets	—	(20)	(2)
Accounts payable and other accrued liabilities	—	3	2
Other current liabilities	29	8	—
Long-term liabilities	(28)	1	4
Related party receivable/payable	2	—	—
Accrued interest payable	—	8	—
Net cash used in operating activities	(51)	(56)	(33)
Investing activities			
Capital expenditures	(3)	—	(4)
Distributions received from subsidiaries	818	372	308
Contribution to subsidiaries	(490)	(682)	(450)
Investment in Pattern Development	(115)	(69)	—
Other assets	2	(1)	(1)
Net cash provided by (used in) investing activities	212	(380)	(147)
Financing activities			
Proceeds from public offering, net of issuance costs	—	237	286
Proceeds from issuance of senior notes, net of issuance costs	—	343	—
Repurchase of shares for employee tax withholding	(1)	—	—
Dividends paid	(166)	(145)	(120)
Other financing activities	—	(2)	(1)
Net cash provided by (used in) financing activities	(167)	433	165
Net change in cash, cash equivalents and restricted cash	(6)	(3)	(15)
Cash, cash equivalents and restricted cash at beginning of period	9	12	27
Cash, cash equivalents and restricted cash at end of period	$3	$9	$12
Supplemental disclosures			
Cash payments for interest expense	$30	$20	$9
Schedule of non-cash activities			
Change in property, plant and equipment	(5)	—	—

Non-cash increase in additional paid-in capital	$—	$(2)	$—

See accompanying notes to parent company financial statements

Pattern Energy Group Inc.
Note to Parent Company Financial Statements

Supplemental Notes
1. Summary of Significant Accounting Policies
Basis of Presentation
The condensed, standalone financial statements of Pattern Energy Group Inc. (parent company) have been presented in accordance with Rule 12-04, Schedule I of Regulation S-X as the restricted net assets of the subsidiaries of the parent company exceed 25% of the consolidated net assets of the parent company and its subsidiaries. The condensed parent company financial statements have been prepared in accordance with United States generally accepted accounting principles and should be read in conjunction with the parent company's consolidated financial statements and the accompanying notes thereto.
Reconciliation of Cash and Cash Equivalents and Restricted Cash as presented on the Statements of Cash Flows (in millions)

	Year ended December 31,		
	2018	2017	2016
Cash and cash equivalents	$3	$ 9	$ 12

Investments
For purposes of these financial statements, the parent company's wholly owned and majority owned subsidiaries are recorded based on its proportionate share of the subsidiaries' assets. The parent company's share of net income of its unconsolidated subsidiaries is included in income using the equity method.
Debt
2024 Unsecured Senior Notes
In January 2017, the Company issued unsecured senior notes with an aggregate principal amount of $350 million (the 2024 Notes). Net proceeds to the Company were approximately $345 million, after deducting the initial purchasers' discount, commissions and transaction expenses. The 2024 Notes bear interest at a rate of 5.875% per year, payable semiannually in arrears on February 1 and August 1, beginning on August 1, 2017 and maturing on February 1, 2024, unless repurchased or redeemed at an earlier date. The 2024 Notes are guaranteed on a senior unsecured basis by Pattern US Finance Company, one of the Company's subsidiaries.
Convertible Senior Notes due 2020
In July 2015, the Company issued $225 million aggregate principal amount of 4.00% convertible senior notes due 2020 (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. Upon conversion, the Company may, at its discretion, pay cash, shares of the Company's Class A common stock, or a combination of cash and stock. The 2020 Notes are set at an initial conversation rate of 35.4925 shares of Class A common stock per $1,000 principal amount of 2020 Notes, which is equivalent to an initial conversion price of approximately $28.175 per share of Class A common stock. The conversion rate is subject to adjustment in some events (including, but not limited to, certain cash dividends made to holders of the Company's Class A common stock which exceed the initial dividend threshold of $0.363 per quarter per share). The conversion rate would be adjusted to offset the effect of the portion of the dividend in excess of $0.363, provided that the adjustment would result a change of at least 1% in the then effective conversion rate. During the year ended December 31, 2017, the conversion rate increased to 35.8997 shares of Class A common stock per $1,000 principal amount of 2020 Notes. The conversion rate will not be adjusted for any accrued and unpaid interest. The 2020 Notes are not redeemable prior to maturity.
The 2020 Notes are guaranteed on a senior unsecured basis by a subsidiary of the Company and are general unsecured obligations of the Company. The obligations rank senior in rights of payment to the Company's subordinated debt, equal in right of payment to the Company's unsubordinated debt and effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness.

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

	December 31, 2018	2017
Principal	$225	$225
Less:		
Unamortized debt discount	(8)	(13)
Unamortized financing costs	(2)	(3)
Carrying value of convertible senior notes	$215	$209
Carrying value of the equity component [(1)]	$24	$24

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

Commitments and Contingencies

Operating Leases (in millions)

	2019	2020	2021	2022	2023	Thereafter	Total
Operating leases	$ 7	$ 7	$ 8	$ 7	$ 8	$ 30	$ 67

The Company has entered into lease agreements for office facilities in Houston, Texas and San Francisco, California. The Houston, Texas lease expires in April 2027. In March 2018, the Company entered into an operating lease for its new corporate headquarters in San Francisco, California. Total operating lease payments are approximately $35 million over the term of the lease which expires in December 2028.