ATLANTIC POWER CORP
Form 10-Q
May 14, 2010

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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, 2010

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 o No ý

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 o 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 o	Non-accelerated filer ý (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 14, 2010 was 60,510,070.

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ATLANTIC POWER CORPORATION

FORM 10-Q

THREE MONTHS ENDED MARCH 31, 2010

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GENERAL

In this 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 Form 10-Q to "we," "us," "our" and "Atlantic Power" refer to Atlantic Power Corporation, those entities owned or controlled by Atlantic Power Corporation and predecessors of Atlantic Power Corporation.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q, including documents incorporated by reference herein, constitute "forward-looking statements." Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook," "objective," "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "should," "plans," "continue," or similar expressions suggesting future outcomes or events. Examples of such statements in this Quarterly Report on Form 10-Q include, but are not limited to, statements with respect to the following:

- expected opportunities for accretive acquisitions;
- our planned application to have our common shares listed on the New York Stock Exchange;
- the expectation that our cash on hand and projected future cash flows from existing projects will be adequate to meet the current level of cash distributions to shareholders into 2015 without additional acquisitions or organic growth;
- the amount of distributions expected to be received from the projects for the full year 2010;
- estimated net cash tax refund in 2010;
- estimated levels of cash flow and estimated payout ratios for 2010, 2011 and 2012;
- our forecast of expected annual cash distributions from the Lake and Auburndale projects through 2012; and
- the expected resumption of distributions from our Chambers and Selkirk projects in 2011.

Such forward-looking statements reflect our current expectations regarding future events and operating performance and speak only as of the date of this Quarterly Report on Form 10-Q. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to the assumption that the projects will operate and perform in accordance with our expectations. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risk Factors" included in the filings we make from time to time with the Securities and Exchange Commission. Our business is both competitive and subject to various risks.

These risks include, without limitation:

- a reduction in revenue upon expiration or termination of power purchase agreements;

the dependence of our projects on their electricity, thermal energy and transmission services customers;

exposure of certain of our projects to fluctuations in the price of electricity;

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- projects not operating according to plan;
- the impact of significant environmental and other regulations on our projects;
- increased competition, including for acquisitions; and
- our limited control over the operation of certain minority-owned projects.

Other factors, such as general economic conditions, including exchange rate fluctuations, also may have an effect on the results of our operations. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. For a description of risks that could cause our actual results to materially differ from our current expectations, please see "Risk Factors" included in the filings we make from time to time with the Securities and Exchange Commission.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include third party projections of regional fuel and electric capacity and energy prices or cash flows that are based on assumptions about future economic conditions and courses of action. Although the forward-looking statements contained in this Quarterly Report on Form 10-Q are based upon what are believed to be reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward-looking statements, and the differences may be material. Certain statements included in this Quarterly Report on Form 10-Q may be considered "financial outlook" for the purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this Quarterly Report on Form 10-Q.

These forward-looking statements are made as of the date of this Form 10-Q, except as expressly required by applicable law, we assume no obligation to update or revise them to reflect new events or circumstances.

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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, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 44,356	$ 49,850
Restricted cash	22,385	14,859
Accounts receivable	17,130	17,480
Current portion of derivative instruments asset (Notes 7 and 8)	7,664	5,619
Prepayments, supplies and other	3,811	3,019
Deferred income taxes	20,302	17,887
Refundable income taxes	10,491	10,552
Total current assets	126,139	119,266
Property, plant and equipment, net (Note 5)	191,515	193,822
Transmission system rights, net (Note 5)	194,021	195,984
Equity investments in unconsolidated affiliates	260,694	259,230
Other intangible assets, net (Note 5)	72,651	71,770
Goodwill	8,918	8,918
Derivative instruments asset (Notes 7 and 8)	16,847	14,289
Other assets	5,892	6,297
Total assets	$ 876,677	$ 869,576
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 23,006	$ 21,661
Current portion of long-term debt (Note 6)	18,405	18,280
Current portion of derivative instruments liability (Notes 7 and 8)	9,693	6,512
Interest payable on convertible debentures	3,114	800
Dividends payable	5,423	5,242
Other current liabilities	495	752
Total current liabilities	60,136	53,247
Long-term debt (Note 6)	221,074	224,081
Convertible debentures	143,975	139,153
Derivative instruments liability (Notes 7 and 8)	14,139	5,513
Deferred income taxes	36,018	28,619
Other non-current liabilities	5,927	4,846
Shareholders' equity:		
Common shares	541,917	541,917
Accumulated other comprehensive loss (Note 8)	(627)	(859)

Retained deficit		(149,071)		(126,941)
Noncontrolling interest (Note 4)		3,189		
Total shareholders' equity		395,408		414,117
Commitments and contingencies (Note 14)				
Subsequent events (Notes 4, 10 and 15)				
Total liabilities and shareholders' equity	$	876,677	$	869,576

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, 2010	Three months ended March 31, 2009
Project revenue:		
Energy sales	$ 15,913	$ 15,925
Energy capacity revenue	23,194	22,112
Transmission services	7,644	7,708
Other	470	289
	47,221	46,034
Project expenses:		
Fuel	16,157	14,961
Operations and maintenance	5,041	4,938
Project operator fees and expenses	919	1,273
Depreciation and amortization	10,071	10,666
	32,188	31,838
Project other income (expense):		
Change in fair value of derivative instruments (Notes 7 and 8)	(12,194)	(109)
Equity in earnings of unconsolidated affiliates	5,436	4,951
Interest, net	(4,411)	(4,504)
	(11,169)	338
Project income	3,864	14,534
Administrative and other expenses (income):		
Management fees and administration	4,100	2,379
Interest, net	2,794	9,617
Foreign exchange gain (Note 8)	(1,792)	(3,423)
Other income, net		(16)
	5,102	8,557
Income (loss) from operations before income taxes	(1,238)	5,977
Income tax expense (Note 9)	4,873	1,734
Net income (loss)	(6,111)	4,243
Less: Net loss attributable to noncontrolling interest	(48)	
Net income (loss) attributable to Atlantic Power Corporation	$ (6,063)	$ 4,243
Net income (loss) per share attributable to Atlantic Power Corporation shareholders:		
Basic	$ (0.10)	$ 0.07
Diluted	$ (0.10)	$ 0.07

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, 2010	Three months ended March 31, 2009
Cash flows from operating activities:		
Net (loss) income	$ (6,111)	$ 4,243
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	10,071	10,666
Loss on sale of property, plant and equipment		333
Distributions and equity in earnings from unconsolidated affiliates	(4,102)	1,121
Unrealized foreign exchange gain	(623)	(3,980)
Change in fair value of derivative instruments	12,194	109
Change in deferred income taxes	4,829	1,655
Change in other operating balances, net of acquisitions and disposition effects:		
Accounts receivable	350	5,979
Prepayments, refundable income taxes and other assets	(372)	(2,244)
Accounts payable and accrued liabilities	2,290	(119)
Other liabilities	2,313	590
Cash provided by operating activities	20,839	18,353
Cash flows from investing activities:		
Acquisitions and investments, net of cash acquired	324	(3,000)
Change in restricted cash (Note 1)	(7,526)	(5,418)
Biomass development costs	(317)	
Purchases of property, plant and equipment	(319)	(622)
Cash used in investing activities	(7,838)	(9,040)
Cash flows from financing activities:		
Dividends paid	(15,795)	(5,593)
Repayment of project-level debt	(2,700)	(1,306)
Cash used in financing activities	(18,495)	(6,899)
Increase (decrease) in cash and cash equivalents	(5,494)	2,414
Cash and cash equivalents, beginning of period	49,850	37,327
Cash and cash equivalents, end of period	$ 44,356	$ 39,741
Supplemental cash flow information:		
Interest paid	$ 1,450	$ 10,201
Income taxes paid (refunded)	$ (26)	$ 766

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

Overview

Atlantic Power Corporation ("Atlantic Power") is a corporation established under the laws of the Province of Ontario on June 18, 2004 and continued to the Province of British Columbia on July 8, 2005. We issued income participating securities ("IPSs") for cash pursuant to an initial public offering on November 18, 2004. Each IPS was comprised of one common share and Cdn$5.767 principal value of 11% subordinated notes due 2016. On November 27, 2009 our shareholders approved a conversion from the IPS structure to a traditional common share structure. Each IPS has been exchanged for one new common share and each old common share that did not form a part of an IPS was exchanged for approximately 0.44 of a new common share.

We currently own, through our wholly-owned subsidiaries Atlantic Power Transmission, Inc. and Atlantic Power Generation, Inc. indirect interests in 12 power generation projects and one transmission line located in the United States. Four of our Projects are wholly-owned subsidiaries: Lake Cogen, Ltd., Pasco Cogen, Ltd., Auburndale Power Partners, L.P. and Atlantic Path 15, LLC.

Our registered office is located at 355 Burrard Street, Suite 1900, Vancouver, British Columbia V6C 2G8 and our headquarters is located at 200 Clarendon Street, Floor 25, Boston, Massachusetts, USA 02116. The telephone number is (617) 977-2400. The address of our website is *atlanticpower.com*. Our recent Canadian securities filings are available through our website.

The interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") with a reconciliation to Canadian GAAP in Note 16. The Canadian securities legislation allow issuers that are required to file reports with the Securities and Exchange Commission ("SEC") in the United States to file financial statements under United States GAAP to meet their continuous disclosure obligations in Canada. Prior to 2010, we prepared our consolidated financial statements in accordance with Canadian GAAP.

The interim consolidated financial statements do not contain all the disclosures required by United States and Canadian GAAP. The interim consolidated financial statements have been prepared in accordance with the SEC's regulations for interim financial information and with the instructions to Form 10-Q. The accounting policies we follow are set forth below in Note 2, *Summary of significant accounting policies.* The interim consolidated financial statements follow the same accounting principles and methods of application as the most recent annual consolidated financial statements as there are no material differences in our accounting policies between United States and Canadian GAAP at March 31, 2010 other than as denoted in Note 16. Interim results are not necessarily indicative of results for a full year.

In our opinion, the accompanying unaudited interim consolidated financial statements contain all material adjustments consisting of normal and recurring accruals necessary to present fairly our consolidated financial position as of March 31, 2010, the results of operations for the three months ended March 31, 2010 and 2009, and our cash flows for the three months ended March 31, 2010 and 2009.

Beginning in the first quarter of 2010, changes in restricted cash in the consolidated statement of cash flows has been reported as an investing activity to reflect the use of the restricted cash in the current period. In previous periods, changes in restricted cash were reported as cash flow from operating activities. The prior period amounts have been reclassified to conform with the current year presentation. This reclassification does not impact the consolidated balance sheet or the consolidated

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Basis of presentation (Continued)

statements of operations. We have changed the classification of restricted cash because the revised presentation is more widely used by companies in our industry.

2. Summary of significant accounting policies

(a) Basis of consolidation and accounting:

The accompanying interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include the consolidated accounts and operations of our subsidiaries in which we have a controlling interest. The usual condition for a controlling financial interest is ownership of the majority of the voting interest of an entity. However, a controlling financial interest may also exist in entities, such as a variable interest entity, through arrangements that do not involve controlling voting interests.

As such, we apply the standard that requires consolidation of variable interest entities ("VIEs"), for which we are the primary beneficiary. The guidance requires a variable interest holder to consolidate a VIE if that party will absorb a majority of the expected losses of the VIE, receive the majority of the expected residual returns of the VIE, or both. We have determined that our investments are not VIEs by evaluating their design and capital structure. Accordingly, we record all of our investments in less than 100% owned entities under the equity method of accounting.

We eliminate all intercompany accounts and transactions in consolidation.

These interim financial statements and notes reflect our evaluation of events occurring subsequent to the balance sheet date through May 14, 2010, the date the financial statements were issued.

(b) 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 and power purchase agreements, the recoverability of equity investments, the recoverability of deferred tax assets, tax provisions, 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.

(c) Revenue:

We recognize energy sales revenue on a gross basis when electricity and steam are delivered under the terms of the related contracts. Revenue associated with capacity payments under the power purchase agreements ("PPAs") are recognized as the lesser of (1) the amount billable under the PPA or (2) an amount determined by the kilowatt hours made available during the period multiplied by the estimated average revenue per kilowatt hour over the term of the PPA.

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

Transmission services revenue is recognized as transmission services are provided. The annual revenue requirement for transmission services is regulated by the Federal Energy Regulatory Commission ("FERC") and is established through a rate-making process that occurs every three years. When actual cash receipts from transmission services revenue are different than the regulated revenue requirement because of timing differences, the over or under collections are deferred until the timing differences reverse in future periods.

(d) Use of fair value:

We utilize a fair value hierarchy that gives the highest priority to quoted prices in active markets and is applicable to fair value measurements of derivative contracts and other instruments that are subject to mark-to-market accounting. Refer to Note 7, for more information.

(e) Derivative financial instruments:

We use derivative financial instruments in the form of interest rate swaps and foreign exchange forward contracts to manage our current and anticipated exposure to fluctuations in interest rates and foreign currency exchange rates. On occasion, we have also entered into natural gas supply contracts and natural gas forwards or swaps to minimize the effects of the price volatility of natural gas which is a major production cost. We do not enter into derivative financial instruments for trading or speculative purposes; however, not all derivatives qualify for hedge accounting.

Derivative financial instruments not designated as a hedge are measured at fair value with changes in fair value recorded in the consolidated statements of operations.

The following table summarizes derivative financial instruments that are not designated as hedges and the accounting treatment in the consolidated statements of operations of the changes in fair value of such derivative financial instrument:

Derivative financial instrument	Location of changes in fair value
Foreign currency forward contracts	Foreign exchange loss (gain)
Lake natural gas swaps	Change in fair value of derivative instruments
Auburndale natural gas swaps	Change in fair value of derivative instruments
Interest rate swap	Change in fair value of derivative instruments

Certain derivative instruments qualify for a scope exception to fair value accounting, as they are considered normal purchases or normal sales. The availability of this exception is based upon the assumption that we have the ability and it is probable to deliver or take delivery of the underlying physical commodity. Derivatives that are considered to be normal purchases and normal sales are exempt from derivative accounting treatment and are recorded as executory contracts.

We have designated one of our interest rate swaps as a hedge of cash flows for accounting purposes. Tests are performed to evaluate hedge effectiveness and ineffectiveness at inception and on an ongoing basis, both retroactively and prospectively. Unrealized gains or losses on the interest rate swap designated within a designated hedging relationship are deferred and recorded as a component of accumulated other comprehensive income (loss) until the hedged transactions occur and are recognized in earnings. The ineffective portion of the cash flow hedge, if any, is immediately recognized in earnings.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

(f) Property, plant and equipment:

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful life of the related asset. As major maintenance occurs, and as parts are replaced on the plant's combustion and steam turbines, these maintenance costs are either expensed or transferred to property, plant and equipment if the maintenance extends the useful lives of the major parts. These costs are depreciated over the parts' estimated useful lives, which is generally three to six years, depending on the nature of maintenance activity performed.

(g) Transmission system rights:

Transmission system rights are an intangible asset that represents the long-term right to approximately 72% of the capacity of the Path 15 transmission line in California. Transmission system rights are amortized on a straight-line basis over 30 years, the regulatory life of Path 15.

(h) Impairment of long-lived assets, non-amortizing intangible assets and equity method investments:

Long-lived assets, such as property, plant and equipment, transmission system rights and other intangible assets subject to depreciation and amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds its fair value.

Investments in and the operating results of 50%-or-less owned entities not required to be consolidated are included in the consolidated financial statements on the basis of the equity method of accounting. We review our investments in such unconsolidated entities for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investments may not be fully recoverable. Evidence of a loss in value that is other than temporary might include the absence of an ability to recover the carrying amount of the investment, the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment, failure of cash flow coverage ratio tests included in project-level non-recourse debt or, where applicable, estimated sales proceeds which are insufficient to recover the carrying amount of the investment. Our assessment as to whether any decline in value is other than temporary is based on our ability and intent to hold the investment and whether evidence indicating the carrying value of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. We generally consider our investments in our equity method investees to be strategic long-term investments. Therefore, we complete our assessments with a long-term view. If the fair value of the investment is determined to be less than the carrying value and the decline in value is considered to be other than temporary, an appropriate write-down is recorded based on the excess of the carrying value over the best estimate of fair value of the investment.

(i) Other intangible assets:

Other intangible assets include PPAs and fuel supply agreements at our projects.

Power purchase agreements are valued at the time of acquisition based on the prices received under the PPAs compared to projected market prices. The balances are presented net of accumulated

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

amortization in the consolidated balance sheets. Amortization is recorded on a straight-line basis over the remaining term of the PPA.

Fuel supply agreements are valued at the time of acquisition based on the prices projected to be paid under the fuel supply agreement relative to projected market prices.

(j) Income taxes:

Income tax expense includes the current tax obligation or benefit and change in deferred income tax asset or liability for the period. We use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant temporary differences. Income tax benefits associated with uncertain tax positions are recognized when we determine that it is more-likely-than-not that the tax position will be ultimately sustained. Refer to Note 9, for more information.

(k) Foreign currency translation:

Our functional currency and reporting currency is the United States dollar. The functional currency of our subsidiaries and other investments is the United States dollar. Monetary assets and liabilities denominated in Canadian dollars are translated into United States dollars using the rate of exchange in effect at the end of the period. All transactions denominated in Canadian dollars are translated into United States dollars at average exchange rates.

(l) Long-term incentive plan:

The officers and other employees of Atlantic Power are eligible to participate in the Long-Term Incentive Plan ("LTIP") that was implemented in 2007 and continued in effect until the end of 2009. On an annual basis, the Board of Directors of Atlantic Power establishes awards that are based on the cash flow performance of Atlantic Power in the most recently completed year, each participant's base salary and the market price of the shares at the award date. Awards are granted in the form of notional units that have similar economic characteristics to our common shares. Notional units vest ratably over a three-year period and are redeemed in a combination of cash and shares upon vesting.

Unvested notional awards are entitled to receive dividends equal to the dividends per common share during the vesting period in the form of additional notional units. Unvested awards are subject to forfeiture if the participant is not an employee at the vesting date or if we do not meet certain ongoing cash flow performance targets.

Compensation expense related to awards granted to participants in the LTIP is recorded over the vesting period based on the estimated fair value of the award at each balance sheet date. Fair value of the awards is determined by projecting the total number of notional units that will vest in future periods, including dividends received on notional units during the vesting period, and applying the current market price per share to the projected number of notional units that will vest. Forfeitures are recorded as they occur and are not included in the estimated fair value of the awards. The aggregate number of shares which may be issued from treasury under the LTIP is limited to one million. All awards are accounted for as liability awards.

In early 2010, the Board of Directors approved an amendment to the LTIP. The amended LTIP will be effective for grants beginning with the 2010 performance year. Under the amended LTIP, the notional units granted to plan participants will have the same characteristics as notional units under the old LTIP. However, the number of notional units granted will be based, in part, on the total

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

shareholder return of Atlantic Power compared to a group of peer companies in Canada. In addition, vesting of the notional units for officers of Atlantic Power will occur on a 3-year cliff basis as opposed to ratable vesting over three years for grants made prior to the amendments. The amended LTIP is subject to shareholder approval.

(m)

Concentration of credit risk:

The financial instruments that potentially expose us to credit risk consist primarily of cash, restricted cash, derivatives and accounts receivable. Cash and restricted cash are held by major financial institutions that are also counterparties to our derivative contracts. We have long-term agreements to sell electricity, gas and steam to public utilities and corporations. We have exposure to trends within the energy industry, including declines in the creditworthiness of our customers. We do not normally require collateral or other security to support energy-related accounts receivable. We do not believe there is significant credit risk associated with accounts receivable due to payment history. See Note 12, *Segment and related information*, for a further discussion of customer concentrations.

(n)

Segments:

We have six reportable segments: Path 15, Auburndale, Lake, Pasco, Chambers and Other Project Assets. Each of our projects is an operating segment. Based on similar economic and other characteristics, we aggregated several of the projects into the Other Project Assets reportable segment.

3. Comprehensive income (loss)

The following table summarizes the components of comprehensive income (loss), net of tax of $11 and $2,395, respectively, for the three months ended March 31, 2010 and 2009:

	March 31, 2010	March 31, 2009
Net income (loss)	$ (6,111)	$ 4,243
Unrealized loss on hedging activity	(16)	(3,593)
Comprehensive income (loss)	$ (6,127)	$ 650

4. Acquisitions

Rollcast

On March 31, 2009, we acquired a 40% equity interest in Rollcast Energy, Inc., a North Carolina Corporation for $3 million in cash consideration. Rollcast is a developer of biomass power plants in the southeastern U.S. with five, 50 MW projects in various stages of development. The investment in Rollcast gives us the option but not the obligation to invest equity in Rollcast's biomass power plants. Two of the development projects have secured 20-year PPAs with terms that allow for fuel cost pass-through to the utility customer.

On March 1, 2010, we paid $1.2 million in cash for an additional 15% of the shares of Rollcast, increasing our interest from 40% to 55% and providing us control of Rollcast. We consolidated Rollcast as of this date. We previously accounted for our 40% interest in Rollcast as an equity method investment.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Acquisitions (Continued)

The following tables summarizes the consideration transferred to acquire Rollcast and the preliminary estimated amounts of identifiable assets acquired and liabilities assumed at the acquisition date, as well as the fair value of the non-controlling interest in Rollcast at the acquisition date:

Fair value of consideration transferred:	
Cash	$ 1,200
Other items to be allocated to identifiable assets acquired and liabilities assumed:	
Fair value of our investment in Rollcast before acquisition date	2,758
Fair value of noncontrolling interest in Rollcast	3,237
Total	7,195
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	$ 1,524
Property, plant and equipment	130
Prepaid expenses and other assets	133
Capitalized development costs	2,705
Intangible assets	3,151
Trade and other payables	(448)
Total identifiable net assets	7,195

The preliminary estimated fair value of the net assets acquired and the noncontrolling interest recorded are estimated based on their carrying values at the acquisition date. We expect to complete our fair value analysis of this acquisition during the second quarter of 2010.

5. 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, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
Property, plant and equipment	$ 77,359	$ 74,567
Transmission system rights	37,648	35,685
Other intangible assets	50,584	45,368

6. Long-term debt

Long-term debt represents our consolidated share of project long-term debt and the unamortized balance of purchase accounting adjustments that were recorded in connection with the Path 15 acquisition in order to adjust the debt to its fair value on the acquisition date. Project debt is

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Long-term debt (Continued)

non-recourse to Atlantic Power and generally amortizes during the term of the respective revenue generating contracts of the projects.

	March 31, 2010	December 31, 2009
Project debt, interest rates ranging from 5.1% to 9.0% maturing through 2028	$ 227,630	$ 230,331
Purchase accounting fair value adjustments	11,849	12,030
Less: current portion of long-term debt	(18,405)	(18,280)
Long-term debt	$ 221,074	$ 224,081

Project-level debt is secured by the respective projects and their contracts with no other recourse to us. At March 31, 2010, all of our projects were in compliance with the covenants contained in project-level debt.

7. Fair value of financial instruments

The following represents the fair value hierarchy of our financial assets and liabilities that were recognized at fair value as of March 31, 2010 and December 31, 2009. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

	March 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 44,356	$	$	$ 44,356
Restricted cash	22,385			22,385
Derivative instruments asset		24,511		24,511
Total	$ 66,741	$ 24,511	$	$ 91,252
Liabilities:				
Derivative instruments liability	$	$ 23,832	$	$ 23,832
Total	$	$ 23,832	$	$ 23,832

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 49,850	$	$	$ 49,850
Restricted cash	14,859			14,859
Derivative instruments asset		19,908		19,908
Total	$ 64,709	$ 19,908	$	$ 84,617
Liabilities:				
Derivative instruments liability	$	$ 12,025	$	$ 12,025

Total	$	$ 12,025	$	$ 12,025

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Fair value of financial instruments (Continued)

We adjust the fair value of financial assets and liabilities to reflect credit risk, which is calculated based on our credit rating or the credit rating of our counterparties. As of March 31, 2010, the credit reserve resulted in a $0.5 million decrease in fair value which is comprised of a $0.8 million gain in change in fair value of derivative instruments offset by a $0.3 million loss in foreign exchange gain.

8. Accounting for derivative instruments and hedging activities

Fair value of derivative instruments

We have elected to disclose derivative 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, 2010	
	Derivative Assets	Derivative Liabilities
Derivatives designated as cash flow hedges:		
Interest rate swap contract current	$	$ 676
Interest rate swap contract long-term		244
Total derivatives designated as cash flow hedges		920
Derivatives not designated as cash flow hedges:		
Interest rate swap contract current		1,738
Interest rate swap contract long-term		1,719
Foreign currency forward contracts current	7,664	
Foreign currency forward contracts long-term	16,847	
Natural gas swap contracts current		7,279
Natural gas swap contracts long-term		12,176
Total derivatives not designated as cash flow hedges	24,511	22,912
Total derivatives	$ 24,511	$ 23,832

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	December 31, 2009 Derivative Assets	December 31, 2009 Derivative Liabilities
Derivatives designated as cash flow hedges:		
Interest rate swap contract current	$	$ 726
Interest rate swap contract long-term		167
Total derivatives designated as cash flow hedges		893
Derivatives not designated as cash flow hedges:		
Interest rate swap contract current		1,705
Interest rate swap contract long-term		1,707
Foreign currency forward contracts current	5,619	
Foreign currency forward contracts long-term	14,289	
Natural gas swap contracts current	95	4,174
Natural gas swap contracts long-term	14	3,655
Total derivatives not designated as cash flow hedges	20,017	11,241
Total derivatives	$ 20,017	$ 12,134

Natural gas swaps

The Lake project's operating margin is exposed to changes in natural gas spot market prices from the expiration of its natural gas supply contract on June 30, 2009 through the expiration of its PPA on July 31, 2013. The Auburndale project purchases natural gas under a fuel supply agreement which 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 expiry of the fuel contract in mid-2012 until the termination of its PPA.

We continue to execute our strategy to mitigate the future exposure to changes in natural gas prices at Lake and Auburndale by periodically entering into financial swaps that effectively fix the price of natural gas required at these projects. These natural gas swaps are derivative financial instruments and are recorded in the consolidated balance sheet at fair value. Changes in the fair value of the natural gas swaps through June 30, 2009 were recorded in other comprehensive income (loss) as they were designated as a hedge of the risk associated with changes in market prices of natural gas. As of July 1, 2009, we de-designated these natural gas swap hedges and the changes in their fair value subsequent to July 1, 2009 are now recorded in change in fair value of derivative instruments in the consolidated statements of operations. Amounts in accumulated other comprehensive income (loss) remaining prior to de-designation are amortized into the consolidated statements of operations over the remaining lives of the natural gas swaps.

Interest Rate Swaps

We have executed an interest rate swap at our consolidated Auburndale project to economically fix a portion of its exposure to changes in interest rates related to its variable-rate debt. The interest rate

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

swap agreement was designated as a cash flow hedge of the forecasted interest payments under the project-level Auburndale debt. The interest rate swap was executed in November 2009 and expires on November 30, 2013.

The interest rate swap is a derivative financial instrument designated as a cash flow hedge. The instrument is recorded in the balance sheet at fair value. Changes in the fair value of the interest rate swap are recorded in accumulated other comprehensive income (loss).

Impact of derivative instruments on the consolidated income statements

Unrealized losses on interest rate swaps designated as cash flow hedges have been recorded in the consolidated statements of operations as a loss in other comprehensive income of $0.9 million for the three-month period ended March 31, 2010. Realized losses on these interest rate swaps of $0.2 million were recorded in interest expense, net for the three months ended March 31, 2010.

Unrealized gains and losses on natural gas swaps designated as cash flow hedges are recorded in other comprehensive income in the consolidated statements of operations. In the period in which the unrealized gains and losses are settled, the cash settlement payments are recorded as fuel expense.

Other comprehensive loss recorded for natural gas swap contracts accounted for as cash flow hedges totaled $5.1 million, net of tax, prior to July 1, 2009 when hedge accounting for these natural gas swaps was discontinued prospectively. Amortization of the loss of $0.4 million was recorded in change in fair value of derivative instruments for the three month period ended March 31, 2010.

Unrealized gains and losses on derivative instruments not designated as cash flow hedges are recorded in change in fair value of derivative instruments in the consolidated statements of operations.

The following table summarizes realized gains and losses for derivatives not designated as cash flow hedges:

	Location of (gain) loss recognized in income	Three months ended March 31, 2010
Natural gas swaps	Fuel	$ 1,818
Foreign currency forwards	Foreign exchange gain	(1,169)
Interest rate swaps	Interest, net	475

Unrealized gains and losses associated with changes in the fair value of derivative instruments not designated as cash flow hedges and ineffectiveness of derivatives designated as cash flow hedges are reflected in current period earnings. The following table summarizes the pre-tax changes in the fair value of derivative financial instruments that are not designated as cash flow hedges for the three months ended March 31, 2010 and 2009:

	March 31, 2010	March 31, 2009
Change in fair value of derivative instruments:		
Interest rate swaps	$ (46)	$ (109)
Natural gas swaps	(12,148)	
	$ (12,194)	$ (109)

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Notional volumes of derivative transactions

The following table summarizes the net notional volume buy/(sell) of our derivative transactions by type, excluding those derivatives that qualified for the normal purchases and normal sales exception as of March 31, 2010:

	Units		Total balance as of March 31, 2010
Interest rate swaps	US$	$	6,384
Currency forwards	Cdn$	$	7,900
Natural gas swaps	Mmbtu		16,870

Foreign currency forward contracts

We use forward foreign currency contracts to manage our exposure to changes in foreign exchange rates, as we earn our income in the U.S. dollars but pay dividends to shareholders and interest on convertibles debentures predominantly in Canadian dollars. Since inception, we have established a hedging strategy for the purpose of reinforcing 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 of Cdn$1.134 per U.S. dollar in amounts sufficient to make monthly dividend payments at the current annual dividend level of Cdn$1.094 per common share, as well as interest payments on our 6.25% convertible debentures due March 15, 2017 (the "2009 Debentures"), through December 2013. It is our intention to periodically consider extending the length of these forward contracts.

In addition, we have executed forward contracts to purchase Canadian dollars at fixed rates of exchange sufficient to make semi-annual payments on our 6.50% convertible secured debentures due October 31, 2014 (the "2006 Debentures"). The contracts provide for the purchase of Cdn$1.9 million in April and in October of each year through 2011 at a rate of Cdn$1.1075 per U.S. dollar.

The foreign exchange forward contracts are recorded at estimated fair value based on quoted market prices and our estimation of the counterparty's credit risk. The fair value of our forward foreign currency contracts at March 31, 2010 is an asset of $24.5 million. Changes in the fair value of the foreign currency forward contracts are recorded in foreign exchange (gain) loss in the consolidated statements of operations.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The following table contains the components of recorded foreign exchange (gain) loss for the three months ended March 31, 2010 and 2009:

	March 31, 2010	March 31, 2009
Unrealized foreign exchange (gain) loss:		
Subordinated notes and convertible debentures	$ (541)	$ (12,767)
Forward contracts and other	(82)	8,787
	(623)	(3,980)
Realized foreign exchange (gains) losses on forward contract settlements	(1,169)	557
	$ (1,792)	$ (3,423)

The following table illustrates the impact on our financial instruments of a 10% hypothetical change in the value of the U.S. dollar compared to the Canadian dollar as of March 31, 2010:

Convertible debentures	$ 14,398
Foreign currency forward contracts	29,237
	$ 43,635

The following table summarizes the effects of applying hedge accounting on accumulated other comprehensive income (loss) ("OCI") balance attributable to hedged derivatives, net of tax:

For the three month period ended March 31, 2010	Interest Rate Swaps	Natural Gas Swaps	Total
Accumulated OCI balance at December 31, 2009	$ (538)	$ (321)	$ (859)
Change in fair value of cash flow hedges	(16)		(16)
Realized from OCI during the period:		248	248
Due to amortization of de-designated cash flow hedges			
Accumulated OCI balance at March 31, 2010	$ (554)	$ (73)	$ (627)

9. Income taxes

The difference between the actual tax expense of $4.9 million for the three months ended March 31, 2010 and the expected income tax benefit of $(0.5) million is primarily due to an increase in the valuation allowance and various other permanent differences.

	March 31, 2010	March 31, 2009
Current income tax expense	$ 44	$ 79
Deferred tax expense	4,829	1,655
Total income tax expense	$ 4,873	$ 1,734

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Income taxes (Continued)

Valuation Allowance

As of March 31, 2010, we have recorded a valuation allowance of $69.8 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.

10. Long-Term Incentive Plan

The following table summarizes our LTIP activity as of March 31, 2010, and the changes during the three months then ended:

	Units	Grant Date Weighted-Average Price per Unit
Outstanding at December 31, 2009	471,281	$ 7.30
Granted	138,892	12.66
Additional shares from dividends	10,566	7.30
Vested	(122,799)	9.71
Outstanding at March 31, 2010	497,940	8.20

In early 2010, the Board of Directors approved an amendment to the LTIP. The amended LTIP will be effective for grants beginning with the 2010 performance year. Under the amended LTIP, the notional units granted to plan participants will have the same characteristics as notional units under the old LTIP. However, the number of notional units granted will be based, in part, on the total shareholder return of Atlantic Power compared to a group of peer companies in Canada. In addition, vesting of the notional units for officers of Atlantic Power will occur on a 3-year cliff basis as opposed to ratable vesting over three years for grants made prior to the amendments. The amended LTIP is subject to shareholder approval.

11. Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average common shares outstanding during their respective period. Diluted earnings (loss) per share is computed including dilutive potential shares as if they were outstanding shares during the year. Dilutive potential shares include shares that would be issued if all of the convertible debentures were converted into shares at January 1, 2009. 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.

Because we reported a loss for the three months ended March 31, 2010, the effect of including potentially dilutive shares in the calculation during the period is anti-dilutive.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The following table sets forth the weighted average number of shares outstanding and potentially dilutive shares utilized in per share calculations for the three months ended March 31, 2010 and 2009:

	March 31, 2010	March 31, 2009
Basic shares outstanding	60,404	60,941
Dilutive potential shares:		
Convertible debentures	11,473	4,839
LTIP notional units	394	308
Potentially dilutive shares	72,271	66,088

12. Segment and related information

We have six reportable segments: Path 15, Auburndale, Lake, Pasco, Chambers and Other Project Assets.

We analyze the performance of our operating segments based on Project Adjusted EBITDA which is defined as project income less 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 unaudited Project Adjusted EBITDA to provide comparative information about project performance without considering how projects are capitalized or whether they contain derivative contracts that are required to be recorded at fair value. A reconciliation of project income to Project Adjusted EBITDA is included in the table below.

	Path 15	Auburndale	Lake	Pasco	Chambers	Other Project Assets	Un-allocated Corporate	Consolidated
Period ended March 31, 2010:								
Operating revenues	$ 7,644	$ 20,467	$ 16,241	$ 2,869	$	$	$	$ 47,221
Segment assets	223,467	126,191	118,320	41,693		7,131	359,875	876,677
Project Adjusted EBITDA	$ 7,053	$ 9,371	$ 7,313	$ 1,415	$ 5,988	$ 7,655	$	$ 38,795
Change in fair value of derivative instruments		4,212	7,935		(173)	546		12,520
Depreciation and amortization	2,099	4,948	2,269	746	837	5,487		16,386
Interest, net	3,146	471	(2)		1,676	487		5,778
Other project (income) expense					199	48		247
Project income	1,808	(260)	(2,889)	669	3,449	1,087		3,864
Interest, net							2,794	2,794
Administration							4,100	4,100
Foreign exchange gain							(1,792)	(1,792)
Other expense, net								
Loss from operations before income taxes	1,808	(260)	(2,889)	669	3,449	1,087	(5,102)	(1,238)
Income tax expense (benefit)							4,873	4,873
Net loss	1,808	(260)	(2,889)	669	3,449	1,087	(9,975)	$ (6,111)

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Segment and related information (Continued)

	Path 15	Auburndale	Lake	Pasco	Chambers	Other Project Assets	Un-allocated Corporate	Consolidated
Period ended March 31, 2009:								
Operating revenues	$ 7,708	$ 19,726	$ 15,864	$ 2,736	$	$	$	$ 46,034
Segment assets	239,691	145,398	128,860	45,911			334,201	894,061
Project Adjusted EBITDA	$ 6,902	$ 8,162	$ 7,897	$ 1,970	$ 6,152	$ 9,988	$	$ 41,071
Change in fair value of derivative instruments					(513)	2,246		1,733
Depreciation and amortization	2,196	4,933	2,790	747	842	6,076		