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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2013 and our unaudited consolidated financial statements for the three and six months ended June 30, 2014 and other disclosures (including the disclosures under "Part II. Item 1A. Risk Factors") included in this Quarterly Report on Form 10-Q. Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and are presented in U.S. dollars. Unless the context provides otherwise, references herein to "we," "our," "us," "our company" and "Pattern Energy" refer to Pattern Energy Group Inc., a Delaware corporation, together with its consolidated subsidiaries.

Overview

We are an independent power company focused on owning and operating power projects with stable long-term cash flows in attractive markets with potential for continued growth of our business. We hold interests in eleven wind power projects located in the United States, Canada and Chile that use proven, best-in-class technology and have a total owned capacity of 1,472 MW, including the Panhandle 2 project, which we expect to acquire prior to the end of 2014. These projects consist of nine operating projects and two projects under construction that are both scheduled to commence commercial operations prior to the end of 2014. Each of our projects has contracted to sell all or a majority of its output pursuant to a long-term, fixed-price power sale agreement with a creditworthy counterparty (one of our counterparties, PREPA, has recently been downgraded — See "Part II—Item 1A. Risk Factors"). Ninety-one percent of the electricity to be generated by our projects will be sold under these power sale agreements, which have a weighted average remaining contract life of approximately 17 years.

We intend to maximize long-term value for our stockholders in an environmentally responsible manner and with respect for the communities in which we operate. Our business is built around the core values of creating a safe, high-integrity and exciting work environment; applying rigorous analysis to all aspects of our business; and proactively working with our stakeholders in addressing environmental and community concerns. Our financial objectives, which we believe will maximize long-term value for our stockholders, are to produce stable and sustainable cash available for distribution, selectively grow our project portfolio and our dividend and maintain a strong balance sheet and flexible capital structure.

Our growth strategy is focused on the acquisition of operational and construction-ready power projects from Pattern Development and other third parties that we believe will contribute to the growth of our business and enable us to increase our dividend per share over time. We expect our continuing relationship with Pattern Development, a leading developer of renewable energy and transmission projects, will be an important source of growth for our business. In addition, opportunities in new geographic markets, such as Japan and Mexico, could form part of our growth strategy.

Recent Developments

In June 2014, we acquired a 79% ownership interest in the 218 MW Panhandle 1 project from Pattern Development for a purchase price of approximately $124.4 million, following the completion of construction and commencement of commercial operations on June 25, 2014.

In June 2014, we increased our net ownership interest in the 115 MW El Arrayán project to 70% and our owned operating capacity by an additional 44 MW. The project was completed in early June and is now fully operational. Prior to the acquisition, our net ownership interest in the El Arrayán wind project was 31.5%.

In May 2014, we completed a follow-on offering of our Class A common stock. In total, 21,117,171 shares of our Class A common stock were sold. Of this amount, we sold 10,810,810 shares of Class A common stock and Pattern Development, a selling stockholder, sold 10,306,361 shares of Class A common stock, including 2,754,413 shares upon exercise in full of the underwriters' overallotment option. Net proceeds generated for us were approximately $288.7 million before deduction of transaction expenses of approximately $2.0 million. We did not receive any proceeds from the sale of the shares sold by Pattern Development.

The following table sets forth each of our construction projects as well as their respective power capacities and our anticipated date of their commencement of commercial operations.

Projects	Location	Construction Start	Commercial Operations	MW Rated	MW Owned
Panhandle 2 (1)	Texas	Q4 2013	Q4 2014	182	147
Grand	Ontario	Q3 2013	Q4 2014	149	67
				331	214

(1) Acquisition scheduled to occur in the fourth quarter of 2014

We have recently encountered potential cost increases and delays in the construction of Grand, and are in discussions with Samsung C&T Canada Ltd. (a subsidiary of Samsung C&T Corporation), the project construction provider, regarding this matter. See "Part II. Item 1A. Risk Factors".

In addition, below is a summary of the Right of First Offer Projects ("ROFO Projects") that we expect to acquire from Pattern Development in connection with our project purchase rights in the coming six to twenty-four months. For additional discussion on the ROFO Projects, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations–Recent Transactions", in our Annual Report on Form 10-K for the year ended December 31, 2013.

On August 5, 2014 Pattern Development announced that it had acquired the Logan's Gap project, a 200 MW wind project proposed to be built in Comanche County, Texas. Logan's Gap has a 10-year Power Purchase Agreement with Wal-Mart Stores, Inc. for approximately 60% of the expected production for the project. Pattern Development expects to arrange both construction and tax equity financing in the fourth quarter of 2014 and expects to retain an owned interest in the project of approximately 160 MW. Logan's Gap is expected to begin commercial operation in late 2015.

						Capacity (MW)	
Identified ROFO Projects	**Status**	**Location**	**Construction Start (1)**	**Commercial Operations (2)**	**Contract Type**	**Rated (3)**	**Pattern Development-Owned (4)**
Gulf Wind	Operational	Texas	2008	2009	Hedge	283	76
K2	In construction	Ontario	2014	2015	PPA	270	90
Armow	Ready for financing	Ontario	2014	2015	PPA	180	90
Meikle	Ready for financing	British Columbia	2015	2016	PPA	185	185
Logan's Gap	Ready for financing	Texas	2014	2015	PPA	200	160
						1,118	601

(1) Represents date of actual or anticipated commencement of construction.
(2) Represents date of actual or anticipated commencement of commercial operations.
(3) Rated capacity represents the maximum electricity generating capacity of a project in MW. As a result of wind and other conditions, a project or a turbine will not operate at its rated capacity at all times and the amount of electricity generated will be less than its rated capacity. The amount of electricity generated may vary based on a variety of factors discussed elsewhere in this Form 10-Q.
(4) Pattern Development-owned capacity represents the maximum, or rated, electricity generating capacity of the project multiplied by Pattern Development's percentage ownership interest in the distributable cash flow of the project.

Key Metrics

We regularly review a number of financial measurements and operating metrics to evaluate our performance, measure our growth and make strategic decisions. In addition to traditional U.S. GAAP performance and liquidity measures, such as revenue, cost of revenue, net income and cash provided by (used in) operating activities, we also consider proportional MWh sold, average realized electricity price and Adjusted EBITDA in evaluating our operating performance and cash available for distribution as supplemental liquidity measures. Each of these key metrics is discussed below.

Proportional MWh Sold and Average Realized Electricity Price

The number of MWh sold and the average realized price per MWh sold are the operating metrics that determine our revenue, as well as the revenue of our unconsolidated investments. As a result of the commencement of commercial operations at our South Kent, El Arrayán and Panhandle 1 projects, each of which is a partially owned project, we believe it is appropriate to focus on our proportional interest in the production of our project interests. Accordingly, we are reporting proportional MWh sold (in lieu of MWh sold, which we have previously reported) and revising our calculation of average realized electricity price to reflect our proportional interest in both revenues and MWh sold. Additionally, as a result we only include in these reported figures our proportional interest in the production at our Gulf Wind project where, previously, the noncontrolling interest in the production was included in our determination of MWh sold and average realized electricity price. Proportional MWh sold for any period presented, represents the sum of the product of (i) the number of MWh sold by each of our projects multiplied by (ii) our percentage interest in each projects' distributable cash flow. For any period presented, average realized electricity price represents (i) the sum of the products of: (a) total revenue from electricity sales and energy derivative settlements at each of our projects and (b) our percentage interest in each project's distributable cash flow divided by (ii) our proportional MWh sold.

Adjusted EBITDA

We define Adjusted EBITDA as net income before net interest expense, income taxes and depreciation and accretion, including our proportionate share of net interest expense, income taxes and depreciation and accretion of joint venture investments that are accounted for under the equity method, and excluding the effect of certain other items that the Company does not consider to be indicative of its ongoing operating performance such as mark-to-market adjustments and infrequent items not related to normal or ongoing operations, such as early payment of debt and realized derivative gain or loss from refinancing transactions, and gain or loss related to acquisitions or divestitures. In calculating Adjusted EBITDA, we exclude mark-to-market adjustments to the value of our derivatives because we believe that it is useful for investors to understand, as a supplement to net income and other traditional measures of operating results, the results of our operations without regard to periodic, and sometimes material, fluctuations in the market value of such assets or liabilities. Adjusted EBITDA is a non-U.S. GAAP measure.

The following table reconciles net income to Adjusted EBITDA for the periods presented and is unaudited (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	$ 7,167	$ 43,988	$(14,732)	$ 25,204
Plus:				
Interest expense, net of interest income	15,525	15,788	29,943	31,672
Tax provision (benefit)	4,065	(7,688)	2,033	(7,394)
Depreciation and accretion	21,284	17,998	42,461	40,564
EBITDA	$ 48,041	$ 70,086	$ 59,705	$ 90,046
Unrealized loss on energy derivative	6,549	5,078	14,282	11,881
Unrealized loss (gain) on derivatives	2,942	(8,202)	6,665	(10,133)
Interest rate derivative settlements	1,035	—	2,052	—
Net gain on transactions	(14,537)	(7,200)	(14,537)	(7,200)
Plus, proportionate share from equity accounted investments:				
Interest expense, net of interest income	4,944	(50)	5,197	(52)
Tax provision (benefit)	102	(12)	102	(48)
Depreciation and accretion	4,537	10	4,724	11
Unrealized loss (gain) on interest rate and currency derivatives	5,236	(13,731)	17,831	(3,948)
Realized (gain) loss on interest rate and currency derivatives	—	(14)	22	(153)
Adjusted EBITDA	$ 58,849	$ 45,965	$ 96,043	$ 80,404

Cash Available for Distribution

We define cash available for distribution as net cash provided by operating activities as adjusted for certain other cash flow items that we associate with our operations. It is a non-U.S. GAAP measure of our ability to generate cash to service our dividends. Cash available for distribution represents cash provided by (used in) operating activities as adjusted to (i) add or subtract changes in operating assets and liabilities, (ii) subtract net deposits into restricted cash accounts, which are required pursuant to the cash reserve requirements of financing agreements, to the extent they are paid from operating cash flows during a period, (iii) subtract cash distributions paid to noncontrolling interests, which currently reflects the cash distributions to our joint venture partners in our Gulf Wind project in accordance with the provisions of its governing partnership agreement and will in the future reflect distribution to other joint venture partners, (iv) subtract scheduled project-level debt repayments in accordance with the related loan amortization schedule, to the extent they are paid from operating cash flows during a period, (v) subtract non-expansionary capital expenditures, to the extent they are paid from operating cash flows during a period, and (vi) add or subtract other items as necessary to present the cash flows we deem representative of our core business operations.

The following table presents cash available for distribution for the periods presented and is unaudited (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net cash provided by operating activities	$ 44,417	$ 33,266	$ 60,822	$ 41,657
Changes in current operating assets and liabilities	(12,336)	(938)	(5,685)	11,757
Network upgrade reimbursement	618	618	1,236	618
Release of restricted cash to fund general and administrative costs	7	—	61	—
Operations and maintenance capital expenditures	(40)	(156)	(94)	(375)
Transaction costs for acquisitions	1,128	—	1,128	—
Less:				
Distributions to noncontrolling interests	(1,470)	(1,000)	(1,470)	(1,168)
Principal payments paid from operating cash flows	(16,266)	(15,584)	(22,096)	(21,815)
Cash available for distribution	$ 16,058	$ 16,206	$ 33,902	$ 30,674

Results of Operations

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

The following table provides selected financial information for the periods presented and is unaudited (in thousands, except percentages):

	Three months ended June 30,			
	2014	2013	$ Change	% Change
Revenue	$65,007	$58,712	$ 6,295	11%
Project expense	16,700	14,492	2,208	15%
Depreciation and accretion	21,284	17,998	3,286	18%
Total cost of revenue	37,984	32,490	5,494	17%
Gross profit	27,023	26,222	801	3%
General and administrative	6,288	205	6,083	2967%
Related party general and administrative	1,383	2,699	(1,316)	-49%
Total operating expenses	7,671	2,904	4,767	164%
Operating income	19,352	23,318	(3,966)	-17%
Total other (expense) income	(8,120)	12,982	(21,102)	163%
Net income before income tax	11,232	36,300	(25,068)	69%
Tax provision (benefit)	4,065	(7,688)	11,753	-153%
Net income	7,167	43,988	(36,821)	84%
Net loss attributable to noncontrolling interest	(4,032)	(359)	(3,673)	-1023%
Net income attributable to controlling interest	$11,199	$44,347	$(33,148)	75%

Proportional MWh sold and average realized electricity price. Our proportional MWh sold in the three months ended June 30, 2014 was 769,619 MWh, as compared to 496,763 proportional MWh sold in the three months ended June 30, 2013. This increase in proportional MWh sold during 2014 as compared to 2013 was primarily attributable to an increase in production at Ocotillo and Santa Isabel and also to the commencement of commercial operations at South Kent in March 2014. Our average realized electricity price was approximately $95 per MWh in the three months ended June 30, 2014 as compared to approximately $85 per MWh in the three months ended June 30, 2013. The average realized electricity price in 2014 was higher than the comparable period in 2013 because the pricing terms under the South Kent and El Arrayán PPAs are each higher than our overall average realized price applicable in 2013.

Wind conditions have improved at our project sites on average compared to recent quarters and, as a result, the electricity production at our fleet was close to its long-term average during the three months ended June 30, 2014. Excluding our newly operational project, South Kent, the production was less than 2% below the expected long-term average during this period. South Kent experienced some startup issues that are common for new power projects which are being addressed by Siemens.

Revenue. Revenue for the three months ended June 30, 2014 was $65.0 million compared to $58.7 million for the three months ended June 30, 2013, an increase of $6.3 million, or approximately 11%. This increase in revenue for the three months ended June 30, 2014 as compared to the prior year was primarily attributable to the commencement of commercial operations on the final 42 megawatts at Ocotillo in July 2013.

Cost of revenue. Cost of revenue for the three months ended June 30, 2014 was $38.0 million compared to $32.5 million for the three months ended June 30, 2013, an increase of $5.5 million, or approximately 17%. The increase in cost of revenue during 2014 as compared to 2013 was attributable principally to the commencement of commercial operations on the final 42 megawatts at Ocotillo in July 2013, higher property taxes at Hatchet Ridge, and increases in depreciation expense in 2014, due to receipt of Ocotillo and Santa Isabel ITC grants during the second quarter of 2013. As each new project commences commercial operations, we incur new incremental and ongoing costs for maintenance and services agreements, property taxes, insurance, land lease and other costs associated with managing, operating and maintaining the facility, including adding site employees and other operations staff.

Operating expenses. Operating expenses for the three months ended June 30, 2014 were $7.7 million compared to $2.9 million for the three months ended June 30, 2013, an increase of $4.8 million, or approximately 164%. The increase in operating expenses during 2014 as compared to 2013 was attributable to project acquisition activities and increased costs related to being a public company, and includes $1.6 million of stock-based compensation expense. After the Contribution Transactions and the initial public offering in 2013, the Company has direct payroll costs and employee-related, audit and consulting expenses, and other administrative expenses, that were previously allocated to the Company from Pattern Development, and which were reflected in related party general and administrative expense.

Other expense. Other expense for the three months ended June 30, 2014 was $8.1 million compared to other income of $13.0 million for the three months ended June 30, 2013. The decrease of $21.1 million in other expense during 2014 as compared to 2013 was primarily attributable to a $11.1 million increase in unrealized loss on interest rate derivatives at the Ocotillo project. In addition, we had a $17.1 million increase in equity in losses in unconsolidated investments which was primarily related to unrealized loss on interest rate derivatives on the unconsolidated investee's financial statements. A decrease in the forward interest rate curve during the three months ended June 30, 2014 increased both of these unrealized losses. Offsetting these increased losses is a $7.3 million increase in net gain on transactions, principally related to our acquisition of an additional 38.5% interest in our El Arrayán project.

Tax provision. The tax provision was a $4.1 million expense for the three months ended June 30, 2014 compared to a $7.7 million benefit for the same period in the prior year. The expense provision for the three months ended June 30, 2014 was primarily the result of recording a discrete expense on the gain related to the fair value remeasurement of our original 31.5% interest in El Arrayán. The benefit for the three months ended June 30, 2013 was primarily the result of recognizing a deferred tax asset related to the basis difference for the receipt of the Internal Revenue Code Section 1603 grant at Santa Isabel.

Noncontrolling interest. The net loss attributable to noncontrolling interest was $4.0 million for the three months ended June 30, 2014 compared to a $0.4 million net loss attributable to noncontrolling interest for the three months ended June 30, 2013. The higher loss allocation for the three months ended June 30, 2014 is primarily attributable to the period over period increase in Gulf Wind's unrealized loss on energy derivative and lower electricity sales during the three months ended June 30, 2014 as well as the retention by Pattern Development of an approximate 27% interest in Gulf Wind in connection with the Contribution Transactions which occurred on October 2, 2013.

Adjusted EBITDA. Adjusted EBITDA for the three months ended June 30, 2014 was $58.8 million compared to $46.0 million for the same period in the prior year, an increase of $12.8 million. The increase in Adjusted EBITDA during 2014 as compared to 2013 was primarily attributable to the commencement of commercial operation at South Kent in March 2014.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

The following table provides selected financial information for the periods presented and is unaudited (in thousands, except percentages):

	Six months ended June 30, 2014	Six months ended June 30, 2013	$ Change	% Change
Revenue	$ 114,556	$ 102,549	$ 12,007	12%
Project expense	32,774	27,469	5,305	19%
Depreciation and accretion	42,461	40,564	1,897	5%
Total cost of revenue	75,235	68,033	7,202	11%
Gross profit	39,321	34,516	4,805	14%
General and administrative	10,191	349	9,842	2820%
Related party general and administrative	2,663	5,361	(2,698)	-50%
Total operating expenses	12,854	5,710	7,144	125%
Operating income	26,467	28,806	(2,339)	-8%
Total other expense	(39,166)	(10,996)	(28,170)	-256%
Net (loss) income before income tax	(12,699)	17,810	(30,509)	171%
Tax provision (benefit)	2,033	(7,394)	9,427	-127%
Net (loss) income	(14,732)	25,204	(39,936)	158%
Net loss attributable to noncontrolling interest	(11,042)	(3,938)	(7,104)	-180%
Net (loss) income attributable to controlling interest	$ (3,690)	$ 29,142	$(32,832)	113%

Proportional MWh sold and average realized electricity price. Our proportional MWh sold in the six months ended June 30, 2014 was 1,315,908 MWh, as compared to 965,383 proportional MWh sold in the six months ended June 30, 2013. This increase in proportional MWh sold during 2014 as compared to 2013 was primarily attributable to an increase in production at Ocotillo and Santa Isabel and also to the commencement of commercial operations at South Kent in March 2014. Our average realized electricity price was approximately $93 per MWh in the six months ended June 30, 2014 as compared to approximately $86 per MWh in the six months ended June 30, 2013. The average realized electricity price in 2014 was higher than the comparable period in 2013 because the pricing terms under the South Kent and El Arrayán PPAs are each higher than our overall average realized price applicable in 2013.

Revenue. Revenue for the six months ended June 30, 2014 was $114.6 million compared to $102.5 million for the six months ended June 30, 2013, an increase of $12.1 million, or approximately 12%. This increase in revenue for the six months ended June 30, 2014 as compared to the prior year was primarily attributable to the commencement of commercial operations on the final 42 megawatts at Ocotillo in July 2013. During the six months ended June 30, 2014, we recorded a $14.3 million unrealized loss on energy derivative compared to an $11.9 million unrealized loss on energy derivative in 2013. The value of our energy derivative, and the amount of unrealized gain or loss we record, increases and decreases due to our monthly derivative settlements and changes in forward electricity prices, which are derived from and impacted by changes in forward natural gas prices.

Cost of revenue. Cost of revenue for the six months ended June 30, 2014 was $75.2 million compared to $68.0 million for the six months ended June 30, 2013, an increase of $7.2 million, or approximately 11%. The increase in cost of revenue during 2014 as compared to 2013 was attributable principally to the commencement of commercial operations on the final 42 megawatts at Ocotillo in July 2013, higher property taxes at Hatchet Ridge, and increases in depreciation expense in 2014, due to receipt of Ocotillo and Santa Isabel ITC grants during the second quarter of 2013. As each new project commences commercial operations, we incur new incremental and ongoing costs for maintenance and services agreements, property taxes, insurance, land lease and other costs associated with managing, operating and maintaining the facility, including adding site employees and other operations staff.

Operating expenses. Operating expenses for the six months ended June 30, 2014 were $12.9 million compared to $5.7 million for the six months ended June 30, 2013, an increase of $7.1 million, or approximately 125%. The increase in operating expenses during 2014 as compared to 2013 was attributable to project acquisition activities and increased costs related to being a public company, and includes $2.2 million of stock-based compensation expense. After the Contribution Transactions and the initial public offering in 2013, the Company has direct payroll costs and employee-related, audit and consulting expenses, and other administrative expenses, that were previously allocated to the Company from Pattern Development, and which were reflected in related party general and administrative expense.

Other expense. Other expense for the six months ended June 30, 2014 was $39.2 million compared to $11.0 million for the six months ended June 30, 2013. The increase of $28.2 million in other expense during 2014 as compared to 2013 was primarily attributable to a $16.8 million increase in unrealized loss on interest rate derivatives at the Ocotillo project. In addition, we had a $19.6 million increase in equity in losses in unconsolidated investments which was primarily related to unrealized loss on interest rate derivatives on the unconsolidated investee's financial statements. A decrease in the forward interest rate curve during the six months ended June 30, 2014 increased both of these unrealized losses. Offsetting these increased losses is a $7.3 million increase in net gain on transactions, principally related to our acquisition of an additional 38.5% interest in our El Arrayán project.

Tax provision. The tax provision was a $2.0 million expense for the six months ended June 30, 2014 compared to a $7.4 million benefit for the same period in the prior year. The expense provision for the six months ended June 30, 2014 was related to the fair value remeasurement of our original 31.5% interest in El Arrayán, offset by recognizing equity in losses in unconsolidated investments which were primarily related to interest rate swaps that are not designated as hedges. The benefit for the six months ended June 30, 2014 was primarily the result of recognizing a deferred tax asset related to the basis difference for the receipt of the Internal Revenue Code Section 1603 grant at Santa Isabel.

Noncontrolling interest. The net loss attributable to noncontrolling interest was $11.0 million for the six months ended June 30, 2014 compared to a $3.9 million net loss attributable to noncontrolling interest for the six months ended June 30, 2013. The higher loss allocation for the six months ended June 30, 2014 is primarily attributable to the period over period increase in Gulf Wind's unrealized loss on energy derivative and lower electricity sales during the six months ended June 30, 2014 as well as the retention by Pattern Development of an approximate 27% interest in Gulf Wind in connection with the Contribution Transactions which occurred on October 2, 2013.

Adjusted EBITDA. Adjusted EBITDA for the six months ended June 30, 2014 was $96.0 million compared to $80.4 million for the same period in the prior year, an increase of $15.6 million. The increase in Adjusted EBITDA during 2014 as compared to 2013 was primarily attributable to the commencement of commercial operation at South Kent in March 2014.

Liquidity and Capital Resources

Our business requires substantial capital to fund (i) equity investments in our construction projects, (ii) current operational costs, (iii) debt service payments, (iv) dividends to our shareholders, (v) potential investments in new acquisitions (vi) modifications to our projects, (vii) unforeseen events and (viii) other business expenses. As a part of our liquidity strategy, we plan to retain a portion of our cash flows in above-average wind years in order to have additional liquidity in below-average wind years. Our sources of liquidity include cash generated by our operations, cash reserves, borrowings under our corporate and project-level credit agreements and further issuances of equity and debt securities.

The principal indicators of our liquidity are our restricted and unrestricted cash balances and availability under our credit agreements. As of June 30, 2014, our available liquidity was $470.3 million, including unrestricted cash on hand of $234.0 million, restricted cash on hand of $44.4 million, $97.4 million available under our revolving credit agreements and $94.5 million available under project financings for standby credit support at our projects.

We believe that throughout 2014, we will have sufficient liquid assets, cash flows from operations, and borrowings available under our revolving credit facility to meet our financial commitments, debt service obligations, contingencies and anticipated required capital expenditures for at least the next 24 months, without taking into account capital required for additional project acquisitions. Additionally, we believe that our construction projects have been sufficiently capitalized such that we will not need to seek additional financing arrangements in order to complete construction and achieve commercial operations at these projects. However, we are subject to business and operational risks that could adversely affect our cash flow. A material decrease in our cash flows would likely produce a corresponding adverse effect on our borrowing capacity. In connection with our future capital expenditures and other investments, including any project acquisitions that we may make in addition to our acquisition of Panhandle 2, for which we have committed $122.9 million, we may, from time to time, issue debt or equity securities.

Cash Flows

We use traditional measures of cash flows, including net cash provided by operating activities, net cash used in investing activities and net cash provided by financing activities as well as cash available for distribution to evaluate our periodic cash flow results.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $60.8 million for the six months ended June 30, 2014 as compared to $41.7 million for the same period in the prior year. This $19.1 million increase in cash provided by operating activities was primarily the result of a $17.4 million increase in cash provided by changes in operating assets and liabilities, inclusive of acquired assets and liabilities at El Arrayán.

Net Cash (Used in) Provided by Investing Activities

Net cash used in investing activities was $162.0 million for the six months ended June 30, 2014, which consisted primarily of $163.6 million used to acquire Panhandle 1 and a 38.5% interest in El Arrayán, net of acquired cash. Net cash provided by investing activities was $63.4 million for the six months ended June 30, 2013, which consisted primarily of $173.4 million of ITC grant proceeds at Ocotillo and Santa Isabel and $14.3 million of proceeds from the sale of investments and tax credits, offset by $111.1 million of capital expenditures, primarily at Ocotillo and Santa Isabel, and $6.7 million for interconnection network upgrades, primarily at Hatchet Ridge and Ocotillo.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2014 was $231.4 million, which consisted of $288.7 million of net proceeds from our May equity offering (reduced by $0.8 million paid transaction costs) and a $4.7 million net decrease in restricted cash at our Santa Isabel project, offset by $22.2 million of dividend payments and $36.9 million of loan repayments. Net cash used in financing activities for the six months ended June 30, 2013 was $79.8 million, which was primarily attributable to the $57.5 million repayment of our Santa Isabel grant loan, $21.8 million repayment of our long-term debt, $116.7 million increase in restricted cash balances primarily at Ocotillo and $92.2 million distributions to Pattern Development, offset by the $118.0 million of loan borrowings at Santa Isabel and Ocotillo and a $56.0 million loan draw under our revolving credit facility.

Cash Available for Distribution

Cash available for distribution was $16.1 million for the three months ended June 30, 2014 as compared to $16.2 million for the same period in the prior year. This decrease in cash available for distribution was primarily the result of a $7.8 million increase in total revenue, exclusive of unrealized loss on energy derivative, offset by an aggregate $7.0 million increase in project and operating expenses.

Cash available for distribution was $33.9 million for the six months ended June 30, 2014 as compared to $30.7 million for the same period in the prior year. This $3.2 million increase in cash available for distribution was primarily the result of a $14.4 million increase in total revenue, exclusive of the unrealized loss on energy derivative, offset by an aggregate $12.4 million increase in project and operating expenses.

Although we commenced commercial operation at each of the South Kent, El Arrayán and Panhandle 1 projects during the first six months of 2014, they did not provide any meaningful contribution to our cash available for distribution during the first half of the year; however, we do expect each project to contribute to cash available for distribution in the second half of the year.

Cash Dividends to Investors

We intend to pay regular quarterly dividends in U.S. dollars to holders of our Class A shares. Our quarterly dividend was initially set at $0.3125 per Class A share, or $1.25 per Class A share on an annualized basis, and has been increased to a current level of $0.328 per Class A share, or $1.312 per Class A share on an annualized basis. This amount may be changed in the future without advance notice. We established our initial quarterly dividend level based on a targeted cash available for distribution payout ratio of 80% both prior to and following the Conversion Event, after considering the annual cash available for distribution that we expect our projects will be able to generate following the commencement of commercial operations at all of our construction projects and with due regard to retaining a portion of the cash available for distribution to grow our business. We intend to grow our business primarily through the acquisition of operational and construction-ready power projects, which, we believe, will facilitate the growth of our cash available for distribution and enable us to increase our dividend per Class A share over time. However, the determination of the amount of cash dividends to be paid to holders of our Class A shares will be made by our Board of Directors and will depend upon our financial condition, results of operations, cash flow, long-term prospects and any other matters that our Board of Directors deem relevant. Refer to Item 1A “Risk Factors—Risks Related to Ownership of our Class A Shares—Risks Regarding our Cash Dividend Policy” of our Annual Report on Form 10-K for the year ended December 31, 2013.

We expect to pay a quarterly dividend on or about the 30th day following each fiscal quarter to holders of record of our Class A shares on the last day of such quarter.

On August 1, 2014, we declared our third quarter 2014 dividend, payable on October 30, 2014, to holders of record on September 30, 2014, in the amount of $0.328 per Class A share, which represents $1.312 on an annualized basis.

Capital Expenditures and Investments

All capital expenditures and investments in 2013 were either funded by Pattern Development or by project finance lenders under project-level credit facilities. For 2013, total capital expenditures were $123.5 million. For 2014, we do not expect to make capital expenditures at our current construction projects as these projects have been or are held in joint ventures for which we use the equity method of accounting.

We expect to make investments in additional projects. We have agreed to make a cash payment to Pattern Development in the amount of $122.9 million, subject to certain price adjustments based on final project size, design and modeling assumptions, at the time of the Panhandle 2 acquisition, which we expect to occur in the fourth quarter of 2014. In addition, we are in advanced discussions regarding potential acquisitions of certain wind power projects. Although we have no commitments to make any acquisitions, other than the acquisition of Panhandle 2, we consider it reasonably likely that we may have the opportunity to acquire certain other Pattern Development projects under our purchase rights within the 24 month period following December 31, 2013.

We believe that we will have sufficient cash and revolving credit facility capacity to complete the Panhandle 2 acquisition, but this may be affected by any other acquisitions or investments that we make prior to the Panhandle 2 acquisition. To the extent that we make any such investments or acquisitions, we will evaluate capital markets and other corporate financing sources available to us at the time.

In addition, we will make investments from time to time at our operating projects. Operational capital expenditures are those capital expenditures required to maintain our long-term operating capacity. Capital expenditures for the projects are generally made at the project level using project cash flows and project reserves, although funding for major capital expenditures may be provided by additional project debt or equity. Therefore, the distributions that we receive from the projects may be made net of certain capital expenditures needed at the projects.

For the year ending December 31, 2014, we have budgeted $0.9 million for operational capital expenditures and $1.9 million for expansion capital expenditures.

Critical Accounting Policies and Estimates

There have been no changes in our critical accounting policies from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

Contractual Obligations

We have a variety of contractual obligations and other commercial commitments that represent prospective cash requirements in addition to our capital expenditure programs, as disclosed in the Annual Report on Form 10-K for the year ended December 31, 2013. See also Note 8, *Long-term Debt,* and Note 17, *Commitments and Contingencies*, in the consolidated financial statements for additional discussion of contractual obligations.

Below is a summary of our proportion of debt in unconsolidated investments, as of June 30, 2014 (in thousands):

	Total Project Debt	Percentage of Ownership	Our Portion of Unconsolidated Project Debt
South Kent	$ 593,899	50.0%	$ 296,950
Grand	239,005	45.0%	107,552
Total	$ 832,904		$ 404,502

Off-Balance Sheet Arrangements

As of June 30, 2014, we had no off-balance sheet arrangements and have not entered into any transactions involving uncombined, limited purpose entities or commodity contracts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have significant exposure to commodity prices, interest rates and foreign currency exchange rates, as described below. To mitigate these market risks, we have entered into multiple derivatives. We have not applied hedge accounting treatment to all of our derivatives, therefore we are required to mark some of our derivatives to market through earnings on a periodic basis, which will result in non-cash adjustments to our earnings and may result in volatility in our earnings, in addition to potential cash settlements for any losses.

Commodity Price Risk

We manage our commodity price risk for electricity sales through the use of long-term power sale agreements with creditworthy counterparties. Our financial results reflect approximately 439,895 MWh of electricity sales during the six months ended June 30,