Pattern

PATTERN ENERGY GROUP INC.

Investor presentation | March 2017

SAFE HARBOR STATEMENT

The following information contains, or may be deemed to contain, "forward-looking statements" (as defined in the U.S. Private Securities Litigation Reform Act of 1995 and "forward-looking information" as defined in Canadian securities laws). The words "may," "plan," "forecast," "seek," "target," "goal," "believe," "expect," "anticipate," "intend," "estimate" and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. You should not place undue reliance on these forward-looking statements about Pattern Energy Group Inc. (the "Company"). By their nature, forward-looking statements are not statements of historical facts and involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future, many of which are outside the Company's control. Such risks and uncertainties could cause the actual results, performance or achievements of the Company to be materially different from its current expectations and include, but are not limited to: the Company's ability to complete construction of any construction projects and transition them into financially successful operating projects; the Company's ability to complete acquisition of power projects; fluctuations in supply, demand, prices and other conditions for electricity; the Company's electricity generation, projections thereof and factors affecting production including wind and other conditions, other weather conditions, availability and curtailment; changes in law; and the Company's ability to keep pace with and take advantage of new technologies.

In particular, this presentation contains the Company's adjusted EBITDA and cash available for distribution, which are not measures under generally accepted accounting principles in the United States ("U.S. GAAP"). Adjusted EBITDA and cash available for distribution have been disclosed because the Company believes that these measures may assist investors in evaluating its financial performance and its ability to pay dividends. Neither adjusted EBITDA nor cash available for distribution should be considered the sole measure of the Company's performance and should not be considered in isolation from, or as a substitute for, the Company's U.S. GAAP measures, including, but not limited to, the most directly comparable U.S. GAAP measures, net (loss) income and net cash provided by operating activities, respectively. See pages 32-34 of this presentation, Item 7 in the Company's annual report on Form 10-K for the year ended December 31, 2016, titled Management's Discussion and Analysis of Financial Condition and Results of Operations – Key Metrics, for a reconciliation of net cash provided by operating activities to cash available for distribution and net (loss) income to adjusted EBITDA. Forward looking measures of CAFD, run-rate CAFD and CAFD per share growth are non U.S. GAAP measures that cannot be reconciled to net cash provided by operating activates as the most directly comparable non U.S. GAAP financial measure without unreasonable effort. A description of the adjustments to determine CAFD can be found in Management's Discussion and Analysis of Financial Condition and Results of Operations – Key Metrics of the Company's 2016 Annual Report on Form 10-K for the period ended December 31, 2016.

All forward-looking statements speak only as of the date made, and the Company expressly disclaims any intention or obligation to revise or publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise except as may be required by applicable law. For additional information regarding known material risks that could cause the Company's actual results to differ from its projected results please read "Risk Factors" in the Company's 2016 annual report on Form 10-K for the period ended December 31, 2016.

(All currencies are U.S. dollars unless specified otherwise.)

HIGHLIGHTS

2.6 GW
OWNED CAPACITY

12th
CONSECUTIVE DIVIDEND INCREASE

$133M
2016 CAFD[1]

36%
INCREASE
TO PORTFOLIO ON IDENTIFIED ROFO LIST

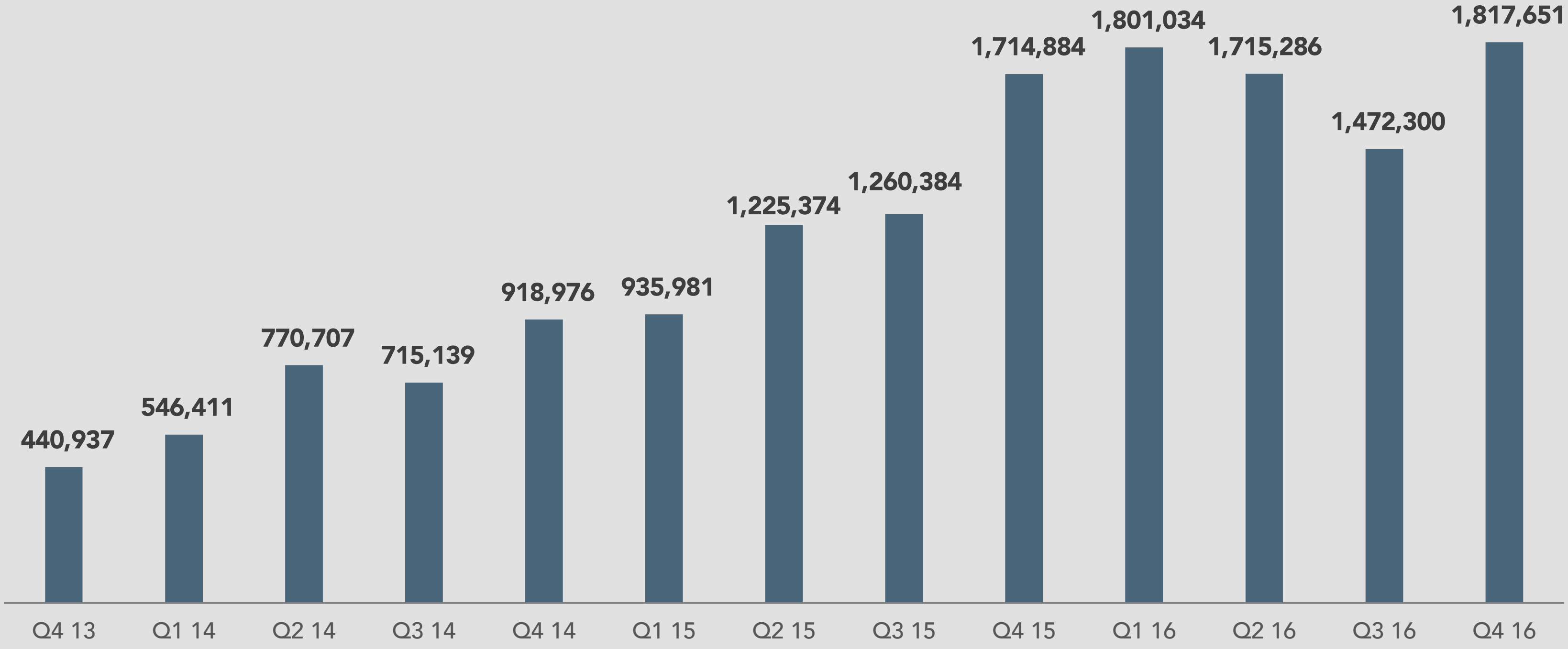
$1.66
ANNUALIZED DIVIDEND PER SHARE

44%
INCREASE VS 2015 CAFD

1) See pages 32-34 for a reconciliation of YTD 2016/2015 net cash provided by operating activities to YTD 2016/2015 cash available for distribution

DIVERSIFIED AND INCREASING ASSET BASE

QUARTERLY PROPORTIONAL PRODUCTION (MWh)



Q4 AND FY 2016 FINANCIAL SUMMARY

USD millions (except GWh)	Q4 2016	Q4 2015	change	2016	2015	change
GWh	**1,818**	**1,715**	**6%**	**6,806**	**5,137**	**33%**
Revenue	**$81.1**	**$90.6**	**(11)%**	**$354.1**	**$329.8**	**7%**
Adjusted EBITDA[1]	**$85.1**	**$78.3**	**9%**	**$304.2**	**$250.5**	**21%**
Cash Available for Distribution[1]	**$36.2**	**$32.9**	**10%**	**$133.0**	**$92.4**	**44%**

$133 M: MET 2016 CAFD ESTIMATE OF $130-140 M

1) See pages 32-34 for a reconciliation of Q4 2016/2015 and FY 2015/2016 net cash provided by operating activities to Q4 2016/2015 and FY 2016/2015 cash available for distribution and net (loss) income to adjusted EBITDA

TWELFTH CONSECUTIVE DIVIDEND INCREASE

Period	Dividend per Class A share	% increase
Q1 2014	$0.3125	--
Q2 2014	$0.322	3.0%
Q3 2014	$0.328	1.9%
Q4 2014	$0.335	2.1%
Q1 2015	$0.342	2.1%
Q2 2015	$0.352	2.9%
Q3 2015	$0.363	3.1%
Q4 2015	$0.372	2.5%
Q1 2016	$0.381	2.4%
Q2 2016	$0.390	2.4%
Q3 2016	$0.400	2.6%
Q4 2016	$0.408	2.0%
Q1 2017	$0.41375	1.4%
TOTAL SINCE IPO		**32.4%**

LIQUIDITY (as of December 31, 2016, $ millions)

Unrestricted cash	**$84**
Restricted cash	**$25**
Revolver availability	**$288**
Undrawn capacity under certain project debt facilities	**$99**
Total	**$497**

MANAGING LIQUIDITY

80% target payout ratio of CAFD run rate

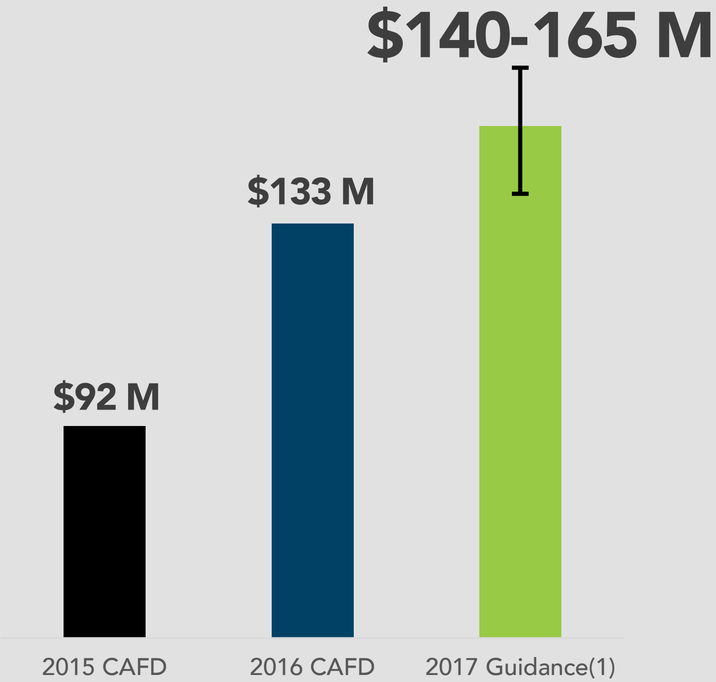
Reserving cash in strong cash flow periods

Repricing and modifying project debt

Increase project output via improvements and availability

NO NEW EQUITY REQUIRED TO ACHIEVE GUIDANCE

2017 CAFD GUIDANCE[1] $140-165 M



EXISTING ASSETS AND CAPITAL STRUCTURE ALLOW FOR CONTINUED GROWTH

1) The forward looking measure of 2017 full year cash available for distribution (CAFD) is a non-GAAP measures that cannot be reconciled to net cash provided by operating activities as the most directly comparable GAAP financial measure without unreasonable effort primarily because of the uncertainties involved in estimating forward-looking changes in working capital balances which are added to earnings to arrive at cash provided by operations and subtracted therefrom to arrive at CAFD. A description of the adjustments to determine CAFD can be found within Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Key Metrics, of Pattern Energy's 2016 Annual Report on Form 10-K for the period ended December 31, 2016 and pages 32-34 herein.

Pattern

DEVELOPMENT

RENEWABLES VS CONVENTIONAL POWER INVESTMENT

2015 global investment in
fossil fuel generation:

$130B

2015 global investment in
Renewables:

$286B

RENEWABLES ATTRACTED 2X THE $130 BILLION COMMITTED TO NEW COAL AND GAS GENERATION IN 2015

Source: Bloomberg New Energy Finance & Frankfurt School-UNEP, "Global Trends in Renewable Energy Investment 2016"

PATTERN DEVELOPMENT 2.0: A POTENTIAL INVESTMENT OPPORTUNITY

BUSINESS MODEL UNCHANGED – EXPANDING TO INCLUDE DEVELOPMENT

PROVEN PLATFORM

STRONG INVESTMENT RETURNS

MANAGED CAPITAL

SOUND BUSINESS MODEL

<$100 M MINORITY POSITION IN PATTERN DEVELOPMENT UNDER CONSIDERATION

PATTERN DEVELOPMENT: A PROVEN PLATFORM

4.8 GW
OF INSTALLED CAPACITY BY TEAM

15 YRS+
CORE MANAGEMENT TEAM TOGETHER

40
PROJECTS MANAGED BY TEAM ON BUDGET, WITHIN SCHEDULE

$8 B+
RAISED ACROSS 20+ PROJECT FINANCE TRANSACTIONS

PRIVATE EQUITY RETURNS
WITH MANAGED CAPITAL EXPOSURE

ONE OF MOST SUCCESSFUL TEAMS IN THE INDUSTRY

STRONG INVESTMENT RETURNS

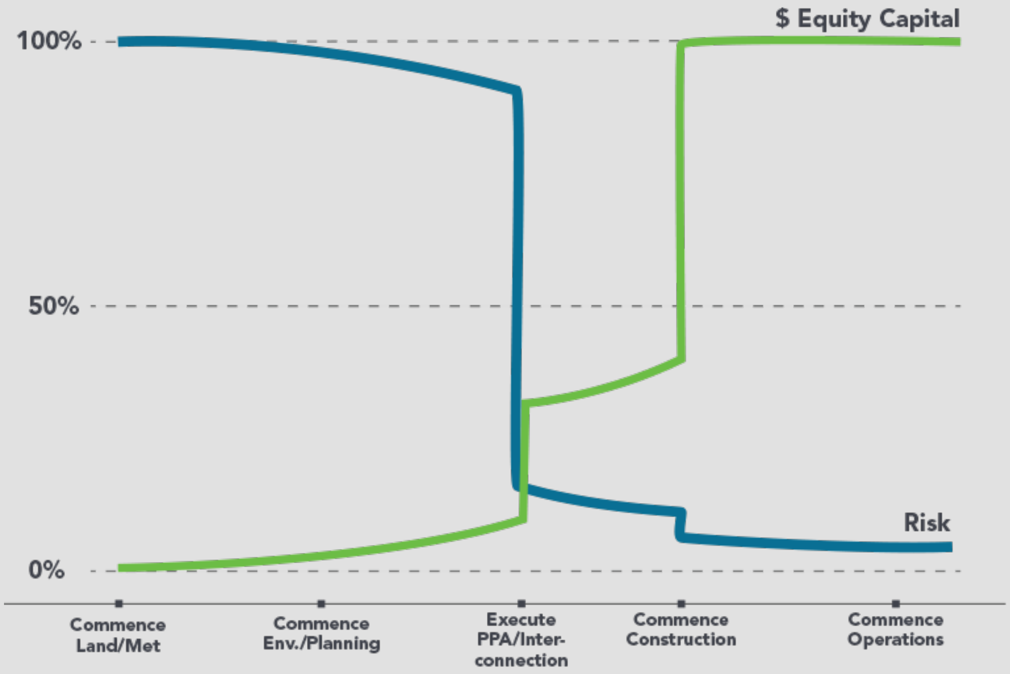
Overall return expectations	Target 'private equity' returns of well above 15%+ pre-tax
Payback expectations	Within 2-3 years a well-managed development business may be in a positon to start returning capital to owners – plan for 3+ years
Recycling capital	A steady development business with profits should, after a maturation period, exceed the run-rate costs of development to become self funding
Write-off tolerance	Limiting capital exposure can mitigate against write-offs within the expectations of overall return, recycling and payback

MANAGED CAPITAL

Disciplined capital exposure (and yield compression) are key to investment returns

Minimize capital exposure until project has economic proposition

Shorten major capital deployment periods



MANAGING DEVELOPMENT AND CONSTRUCTION CAPITAL[1]

	ORIGINATION & EARLY DEVELOPMENT	PRE-CONSTRUCTION & FINANCING	CONSTRUCTION
Timeframe	1-5 years	0.5-5 years	0.5-2 years
Case Study Assumption	2 years	1 year	1 year
Typical Capital Required	<2% of total project capital (<$1 M to $5-10 M)	~10% of build cost	100% of build cost
Source of Capital	100% Developer equity	100% Developer equity	75-90% Non-recourse debt 10-25% Developer equity[2]
Case Study Assumption	$2 M Developer equity	$16 M Developer equity	$120 M Non-recourse debt $40 M Developer equity
Risk Management	Limited capital (<2%) required for most of development life-cycle	Maximum business risk exposure (~10% build cost) at pre-construction stage	Maximum capital at risk (25% build cost) at close of financing / start of construction

1) Figures are approximate based on assumptions from indicative case study and do not constitute estimates, forecasts or assurances that similar future circumstances will result in similar results
2) Prior to back leverage

RENEWABLE ENERGY DEVELOPMENT PHASES

ORIGINATION & EARLY DEVELOPMENT	PRE-CONSTRUCTION & FINANCING	CONSTRUCTION	DROPDOWN	SALE	OPERATIONS
• Identify high resource sites • Acquire early stage projects • Land agreements • Resource analysis • Environmental reports • Planning application • Grid application	• Secure permits, leases, rights of way, etc. • Select manufacturer / EPC • Financial model • Secure PPA • Close project finance	• Detailed site design complete • Turbines erected • Connection to grid		• Sale of facility	• Manage operations and maintenance of assets

SOUND BUSINESS MODEL

Secure access to pipeline	In competitive markets, access to a high quality pipeline with attractive characteristics is critical; Pattern 2.0 provides a major, secure pipeline of high quality development assets
High return potential	Actively and prudently managed development potentially one of the most attractive risk/reward profiles in power generation; 6-8X CAFD multiple for developer vs. 10-12X CAFD multiple for purchaser[1]
Strategic alignment	Strategic alignment between development and operations provides significant value to both; a secure pipeline of new opportunities and quality control for the operating company and a consistent off taker and long term operator reputation for the development company along with greater depth of expertise, shared and improved scale economics and other benefits
High barriers to entry	Wind development requires agility, significant and specific expertise, experience and judgment, as well as material and consistent amounts of scarce risk capital, which traditionally has limited the number of successful parties in the industry

1) These forward looking measures of CAFD multiples are non-GAAP measures that cannot be reconciled to multiples of net cash provided by operating activities as the most directly comparable GAAP financial measure without unreasonable effort primarily because of the uncertainties involved in estimating forward-looking changes in working capital balances which are added to earnings to arrive at cash provided by operations and subtracted therefrom to arrive at CAFD. A description of the adjustments to determine CAFD can be found within Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations – Key Metrics, of Pattern Energy's 2016 Annual Report on Form 10-K for the period ended December 31, 2016 and pages 32-34 herein.

RETURNS AND YIELD COMPRESSION

INDICATIVE PROJECT CASE STUDY

100 MW	project size
$160 M	all-in project cost to construct
$120 M / $40 M	non-recourse construction debt / developer equity during construction
$180 M	fair market value of project
$20 M	profit

DEVELOPER RETURN ANALYSIS[1]

~3X to 4X

CAFD multiple expansion
6-8X typical develop multiple
10-12X purchaser CAFD multiple

~400 bps to 600 bps

IRR yield compression (25 year)
12-15% typical develop levered after tax return
7-9% purchaser levered after tax return

1) Figures are approximate based on assumptions from indicative case study and do not constitute estimates, forecasts or assurances that similar future circumstances will result in similar results.

Pattern

OUR BUSINESS

WHAT IS PATTERN

OWNER & OPERATOR

Pattern

PEGI : NASDAQ
PEG : TSX

DEVELOPER

Pattern Development

Privately owned
Owns 19% of PEGI

OUR STRATEGY FOR STABLE, GROWING RETURNS

High-quality wind assets

Drop downs from Pattern Development

Robust iROFO list

+

Select third-party acquisitions

Successful track record

A TRACK RECORD OF DELIVERING DIVIDENDS AND GROWTH

GEOGRAPHICALLY DIVERSIFIED PORTFOLIO

1) Includes agreement to acquire Pattern Development interests in Broadview

PATTERN 2020: OUR ORGANIZATION-WIDE FOCUS

BEST PLACE TO WORK IN THE INDUSTRY

DOUBLE OUR PORTFOLIO

CONTINUE TO BE A TOP COMPETITOR

HIGH PERFORMANCE, ENGAGED TEAM

5 GW BY 2020

AGRESSIVELY LOWER COSTS

- Lower build costs
- Lower O&M costs
- Increased production and operational initiatives

AN ESTABLISHED BUSINESS

Pattern

Publicly-listed (PEGI) yield oriented long-term owner of operating or in construction projects

2.6 GW
owned capacity[1]

Pattern Development 1.0

- Legacy developer with late-stage projects at or near sale
- ~19% shareholder of PEGI
- No new origination

786 MW
identified ROFO (excl. Grady)

Pattern Development 2.0

- Developer with significant pipeline of projects in early to late stage
- Will own future development opportunities

5+ GW
development portfolio

SECURE ACCESS TO A ROBUST PIPELINE

Near-term opportunities through Pattern Development purchase rights

	Net owned capacity (MW)	Revenue	Est. Commercial Operations Date
Pattern Development 1.0 projects			
Kanagi Solar, JP	6	20 year PPA	2016 A
Futtsu Solar, JP	19	20 year PPA	2016 A
Conejo Solar, CL	104	22 year PPA	2016 A
Meikle, BC	180	25 year PPA	2017 A
Belle River, ON	43	20 year PPA	2017
Ohorayama, JP	31	20 year PPA	2018
Mont Sainte-Marguerite, QC	147	25 year PPA	2017
Henvey Inlet, ON	150	20 year PPA	2018
North Kent, ON	43	20 year PPA	2018
Tsugaru, JP	63	20 year PPA	2019
Pattern Development 2.0 projects			
Grady, NM	176	25 year PPA	2019
Total	**962**		

5+ GW

development pipeline

962 MW

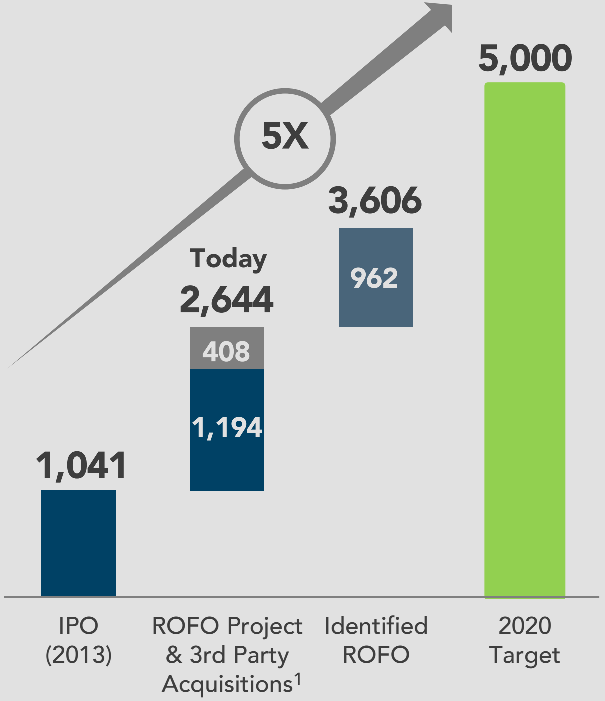
identified ROFO list owned interest

1,194 MW

assets dropped down since IPO

CLEAR RELIABLE GROWTH

OWNED CAPACITY GROWTH (MW)



962 MW
identified ROFO list owned interest

11
projects (Canada, Japan, U.S., Chile)

100%
contracted under long-term PPAs

82%
outside of U.S. market

In operation, construction or late-stage development

COD from 2016 through 2019

1) Includes agreement to acquire Pattern Development interest in Broadview

COST REDUCTION OPPORTUNITIES

POTENTIAL O&M SAVINGS

~1,100 turbines

$10k-20k net savings per turbine

$10-20M cost reduction per annum over five years

ROLL-OUT

5 projects scheduled for self perform by YE 2017

7 projects renegotiated LTSA

$20 M: TARGETED COST REDUCTIONS IN 3-5 YEARS

IMPACT OF THE NEW U.S. ADMINISTRATION

- Long-term growth of renewable energy a matter of economics not government policy or subsidy
- States drive demand via RPSs and resource planning
- Federal government affects tax and regulatory policy – both beneficial to wind operators
- 100,000 jobs in U.S. from wind industry
- 70%+ of projects and manufacturing in Republican districts

Corporate tax rate changes should improve the economics of our existing projects and will not change the economics materially on new projects

The administration could reduce the permitting requirements of new projects

The administrations has announced expansion of transmission projects or renewables

Some states are proposing to expand their requirements for more renewables

A few states are reducing their commitments to renewables; with little impact on the industry

Most states are continuing to reduce the use of coal

82% OF EXISTING IDENTIFIED ROFO OUTSIDE OF U.S.

PROTECTION FROM INTEREST RATES AND INFLATION

FIXED
RATE DEBT
at project level on existing fleet

Discount rates on project valuations rise with higher interest rates and inflation

– reduces acquisition cost of new assets to grow

Locked in low-rate debt on existing fleet

Residual value and modest merchant market exposure help to mitigate higher rates

Managed assets & raised capital through multiple cycles over 30 years

DISCIPLINED BUSINESS STRATEGY

BE A TOP COMPETITOR

DRIVING DOWN COSTS:
BUILD COSTS &
OPERATING COSTS

EXHIBIT VALUE

THROUGH TRANSPARENT BUSINESS CHANGES

EXPANDING DEVELOPMENT OPPORTUNITIES
WITH NEW FUNDING &
PROJECT OPPORTUNITIES

Pattern

PATTERN ENERGY GROUP INC.

Appendix | March 2017

HIGH-QUALITY PORTFOLIO OF POWER PROJECTS

	Project size	Owned %	Owned MW	Revenue	Off-Taker	COD	Turbines	Contract Tenor	% Under Contract
Gulf Wind, TX	283	100%	283	Hedge	Morgan Stanley	2009	Mitsubishi	2019	58%
Hatchet Ridge, CA	101	100%	101	PPA	PG&E	2010	Siemens	2025	100%
St. Joseph, MB	138	100%	138	PPA	Manitoba Hydro	2011	Siemens	2039	100%
Spring Valley, NV	152	100%	152	PPA	NV Energy	2012	Siemens	2032	100%
Santa Isabel, Puerto Rico	101	100%	101	PPA	PREPA	2012	Siemens	2037	100%
Ocotillo, CA	265	100%	265	PPA	SDG&E	2012/2013	Siemens	2033	100%
South Kent, ON	270	50%	135	PPA	IESO	2014	Siemens	2034	100%
El Arrayán, Chile	115	70%	81	Hedge	Minera Los Pelambres	2014	Siemens	2034	74%
Panhandle 1, TX	218	79%	172	Hedge	Citigroup Energy	2014	GE	2027	80%
Panhandle 2, TX	182	81%	147	Hedge	Morgan Stanley	2014	Siemens	2027	80%
Grand, ON	149	45%	67	PPA	IESO	2014	Siemens	2034	100%
Post Rock, KS	201	60%	120	PPA	Westar	2012	GE	2032	100%
Lost Creek, MO	150	100%	150	PPA	Associated Electric Cooperative	2010	GE	2030	100%
K2, ON	270	33%	90	PPA	IESO	2015	Siemens	2035	100%
Logan's Gap, TX	200	82%	164	PPA / Hedge	Wal-mart Stores Inc. / Merrill Lynch	2015	Siemens	2025/28	75%
Amazon Wind Farm (F), IN	150	77%	116	PPA	Amazon.com	2015	Siemens	2028	100%
Broadview, NM	324	84%	272	PPA	Southern California Edison	2017	Siemens	2037	100%
Armow, ON	180	50%	90	PPA	IESO	2015	Siemens	2035	100%
Total Combined[1]	**3,449**		**2,644**					**14 years**	**91%**

1) Includes agreement to acquire Pattern Development interests in Broadview

CASH AVAILABLE FOR DISTRIBUTION*

(NON-GAAP RECONCILIATION)

	Three months ended December 31,		For the year ended December 31,	
	2016	2015	2016	2015
Net cash provided by operating activities	**$56,293**	**$32,447**	**$163,664**	**$117,849**
Changes in operating assets and liabilities	(11,800)	1,669	(11,000)	(6,880)
Network upgrade reimbursement	4,821	618	4,821	2,472
Release of restricted cash to fund project and general and administrative costs	50	110	640	1,611
Operations and maintenance capital expenditures	(138)	(485)	(1,017)	(779)
Distributions from unconsolidated investments	1,632	10,722	41,698	34,216
Reduction of other asset - Gulf Wind energy derivative deposit	—	850	—	6,205
Other	(172)	(596)	(302)	(323)
Less:				
Distributions to noncontrolling interests	(6,125)	(3,500)	(17,896)	(7,882)
Principal payments paid from operating cash flows	(8,312)	(8,984)	(47,634)	(54,041)
Cash available for distribution	**$36,249**	**$32,851**	**$132,974**	**$92,448**

ADJUSTED EBITDA*

(NON-GAAP RECONCILIATION)

	Three months ended December 31, 2016	2015	For the year ended December 31, 2016	2015
Net loss	**$3,445**	**$(3,873)**	**$(52,299)**	**$(55,607)**
Plus:				
Interest expense, net of interest income	15,692	18,886	76,598	75,309
Tax provision	4,641	4,267	8,679	4,943
Depreciation, amortization and accretion	47,028	41,240	184,002	145,322
EBITDA	70,806	60,520	216,980	169,967
Unrealized loss on energy derivative (1)	7,797	2,391	22,767	791
Loss on undesignated derivatives, net	(14,361)	1,908	3,324	5,490
Realized loss on derivatives	—	—	—	11,221
Early extinguishment of debt	—	828	—	4,941
Net gain (loss) on transactions	(27)	737	326	3,400
Adjustments from unconsolidated investments (2)	18,914	—	(659)	—
Plus, proportionate share from equity accounted investments:				
Interest expense, net of interest income	9,325	6,452	32,103	23,537
Depreciation, amortization and accretion	8,139	6,434	27,763	22,680
Loss on undesignated derivatives, net	(15,463)	(1,017)	1,552	8,514
Adjusted EBITDA	**$85,130**	**$78,253**	**$304,156**	**$250,541**

1) Amount is included in electricity sales on the consolidated statements of operations.
2) Adjustments from unconsolidated investment for the three months ended December 31, 2016, consists of $4.9 million gains on distributions from unconsolidated investments and $(23.8) million of suspended equity earnings. Adjustments for the year ended December 31, 2016, consists of $19.9 million gains on distributions from unconsolidated investments and $(19.2) million of suspended equity earnings.

*SUMMARY NON-GAAP FINANCIAL MEASURES

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

We disclose cash available for distribution because management recognizes that it will be used as a supplemental measure by investors and analysts to evaluate our liquidity. However, cash available for distribution has limitations as an analytical tool because it excludes depreciation, amortization, and accretion, does not capture the level of capital expenditures necessary to maintain the operating performance of our projects, is not reduced for principal payments on our project indebtedness except to the extent they are paid from operating cash flows during a period, and excludes the effect of certain other cash flow items, all of which could have a material effect on our financial condition and results from operations. Cash available for distribution is a non-U.S. GAAP measure and should not be considered an alternative to net cash provided by operating activities or any other liquidity measure determined in accordance with U.S. GAAP, nor is it indicative of funds available to fund our cash needs. In addition, our calculation of cash available for distribution is not necessarily comparable to cash available for distribution as calculated by other companies.

Adjusted EBITDA represents net (loss) income before net interest expense, income taxes, and depreciation, amortization and accretion, including our proportionate share of net interest expense, income taxes and depreciation, amortization, and accretion of unconsolidated investments. Adjusted EBITDA also excludes the effect of certain mark-to-market adjustments and infrequent items not related to normal or ongoing operations, such as early payment of debt, realized derivative gain or loss from refinancing transactions, gain or loss related to acquisitions or divestitures, and adjustments from unconsolidated investments. We disclose adjusted EBITDA, which is a non-U.S. GAAP measure, because management believes this metric assists investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that our management believes are not indicative of our core operating performance. We use adjusted EBITDA to evaluate our operating performance. You should not consider adjusted EBITDA as an alternative to net loss, determined in accordance with U.S. GAAP.

During the year ended December 31, 2016, our equity method balances for South Kent and Grand were zero. In accordance with ASC 323, Investments - Equity Method and Joint Ventures, we suspended recognition of South Kent's and Grand's equity method earnings or losses and accumulated other comprehensive income (loss), until the fourth quarter of 2016 when South Kent's and Grand's cumulative equity method earnings and other comprehensive income exceeded cumulative distributions received, cumulative equity method losses and, where applicable, cumulative other comprehensive income (loss) during the suspension period. As we have no explicit or implicit commitment to fund losses at the unconsolidated investments, we have recorded gains resulting from distributions received in excess of the carrying amount of our unconsolidated investments. Our definition of Adjusted EBITDA has accordingly been modified for periods where equity method accounting was suspended to include adjustments (gains on distributions and suspended equity losses) from unconsolidated investments. Adjusted EBITDA has limitations as an analytical tool. Some of these limitations are:

- Adjusted EBITDA
  - does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
  - does not reflect changes in, or cash requirements for, our working capital needs;
  - does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt, or our proportional interest in the interest expense of our unconsolidated investments or the cash requirements necessary to service interest or principal payments on the debt borne by our unconsolidated investments;
  - does not reflect our income taxes or the cash requirement to pay our taxes; or our proportional interest in income taxes of our unconsolidated investments or the cash requirements necessary to pay the taxes of our unconsolidated investments;
  - does not reflect depreciation, amortization and accretion which are non-cash charges; or our proportional interest in depreciation, amortization and accretion of our unconsolidated investments. The assets being depreciated, amortized and accreted will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
  - does not reflect the effect of certain mark-to-market adjustments and non-recurring items or our proportional interest in the mark-to-market adjustments at our unconsolidated investments.
- We do not have control, nor have any legal claim to the portion of the unconsolidated investees' revenues and expenses allocable to our joint venture partners. As we do not control, but do exercise significant influence, we account for the unconsolidated investments in accordance with the equity method of accounting. Net earnings (losses) from these investments are reflected within our consolidated statements of operations in "Earnings (loss) in unconsolidated investments, net". Adjustments related to our proportionate share from unconsolidated investments include only our proportionate amounts of interest expense, income taxes, depreciation, amortization and accretion, and mark-to-market adjustments included in "Earnings (loss) in unconsolidated investments, net;" and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with U.S. GAAP.