ATLANTIC POWER CORP
Form 10-Q
November 06, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

o **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	**55-0886410**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Federal Street, 30th Floor Boston, MA	**02110**
(Address of principal executive offices)	(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 ý No o

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 ý No o

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 o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares outstanding of the registrant's Common Stock as of November 3, 2014 was 120,806,572.

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ATLANTIC POWER CORPORATION

FORM 10-Q

THREE AND NINE MONTHS ENDED SEPTEMBER 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)

	September 30, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 167.6	$ 158.6
Restricted cash	18.5	96.2
Accounts receivable	64.6	64.3
Current portion of derivative instruments asset (Notes 7 and 8)		0.2
Inventory	20.3	16.0
Prepayments and other current assets	14.6	16.1
Refundable income taxes	2.6	4.0
Total current assets	288.2	355.4
Property, plant, and equipment, net of accumulated depreciation of $262.7 million and $175.1 million at September 30, 2014 and December 31, 2013, respectively	1,710.4	1,813.4
Equity investments in unconsolidated affiliates	360.2	394.3
Other intangible assets, net of accumulated amortization of $188.4 million and $136.9 million at September 30, 2014 and December 31, 2013, respectively	399.8	451.5
Goodwill (Note 5)	197.2	296.3
Derivative instruments asset (Notes 7 and 8)	5.8	13.0
Restricted cash	17.5	18.0
Deferred financing costs	67.3	41.7
Other assets	10.1	11.4
Total assets	$ 3,056.5	$ 3,395.0
Liabilities		
Current liabilities:		
Accounts payable	$ 10.4	$ 14.0
Accrued interest	21.5	17.7
Other accrued liabilities	51.3	58.8
Current portion of long-term debt (Note 6)	26.1	216.2
Current portion of convertible debentures	40.0	42.1
Current portion of derivative instruments liability (Notes 7 and 8)	29.6	28.5
Dividends payable		6.8
Other current liabilities	8.4	5.3
Total current liabilities	187.3	389.4
Long-term debt (Note 6)	1,413.1	1,254.8
Convertible debentures	351.4	363.1
Derivative instruments liability (Notes 7 and 8)	52.4	76.1
Deferred income taxes (Note 9)	98.8	111.5
Power purchase and fuel supply agreement liabilities, net of accumulated amortization of $10.6 million and $8.1 million at September 30, 2014 and December 31, 2013, respectively	34.9	38.7
Other non-current liabilities	61.8	65.4

Commitments and contingencies (Note 16)		
Total liabilities	2,199.7	2,299.0
Equity		
Common shares, no par value, unlimited authorized shares; 120,806,572 and 120,205,813 issued and outstanding at September 30, 2014 and December 31, 2013, respectively (Note 13)	1,287.0	1,286.1
Preferred shares issued by a subsidiary company (Note 13)	221.3	221.3
Accumulated other comprehensive loss	(46.9)	(22.4)
Retained deficit	(850.4)	(655.4)
Total Atlantic Power Corporation shareholders' equity	611.0	829.6
Noncontrolling interests (Note 13)	245.8	266.4
Total equity	856.8	1,096.0
Total liabilities and equity	$ 3,056.5	$ 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Project revenue:				
Energy sales	$ 69.6	$ 72.9	$ 234.2	$ 226.6
Energy capacity revenue	49.1	49.9	124.0	127.1
Other	19.6	17.2	68.6	59.7
	138.3	140.0	426.8	413.4
Project expenses:				
Fuel	49.3	46.7	159.5	144.4
Operations and maintenance	34.0	37.3	101.2	111.0
Development	1.0	1.4	2.7	4.9
Depreciation and amortization	40.8	42.0	122.3	124.7
	125.1	127.4	385.7	385.0
Project other income (expense):				
Change in fair value of derivative instruments (Notes 7 and 8)	0.4	(3.5)	12.3	33.4
Equity in earnings of unconsolidated affiliates (Note 4)	15.4	39.1	27.3	55.0
Interest expense, net	(5.8)	(9.0)	(26.3)	(25.7)
Impairment (Note 5)	(91.8)	(34.8)	(106.6)	(34.7)
	(81.8)	(8.2)	(93.3)	28.0
Project (loss) income	(68.6)	4.4	(52.2)	56.4
Administrative and other expenses (income):				
Administration	9.2	8.4	26.7	28.5
Interest, net	26.7	27.5	120.8	78.7
Foreign exchange (gain) loss (Note 8)	(19.0)	9.1	(20.4)	(12.9)
Other income (Note 3)			(2.1)	(9.5)
	16.9	45.0	125.0	84.8
Loss from continuing operations before income taxes	(85.5)	(40.6)	(177.2)	(28.4)
Income tax expense (benefit) (Note 9)	5.6		(7.4)	(1.9)
Loss from continuing operations	(91.1)	(40.6)	(169.8)	(26.5)
Net loss from discontinued operations, net of tax (Note 12)			(0.1)	(5.2)

Net loss		(91.1)		(40.6)		(169.9)		(31.7)
Net loss attributable to noncontrolling interests		(5.1)		(2.5)		(11.8)		(3.3)
Net income attributable to preferred shares dividends of a subsidiary company		2.9		3.2		8.8		9.5
Net loss attributable to Atlantic Power Corporation	$	(88.9)	$	(41.3)	$	(166.9)	$	(37.9)
Basic loss per share: (Note 11)								
Loss from continuing operations attributable to Atlantic Power Corporation	$	(0.74)	$	(0.34)	$	(1.38)	$	(0.28)
Loss from discontinued operations, net of tax								(0.04)
Net loss attributable to Atlantic Power Corporation	$	(0.74)	$	(0.34)	$	(1.38)	$	(0.32)
Diluted loss per share: (Note 11)								
Loss from continuing operations attributable to Atlantic Power Corporation	$	(0.74)	$	(0.34)	$	(1.38)	$	(0.28)
Loss from discontinued operations, net of tax								(0.04)
Net loss attributable to Atlantic Power Corporation	$	(0.74)	$	(0.34)	$	(1.38)	$	(0.32)
Weighted average number of common shares outstanding: (Note 11)								
Basic		120.7		120.0		120.6		119.8
Diluted		120.7		120.0		120.6		119.8

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in millions of U.S. dollars)

(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013
Net loss	$ (91.1)	$ (40.6)
Other comprehensive income, net of tax:		
Unrealized income (loss) on hedging activities	$ 0.1	$ (0.1)
Net amount reclassified to earnings	0.2	0.2
Net unrealized gain on derivatives	0.3	0.1
Foreign currency translation adjustments	(23.1)	10.7
Other comprehensive (loss) income, net of tax	(22.8)	10.8
Comprehensive loss	(113.9)	(29.8)
Less: Comprehensive (loss) income attributable to noncontrolling interests	(2.2)	0.7
Comprehensive loss attributable to Atlantic Power Corporation	$ (111.7)	$ (30.5)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Net loss	$ (169.9)	$ (31.7)
Other comprehensive income, net of tax:		
Unrealized (loss) income on hedging activities	$ (0.6)	$ 0.5
Net amount reclassified to earnings	0.6	0.6
Net unrealized gain on derivatives		1.1
Foreign currency translation adjustments	(24.5)	(19.3)

Other comprehensive loss, net of tax	(24.5)	(18.2)
Comprehensive loss	(194.4)	(49.9)
Less: Comprehensive (loss) income attributable to noncontrolling interests	(3.0)	6.2
Comprehensive loss attributable to Atlantic Power Corporation	$ (191.4)	$ (56.1)

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)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Cash flows from operating activities:		
Net loss	$ (169.9)	$ (31.7)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	122.3	135.0
Loss of discontinued operations		32.8
Gain on sale of asset	(2.1)	(4.6)
Gain on sale of equity investment	(8.6)	(30.4)
Long-term incentive plan expense	1.8	1.7
Impairment charges	106.6	39.8
Equity in earnings from unconsolidated affiliates	(18.8)	(24.6)
Distributions from unconsolidated affiliates	52.8	28.5
Unrealized foreign exchange (gain) loss	(21.0)	1.5
Change in fair value of derivative instruments	(12.3)	(44.1)
Change in deferred income taxes	(11.1)	(11.9)
Change in other operating balances		
Accounts receivable	(0.3)	4.5
Inventory	(4.3)	(1.5)
Prepayments, refundable income taxes and other assets	18.2	54.2
Accounts payable	(4.8)	(11.9)
Accruals and other liabilities	(2.6)	6.0
Cash provided by operating activities	45.9	143.3
Cash flows provided by investing activities:		
Change in restricted cash	78.2	(99.1)
Proceeds from sale of asset, net	0.9	183.0
Proceeds from sale of equity investment asset, net	8.6	
Proceeds from treasury grant		103.2
Biomass development costs		(0.1)
Construction in progress	(1.3)	(35.2)
Purchase of property, plant and equipment	(10.0)	(4.2)
Cash provided by investing activities	76.4	147.6
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	(621.9)	(115.4)
Payments for revolving credit facility borrowings		(67.0)
Deferred financing costs	(39.0)	(0.5)
Equity contribution from noncontrolling interest		44.6
Offering costs related to tax equity		(1.0)
Dividends paid to common shareholders	(32.0)	(54.2)
Dividends paid to noncontrolling interests	(20.4)	(13.9)
Cash used in financing activities	(113.3)	(186.6)

Net increase in cash and cash equivalents		9.0		104.3
Less cash at discontinued operations				(0.3)
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	$	167.6	$	170.7
Supplemental cash flow information				
Interest paid	$	124.4	$	87.0
Income taxes paid, net	$	1.0	$	4.6
Accruals for construction in progress	$	8.2	$	8.3

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 September 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. 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. 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 September 30, 2014, the results of operations and comprehensive loss for the three and nine months ended September 30, 2014 and 2013, and our cash flows for the nine months ended September 30, 2014 and 2013. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included.

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)

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

Prior year amounts for restricted cash have been reclassified from current to long-term 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 August 2014, the FASB issued changes to the disclosure of uncertainties about an entity's ability to continue as a going concern. Under GAAP, continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity's liquidation becomes imminent. Even if an entity's liquidation is not imminent, there may be conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. Because there is no guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related note disclosures, there is

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)

diversity in practice whether, when, and how an entity discloses the relevant conditions and events in its financial statements. As a result, these changes require an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that financial statements are issued. Substantial doubt is defined as an indication that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that financial statements are issued. If management has concluded that substantial doubt exists, then the following disclosures should be made in the financial statements: (i) principal conditions or events that raised the substantial doubt, (ii) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, (iii) management's plans that alleviated the initial substantial doubt or, if substantial doubt was not alleviated, management's plans that are intended to at least mitigate the conditions or events that raise substantial doubt, and (iv) if the latter in (iii) is disclosed, an explicit statement that there is substantial doubt about the entity's ability to continue as a going concern. These changes become effective for us for the 2016 annual period. We have determined that the adoption of these changes will not have an impact on the consolidated financial statements. Subsequent to adoption, this guidance will need to be applied by management at the end of each annual period and interim period therein to determine what, if any, impact there will be on the consolidated financial statements in a given reporting period.

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 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

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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)

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 September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Foreign currency translation				
Balance at beginning of period	$ (23.6)	$ (17.5)	$ (22.2)	$ 12.5
Other comprehensive income (loss):				
Foreign currency translation adjustments[1]	(23.1)	10.7	(24.5)	(19.3)
Balance at end of period	$ (46.7)	$ (6.8)	$ (46.7)	$ (6.8)
Pension				
Balance at beginning of period	$ (0.4)	$ (1.8)	$ (0.4)	$ (1.8)
Other comprehensive loss:				
Amortization of net actuarial gain				
Balance at end of period	$ (0.4)	$ (1.8)	$ (0.4)	$ (1.8)
Cash flow hedges				
Balance at beginning of period	$ (0.1)	$ (0.4)	$ 0.2	$ (1.4)
Other comprehensive (loss) income:				
Net change from periodic revaluations	0.2	(0.2)	(1.0)	0.8
Tax (expense) benefit	(0.1)	0.1	0.4	(0.3)
Total Other comprehensive income (loss) before reclassifications, net of tax	0.1	(0.1)	(0.6)	0.5
Net amount reclassified to earnings:				
Interest rate swaps[2]	0.3	0.3	1.0	1.0
Fuel commodity swaps[3]				
Sub-total	0.3	0.3	1.0	1.0
Tax expense	(0.1)	(0.1)	(0.4)	(0.4)
Total amount reclassified from Accumulated other comprehensive income, net of tax	0.2	0.2	0.6	0.6
Total Other comprehensive income	0.3	0.1		1.1

Balance at end of period	$	0.2	$	(0.3)	$	0.2	$	(0.3)

(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.

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 other 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. The sale of Delta-Person closed in July 2014 resulting in a gain on sale of approximately $8.6 million that was recorded as a component of equity in earnings of unconsolidated affiliates in the consolidated statement of operations for the three and nine months ended September 30, 2014. 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.

(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 nine months ended September 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. 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 equity in earnings of unconsolidated affiliates in the consolidated statement of operations for the three and nine months ended September 30, 2013. 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. As of September 30, 2014, approximately $0.9 million of these proceeds remain in escrow for any post-closing adjustments that may arise subsequent to the closing date. We used the net proceeds from the sale for general corporate purposes.

(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

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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)

$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 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 nine months ended September 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 nine months ended September 30, 2013. See Note 12, *Discontinued Operations*, for further information.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Unaudited)

4. Equity method investments in unconsolidated affiliates

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

Operating results	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenue				
Chambers	$ 12.0	$ 13.4	$ 42.6	$ 40.0
Other[1]	32.6	37.2	105.8	117.7
	44.6	50.6	148.4	157.7
Project expenses				
Chambers	9.9	10.1	35.0	30.8
Other[1]	26.2	29.3	87.7	97.5
	36.1	39.4	122.7	128.3
Project other expense				
Chambers	(0.4)	(0.7)	(2.6)	(1.8)
Other[1]	7.3	28.6	4.2	27.4
	6.9	27.9	1.6	25.6
Project income				
Chambers	$ 1.7	$ 2.6	$ 5.0	$ 7.4
Other[1][2]	13.7	36.5	22.3	47.6
	15.4	39.1	27.3	55.0

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

(2) Includes an $8.6 million gain on the sale of Delta-Person.

5. Goodwill

Our goodwill balance was $197.2 million and $296.3 million as of September 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.

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Unaudited)

5. Goodwill (Continued)

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 prior to our annual goodwill impairment test that will occur in the fourth quarter of 2014. The test was performed as of August 31, 2014 and concluded during the quarter ended September 30, 2014.

As a result of the event-driven goodwill assessment, we recorded a $17.9 million full impairment at the Kenilworth reporting unit (East segment), a $50.2 million full impairment at the Manchief reporting unit (West Segment) and a $23.7 million partial impairment at the Williams Lake reporting unit (West segment). The total impairment recorded in the three months ended September 30, 2014 was $91.8 million. The goodwill impairment recorded at each reporting unit was primarily due to (i) decreases in forward merchant energy prices subsequent to the expiration of the reporting units' respective energy service agreement ("ESA") or PPA, as applicable as compared to the assumptions at the time of the reporting units' acquisition in November 2011, (ii) the continued amortization of cash flows under the reporting units' respective ESA or PPAs and (iii) an increase in the discount rate reflecting increased re-contracting risk. At the time of its acquisition in November 2011, the fair value of the assets acquired and liabilities assumed for each of the Kenilworth, Manchief and Williams Lake reporting units were valued assuming a merchant basis for the period subsequent to the expiration of the projects' original ESAs or PPAs. As discussed above, these forecasted energy revenues on a merchant basis were higher than the energy prices currently forecasted to be in effect subsequent to the expiration of these reporting units' ESAs or PPAs. Power prices have declined from 2011 due to several factors including decreased demand and lower natural gas prices resulting from an abundance of shale gas. Our forecasts for discounted cash flows also reflect a higher level of uncertainty for re-contracting at prices that were previously forecasted in 2011.

In addition, under step 1 of our goodwill impairment tests performed during the third quarter of 2014, the total fair value of the Curtis Palmer, Morris, Mamquam, Nipigon, North Bay, Kapuskasing, Calstock and Moresby Lake reporting units exceeded their carrying value by approximately $265 million or 64%.

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 asset 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

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Unaudited)

5. Goodwill (Continued)

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 project's 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 updated our probability-based long-lived asset impairment analysis for Tunis as of September 30, 2014 and determined that, based on the weighted average estimated undiscounted cash flows for the project over its remaining useful life, no further impairment of long-lived assets was required.

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 merchant 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 and 2 goodwill impairment tests for our reporting units are generally based on approved reporting unit operating plans for years with contracted PPAs and historical relationships for estimates at the expiration of PPAs. 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 discount rate applied to the DCF models represents the weighted average cost of capital ("WACC") consistent with the risk inherent in future cash flows of the particular reporting unit and is 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. We utilized the assistance of valuation experts to perform step 1 and step 2 of the quantitative impairment test for several of our reporting units. The fair value that could be realized in an actual transaction may differ from that used to evaluate the impairment of goodwill.

The valuation of long lived assets and goodwill for the impairment analyses is considered a level 3 fair value measurement, 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. Fair value determinations require considerable judgment and are sensitive to changes in these underlying assumptions and factors. As a result, there can be no assurance that the estimates and assumptions made for purposes of a goodwill impairment test will prove to be accurate predictions of the future. Examples of events or circumstances that could reasonably be expected to negatively affect the underlying key assumptions and ultimately impact the estimated fair value of our reporting units may include macroeconomic factors that significantly differ from our assumptions in timing or degree, increased input costs such as higher fuel prices and maintenance costs, or lower power prices than incorporated in our long-term forecasts. See "Risk

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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 (Continued)

Factors Risks Related to Our Business and Our Projects Impairment of goodwill or long-lived assets could have a material adverse effect on our business, results of operations and financial condition" in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

	East	West	Wind	Un-allocated corporate	Total
Balance at December 31, 2013	$ 107.8	$ 188.5	$	$	$ 296.3
Impairment of Goodwill	(23.1)	(73.9)			(97.0)
Translation adjustment		(2.1)			(2.1)
Balance at September 30, 2014	$ 84.7	$ 112.5	$	$	$ 197.2

6. Long-term debt

Long-term debt consists of the following:

	September 30, 2014	December 31, 2013	Interest Rate
Recourse Debt:			
Senior secured term loan facility, due 2021	$ 552.8	$	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)	187.5	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	26.7	30.5	LIBOR plus 3.1%
Cadillac term loan, due 2025	34.0	35.4	6.0% 8.0%
Piedmont term loan, due 2018[4]	65.9	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	0.7	1.0	5.5% 6.7%
Less: current maturities	(26.1)	(216.2)	
Total long-term debt	$ 1,413.1	$ 1,254.8	

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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)

Current maturities consist of the following:

	September 30, 2014	December 31, 2013	Interest Rate
Current Maturities:			
Senior secured term loan facility, due 2021	$ 5.5	$	LIBOR[1] plus 3.8%
Senior unsecured notes, due July 2014[3]		190.0	5.9%
Epsilon Power Partners term facility, due 2019	5.5	5.0	LIBOR plus 3.1%
Cadillac term loan, due 2025	3.8	2.0	6.0% 8.0%
Piedmont term loan, due 2018[4]	4.7	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	$ 26.1	$ 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 ($190.7 million at September 30, 2014) of the $600.0 million ($552.8 million at September 30, 2014) outstanding aggregate borrowings under our senior secured term loan facility. 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.

(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 September 30, 2014. The Adjusted Eurodollar Rate cannot be less than 1.00% (1.00% at September 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.

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Unaudited)

6. Long-term debt (Continued)

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.

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

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Unaudited)

6. Long-term debt (Continued)

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.

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 ($106.0 million as of September 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

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(Unaudited)

6. Long-term debt (Continued)

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 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.

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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)

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 $57.4 million at September 30, 2014) until such time that we satisfy the fixed charge coverage ratio test. We have declared eight monthly dividends in January through August 2014, totaling approximately $29.3 million, that were subject to the basket provision. For the trailing twelve months ended September 30, 2014, dividend payments to our shareholders totaled approximately Cdn$44.2 million. In September 2014, we adjusted our dividend to Cdn$0.03 per common share to be paid quarterly based on an annual dividend payment of Cdn$0.12 per common share, with the first quarterly dividend expected to be declared in November and paid at the end of December 2014. No dividends were declared in September 2014. Dividends to shareholders are paid, if and when declared by, and subject to the discretion of, the Board of Directors.

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 September 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 quarter of 2014, Piedmont underwent forced maintenance outages that resulted in the project not meeting its debt service coverage ratio covenant as of September 30, 2014. We do not expect Piedmont to meet its debt service coverage ratio covenant or make distributions for at least the next eighteen 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 September 30, 2014 and December 31, 2013.

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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)

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

	September 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 167.6	$	$	$ 167.6
Restricted cash[1]	36.0			36.0
Derivative instruments asset		5.8		5.8
Total	$ 203.6	$ 5.8	$	$ 209.4
Liabilities:				
Derivative instruments liability	$	$ 82.0	$	$ 82.0
Total	$	$ 82.0	$	$ 82.0

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
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

(1) The decrease in restricted cash is primarily due to the release of the $75 million reserve requirement under the prior credit facility.

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. 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 September 30, 2014, the credit valuation adjustments resulted in a $10.4 million net increase in fair value, which

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7. Fair value of financial instruments (Continued)

consists of a $0.6 million pre-tax gain in other comprehensive loss and a $9.8 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). These 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 September 30, 2014. Changes in the fair market value of these contracts are recorded in the consolidated statement of operations.

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.

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 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 7.3 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 September 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 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.

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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)

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 ($190.7 million at September 30, 2014) of the $600 million aggregate principal amount of borrowings ($552.8 million at September 30, 2014) 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%. The interest rate swap agreements were 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.

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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)

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 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 repayment at maturity of the Cdn$44.8 million convertible debentures due in October 2014. We recorded a $0.5 million realized foreign exchange loss on the expiration of the foreign currency forward contract on September 30, 2014. We repaid the Cdn$44.8 million convertible debentures with cash on hand at their maturity on October 31, 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 September 30, 2014 and December 31, 2013:

	Units	September 30, 2014	December 31, 2013
Natural gas swaps	Natural Gas (Mmbtu)	7.3	5.6
Gas purchase agreements	Natural Gas (Gj)	36.7	41.1
Interest rate swaps	Interest (US$)	151.7	161.2
Currency forwards	Cdn$		34.9

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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:

	September 30, 2014	
	Derivative Assets	Derivative Liabilities
Derivative instruments designated as cash flow hedges:		
Interest rate swaps current	$	$ 1.2
Interest rate swaps long-term		2.6
Total derivative instruments designated as cash flow hedges		3.8
Derivative instruments not designated as cash flow hedges:		
Interest rate swaps current	5.8	7.1
Interest rate swaps long-term		13.1
Foreign currency forward contracts current		
Foreign currency forward contracts long-term		
Natural gas swaps current		0.8
Natural gas swaps long-term		1.0
Gas purchase agreements current		20.5
Gas purchase agreements long-term		35.7
Total derivative instruments not designated as cash flow hedges	5.8	78.2
Total derivative instruments	$ 5.8	$ 82.0

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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:

For the three months ended September 30, 2014	Interest Rate Swaps
Accumulated OCI balance at June 30, 2014	$ (0.1)
Change in fair value of cash flow hedges	0.1
Realized from OCI during the period	0.2

Accumulated OCI balance at September 30, 2014	$	0.2

For the three months ended September 30, 2013		**Interest Rate Swaps**
Accumulated OCI balance at June 30, 2013	$	(0.4)
Change in fair value of cash flow hedges		(0.1)
Realized from OCI during the period		0.2