

ATLANTIC POWER CORP
Form 10-Q
August 07, 2014

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

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2014

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

**For the transition period from _____ to _____
COMMISSION FILE NUMBER 001-34691**

ATLANTIC POWER CORPORATION

(Exact name of registrant as specified in its charter)

British Columbia, Canada
(State or other jurisdiction of
incorporation or organization)

55-0886410
(I.R.S. Employer
Identification No.)

One Federal Street, 30th Floor
Boston, MA
(Address of principal executive offices)

02110
(Zip code)

(617) 977-2400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting company)

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

The number of shares outstanding of the registrant's Common Stock as of August 7, 2014 was 120,712,916.

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ATLANTIC POWER CORPORATION

FORM 10-Q

THREE AND SIX MONTHS ENDED JUNE 30, 2014

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GENERAL

In this Quarterly Report on Form 10-Q, references to "Cdn\$" and "Canadian dollars" are to the lawful currency of Canada and references to "\$" and "US\$" and "U.S. dollars" are to the lawful currency of the United States. All dollar amounts herein are in U.S. dollars, unless otherwise indicated.

Unless otherwise stated, or the context otherwise requires, references in this Quarterly Report on Form 10-Q to "we," "us," "our," "Atlantic Power" and the "Company" refer to Atlantic Power Corporation, those entities owned or controlled by Atlantic Power Corporation and predecessors of Atlantic Power Corporation.

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ATLANTIC POWER CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions of U.S. dollars)

	June 30, 2014	December 31, 2013
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 157.6	\$ 158.6
Restricted cash	17.8	96.2
Accounts receivable	61.5	64.3
Current portion of derivative instruments asset (Notes 7 and 8)	1.7	0.2
Inventory	18.6	16.0
Prepayments and other current assets	15.4	16.1
Refundable income taxes	2.1	4.0
Total current assets	274.7	355.4
Property, plant, and equipment, net of accumulated depreciation of \$241.2 million and \$175.1 million at June 30, 2014 and December 31, 2013, respectively	1,751.2	1,813.4
Equity investments in unconsolidated affiliates (Note 4)	368.5	394.3
Other intangible assets, net of accumulated amortization of \$177.0 million and \$136.9 million at June 30, 2014 and December 31, 2013, respectively	420.6	451.5
Goodwill (Note 5)	291.1	296.3
Derivative instruments asset (Notes 7 and 8)	6.3	13.0
Other assets	98.3	71.1
Total assets	\$ 3,210.7	\$ 3,395.0
Liabilities		
Current liabilities:		
Accounts payable	\$ 10.5	\$ 14.0
Accrued interest	6.3	17.7
Other accrued liabilities	48.9	58.8
Current portion of long-term debt (Note 6)	26.4	216.2
Current portion of convertible debentures	42.0	42.1
Current portion of derivative instruments liability (Notes 7 and 8)	28.4	28.5
Dividends payable	3.8	6.8
Other current liabilities	8.1	5.3
Total current liabilities	174.4	389.4
Long-term debt (Note 6)	1,436.0	1,254.8
Convertible debentures	362.4	363.1
Derivative instruments liability (Notes 7 and 8)	58.2	76.1
Deferred income taxes (Note 9)	95.7	111.5
Power purchase and fuel supply agreement liabilities, net of accumulated amortization of \$9.9 million and \$8.1 million at June 30, 2014 and December 31, 2013, respectively	36.9	38.7
Other non-current liabilities	63.2	65.4
Commitments and contingencies (Note 16)		

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Total liabilities	2,226.8	2,299.0
Equity		
Common shares, no par value, unlimited authorized shares; 120,712,916 and 120,205,813 issued and outstanding at June 30, 2014 and December 31, 2013, respectively (Note 13)	1,286.5	1,286.1
Preferred shares issued by a subsidiary company (Note 13)	221.3	221.3
Accumulated other comprehensive loss	(24.1)	(22.4)
Retained deficit	(754.3)	(655.4)
Total Atlantic Power Corporation shareholders' equity	729.4	829.6
Noncontrolling interests (Note 13)	254.5	266.4
Total equity	983.9	1,096.0
Total liabilities and equity	\$ 3,210.7	\$ 3,395.0

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions of U.S. dollars, except per share amounts)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Project revenue:				
Energy sales	\$ 82.4	\$ 76.9	\$ 164.7	\$ 153.8
Energy capacity revenue	41.3	42.9	74.8	77.2
Other	19.5	16.3	49.0	42.6
	143.2	136.1	288.5	273.6
Project expenses:				
Fuel	50.4	50.0	110.2	97.7
Operations and maintenance	34.5	46.4	67.2	73.9
Development	1.1	1.8	1.8	3.5
Depreciation and amortization	40.9	41.8	81.5	82.7
	126.9	140.0	260.7	257.8
Project other income (expense):				
Change in fair value of derivative instruments (Notes 7 and 8)	(2.8)	24.3	11.9	36.9
Equity in earnings of unconsolidated affiliates (Note 4)	3.3	8.7	11.9	15.9
Interest expense, net	(5.8)	(8.8)	(20.4)	(16.8)
Impairment	(14.8)		(14.8)	
	(20.1)	24.2	(11.4)	36.0
Project (loss) income	(3.8)	20.3	16.4	51.8
Administrative and other expenses (income):				
Administration	10.2	11.8	17.5	20.1
Interest, net	27.7	25.3	94.1	51.2
Foreign exchange loss (gain) (Note 8)	15.3	(14.5)	(1.5)	(22.0)
Other income, net (Note 3)		(9.5)	(2.1)	(9.5)
	53.2	13.1	108.0	39.8
(Loss) income from continuing operations before income taxes	(57.0)	7.2	(91.6)	12.0
Income tax (benefit) expense (Note 9)	(0.6)	0.6	(12.9)	(1.9)
(Loss) income from continuing operations	(56.4)	6.6	(78.7)	13.9
Net loss from discontinued operations, net of tax (Note 12)		(5.4)	(0.1)	(4.9)

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Net (loss) income	(56.4)	1.2	(78.8)	9.0
Net (loss) income attributable to noncontrolling interests	(0.3)	1.1	(6.7)	(0.8)
Net income attributable to preferred shares dividends of a subsidiary company	3.1	3.1	5.9	6.3

Net (loss) income attributable to Atlantic Power Corporation \$ (59.2) \$ (3.0) \$ (78.0) \$ 3.5

Basic earnings per share: (Note 11)

(Loss) income from continuing operations attributable to Atlantic Power Corporation	\$ (0.49)	\$ 0.02	\$ (0.65)	\$ 0.07
Loss from discontinued operations, net of tax		(0.05)		(0.04)

Net loss attributable to Atlantic Power Corporation \$ (0.49) \$ (0.03) \$ (0.65) \$ 0.03

Diluted earnings per share: (Note 11)

(Loss) income from continuing operations attributable to Atlantic Power Corporation	\$ (0.49)	\$ 0.02	\$ (0.65)	\$ 0.07
Loss from discontinued operations, net of tax		(0.05)		(0.04)

Net (loss) income attributable to Atlantic Power Corporation \$ (0.49) \$ (0.03) \$ (0.65) \$ 0.03

Weighted average number of common shares outstanding: (Note 11)

Basic	120.6	119.9	120.5	119.7
Diluted	120.6	119.9	120.5	120.3

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in millions of U.S. dollars)

(Unaudited)

	Three months ended June 30,	
	2014	2013
Net (loss) income	\$ (56.4)	\$ 1.2
Other comprehensive (loss) income, net of tax:		
Unrealized (loss) income on hedging activities	\$ (0.3)	\$ 0.6
Net amount reclassified to earnings	0.1	0.1
Net unrealized (loss) gain on derivatives	(0.2)	0.7
Foreign currency translation adjustments	17.3	(18.0)
Other comprehensive income (loss), net of tax	17.1	(17.3)
Comprehensive loss	(39.3)	(16.1)
Less: Comprehensive income attributable to noncontrolling interests	2.8	4.2
Comprehensive loss attributable to Atlantic Power Corporation	\$ (42.1)	\$ (20.3)

	Six months ended June 30,	
	2014	2013
Net (loss) income	\$ (78.8)	\$ 9.0
Other comprehensive (loss) income, net of tax:		
Unrealized (loss) income on hedging activities	\$ (0.7)	\$ 0.6
Net amount reclassified to earnings	0.4	0.4
Net unrealized (loss) gain on derivatives	(0.3)	1.0
Foreign currency translation adjustments	(1.4)	(30.1)

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Other comprehensive loss, net of tax	(1.7)	(29.1)
Comprehensive loss	(80.5)	(20.1)
Less: Comprehensive (loss) income attributable to noncontrolling interests	(0.8)	5.5
Comprehensive loss attributable to Atlantic Power Corporation	\$ (79.7)	\$ (25.6)

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of U.S. dollars)

(Unaudited)

	Six months ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net (loss) income	\$ (78.8)	\$ 9.0
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	81.5	92.8
Loss of discontinued operations		32.8
Gain on sale of asset	(2.1)	(4.4)
Long-term incentive plan expense	0.9	1.2
Impairment charges	14.8	4.9
Equity in earnings from unconsolidated affiliates	(11.9)	(15.9)
Distributions from unconsolidated affiliates	37.8	18.0
Unrealized foreign exchange gain	(1.4)	(8.7)
Change in fair value of derivative instruments	(11.9)	(47.7)
Change in deferred income taxes	(15.5)	(6.5)
Change in other operating balances		
Accounts receivable	2.8	(3.6)
Inventory	(2.6)	(1.3)
Prepayments, refundable income taxes and other assets	14.7	46.3
Accounts payable	(4.6)	(9.4)
Accruals and other liabilities	(18.2)	(10.6)
Cash provided by operating activities	5.5	96.9
Cash flows provided by investing activities:		
Change in restricted cash	78.4	(19.4)
Proceeds from sale of asset, net	1.0	148.3
Proceeds from treasury grant		53.7
Biomass development costs		(0.1)
Construction in progress	(1.5)	(28.5)
Purchase of property, plant and equipment	(2.5)	(2.7)
Cash provided by investing activities	75.4	151.3
Cash flows used in financing activities:		
Proceeds from senior secured term loan facility	600.0	
Proceeds from project-level debt		20.8
Repayment of corporate and project-level debt	(608.0)	(64.2)
Payments for revolving credit facility borrowings		(67.0)
Deferred financing costs	(38.8)	
Equity contribution from noncontrolling interest		44.6
Offering costs related to tax equity		(1.0)
Dividends paid to common shareholders	(20.9)	(43.2)
Dividends paid to noncontrolling interests	(14.2)	(9.3)
Cash used in financing activities	(81.9)	(119.3)
Net (decrease) increase in cash and cash equivalents	(1.0)	128.9

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Cash and cash equivalents at beginning of period at discontinued operations			6.5
Cash and cash equivalents at beginning of period	158.6		60.2
Cash and cash equivalents at end of period	\$ 157.6	\$ 195.6	

Supplemental cash flow information

Interest paid	\$ 114.7	\$ 65.3
Income taxes paid, net	\$ 1.0	\$ 1.4
Accruals for construction in progress	\$ 8.2	\$ 8.6

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

1. Nature of business and basis of presentation

Nature of business

Atlantic Power owns and operates a diverse fleet of power generation assets in the United States and Canada. Our power generation projects sell electricity to utilities and other large commercial customers largely under long-term power purchase agreements ("PPAs"), which seek to minimize exposure to changes in commodity prices. As of June 30, 2014, our power generation projects in operation had an aggregate gross electric generation capacity of approximately 2,945 megawatts ("MW") in which our aggregate ownership interest is approximately 2,024 MW. These totals exclude our 40% interest in the Delta-Person generating station ("Delta-Person") which we sold in a transaction that closed in July 2014. Our current portfolio consists of interests in twenty-eight operational power generation projects across eleven states in the United States and two provinces in Canada. We also own Ridgeline Energy Holdings, Inc. ("Ridgeline"), a wind and solar developer based in Seattle, Washington. Twenty of our projects are majority-owned subsidiaries.

Atlantic Power is a corporation established under the laws of the Province of Ontario, Canada on June 18, 2004 and continued to the Province of British Columbia on July 8, 2005. Our shares trade on the Toronto Stock Exchange under the symbol "ATP" and on the New York Stock Exchange under the symbol "AT." Our registered office is located at 355 Burrard Street, Suite 1900, Vancouver, British Columbia V6C 2G8 Canada and our headquarters is located at One Federal Street, 30th Floor, Boston, Massachusetts 02110, USA. Our telephone number in Boston is (617) 977-2400 and the address of our website is www.atlanticpower.com. Information contained on Atlantic Power's website or that can be accessed through its website is not incorporated into and does not constitute a part of this Quarterly Report on Form 10-Q. We have included our website address only as an inactive textual reference and do not intend it to be an active link to our website. We make available on our website, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Additionally, we make available on our website our Canadian securities filings, which are not incorporated by reference into our Exchange Act filings.

Basis of presentation

The interim consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with the SEC regulations for interim financial information and with the instructions to Form 10-Q. The following notes should be read in conjunction with the accounting policies and other disclosures as set forth in the notes to our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013. Interim results are not necessarily indicative of results for the full year.

In our opinion, the accompanying unaudited interim consolidated financial statements present fairly our consolidated financial position as of June 30, 2014, the results of operations and comprehensive income (loss) for the three and six months ended June 30, 2014 and 2013, and our cash flows for the six months ended June 30, 2014 and 2013. In the opinion of management, all adjustments

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

1. Nature of business and basis of presentation (Continued)

(consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included.

Use of estimates

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the periods presented, we have made a number of estimates and valuation assumptions, including the fair values of acquired assets, the useful lives and recoverability of property, plant and equipment, valuation of goodwill, intangible assets and liabilities related to PPAs and fuel supply agreements, the recoverability of equity investments, the recoverability of deferred tax assets, tax provisions, the fair value of financial instruments and derivatives, pension obligations, asset retirement obligations and the allocation of taxable income and losses, tax credits and cash distributions using the hypothetical liquidation book value ("HLBV") method. In addition, estimates are used to test long-lived assets and goodwill for impairment and to determine the fair value of impaired assets. These estimates and valuation assumptions are based on present conditions and our planned course of action, as well as assumptions about future business and economic conditions. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2013. As better information becomes available or actual amounts are determinable, the recorded estimates are revised. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current period presentation.

Recently issued accounting standards

Adopted

In July 2013, the FASB issued changes to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. These changes require an entity to present an unrecognized tax benefit as a liability in the financial statements if (i) a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or (ii) the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset to settle any additional income taxes that would result from the disallowance of a tax position. Otherwise, an unrecognized tax benefit is required to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. Previously, there was diversity in practice as no explicit guidance existed. These changes became effective for us on January 1, 2014 and did not have a material impact on the consolidated financial statements.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

1. Nature of business and basis of presentation (Continued)

In March 2013, the FASB issued changes to a parent entity's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. A parent entity is required to release any related cumulative foreign currency translation adjustment from accumulated other comprehensive income (loss) into net income (loss) in the following circumstances: (i) a parent entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided; (ii) a partial sale of an equity method investment that is a foreign entity; (iii) a partial sale of an equity method investment that is not a foreign entity whereby the partial sale represents a complete or substantially complete liquidation of the foreign entity that held the equity method investment; and (iv) the sale of an investment in a foreign entity. These changes became effective for us on January 1, 2014 and did not have a material impact on the consolidated financial statements.

In February 2013, the FASB issued changes to the accounting for obligations resulting from joint and several liability arrangements. These changes require an entity to measure such obligations for which the total amount of the obligation is fixed at the reporting date as the sum of (i) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors, and (ii) any additional amount the reporting entity expects to pay on behalf of its co-obligors. An entity will also be required to disclose the nature and amount of the obligation as well as other information about those obligations. Examples of obligations subject to these requirements are debt arrangements and settled litigation and judicial rulings. These changes became effective for us on January 1, 2014 and did not have a material impact on the consolidated financial statements.

On January 1, 2013, we adopted changes issued by the FASB to the reporting of amounts reclassified out of accumulated other comprehensive income (loss). These changes require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income (loss) on the respective line items in net income (loss) if the amount being reclassified is required to be reclassified in its entirety to net income (loss). For other amounts that are not required to be reclassified in their entirety to net income (loss) in the same reporting period, an entity is required to cross-reference other disclosures that provide additional detail about those amounts. These requirements are to be applied to each component of accumulated other comprehensive income (loss). Other than the additional disclosure requirements (see below), the adoption of these changes had no impact on the consolidated financial statements.

Issued

In April 2014, the FASB issued changes to reporting discontinued operations and disclosures of disposals of components of an entity. These changes require a disposal of a component to meet a higher threshold in order to be reported as a discontinued operation in an entity's financial statements. The threshold is defined as a strategic shift that has, or will have, a major effect on an entity's operations and financial results such as a disposal of a major geographical area or a major line of business. Additionally, the following two criteria have been removed from consideration of whether a component meets the requirements for discontinued operations presentation: (i) the operations and

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

1. Nature of business and basis of presentation (Continued)

cash flows of a disposal component have been or will be eliminated from the ongoing operations of an entity as a result of the disposal transaction, and (ii) an entity will not have any significant continuing involvement in the operations of the disposal component after the disposal transaction. Furthermore, equity method investments now may qualify for discontinued operations presentation. These changes also require expanded disclosures for all disposals of components of an entity, whether or not the threshold for reporting as a discontinued operation is met, related to profit or loss information and/or asset and liability information of the component. These changes become effective on January 1, 2015. The adoption of these changes will not have an immediate impact on the consolidated financial statements. This guidance will need to be considered in the event that we initiate a disposal transaction.

In May 2014, the FASB issued changes to the recognition of revenue from contracts with customers. These changes created a comprehensive framework for all entities in all industries to apply in the determination of when to recognize revenue, and, therefore, supersede virtually all existing revenue recognition requirements and guidance. This framework is expected to result in less complex guidance in application while providing a consistent and comparable methodology for revenue recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract(s), and (v) recognize revenue when, or as, the entity satisfies a performance obligation. These changes become effective on January 1, 2017. We are currently evaluating the potential impact of these changes on the consolidated financial statements.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

2. Changes in accumulated other comprehensive loss by component

The changes in accumulated other comprehensive loss by component were as follows:

	Three months ended June 30,	
	2014	2013
Foreign currency translation		
Balance at beginning of period	\$ (40.9)	\$ 0.5
Other comprehensive income (loss):		
Foreign currency translation adjustments ⁽¹⁾	17.3	(18.0)
Balance at end of period	\$ (23.6)	\$ (17.5)
Pension		
Balance at beginning of period	\$ (0.4)	\$ (1.8)
Other comprehensive loss:		
Amortization of net actuarial gain		
Balance at end of period	\$ (0.4)	\$ (1.8)
Cash flow hedges		
Balance at beginning of period	\$ 0.1	\$ (1.1)
Other comprehensive (loss) income:		
Net change from periodic revaluations	(0.5)	1.0
Tax benefit (expense)	0.2	(0.4)
Total Other comprehensive income (loss) before reclassifications, net of tax	(0.3)	0.6
Net amount reclassified to earnings (loss):		
Interest rate swaps ⁽²⁾	0.3	0.4
Fuel commodity swaps ⁽³⁾		(0.1)
Sub-total	0.3	0.3
Tax expense	0.2	0.2
Total amount reclassified from Accumulated other comprehensive loss, net of tax	0.1	0.1
Total Other comprehensive (loss) income	(0.2)	0.7

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Balance at end of period	\$	(0.1)	\$	(0.4)
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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

2. Changes in accumulated other comprehensive loss by component (Continued)

	Six months ended June 30,	
	2014	2013
Foreign currency translation		
Balance at beginning of period	\$ (22.2)	\$ 12.6
Other comprehensive loss:		
Foreign currency translation adjustments ⁽¹⁾	(1.4)	(30.1)
Balance at end of period	\$ (23.6)	\$ (17.5)
Pension		
Balance at beginning of period	\$ (0.4)	\$ (1.8)
Other comprehensive loss:		
Amortization of net actuarial gain		
Balance at end of period	\$ (0.4)	\$ (1.8)
Cash flow hedges		
Balance at beginning of period	\$ 0.2	\$ (1.4)
Other comprehensive (loss) income:		
Net change from periodic revaluations	(1.1)	1.0
Tax benefit (expense)	0.4	(0.4)
Total Other comprehensive (loss) income before reclassifications, net of tax	(0.7)	0.6
Net amount reclassified to earnings (loss):		
Interest rate swaps ⁽²⁾	0.7	0.8
Fuel commodity swaps ⁽³⁾		(0.2)
Sub-total	0.7	0.6
Tax expense	0.3	0.2
Total amount reclassified from Accumulated other comprehensive loss, net of tax	0.4	0.4
Total Other comprehensive (loss) income	(0.3)	1.0

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Balance at end of period \$ (0.1) \$ (0.4)

- (1) In all periods presented, there were no tax impacts related to rate changes and no amounts were reclassified to earnings (loss).
- (2) This amount was included in Interest expense, net on the accompanying consolidated statements of operations.
- (3) A positive amount indicates a corresponding charge to earnings (loss) and a negative amount indicates a corresponding benefit to earnings (loss). These amounts were reflected on the accompanying consolidated statements of operations in the line items indicated in footnotes 1 and 2.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

3. Acquisitions and divestments

2014 Divestments

- (a) Delta-Person

In December 2012, we and the owners of Delta-Person, entered into a purchase and sale agreement with BHB Power, LLC and Public Service Company of New Mexico to sell the project for approximately \$37.2 million including working capital adjustments. We received net cash proceeds in July 2014 for our ownership interest of approximately \$7.2 million in the aggregate. We expect to receive an additional \$1.4 million of cash proceeds held in escrow for up to twelve months after the close of the transaction. We intend to use the net proceeds from the sale for general corporate purposes. The sale of Delta-Person closed in July 2014 resulting in a gain on sale of approximately \$8.6 million that will be recorded as a component of other income in the consolidated statement of operations for the three months ended September 30, 2014.

- (b) Greeley

In March 2014, we closed a transaction with Initium Power Partners, LLC. ("Initium"), whereby Initium agreed to purchase all of the issued and outstanding membership interests in Greeley for approximately \$1.0 million. We recorded a \$2.1 million non-cash gain on the sale in the consolidated statement of operations. Greeley is accounted for as a component of discontinued operations in the consolidated statements of operations for the six months ended June 30, 2014.

2013 Divestments

- (a) Gregory

In April 2013, we and the other owners of Gregory, entered into a purchase and sale agreement with an affiliate of NRG Energy, Inc. to sell the project for approximately \$274.2 million including working capital adjustments. We received net cash proceeds for our ownership interest of approximately \$34.6 million in the aggregate, after repayment of project-level debt and transaction expenses. Approximately \$5.0 million of these proceeds will be held in escrow for up to one year after the closing date. We used the net proceeds from the sale for general corporate purposes. The sale of Gregory closed in August 2013 resulting in a gain on sale of approximately \$31.0 million, which was recorded as a component of other income in the consolidated statement of operations for the three months ended September 30, 2013.

- (b) Auburndale, Lake and Pasco

In January 2013, we entered into a purchase and sale agreement for the sale of our Auburndale Power Partners, L.P. ("Auburndale"), Lake CoGen, Ltd. ("Lake") and Pasco CoGen, Ltd. ("Pasco") projects (collectively, the "Florida Projects") for approximately \$140.0 million, with working capital adjustments. The sale closed in April 2013 and we received net cash proceeds of approximately \$117.0 million in the aggregate, after repayment of project-level debt at Auburndale and settlement of all outstanding natural gas swap agreements at Lake and Auburndale. This includes approximately \$92.0 million received at closing and cash distributions from the Florida Projects of approximately \$25.0 million received since January 1, 2013. We used a portion of the net proceeds from the sale to fully repay our senior credit facility, which had an outstanding balance of approximately \$64.1 million

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

3. Acquisitions and divestments (Continued)

on the closing date. The remaining cash proceeds were used for general corporate purposes. The Florida Projects were accounted for as a component of discontinued operations in the consolidated statements of operations for the three and six months ended June 30, 2013. See Note 12, *Discontinued Operations*, for further information.

(c)

Path 15

In March 2013, we entered into a purchase and sales agreement with Duke Energy Corporation and American Transmission Co., to sell our interests in the Path 15 transmission line ("Path 15"). The sale closed on April 30, 2013 and we received net cash proceeds from the sale, including working capital adjustments, of approximately \$52.0 million, plus a management agreement termination fee of \$4.0 million, for a total sale price of approximately \$56.0 million. The cash proceeds were used for general corporate purposes. All project level debt issued by Path 15, totaling \$137.2 million, transferred with the sale. Path 15 was accounted for as a component of discontinued operations in the consolidated statements of operations for the three and six months ended June 30, 2013. See Note 12, *Discontinued Operations*, for further information.

4. Equity method investments in unconsolidated affiliates

The following summarizes the operating results for the three and six months ended June 30, 2014 and 2013, respectively, for earnings in our equity method investments:

Operating results	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenue				
Chambers	\$ 12.6	\$ 13.4	\$ 30.6	\$ 26.6
Other ⁽¹⁾	33.5	41.2	73.2	80.6
	46.1	54.6	103.8	107.2
Project expenses				
Chambers	10.8	11.1	25.1	20.7
Other ⁽¹⁾	28.8	34.5	61.4	68.1
	39.6	45.6	86.5	88.8
Project other expense				
Chambers	(1.5)	(0.6)	(2.1)	(1.2)
Other ⁽¹⁾	(1.7)	0.3	(3.3)	(1.3)
	(3.2)	(0.3)	(5.4)	(2.5)
Project income				
Chambers	\$ 0.3	\$ 1.7	\$ 3.4	\$ 4.7

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Other ⁽¹⁾	3.0	7.0	8.5	11.2
	3.3	8.7	11.9	15.9

(1) Includes equity method investments that individually do not exceed 10% of consolidated total assets or income (loss) before income taxes.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

5. Goodwill

Our goodwill balance was \$291.1 million and \$296.3 million as of June 30, 2014 and December 31, 2013, respectively. We recorded \$331.1 million of goodwill in connection with the acquisition of Capital Power Income L.P. (the "Partnership") in 2011. We apply an accounting standard under which goodwill has an indefinite life and is not amortized. Goodwill is tested for impairments at least annually, or more frequently whenever an event or change in circumstances occurs that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We test goodwill for impairment at the reporting unit level, which is at the project level and, the lowest level below the operating segments for which discrete financial information is available. For reporting units that fail step 1 of the goodwill impairment test, we will initiate a step 2 test to quantify the amount, if any, of non-cash impairment to record.

Under our accounting policies for long-lived assets and goodwill impairment, we also perform an impairment analysis at the earlier of (i) executing a new PPA (or other arrangement) and (ii) six months prior to the expiration of an existing PPA. The Tunis project's PPA expires on December 31, 2014 and accordingly, we performed a long-lived assets impairment test and a goodwill impairment test as of June 30, 2014.

Based on the results of our long-lived asset impairment test, it was determined that the weighted average estimated undiscounted cash flows for Tunis over its remaining useful life did not exceed the carrying value of the property, plant and equipment at the Tunis reporting unit. As a result, the project recorded a \$9.6 million long-lived asset impairment charge in the three months ended June 30, 2014 which was the difference between the carrying value of the project's property, plant and equipment and its estimated fair market value.

Subsequent to adjusting the carrying value of the Tunis reporting unit for the \$9.6 million long-lived asset impairment, we performed an impairment analysis for the project's goodwill. The project failed step 1 of the impairment test because the weighted average estimated discounted cash flows over its remaining useful life did not exceed the carrying value of the Tunis reporting unit. We performed step 2 of the goodwill impairment test and wrote off all of the projects goodwill because the carrying value of goodwill exceeded its implied fair value. As a result, Tunis, a component of the East segment, recorded a \$5.2 million goodwill impairment charge in the three months ended June 30, 2014. The implied fair value of goodwill was determined in the same manner as the value of goodwill is determined in a business combination, using the fair value of the reporting unit as if it were the purchase price.

The total \$14.8 million long-lived asset and goodwill impairment was primarily due to our assessment of the forecasted cash flows from re-contracting and other strategic outcomes.

We determine the fair value of our reporting units using an income approach with discounted cash flow ("DCF") models, as we believe forecasted cash flows are the best indicator of such fair value. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including assumptions about discount rates, projected power prices, generation, fuel costs and capital expenditure requirements. The undiscounted and discounted cash flows utilized in our long-lived asset recovery and step 1 goodwill impairment tests for Tunis were determined using our best estimate of the weighted average probability of several re-contracting

Table of Contents**ATLANTIC POWER CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(in millions U.S. dollars, except per-share amounts)****(Unaudited)****5. Goodwill (Continued)**

scenarios and other strategic outcomes. The fair value of Tunis used to calculate the long-lived asset impairment amount and to perform step 2 of the goodwill impairment test was determined using market participant assumptions. All cash flow forecasts from DCF models utilized estimated plant output for determining assumptions around future generation and industry data forward power and fuel curves to estimate future power and fuel prices. We used historical experience to determine estimated future capital investment requirements.

The valuations of long-lived assets and goodwill for the long-lived assets and goodwill impairment analyses are considered level 3 fair value measurements, which means that the valuation of the assets and liabilities reflect management's own judgments regarding the assumptions market participants would use in determining the fair value of the assets and liabilities.

The discount rate applied to the DCF models represents the weighted average cost of capital ("WACC") consistent with the risk inherent in future cash flows and based upon an assumed capital structure, cost of long-term debt and cost of equity consistent with comparable independent power producers. The betas used in calculating the WACC rate were obtained from reputable third party sources.

Based on the continued deficit of our market capitalization as compared to our book carrying value, we determined that it was appropriate to initiate a test of the remaining goodwill at our reporting units to determine if it is more likely than not that the fair value of our reporting units do not exceed their carrying amounts. For reporting units, if any, that fail step 1 of the goodwill impairment test, we will initiate a step 2 test to quantify the amount, if any, of non-cash impairment to record. As of the date of this Quarterly Report on Form 10-Q, we are currently gathering the necessary information to perform these tests and expect to complete them during the three months ended September 30, 2014.

The following table is a rollforward of goodwill for the six months ended June 30, 2014:

(in millions)	East	West	Wind	Un-allocated corporate	Total
Balance at December 31, 2013	\$ 107.8	\$ 188.5	\$	\$	\$ 296.3
Impairment of Goodwill	(5.2)				(5.2)
Balance at June 30, 2014	\$ 102.6	\$ 188.5	\$	\$	\$ 291.1

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

6. Long-term debt

Long-term debt consists of the following:

	June 30, 2014	December 31, 2013	Interest Rate
Recourse Debt:			
Senior secured term loan facility, due 2021	\$ 562.5	\$	LIBOR ⁽¹⁾ plus 3.8%
Senior unsecured notes, due 2018 ⁽²⁾	319.9	460.0	9.0%
Senior unsecured notes, due June 2036 (Cdn\$210.0)	196.8	197.4	6.0%
Senior unsecured notes, due July 2014 ⁽³⁾		190.0	5.9%
Series A senior unsecured notes, due August 2015 ⁽³⁾		150.0	5.9%
Series B senior unsecured notes, due August 2017 ⁽³⁾		75.0	6.0%
Non-Recourse Debt:			
Epsilon Power Partners term facility, due 2019	28.0	30.5	LIBOR plus 3.1%
Cadillac term loan, due 2025	34.4	35.4	6.0% 8.0%
Piedmont term loan, due 2018 ⁽⁴⁾	68.3	76.6	5.2%
Meadow Creek term loan, due 2024	167.3	169.8	2.9% 5.6%
Rockland term loan, due 2027	84.4	85.3	6.4%
Other long-term debt	0.8	1.0	5.5% 6.7%
Less: current maturities	(26.4)	(216.2)	
Total long-term debt	\$ 1,436.0	\$ 1,254.8	

Current maturities consist of the following:

	June 30, 2014	December 31, 2013	Interest Rate
Current Maturities:			
Senior secured term loan facility, due 2021	\$ 6.0	\$	LIBOR ⁽¹⁾ plus 3.8%
Senior unsecured notes, due July 2014 ⁽³⁾		190.0	5.9%
Epsilon Power Partners term facility, due 2019	5.3	5.0	LIBOR plus 3.1%
Cadillac term loan, due 2025	3.6	2.0	6.0% 8.0%
Piedmont term loan, due 2018 ⁽⁴⁾	4.9	12.6	5.2%
Meadow Creek term loan, due 2024	4.8	4.9	2.9% 5.6%
Rockland term loan, due 2027	1.6	1.5	6.4%
Other short-term debt	0.2	0.2	5.5 6.7%
Total current maturities	\$ 26.4	\$ 216.2	

- (1) LIBOR cannot be less than 1.00%. On May 5, 2014 we entered into interest rate swap agreements to mitigate the exposure to changes in LIBOR for \$199.0 million notional amount of the \$568.5 million outstanding aggregate borrowings. See Note 8, Accounting for derivative instruments and hedging activities for further details.
- (2) We repurchased approximately \$140.1 million aggregate principal amount of the 9.0% Notes in March 2014 with a portion of the proceeds from the New Senior Secured Credit Facilities and cash on hand, as further described below.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

6. Long-term debt (Continued)

(3) The Curtis Palmer Notes due July 2014, Series A senior guaranteed notes due August 2015 and Series B senior guaranteed notes due August 2017 were retired on February 26, 2014 with proceeds from the New Senior Secured Credit Facilities described below.

(4) On February 14, 2014, we paid down \$8.1 million of principal on the Piedmont construction loan and converted the remaining \$68.5 million to a term loan due August 2018.

New Senior Secured Credit Facilities

On February 24, 2014, Atlantic Power Limited Partnership ("the Partnership"), our wholly-owned indirect subsidiary, entered into a new senior secured term loan facility (the "New Term Loan Facility"), comprising of \$600 million in aggregate principal amount, and a new senior secured revolving credit facility (the "New Revolving Credit Facility") with a capacity of \$210 million (collectively, the "New Senior Secured Credit Facilities"). Borrowings under the New Senior Secured Credit Facilities are available in U.S. dollars and Canadian dollars and bear interest at a rate equal to the Adjusted Eurodollar Rate (LIBOR), the Base Rate or the Canadian Prime Rate, each as defined in the credit agreement governing the New Senior Secured Credit Facilities (the "Credit Agreement"), as applicable, plus an applicable margin between 2.75% and 3.75% that varies depending on whether the loan is a Eurodollar Rate Loan, Base Rate Loan, or Canadian Prime Rate Loan. The applicable margin for term loans bearing interest at the Adjusted Eurodollar Rate and the Base Rate is 3.75% and 2.75% respectively and was 3.75% at June 30, 2014. The Adjusted Eurodollar Rate cannot be less than 1.00% (1.00% at June 30, 2014). As further described in Note 8, the Partnership entered into interest rate swap agreements on May 5, 2014 to mitigate the exposure to changes in the Adjusted Eurodollar Rate for a portion of the New Term Loan Facility.

In connection with the funding of the New Senior Secured Credit Facilities, we terminated our prior revolving credit facility on February 26, 2014.

The New Term Loan Facility matures on February 24, 2021. The revolving commitments under the New Revolving Credit Facility terminate on February 24, 2018. Letters of credit are available to be issued under the revolving commitments until 30 days prior to the Letter of Credit Expiration Date under, and as defined in, the Credit Agreement. The Partnership is required to pay a commitment fee with respect to the commitments under the New Revolving Credit Facility equal to 0.75% times the average of the daily difference between the revolving commitments and all outstanding revolving loans (excluding swing line loans) plus amounts available to be drawn under letters of credit and all outstanding reimbursement obligations with respect to drawn letters of credit.

The New Senior Secured Credit Facilities are secured by a pledge of the equity interests in the Partnership and its subsidiaries, guaranties from the Partnership subsidiary guarantors and a limited recourse guaranty from the entity that holds all of the Partnership equity, a pledge of certain material contracts and certain mortgages over material real estate rights, an assignment of all revenues, funds and accounts of the Partnership and its subsidiaries (subject to certain exceptions), and certain other assets. The New Senior Secured Credit Facilities are not otherwise guaranteed or secured by us or any of our subsidiaries (other than the Partnership subsidiary guarantors). The New Senior Secured Credit Facilities have a debt service reserve account, which is required to be funded and maintained at the debt service reserve requirement, equal to six months of debt service. The debt service reserve requirement was funded with a \$15.8 million letter of credit.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

6. Long-term debt (Continued)

The Partnership's existing Cdn\$210 million aggregate principal amount of 5.95% Medium Term Notes due June 23, 2036 (the "MTNs") prohibit the Partnership (subject to certain exceptions) from granting liens on its assets (and those of its material subsidiaries) to secure indebtedness, unless the MTNs are secured equally and ratably with such other indebtedness. Accordingly, in connection with the execution of the Credit Agreement, the Partnership has granted an equal and ratable security interest in the collateral package securing the New Senior Secured Credit Facilities under the indenture governing the MTNs for the benefit of the holders of the MTNs.

The Credit Agreement contains customary representations, warranties, terms and conditions, and covenants. The covenants include a requirement that the Partnership and its subsidiaries maintain a Leverage Ratio (as defined in the Credit Agreement) ranging from 5.50:1.00 in 2014 to 4.00:1.00 in 2021, and an Interest Coverage Ratio (as defined in the Credit Agreement) ranging from 2.50:1.00 in 2014 to 3.25:1.00 in 2021. In addition, the Credit Agreement includes customary restrictions and limitations on the Partnership's and its subsidiaries' ability to (i) incur additional indebtedness, (ii) grant liens on any of their assets, (iii) change their conduct of business or enter into mergers, consolidations, reorganizations, or certain other corporate transactions, (iv) dispose of assets, (v) modify material contractual obligations, (vi) enter into affiliate transactions, (vii) incur capital expenditures, and (viii) make dividend payments or other distributions, in each case subject to customary carve-outs and exceptions and various thresholds.

Under the Credit Agreement, if a change of control (as defined in the Credit Agreement) occurs, unless the Partnership elects to make a voluntary prepayment of the term loans under the New Senior Secured Credit Facilities, it will be required to offer each electing lender to prepay such lender's term loans under the New Senior Secured Credit Facilities at a price equal to 101% of par. In addition, in the event that the Partnership elects to repay, prepay or refinance all or any portion of the term loan facilities within one year from the initial funding date under the Credit Agreement, it will be required to do so at a price of 101% of the principal amount so repaid, prepaid or refinanced.

The Credit Agreement also contains a mandatory amortization feature and customary mandatory prepayment provisions, including: (i) from proceeds of assets sales, insurance proceeds, and incurrence of indebtedness, in each case subject to applicable thresholds and customary carve-outs; and (ii) the payment of 50% of the excess cash flow, as defined in the Credit Agreement, of the Partnership and its subsidiaries.

Under certain conditions the lending commitments under the Credit Agreement may be terminated by the lenders and amounts outstanding under the Credit Agreement may be accelerated. Such events of default include failure to pay any principal, interest or other amounts when due, failure to comply with covenants, breach of representations or warranties in any material respect, non-payment or acceleration of other material debt of the Partnership and its subsidiaries, bankruptcy, material judgments rendered against the Partnership or certain of its subsidiaries, certain ERISA or regulatory events, a change of control of the Partnership, or defaults under certain guaranties and collateral documents securing the New Senior Secured Credit Facilities, in each case subject to various exceptions and notice, cure and grace periods.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

6. Long-term debt (Continued)

On February 26, 2014, \$600 million was drawn under the New Term Loan Facility, and letters of credit in an aggregate face amount of \$144.1 million (\$107.0 million as of June 30, 2014) were issued (but not drawn) pursuant to the revolving commitments under the New Revolving Credit Facility and used to (i) satisfy a debt service reserve requirement in an amount equivalent to six months of debt service (approximately \$15.8 million) and (ii) support contractual credit support obligations of the Partnership and its subsidiaries and of certain other of our affiliates.

We and our subsidiaries have used the proceeds from the New Term Loan Facility under the New Senior Secured Credit Facilities to:

redeem in whole, at a price equal to par plus \$31.1 million of accrued interest and make-whole premiums (i) the \$150 million aggregate principal amount outstanding of 5.87% Senior Guaranteed Notes, Series A, due 2015 (the "Series A Notes") and the \$75 million aggregate principal amount outstanding of 5.97% Senior Guaranteed Notes, Series B, due 2017 (the "Series B Notes") issued by Atlantic Power (US) GP, and (ii) the \$190 million aggregate principal amount outstanding of 5.9% Senior Notes due 2014 issued by Curtis Palmer LLC;

pay transaction costs and expenses of approximately \$40.0 million including banking, legal and consulting fees which were capitalized as deferred financing costs; and

make a distribution to us in the amount of \$122 million which was used, in addition to cash on hand, to repurchase \$140.1 million aggregate principal amount of the 9.0% Notes (as defined below) of Atlantic Power Corporation, make \$15.7 million in accrued interest and premium payments as part of the aggregate repurchase price, and \$0.1 million in commission fees associated with the repurchases.

In connection with the termination of our prior credit facility, we terminated the interest rate swap at Epsilon Power Partners, a wholly owned subsidiary, a portion of our natural gas swaps at Orlando and foreign exchange forward contracts at the Partnership. As a result of the termination of these contracts, we recorded \$2.6 million of interest expense, \$4.0 million of fuel expense and \$0.4 million of foreign exchange loss, respectively.

The prior credit facility contained certain guaranties, which were terminated in connection with the termination of the prior credit facility. In addition, the terms of the 9.0% Notes provide that the guarantors of the prior credit facility guarantee the 9.0% Notes. As a result, upon termination of our prior credit facility and its related guaranties, the guaranties under the 9.0% Notes were cancelled and the guarantors of the 9.0% Notes were automatically released from all of their obligations under such guaranties.

Notes of Atlantic Power Corporation

On November 5, 2011, we completed a private placement of \$460.0 million aggregate principal amount of 9.0% senior notes due 2018 (the "9.0% Notes") to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to non-U.S. persons outside of the United States in compliance with Regulation S under the Securities Act. The

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

6. Long-term debt (Continued)

9.0% Notes were issued at an issue price of 97.471% of the face amount of the Atlantic Notes for aggregate gross proceeds to us of \$448.0 million.

On March 25, 2014, we agreed, in privately-negotiated transactions, to repurchase approximately \$140.1 million aggregate principal amount of the 9.0% Notes from certain holders. We paid \$15.7 million in accrued interest and premiums as part of the aggregate repurchase price, paid \$0.1 million in commission fees associated with the repurchases, and wrote off \$5.3 million of deferred financing costs related to the repurchase. The premiums, accrued interest and write-off of deferred financing costs were recorded to interest expense.

As previously disclosed with respect to the impact of the New Senior Secured Credit Facilities in our Current Report on Form 8-K filed on January 30, 2014, in our Annual Report on Form 10-K for the year ended December 31, 2013 and in our Quarterly Report on Form 10-Q for the three months ended March 31, 2014, due to the aggregate impact of the up-front costs resulting from the prepayments on our indebtedness described above, including the premium payment and charges for unamortized debt discount and fee expenses and premiums as part of the overall purchase price in respect of the repurchases of the 9.0% Notes (all such up-front costs, collectively, the "Prepayment Charges"), which were reflected as interest expense in our 2014 first quarter results, we no longer satisfy the fixed charge coverage ratio test included in the restricted payments covenant of the indenture governing the 9.0% Notes. The fixed charge coverage ratio must be at least 1.75 to 1.00 and is measured on a rolling four quarter basis, including after giving effect to certain pro forma adjustments. As a consequence, further dividend payments, which are declared and paid at the discretion of our board of directors, in the aggregate cannot exceed the covenant's "basket" provision of the greater of \$50 million and 2% of consolidated net assets (approximately \$61 million at June 30, 2014) until such time that we satisfy the fixed charge coverage ratio test. We have declared seven monthly dividends in January through July 2014 totaling approximately \$25.6 million that were subject to the basket provision.

For the trailing twelve months ended June 30, 2014, dividend payments to our shareholders totaled approximately Cdn\$48.1 million, reflecting the lower Cdn\$0.03333 per common share monthly dividend first declared in March 2013. The Prepayment Charges would no longer be reflected in the calculation of the fixed charge coverage ratio test after the passage of four additional successive quarters following the quarter in which the Prepayment Charges are incurred. In addition, any similar prepayment charges incurred in connection with any further debt reduction would also be reflected in the calculation of the fixed charge coverage ratio test on a rolling four quarter basis, beginning with the quarter in which such charges are incurred, as would any associated reduction in interest expense.

Non-Recourse Debt

Project-level debt of our consolidated projects is secured by the respective project and its contracts with no other recourse to us. Project-level debt generally amortizes during the term of the respective revenue generating contracts of the projects. The loans have certain financial covenants that must be met in order to distribute available cash. At June 30, 2014, all of our projects with the exception of Piedmont were in compliance with the covenants contained in project-level debt. During the first

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

6. Long-term debt (Continued)

quarter of 2014, Piedmont underwent forced maintenance outages that resulted in the project not meeting its debt service coverage ratio covenant as of June 30, 2014. We do not expect Piedmont to meet its debt service coverage ratio covenant or make distributions for at least the next twelve months.

7. Fair value of financial instruments

The following represents the recurring measurements of fair value hierarchy of our financial assets and liabilities that were recognized at fair value as of June 30, 2014 and December 31, 2013. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

	June 30, 2014			Total
	Level 1	Level 2	Level 3	
Assets:				
Cash and cash equivalents	\$ 157.6	\$	\$	\$ 157.6
Restricted cash	35.7			35.7
Derivative instruments asset		8.0		8.0
Total	\$ 193.3	\$ 8.0	\$	\$ 201.3

Liabilities:				
Derivative instruments liability	\$	\$ 86.6	\$	\$ 86.6
Total	\$	\$ 86.6	\$	\$ 86.6

	December 31, 2013			Total
	Level 1	Level 2	Level 3	
Assets:				
Cash and cash equivalents	\$ 158.6	\$	\$	\$ 158.6
Restricted cash	114.2			114.2
Derivative instruments asset		13.2		13.2
Total	\$ 272.8	\$ 13.2	\$	\$ 286.0

Liabilities:

Derivative instruments liability	\$	\$	104.6	\$	\$	104.6
Total	\$	\$	104.6	\$	\$	104.6

The carrying amounts for cash and cash equivalents and restricted cash approximate fair value due to their short-term nature.

The fair values of our derivative instruments are based upon trades in liquid markets. Valuation model inputs can generally be verified and valuation techniques do not involve significant judgment. The fair values of such financial instruments are classified within Level 2 of the fair value hierarchy. We use our best estimates to determine the fair value of commodity and derivative contracts we hold.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

7. Fair value of financial instruments (Continued)

These estimates consider various factors including closing exchange prices, time value, volatility factors and credit exposure. The fair value of each contract is discounted using a risk free interest rate.

We also adjust the fair value of financial assets and liabilities to reflect credit risk, which is calculated based on our credit rating and the credit rating of our counterparties. As of June 30, 2014, the credit valuation adjustments resulted in an \$8.1 million net increase in fair value, which consists of a \$0.5 million pre-tax gain in other comprehensive income (loss) and a \$7.6 million gain in change in fair value of derivative instruments. As of December 31, 2013, the credit valuation adjustments resulted in an \$11.1 million net increase in fair value, which consists of a \$0.5 million pre-tax gain in other comprehensive income (loss) and a \$10.6 million gain in change in fair value of derivative instruments.

8. Accounting for derivative instruments and hedging activities

We recognize all derivative instruments on the balance sheet as either assets or liabilities and measure them at fair value each reporting period. We have one contract designated as a cash flow hedge, and we defer the effective portion of the change in fair value of the derivatives in accumulated other comprehensive income (loss), until the hedged transactions occur and are recognized in earnings (loss). The ineffective portion of a cash flow hedge is immediately recognized in earnings (loss).

For our other derivatives that are not designated as cash flow hedges, the changes in the fair value are immediately recognized in earnings (loss). The guidelines apply to our natural gas swaps, interest rate swaps, and foreign exchange contracts.

Gas purchase agreements

Gas purchase agreements at our North Bay, Kapuskasing and Nipigon projects do not qualify for the normal purchase normal sales ("NPNS") exemption and are accounted for as derivative financial instruments. The gas purchase agreements at North Bay and Kapuskasing satisfy all of the forecasted fuel requirements for these projects through their expiration on December 31, 2016. The gas purchase agreement for Nipigon satisfies the majority of forecasted fuel requirements through December 31, 2022. These derivative financial instruments are recorded in the consolidated balance sheets at fair value and the changes in their fair market value are recorded in the consolidated statements of operations.

In June 2014, the Partnership entered into contracts for the purchase of 2.9 million Gigajoules ("Gj") of future natural gas purchases beginning on November 1, 2014 and expiring on December 31, 2017 for our projects in Ontario. These contracts effectively fix the price of approximately 98% of our expected uncontracted gas requirements for each of 2014 and 2015 and 32% and 30% of our expected uncontracted gas requirements for 2016 and 2017, respectively. These contracts are accounted for as derivative financial instruments and are recorded in the consolidated balance sheet at fair value at June 30, 2014. Changes in the fair market value of these contracts are recorded in the consolidated statement of operations.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

8. Accounting for derivative instruments and hedging activities (Continued)

Natural gas swaps

Our strategy to mitigate future exposure to changes in natural gas prices at our projects consists of periodically entering into financial swaps that effectively fix the price of natural gas expected to be purchased at these projects. These natural gas swaps are derivative financial instruments and are recorded in the consolidated balance sheets at fair value and the changes in their fair market value are recorded in the consolidated statements of operations.

The operating margin at our 50% owned Orlando project is exposed to changes in natural gas prices following the expiration of its fuel contract at the end of 2013. We previously entered into natural gas swaps to effectively fix the price of 4.5 million Mmbtu of future natural gas purchases. On February 20, 2014, we paid \$4.0 million to terminate a portion of these contracts in connection with the termination of our prior revolving credit facility. We recorded fuel expense related to the settlement of these contracts in the consolidated statement of operations.

We have entered into various natural gas swaps to effectively fix the price of 7.1 million Mmbtu of future natural gas purchases at Orlando, which is approximately 100% of our share of the expected on-peak natural gas purchases at the project through 2016 or approximately 89%, 62% and 63% of our share of the expected base load natural gas purchases for 2014, 2015 and 2016, respectively. These contracts are accounted for as derivative financial instruments and are recorded in the consolidated balance sheet at fair value at June 30, 2014. Changes in the fair market value of these contracts are recorded in the consolidated statement of operations.

Interest rate swaps

The Cadillac project has an interest rate swap agreement that effectively fixes the interest rate at 6.0% through February 15, 2015, 6.1% from February 16, 2015 to February 15, 2019, 6.3% from February 16, 2019 to February 15, 2023, and 6.4% thereafter. The notional amount of the interest rate swap agreement matches the outstanding principal balance over the remaining life of Cadillac's debt. This swap agreement, which qualifies for and is designated as a cash flow hedge, is effective through June 2025 and the effective portion of the changes in the fair market value is recorded in accumulated other comprehensive income (loss).

The Piedmont project has interest rate swap agreements to economically fix its exposure to changes in interest rates related to its variable-rate debt. The interest rate swap agreement effectively converts the floating rate debt to a fixed interest rate of 1.7% plus an applicable margin ranging from 3.5% to 3.8% through February 29, 2016. From February 2016 until the maturity of the debt in November 2017, the fixed rate of the swap is 4.47% and the applicable margin is 4.0%, resulting in an all-in rate of 8.5%. The swap continues at the fixed rate of 4.47% from the maturity of the debt in November 2017 until November 2030. Prior to conversion of the Piedmont Construction loan facility to a term loan, the notional amounts of the interest rate swap agreements matched the estimated outstanding principal balance of Piedmont's construction loan facility. The interest rate swaps were executed on October 21, 2010 and November 2, 2010 and expire on February 29, 2016 and November 30, 2030, respectively. As a result of the Piedmont term loan conversion on February 14, 2014, these swap agreements were amended to reduce the notional amounts to match the outstanding \$68.5 million principal of the term loan. We recorded \$1.0 million of deferred financing costs related to

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

8. Accounting for derivative instruments and hedging activities (Continued)

this transaction in the consolidated balance sheets. The interest rate swap agreements are not designated as hedges, and changes in their fair market value are recorded in the consolidated statements of operations.

Rockland Wind Farm, LLC ("Rockland") entered into interest rate swaps to manage interest rate risk exposure. These swaps effectively modify the project's exposure by converting the project's floating rate debt to a fixed basis. The interest rate swaps are with various counterparties and swap 100% of the expected interest payments from floating LIBOR to fixed rates structured in two tranches. The first tranche is for the expected interest payments for the current period through December 31, 2026 and fixes the interest rate at 4.2% plus an applicable margin of 2.3%-2.8%. The second tranche is for the expected interest payments for the period beginning December 31, 2026 and ending December 31, 2031, fixing the interest rate at 7.8%. The interest rate swap agreements are not designated as a hedge and changes in their fair market value are recorded in the consolidated statements of operations.

The Meadow Creek project ("Meadow Creek") has interest rate swap agreements to economically fix its exposure to changes in interest rates related to its variable-rate debt. The interest rate swap agreements effectively convert 75% of the floating rate debt to a fixed interest rate of 2.3% plus an applicable margin of 2.8%-3.3% through December 31, 2024. The second tranche is the post-term portion of the loan, or the balloon payment and commences on December 31, 2024 and ends on December 31, 2030, fixing the interest rate at 7.2%. The interest rate swaps were both executed on September 17, 2012 and expire on December 31, 2024 and December 31, 2030, respectively. The interest rate swap agreements are not designated as hedges, and changes in their fair market value are recorded in the consolidated statements of operations.

Epsilon Power Partners, our wholly owned subsidiary, previously had an interest rate swap to economically fix the exposure to changes in interest rates related to the variable-rate non-recourse debt. The interest rate swap agreement effectively converted the floating rate debt to a fixed interest rate of 7.37% and had a maturity date of July 2019. The notional amount of the swap matched the outstanding principal balance over the remaining life of Epsilon Power Partners' debt. On February 20, 2014, we paid \$2.6 million to terminate this contract in connection with the termination of our prior revolving credit facility. We recorded interest expense related to its settlement in the consolidated statement of operations. This interest rate swap agreement was not designated as a hedge and changes in its fair market value were recorded in the consolidated statements of operations.

On May 5, 2014 the Partnership entered into interest rate swap agreements to mitigate exposure to changes in the Adjusted Eurodollar Rate for \$199.0 million notional amount of the \$600 million aggregate principal amount of borrowings under the New Term Loan Facility. Borrowings under the \$600 million New Term Loan Facility bear interest at a rate equal to the Adjusted Eurodollar Rate plus an applicable margin of 3.75%. Based on the terms of the Credit Agreement, the Adjusted Eurodollar Rate cannot be less than 1.00% resulting in a minimum of a 4.75% all-in rate on the New Term Loan Facility. As a result of entering into the swap agreements, the all-in rate for \$199.0 million of the New Term Loan Facility cannot be less than 4.91% if the Adjusted Eurodollar Rate is equal to or greater than 1.00%. If the Adjusted Eurodollar Rate is below 1.00%, we will pay interest at a rate equivalent to the minimum 4.75% all-in rate plus any difference between the actual Adjusted Eurodollar Rate and 1.16%.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

8. Accounting for derivative instruments and hedging activities (Continued)

The interest rate swap agreements are effective June 30, 2014 and terminate on December 29, 2017. The interest rate swap agreements are not designated as hedges and changes in their fair market value will be recorded in the consolidated statements of operations.

Foreign currency forward contracts

From time to time, we use foreign currency forward contracts to manage our exposure to changes in foreign exchange rates, as many of our projects generate cash flow in U.S. dollars and Canadian dollars. On February 20, 2014, we paid \$0.4 million to terminate all of our remaining foreign currency forward contracts in connection with the termination of our prior revolving credit facility and recorded their settlement in foreign exchange gain in the consolidated statement of operations for the three months ended March 31, 2014. On April 2, 2014, we executed a new foreign currency forward contract in which we agreed to sell \$41.0 million on September 30, 2014 and receive Cdn\$45.3 million at a foreign exchange rate of Cdn\$1.105 per U.S. dollar in order to mitigate the foreign exchange risk on the retirement of the Cdn\$44.8 million convertible debentures due in October 2014.

Volume of forecasted transactions

We have entered into derivative instruments in order to economically hedge the following notional volumes of forecasted transactions as summarized below, by type, excluding those derivatives that qualified for the NPNS exemption as of June 30, 2014 and December 31, 2013:

	Units	June 30, 2014	December 31, 2013
Natural gas swaps	Natural Gas (Mmbtu)	7.1	5.6
Gas purchase agreements	Natural Gas (Gj)	38.9	41.1
Interest rate swaps	Interest (US\$)	152.4	161.2
Currency forwards	Cdn\$	45.3	34.9
		27	

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

8. Accounting for derivative instruments and hedging activities (Continued)*Fair value of derivative instruments*

We have elected to disclose derivative instrument assets and liabilities on a trade-by-trade basis and do not offset amounts at the counterparty master agreement level. The following table summarizes the fair value of our derivative assets and liabilities:

	June 30, 2014	
	Derivative Assets	Derivative Liabilities
Derivative instruments designated as cash flow hedges:		
Interest rate swaps current	\$	\$ 1.3
Interest rate swaps long-term		3.0
Total derivative instruments designated as cash flow hedges		4.3
Derivative instruments not designated as cash flow hedges:		
Interest rate swaps current		7.8
Interest rate swaps long-term	6.3	12.6
Foreign currency forward contracts current	1.4	
Foreign currency forward contracts long-term		
Natural gas swaps current	0.3	0.2
Natural gas swaps long-term		0.7
Gas purchase agreements current		19.1
Gas purchase agreements long-term		41.9
Total derivative instruments not designated as cash flow hedges	8.0	82.3
Total derivative instruments	\$ 8.0	\$ 86.6

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

8. Accounting for derivative instruments and hedging activities (Continued)

	December 31, 2013	
	Derivative Assets	Derivative Liabilities
Derivative instruments designated as cash flow hedges:		
Interest rate swaps current	\$	\$ 1.3
Interest rate swaps long-term		2.6
Total derivative instruments designated as cash flow hedges		3.9
Derivative instruments not designated as cash flow hedges:		
Interest rate swaps current		7.3
Interest rate swaps long-term	11.5	8.1
Foreign currency forward contracts current	0.5	0.7
Foreign currency forward contracts long-term	1.2	
Natural gas swaps current	0.3	1.3
Natural gas swaps long-term		3.5
Gas purchase agreements current	0.2	18.4
Gas purchase agreements long-term		61.9
Total derivative instruments not designated as cash flow hedges	13.7	101.2
Total derivative instruments	\$ 13.7	\$ 105.1

Accumulated other comprehensive income (loss)

The following table summarizes the changes in the accumulated other comprehensive income (loss) ("OCI") balance attributable to derivative financial instruments designated as a hedge, net of tax:

	Interest Rate Swaps
For the three months ended June 30, 2014	
Accumulated OCI balance at March 31, 2014	\$ 0.1
Change in fair value of cash flow hedges	(0.3)
Realized from OCI during the period	0.1

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Accumulated OCI balance at June 30, 2014 \$ (0.1)

For the three months ended June 30, 2013	Interest Rate Swaps	Natural Gas Swaps	Total
Accumulated OCI balance at March 31, 2013	\$ (1.2)	\$ 0.1	\$ (1.1)
Change in fair value of cash flow hedges	0.6		0.6
Realized from OCI during the period	0.2	(0.1)	0.1

Accumulated OCI balance at June 30, 2013 \$ (0.4) \$ (0.4)

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

8. Accounting for derivative instruments and hedging activities (Continued)

For the six months ended June 30, 2014	Interest Rate Swaps
Accumulated OCI balance at January 1, 2014	\$ 0.2
Change in fair value of cash flow hedges	(0.7)
Realized from OCI during the period	0.4

Accumulated OCI balance at June 30, 2014	\$ (0.1)
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For the six months ended June 30, 2013	Interest Rate Swaps	Natural Gas Swaps	Total
Accumulated OCI balance at January 1, 2013	\$ (1.5)	\$ 0.1	\$ (1.4)
Change in fair value of cash flow hedges	0.6		0.6
Realized from OCI during the period	0.5	(0.1)	0.4

Accumulated OCI balance at June 30, 2013	\$ (0.4)	\$	\$ (0.4)
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Impact of derivative instruments on the consolidated statements of operations

The following table summarizes realized (gains) and losses for derivative instruments not designated as cash flow hedges:

		Three months ended June 30,	
		2014	2013
Natural gas swaps	Fuel	\$ (0.2)	\$
Gas purchase agreements	Fuel	13.4	14.1
Interest rate swaps	Interest, net	(3.6)	(10.8)
Foreign currency forwards	Foreign exchange loss		4.0

Six months ended
June 30,

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	Classification of (gain) loss recognized in income	2014	2013
Natural gas swaps	Fuel	\$ 3.7	\$ 30.4
Gas purchase agreements	Fuel	29.3	(13.3)
Interest rate swaps	Interest, net	(7.8)	6.6
Foreign currency forwards	Foreign exchange (gain) loss	(0.1)	
		30	

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

8. Accounting for derivative instruments and hedging activities (Continued)

The following table summarizes the unrealized (gains) and losses resulting from changes in the fair value of derivative financial instruments that are not designated as cash flow hedges:

	Classification of (gain) loss recognized in income	Three months ended June 30,	
		2014	2013
Natural gas swaps	Change in fair value of derivatives	\$ 1.0	\$ 1.1
Gas purchase agreements	Change in fair value of derivatives	(2.6)	(7.4)
Interest rate swaps	Change in fair value of derivatives	4.4	(18.0)
Total change in fair value of derivative instruments		\$ 2.8	\$ (24.3)
Foreign currency forwards	Foreign exchange (gain) loss	\$ (1.4)	\$ 12.8

	Classification of (gain) loss recognized in income	Six months ended June 30,	
		2014	2013
Natural gas swaps	Change in fair value of derivatives	\$ (3.5)	\$ 0.7
Gas purchase agreements	Change in fair value of derivatives	(18.6)	(15.5)
Interest rate swaps	Change in fair value of derivatives	10.2	(22.1)
Total change in fair value of derivative instruments		\$ (11.9)	\$ (36.9)
Foreign currency forwards	Foreign exchange (gain) loss	\$ (0.3)	\$ 18.8

9. Income taxes

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Current income tax expense	\$ 1.4	\$ 3.4	\$ 2.6	\$ 5.4
Deferred tax benefit	(2.0)	(2.8)	(15.5)	(7.3)

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Total income tax (benefit), net	\$	(0.6)	\$	0.6	\$	(12.9)	\$	(1.9)
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Income tax benefit for the three months ended June 30, 2014 was \$0.6 million. Expected income tax benefit for the same period, based on the Canadian enacted statutory rate of 26%, was \$14.8 million. The primary items impacting the tax rate for the three months ended June 30, 2014 were \$14.2 million relating to a change in the valuation allowance, \$2.4 million relating to foreign exchange, and \$1.1 million of other permanent differences. These items were partially offset by \$3.5 million relating to operating in higher tax rate jurisdictions.

Income tax benefit for the six months ended June 30, 2014 was \$12.9 million. Expected income tax benefit for the same period, based on the Canadian enacted statutory rate of 26%, was \$23.8 million. The primary items impacting the tax rate for the six months ended June 30, 2014 were \$29.3 million

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

9. Income taxes (Continued)

relating to a change in the valuation allowance, \$2.6 million relating to minority interest adjustments, and \$0.5 million of other permanent differences. These items were partially offset by \$11.1 million of capital losses recognized on tax restructuring, \$9.2 million relating to operating in higher tax rate jurisdictions, and \$1.2 million relating to foreign exchange.

As of June 30, 2014, we have recorded a valuation allowance of \$157.4 million. The amount is comprised primarily of provisions against Canadian and U.S. net operating loss carryforwards. In assessing the recoverability of our deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon projected future taxable income in the United States and in Canada and available tax planning strategies.

10. Equity compensation plans*Long-Term Incentive Program*

The following table summarizes the changes in LTIP notional units during the three months ended June 30, 2014:

	Units	Grant Date Weighted-Average Price per Unit
Outstanding at December 31, 2013	766,988	\$ 7.86
Granted	1,776,083	2.64
Reinvested	99,452	4.12
Forfeited	(182,783)	8.00
Vested	(242,160)	8.72
Outstanding at June 30, 2014	2,217,580	\$ 3.41

Certain awards have a market condition based on our total shareholder return during the performance period compared to a group of peer companies and, in some cases, Project Adjusted EBITDA per common share compared to budget. Compensation expense for notional units granted in 2014 is recorded net of estimated forfeitures. See Note 16 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013 for further details. Cash payments made for vested notional units for the six months ended June 30, 2014 and 2013 was \$0.2 million and \$0.9 million, respectively. Compensation expense for LTIP was \$1.0 million and \$0.9 million for the three and six months ended June 30, 2014, respectively and \$0.8 million and \$1.2 million for the three and six months ended June 30, 2013, respectively.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

11. Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average common shares outstanding during their respective period. Diluted earnings (loss) per share is computed including dilutive potential shares as if they were outstanding shares during the year. Dilutive potential shares include shares that would be issued if all of the convertible debentures were converted into shares at January 1, 2013. Dilutive potential shares also include the weighted average number of shares, as of the date such notional units were granted, that would be issued if the unvested notional units outstanding under the LTIP were vested and redeemed for shares under the terms of the LTIP. The following table sets forth the diluted net income (loss) and potentially dilutive shares utilized in the per share calculation for the three and six months ended June 30, 2014 and 2013:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Numerator:				
(Loss) income from continuing operations attributable to Atlantic Power Corporation	\$ (59.2)	\$ 2.4	\$ (77.9)	\$ 8.4
Loss from discontinued operations, net of tax		(5.4)	(0.1)	(4.9)
Net (loss) income attributable to Atlantic Power Corporation	\$ (59.2)	\$ (3.0)	\$ (78.0)	\$ 3.5
Denominator:				
Weighted average basic shares outstanding	120.6	119.9	120.5	119.7
Dilutive potential shares:				
Convertible debentures	27.7	27.7	27.7	27.7
LTIP notional units	0.4	0.8	0.2	0.6
Potentially dilutive shares	148.7	148.4	148.4	148.0
Diluted (loss) earnings per share from continuing operations attributable to Atlantic Power Corporation				
	\$ (0.49)	\$ 0.02	\$ (0.65)	\$ 0.07
Diluted loss per share from discontinued operations		(0.05)		(0.04)
Diluted (loss) income per share attributable to Atlantic Power Corporation	\$ (0.49)	\$ (0.03)	\$ (0.65)	\$ 0.03

Potentially dilutive shares from convertible debentures and LTIP notional units have been excluded from fully diluted shares for the three and six months ended June 30, 2014 and 2013 because their impact would be anti-dilutive.

12. Discontinued operations

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On March 6, 2014, we sold our outstanding membership interests in Greeley for approximately \$1.0 million and recorded a \$2.1 million non-cash gain on the sale related to the write-off of asset retirement obligations. Greeley is accounted for as a component of discontinued operations in the consolidated statements of operations for the three and six months ended June 30, 2014 and 2013, respectively.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

12. Discontinued operations (Continued)

On November 5, 2013, we completed the sale of our 60% interest in Rollcast to its remaining shareholders. As consideration for the sale, we were assigned asset management contracts valued at \$0.5 million for the Cadillac and Piedmont projects as well as the remaining 2% ownership interest in Piedmont bringing our total ownership to 100%. In return, we paid \$0.5 million in cash to the minority owner and forgave an outstanding \$1.0 million loan that was provided by us to Rollcast to fund working capital during 2013. Rollcast's net loss is recorded as loss from discontinued operations in the consolidated statements of operations for the three and six months ended June 30, 2013.

The Florida Projects and Path 15 were sold on April 12, 2013 and April 30, 2013, respectively. Accordingly, the projects' net income (loss) is recorded as income (loss) from discontinued operations, net of tax in the statements of operations for the three and six months ended June 30, 2013.

The following tables summarize the revenue, income (loss) from operations, and income tax expense of Greeley, Rollcast, Path 15 and the Florida Projects for the three and six months ended June 30, 2014 and 2013:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenue	\$	\$ 11.4	\$	\$ 77.2
(Loss) income from operations of discontinued businesses		(5.0)	(0.1)	(4.1)
Income tax expense		0.4		0.8
(Loss) income from operations of discontinued businesses, net of tax	\$	\$ (5.4)	\$ (0.1)	\$ (4.9)

Basic and diluted earnings (loss) per share related to income (loss) from discontinued operations for Greeley, Rollcast, the Florida Projects and Path 15 was \$0.00 and \$(0.05) for the three months ended June 30, 2014 and 2013, respectively, and \$0.00 and \$0.04 for the six months ended June 30, 2014 and 2013, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

13. Equity

The following table provides a reconciliation of the beginning and ending equity attributable to shareholders of Atlantic Power Corporation, preferred shares issued by a subsidiary company, noncontrolling interests and total equity for the six months ended June 30, 2014 and 2013:

	Six months ended June 30, 2014			
	Total Atlantic Power Corporation Shareholders' Equity	Preferred shares issued by a subsidiary company	Noncontrolling Interests	Total Equity
Balance at January 1	\$ 608.3	\$ 221.3	\$ 266.4	\$ 1,096.0
Net (loss) income	(78.0)	5.9	(6.7)	(78.8)
Realized and unrealized gain on hedging activities, net of tax	(0.2)			(0.2)
Foreign currency translation adjustment, net of tax	(1.5)			(1.5)
Common shares issued for LTIP	0.6			0.6
Dividends paid to noncontrolling interest			(5.2)	(5.2)
Dividends declared on common shares	(21.1)			(21.1)
Dividends declared on preferred shares of a subsidiary company		(5.9)		(5.9)
Balance at June 30	\$ 508.1	\$ 221.3	\$ 254.5	\$ 983.9

	Six months ended June 30, 2013			
	Total Atlantic Power Corporation Shareholders' Equity	Preferred shares issued by a subsidiary company	Noncontrolling Interests	Total Equity
Balance at January 1	\$ 729.7	\$ 221.3	\$ 235.4	\$ 1,186.4
Net income (loss)	3.5	6.3	(0.8)	9.0
Realized and unrealized gain on hedging activities, net of tax	1.0			1.0
Foreign currency translation adjustment, net of tax	(30.1)			(30.1)
Common shares issued for LTIP	0.9			0.9
Contribution by and sale of noncontrolling interest			44.5	44.5
Costs associated with tax equity raise	(0.9)			(0.9)
Dividends paid to noncontrolling interest			(2.9)	(2.9)
Dividends declared on common shares	(35.5)			(35.5)
Dividends declared on preferred shares of a subsidiary company		(6.3)		(6.3)

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Balance at June 30	\$	668.6	\$	221.3	\$	276.2	\$	1,166.1
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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

14. Segment and geographic information

We have four reportable segments: East, West, Wind and Un-allocated Corporate. We revised our reportable business segments in the fourth quarter of 2013 as a result of significant project asset sales and in order to align our reportable business segments with changes in management's structure, resource allocation and performance assessment in making decisions regarding our operations. Our financial results for the three and six months ended June 30, 2014 and 2013 have been presented to reflect these changes in operating segments. We analyze the performance of our operating segments based on Project Adjusted EBITDA which is defined as project income (loss) plus interest, taxes, depreciation and amortization (including non-cash impairment charges) and changes in fair value of derivative instruments. Project Adjusted EBITDA is not a measure recognized under GAAP and does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. We use Project Adjusted EBITDA to provide comparative information about project performance without considering how projects are capitalized or whether they contain derivative contracts that are required to be recorded at fair value. Greeley and Path 15, which are components of the West segment, the Florida Projects, components of the East segment, and Rollcast, which is a component of Un-allocated Corporate, are included in the income (loss) from discontinued operations line item in the table below. We have adjusted prior periods to reflect this reclassification. A reconciliation of project income (loss) to Project Adjusted EBITDA is included in the table below:

	East	West	Wind	Un-allocated Corporate	Consolidated
Three months ended June 30, 2014					
Project revenues	\$ 76.2	\$ 46.8	\$ 20.0	\$ 0.2	\$ 143.2
Segment assets	1,192.3	977.6	818.1	222.7	3,210.7
Project Adjusted EBITDA	\$ 38.5	\$ 22.9	\$ 17.2	\$ (3.6)	\$ 75.0
Change in fair value of derivative instruments	(0.8)		2.8	1.1	3.1
Depreciation and amortization	24.4	16.2	11.5	0.2	52.3
Interest, net	3.7		4.8	0.1	8.6
Other project expense	14.8				14.8
Project income (loss)	(3.6)	6.7	(1.9)	(5.0)	(3.8)
Administration				10.2	10.2
Interest, net				27.7	27.7
Foreign exchange (loss) gain				15.3	15.3
Other income, net					
Income (loss) from continuing operations before income taxes	(3.6)	6.7	(1.9)	(58.2)	(57.0)
Income tax benefit				(0.6)	(0.6)
Net income (loss)	\$ (3.6)	\$ 6.7	\$ (1.9)	\$ (57.6)	\$ (56.4)

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions U.S. dollars, except per-share amounts)

(Unaudited)

14. Segment and geographic information (Continued)

	East	West	Wind	Un-allocated Corporate	Consolidated
Three months ended June 30, 2013					
Project revenues	\$ 71.9	\$ 45.8	\$ 18.2	\$ 0.2	\$ 136.1
Segment assets	1,468.7	1,056.0	907.4	135.3	3,567.4
Project Adjusted EBITDA	\$				