ATLANTIC POWER CORP
Form 10-Q
May 07, 2012

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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 March 31, 2012

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.)

200 Clarendon Street, Floor 25 **Boston, MA**	**02116**
(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 ý	Accelerated filer o	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 May 2, 2012 was 113,680,643.

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ATLANTIC POWER CORPORATION

FORM 10-Q

THREE MONTHS ENDED MARCH 31, 2012

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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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PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

ATLANTIC POWER CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars)

	March 31, 2012 (unaudited)	December 31, 2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 106,609	$ 60,651
Restricted cash	27,761	21,412
Accounts receivable	59,501	79,008
Current portion of derivative instruments asset (Notes 6 and 7)	10,610	10,411
Inventory	18,214	18,628
Prepayments and other	23,647	7,615
Refundable income taxes	2,301	3,042
Total current assets	248,643	200,767
Property, plant, and equipment, net	1,549,626	1,388,254
Transmission system rights	178,319	180,282
Equity investments in unconsolidated affiliates (Note 3)	477,098	474,351
Other intangible assets, net	597,633	584,274
Goodwill	343,586	343,586
Derivative instruments asset (Notes 6 and 7)	16,589	22,003
Other assets	64,216	54,910
Total assets	$ 3,475,710	$ 3,248,427
Liabilities		
Current Liabilities:		
Accounts payable	$ 20,561	$ 18,122
Accrued interest	33,534	19,916
Other Accrued liabilities	41,456	43,968
Revolving credit facility (Note 5)	72,800	58,000
Current portion of long-term debt (Note 5)	246,520	20,958
Current portion of derivative instruments liability (Notes 6 and 7)	50,030	20,592
Dividends payable	10,921	10,733
Other current liabilities	1,278	165
Total current liabilities	477,100	192,454
Long-term debt (Note 5)	1,364,685	1,404,900
Convertible debentures	193,269	189,563
Derivative instruments liability (Notes 6 and 7)	109,873	33,170
Deferred income taxes	165,413	182,925
Power purchase and fuel supply agreement liabilities, net	46,811	71,775
Other non-current liabilities	60,022	57,859

Commitments and contingencies (Note 12)

Total liabilities	2,417,173	2,132,646
Equity		
Common shares, no par value, unlimited authorized shares; 113,680,643 and 113,526,182 issued and outstanding at March 31, 2012 and December 31, 2011, respectively	1,217,893	1,217,265
Preferred shares issued by a subsidiary company	221,304	221,304
Accumulated other comprehensive income (loss)	12,216	(5,193)
Retained deficit	(395,743)	(320,622)
Total Atlantic Power Corporation shareholders' equity	1,055,670	1,112,754
Noncontrolling interest	2,867	3,027
Total equity	1,058,537	1,115,781
Total liabilities and equity	$ 3,475,710	$ 3,248,427

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
Project revenue:		
Energy sales	$ 75,968	$ 18,502
Energy capacity revenue	62,518	27,138
Transmission services	7,161	7,644
Other	21,963	381
	167,610	53,665
Project expenses:		
Fuel	62,099	17,068
Operations and maintenance	31,500	11,072
Depreciation and amortization	36,468	10,879
	130,067	39,019
Project other income (expense):		
Change in fair value of derivative instruments (Notes 6 and 7)	(58,122)	3,561
Equity in earnings of unconsolidated affiliates (Note 3)	2,947	1,311
Interest expense	(7,033)	(4,647)
Other income (expense), net	15	(2)
	(62,193)	223
Project (loss) income	(24,650)	14,869
Administrative and other expenses (income):		
Administration	7,833	4,054
Interest, net	22,036	3,968
Foreign exchange loss (gain) (Note 7)	986	(658)
	30,855	7,364
Income (loss) from operations before income taxes	(55,505)	7,505
Income tax expense (benefit)	(16,291)	1,523
Net (loss) income	(39,214)	5,982
Net loss attributable to noncontrolling interest	(161)	(154)
Net income attributable to Preferred share dividends of a subsidiary company	3,239	
Net (loss) income attributable to Atlantic Power Corporation	$ (42,292)	$ 6,136
Net (loss) income per share attributable to Atlantic Power Corporation shareholders: (Note 10)		
Basic	$ (0.37)	$ 0.09
Diluted	$ (0.37)	$ 0.09
Weighted average number of common shares outstanding: (Note 10)		
Basic	113,578	67,654
Diluted	113,578	68,171

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of U.S. dollars)

(Unaudited)

	Atlantic Power Corportation Three months ended March 31,		Noncontrolling Interests Three months ended March 31,		Total Three months ended March 31,	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Net (loss) income	$ (39,214)	$ 5,982	$ 3,078	$ (154)	$ (42,292)	$ 6,136
Other comprehensive income, net of tax:						
Unrealized loss on hedging activities	15	721			15	721
Net amount reclassified to earnings	230	(449)			230	(449)
Net unrealized losses on derivatives	245	272			245	272
Foreign currency translation adjustments	17,164				17,164	
Total other comprehensive income, net of tax	17,409	272			17,409	272
Comprehensive income (loss)	$ (21,805)	$ 6,254	$ 3,078	$ (154)	$ (24,883)	$ 6,408

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. dollars)

(Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
Cash flows from operating activities:		
Net (loss) income	$ (39,214)	$ 5,982
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	36,468	10,879
Long-term incentive plan expense	1,081	825
Earnings from unconsolidated affiliates	(2,947)	(1,311)
Distributions from unconsolidated affiliates	249	1,450
Unrealized foreign exchange loss	12,916	1,878
Change in fair value of derivative instruments	58,122	(3,561)
Change in deferred income taxes	(17,676)	2,011
Accounts receivable	19,507	(419)
Prepayments, refundable income taxes and other assets	(14,134)	176
Accounts payable and accrued liabilities	10,574	1,937
Other liabilities	1,546	500
Net cash provided by operating activities	66,492	20,347
Cash flows used in investing activities:		
Proceeds from loan with Idaho Wind		5,110
Change in restricted cash	(6,349)	(7,524)
Biomass development costs	(123)	(308)
Construction in progress	(163,427)	(15,055)
Purchase of property, plant and equipment and intangibles	(716)	(338)
Net cash used in investing activities	(170,615)	(18,115)
Cash flows (used in) provided by financing activities:		
Proceeds from issuance of project-level debt	184,216	2,781
Repayment of project-level debt	(2,725)	(3,400)
Proceeds from revolving credit facility borrowings	22,800	
Repayments of revolving credit facility borrowings	(8,000)	
Dividends paid	(36,031)	(18,852)
Deferred financing costs	(10,179)	
Net cash provided by (used in) financing activities	150,081	(19,471)
Net (decrease) increase in cash and cash equivalents	45,958	(17,239)
Cash and cash equivalents at beginning of period	60,651	45,497
Cash and cash equivalents at end of period	$ 106,609	$ 28,258
Supplemental cash flow information		
Interest paid	$ 17,953	$ 4,659
Income taxes paid, net	$ 644	$ 14
Accruals for capital expenditures	$ 3,695	$

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of presentation and summary of significant accounting policies

Overview

Atlantic Power is a power generation and infrastructure company with a portfolio of assets in the United States and Canada. Our power generation projects sell electricity to utilities and other large commercial customers under long-term power purchase agreements ("PPAs"), which seek to minimize exposure to changes in commodity prices. Our power generation projects in operation have an aggregate gross electric generation capacity of approximately 3,397 MW in which our ownership interest is approximately 2,141 MW. Our current portfolio consists of interests in 31 operational power generation projects across 11 states in the United States and two provinces in Canada and an 84 mile 500-kilovolt electric transmission line located in California. In addition, we have one 53 MW biomass project under construction in Georgia and one approximately 300 MW wind project under construction in Oklahoma. Atlantic Power also owns a majority interest in Rollcast Energy, a biomass power plant developer in North Carolina.

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 200 Clarendon Street, Floor 25, Boston, Massachusetts, 02116, USA. Our telephone number in Boston is (617) 977-2400 and the address of our website is www.atlanticpower.com. We make available, free of charge, on our website 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.

The interim consolidated financial statements 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, 2011. 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 March 31, 2012, the results of operations for the three month periods ended March 31, 2012 and 2011, and our cash flows for the three month periods ended March 31, 2012 and 2011.

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, intangible assets and liabilities related to PPAs and fuel supply agreements, the recoverability of equity investments, the recoverability of deferred tax

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

1. Basis of presentation and summary of significant accounting policies (Continued)

assets, tax provisions, the valuation of shares associated with our Long-Term Incentive Plan ("LTIP") and the fair value of financial instruments and derivatives. 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. 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.

Recently issued accounting standards

Adopted

On January 1, 2012, we adopted changes issued by the Financial Accounting Standards Board ("FASB") to conform existing guidance regarding fair value measurement and disclosure between GAAP and International Financial Reporting Standards. These changes both clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements and amend certain principles or requirements for measuring fair value or for disclosing information about fair value measurements. The clarifying changes relate to the application of the highest and best use and valuation premise concepts, measuring the fair value of an instrument classified in a reporting entity's shareholders' equity, and disclosure of quantitative information about unobservable inputs used for Level 3 fair value measurements. The amendments relate to measuring the fair value of financial instruments that are managed within a portfolio; application of premiums and discounts in a fair value measurement; and additional disclosures concerning the valuation processes used and sensitivity of the fair value measurement to changes in unobservable inputs for those items categorized as Level 3, a reporting entity's use of a nonfinancial asset in a way that differs from the asset's highest and best use, and the categorization by level in the fair value hierarchy for items required to be measured at fair value for disclosure purposes only. The adoption of these changes had no impact on our consolidated financial statements.

On January 1, 2012, we adopted changes issued by the FASB to the presentation of comprehensive income. These changes give an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements; the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity was eliminated. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share. We elected to present the two-statement option. Other than the change in presentation, the adoption of these changes had no impact on our consolidated financial statements.

2. Acquisitions and divestitures

2012 Acquisition

On January 31, 2012, Atlantic Oklahoma Wind, LLC ("Atlantic OW"), a Delaware limited liability company and our wholly owned subsidiary, entered into a purchase and sale agreement with Apex Wind Energy Holdings, LLC, a Delaware limited liability company ("Apex"), pursuant to which

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Acquisitions and divestitures (Continued)

Atlantic OW acquired a 51% interest in Canadian Hills Wind, LLC, an Oklahoma limited liability company ("Canadian Hills") for a nominal sum. Canadian Hills is the owner of a 298.45 MW wind energy project under construction in the state of Oklahoma. On March 30, 2012, we completed the purchase of an additional 48% interest in the Canadian Hills for a nominal amount, bringing our total interest in the project to 99%. Apex retained a 1% interest in the project. We also closed on a $310 million non-recourse, project-level construction financing facility for the project, which includes a $290 million construction loan and a $20 million 5-year letter of credit facility. The construction loan is structured to be repaid by a tax equity investment, in which we are actively pursuing, when Canadian Hills commences commercial operations. We are committed to investing approximately $180 million of equity (net of financing costs) following the funding of the construction financing. The acquisition of Canadian Hills was accounted for as an asset purchase and is consolidated in our consolidated balance sheet at March 31, 2012.

Purchase Accounting Adjustment

In the three months ended March 31, 2012, we recorded an adjustment to intangible assets for PPAs and fuel supply agreement liabilities that resulted from our acquisition of Atlantic Power Limited Partnership, formerly Capital Power Income L.P. (the "Partnership") on November 5, 2011. The fair values of these assets acquired and liabilities assumed were refined based upon further analysis as the purchase price allocation at December 31, 2011 was preliminary. Fair values were determined by applying an income approach using the discounted cash flow method. These measurements were based on significant inputs not observable in the market and thus represent a Level 3 fair value measurement. As a result of the adjustment, intangible assets increased by $26.0 million and fuel supply agreement liabilities increased by $26.0 million in the three months ended March 31, 2012.

2012 Divestiture

On February 16, 2012, we entered into an agreement with Primary Energy Recycling Corporation ("Primary Energy" or "PERC"), whereby PERC agreed to purchase our 7,462,830.33 common membership interests in Primary Energy Recycling Holdings, LLC ("PERH") (14.3% of PERH total interests) for approximately $24 million, plus a management agreement termination fee of approximately $6.1 million, for a total sale price of $30.1 million. The agreed upon price for our private interest in PERH was established as of December 19, 2011 and represented a 16% discount to the 60-day volume weighted average trading price of PERH's common shares at that time. The transaction remains subject to pricing adjustment or termination under certain circumstances. Completion of the transaction is subject to PERC obtaining financing and is expected to close during the second quarter of 2012.

2011 Divestiture

On February 28, 2011, we entered into a purchase and sale agreement with a third party for the purchase of our lessor interest in the Topsham project. The transaction closed on May 6, 2011 and we received proceeds of $8.5 million. No gain or loss was recorded on the sale.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Equity method investments

The following summarizes the operating results for the three months ended March 31, 2012 and 2011, respectively, for our equity earnings interest in our equity method investments:

	Three months ended March 31, 2012	Three months ended March 31, 2011
Revenue		
Chambers	$ 13,227	$ 13,269
Badger Creek	1,179	3,316
Gregory	4,315	7,181
Orlando	10,812	9,926
Selkirk	12,062	10,902
Other	11,733	1,821
	53,328	46,415
Project expenses		
Chambers	9,753	9,380
Badger Creek	1,137	2,983
Gregory	5,780	6,630
Orlando	10,093	9,463
Selkirk	10,335	12,659
Other	8,394	1,428
	45,492	42,543
Project other income (expense)		
Chambers	(1,193)	(427)
Badger Creek	(4)	
Gregory	(83)	(38)
Orlando	(14)	(30)
Selkirk	(65)	(1,636)
Other	(3,530)	(430)
	(4,889)	(2,561)
Project income (loss)		
Chambers	2,281	3,462
Badger Creek	38	333
Gregory	(1,548)	513
Orlando	705	433
Selkirk	1,662	(3,393)
Other	(191)	(37)
	2,947	1,311

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Accumulated depreciation and amortization

The following table presents accumulated depreciation of property, plant and equipment and the accumulated amortization of transmission system rights and other intangible assets as of March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Property, plant and equipment	$ 132,208	$ 116,287
Transmission system rights	53,350	51,387
Other intangible assets and power purchase and fuel liabilities	110,752	88,808

5. Long-term debt

Long-term debt consists of the following:

	March 31, 2012	December 31, 2011	Interest Rate
Recourse Debt:			
Senior notes, due 2018	$ 460,000	$ 460,000	9.00%
Senior unsecured notes, due June 2036 (Cdn$210,000)	210,526	206,490	5.95%
Senior unsecured notes, due July 2014	190,000	190,000	5.90%
Senior unsecured notes, due August 2017	150,000	150,000	5.87%
Senior unsecured notes, due August 2019	75,000	75,000	5.97%
Non-Recourse Debt:			
Epsilon Power Partners term facility, due 2019	34,608	34,982	7.40%
Path 15 senior secured bonds	145,880	145,879	7.90% 9.00%
Auburndale term loan, due 2013	10,150	11,900	5.10%
Cadillac term loan, due 2025	39,631	40,231	6.02% 8.00%
Piedmont construction loan, due 2013	108,863	100,796	Libor plus 3.50%
Canadian Hills construction loan, due 2013	176,149		Libor plus 3.00%
Purchase accounting fair value adjustments	10,398	10,580	
Less current maturities	(246,520)	(20,958)	
Total long-term debt	$ 1,364,685	$ 1,404,900	

Notes of Atlantic Power (US) GP

Atlantic Power (US) GP, an indirect, wholly owned subsidiary acquired in connection with the acquisition of the Partnership, has outstanding $150.0 million aggregate principal amount of 5.87% senior guaranteed notes, Series A, due August 2017 (the "Series A Notes"). Interest on the Series A Notes is payable semi-annually at 5.87%. Atlantic Power (US) GP also has outstanding $75.0 million aggregate principal amount of 5.97% senior guaranteed notes, Series B, due August 2019 (the "Series B Notes"). Interest on the Series B Notes is payable semi-annually at 5.97%. The Series A Notes and Series B Notes are guaranteed by the Partnership and by Curtis Palmer LLC, a wholly-owned subsidiary of the Partnership.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Long-term debt (Continued)

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. At March 31, 2012, all of our projects were in compliance with the covenants contained in project-level debt. However, our Epsilon Power Partners, Selkirk, Delta-Person and Gregory projects had not achieved the levels of debt service coverage ratios required by the project-level debt arrangements as a condition to make distributions and were therefore restricted from making distributions to us.

Senior Credit Facility

As of March 31, 2012, $72.8 million was drawn on the senior credit facility and $139.1 million was issued in letters of credit, but not drawn, to support contractual credit requirements at several of our projects and the applicable margin was 2.75%.

6. 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 March 31, 2012 and December 31, 2011. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

	March 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 106,609	$	$	$ 106,609
Restricted cash	27,761			27,761
Derivative instruments asset		27,199		27,199
Total	$ 134,370	$ 27,199	$	$ 161,569
Liabilities:				
Derivative instruments liability	$	$ 159,903	$	$ 159,903
Total	$	$ 159,903	$	$ 159,903

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Fair value of financial instruments (Continued)

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 60,651	$	$	$ 60,651
Restricted cash	21,412			21,412
Derivative instruments asset		32,414		32,414
Total	$ 82,063	$ 32,414	$	$ 114,477
Liabilities:				
Derivative instruments liability	$	$ 53,762	$	$ 53,762
Total	$	$ 53,762	$	$ 53,762

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 March 31, 2012, the credit valuation adjustments resulted in a $27.1 million net increase in fair value, which consists of a $0.6 million pre-tax gain in other comprehensive income and a $26.6 million gain in change in fair value of derivative instruments, offset by a $.01 million loss in foreign exchange. As of December 31, 2011, the credit valuation adjustments resulted in a $5.8 million net increase in fair value, which consists of a $0.9 million pre-tax gain in other comprehensive income and a $5.1 million gain in change in fair value of derivative instruments, offset by a $0.2 million loss in foreign exchange.

7. 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. For certain contracts designated as cash flow hedges, we defer the effective portion of the change in fair value of the derivatives to accumulated other comprehensive income (loss), until the hedged transactions occur and are recognized in earnings. The ineffective portion of a cash flow hedge is immediately recognized in earnings.

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

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

Gas purchase agreements

On March 12, 2012, we discontinued the application of the normal purchase normal sales ("NPNS") exemption on gas purchase agreements at our North Bay, Kapuskasing and Nipigon projects. On that date, we entered into an agreement with a third party that resulted in the gas purchase agreements net settling. The agreements at North Bay and Kapuskasing expire on December 31, 2016 and the agreements at Nipigon expire on December 31, 2012. These gas purchase agreements are derivative financial instruments and are recorded in the consolidated balance sheet at fair value at March 31, 2012 and the changes in their fair market value from the date NPNS was discontinued through March 31, 2012 are recorded in the consolidated statement of operations.

Natural gas swaps

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. In the third quarter of 2010 we entered into natural gas swaps in order to effectively fix the price of 1.2 million Mmbtu of future natural gas purchases representing approximately 25% of our share of the expected natural gas purchases at the project during 2014 and 2015. In the third quarter of 2011, we entered into additional natural gas swaps for 2014 and 2015 increasing the total to 2.0 million Mmbtu or approximately 40% of our share of expected natural gas purchases for that period. Also in the third quarter of 2011, we entered into natural gas swaps to effectively fix the price of 1.3 million Mmbtu of future natural gas purchases representing approximately 25% of our share of the expected natural gas purchases at the project during 2016 and 2017.

The Lake project's operating margin is exposed to changes in natural gas spot market prices through the expiration of its PPA on July 31, 2013. The Auburndale project purchases natural gas under a fuel supply agreement that provides approximately 80% of the project's fuel requirements at fixed prices through June 30, 2012. The remaining 20% is purchased at spot market prices and therefore the project is exposed to changes in natural gas prices for that portion of its gas requirements through the termination of the fuel supply agreement and 100% of its natural gas requirements from the expiration of the fuel supply agreement in mid-2012 until the termination of its PPA at the end of 2013. Our strategy to mitigate the future exposure to changes in natural gas prices at Orlando, Lake and Auburndale 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 sheet at fair value and the changes in their fair market value 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 6.02% from February 16, 2011 to February 15, 2015, 6.14% from February 16, 2015 to February 15, 2019, 6.26% from February 16, 2019 to February 15, 2023, and 6.38% 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 changes in the fair market value is recorded in accumulated other comprehensive income.

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

The Auburndale project hedged a portion of its exposure to changes in interest rates related to its variable-rate debt. The interest rate swap agreement effectively converted the floating rate debt to a fixed interest rate of 5.10%. The notional amount of the swap matches the outstanding principal balance over the remaining life of Auburndale's debt. This swap agreement is effective through November 30, 2013. The interest rate swap agreement was designated as a cash flow hedge of the forecasted interest payments under the project-level Auburndale debt agreement and changes in the fair market value is recorded in accumulated other comprehensive income.

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 converted the floating rate debt to a fixed interest rate of 1.7% plus an applicable margin ranging from 3.5% to 3.75% from March 31, 2011 to 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 8.47%. The swap continues at the fixed rate of 4.47% from the maturity of the debt in November 2017 until November 2030. The notional amounts of the interest rate swap agreements match the estimated outstanding principal balance of Piedmont's cash grant bridge loan and the construction loan facility that will convert to a term loan. The interest rate swaps were executed in the fourth quarter 2010 and expire on February 29, 2016 and November 30, 2030. 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.

In July 2007, we executed an interest rate swap to economically fix the exposure to changes in interest rates related to the variable-rate non-recourse debt at our wholly owned subsidiary Epsilon Power Partners. The interest rate swap agreement effectively converted the floating rate debt to a fixed interest rate of 5.29%. In June 2010, the swap agreement was amended to reduce the fixed interest rate 4.24% and extend the maturity date from July 2012 to July 2019. The notional amount of the swap matches the outstanding principal balance over the remaining life of Epsilon Power Partners' debt. This interest rate swap agreement is not designated as a hedge and changes in its fair market value are recorded in the consolidated statements of operations.

Foreign currency forward contracts

We use foreign currency forward contracts to manage our exposure to changes in foreign exchange rates, as we generate cash flow in U.S. dollars and Canadian dollars but pay dividends to shareholders and interest on convertible debentures and long-term debt predominantly in Canadian dollars. We have a hedging strategy for the purpose of mitigating the currency risk impact on the long-term sustainability of dividends to shareholders. We have executed this strategy by entering into forward contracts to purchase Canadian dollars at a fixed rate to hedge approximately 85% of our expected dividend and convertible debenture interest payments through 2015. Changes in the fair value of the forward contracts partially offset foreign exchange gain or losses on the U.S. dollar equivalent of our Canadian dollar obligations. At March 31, 2012, the forward contracts consist of (1) monthly purchases through the end of 2013 of Cdn$6.0 million at an exchange rate of Cdn$1.134 per U.S. dollar and (2) contracts assumed in our acquisition of the Partnership with various expiration dates through December 2015 to purchase a total of Cdn$123.0 million at an average exchange rate of Cdn$1.127 per U.S. dollar. It is our intention to periodically consider extending the length or terminating these forward contracts.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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 normal purchases and normal sales exception as of March 31, 2012 and December 31, 2011:

	Units	March 31, 2012	December 31, 2011
Natural gas swaps	Natural gas (Mmbtu)	12,870	14,140
Gas purchase agreements	Natural gas (GJ)	31,785	33,957
Interest rate swaps	Interest (US$)	$ 51,376	$ 52,711
Currency forwards	Cdn$	$ 248,986	$ 312,533

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:

	March 31, 2012	
	Derivative Assets	Derivative Liabilities
Derivative instruments designated as cash flow hedges:		
Interest rate swaps current	$	$ 1,747
Interest rate swaps long-term		4,627
Total derivative instruments designated as cash flow hedges		6,374
Derivative instruments not designated as cash flow hedges:		
Interest rate swaps current		2,755
Interest rate swaps long-term		7,919
Foreign currency forward contracts current	10,610	
Foreign currency forward contracts long-term	16,589	
Natural gas swaps current		16,706
Natural gas swaps long-term		19,838
Gas purchase agreements current		28,960
Gas purchase agreements long-term		77,351
Total derivative instruments not designated as cash flow hedges	27,199	153,529
Total derivative instruments	$ 27,199	$ 159,903

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	December 31, 2011 Derivative Assets	December 31, 2011 Derivative Liabilities
Derivative instruments designated as cash flow hedges:		
Interest rate swaps current	$	$ 1,561
Interest rate swaps long-term		5,317
Total derivative instruments designated as cash flow hedges		6,878
Derivative instruments not designated as cash flow hedges:		
Interest rate swaps current		2,587
Interest rate swaps long-term		9,637
Foreign currency forward contracts current	10,630	224
Foreign currency forward contracts long-term	22,224	221
Natural gas swaps current		16,439
Natural gas swaps long-term		18,216
Total derivative instruments not designated as cash flow hedges	32,854	47,324
Total derivative instruments	$ 32,854	$ 54,202

Accumulated other comprehensive income

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 month period ended March 31, 2012	Interest Rate Swaps	Natural Gas Swaps	Total
Accumulated OCI balance at December 31, 2011	$ (1,704)	$ 321	$ (1,383)
Change in fair value of cash flow hedges	15		15
Realized from OCI during the period	287	(57)	230
Accumulated OCI balance at March 31, 2012	$ (1,402)	$ 264	$ (1,138)

For the three month period ended March 31, 2011	Interest Rate Swaps	Natural Gas Swaps	Total
Accumulated OCI balance at December 31, 2010	$ (427)	$ 682	$ 255
Change in fair value of cash flow hedges	721		721
Realized from OCI during the period	(360)	(89)	(449)
Accumulated OCI balance at March 31, 2011	$ (66)	$ 593	$ 527

A $5.1 million loss was deferred in other comprehensive loss for natural gas swap contracts accounted for as cash flow hedges prior to July 1, 2009 when hedge accounting for these natural gas swaps was discontinued prospectively. Amortization of the remaining loss (income) in other comprehensive income of $0.1 million was recorded in change in fair value of derivative instruments for the three month periods ended March 31, 2012 and 2011, respectively.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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:

	Classification of (gain) loss recognized in income	Three months ended March 31, 2012	Three months ended March 31, 2011
Natural gas swaps	Fuel	$ 4,815	$ 2,476
Gas purchase agreements	Fuel	10,829	
Foreign currency forwards	Foreign exchange (gain) loss	(11,930)	(2,537)
Interest rate swaps	Interest, net	1,157	976

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 March 31, 2012	Three months ended March 31, 2011
Natural gas swaps	Change in fair value of derivatives	$ 1,795	$ 2,883
Gas purchase agreements	Change in fair value of derivatives	57,877	
Interest rate swaps	Change in fair value of derivatives	(1,550)	678
		$ 58,122	$ 4,239
Foreign currency forwards	Foreign exchange (gain) loss	$ 5,210	$ (3,436)

8. Income taxes

The difference between the actual tax benefit of $16.3 million for the three months ended March 31, 2012 and the expected income tax benefit, based on a the Canadian enacted statutory rate of 25%, of $13.9 million is primarily due to taxable losses in higher state and local tax jurisdictions.

	Three months ended March 31, 2012	Three months ended March 31, 2011
Current income tax expense (benefit)	$ 1,385	$ (488)
Deferred tax expense (benefit)	(17,676)	2,011
Total income tax expense (benefit)	$ (16,291)	$ 1,523

As of March 31, 2012, we have recorded a valuation allowance of $97.4 million. This amount is comprised primarily of provisions against available 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.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. Long-term incentive plan

The following table summarizes the changes in LTIP notional units during the three months ended March 31, 2012:

	Units	Grant Date Weighted-Average Price per Unit
Outstanding at December 31, 2011	485,781	$ 11.49
Granted	209,009	$ 14.65
Additional shares from dividends	8,172	$ 12.02
Vested	(231,687)	$ 10.10
Outstanding at March 31, 2012	471,275	$ 13.81

Certain awards have a market condition based on our total shareholder return during the performance period compared to a group of peer companies. Compensation expense for notional units granted in 2012 is recorded net of estimated forfeitures. See further details as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

The calculation of simulated total shareholder return under the Monte Carlo model for the remaining time in the performance period for awards with market conditions included the following assumptions as of March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Weighted average risk free rate of return	0.19 0.51%	0.15 0.28%
Dividend yield	8.30%	7.90%
Expected volatility Company	22.2%	22.2%
Expected volatility peer companies	17.1 112.8%	17.3 112.9%
Weighted average remaining measurement period	1.92 years	0.87 years

10. 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, 2012. 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.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

10. Basic and diluted earnings (loss) per share (Continued)

The following table sets forth the diluted net income and potentially dilutive shares utilized in the per share calculation for the three months ended March 31, 2012 and 2011:

	2012	2011
Numerator:		
Net income (loss) attributable to Atlantic Power Corporation	$ (42,292)	$ 6,136
Denominator:		
Weighted average basic shares outstanding	113,578	67,654
Dilutive potential shares:		
Convertible debentures	13,252	14,809
LTIP notional units	478	517
Potentially dilutive shares	127,308	82,980
Diluted EPS	$ (0.37)	$ 0.09

Potentially dilutive shares from convertible debentures and potentially dilutive shares from LTIP notional units have been excluded from fully diluted shares in the three months ended March 31, 2012 because their impact would be anti-dilutive. Potentially dilutive shares from convertible debentures have been excluded from fully diluted shares in the three-month period ended March 31, 2011 because their impact would be anti-dilutive.

11. Segment and geographic information

We revised our reportable business segments during the fourth quarter of 2011 subsequent to our acquisition of the Partnership. The new operating segments are Northeast, Northwest, Southeast, Southwest and Un-allocated Corporate. Financial results for the three months ended March 31, 2012 and 2011 have been presented to reflect the change in operating segments. We revised our segments to align with changes in management's resource allocation and assessment of performance. These changes reflect our current operating focus. The segment classified as Un-allocated Corporate includes activities that support the executive offices, capital structure and costs of being a public registrant. These costs are not allocated to the operating segments when determining segment profit or loss.

We analyze the performance of our operating segments based on Project Adjusted EBITDA which is defined as project income 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

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Segment and geographic information (Continued)

required to be recorded at fair value. A reconciliation of project income to Project Adjusted EBITDA is included in the tables below.

	Northeast	Southeast	Northwest	Southwest	Un-allocated Corporate	Consolidated
Three month period ended March 31, 2012:						
Operating revenues	$ 66,926	$ 41,751	$ 15,300	$ 42,696	$ 937	$ 167,610
Segment assets	1,198,652	431,046	825,138	940,675	80,199	3,475,710
Project Adjusted EBITDA	$ 42,398	$ 21,674	$ 13,439	$ 18,764	$ (3,424)	$ 92,851
Change in fair value of derivative instruments	58,016	406				58,422
Depreciation and amortization	17,447	9,372	10,426	12,657	43	49,945
Interest, net	4,738	169	1,096	2,808	57	8,868
Other project (income) expense	242	14	7	82	(79)	266
Project (loss) income	(38,045)	11,713	1,910	3,217	(3,445)	(24,650)
Administration					7,833	7,833
Interest, net					22,036	22,036
Foreign exchange loss					986	986
Loss from operations before income taxes	(38,045)	11,713	1,910	3,217	(34,300)	(55,505)
Income tax expense (benefit)					(16,291)	(16,291)
Net income (loss)	$ (38,045)	$ 11,713	$ 1,910	$ 3,217	$ (18,009)	$ (39,214)

	Northeast	Southeast	Northwest	Southwest	Un-allocated Corporate	Consolidated
Three month period ended March 31, 2011:						
Operating revenues	$ 4,547	$ 41,426	$	$ 7,644	$ 48	$ 53,665
Segment assets	288,774	360,763	47,156	226,542	84,566	1,007,801
Project Adjusted EBITDA	$ 7,488	$ 19,588	$ 866	$ 8,501	$ (450)	$ 35,993
Change in fair value of derivative instruments	490	(3,274)				(2,784)
Depreciation and amortization	4,596	9,434	439	2,961	7	17,437
Interest, net	2,434	309	370	3,089	38	6,240
Other project (income) expense	200	31				231
Project income	(232)	13,088	57	2,451	(495)	14,869
Administration					4,054	4,054
Interest, net					3,968	3,968
Foreign exchange loss					(658)	(658)
Income from operations before income taxes	(232)	13,088	57	2,451	(7,859)	7,505

Income tax expense					1,523	1,523
Net income (loss)	$ (232)	$ 13,088	$ 57	$ 2,451	$ (9,382)	$ 5,982

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Segment and geographic information (Continued)

The table below provides information, by country, about our consolidated operations for the three months ended March 31, 2012 and 2011. Revenue is recorded in the country in which it is earned and assets are recorded in the country in which they are located.

	Revenue		Property, Plant and Equipment, net	
	2012	2011	2012	2011
United States	$ 104,325	$ 53,665	$ 972,213	$ 284,018
Canada	63,285		577,413	
Total	$ 167,610	$ 53,665	$ 1,549,626	$ 284,018

Progress Energy Florida ("PEF") and the Ontario Electricity Financial Corp ("OEFC") provided 40.1% and 28.5%, respectively, of total consolidated revenues for the three months ended March 31, 2012. PEF and the California Independent System Operator ("CAISO") provided 71.7% and 14.2%, respectively, of total consolidated revenues for the three months ended March 31, 2011. PEF purchases electricity from the Auburndale and Lake projects in the Southeast segment, OEFC purchases electricity from the Calstock, Kapuskasing, Nipigon, North Bay and Tunis projects in the Northeast segment and the CAISO makes payments to Path 15 in the Southwest segment.

12. Commitments and contingencies

IRS Examination

In 2011, the Internal Revenue Service ("IRS") began an examination of our federal income tax returns for the tax years ended December 31, 2007 and 2009. On April 2, 2012, the IRS issued various Notices of Proposed Adjustments. The principal area of the proposed adjustments pertain to the classification of U.S. real property in the calculation of the gain related to our 2009 conversion from the previous Income Participating Security structure to our current traditional common share structure.

We intend to vigorously contest these proposed adjustments, including pursuing all administrative and judicial remedies available to us. The Company expects to be successful in sustaining its positions with no material impact to our financial results. No accrual has been made for any contingency related to any of the proposed adjustments as of March 31, 2012.

Path 15

In February 2011, we filed a rate application with the Federal Energy Regulatory Commission ("FERC") to establish Path 15's revenue requirement at $30.3 million for the 2011-2013 period. On March 7, 2012, Path 15 filed a formal settlement agreement establishing a revenue requirement at $28.8 million with the Administrative Law Judge for her review and certification to FERC for approval. All of the parties in the rate case either support or do not oppose the settlement agreement. Path 15 expects an order approving the settlement from FERC during the second quarter of 2012.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Commitments and contingencies (Continued)

Lake

Our Lake project is currently involved in a dispute with PEF over off-peak energy sales in 2010. All amounts billed for off-peak energy during 2010 by the Lake project have been paid in full by PEF. The Lake project has filed a claim against PEF in which we seek to confirm our contractual right to sell off-peak energy at the contractual price for such sales. PEF filed a counter-claim against the Lake project, seeking, among other things, the return of amounts paid for off-peak power sales during 2010 and a declaratory order clarifying Lake's rights and obligations under the PPA. The Lake project has stopped dispatching during off-peak periods pending the outcome of the dispute. However, we strongly believe that the court will confirm our contractual right to sell off-peak power using the contractual price that was used during 2010 and that we will be able to continue such off-peak power sales for the remainder of the term of the PPA. We have not recorded any reserves related to this dispute and expect that the outcome will not have a material adverse effect on our financial position or results of operations.

Morris

On May 29, 2011, our Morris facility was struck by lightning. As a result, steam and electric deliveries were interrupted to our host Equistar. We believe the interruption constitutes a force majeure under the energy services agreement with Equistar. Equistar disputes this interpretation and has initiated arbitration proceedings under the agreement for recovery of resulting lost profits and equipment damage among other items. The agreement with Equistar specifically shields Morris from exposure to consequential damages incurred by Equistar and management expects our insurance to cover any material losses we might incur in connection with such proceedings, including settlement costs. Management will attempt to resolve the arbitration through settlement discussions, but is prepared to vigorously defend the arbitration on the merits.

Other

From time to time, Atlantic Power, its subsidiaries and the projects are parties to disputes and litigation that arise in the normal course of business. We assess our exposure to these matters and record estimated loss contingencies when a loss is likely and can be reasonably estimated. There are no matters pending as of March 31, 2012 which are expected to have a material adverse impact on our financial position or results of operations.

13. Condensed consolidating financial information

As of March 31, 2012 and December 31, 2011, we had $460.0 million of 9.00% senior notes due November 2018 (the "Senior Notes"). These notes are guaranteed by certain of our wholly owned subsidiaries, or guarantor subsidiaries.

Unless otherwise noted below, each of the following guarantor subsidiaries fully and unconditionally guaranteed the Senior Notes as of March 31, 2012:

Atlantic Power Limited Partnership, Atlantic Power GP Inc., Atlantic Power (US) GP, Atlantic Power Corporation, Atlantic Power Generation, Inc., Atlantic Power Transmission, Inc., Atlantic Power Holdings, Inc., Atlantic Power Services Canada GP Inc., Atlantic Power Services Canada LP, Atlantic

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

13. Condensed consolidating financial information (Continued)

Power Services, LLC, Teton Power Funding, LLC, Harbor Capital Holdings, LLC, Epsilon Power Funding, LLC, Atlantic Auburndale, LLC, Auburndale LP, LLC, Auburndale GP, LLC, Badger Power Generation I, LLC, Badger Power Generation, II, LLC, Badger Power Associates, LP, Atlantic Cadillac Holdings, LLC, Atlantic Idaho Wind Holdings, LLC, Atlantic Idaho Wind C, LLC, Baker Lake Hydro, LLC, Olympia Hydro, LLC, Teton East Coast Generation, LLC, NCP Gem, LLC, NCP Lake Power, LLC, Lake Investment, LP, Teton New Lake, LLC, Lake Cogen Ltd., Atlantic Renewables Holdings, LLC, Orlando Power Generation I, LLC, Orlando Power Generation II, LLC, NCP Dade Power, LLC, NCP Pasco LLC, Dade Investment, LP, Pasco Cogen, Ltd., Atlantic Piedmont Holdings LLC, Teton Selkirk, LLC, Atlantic Oklahoma Wind, LLC, and Teton Operating Services, LLC.

In addition, as of March 31, 2012, Curtis Palmer, LLC, fully and unconditionally guaranteed Atlantic Power Limited Partnership's guarantee of the Senior Notes.

The following condensed consolidating financial information presents the financial information of Atlantic Power, the guarantor subsidiaries and Curtis Palmer LLC in accordance with Rule 3-10 under the SEC's Regulation S-X. The financial information may not necessarily be indicative of results of operations or financial position had the guarantor subsidiaries or Curtis Palmer LLC operated as independent entities.

In this presentation, Atlantic Power consists of parent company operations. Guarantor subsidiaries of Atlantic Power are reported on a combined basis. For companies acquired, the fair values of the assets and liabilities acquired have been presented on a push-down accounting basis.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

13. Condensed consolidating financial information (Continued)

ATLANTIC POWER CORPORATION

CONDENSED CONSOLIDATING BALANCE SHEET

March 31, 2012

(in thousands of U.S. dollars)
(Unaudited)

	Guarantor Subsidiaries	Curtis Palmer	Atlantic Power	Eliminations	Consolidated Balance
Assets					
Current Assets:					
Cash and cash equivalents	$ 100,827	$ (78)	$ 5,860	$	$ 106,609
Restricted cash	27,761				27,761
Accounts receivable	89,392	17,477	2,996	(50,364)	59,501
Prepayments, supplies, and other	39,555	1,167	1,139		41,861
Other current assets	4,055		8,856		12,911
Total current assets	261,590	18,566	18,851	(50,364)	248,643
Property, plant, and equipment, net	1,375,605	175,087		(1,066)	1,549,626
Transmission system rights	178,319				178,319
Equity investments in unconsolidated affiliates	5,053,320		865,104	(5,441,326)	477,098
Other intangible assets, net	582,491	166,067		(150,925)	597,633
Goodwill	285,358	58,228			343,586
Other assets	483,401		438,639	(841,235)	80,805
Total assets	$ 8,220,084	$ 417,948	$ 1,322,594	$ (6,484,916)	$ 3,475,710
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities	$ 99,992	$ 4,704	$ 38,672	$ (50,364)	$ 93,004
Revolving credit facility	22,800		50,000		72,800
Current portion of long-term debt	246,520				246,520
Other current liabilities	51,308		13,468		64,776
Total current liabilities	420,620	4,704	102,140	(50,364)	477,100
Long-term debt	714,685	190,000	460,000		1,364,685
Convertible debentures			193,269		193,269
Other non-current liabilities	1,214,271	8,135	948	(841,235)	382,119
Equity					
Preferred shares issued by a subsidiary company	221,304				221,304
Common shares	5,094,502	208,991	1,217,893	(5,303,493)	1,217,893
Accumulated other comprehensive income (loss)	12,216				12,216
Retained deficit	539,619	6,118	(651,656)	(289,824)	(395,743)

Total Atlantic Power Corporation shareholders' equity	5,867,641	215,109	566,237	(5,593,317)	1,055,670
Noncontrolling interest	2,867				2,867
Total equity	5,870,508	215,109	566,237	(5,593,317)	1,058,537
Total liabilities and equity	$ 8,220,084	$ 417,948	$ 1,322,594	$ (6,484,916)	$ 3,475,710