

TerraForm Power Operating, LLC and Subsidiaries

Unaudited Condensed Consolidated Financial Statements

Period Ended March 31, 2021 and 2020

TerraForm Power Operating, LLC and Subsidiaries

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This quarterly report of TerraForm Power Operating, LLC (“Terra Operating” and, together with its subsidiaries, the “Company”) for the period ended March 31, 2021 (this “Quarterly Report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements involve estimates, expectations, projections, goals, assumptions, known and unknown risks, and uncertainties and typically include words or variations of words such as “expect,” “anticipate,” “believe,” “intend,” “plan,” “seek,” “estimate,” “predict,” “project,” “opportunities,” “goal,” “guidance,” “outlook,” “initiatives,” “objective,” “forecast,” “target,” “potential,” “continue,” “would,” “will,” “should,” “could,” or “may” or other comparable terms and phrases. All statements that address operating performance, events, or developments that the Company expects or anticipates will occur in the future are forward-looking statements. They may include estimates of expected cash available for distribution, distributions growth, earnings, revenues, income, loss, capital expenditures, liquidity, capital structure, margin enhancements, cost savings, future growth, financing arrangements and other financial performance items, descriptions of management’s plans or objectives for future operations, products, or services, or descriptions of assumptions underlying any of the above. Forward-looking statements provide the Company’s current expectations or predictions of future conditions, events, or results and speak only as of the date they are made. Although the Company believes its expectations and assumptions are reasonable, it can give no assurance that these expectations and assumptions will prove to have been correct, and actual results may vary materially.

The Company disclaims any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions, factors, or expectations, new information, data, or methods, future events, or other changes, except as required by law. We operate in a competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and you should understand that it is not possible to predict or identify all such factors and, consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.



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Review Report of Independent Auditors

Management and Board of TerraForm Power Operating, LLC

We have reviewed the condensed consolidated financial information of TerraForm Power Operating, LLC and subsidiaries which comprise the condensed consolidated balance sheets as of March 31, 2021 and December 31, 2020, and the related condensed consolidated statements of operations, comprehensive income (loss), cash flows and member's equity for the three-month periods ended March 31, 2021 and 2020.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with U.S. generally accepted accounting principles.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

May 17, 2021

TERRAFORM POWER OPERATING, LLC AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)

	Three Months Ended	
	March 31,	
	2021	2020
Operating revenues, net	\$ 298,427	\$ 246,762
Operating costs and expenses:		
Cost of operations	186,705	57,864
General and administrative expenses	13,256	26,572
General and administrative expenses - affiliate	1,024	10,431
Depreciation, accretion and amortization expense	138,733	122,391
Total operating costs and expenses	<u>339,718</u>	<u>217,258</u>
Operating (loss) income	(41,291)	29,504
Other expenses (income):		
Interest expense, net	53,883	77,959
Loss on modification and extinguishment of debt, net	—	3,593
Gain on foreign currency exchange, net	(22,671)	(4,871)
Other income, net	(235)	(4,392)
Total other expenses, net	<u>30,977</u>	<u>72,289</u>
Loss before income tax expense	(72,268)	(42,785)
Income tax (benefit) expense	(3,113)	5,776
Net loss	(69,155)	(48,561)
Less: Net income attributable to redeemable non-controlling interests	2	12
Less: Net loss attributable to non-controlling interests	(70,677)	(12,187)
Net income (loss) attributable to member's equity	<u>\$ 1,520</u>	<u>\$ (36,386)</u>

See accompanying notes to unaudited condensed consolidated financial statements.

TERRAFORM POWER OPERATING, LLC AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Three Months Ended	
	March 31,	
	2021	2020
Net loss	\$ (69,155)	\$ (48,561)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments:		
Net unrealized (loss) gain arising during the period	(5,824)	10,264
Hedging activities:		
Net unrealized loss arising during the period	(86,211)	(36,978)
Reclassification of net realized gain (loss) into earnings	90,256	(1,841)
Other comprehensive loss, net of tax	(1,779)	(28,555)
Total comprehensive loss	(70,934)	(77,116)
Less comprehensive income (loss) attributable to non-controlling interests:		
Net income attributable to redeemable non-controlling interests	2	12
Net loss attributable to non-controlling interests	(70,677)	(12,187)
Hedging activities	(7,778)	(246)
Comprehensive loss attributable to non-controlling interests	(78,453)	(12,421)
Comprehensive income (loss) attributable to member's equity	<u>\$ 7,519</u>	<u>\$ (64,695)</u>

See accompanying notes to unaudited condensed consolidated financial statements.

TERRAFORM POWER OPERATING, LLC AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 216,645	\$ 279,316
Restricted cash, current	42,229	38,103
Accounts receivable, net	170,836	183,022
Due from affiliates	329	489
Derivative assets, current	17,997	6,432
Deposit on acquisitions	2,648	2,648
Prepaid expenses	18,145	12,959
Other current assets	46,224	48,776
Total current assets	<u>515,053</u>	<u>571,745</u>
Renewable energy facilities, net	7,631,137	7,807,550
Intangible assets, net	1,818,513	1,890,166
Goodwill	178,093	185,845
Restricted cash	76,419	65,721
Derivative assets	45,850	61,493
Other assets	43,982	41,575
Total assets	<u>\$ 10,309,047</u>	<u>\$ 10,624,095</u>
Liabilities, Redeemable Non-controlling Interests and Member's Equity		
Current liabilities:		
Current portion of long-term debt	\$ 593,489	\$ 584,234
Accounts payable, accrued expenses and other current liabilities	156,673	174,625
Due to affiliates	2,714	2,379
Derivative liabilities, current portion	51,941	74,828
Total current liabilities	<u>804,817</u>	<u>836,066</u>
Long-term debt	6,224,636	6,259,455
Operating lease obligations	288,828	293,559
Asset retirement obligations	323,672	324,196
Derivative liabilities	128,381	167,796
Deferred income taxes	175,664	179,265
Other liabilities	73,094	74,725
Total liabilities	<u>8,019,092</u>	<u>8,135,062</u>
Redeemable non-controlling interests	7,917	7,931
Member's Equity		
Member's equity	1,460,977	1,577,528
Accumulated other comprehensive income	44,953	38,954
Non-controlling interests	776,108	864,620
Total member's equity	<u>2,282,038</u>	<u>2,481,102</u>
Total liabilities, redeemable non-controlling interests and member's equity	<u>\$ 10,309,047</u>	<u>\$ 10,624,095</u>

See accompanying notes to unaudited condensed consolidated financial statements.

TERRAFORM POWER OPERATING, LLC AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
(In thousands)

	Member's Equity	Accumulated Other Comprehensive Income	Non-controlling Interests	Total
Balance as of December 31, 2019	\$ 1,979,575	\$ 31,794	\$ 604,551	\$ 2,615,920
Stock-based compensation	86	—	—	86
Net loss	(36,386)	—	(12,187)	(48,573)
Cash distributions	(45,488)	—	—	(45,488)
Other comprehensive loss	—	(28,309)	(246)	(28,555)
Contributions from non-controlling interests	—	—	3,008	3,008
Distributions to non-controlling interests	—	—	(28,828)	(28,828)
Purchase of redeemable non-controlling interests	12,952	—	—	12,952
Balance as of March 31, 2020	<u>\$ 1,910,739</u>	<u>\$ 3,485</u>	<u>\$ 566,298</u>	<u>\$ 2,480,522</u>

	Member's Equity	Accumulated Other Comprehensive Income	Non-controlling Interests	Total
Balance as of December 31, 2020	\$ 1,577,528	\$ 38,954	\$ 864,620	\$ 2,481,102
Net income (loss)	1,520	—	(70,677)	(69,157)
Cash distributions	(125,000)	—	—	(125,000)
Other comprehensive income (loss)	—	5,999	(7,778)	(1,779)
Contributions from non-controlling interests	—	—	2,067	2,067
Distributions to non-controlling interests	—	—	(6,847)	(6,847)
Other ¹	6,929	—	(5,277)	1,652
Balance as of March 31, 2021	<u>\$ 1,460,977</u>	<u>\$ 44,953</u>	<u>\$ 776,108</u>	<u>\$ 2,282,038</u>

(1) Represents true up for the sale of non-controlling interests during the fourth quarter of 2020 recorded during the first quarter of 2021.

See accompanying notes to unaudited condensed consolidated financial statements.

TERRAFORM POWER OPERATING, LLC AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (69,155)	\$ (48,561)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, accretion and amortization expense	138,733	122,391
Amortization of favorable and unfavorable rate revenue contracts, net	10,419	9,903
Amortization of deferred financing costs, debt premiums and discounts, net	2,288	3,464
Unrealized (gain) loss on interest rate swaps	(24,923)	3,131
Unrealized loss on commodity contract derivatives, net	11,722	1,300
Loss (gain) on modification and extinguishment of debt, net	—	3,593
Loss on disposal of renewable energy facilities	4,738	889
Gain on foreign currency exchange, net	(22,916)	(1,753)
Deferred taxes	(5,107)	5,596
Charges to allowance doubtful accounts	223	540
Other, net	(20)	536
Changes in assets and liabilities, excluding the effect of acquisitions:		
Accounts receivable	11,177	8,454
Prepaid expenses and other current assets	(4,508)	(3,847)
Accounts payable, accrued expenses and other current liabilities	(10,056)	(9,825)
Due to (from) affiliates, net	428	(1,046)
Other, net	1,063	(8,998)
Payments to terminate interest rate swaps	—	(16,331)
Net cash provided by operating activities	44,106	69,436
Cash flows from investing activities:		
Capital expenditures	(31,939)	(1,006)
Proceeds from energy rebate and reimbursable interconnection costs	488	406
Proceeds from the settlement of foreign currency contracts, net	16,282	38,753
Payments to acquire businesses, net of cash and restricted cash acquired	—	(79,433)
Other investing activities	253	—
Net cash used in investing activities	(14,916)	(41,280)
Cash flows from financing activities:		
Revolver draws	107,000	127,000
Revolver repayments	(5,000)	(66,000)
Borrowings of non-recourse long-term debt	27,200	63,718
Principal payments and prepayments on non-recourse long-term debt	(65,743)	(30,207)
Debt financing fees paid	—	(3,250)
Contributions from non-controlling interests	2,067	3,008
Purchase of membership interests and distributions to non-controlling interests	(6,863)	(30,762)
Cash distributions	(125,000)	(45,488)
Other financing activities	(441)	(971)
Net cash (used in) provided by financing activities	(66,780)	17,048
Net (decrease) increase in cash, cash equivalents and restricted cash	(37,590)	45,204
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(10,257)	(4,203)
Cash, cash equivalents and restricted cash at beginning of period	383,140	349,500
Cash, cash equivalents and restricted cash at end of period	\$ 335,293	\$ 390,501

See accompanying notes to unaudited condensed consolidated financial statements.

TERRAFORM POWER OPERATING, LLC AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, unless otherwise noted)

1. NATURE OF OPERATIONS AND ORGANIZATION

TerraForm Power Operating, LLC (“Terra Operating” and, together with its subsidiaries, the “Company”) is a Delaware limited liability company whose primary business strategy is to own and operate solar and wind assets in North America and Western Europe. Terra Operating, through its subsidiaries, owns and operates renewable energy facilities that have long-term contractual arrangements to sell the electricity generated by these facilities to third parties. The related green energy certificates, ancillary services and other environmental attributes generated by these facilities are also sold to third parties. Terra Operating is the wholly-owned direct subsidiary of TerraForm Power, LLC (“Terra LLC”). Terra LLC is controlled and majority owned by TerraForm Power Parent, LLC (“TERP Parent”), a Delaware limited liability company and the successor entity to TerraForm Power, Inc. (“TERP Inc.”) TERP Parent is a holding company whose primary asset is its ownership of the majority of the membership interests in Terra LLC. Terra LLC is the managing member of Terra Operating and its primary asset is its ownership of 100% of the membership interests in Terra Operating.

As more fully described in *Note 14. Related Parties*, on July 31, 2020, TERP Inc., the entity that formerly was the direct owner of Terra LLC, merged with and into TerraForm Power NY Holdings, Inc. (“TERP ”), with TERP NY surviving the merger. As a result of the merger, through a series of related transactions, affiliates of Brookfield Renewable Partners L.P. (“Brookfield Renewable”) acquired all of the outstanding shares of Class A common stock (“Common Stock”) of TERP Inc., other than the approximately 62% already owned by Brookfield Renewable and its affiliates (the “Brookfield Renewable Merger”). As a result of the Brookfield Renewable Merger, effective July 31, 2020, the Company became a wholly-owned indirect subsidiary of Brookfield Renewable and its affiliates. The Company is a controlled affiliate of Brookfield Asset Management Inc. (“Brookfield”). Subsequently, on March 15, 2021, TERP NY merged with and into its wholly-owned direct subsidiary, TERP Parent, with TERP Parent surviving the merger. As of March 31, 2021, Brookfield Renewable and its affiliates held 100% of the Common Stock of TERP Parent. As of March 31, 2021, Brookfield owned approximately 51.5% of Brookfield Renewable on a fully-exchanged basis and the remaining approximately 48.5% is held by an affiliate of Brookfield.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information per ASC 270, *Interim Reporting*. 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. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all material adjustments consisting of a normal and recurring nature necessary to present fairly the Company’s financial position as of March 31, 2021, and results of operations, comprehensive income (loss), members' equity and cash flows for the three months ended March 31, 2021 and 2020.

While the Company believes the reportable segments to be Solar, Wind, Regulated Solar and Wind, and Corporate, we are not required to disclose these segments within foot notes, however; have reflected these segments within our management discussion and analysis section of the document.

Use of Estimates

In preparing the unaudited condensed consolidated financial statements, the Company uses estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the revenues and expenses recognized during the reporting period. Actual results could differ from those estimates. Items subject to such estimates and assumptions include: the carrying amount and estimated useful lives of long-lived assets; asset retirement obligations; impairment of goodwill and long-lived assets; valuation allowances for deferred tax assets; credit loss for receivables; the fair value of financial instruments; the fair value of assets and liabilities acquired as business combinations; the incremental borrowing rates used in the determination of lease liabilities; and potential litigation claims and settlements.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and money market funds with original maturity periods of three months or less when purchased.

Restricted Cash

Restricted cash consists of cash on deposit in financial institutions that is restricted to satisfy the requirements of certain debt agreements and funds held within the Company's project companies that are restricted for current debt service payments and other purposes in accordance with the applicable debt agreements. These restrictions include: (i) cash on deposit in collateral accounts, debt service reserve accounts and maintenance reserve accounts; and (ii) cash on deposit in operating accounts but subject to distribution restrictions related to debt defaults existing as of the date of the balance sheet. Restricted cash that is not expected to become unrestricted within twelve months from the date of the balance sheet is presented within non-current assets in the unaudited condensed consolidated balance sheets.

Accounts Receivable and Allowance for Credit Loss

Accounts receivable are reported on the unaudited condensed consolidated balance sheets, including both billed and unbilled amounts, and are adjusted for the allowance for credit loss and any write-offs. The Company establishes an allowance for credit loss to adjust its receivables to amounts considered to be ultimately collectible, and charges to the allowance are recorded within general and administrative expenses or cost of operations, as appropriate, in the unaudited condensed consolidated statements of operations. The Company's allowance for credit loss is based on a variety of factors, including the length of time receivables are past due, significant one-time events, the financial health of its customers, and historical experience. Accounts receivable are written off in the period in which the receivable is deemed uncollectible, and collection efforts have been exhausted.

Renewable Energy Facilities

Renewable energy facilities consist of solar generation and storage facilities and wind power plants that are stated at cost. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred. Depreciation of the Company's solar and storage facilities is recognized using the straight-line composite method over their estimated useful lives which ranged from 10 to 20 years and 10 to 20 years, as of March 31, 2021 and December 31, 2020, respectively. Under this method, the Company's assets with similar characteristics and estimated useful lives are grouped and depreciated as a single unit. Depreciation of the Company's wind power plants is calculated based on the major components of wind power plants and is recognized over the estimated periods during which these major components remain in service. The Company's major components of wind power plants had remaining useful lives ranging from 1 to 34 years. As of March 31, 2021 and December 31, 2020, they had a weighted average remaining useful life of 21 years.

Construction in-progress represents the cumulative construction costs, including the costs incurred for the purchase of major equipment and engineering costs and any capitalized interest. Once the project achieves commercial operation, the Company reclassifies the amounts recorded in construction in progress to renewable energy facilities in service.

Finite-Lived Intangibles

The Company's finite-lived intangible assets and liabilities represent revenue contracts, consisting of long-term licensing agreements, power purchase contracts ("PPAs"), and renewable energy credits ("RECs") that were obtained through third-party acquisitions. The revenue contract intangibles comprise favorable and unfavorable rate PPAs and REC agreements and the in-place value of market-rate PPAs. Intangible assets and liabilities that have determinable estimated lives are amortized on a straight-line basis over those estimated lives. Amortization of favorable and unfavorable rate revenue contracts is recorded within operating revenues, net in the unaudited condensed consolidated statements of operations. Amortization expense related to the licensing contracts and in-place value of market-rate revenue contracts is recorded within depreciation, accretion and amortization expense in the consolidated statements of operations. The straight-line method of amortization is used because it best reflects the pattern in which the economic benefits of the intangibles are consumed or otherwise used up. The amounts and useful lives assigned to intangible assets acquired and liabilities assumed impact the amount and timing of future amortization.

Impairment of Renewable Energy Facilities and Intangibles

Long-lived assets that are held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized when indicators of impairment are present and the total future estimated undiscounted cash flows expected from an asset are less than its carrying value. The Company reviews its current activities, changes in the conditions of our renewable energy facilities and the market conditions in which they operate to determine the existence of any indicators requiring an impairment analysis. Indicators of potential impairment for a long-lived asset group, which generally is an individual renewable energy project, include severe adverse changes in the financial condition of a customer to our offtake agreements, a significant decline in forecasted operating revenues and earnings of our operating projects, deterioration in the performance of our renewable energy facilities and the sale of non-controlling interest at a loss. An impairment charge is measured as the difference between a long lived asset group's carrying amount and its fair value. The fair values are determined by a variety of valuation methods, including appraisals, sales prices of similar assets, and present value techniques.

Goodwill

The Company evaluates goodwill for impairment at least annually on December 1st. The Company performs an impairment test between scheduled annual tests if facts and circumstances indicate that it is more-likely-than-not that the fair value of a reporting unit that has goodwill is less than its carrying value. A reporting unit is either the operating segment level or one level below, which is referred to as a component. The level at which the impairment test is performed requires judgment as to whether the operations below the operating segment constitute a self-sustaining business or whether the operations are similar such that they should be aggregated for purposes of the impairment test.

The Company may first make a qualitative assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying value to determine whether it is necessary to perform the quantitative goodwill impairment test. The quantitative impairment test is the comparison of the fair value of a reporting unit with its carrying amount, including goodwill.

Significant management judgment is required when estimating the fair value of the Company's reporting units, including the forecasting of future operating results, the discount rates and expected future growth rates that it uses in the discounted cash flow method of valuation, and in the selection of comparable businesses that are used in the market approach. If the estimated fair value of the reporting unit exceeds the carrying value assigned to that unit, goodwill is not impaired. If the carrying value assigned to a reporting unit exceeds its estimated fair value, the Company records an impairment charge based on the excess of the reporting unit's carrying amount over its fair value. The impairment charge is limited to the amount of goodwill allocated to the reporting unit.

Deferred Financing Costs

Financing costs incurred in connection with obtaining senior notes and term financing are deferred and amortized over the maturities of the respective financing arrangements using the effective interest method and are presented as a direct deduction from the carrying amount of the related debt (see *Note 9. Long-term Debt* for additional details), except for the costs related to the Company's revolving credit facilities, which are presented as a non-current asset on the unaudited condensed consolidated balance sheets within other assets.

Asset Retirement Obligations

Asset retirement obligations are accounted for in accordance with Accounting Standards Codification ("ASC") 410-20, Asset Retirement Obligations. Retirement obligations associated with renewable energy facilities included within the scope of ASC 410-20 are those for which a legal obligation exists under enacted laws, statutes, and written or oral contracts, and for which the timing and/or method of settlement may be conditional on a future event. Asset retirement obligations are recognized at fair value in the period in which they are incurred, and a corresponding asset retirement costs are recognized within the related renewable energy facilities. Over time, the asset retirement cost is depreciated over the estimated useful life of the related renewable energy facility, and the asset retirement obligation is accreted to its expected future value.

The Company generally reviews its asset retirement obligations annually, based on its review of updated cost studies, as necessary, and its evaluation of cost escalation factors. The Company evaluates newly assumed costs or substantive changes in previously assumed costs to determine if the cost estimate impacts are sufficiently material to warrant the application of the updated estimates to the asset retirement obligations. 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 to the extent applicable.

Revenue from Contracts with Customers

PPA Rental Income

The majority of the Company's energy revenue is derived from long-term PPAs accounted for as operating leases under ASC 840, Leases. Rental income under these lease agreements is recorded as revenue when the electricity is delivered to the customer. The Company adopted ASC 842, Leases on January 1, 2019, and elected certain of the practical expedients permitted in the issued standard, including the expedient that permits the Company to retain its existing lease assessment and classification.

Solar and Wind PPA Revenue

PPAs that are not accounted for under the scope of leases or derivatives are accounted for under Topic 606. The Company typically delivers bundled goods consisting of energy and incentive products for a singular rate based on a unit of generation at a specified facility over the term of the agreement. In these types of arrangements, the volume reflects total energy generation measured in Kilowatt hours ("kWhs"), which can vary period to period depending on system and resource availability. The contract rate per unit of generation (kWhs) is generally fixed at contract inception; however, certain pricing arrangements can provide for time-of-delivery, seasonal, or market index adjustment mechanisms over time. The customer is invoiced monthly equal to the volume of energy delivered multiplied by the applicable contract rate.

The Company considers bundled energy and incentive products within PPAs to be distinct performance obligations. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied under Topic 606. The Company views the sale of energy as a series of distinct goods that is substantially the same and has the same pattern of transfer measured by the output method. Although the Company views incentive products in bundled PPAs to be performance obligations satisfied at a point in time, measurement of satisfaction and transfer of control to the customer in a bundled arrangement coincides with a pattern of revenue recognition with the underlying energy generation. Accordingly, the Company applied the practical expedient in Topic 606 as the right to consideration corresponds directly to the value provided to the customer to recognize revenue at the invoice amount for its standalone and bundled PPA contracts.

Commodity Derivatives

The Company has certain revenue contracts within its wind fleet that are accounted for as derivatives under the scope of ASC 815, Derivatives and Hedging. Amounts recognized within operating revenues, net in the consolidated statements of operations consist of cash settlements and unrealized gains and losses representing changes in fair value for the commodity derivatives that are not designated as hedging instruments. See *Note 11. Derivatives* for further discussion.

Regulated Solar and Wind Energy Revenue

Regulated solar and wind includes revenue generated by Saeta's solar and wind operations in Spain, which are subject to regulations applicable to companies that generate production from renewable sources for facilities located in Spain. While Saeta's Spanish operations are regulated by the Spanish regulator, the Company has determined that the Spanish entities do not meet the criteria of a rate-regulated entity under ASC 980 Regulated Operations, since the rates established by the Spanish regulator are not designed to recover the entity's costs of providing its energy generation services. Accordingly, the Company applied Topic 606 to recognize revenue for these customer contract arrangements. The Company has distinct performance obligations to deliver electricity, capacity, and incentives which are discussed below.

The Company has a performance obligation to deliver electricity and these sales are invoiced monthly at the wholesale market price (subject to adjustments due to regulatory price bands that reduce market risk). The Company transfers control of the electricity over time and the customer receives and consumes the benefit simultaneously. Accordingly, the Company applied the practical expedient in Topic 606 as the right to consideration corresponds directly to the value provided to the customer to recognize revenue at the invoice amount for electricity sales.

The Company has a stand-ready performance obligation to deliver capacity in the Spanish electricity market in which these renewable energy facilities are located. Proceeds received by the Company from the customer in exchange for capacity are determined by a remuneration on an investment per unit of installed capacity that is determined by the Spanish regulators. The Company satisfies its performance obligation for capacity under a time-based measure of progress and recognizes revenue by allocating the total annual consideration evenly to each month of service.

Regulated Solar and Wind Incentive Revenue

For the Company's Spanish solar renewable energy facilities, the Company has identified a performance obligation linked to an incentive that is distinct from the electricity and capacity deliveries discussed above. For solar technologies under the Spanish market, the customer makes an operating payment per MWh which is calculated based on the difference of a standard cost and an expected market price, both, determined by the Spanish regulator. The customer is invoiced monthly equal to the volume of energy produced multiplied by the regulated rate. The performance obligation is satisfied when the Company generates electricity from the solar renewable facility. The Company recognizes revenue based on the amount invoiced each month.

Amortization of Favorable and Unfavorable Rate-Revenue Contracts

The Company accounts for its business combinations by recognizing in the financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interests in the acquiree at fair value at the acquisition date. Intangible amortization of certain revenue contracts acquired in business combinations (favorable and unfavorable rate PPAs and REC agreements) is recognized on a straight-line basis over the remaining contract term. The current period amortization for favorable rate revenue contracts is reflected as a reduction to operating revenues, net, and amortization for unfavorable rate revenue contracts is reflected as an increase to operating revenues, net. See *Note 7. Intangible Assets, Net and Goodwill* for additional details.

Solar and Wind Incentive Revenue

The Company generates incentive revenue from individual incentive agreements relating to the sale of RECs and performance-based incentives to third-party customers that are not bundled with the underlying energy output. The majority of individual REC sales reflect a fixed quantity, fixed price structure over a specified term. The Company views REC products in these arrangements as distinct performance obligations satisfied at a point in time. Since the REC products delivered to the customer are not linked to the underlying generation of a specified facility, these RECs are recognized into revenue when delivered. The Company typically receives payment within 30 days of invoiced REC revenue.

For certain incentive contract arrangements, the quantity delivered to the customer is linked to a specific facility. The pattern of revenue recognition for these incentive arrangements is recognized over time coinciding with the underlying revenue generation from the related facility.

See *Note 4. Revenue* for additional disclosures.

Leases

Operating Lease Obligations

Operating lease right-of-use assets are included within renewable energy facilities, net, whereas right-of-use liabilities are included within accounts payable, accrued expenses and other current liabilities. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company calculated an incremental borrowing rate by leveraging external transactions at comparable entities and internally available information to determine the present value of lease payments. The Company's leases have remaining lease terms ranging from 5 to 41 years.

The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise any such options. Lease expense is recognized on a straight-line basis over the expected lease term. Although some of the Company's leases contain lease and non-lease components, the Company applies the practical expedient to account for each lease component and non-lease component as a single lease component. Lease payments include fixed rent and taxes, where applicable, and exclude variable rental payments that include other operating expenses is recognized as incurred. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The following tables outline the different components of operating leases and other terms and conditions of the lease agreements where the Company is the lessee.

A significant portion of the Company's operating revenues are generated from delivering electricity and related products from owned solar and wind renewable energy facilities under PPAs in which the Company is the lessor. Revenue is

recognized when electricity is delivered and is accounted for as rental income under the lease standard. The adoption of ASC 842 did not have an impact on the accounting policy for rental income from the Company's PPAs in which it is the lessor. The Company elected the package of practical expedients available under ASC 842, which did not require the Company to reassess its lease classification from ASC 840. Additionally, the Company elected the practical expedient to not separate lease and non-lease components for lessors. This election allows energy (lease component) and environmental incentives or renewable energy certificates (non-lease components) under bundled PPAs to be accounted as a singular lease unit of account under ASC 842.

Financing Lease Obligations

Certain of the Company's assets were financed with sale-leaseback arrangements. Proceeds received from a sale-leaseback are treated using the financing method when the sale of the renewable energy facility is not recognizable. A sale is not recognized when the leaseback arrangements include a prohibited form of continuing involvement, such as an option or obligation to repurchase the assets under the Company's master lease agreements. Under these arrangements, the Company does not recognize any profit until the sale is recognizable, which the Company expects to recognize at the end of the arrangement when the contract is canceled and the initial deposits received are forfeited by the financing party.

The Company is required to make rental payments throughout the leaseback arrangements. These payments are allocated between principal and interest payments using an effective yield method.

Income Taxes

The Company is a limited liability company treated as a disregarded entity for U.S. income tax purposes. As such, U.S. federal, state and local income taxes ("U.S. Taxes") are not recognized at the Company's level, but are accounted for at TERP Parent. Accordingly, the Company does not have a liability for U.S. Taxes; and therefore, no current or deferred U.S. income taxes are recorded in the unaudited condensed consolidated financial statements. However, the current and deferred income taxes related to the Company's certain foreign entities that are subject to corporate tax are reflected in the unaudited condensed consolidated financial statements.

Uncertain tax positions are measured against the more likely than not threshold, based on whether those positions would be expected to be sustained if examined by the relevant taxing authority. With respect to any tax positions that do not meet the more likely than not threshold, a corresponding liability is recorded in the unaudited condensed consolidated financial statements. While the taxing authority in a jurisdiction may not agree with the tax positions adopted, the Company does not expect that any assessments would be material to its financial position if the taxing authority did not agree with such positions. There are no reserves for uncertain tax positions as of March 31, 2021 and 2020.

Variable Interest Entities

The Company assesses entities for consolidation in accordance with ASC 810. The Company consolidates variable interest entities ("VIEs") in renewable energy facilities when determined to be the primary beneficiary. VIEs are entities that lack one or more of the characteristics of a voting interest entity ("VOE"). The Company has a controlling financial interest in a VIE when its variable interest or interests provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

VOEs are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. If the Company has a majority voting interest in a voting interest entity, the entity is consolidated.

For the Company's consolidated VIEs, the Company has presented in Note 8. *Variable Interest Entities*, the assets of its consolidated VIEs that can only be used to settle specific obligations of the consolidated VIE, and the liabilities of its consolidated VIEs for which creditors do not have recourse to the Company's general assets outside of the VIE.

Non-controlling Interests and Hypothetical Liquidation at Book Value ("HLBV")

Non-controlling interests represent the portion of net assets in consolidated entities that are not owned by the Company and are reported as a component of equity in the consolidated balance sheets. Non-controlling interests in subsidiaries that are redeemable either at the option of the holder or at fixed and determinable prices at certain dates in the future are classified as

redeemable non-controlling interests in subsidiaries between liabilities and member's equity in the consolidated balance sheets. Redeemable non-controlling interests that are currently redeemable or redeemable after the passage of time are adjusted to their redemption value as changes occur. The Company applies the guidance in ASC 810-10 along with the Securities and Exchange Commission ("SEC") guidance in ASC 480-10-S99-3A in the valuation of redeemable non-controlling interests.

The Company has determined the allocation of economics between the controlling party and the third party for non-controlling interests does not correspond to ownership percentages for certain of its consolidated subsidiaries. In order to reflect the substantive profit sharing arrangements, the Company has determined that the appropriate methodology for determining the value of non-controlling interests is a balance sheet approach using the HLBV method. Under the HLBV method, the amounts reported as non-controlling interest on the consolidated balance sheets represent the amounts the third party investors could hypothetically receive at each balance sheet reporting date based on the liquidation provisions of the respective operating partnership agreements. HLBV assumes that the proceeds available for distribution are equivalent to the unadjusted, stand-alone net assets of each respective partnership, as determined under U.S. GAAP. The third party non-controlling interests in the consolidated statements of operations and statements of comprehensive loss are determined based on the difference in the carrying amounts of non-controlling interests on the consolidated balance sheets between reporting dates, adjusted for any capital transactions between the Company and third party investors that occurred during the respective period.

Where, prior to the commencement of operating activities for a respective renewable energy facility, HLBV results in an immediate change in the carrying value of non-controlling interests on the consolidated balance sheets due to the recognition of investment tax credits ("ITCs") or other adjustments as required by the U.S. Internal Revenue Code, the Company defers the recognition of the respective adjustments and recognizes the adjustments in non-controlling interest on the consolidated statements of operations on a straight-line basis over the expected life of the underlying assets giving rise to the respective difference. Similarly, where the Company has acquired a controlling interest in a partnership and there is a resulting difference between the initial fair value of non-controlling interest and the value of non-controlling interest as measured using HLBV, the Company initially records non-controlling interests at fair value and amortizes the resulting difference over the remaining life of the underlying assets.

Contingencies

The Company is involved in conditions, situations or circumstances in the ordinary course of business with possible gain or loss contingencies that will ultimately be resolved when one or more future events occur or fail to occur. If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, that amount will be accrued. When no amount within the range is a better estimate than any other amount, the minimum amount in the range will be accrued. The Company continually evaluates uncertainties associated with loss contingencies and records a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to the issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements; and (ii) the loss or range of loss can be reasonably estimated. Legal costs are expensed when incurred. Gain contingencies are not recorded until realized or realizable.

Derivative Financial Instruments

Initial Recognition

The Company recognizes its derivative instruments as assets or liabilities at fair value in the consolidated balance sheets on a trade date basis unless they qualify for certain exceptions, including the normal purchases and normal sales exception. Accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated as part of a hedging relationship and the type of hedging relationship.

Derivatives that qualify and are designated for hedge accounting are classified as either hedges of the variability of expected future cash flows to be received or paid related to a recognized asset or liability (cash flow hedges) or hedges of the exposure to foreign currency of a net investment in a foreign operation (net investment hedges).

The Company also uses derivative contracts outside the hedging program to manage foreign currency risk associated with intercompany loans.

Subsequent Measurement

The change in fair value of components included in the effectiveness assessment of derivative instruments designated as cash flow hedges is recognized as a component of OCI and reclassified into earnings on a trade date basis in the period that

the hedged transaction affects earnings. The change in fair value of components included in the effectiveness assessment of foreign currency contracts designated as net investment hedges is recorded in cumulative translation adjustments within AOCI and reclassified into earnings when the foreign operation is sold or substantially liquidated.

The change in fair value of derivative contracts intended to serve as economic hedges that are not designated as hedging instruments is reported as a component of earnings in the consolidated statements of operations.

Cash Flows Presentation

Cash flows from derivative instruments designated as net investment hedges and non-designated derivatives used to manage foreign currency risks associated with intercompany loans are classified as investing activities in the unaudited condensed consolidated statements of cash flows. Cash flows from all other derivative instruments are classified as operating activities in the consolidated statements of cash flows.

Fair Value Measurements

The Company performs fair value measurements defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at their fair values, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the assets or liabilities, such as inherent risk, transfer restrictions and risk of nonperformance.

In determining fair value measurements, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Assets and liabilities are categorized within a fair value hierarchy based upon the lowest level of input that is significant to the fair value measurement:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities.

The Company maintains various financial instruments recorded at cost in the consolidated balance sheets that are not required to be recorded at fair value. For cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses and other current liabilities and due to affiliates, net, the carrying amount approximates fair value because of the short-term maturity of the instruments. See *Note 12. Fair Value of Financial Instruments* for disclosures related to the fair value of the Company's derivative instruments and long-term debt.

Foreign Currency

The Company's reporting currency is the U.S. dollar. Certain of the Company's subsidiaries maintain their records in local currencies other than the U.S. dollar, which are their functional currencies. When a subsidiary's local currency is considered its functional currency, the Company translates its assets and liabilities to U.S. dollars using exchange rates in effect at date of the financial statements and its revenue and expense accounts to U.S. dollars at average exchange rates for the period. Cumulative translation adjustments are reported in AOCI in member's equity. Cumulative translation adjustments are reclassified from AOCI to earnings only when realized upon sale or upon complete or substantially complete liquidation of an investment in a foreign subsidiary. Transaction gains and losses and changes in fair value of the Company's foreign exchange derivative contracts not accounted for under hedge accounting are included in results of operations as recognized.

Business Combinations and Acquisitions of Assets

The Company applies the definition of a business in ASC 805, Business Combinations to determine whether it is acquiring a business or a group of assets.

The Company accounts for its business combinations by recognizing in the financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interests in the acquiree at fair value at the acquisition date. The Company also recognizes and measures the goodwill acquired or a gain from a bargain purchase in the business combination and determines what information to disclose to enable users of an entity's financial statements to evaluate the nature and

financial effects of the business combination. In addition, acquisition costs related to business combinations are expensed as incurred.

When the Company acquires a renewable energy business, the purchase price is allocated to (i) the acquired tangible assets and liabilities assumed, primarily consisting of land, plant and long-term debt, (ii) the identified intangible assets and liabilities, primarily consisting of the value of favorable and unfavorable rate PPAs, REC agreements, the licensing contracts and in-place value of market rate PPAs, (iii) non-controlling interests, and (iv) other working capital items based in each case on their fair values. The excess of the purchase price over the estimated fair value of net assets acquired is recorded as goodwill.

The Company generally uses independent appraisers to assist with the estimates and methodologies used such as a replacement cost approach, or an income approach or excess earnings approach. Factors considered by the Company in its analysis include considering current market conditions and costs to construct similar facilities. The Company also considers information obtained about each facility as a result of its pre-acquisition due diligence in estimating the fair value of the tangible and intangible assets and liabilities acquired or assumed. In estimating the fair value, the Company also establishes estimates of energy production, current in-place and market power purchase rates, tax credit arrangements and operating and maintenance costs. A change in any of the assumptions above, which are subjective, could have a significant impact on the results of operations.

The allocation of the purchase price directly affects the following items in the consolidated financial statements:

- The amount of purchase price allocated to the various tangible and intangible assets, liabilities and non-controlling interests on the balance sheet;
- The amounts allocated to the value of favorable and unfavorable rate PPAs and REC agreements are amortized to revenue over the remaining non-cancelable terms of the respective arrangement. The amounts allocated to all other tangible assets and intangibles are amortized to depreciation or amortization expense; and
- The period of time over which tangible and definite-lived intangible assets and liabilities are depreciated or amortized varies, and thus, changes in the amounts allocated to these assets and liabilities will have a direct impact on the Company's results of operations.

ASC 805 allows the acquirer to report provisional amounts and adjust them for a period of time up to one year after the acquisition date (the "measurement period") while the Company obtains information about the facts and circumstances that existed as of the acquisition date.

When an acquired group of assets does not constitute a business, the transaction is accounted for as an asset acquisition. The Company recognizes and measures the acquired assets based on the cost of the acquisitions, generally being the consideration transferred to the seller and typically includes the direct transaction costs related to the acquisition. The Company allocates the total cost of acquisition to the individual assets acquired or liabilities assumed based on their relative fair values generally similar to the allocation of the purchase price in a business combination. No goodwill is recognized in an asset acquisition.

Deferred Compensation Plan

The Company sponsors a retirement saving plan that qualifies as a deferred compensation plan under Section 401(k) of the Internal Revenue Code. Eligible U.S. employees may elect to defer a percentage of their qualified compensation for income tax purposes through payroll deductions, and the Company matches a percentage of the contributions based on employees' elective deferrals.

Recently Issued Accounting Standards Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides entities temporary optional guidance to ease potential accounting burdens to transition away from LIBOR or other reference rates that are expected to be discontinued to alternative reference rates. This ASU applies to all entities that have contracts, hedging relationships and other transactions affected by reference rate reform. The provisions in this ASU, among other things, simplify contract modification accounting and allow hedging relationships affected by reference rate reform to continue. ASU 2020-04 is effective upon issuance and entities may elect to apply the amendments prospectively through December 31, 2022. The Company is in the process of assessing the

impact on its financial statements from the adoption of the new guidance and determining the timing of electing available optional expedients.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, Income Taxes. The amendments also improve consistent application and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The guidance is effective on January 1, 2022, with early adoption permitted. The Company does not expect the effect of the new guidance to be material on its unaudited condensed consolidated financial statements.

3. ACQUISITIONS

Termosol Acquisition

On February 11, 2020, TERP Spanish Holdco, S.L.U., a wholly-owned subsidiary of the Company, completed the acquisition of a portfolio of two concentrated solar power (“CSP”) facilities located in Spain with a combined nameplate capacity of approximately 100 megawatt (“MW”) (Termosol 1 & 2) from NextEra Energy Spain Holdings B.V. (the “Termosol Acquisition”). The purchase price of the Termosol Acquisition, including working capital adjustments, was \$120.9 million. The acquired facilities are regulated under the Spanish framework for renewable power, with approximately 18 years of remaining regulatory life. In connection with this acquisition, over 60 employees joined the Company the majority of whom perform in-house operations and maintenance (“O&M”) services for the acquired facilities. The Company funded the purchase price of the Termosol Acquisition using a draw on the Company’s senior secured revolving credit facility (the “Revolver”) and cash available on hand.

The Company accounted for the Termosol Acquisition under the acquisition method of accounting for business combinations. Under this method, the total consideration transferred is allocated to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values as of the date of the acquisition. The acquisition method of accounting requires extensive use of estimates and judgments to allocate the consideration transferred to the identifiable tangible and intangible assets acquired and liabilities assumed. The purchase accounting for Termosol was finalized at December 31, 2020, with no material measurement adjustments recorded.

The final allocation of the acquisition-date fair values of assets and liabilities pertaining to the Termosol Acquisition was as follows:

(In thousands)	
Renewable energy facilities ¹	\$ 477,269
Accounts receivable	33,242
Other assets	7,550
Intangible assets	183,655
Deferred income taxes	14,419
Goodwill ²	40,862
Total assets acquired	756,997
Accounts payable, accrued expenses and other current liabilities	16,609
Long-term debt	474,103
Asset retirement obligations	22,609
Derivative liabilities	147,536
Operating lease liabilities	17,139
Other liabilities	5,900
Total liabilities assumed	683,896
Purchase price, net of cash and restricted cash acquired ³	<u>\$ 73,101</u>

(1) Includes \$17.1 million operating lease right-of-use assets.

(2) The excess purchase price over the estimated fair value of net assets acquired of \$40.9 million was recorded as goodwill. Goodwill is primarily attributable to the acquired employee knowledge of the operation and maintenance of concentrated solar power facilities.

(3) The Company acquired cash and cash equivalents of \$22.0 million and restricted cash of \$26.5 million as of the acquisition date.

The acquired non-financial assets primarily represent estimates of the fair value of acquired renewable energy facilities and intangible assets from licensing contracts using the cost and income approach. The key inputs used to estimate fair value included forecasted power pricing, operational data, asset useful lives, and a discount rate factor reflecting current market conditions at the time of the Termosol Acquisition. These significant inputs were not observable in the market and thus represent Level 3 measurements (as defined in *Note 12. Fair Value of Financial Instruments*). Refer below for additional disclosures related to the acquired finite-lived intangible assets.

The results of operations of the acquired entities are included in the Company’s consolidated results since the date of acquisition. The operating revenues and net income of the Termosol Acquisition reflected in the unaudited condensed

consolidated statements of operations for the three months ended March 31, 2021 were \$20.9 million and \$4.2 million, respectively.

Unaudited Pro Forma Supplementary Data

The unaudited pro forma supplementary data presented in the table below gives effect to the Termosol Acquisition, as if the transaction had occurred on January 1, 2020. The pro forma net loss includes adjustments to depreciation and amortization expense for the valuation of renewable energy facilities and intangible assets and excludes the impact of acquisition costs. The unaudited pro forma supplementary data is provided for informational purposes only and should not be construed to be indicative of the Company's results of operations had the acquisition been consummated on the date assumed or of the Company's results of operations for any future date.

(In thousands)	Three Months Ended March 31,	
	2020	
Total operating revenues, net	\$	256,054
Net loss		(76,441)

Intangibles at Acquisition Date

The following table summarizes the estimated fair value and weighted average amortization period of the acquired intangible assets as of the acquisition date. The Company attributed intangible asset value to licensing contracts in-place from the acquired renewable energy facilities. These intangible assets are amortized on a straight-line basis over the estimated remaining useful lives of the facilities from the Company's acquisition date.

	As of February 11, 2020	
	Fair Value (In thousands)	Weighted Average Amortization Period¹
Intangible assets - licensing contracts	\$ 183,655	18 years

- (1) For the purposes of this disclosure, the weighted average amortization period is determined based on a weighting of the individual intangible fair values against the total fair value.

4. REVENUE

The following table presents the Company's operating revenues, net and disaggregated by revenue source:

(In thousands)	Three Months Ended March 31,	
	2021	2020
PPA rental income	\$ 86,798	\$ 89,759
Commodity derivatives	17,864	5,161
PPA and market energy revenue	94,377	54,152
Capacity revenue from remuneration programs ¹	79,891	74,600
Amortization of favorable and unfavorable rate revenue contracts, net	(10,419)	(9,903)
Energy revenue	268,511	213,769
Incentive revenue	29,916	32,993
Operating revenues, net	\$ 298,427	\$ 246,762

- (1) Represents the remuneration related on the Company's investments in renewable energy facilities in Spain.

Contract balances and performance obligations

The Company recognizes accounts receivable when its right to consideration from the performance of services becomes unconditional. As of March 31, 2021 and December 31, 2020, the Company's receivable balances related to PPA

contracts with solar and wind customers were approximately \$164.0 million and \$130.2 million, respectively. Trade receivables for PPA contracts are reflected within accounts receivable, net in the consolidated balance sheets. The Company typically receives payment within 30 days for invoiced PPA revenue.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash balances and money market funds with original maturity periods of three months or less when purchased. As of March 31, 2021 and December 31, 2020, cash and cash equivalents included \$171.4 million and \$173.7 million, respectively, of unrestricted cash held at project-level subsidiaries, which was available for project expenses but not available for corporate use.

Reconciliation of Cash and Cash Equivalents as Presented in the Unaudited Condensed Consolidated Statement of Cash Flows

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the unaudited condensed consolidated balance sheets to the total of the same such amounts shown in the unaudited condensed consolidated statement of cash flows for the three months ended March 31, 2021:

(In thousands)	March 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 216,645	\$ 279,316
Restricted cash - current	42,229	38,103
Restricted cash - non-current	76,419	65,721
Cash, cash equivalents and restricted cash shown in the unaudited condensed consolidated statement of cash flows	<u>\$ 335,293</u>	<u>\$ 383,140</u>

As discussed in *Note 9. Long-term Debt*, the Company was in default under certain of its non-recourse financing agreements as of the date of the issuance of the financial statements for the three months ended March 31, 2021, and for the year ended December 31, 2020. As a result, the Company reclassified \$10.3 million and \$10.3 million of non-current restricted cash to current as of March 31, 2021 and December 31, 2020, respectively, consistent with the corresponding debt classification, as the restrictions that required the cash balances to be classified as non-current restricted cash were driven by the financing agreements.

6. RENEWABLE ENERGY FACILITIES

Renewable energy facilities, net consisted of the following:

(In thousands)	March 31, 2021	December 31, 2020
Renewable energy facilities in service, at cost ¹	\$ 9,259,093	\$ 9,372,428
Less: Accumulated depreciation	(1,730,606)	(1,634,654)
Renewable energy facilities in service, net	7,528,487	7,737,774
Construction in progress - renewable energy facilities ²	102,650	69,776
Total renewable energy facilities, net	<u>\$ 7,631,137</u>	<u>\$ 7,807,550</u>

(1) Includes \$305.6 million and \$312.6 million right-of-use assets, net related to operating lease obligations as of March 31, 2021 and December 31, 2020, respectively.

(2) Represents primarily amounts related to repowering activities. See below for additional information.

Depreciation expense related to renewable energy facilities was \$107.7 million for the three months ended March 31, 2021, respectively, as compared to \$93.6 million for the same period in the prior year.

Repowering Activities

During the year ended December 31, 2020, the Company committed to a plan to repower two wind power plants in New York, Cohocton and Steel Winds, which have a combined nameplate capacity of 160 MW. The repowering will be implemented by replacing certain components of the wind turbines with newer equipment while preserving the existing towers, foundation and balance of plant. The Company revised the estimated useful lives of certain components of the renewable energy facilities that will be replaced with a net carrying amount and accelerated the recognition of the depreciation expense of the related assets up to their expected removal date throughout 2021. As of March 31, 2021 the net carrying amount is \$11.4 million. During the three month ended March 31, 2021, the Company recorded \$7.6 million in accelerated depreciation in its unaudited condensed consolidated statement of operations.

On December 16, 2020, the Company formed NY Wind HoldCo, LLC (the “entity”) with a third-party construction partner (the “Construction Partner”) in order to finance the repowering of two of its existing wind facilities, Cohocton and Steel Winds. The Company invested \$47.0 million of cash and its interests in the two facilities. The Company is the managing member of the entity and consolidates the entity, which is a VIE. The Construction Partner invested \$14.0 million of cash and wind turbine equipment and has a 23% interest in the entity, which is reflected within noncontrolling interests in the accompanying balance sheet. Contemporaneous with the formation of the entity, the entity entered into a \$138.3 million construction loan agreement to fund related construction costs. See *Note 9. Long-term Debt* for additional details.

7. INTANGIBLE ASSETS, NET AND GOODWILL

The following table presents the gross carrying amount, accumulated amortization and net book value of intangibles as of March 31, 2021:

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Licensing contracts	\$ 999,288	\$ (173,176)	\$ 826,112
Favorable rate revenue contracts	750,218	(254,504)	495,714
In-place value of market rate revenue contracts	671,827	(175,140)	496,687
Total intangible assets, net	<u>\$ 2,421,333</u>	<u>\$ (602,820)</u>	<u>\$ 1,818,513</u>
Unfavorable rate revenue contracts	\$ 53,420	\$ (45,932)	\$ 7,488
Total intangible liabilities, net ¹	<u>\$ 53,420</u>	<u>\$ (45,932)</u>	<u>\$ 7,488</u>

(1) The Company’s intangible liabilities are classified within other long-term liabilities in the unaudited condensed consolidated balance sheets.

The following table presents the gross carrying amount, accumulated amortization and net book value of intangibles as of December 31, 2020:

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Licensing contracts	\$ 1,040,518	\$ (161,890)	\$ 878,628
Favorable rate revenue contracts	749,241	(242,914)	506,327
In-place value of market rate revenue contracts	671,134	(165,923)	505,211
Total intangible assets, net	<u>\$ 2,460,893</u>	<u>\$ (570,727)</u>	<u>\$ 1,890,166</u>
Unfavorable rate revenue contracts	\$ 53,420	\$ (45,166)	\$ 8,254
Total intangible liabilities, net ¹	<u>\$ 53,420</u>	<u>\$ (45,166)</u>	<u>\$ 8,254</u>

(1) The Company’s intangible liabilities are classified within Other liabilities in the unaudited condensed consolidated balance sheets.

Amortization expense related to concessions and licensing contracts is reflected in the unaudited condensed consolidated statements of operations within depreciation, accretion and amortization expense. During the three months ended March 31, 2021, amortization expense related to licensing contracts was \$18.2 million as compared to \$15.8 million for the same period in the prior year.

Amortization expense related to favorable rate revenue contracts is reflected in the unaudited condensed consolidated statements of operations as a reduction of operating revenues, net. Amortization related to unfavorable rate revenue contracts is reflected in the unaudited condensed consolidated statements of operations as an increase to operating revenues, net. During the three months ended March 31, 2021, net amortization expense related to favorable and unfavorable rate revenue contracts resulted in a reduction of operating revenues, net of \$10.4 million, as compared to \$9.9 million, net for the same period in the prior year.

Amortization expense related to the in-place value of market rate revenue contracts is reflected in the unaudited condensed consolidated statements of operations within depreciation, accretion and amortization expense. During the three months ended March 31, 2021, amortization expense related to the in-place value of market rate revenue contracts was \$9.0 million, respectively, compared to \$9.2 million for the same period in the prior year.

Goodwill

Goodwill represents the excess of the consideration transferred and fair value of the non-controlling interests over the fair values of assets acquired and liabilities assumed from business combinations, and reflects the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The goodwill balance is not deductible for income tax purposes.

The following table presents the activity of the goodwill balance for the three months ended March 31, 2021 and 2020:

(In thousands)	Three Months Ended March 31,	
	2021	2020
Beginning balance	\$ 185,845	\$ 127,952
Goodwill resulting from business combinations ¹	—	40,862
Foreign exchange translation adjustments	(7,752)	(825)
Ending balance	\$ 178,093	\$ 167,989

(1) Represents the excess purchase price over the estimated fair value of net assets acquired from the Termosol Acquisition. See *Note 3 Acquisitions* for additional details.

8. VARIABLE INTEREST ENTITIES

The Company assesses entities for consolidation in accordance with ASC 810. The Company consolidates VIEs in renewable energy facilities when the Company is determined to be the primary beneficiary. VIEs are entities that lack one or more of the characteristics of a VOE. The Company has a controlling financial interest in a VIE when its variable interest(s) provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The VIEs own and operate renewable energy facilities in order to generate contracted cash flows. The VIEs were funded through a combination of equity contributions from the owners and non-recourse project-level debt.

The carrying amounts and classification of the consolidated assets and liabilities of the VIEs included in the Company's consolidated balance sheets were as follows:

(In thousands)	March 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,204	\$ 41,635
Restricted cash	18,058	6,991
Accounts receivable, net	34,861	30,231
Derivative assets, current	1,949	6,432
Prepaid expenses	4,886	5,299
Other current assets	22,732	18,407
Total current assets	<u>104,690</u>	<u>108,995</u>
Renewable energy facilities, net	3,138,905	3,155,647
Intangible assets, net	628,314	640,579
Restricted cash	3,348	3,355
Derivative assets	41,187	61,114
Other assets	7,389	7,128
Total assets	<u>\$ 3,923,833</u>	<u>\$ 3,976,818</u>
Liabilities		
Current liabilities:		
Current portion of long-term debt and financing lease obligations	\$ 132,149	\$ 105,635
Accounts payable, accrued expenses and other current liabilities	35,568	28,533
Derivative liabilities, current	955	1,032
Total current liabilities	<u>168,672</u>	<u>135,200</u>
Long-term debt and financing lease obligations, less current portion	1,080,667	1,087,898
Operating lease obligations, less current portion	150,648	152,668
Asset retirement obligations	122,835	121,238
Derivative liabilities	725	785
Other liabilities	42,889	43,654
Total liabilities	<u>\$ 1,566,436</u>	<u>\$ 1,541,443</u>

The amounts shown in the table above exclude intercompany balances that are eliminated upon consolidation. All of the assets in the table above are restricted for the settlement of the VIE obligations and all the liabilities in the table above can only be settled by using VIE resources.

9. LONG-TERM DEBT

Long-term debt consisted of the following:

(In thousands, except interest rates)	March 31, 2021	December 31, 2020	Interest Type	Interest Rate (%) ¹	Financing Type
<i>Corporate-level long-term debt²:</i>					
Senior Notes due 2023	\$ 500,000	\$ 500,000	Fixed	4.25	Senior notes
Senior Notes due 2028	700,000	700,000	Fixed	5.00	Senior notes
Senior Notes due 2030	700,000	700,000	Fixed	4.75	Senior notes
Revolver	102,000	—	Variable	2.11	Revolving loan
<i>Non-recourse long-term debt:</i>					
Permanent financing	4,805,835	4,936,022	Blended ⁴	2.97 ³	Term debt / Senior notes
Financing lease obligations	62,579	62,667	Imputed	5.55 ³	Financing lease obligations
Total principal due for long-term debt and financing obligations	6,870,414	6,898,689		3.46 ⁴	
Unamortized discounts and premiums, net	4,645	4,298			
Deferred financing costs, net	(56,934)	(59,298)			
Less: current portion of long-term debt and financing lease obligations	(593,489)	(584,234)			
Long-term debt and financing lease obligations, less current portion	<u>\$ 6,224,636</u>	<u>\$ 6,259,455</u>			

(1) As of March 31, 2021.

(2) Represents the debt issued by the Company and guaranteed by Terra LLC and certain subsidiaries of Terra Operating other than non-recourse subsidiaries as defined in the relevant debt agreements (except for certain unencumbered non-recourse subsidiaries).

(3) Includes fixed rate debt and variable rate debt. As of March 31, 2021, 49% of this balance had a fixed interest rate and the remaining 51% of the balance had a variable interest rate. The Company entered into interest rate swap agreements to fix the interest rates of a majority of the variable rate permanent financing non-recourse debt (see *Note 11. Derivatives*).

(4) Represents the weighted average interest rate as of March 31, 2021.

Non-recourse Project Financing

Certain subsidiaries of the Company have incurred long-term non-recourse debt obligations related to the renewable energy facilities that those subsidiaries own directly or indirectly. The indebtedness of these subsidiaries is typically secured by the renewable energy facilities or equity interests in subsidiaries that directly or indirectly hold renewable energy facilities with no recourse to TERP Parent, Terra LLC or Terra Operating other than limited or capped contingent support obligations, which in aggregate are not considered material to the Company's business and financial condition. In connection with these financings and in the ordinary course of its business, the Company and its subsidiaries observe formalities and operating procedures to maintain each of their separate existence and can readily identify each of their separate assets and liabilities as separate and distinct from each other. As a result, these subsidiaries are legal entities that are separate and distinct from each of TERP Parent, Terra LLC, Terra Operating and the guarantors under the Senior Notes due 2023, the Senior Notes due 2028, the Senior Notes due 2030, and the Revolver.

United States Project Financings

On December 16, 2020, one of the Company's subsidiaries entered into a new non-recourse debt construction loan whereby it issued \$138.3 million of a variable rate senior secured term loan and secured by a portfolio of approximately 160.0 MW of wind facilities located in the U.S. As of March 31, 2021, the Company had drawn only \$60.4 million of the outstanding debt balance. The debt bears interest at a rate per annum equal to three month LIBOR plus an applicable margin of 13.8 basis points. The proceeds of the draws were used to fund the ongoing repowering of the facilities. See *Note 6. Renewable Energy Facilities* for discussion on the wind facility repowering.

Non-recourse Debt Defaults

As of March 31, 2021 and December 31, 2020, the Company reclassified \$154.1 million and \$154.0 million, respectively, of non-recourse long-term indebtedness, net of unamortized deferred financing costs and debt discounts, to current in the unaudited condensed consolidated balance sheets due to defaults remaining as of the respective financial statements issuance dates. The defaults as of March 31, 2021 and December 31, 2020 primarily consisted of indebtedness of the Company's renewable energy facility in Chile. The Company continues to amortize deferred financing costs and debt discounts over the maturities of the respective financing agreements as before the violations, since the Company believes there is a reasonable likelihood that it will be, in due course, able to successfully negotiate waivers with the lenders and/or cure existing defaults. The Company's management based this conclusion on (i) its past history of obtaining waivers and/or forbearance agreements with lenders, (ii) the nature and existence of active negotiations between the Company and the respective lenders to secure waivers, (iii) the Company's timely servicing of these debt instruments and (iv) the fact that no non-recourse financing has been accelerated to date and no project-level lender has notified the Company of such lenders election to enforce project security interests.

See Note 5. *Cash and Cash Equivalents* for discussion of corresponding restricted cash reclassifications to current as a result of these defaults.

Maturities

The aggregate contractual principal payments of long-term debt due after March 31, 2021, excluding the amortization of debt discounts, premiums and deferred financing costs, as stated in the financing agreements, are as follows:

(In thousands)	Remainder of 2021	2022	2023	2024	2025	Thereafter	Total
Maturities of long-term debt ¹	\$ 383,486	\$ 363,352	\$ 983,137	\$ 458,527	\$ 361,301	\$4,320,611	\$ 6,870,414

- (1) Represents the contractual principal payment due dates for the Company's long-term debt and does not reflect the reclassification of \$154.1 million of long-term debt, net of unamortized deferred financing costs of \$4.7 million, to current due to debt defaults that existed at March 31, 2021 (see above for additional details).

10. INCOME TAXES

The income tax expense (benefit) was calculated based on the income and losses before income tax consisted of the following:

(In thousands, except effective tax rate)	Three Months Ended March 31,	
	2021	2020
Loss before income tax expense	\$ (72,268)	\$ (42,785)
Income tax (benefit) expense ¹	(3,113)	5,776
Effective tax rate	4.3 %	(13.5)%

- (1) The income tax (benefit) expense was related to the tax effects on the Company's operations in both domestic and international jurisdictions. .

The overall effective tax rate for the three months ended March 31, 2021 and 2020 was different than the statutory rate of 21% and was primarily due to to forecasted U.S. income and loss as well as effects of foreign operations.

As of March 31, 2021, and March 31, 2020, the Company had not identified any uncertain tax positions for which a liability was required under ASC 740-10.

11. DERIVATIVES

As part of its risk management strategy, the Company entered into derivative instruments, which include interest rate swaps, foreign currency contracts and commodity contracts to mitigate interest rate, foreign currency and commodity price exposures. If the Company elects to do so and if the instrument meets the criteria specified in ASC 815, *Derivatives and Hedging*, the Company designates its derivative instruments as either cash flow hedges or net investment hedges. The Company enters into interest rate swap agreements in order to hedge the variability of the expected future cash interest payments. Foreign currency contracts are used to reduce risks arising from the change in fair value of certain foreign currency denominated assets and liabilities. The objective of these practices is to minimize the impact of foreign currency fluctuations on operating results. The Company also enters into commodity contracts to hedge price variability inherent in energy sales arrangements. The objectives of the commodity contracts are to minimize the impact of variability in spot energy prices and stabilize estimated revenue streams. The Company does not use derivative instruments for trading or speculative purposes.

As of March 31, 2021 and December 31, 2020, the fair values of the following derivative instruments were included in the respective balance sheet captions indicated below:

(In thousands)	Fair Value of Derivative Instruments ¹									
	Derivatives Designated as Hedging Instruments			Derivatives Not Designated as Hedging Instruments			Gross Derivatives	Counter party Netting ²	Net Derivatives	
	Interest Rate Swaps	Foreign Currency Contracts	Commodity Contracts	Interest Rate Swaps	Foreign Currency Contracts	Commodity Contracts				
As of March 31, 2021										
Derivative assets, current	\$ —	\$ —	\$ 1,642	\$ —	\$ 17,097	\$ 307	\$ 19,046	\$ (1,049)	\$ 17,997	
Derivative assets	297	—	26,852	5,313	—	13,388	45,850	—	45,850	
Total assets	<u>\$ 297</u>	<u>\$ —</u>	<u>\$ 28,494</u>	<u>\$ 5,313</u>	<u>\$ 17,097</u>	<u>\$ 13,695</u>	<u>\$ 64,896</u>	<u>\$ (1,049)</u>	<u>\$ 63,847</u>	
Derivative liabilities, current portion	\$15,764	\$ —	\$ —	\$ 36,149	\$ 1,049	\$ 28	\$ 52,990	\$ (1,049)	\$ 51,941	
Derivative liabilities	34,135	—	—	94,246	—	—	128,381	—	128,381	
Total liabilities	<u>\$49,899</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$130,395</u>	<u>\$ 1,049</u>	<u>\$ 28</u>	<u>\$ 181,371</u>	<u>\$ (1,049)</u>	<u>\$ 180,322</u>	
As of December 31, 2020										
Derivative assets, current	\$ —	\$ —	\$ 3,497	\$ —	\$ 2,270	\$ 2,935	\$ 8,702	\$ (2,270)	\$ 6,432	
Derivative assets	—	—	37,033	379	—	24,081	61,493	—	61,493	
Total assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 40,530</u>	<u>\$ 379</u>	<u>\$ 2,270</u>	<u>\$ 27,016</u>	<u>\$ 70,195</u>	<u>\$ (2,270)</u>	<u>\$ 67,925</u>	
Derivative liabilities, current portion	\$16,580	\$ —	\$ —	\$ 37,704	\$ 22,485	\$ 329	\$ 77,098	\$ (2,270)	\$ 74,828	
Derivative liabilities	55,176	—	—	112,620	—	—	167,796	—	167,796	
Total liabilities	<u>\$71,756</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$150,324</u>	<u>\$ 22,485</u>	<u>\$ 329</u>	<u>\$ 244,894</u>	<u>\$ (2,270)</u>	<u>\$ 242,624</u>	

(1) Fair value amounts are shown before the effect of counterparty netting adjustments.

(2) Represents the netting of derivative exposures covered by qualifying master netting arrangements.

As of March 31, 2021 and December 31, 2020, the Company had posted letters of credit in the amount of \$15.0 million, as collateral related to certain commodity contracts. Certain derivative contracts contain provisions providing the counterparties a lien on specific assets as collateral. There was no cash collateral received or pledged as of March 31, 2021 and December 31, 2020 related to the Company's derivative transactions.

The Company is subject to credit risk related to its derivatives to the extent the hedge counterparties may be unable to meet the terms of the contractual arrangements. The maximum exposure to loss due to credit risk if counterparties fail completely to perform according to the terms of the contracts would generally equal the fair value of derivative assets presented

in the above table. The Company seeks to mitigate credit risk by transacting with a group of creditworthy financial institutions and through the use of master netting arrangements.

The Company elected to present all derivative assets and liabilities on a net basis on the balance sheets as a right to set-off exists. The Company enters into International Swaps and Derivatives Association, Inc. (“ISDA”) Master Agreements with its counterparties. An ISDA Master Agreement is an agreement that can govern multiple derivative transactions between two counterparties that typically provides for the net settlement of all, or a specified group, of these derivative transactions through a single payment, and in a single currency, as applicable. A right to set-off typically exists when the Company has a legally enforceable ISDA Master Agreement. No amounts were netted for commodity contracts as of March 31, 2021 or December 31, 2020, as each of the commodity contracts were in a gain position.

The following table presents the notional amounts of derivative instruments as of March 31, 2021 and December 31, 2020:

(In thousands, except for GWs)	Notional Amount as of	
	March 31, 2021	December 31, 2020
Derivatives designated as hedging instruments:		
<i>Cash flow hedges:</i>		
Interest rate swaps (USD)	243,562	247,957
Interest rate swaps (CAD)	128,389	129,602
Interest rate swaps (EUR)	281,654	288,193
Commodity contracts (GWs)	4,505	4,689
Derivatives not designated as hedging instruments:		
Interest rate swaps (USD)	185,602	195,149
Interest rate swaps (EUR) ¹	940,413	964,559
Foreign currency option contracts (EUR) ^{2,3}	—	—
Foreign currency contracts (EUR) ²	950,000	950,000
Commodity contracts (GWs)	6,452	6,621

- (1) Represents the notional amount of the interest rate swaps at Saeta to economically hedge the interest rate payments on non-recourse debt. The Company did not designate these derivatives as hedging instruments per ASC 815 as of the respective balance sheet dates.
- (2) Represents the notional amount of foreign currency contracts used to economically hedge portions of the Company’s foreign exchange risk associated with Euro-denominated intercompany loans. The Company did not designate these derivatives as hedging instruments per ASC 815 as of March 31, 2021 and December 31, 2020.
- (3) As of March 31, 2021 and December 31, 2020, the Company had outstanding foreign exchange option contracts to buy and sell €212 million with the same maturity profile, to hedge a portion of the foreign currency risk related to the Company’s investment in Spain.

Gains and losses on derivatives not designated as hedging instruments for the three months ended March 31, 2021 and 2020 consisted of the following:

(In thousands)	Location of Loss (Gain) in the Statements of Operations	Three Months Ended March 31,	
		2021	2020
Interest rate swaps	Interest expense, net	\$ (14,578)	\$ 4,365
Foreign currency contracts	Gain on foreign currency exchange, net	(52,543)	(18,129)
Commodity contracts	Operating revenues, net	101,180	(3,793)

Gains and losses recognized related to derivative contracts designated as hedging instruments for the three months ended March 31, 2021 and 2020 consisted of the following:

Three Months Ended March 31,					
Derivatives in Cash Flow and Net Investment Hedging Relationships (In thousands)	(Loss) Gain Included in the Assessment of Effectiveness Recognized in OCI, net of taxes ¹		Location of Amount Reclassified from AOCI into Income	Loss (Gain) Included in the Assessment of Effectiveness Reclassified from AOCI into Income ²	
	2021	2020		2021	2020
Interest rate swaps	\$ 14,346	\$ (14,722)	Interest expense, net	\$ 3,031	\$ 1,584
Foreign currency contracts	—	11,915	Gain on foreign currency exchange, net	—	—
Commodity contracts ³	(100,556)	(6,760)	Operating revenues, net	89,257	(1,368)
Total	<u>\$ (86,210)</u>	<u>\$ (9,567)</u>		<u>\$ 92,288</u>	<u>\$ 216</u>

(1) Net of \$3.3 million tax benefit for the three months ended March 31, 2021. Net of \$4.1 million tax benefit was recorded for the three months ended March 31, 2020.

(2) No tax expense or benefit was recorded for the three months ended March 31, 2021 and 2020.

(3) Represents the change in fair value and it's related loss incurred on settlements primarily due to Texas Severe Winter Weather Event.

Derivatives Designated as Hedging Instruments

Interest Rate Swaps

The Company has interest rate swap agreements to hedge certain variable rate non-recourse debt. These interest rate swaps qualify for hedge accounting and were designated as cash flow hedges. Under the interest rate swap agreements, the Company pays a fixed rate and the counterparties to the agreements pay a variable interest rate. The change in the fair value of the components included in the effectiveness assessment of these derivatives is initially reported in accumulated other comprehensive income (“AOCI”) and subsequently reclassified to earnings in the periods when the hedged transactions affect earnings (the payment of interest). The amounts deferred in AOCI and reclassified into earnings during the three months ended March 31, 2021 and 2020 related to these interest rate swaps are provided in the tables above. The loss expected to be reclassified into earnings over the next twelve months is approximately \$13.6 million. The maximum term of outstanding interest rate swaps designated as hedging instruments is 18 years.

Foreign Currency Contracts

The Company uses foreign currency contracts to hedge portions of its net investment positions in certain subsidiaries with Euro (“€”) and Canadian dollar (“C\$”) functional currencies and to manage its foreign exchange risk. For instruments that are designated and qualify as hedges of net investment in foreign operations, the effective portion of the net gains or losses attributable to changes in exchange rates are recorded in foreign currency translation adjustments within AOCI. The recognition in earnings of amounts previously recorded in AOCI is limited to circumstances such as complete or substantial liquidation of the net investment in the hedged foreign operation.

Cash flows from derivative instruments designated as net investment hedges are classified as investing activities in the unaudited condensed consolidated statements of cash flows.

There were no foreign currency contracts designated as net investment hedges as of March 31, 2021 or December 31, 2020.

Commodity Contracts

The Company has two long-dated and physically-delivered commodity contracts that hedge variability in cash flows associated with the sales of power from certain wind renewable energy facilities located in Texas. One of these commodity contracts qualifies for hedge accounting and is designated as a cash flow hedge. The change in the fair value of the components included in the effectiveness assessment of this derivative is initially reported in AOCI and subsequently reclassified to earnings in the periods when the hedged transactions affect earnings (the sale of electricity). The amounts deferred in AOCI and reclassified into earnings during the three months ended March 31, 2021 and 2020 related to this commodity contract are

provided in the tables above. The gain expected to be reclassified into earnings over the next twelve months is approximately \$1.5 million. The maximum term of the outstanding commodity contract designated as a hedging instrument is 7 years.

Derivatives Not Designated as Hedging Instruments

Interest Rate Swaps

The Company has interest rate swap agreements that economically hedge the cash flows for non-recourse debt. These interest rate swaps pay a fixed rate and the counterparties to the agreements pay a variable interest rate. The changes in fair value are recorded in interest expense, net in the unaudited condensed consolidated statements of operations as these derivatives are not accounted for under hedge accounting.

Foreign Currency Contracts

The Company has foreign currency forward and option contracts that economically hedge its exposure to foreign currency fluctuations. As these hedges are not accounted for under hedge accounting, the changes in fair value are recorded in loss (gain) on foreign currency exchange, net in the unaudited condensed consolidated statements of operations. Cash flows from foreign currency forward and option contracts are classified as investing activities in the unaudited condensed consolidated statements of cash flows.

Commodity Contracts

The Company has commodity contracts that economically hedge commodity price variability inherent in certain electricity sales arrangements. If the Company sells electricity to an independent system operator market and there is no PPA available, it may enter into a commodity contract to hedge all or a portion of their estimated revenue stream. These commodity contracts require periodic settlements in which the Company receives a fixed price based on specified quantities of electricity and pays the counterparty a variable market price based on the same specified quantity of electricity. As these derivatives are not accounted for under hedge accounting, the changes in fair value are recorded in operating revenues, net in the unaudited condensed consolidated statements of operations.

Derivative Assets

The Company is subject to credit risk related to its derivatives to the extent the hedge counterparties may be unable to meet the terms of the contractual arrangements. The maximum exposure to loss due to credit risk if counterparties fail completely to perform according to the terms of the contracts would generally equal the fair value of derivative assets presented in the above table. The Company seeks to mitigate credit risk by transacting with a group of creditworthy financial institutions and through the use of master netting arrangements.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of assets and liabilities are determined using either unadjusted quoted prices in active markets (Level 1) or pricing inputs that are observable (Level 2) whenever that information is available and using unobservable inputs (Level 3) to estimate fair value only when relevant observable inputs are not available. The Company uses valuation techniques that maximize the use of observable inputs. Assets and liabilities are classified in their entirety based on the lowest priority level of input that is significant to the fair value measurement. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. If the inputs into the valuation are not corroborated by market data, in such instances, the valuation for these contracts is established using techniques including the extrapolation from or interpolation between actively traded contracts, as well as the calculation of implied volatilities. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3. The Company regularly evaluates and validates the inputs used to determine the fair value of Level 3 contracts by using pricing services to support the underlying market price of the commodity.

The Company uses a discounted cash flow valuation technique to determine the fair value of its derivative assets and liabilities. The primary inputs in the valuation models for commodity contracts are market observable forward commodity curves, risk-free discount rates, volatilities and, to a lesser degree, credit spreads. The primary inputs into the valuation of interest rate swaps and foreign currency contracts are forward interest rates and foreign currency exchange rates and, to a lesser degree, credit spreads.

Recurring Fair Value Measurements

The following table summarizes the financial instruments measured at fair value on a recurring basis classified in the fair value hierarchy (Level 1, 2 or 3) based on the inputs used for valuation in the unaudited condensed consolidated balance sheets:

(In thousands)	As of March 31, 2021				As of December 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Interest rate swaps	\$ —	\$ 5,610	\$ —	\$ 5,610	\$ —	\$ 379	\$ —	\$ 379
Commodity contracts	—	—	42,189	42,189	—	—	67,546	67,546
Foreign currency contracts	—	16,048	—	16,048	—	—	—	—
Total derivative assets	\$ —	\$ 21,658	\$ 42,189	\$ 63,847	\$ —	\$ 379	\$ 67,546	\$ 67,925
Liabilities								
Interest rate swaps	\$ —	\$ 180,294	\$ —	\$ 180,294	\$ —	\$ 222,080	\$ —	\$ 222,080
Commodity contracts	—	28	—	28	—	329	—	329
Foreign currency contracts	—	—	—	—	—	20,215	—	20,215
Total derivative liabilities	\$ —	\$ 180,322	\$ —	\$ 180,322	\$ —	\$ 242,624	\$ —	\$ 242,624

The Company's interest rate swaps, foreign currency contracts and financial commodity contracts are considered Level 2, since all significant inputs are corroborated by market observable data. The Company's long-term physically settled commodity contracts (see *Note 11. Derivatives*) are considered Level 3 as they contain significant unobservable inputs. There were no transfers in or out of Level 1, Level 2 and Level 3 during the three months ended March 31, 2021 and 2020.

The following table reconciles the changes in the fair value of derivative instruments classified as Level 3 in the fair value hierarchy for the three months ended March 31, 2021 and 2020:

(In thousands)	Three Months Ended March 31,	
	2021	2020
Beginning balance	\$ 67,546	\$ 59,312
Realized and unrealized gains (losses):		
Included in other comprehensive (loss) income	(100,556)	(714)
Included in operating revenues, net	(103,489)	253
Settlements	178,688	(3,962)
Ending balance	\$ 42,189	\$ 54,889

The significant unobservable inputs used in the valuation of the Company's commodity contracts classified as Level 3 in the fair value hierarchy as of March 31, 2021 are as follows:

(In thousands, except range)	Fair Value as of March 31, 2021		Valuation Technique	Unobservable Inputs as of March 31, 2021	
	Assets	Liabilities		Range ¹	
Commodity contracts - power	\$ 42,190	\$ —	Option model	Volatilities	17.6%
			Discounted cash flow	Forward price (per MWh)	\$11.94 - \$92.85

(1) Represents the range of the forward power prices used in the valuation analysis that the Company has determined market participants would use when pricing the contracts.

The sensitivity of the Company's fair value measurements to increases (decreases) in the significant unobservable inputs is as follows:

Significant Unobservable Input	Position	Impact on Fair Value Measurement
Increase (decrease) in forward price	Forward sale	Decrease (increase)
Increase (decrease) in implied volatilities	Purchase option	Increase (decrease)

The Company measures the sensitivity of the fair value of its Level 3 commodity contracts to potential changes in commodity prices using a mark-to-market analysis based on the current forward commodity prices and estimates of the price volatility. An increase in power forward prices will produce a mark-to-market loss, while a decrease in prices will result in a mark-to-market gain. An increase in the estimates of the price volatility will produce a mark-to-market gain, while a decrease in volatility will result in a mark-to-market loss.

13. COMMITMENTS AND CONTINGENCIES

Letters of Credit

The Company's customers, vendors and regulatory agencies often require the Company to post letters of credit in order to guarantee performance under certain contracts and agreements. The Company is also required to post letters of credit to secure obligations under various swap agreements and leases and may, from time to time, decide to post letters of credit in lieu of cash deposits in reserve accounts under certain financing arrangements. The amount that can be drawn under some of these letters of credit may be increased from time to time subject to the satisfaction of certain conditions. As of March 31, 2021, the Company had outstanding letters of credit drawn under the Revolver of \$100.5 million and outstanding project-level letters of credit of \$345.4 million drawn under certain project level financing agreements, compared to \$124.9 million and \$351.8 million, respectively, as of December 31, 2020.

Guarantee Agreements

The Company and its subsidiaries have entered into guarantee agreements to certain of their institutional tax equity investors and financing parties in connection with their tax equity financing transactions. These agreements do not guarantee the returns targeted by the tax equity investors or financing parties, but rather support any potential indemnity payments payable under the tax equity agreements, including related to management of tax partnerships and recapture of tax credits or renewable energy grants in connection with transfers of the Company's direct or indirect ownership interests in the tax partnerships to entities that are not qualified to receive those tax benefits.

The Company and its subsidiaries have also provided guaranties in connection with acquisitions of third-party assets or to support project-level contractual obligations, including renewable energy credit sales agreements. The Company and its subsidiaries have also provided other capped or limited contingent guaranties and other support obligations with respect to certain project-level indebtedness.

The amounts of the above guarantees often are not explicitly stated and the overall maximum amount of the related obligations cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guaranties. The Company believes the probability of payments being demanded under these guaranties is remote and no material amounts have been recognized for the underlying fair value of guaranty obligations.

Operating Leases

The Company has operating leases for renewable energy production facilities, land, office space, transmission lines, vehicles and other operating equipment. See *Leases* section within *Note 2. Summary of Significant Accounting Policies* for details of the Company's lease arrangements.

Long-Term Service Agreements

On August 10, 2018, the Company executed an 11-year framework agreement with affiliates of General Electric ("GE") that, among other things, provides for the roll out, subject to receipt of third-party consents, of project level, long-term service agreements ("LTSA") for turbine operations and maintenance "O&M", as well as other balance of plant services across the Company's 1.6 GW North American wind fleet. As of March 31, 2021, 15 of 16 project-level LTSAs were in place.

Pursuant to the LTSAs with GE, if a facility generates less than the resource-adjusted amount of guaranteed generation, GE is liable to make a payment to the Company, as liquidated damages, corresponding to the amount of operating revenues lost due to such shortfall, after taking into account certain exclusions. In addition, if a facility generates more than the resource-adjusted amount of guaranteed generation, the Company has an obligation to pay a bonus to GE.

On November 1, 2019, the Company executed a 10-year framework agreement with SMA Solar Technology that, among other things, provides for the roll out, subject to receipt of third-party consents, of project level LTSAs for solar O&M, as well as other balance of plant services across the Company's North American solar fleet.

Legal Proceedings

The Company is not a party to any material legal proceedings other than various administrative and regulatory proceedings arising in the ordinary course of the Company's business. The Company's parent entities, TERP Parent (the successor entity to TERP Inc.) and Terra LLC are party to the legal proceedings described below. While the Company is not party to these proceedings, any of these claims, if resolved in a manner (including by settlement) that results in a liability for TERP Parent and Terra LLC, could result in substantial dividend payments being made by the Company to its parent entities in order to settle any potential liability, which could have a material adverse impact on the Company. The Company cannot predict with certainty the ultimate resolution of these proceedings.

Claim relating to First Wind Acquisition

On May 27, 2016, D.E. Shaw Composite Holdings, L.L.C. and Madison Dearborn Capital Partners IV, L.P., as the representatives of the sellers (the "First Wind Sellers") filed an amended complaint for declaratory judgment against TERP Inc. and Terra LLC, direct parent of the Company, in the Supreme Court of the State of New York alleging breach of contract with respect to the Purchase and Sale Agreement, dated as of November 17, 2014 (the "FW Purchase Agreement") between, among others, SunEdison, Inc. ("SunEdison"), TERP Inc., Terra LLC and the First Wind Sellers. The amended complaint alleges that Terra LLC and SunEdison became jointly obligated to make \$231.0 million in earn-out payments in respect of certain development assets SunEdison acquired from the First Wind Sellers under the FW Purchase Agreement, when those payments were purportedly accelerated by SunEdison's bankruptcy and by the resignations of two SunEdison employees. The amended complaint further alleges that TERP Inc., as guarantor of certain Terra LLC obligations under the FW Purchase Agreement, is liable for this sum. In addition, the plaintiffs have claimed legal costs and expenses and, under applicable New York law, their claim accrues interest at a non-compounding rate of 9% per annum.

On December 22, 2020, the court granted summary judgment to the Plaintiffs and awarded \$231 million in earn-out payments, plus interest that has accrued at the New York State statutory rate since May 2016. The ruling denied the Plaintiffs' claim for legal costs and expenses.

In April 2021, TERP Parent and Terra LLC entered into a settlement agreement with the First Wind Sellers, under which TERP Parent and Terra LLC reached a final settlement with the First Wind Sellers. The settlement amount was approximately \$50 million less than the amount of the court's ruling, inclusive of accrued interest. Following this settlement, TERP Parent and Terra LLC commenced activities to pursue a recovery of all or a partial amount of the settlement.

Other matters

Two of the Company's project level subsidiaries were parties to litigation seeking to recover alleged underpayments of tax grants under Section 1603 of the American Recovery and Reinvestment Tax Act from the U.S. Department of Treasury ("U.S. Treasury"). These project subsidiaries filed complaints at the Court of Federal Claims on March 28, 2014. The U.S. Treasury counterclaimed and both claims went to trial in July 2018. In January 2019, the Court of Federal Claims entered judgments against each of the project level subsidiaries for approximately \$10.0 million in the aggregate. These judgments were affirmed on appeal. On July 17, 2020, the project subsidiaries settled the full amount of the litigation with the U.S. Treasury through payments made directly by the previous owners pursuant to the indemnification agreement.

14. RELATED PARTIES

As discussed in *Note 1. Nature of Operations and Organization*, the Company is a controlled affiliate of Brookfield. Effective July 31, 2020, the Company became a wholly-owned indirect subsidiary of Brookfield Renewable and its affiliates. As of March 31, 2021, Brookfield owned approximately 51.5% of Brookfield Renewable on a fully-exchanged basis and the remaining approximately 48.5% is held by public investors.

Terra LLC Agreement

BRE Delaware, LLC (formerly BRE Delaware, Inc.) (the “Brookfield IDR Holder”), an indirect, wholly-owned subsidiary of Brookfield, previously held all of the outstanding IDRs of Terra LLC. The Company, Brookfield IDR Holder and TerraForm Power Holdings, Inc. were party to the limited liability company agreement of Terra LLC (as amended from time to time, the “Terra LLC Agreement”). Under the Terra LLC Agreement, IDRs were payable when distributions on Common Stock reach a certain threshold. The IDR threshold for a first distribution was \$0.93 per share of Common Stock and for a second distribution was \$1.05 per share of Common Stock. There were no IDR payments made by the Company pursuant to the Terra LLC Agreement during the three months ended March 31, 2021 or during 2020.

On July 31, 2020, upon the completion of the Brookfield Renewable Merger Transaction, as discussed above, TERP NY, TerraForm Power Holdings, a Delaware corporation, and Brookfield IDR Holder entered into the Fourth Amended and Restated Limited Liability Company Agreement of TerraForm Power, LLC (the “New LLCA”), pursuant to which, among other things, the obligations of Terra LLC to make incentive distribution right payments to Brookfield IDR Holder were terminated. There were no IDR payments made by the Company pursuant to the Terra LLC Agreement during 2020.

New York Office Lease & Co-tenancy Agreement

In May 2018, in connection with the relocation of the Company’s corporate headquarters to New York City, the Company entered into a lease for office space and related co-tenancy agreement with affiliates of Brookfield for a ten-year term. The Company recorded \$0.2 million of charges related to the lease of the office space within general and administrative expenses - affiliate in the unaudited condensed consolidated statements of operations for the three months ended March 31, 2021, respectively, as compared to \$0.1 million for the same period in 2020.

Other Brookfield Transactions and Agreements

Acquisition-related Services

During the three months ended March 31, 2020, there were no fees payable on behalf of the Company in relation to acquisitions made by the Company in Spain.

Due from Affiliates

The \$0.3 million due from affiliates amount reported on the consolidated balance sheets as of March 31, 2021 primarily represents a receivable from certain affiliates of Brookfield, as a result of payments made by the Company on their behalf, primarily related to professional fees and rent for shared corporate headquarters. There was no right of set-off with respect to these receivables from affiliates and the payables to the other Brookfield affiliates described herein, and thus these amounts were separately reported in due from affiliate in the consolidated balance sheets.

Due to Affiliates

The \$2.7 million due to affiliates amount reported in the unaudited condensed consolidated balance sheets as of March 31, 2021 represented payables to affiliates of Brookfield of (i) \$1.7 million for services and fees incurred by an affiliate of Brookfield on behalf of the Company related to acquisitions in Spain and (ii) \$1.0 million payables related to rent, office charges and other services to affiliates of Brookfield related to the Company’s corporate headquarters in New York. The \$11.5 million due to affiliates amount reported in the consolidated balance sheets as of December 31, 2020 represented (i) \$8.6 million payables to affiliates of Brookfield for the Brookfield MSA base management fee for the fourth quarter of 2020, (ii) \$1.4 million for services and fees incurred by an affiliate of Brookfield on behalf of the Company related to acquisitions in Spain, (iii) \$0.6 million standby fee payable under the Sponsor Line, (iv) \$0.5 million payable for commodity contracts executed on behalf of the Company on a cost-reimbursement basis, and (v) \$0.4 million payables related to rent, office charges and other services to affiliates of Brookfield related to the Company’s corporate headquarters in New York.

During the three months ended March 31, 2021, the Company paid to affiliates of Brookfield \$0.4 million for leasehold improvements, rent, office charges and other services with affiliates of Brookfield. During the three months ended March 31, 2020, the Company paid to affiliates of Brookfield (i) \$8.6 million for the Brookfield MSA base management fee, (ii) \$0.6 million standby fee payable under the Sponsor Line and \$0.7 million for leasehold improvements, rent, office charges and other services with affiliates of Brookfield.

Cash Distributions Paid

During the three months ended March 31, 2021 and 2020, the Company paid cash distribution totaling \$125.0 million and \$45.5 million, respectively, to TERP Parent, its indirect parent.

15. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following tables present the changes in each component of accumulated other comprehensive income (loss), net of tax:

(In thousands)	Foreign Currency Translation Adjustments	Hedging Activities ¹	Accumulated Other Comprehensive Income
Balance as of December 31, 2019	\$ 11,138	\$ 20,656	\$ 31,794
Other comprehensive (loss) income:			
Net unrealized (loss) gain arising during the period (net of zero and \$4,088 tax benefit, respectively)	10,264	(36,978)	(26,714)
Reclassification of net realized gain into earnings (net of zero tax impact)	—	(1,841)	(1,841)
Other comprehensive income (loss)	10,264	(38,819)	(28,555)
Accumulated other comprehensive income	21,402	(18,163)	3,239
Less: Other comprehensive income attributable to non-controlling interests	—	(246)	(246)
Balance as of March 31, 2020	<u>\$ 21,402</u>	<u>\$ (17,917)</u>	<u>\$ 3,485</u>
(In thousands)	Foreign Currency Translation Adjustments	Hedging Activities ¹	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2020	\$ 53,979	\$ (15,025)	\$ 38,954
Other comprehensive (loss) income:			
Net unrealized gain (loss) arising during the period (net of zero and \$3,259 tax benefit, respectively)	(5,824)	(86,211)	(92,035)
Reclassification of net realized gain into earnings (net of zero tax impact)	—	90,256	90,256
Other comprehensive income (loss)	(5,824)	4,045	(1,779)
Accumulated other comprehensive income (loss)	48,155	(10,980)	37,175
Less: Other comprehensive loss attributable to non-controlling interests	—	(7,778)	(7,778)
Balance as of March 31, 2021	<u>\$ 48,155</u>	<u>\$ (3,202)</u>	<u>\$ 44,953</u>

(1) See Note 11. Derivatives for additional breakout of hedging gains and losses for interest rate swaps and commodity contracts in a cash flow hedge relationship and the foreign currency contracts designated as hedges of net investments in foreign operations.

16. NON-CONTROLLING INTERESTS

Non-controlling interests in subsidiaries that are redeemable either at the option of the holder or at fixed and determinable prices at certain dates are classified as redeemable non-controlling interests in subsidiaries between liabilities and member's equity in the consolidated balance sheets. The redeemable non-controlling interests in subsidiaries balance is determined using the hypothetical liquidation at book value method for the VIE funds or allocation of share of income or losses in other subsidiaries subsequent to initial recognition; however, the non-controlling interests balance cannot be less than the estimated redemption value.

The following table presents the activity of the redeemable non-controlling interests balance for the three months ended March 31, 2021 and 2020:

(In thousands)	Three Months Ended March 31,	
	2021	2020
Balance as of January 1	\$ 7,931	\$ 22,884
Net income	2	12
Distributions	(16)	(241)
Repurchases of redeemable non-controlling interests, net ¹	—	(14,645)
Balance as of March 31	<u>\$ 7,917</u>	<u>\$ 8,010</u>

(1) Represents the carrying amount of the redeemable non-controlling interests repurchased.

17. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 17, 2021 and determined that there have been no events that have occurred that would require adjustments to our disclosures in the unaudited condensed consolidated financial statements.

Subsequent to quarter end, the Company drew \$290 million on its revolver facility and paid a distribution of \$286 million to TERP Parent and TERP LLC, its indirect parents.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This Management’s Discussion and Analysis for the three months ended March 31, 2020, has been prepared as part of the reporting requirements under the (i) indenture dated December 12, 2017 governing the 4.25% senior notes due 2023, (ii) indenture dated December 12, 2017 governing the 5.00% senior notes due 2028 and (iii) indenture dated October 16, 2019 governing the 4.75% governing the senior notes due 2030, in each case issued by TerraForm Power Operating, LLC. The information presented is unaudited and should be read in conjunction with our unaudited condensed consolidated financial statements for the three months ended March 31, 2020 and other disclosures included therein. References in this section to “we,” “our,” “us,” or the “Company” refer to TerraForm Power Operating, LLC and its consolidated subsidiaries. The results shown herein are not necessarily indicative of the results to be expected in any future period.

Overview

TerraForm Power Operating, LLC (“Terra Operating” and, together with its subsidiaries, the “Company”) is a Delaware limited liability company whose primary business strategy is to own and operate solar and wind assets in North America and Western Europe. Terra Operating, through its subsidiaries, owns and operates renewable energy facilities that have long-term contractual arrangements to sell the electricity generated by these facilities to third parties. The related green energy certificates, ancillary services and other environmental attributes generated by these facilities are also sold to third parties. Terra Operating is the wholly-owned direct subsidiary of TerraForm Power, LLC (“Terra LLC”). Terra LLC is controlled and majority owned by TerraForm Power Parent, LLC (“TERP Parent”), a Delaware limited liability company and the successor entity to TerraForm Power, Inc. (“TERP Inc.”) TERP Parent is a holding company whose primary asset is its ownership of the majority of the membership interests in Terra LLC. Terra LLC is the managing member of Terra Operating and its primary asset is its ownership of 100% of the membership interests in Terra Operating.

As more fully described in *Note 15. Related Parties*, on July 31, 2020, TERP Inc., the entity that formerly was the direct owner of Terra LLC, merged with and into TerraForm Power NY Holdings, Inc. (“TERP NY”), with TERP NY surviving the merger. As a result of the merger, through a series of related transactions, affiliates of Brookfield Renewable Partners L.P. (“Brookfield Renewable”) acquired all of the outstanding shares of Class A common stock (“Common Stock”) of TERP Inc., other than the approximately 62% already owned by Brookfield Renewable and its affiliates (the “Brookfield Renewable Merger”). As a result of the Brookfield Renewable Merger, effective July 31, 2020, the Company became a wholly-owned indirect subsidiary of Brookfield Renewable and its affiliates. Subsequently, on March 15, 2021, TERP NY merged with and into its wholly-owned direct subsidiary, TERP Parent, with TERP Parent surviving the merger. The Company is a controlled affiliate of Brookfield Asset Management Inc. (“Brookfield”). As of March 31, 2021, Brookfield Renewable and its affiliates held 100% of the Common Stock of TERP Parent. As of March 31, 2021, Brookfield owned approximately 51.5% of Brookfield Renewable on a fully-exchanged basis and the remaining approximately 48.5% is held by public investors.

Our primary business strategy is to acquire, own and operate solar and wind assets in North America and Western Europe. We are the owner and operator of over 4,200 MW diversified portfolio of high-quality solar and wind assets, underpinned by long-term contracts. Significant diversity across technologies and locations coupled with contracts across a large, diverse group of creditworthy counterparties significantly reduces the impact of resource variability on cash available for distribution and limits our exposure to any individual counterparty.

Key Metrics

Operating Metrics

Nameplate capacity

We measure the electricity-generating production capacity of our renewable energy facilities in nameplate capacity. Rated capacity is the expected maximum output a power generation system can produce without exceeding its design limits. We express nameplate capacity in (i) DC, for all facilities within our Solar segment and (ii) AC, for all facilities within our Wind and Regulated Solar and Wind segments. The size of our renewable energy facilities varies significantly among the assets comprising our portfolio. We believe the combined nameplate capacity of our portfolio is indicative of our overall production capacity and period to period comparisons of our nameplate capacity are indicative of the growth rate of our business. Our renewable energy facilities had a combined nameplate capacity of approximately 4,221 MW and 4,221 MW as of March 31, 2021 and December 31, 2020, respectively.

Gigawatt hours sold

Gigawatt hours (“GWh”) sold refers to the actual volume of electricity sold by our renewable energy facilities during a particular period. We track GWh sold as an indicator of our ability to realize cash flows from the generation of electricity at our renewable energy facilities. Our GWh sold for renewable energy facilities for the three months ended March 31, 2021 and 2020 were as follows:

(In GWh)	Three Months Ended March 31,	
	2021	2020
Solar segment	422	459
Wind segment	1,317	1,521
Regulated Solar and Wind segment	433	356
Total	<u>2,172</u>	<u>2,336</u>

Consolidated Results of Operations

(In thousands)	Three Months Ended March 31,	
	2021	2020
Operating revenues, net	\$ 298,427	\$ 246,762
Operating costs and expenses:		
Cost of operations	186,705	57,864
General and administrative expenses	13,256	26,572
General and administrative expenses - affiliate	1,024	10,431
Depreciation, accretion and amortization expense	138,733	122,391
Total operating costs and expenses	<u>339,718</u>	<u>217,258</u>
Operating (loss) income	(41,291)	29,504
Other expenses (income):		
Interest expense, net	53,883	77,959
Loss on modification and extinguishment of debt, net	—	3,593
Gain on foreign currency exchange, net	(22,671)	(4,871)
Other income, net	(235)	(4,392)
Total other expenses, net	<u>30,977</u>	<u>72,289</u>
Loss before income tax expense	(72,268)	(42,785)
Income tax (benefit) expense	(3,113)	5,776
Net loss	(69,155)	(48,561)
Less: Net income attributable to redeemable non-controlling interests	2	12
Less: Net loss attributable to non-controlling interests	(70,677)	(12,187)
Net income (loss) attributable to member's equity	<u>\$ 1,520</u>	<u>\$ (36,386)</u>

Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2020

Operating Revenues, net

Operating revenues, net and GWh sold for the three months ended March 31, 2021 and 2020 and nameplate capacity as of March 31, 2021 and December 31, 2020, were as follows:

(In thousands, except for GWh sold)	Three Months Ended March 31,		Change
	2021	2020	
Solar	\$ 72,428	\$ 78,623	\$ (6,195)
Wind	120,423	76,567	43,856
Regulated Solar and Wind	105,576	91,572	14,004
Total operating revenues, net	\$ 298,427	\$ 246,762	\$ 51,665
GWh sold:	2021	2020	Change
Solar	422	459	(37)
Wind	1,317	1,521	(204)
Regulated Solar and Wind	433	356	77
Total GWh sold	2,172	2,336	(164)
(In MW)	March 31, 2021	December 31, 2020	Change
Solar	1,420	1,420	—
Wind	1,864	1,864	—
Regulated Solar and Wind	937	937	—
Total nameplate capacity (MW)	4,221	4,221	—

Total operating revenues, net during the three months ended March 31, 2021 compared to the same period in 2020, increased by \$51.7 million primarily driven by contributions from higher average market prices realized on generations from our partially operational wind farm in Texas during the recent winter storm.

Costs of Operations

Excluding the severe winter storm in Texas, cost of operations increased by \$18.8 million during the three months ended March 31, 2021 compared to the same period in 2020. Cost savings initiatives were more than offset by additional costs related to the acquisition of solar CSP facilities made in the first quarter of 2020 and timing of solar maintenance programs and property tax refunds received in prior year.

Cost of operations relating to the Texas winter storm event was \$113.0 million, which represented the cost of acquiring energy to cover our contractual obligations at our two wind farms that were not generating during the winter event due to freezing conditions, net of hedging initiatives.

The net consolidated impact of the Texas winter storm event to all our partners, net of \$52.0 million revenue realized due to higher average market prices noted above, amounted to a \$61.0 million loss, of which the Company's share was not material.

General and Administrative Expenses

Total general and administrative expenses, including those related to affiliates, decreased by \$22.7 million during the three months ended March 31, 2021, compared to the same period in 2020, primarily due to the general reduction in our expenses comprising of merger related costs, legal services, professional fees and the quarterly base management fees under the Brookfield MSA.

Depreciation, Accretion and Amortization Expense

Depreciation, accretion and amortization expense increased by \$16.3 million during the three months ended March 31, 2021, compared to the same period in 2020. This increase was in relation to our growing portfolio of renewable energy facilities from acquisitions in Spain, accelerated depreciation in connection with our two wind power plants as well as capital additions placed in service after the first quarter of 2020.

Interest Expense, Net

Interest expense, net for the three months ended March 31, 2021 and 2020 were as follows:

(In thousands)	Three Months Ended March 31,		Change
	2021	2020	
Corporate-level	\$ 25,506	\$ 26,798	\$ (1,292)
Project-level	28,377	51,161	(22,784)
Total interest expense, net	<u>\$ 53,883</u>	<u>\$ 77,959</u>	<u>\$ (24,076)</u>

Interest expense, net decrease by \$24.1 million during the three months ended March 31, 2021, compared to the same period in 2020, primarily driven by decreased outstanding Corporate obligations and lower mark-to-market losses on interest rate swaps not designated in a cash flow hedging relationship.

Gain on Foreign Currency Exchange, net

Gains and losses on foreign currency exchanges primarily include the transaction gains and losses and changes in fair value of our foreign exchange derivative contracts not accounted for under hedge accounting, and exchange differences on intercompany loans that are not of a long-term investment nature. We recognized a net gain on foreign currency exchange of \$22.7 million primarily due to a net realized and unrealized gain of \$52.5 million on foreign currency derivative contracts, partially offset by a loss of \$29.8 million on the remeasurement of intercompany loans that are primarily denominated in Euros for the three months ended March 31, 2021. We recognized a net gain on foreign currency exchange of \$4.9 million primarily due to net realized and unrealized gain of \$18.1 million on foreign currency derivative contracts that was partially offset by a loss of \$13.8 million on the remeasurement of intercompany loans, which are primarily denominated in Euros for the three months ended March 31, 2020.

Other Income, net

We recognized \$0.2 million of other income, net for the three months ended March 31, 2021, compared to \$4.4 million of other expenses, net for the three months ended March 31, 2020. The balance is primarily comprised of miscellaneous expenses, non-operating expenses and losses net of recoveries and reimbursements.

Income Tax (Benefit) Expense

Income tax benefit was \$3.1 million for the three months ended March 31, 2021, compared to expense of \$5.8 million during the same period in 2020. This variance is mainly driven by the change in the overall effective tax rate as well as higher year-to-date losses in Q1 2021 versus Q1 2020. The overall effective tax rate for the three months ended March 31, 2021 of 4.3% was different than the statutory rate of 21% and was primarily due to forecasted U.S. income not subject to tax. For the same period in 2020 the overall effective tax rate of (13.5%) was different than the statutory rate of 21% was primarily due to forecasted U.S. losses not subject to tax.

As a limited liability company, the Company's U.S. taxable losses are allocated to its member. However, although in the U.S. based TerraForm Power Operating, LLC is a flow entity and does not pay tax, under interim reporting, the guidance requires organizations to apply the world-wide tax rate to all earnings unless the earnings are subject to a valuation allowance ("VA") or the forecast cannot be relied upon. Therefore, the Company's unaudited condensed consolidated financial statements will include the tax provision or liability for the U.S. federal income taxes and for certain foreign entities that are subject to corporate tax.

Net Loss Attributable to Non-Controlling Interests

Net loss attributable to non-controlling interests, including redeemable non-controlling interests, was \$70.7 million for the three months ended March 31, 2021, compared to \$12.2 million for the three months ended March 31, 2020 and represents the net share of profits and losses in our partially owned subsidiaries in which we have a controlling interest. The \$49.1 million increase was driven by our sale of interest in a wind portfolio, allocations of the ERCOT Texas weather event losses to NCI and the allocation of repowering losses to our repowering Construction Partner.

Non-GAAP Financial Measures

This Quarterly Report contains references to Adjusted Revenue and Adjusted EBITDA, which are supplemental Non-GAAP measures that should not be viewed as alternatives to GAAP measures of performance, including revenue, net income (loss) or operating income. Our definitions and calculation of these supplemental Non-GAAP measures may differ from definitions of Adjusted Revenue and Adjusted EBITDA or other similarly titled measures used by other companies. We believe that Adjusted Revenue and Adjusted EBITDA are useful supplemental measures that may assist stakeholders and others in assessing the financial performance of the Company. None of these Non-GAAP measures should be viewed as the sole measure of our performance, nor should they be considered in isolation from, or as a substitute for, analysis of our financial statements prepared in accordance with GAAP, which are available on our website at www.terraformpower.com. We encourage you to review, and evaluate the basis for, each of the adjustments made to arrive at Adjusted Revenue and Adjusted EBITDA.

Calculation of Non-GAAP Measures

We define Adjusted Revenue as operating revenues, net, adjusted for non-cash items, including (i) unrealized gain/loss on derivatives, net (ii) amortization of favorable and unfavorable rate revenue contracts, net, and (iii) other items that we believe are representative of our core business or future operating performance.

We define Adjusted EBITDA as net income (loss) plus (i) depreciation, accretion and amortization, (ii) interest expense, (iii) non-operating general and administrative costs, (iv) acquisition and related costs, (v) income tax (benefit) expense, (vi) management fees to Brookfield, and (vii) certain other non-cash charges, unusual or non-recurring items and other items that we believe are not representative of our core business or future operating performance.

Use of Non-GAAP Measures

We disclose Adjusted Revenue because it presents the component of operating revenue that relates to energy production from our plants, and is, therefore, useful to investors and other stakeholders in evaluating performance of our renewable energy assets and comparing that performance across periods in each case without regard to non-cash revenue items.

We disclose Adjusted EBITDA because we believe it is useful to investors and other stakeholders as a measure of our financial and operating performance and debt service capabilities. We believe Adjusted EBITDA provides an additional tool to investors and securities analysts to compare our performance across periods without regard to interest expense, taxes and depreciation and amortization. Adjusted EBITDA has certain limitations, including that it: (i) does not reflect cash expenditures or future requirements for capital expenditures or contractual liabilities or future working capital needs, (ii) does not reflect the significant interest expenses that we expect to incur or any income tax payments that we may incur, and (iii) does not reflect depreciation and amortization and, although these charges are non-cash, the assets to which they relate may need to be replaced in the future, and (iv) does not take into account any cash expenditures required to replace those assets. Adjusted EBITDA also includes adjustments for impairment charges, gains and losses on derivatives and foreign currency swaps, acquisition related costs and items we believe are infrequent.

The adjustments made to Adjusted EBITDA for infrequent, unusual or non-recurring items and items that we do not believe are representative of our core business involve the application of management's judgment, and the presentation of Adjusted EBITDA should not be construed to infer that our future results will be unaffected by infrequent, non-operating, unusual or non-recurring items.

In addition, these Non-GAAP measures are used by our management for internal planning purposes, including for certain aspects of our consolidated operating budget, as well as evaluating the attractiveness of investments and acquisitions. We believe these Non-GAAP measures are useful as a planning tool because they allow our management to compare performance across periods on a consistent basis in order to more easily view and evaluate operating and performance trends and as a means of forecasting operating and financial performance and comparing actual performance to forecasted expectations. For these reasons, we also believe these Non-GAAP measures are also useful for communicating with investors and other stakeholders.

The following table reconciles our Net income (loss) to Adjusted EBITDA for the three months ended March 31, 2021 and 2020:

(In thousands)	Three Months Ended March 31, 2021				
	Solar	Wind	Regulated Solar and Wind	Corporate	Total
Net income (loss)	\$ 8,303	\$ (4,682)	\$ 7,541	\$ (9,642)	\$ 1,520
Net loss attributable to redeemable and non-redeemable non-controlling interests	(4,485)	(66,190)	—	—	(70,675)
Net income (loss) attributable to member's equity	3,818	(70,872)	7,541	(9,642)	(69,155)
Depreciation, accretion and amortization expense ¹	38,938	56,088	56,314	370	151,710
Interest expense, net	14,926	10,728	2,723	25,506	53,883
Non-operating general and administrative expenses ²	1,650	—	—	7,483	9,133
Loss on extinguishment and modification of debt	—	—	—	—	—
Acquisition costs, including affiliate	—	—	(12)	—	(12)
Income tax expense (benefit)	(542)	(889)	2,913	(4,595)	(3,113)
Management Fee ³	—	—	—	—	—
Other non-cash or non-operating items ⁴	(229)	67,044	350	(24,972)	42,193
Adjusted EBITDA	\$ 58,561	\$ 62,099	\$ 69,829	\$ (5,850)	\$ 184,639

(In thousands)	Three Months Ended March 31, 2020				
	Solar	Wind	Regulated Solar and Wind	Corporate	Total
Net income (loss)	\$ 10,575	\$ 7,728	\$ 3,841	\$ (58,530)	\$ (36,386)
Net loss attributable to redeemable and non-redeemable non-controlling interests	(4,223)	(7,952)	—	—	(12,175)
Net income (loss) attributable to member's equity	6,352	(224)	3,841	(58,530)	(48,561)
Depreciation, accretion and amortization expense ¹	38,487	49,316	44,139	353	132,295
Interest expense, net	21,975	14,960	14,226	26,798	77,959
Non-operating general and administrative expenses ²	—	1,959	—	11,479	13,438
Loss on extinguishment and modification of debt	—	3,593	—	—	3,593
Acquisition costs, including affiliate	—	—	(907)	1,915	1,008
Income tax expense	361	635	212	4,568	5,776
Management Fee ³	—	—	—	9,554	9,554
Other non-cash or non-operating items ⁴	(2,152)	(3,353)	451	(2,633)	(7,687)
Adjusted EBITDA	\$ 65,023	\$ 66,886	\$ 61,962	\$ (6,496)	\$ 187,375

(1) Includes reductions/(increases) within operating revenues due to net amortization of favorable and unfavorable rate revenue contracts as detailed in the reconciliation of Adjusted Revenue, and losses on disposal of renewable energy facilities.

- (2) Includes non-operating items and other items incurred directly by the Company that we do not consider indicative of our core business operations are treated as an addback in the reconciliation of net loss to Adjusted EBITDA. These items include, but are not limited to, extraordinary costs and expenses related primarily to IT system arrangements, contractor fees and advisory fees associated with acquisitions, dispositions, financings, and other non-recurring activities.
- (3) Represents management fee that is not included in Direct operating costs.
- (4) Represents other non-cash or non-operating items as detailed in the reconciliation of Adjusted Revenue and associated footnote and certain other items that we believe are not representative of our core business or future operating performance, including but not limited to: loss/(gain) on foreign exchange (“FX”), unrealized loss on commodity contracts, one-time blade repairs related to the preparation for GE transition, and adjustment for economic impact from tax equity amendments following Texas weather event.

The following table reconciles our Operating revenues, net to Adjusted EBITDA for the three months ended March 31, 2021 and 2020:

(In thousands)	Three Months Ended March 31, 2021				
	Solar	Wind	Regulated Solar and Wind	Corporate	Total
Operating revenues, net	\$ 72,429	\$ 120,423	\$ 105,575	\$ —	\$ 298,427
Unrealized loss on commodity contract derivatives, net ¹	—	11,722	—	—	11,722
Amortization of favorable and unfavorable rate revenue contracts, net ²	2,447	7,972	—	—	10,419
Adjusted Revenue	74,876	197,186	105,575	—	377,637
Direct operating costs	(16,315)	(135,087)	(35,746)	(5,850)	(192,998)
Settled FX gain	—	—	—	—	—
Adjusted EBITDA	\$ 58,561	\$ 62,099	\$ 69,829	\$ (5,850)	\$ 184,639

(In thousands)	Three Months Ended March 31, 2020				
	Solar	Wind	Regulated Solar and Wind	Corporate	Total
Operating revenues, net	\$ 78,624	\$ 76,566	\$ 91,572	\$ —	\$ 246,762
Unrealized gain on commodity contract derivatives, net ¹	—	1,300	—	—	1,300
Amortization of favorable and unfavorable rate revenue contracts, net ²	2,025	7,878	—	—	9,903
Other items ³	—	—	(771)	—	(771)
Adjusted Revenue	80,649	85,744	90,801	—	257,194
Direct operating costs	(15,626)	(18,858)	(28,839)	(8,190)	(71,513)
Settled FX gain	—	—	—	1,694	1,694
Adjusted EBITDA	\$ 65,023	\$ 66,886	\$ 61,962	\$ (6,496)	\$ 187,375

- (1) Represents unrealized (gain)/loss on commodity contracts associated with energy derivative contracts that are accounted for at fair value with the changes recorded in operating revenues, net. The amounts added back represent changes in the value of the energy derivative related to future operating periods, and are expected to have little or no net economic impact since the change in value is expected to be largely offset by changes in value of the underlying energy sale in the spot or day-ahead market.
- (2) Represents net amortization of purchase accounting related to intangibles arising from past business combinations related to favorable and unfavorable rate revenue contracts.
- (3) Primarily represents insurance compensation for revenue losses, transmission capacity revenue, and adjustments for solar renewable energy certificate (“SREC”) recognition and other income due to timing.

Liquidity and Capital Resources

Capitalization

A key element to our financing strategy is to raise the majority of our debt in the form of project specific non-recourse borrowings at our subsidiaries with investment grade metrics. Going forward, we intend to primarily finance acquisitions or growth capital expenditures using long-term non-recourse debt that fully amortizes within the asset's contracted life at investment grade metrics, as well as retained cash flows from operations, issuance of equity securities through public markets and opportunistic sales of projects, portfolios of projects, or of non-controlling interests in projects or portfolios of projects.

The following table summarizes the total capitalization and debt to capitalization percentage as of March 31, 2021 and December 31, 2020:

(In thousands)	March 31, 2021	December 31, 2020
Revolving Credit Facilities ¹	\$ 102,000	\$ —
Senior Notes ²	1,900,000	1,900,000
Non-recourse long-term debt, including current portion ³	4,868,414	4,998,689
Long-term indebtedness, including current portion ⁴	6,870,414	6,898,689
Total member's equity and redeemable non-controlling interests	2,289,955	2,489,033
Total capitalization	<u>\$ 9,160,369</u>	<u>\$ 9,387,722</u>
Debt to total capitalization	75 %	73 %

- (1) Represents the amounts drawn under our Revolver, and does not include the \$100.5 million of outstanding project-level letters of credit.
- (2) Represents corporate senior notes.
- (3) Represents asset-specific, non-recourse borrowings and financing lease obligations secured against the assets of certain project companies.
- (4) Represents the total principal due for long-term debt and financing lease obligations, including the current portion, which excludes \$52.3 million and \$55.0 million of net unamortized debt premiums, discounts and deferred financing costs as of March 31, 2021 and December 31, 2020, respectively.

Liquidity Position

We believe we operate with sufficient liquidity to enable us to fund near-term cash distributions, growth initiatives, capital expenditures and withstand sudden adverse changes in economic circumstances or short-term fluctuations in resources. The principal sources of funding are cash flows from operations, revolving credit facilities (including our Revolver and Sponsor Line as discussed and defined below), unused debt capacity at our projects, non-core asset sales and proceeds from the issuance of debt or equity securities through public markets. We actively refinance our non-recourse debt across our portfolio to extend our maturity profile and benefit from any decline in interest rates.

As of March 31, 2021, our current liabilities exceeded our current assets by \$289.8 million. We do not believe this deficit in working capital has an adverse impact on our cash flows, liquidity or operations since our current liabilities include \$154.1 million of long-term non-recourse debt classified as current due to defaults that existed at March 31, 2021. We believe there is a reasonable likelihood that we will be, in due course, able to successfully negotiate waivers with the lenders and/or cure the existing defaults. We do not expect any of our financing agreements to be accelerated and we were not notified by any of our lenders to elect to enforce project security interests. See *Note 9. Long-term debt* to our unaudited condensed consolidated financial statements for additional details.

The following table summarizes corporate liquidity and available capital as of March 31, 2021 and December 31, 2020:

(In thousands)	March 31, 2021	December 31, 2020
Unrestricted corporate cash	\$ 14,469	\$ 74,588
Project-level distributable cash	30,801	31,104
Cash available to corporate	45,270	105,692
Credit facilities:		
Committed revolving credit facility	800,000	800,000
Drawn portion of revolving credit facilities	(102,000)	—
Revolving line of credit commitments	(100,454)	(124,904)
Available portion of credit facilities	597,546	675,096
Corporate liquidity	642,816	780,788
Other project-level unrestricted cash	171,375	173,714
Project-level restricted cash	118,648	103,824
Available capital	<u>\$ 932,839</u>	<u>\$ 1,058,326</u>

Debt Service Obligations

We remain focused on refinancing near-term facilities on acceptable terms and maintaining a manageable maturity ladder. We do not anticipate material issues in addressing our borrowings through 2023 on acceptable terms and will do so opportunistically based on the prevailing interest rate environment.

The aggregate contractual principal payments of long-term debt due after March 31, 2021, including financing lease obligations and excluding amortization of debt discounts, premiums and deferred financing costs, as stated in the financing agreements, are as follows:

(In thousands)	Remainder of 2021	2022	2023	2024	2025	Thereafter	Total
Maturities of long-term debt ¹	\$ 383,486	\$363,352	\$983,137	\$458,527	\$ 361,301	\$4,320,611	\$ 6,870,414

(1) Represents the contractual principal payment due dates for our long-term debt and does not reflect the reclassification of \$154.1 million of long-term debt, net of unamortized deferred financing costs of \$4.7 million, to current due to debt defaults that existed at March 31, 2021. See Note 9. Long-term Debt to our unaudited condensed consolidated financial statements for additional details.

Cash Flow Discussion

We use measures of cash flow, including net cash flows from operating activities, investing activities and financing activities, to evaluate our periodic cash flow results.

Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2020

The following table reflects the changes in cash flows for the comparative periods:

(In thousands)	Three Months Ended March 31,		Change
	2021	2020	
Net cash provided by operating activities	\$ 44,106	\$ 69,436	\$ (25,330)
Net cash used in investing activities	(14,916)	(41,280)	26,364
Net cash (used in) provided by financing activities	(66,780)	17,048	(83,828)

Net Cash Provided by Operating Activities

Net cash provided by operating activities was \$44.1 million for the three months ended March 31, 2021 compared to \$69.4 million for the same period in the prior year. The decrease in operating cash flow of \$25.3 million was primarily driven by (i) total operating costs (excluding non-cash items) increasing by \$102.9 million for the three months ended March 31, 2021 compared to 2020, (ii) \$24.2 million increase in interest payments and (iii) \$4.2 million of proceeds received from income tax refunds. This was partially offset by a \$62.6 million increase in operating revenues for the period (excluding losses on commodity derivative contracts, recognition of deferred revenue and amortization of favorable and unfavorable rate revenue contracts, net) (ii) \$16.3 million decrease in payments to terminate interest swap and (iii) \$18.7 million net increase due to the timing of sales and collections from customers and payment of vendors.

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months ended March 31, 2021, was \$14.9 million, which consisted of \$31.9 million for capital expenditures. These payments were partially offset by (i) \$16.3 million in proceeds from the settlement of foreign currency contracts used to hedge the exposure associated with foreign subsidiaries, (ii) \$0.3 million in proceeds from other investing activities and \$0.5 million in proceeds received from a government rebate for certain costs previously incurred for capital expenditures. Net cash provided by investing activities for the three months ended March 31, 2020 was \$41.3 million, which consisted of (i) \$79.4 million payments to acquire businesses, net of cash acquired and (ii) \$1.0 million for capital expenditures. These payments were partially offset by (i) \$38.8 million in proceeds from the settlement of foreign currency contracts used to hedge the exposure associated with foreign subsidiaries and (ii) \$0.4 million in proceeds received from a government rebate for certain costs previously incurred for capital expenditures.

Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities for the three months ended March 31, 2021, was \$66.8 million, which consisted of (i) \$65.7 million principal payments on non-recourse debt, (ii) \$125.0 million payments of cash distributions to our equity owners, (iii) net payments of \$4.8 million to non-controlling interests, and (vi) other financing activities of \$0.4 million. This was partially offset by (i) \$27.2 million in proceeds from non-recourse debt financing net of deferred financing fees and (ii) \$102.0 million of net draws on our Revolver. Net cash provided by financing activities for the three months ended March 31, 2020, was \$17.0 million, which consisted of (i) \$60.5 million proceeds from non-recourse debt financing net of deferred financing fees and (ii) \$61.0 million of net draws on our Revolver that were partially offset by (i) \$30.2 million principal payments on non-recourse debt, (ii) \$45.5 million payments of cash distributions to our equity owners, (iii) net payments of \$27.8 million to non-controlling interests and (iv) other financing activities of \$1.0 million.

Off-Balance Sheet Arrangements

We enter into guarantee arrangements in the normal course of business to facilitate commercial transactions with third parties. See *Note 13. Commitments and Contingencies* to our unaudited condensed consolidated financial statements included in this Report for additional discussion.

Item 3: Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to several market risks in our normal business activities. Market risk is the potential loss that may result from market changes associated with our business or with an existing or forecasted financial or commodity transaction. The types of market risks we are exposed to include interest rate risk, foreign currency risk and commodity risk. We do not use derivative financial instruments for speculative purposes.

Interest Rate Risk

As of March 31, 2021, the estimated fair value of our debt was \$7,494.4 million and the carrying value of our debt was \$6,818.1 million.

As of March 31, 2021, our non-recourse permanent financing debt was at both fixed and variable rates. 51% of the \$4,805.8 million balance had a variable interest rate and the remaining 49% of the balance had a fixed interest rate. We have entered into interest rate derivatives to swap the majority of our variable rate non-recourse debt to a fixed rate. Although we intend to use hedging strategies to mitigate our exposure to interest rate fluctuations, we may not hedge all of our interest rate risk and, to the extent we enter into interest rate hedges, our hedges may not necessarily have the same duration as the associated indebtedness. Our exposure to interest rate fluctuations will depend on the amount of indebtedness that bears interest at variable rates, the time at which the interest rate is adjusted, the amount of the adjustment, our ability to prepay or refinance variable rate indebtedness when fixed rate debt matures and needs to be refinanced and hedging strategies we may use to reduce the impact of any increases in rates. We estimate that a hypothetical 100 basis points, or 1%, increase or decrease in our variable interest rates pertaining to interest rate swaps not designated as hedges would have increased or decreased our earnings by \$54.0 million or \$59.1 million for the three months ended March 31, 2021, respectively.

Foreign Currency Risk

During the three months ended March 31, 2021 and 2020, we generated operating revenues in the U.S., Canada, Spain, Portugal, the United Kingdom, Chile and Uruguay, with our revenues being denominated in U.S. dollars, Euro, Canadian dollars and British pounds. The PPAs, O&M agreements, financing arrangements and other contractual arrangements relating to our current portfolio are generally denominated in the same currencies.

We use currency forward and option contracts in certain instances to mitigate the financial market risks of fluctuations in foreign currency exchange rates. We manage our foreign currency exposures through the use of these currency forward and option contracts to reduce risks arising from the change in fair value of certain assets and liabilities, including intercompany loans denominated in Euro.

We use foreign currency forward and option contracts to hedge portions of our net investment positions in certain subsidiaries with Euro and Canadian dollar functional currencies and to manage our overall foreign exchange risk. For instruments that are designated and qualify as hedges of net investments in foreign operations, the effective portion of the net gains or losses attributable to changes in exchange rates are recorded in foreign currency translation adjustments in accumulated other comprehensive income ("AOCI"). Recognition in earnings of amounts previously recorded in AOCI is limited to circumstances such as complete or substantial liquidation of the net investment in the hedged foreign operation. The change in fair value of derivative contracts intended to serve as economic hedges that are not designated as hedging instruments is reported as a component of earnings in the unaudited condensed consolidated statements of operations. The objective of these practices is to minimize the impact of foreign currency fluctuations on our operating results. We estimate that a hypothetical 50 basis points, or 0.5%, increase or decrease in Euros would have increased or decreased our earnings by \$5.1 million, for the three months ended March 31, 2021. Cash flows from derivative instruments designated as net investment hedges and non-designated derivatives used to manage foreign currency risks associated with intercompany loans are classified as investing activities in the consolidated statements of cash flows. Cash flows from all other derivative instruments are classified as operating activities in the consolidated statements of cash flows.

Commodity Risk

For certain of our wind power plants, we may use long-term cash-settled swap agreements to economically hedge commodity price variability inherent in wind electricity sales arrangements. If we sell electricity generated by our wind power plants to an independent system operator market and there is no PPA available, then we may enter into a commodity swap to hedge all or a portion of the estimated revenue stream. These price swap agreements require periodic settlements, in which we

receive a fixed price based on specified quantities of electricity and we pay the counterparty a variable market price based on the same specified quantity of electricity. We estimate that a hypothetical 5% increase or decrease in electricity sales prices pertaining to commodity swaps not designated as hedges would have increased or decreased our earnings by \$4.0 million or \$4.3 million for the three months ended March 31, 2021, respectively.

Liquidity Risk

Our principal liquidity requirements are to finance current operations and service debt. Changes in operating plans, lower than anticipated electricity sales, increased expenses, acquisitions or other events may cause management to seek additional debt or equity financing in future periods. There can be no guarantee that financing will be available on acceptable terms or at all. Debt financing, if available, could impose additional cash payment obligations and additional covenants and operating restrictions. Our ability to meet our debt service obligations and other capital requirements, including capital expenditures, as well as make acquisitions, will depend on our future operating performance which, in turn, will be subject to general economic, financial, business, competitive, legislative, regulatory and other conditions, many of which are beyond management's control.

Counterparty Credit Risk

Our financial assets are typically subject to concentrations of credit risk and primarily consist of cash and cash equivalents, accounts receivable and derivative assets. Credit losses refer to the financial losses resulting from non-performance or non-payment by counterparties under the contractual obligations they are bound by.

We are subject to concentrations of credit risk related to the cash and cash equivalents that may exceed the insurable limits in the related jurisdictions. The maximum exposure to loss due to credit risk would generally equal the stated value of cash and cash equivalents. We place our cash and cash equivalents with creditworthy financial institutions and, historically, did not experience any losses with regards to balances in excess of insured limits or as a result of other concentrations of credit risk.

We serve hundreds of customers in three continents, and, in the U.S., our customers are spread across various states resulting in the diversification of its customer base. Furthermore, a significant portion of our operating revenues are contracted through long-term PPAs with offtake counterparties that are government-backed entities and public utility companies that, on average, had an investment grade credit rating. During the three months ended March 31, 2020, we earned \$105.6 million from the Spanish Electricity System of which majority was billed through the CNMC and represented 35% of our net consolidated operating revenues. The CNMC is the state-owned regulator of the Spanish Electricity System who collects the funds payable, mainly from the tariffs to end user customers, and is responsible for the calculation and the settlement of regulated payments. We believe that this concentration of risk is mitigated by, among other things, the indirect support of the Spanish government for the CNMC's obligations and, in general, by the regulated rate system in Spain.

Our derivative instruments also expose us to credit risk to the extent counterparties may be unable to meet the terms of the contractual arrangements. Our maximum exposure to loss due to credit risk if counterparties fail completely to perform according to the terms of the contracts. We seek to mitigate such risk by transacting with a group of creditworthy financial institutions and through the use of master netting arrangements.

Risks and Uncertainties About the COVID-19 Pandemic

We continue to monitor and evaluate the global COVID-19 pandemic and are taking steps to mitigate the known risks it poses on our business. In virtually every jurisdiction in which we operate, significant restrictions have been imposed on non-essential business activity. Our business, as a producer of energy and a provider of critical infrastructure services, is typically exempt from these types of restrictions, and as a result we are generally permitted to continue our ordinary course of operations. In addition, we have taken steps to ensure that our employees and contractors are safe, including the closures of our New York City headquarters and Gatineau offices during 2020 and implementing a business continuity plan to ensure our employees are best able to meet our business needs while working remotely.

While the full impact on our business is unknown and difficult to predict, we believe the Company is well positioned to manage the known risks arising from the COVID-19 pandemic. Approximately 95% of our revenue is earned pursuant to long term power purchase agreements ("PPAs"), and over 90% of our customers have either an investment grade credit rating or are municipalities with investment grade characteristics. In our Regulated Solar and Wind operating segments in Spain, reduced demand for energy resulting from the economic slowdown has resulted in lower market prices for power; however, this

decrease should be offset by regulatory revenues that adjust market rates to ensure renewable energy generators achieve a long-term reasonable rate of return.

There are a number of factors that we believe may mitigate our exposure to loss and disruption caused by the pandemic. We believe our business is relatively less labor intensive than many other industries, meaning it can function with relatively little person-to-person interaction. Also, since our assets are predominantly operational, our exposure to potential supply chain disruptions is smaller than businesses that are more focused on construction and development. We are also working proactively with our operations and maintenance (“O&M”) providers to mitigate the impact of the pandemic on our operations by ensuring that they have appropriate business continuity plans in place in order to safeguard the health of our employees and contractors as well as ensure that our wind and solar plants continue to generate power and operate normally.

However, the future impact of the pandemic is uncertain. For example, a portion of the offtakers in our distributed generation business are commercial retailers and other businesses who are more exposed to economic stress caused by the pandemic than we are and if some or all of these offtakers restructure or liquidate their businesses, our cash flows from these projects might be put at risk, which could have an adverse impact on our business, results of operations, financial condition and/or cash flows. A prolonged disruption caused by the pandemic could also limit the availability of certain parts required to operate our facilities and adversely impact the ability of our O&M contractors and other service providers to service our equipment, which may result in operational delays and underperformance. It could also adversely impact our efforts to repower certain facilities, causing important construction milestones to be missed. Remote working for a prolonged period of time could mean that the Company faces challenges ensuring that its employees are able to meet the Company’s business needs, which could cause significant disruptions to our business operations, particularly in the regions that have been severely impacted by the pandemic. While most of our portfolio is contracted over the long term, a prolonged decline in demand for electricity could adversely impact our prospects and results of operations.

We believe that we operate with sufficient liquidity to enable us to fund near-term cash distributions, growth initiatives, capital expenditures and withstand sudden adverse changes in economic circumstances or short-term fluctuations in resources. While we believe the Company is well-positioned to weather the pandemic, the situation remains fluid and difficult to predict. We continue to monitor the situation to ensure any business interruption or other risk is proactively addressed.