ATLANTIC POWER CORP
Form 10-Q
November 05, 2012

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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 (State or other jurisdiction of incorporation or organization)	**55-0886410** (I.R.S. Employer Identification No.)
One Federal Street, Floor 30 **Boston, MA** (Address of principal executive offices)	**02110** (Zip code)

(617) 977-2400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 November 1, 2012 was 119,333,349.

Table of Contents

ATLANTIC POWER CORPORATION

FORM 10-Q

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

Index

Table of Contents

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.

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

ATLANTIC POWER CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars)

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 42,872	$ 60,651
Restricted cash	112,633	21,412
Accounts receivable	80,190	79,008
Current portion of derivative instruments asset (Notes 6 and 7)	10,792	10,411
Inventory	20,105	18,628
Prepayments and other current assets	27,751	7,615
Assets held for sale (Note 11)	203,111	
Refundable income taxes	3,646	3,042
Total current assets	501,100	200,767
Property, plant, and equipment, net of accumulated depreciation of $168.4 million and $116.3 million at September 30, 2012 and December 31, 2011, respectively	1,730,765	1,388,254
Transmission system rights, net of accumulated amortization of $51.4 million at December 31, 2011		180,282
Equity investments in unconsolidated affiliates (Note 3)	432,525	474,351
Other intangible assets, net of accumulated amortization of $155.0 million and $90.2 million at September 30, 2012 and December 31, 2011, respectively	557,356	584,274
Goodwill	334,668	343,586
Derivative instruments asset (Notes 6 and 7)	14,236	22,003
Other assets	73,345	54,910
Total assets	$ 3,643,995	$ 3,248,427
Liabilities		
Current Liabilities:		
Accounts payable	$ 13,997	$ 18,122
Accrued interest	29,453	19,916
Other accrued liabilities	82,690	43,968
Revolving credit facility (Note 4)	20,000	58,000
Current portion of long-term debt (Note 4)	303,890	20,958
Current portion of derivative instruments liability (Notes 6 and 7)	42,440	20,592
Dividends payable	11,627	10,733
Liabilities associated with assets held for sale (Note 11)	157,420	
Other current liabilities	4,014	165
Total current liabilities	665,531	192,454
Long-term debt (Note 4)	1,225,661	1,404,900
Convertible debentures (Note 5)	326,067	189,563
Derivative instruments liability (Notes 6 and 7)	103,411	33,170

Deferred income taxes		161,266		182,925
Power purchase and fuel supply agreement liabilities, net of accumulated amortization of $3.5 million and $1.4 million at September 30, 2012 and December 31, 2011, respectively		45,265		71,775
Other non-current liabilities		63,996		57,859
Commitments and contingencies (Note 14)				
Total liabilities		2,591,197		2,132,646
Equity				
Common shares, no par value, unlimited authorized shares; 119,294,718 and 113,526,182 issued and outstanding at September 30, 2012 and December 31, 2011, respectively		1,286,399		1,217,265
Preferred shares issued by a subsidiary company		221,304		221,304
Accumulated other comprehensiveincome (loss)		17,253		(5,193)
Retained deficit		(474,489)		(320,622)
Total Atlantic Power Corporation shareholders' equity		1,050,467		1,112,754
Noncontrolling interest		2,331		3,027
Total equity		1,052,798		1,115,781
Total liabilities and equity	$	3,643,995	$	3,248,427

See accompanying notes to consolidated financial statements.

Table of Contents

ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Project revenue:				
Energy sales	$ 72,033	$ 17,104	$ 218,883	$ 53,471
Energy capacity revenue	68,354	27,070	193,911	81,859
Other	14,112	521	51,036	1,153
	154,499	44,695	463,830	136,483
Project expenses:				
Fuel	58,565	14,818	176,176	46,202
Operations and maintenance	35,848	8,124	111,027	25,618
Depreciation and amortization	38,542	8,880	111,219	26,705
	132,955	31,822	398,422	98,525
Project other income (expense):				
Change in fair value of derivative instruments (Notes 6 and 7)	17,213	(11,484)	(40,953)	(12,497)
Equity in earnings of unconsolidated affiliates (Note 3)	4,000	2,374	12,420	5,647
Interest expense, net	(4,211)	(1,576)	(12,637)	(4,832)
Other expense, net	(567)	(7)	(538)	(40)
	16,435	(10,693)	(41,708)	(11,722)
Project income	37,979	2,180	23,700	26,236
Administrative and other expenses (income):				
Administration	6,309	11,839	21,992	20,379
Interest, net	25,829	3,337	69,269	10,815
Foreign exchange loss (Note 7)	7,659	21,576	4,440	20,383
Other expense (income), net	272		(5,728)	
	40,069	36,752	89,973	51,577
Loss from continuing operations before income taxes	(2,090)	(34,572)	(66,273)	(25,341)
Income tax expense (benefit) (Note 8)	3,166	(5,323)	(19,076)	(12,900)
Loss from continuing operations	(5,256)	(29,249)	(47,197)	(12,441)
Income from discontinued operations, net of tax (Note 11)	773	1,271	1,444	3,514
Net loss	(4,483)	(27,978)	(45,753)	(8,927)
Net income (loss) attributable to noncontrolling interest	2,963	(78)	9,071	(349)
Net loss attributable to Atlantic Power Corporation	$ (7,446)	$ (27,900)	$ (54,824)	$ (8,578)
Net loss per share attributable to Atlantic Power Corporation shareholders: (Note 10)				
Basic	$ (0.06)	$ (0.40)	$ (0.47)	$ (0.13)
Diluted	$ (0.06)	$ (0.40)	$ (0.47)	$ (0.13)

Weighted average number of common shares outstanding: (Note 10)				
Basic	119,011	68,910	115,437	68,384
Diluted	119,011	68,910	115,437	68,384

See accompanying notes to consolidated financial statements.

Table of Contents

ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of U.S. dollars)

(Unaudited)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net loss	$ (4,483)	$ (27,978)	$ (45,753)	$ (8,927)
Other comprehensive income (loss), net of tax:				
Unrealized loss on hedging activities	(300)	(1,495)	(833)	(2,257)
Net amount reclassified to earnings	216	253	672	784
Net unrealized losses on derivatives	(84)	(1,242)	(161)	(1,473)
Foreign currency translation adjustments	19,301		22,608	
Other comprehensive income, net of tax	19,217	(1,242)	22,447	(1,473)
Comprehensive income (loss)	14,734	(29,220)	(23,306)	(10,400)
Less: Comprehensive (income) loss attributable to noncontrolling interest	2,963	(78)	9,071	(349)
Comprehensive income (loss) attributable to Atlantic Power Corporation	$ 11,771	$ (29,142)	$ (32,377)	$ (10,051)

See accompanying notes to consolidated financial statements.

Table of Contents

ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. dollars)

(Unaudited)

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Cash flows from operating activities:		
Net loss	$ (45,753)	$ (8,927)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	117,464	32,711
Long-term incentive plan expense	2,344	2,257
Loss on the disposal of property, plant and equipment and other charges	840	
Impairment charge on equity investment	3,000	
Gain on sale of equity investments	(578)	
Equity in earnings from unconsolidated affiliates	(14,842)	(5,647)
Distributions from unconsolidated affiliates	26,821	15,542
Unrealized foreign exchange loss	21,552	28,175
Change in fair value of derivative instruments	40,953	12,497
Change in deferred income taxes	(24,278)	(10,315)
Change in other operating balances		
Accounts receivable	(2,873)	258
Prepayments, refundable income taxes and other assets	(18,656)	(570)
Accounts payable and accrued liabilities	14,855	1,536
Other liabilities	3,267	(1,178)
Cash provided by operating activities	124,116	66,339
Cash flows used in investing activities:		
Change in restricted cash	(105,494)	(12,379)
Proceeds from sale of equity investments	27,925	8,500
Cash paid for equity investment	(264)	
Proceeds from related party loan		15,455
Biomass development costs	(372)	(753)
Construction in progress	(336,153)	(78,256)
Purchase of property, plant and equipment	(1,172)	(814)
Cash used in investing activities	(415,530)	(68,247)
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of convertible debentures	130,000	
Proceeds from issuance of equity, net of offering costs	67,692	
Proceeds from project-level debt	261,226	65,374
Repayment of project-level debt	(12,050)	(13,166)
Payments for revolving credit facility borrowings	(60,800)	
Proceeds from revolving credit facility borrowings	22,800	
Deferred financing costs	(25,339)	
Dividends paid	(108,152)	(57,543)
Cash provided by (used in) financing activities	275,377	(5,335)
Net decrease in cash and cash equivalents	(16,037)	(7,243)
Less cash at discontinued operations	(1,742)	
Cash and cash equivalents at beginning of period	60,651	45,497

Cash and cash equivalents at end of period	$ 42,872	$ 38,254
Supplemental cash flow information		
Interest paid	$ 77,738	$ 21,567
Income taxes paid (refunded), net	$ 3,145	$ (352)
Accruals for construction in progress	$ 40,097	$ 19,547

See accompanying notes to consolidated financial statements.

Table of Contents

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of presentation and summary of significant accounting policies

Overview

Atlantic Power Corporation 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 3,351 megawatts ("MW") in which our ownership interest is approximately 2,118 MW. Our current portfolio consists of interests in 30 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. Twenty-three of our projects are wholly owned subsidiaries.

Atlantic Power is a corporation established under the laws of the Province of Ontario, Canada on June 18, 2004 and continued to the Province of British Columbia on July 8, 2005. Our shares trade on the Toronto Stock Exchange under the symbol "ATP" and on the New York Stock Exchange under the symbol "AT." Our registered office is located at 355 Burrard Street, Suite 1900, Vancouver, British Columbia V6C 2G8 Canada and our headquarters is located at One Federal Street, Floor 30, Boston, Massachusetts, 02110, USA. Our telephone number in Boston is (617) 977-2400 and the address of our website is www.atlanticpower.com. Information contained on Atlantic Power's website or that can be accessed through its website is not incorporated into and does not constitute a part of this Quarterly Report on Form 10-Q. Atlantic Power has included its website address only as an inactive textual reference and does not intend it to be an active link to its website. 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, which are not incorporated by reference into our Exchange Act 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 September 30, 2012, the results of operations and comprehensive income for the three and nine month periods ended September 30, 2012 and 2011, and our cash flows for the nine month periods ended September 30, 2012 and 2011. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included.

Table of Contents

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

Use of estimates

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the periods presented, we have made a number of estimates and valuation assumptions, including the fair values of acquired assets, the useful lives and recoverability of property, plant and equipment, intangible assets and liabilities related to PPAs and fuel supply agreements, the recoverability of equity investments, the recoverability of deferred tax assets, tax provisions, the 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. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2011. 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

Table of Contents

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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.

Issued

In July 2012, the FASB issued changes to the testing of indefinite-lived intangible assets for impairment, similar to the goodwill changes issued in September 2011. These changes provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of an indefinite-lived intangible asset is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test. These changes become effective for us for any indefinite-lived intangible asset impairment test performed on January 1, 2013 or later, although early adoption is permitted. We do not expect the adoption of these changes to have an impact on our consolidated financial statements.

2. Acquisitions and divestitures

2012 Acquisitions

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 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 Canadian Hills for a nominal amount, bringing our total interest in the project to 99%. Apex retained a 1% interest in the project. At the time, we also closed 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 when Canadian Hills commences commercial operations.

On October 31, 2012, the Canadian Hills project entered into an equity contribution agreement with four entities for their commitment of a tax equity investment in the project totalling $225.0 million in exchange for Class B equity interests in Canadian Hills which will be funded on date of commercial operations. We are actively pursuing additional tax equity investors to fund the remaining estimated $47.0 million needed to pay down the existing construction loan. If we are unable to subscribe

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Acquisitions and divestitures (Continued)

additional investors, we will fund the remaining portion with either cash on hand or proceeds from our senior credit facility and will become an additional tax equity investor in the project owning the remaining Class B equity interest in Canadian Hills. In July 2012 we funded approximately $190.0 million of our equity contribution (net of financing costs). The acquisition of Canadian Hills was accounted for as an asset purchase and is consolidated in our consolidated balance sheet at September 30, 2012.

2012 Divestitures

On August 2, 2012, we entered into a purchase and sale agreement for the sale of our 50% ownership interest in the Badger Creek project. On September 4, 2012, the transaction closed and we received gross proceeds of $3.7 million. As a result of the pending sale, we recorded an impairment charge in the second quarter of 2012 of $3.0 million in equity in earnings from unconsolidated affiliates in the consolidated statements of operations.

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 $24.2 million, plus a management agreement termination fee of approximately $6.0 million, for a total sale price of $30.2 million. The transaction closed in May 2012 and we recorded a $0.6 million gain on sale of our equity investment.

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.

Table of Contents

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Equity method investments

The following summarizes the operating results for the three and nine months ended September 30, 2012 and 2011, respectively, for earnings in our equity method investments:

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Project revenue				
Chambers	$ 12,196	$ 11,616	$ 40,148	$ 37,894
Badger Creek	1,087	1,415	3,357	6,070
Gregory	5,814	7,810	14,766	22,624
Orlando	11,081	10,549	32,850	29,851
Selkirk	12,248	14,020	35,857	37,881
Other	9,218	3,093	31,522	8,045
	51,644	48,503	158,500	142,365
Project expenses				
Chambers	9,564	9,107	28,066	28,032
Badger Creek	831	1,509	2,971	5,907
Gregory	5,262	7,007	15,392	20,537
Orlando	10,189	10,156	30,487	29,224
Selkirk	10,663	12,572	31,722	37,861
Other	11,585	2,617	30,223	6,412
	48,094	42,968	138,861	127,973
Project other income (expense)				
Chambers	139	(730)	(1,476)	(1,820)
Badger Creek	(156)	(9)	(3,165)	(20)
Gregory	(46)	(218)	(272)	(449)
Orlando	(24)	(13)	(58)	(57)
Selkirk	(671)	(33)	1,516	(2,599)
Other	1,208	(2,158)	(3,764)	(3,800)
	450	(3,161)	(7,219)	(8,745)
Project income (loss)				
Chambers	2,771	1,779	10,606	8,042
Badger Creek	100	(103)	(2,779)	143
Gregory	506	585	(898)	1,638
Orlando	868	380	2,305	570
Selkirk	914	1,415	5,651	(2,579)
Other	(1,159)	(1,682)	(2,465)	(2,167)
	4,000	2,374	12,420	5,647

Table of Contents

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Long-term debt

Long-term debt consists of the following:

	September 30, 2012	December 31, 2011	Interest Rate
Recourse Debt:			
Senior unsecured notes, due 2018	$ 460,000	$ 460,000	9.00%
Senior unsecured notes, due June 2036 (Cdn$210,000)	213,588	206,490	5.95%
Senior unsecured notes, due July 2014	190,000	190,000	5.90%
Series A senior unsecured notes, due August 2015	150,000	150,000	5.87%
Series B senior unsecured notes, due August 2017	75,000	75,000	5.97%
Non-Recourse Debt:			
Epsilon Power Partners term facility, due 2019	33,857	34,982	7.40%
Path 15 senior secured bonds	(1)	145,879	7.90% 9.00%
Auburndale term loan, due 2013	6,650	11,900	5.10%
Cadillac term loan, due 2025	38,431	40,231	6.02% 8.00%
Piedmont construction loan, due 2013	123,270(2)	100,796	Libor plus 3.50%
Canadian Hills construction loan, due 2013	238,755(3)		Libor plus 3.00%
Purchase accounting fair value adjustments	(1)	10,580	
Less current maturities	(303,890)	(20,958)	
Total long-term debt	$ 1,225,661	$ 1,404,900	

Current maturities consist of the following:

	September 30, 2012	December 31, 2011	Interest Rate
Current Maturities:			
Epsilon Power Partners term facility, due 2019	$ 2,625	$ 1,500	7.40%
Path 15 senior secured bonds	(1)	8,667	7.90% 9.00%
Auburndale term loan, due 2013	5,425	7,000	5.10%
Cadillac term loan, due 2025	2,400	3,791	6.02% 8.00%
Piedmont construction loan, due 2013	54,685(2)		Libor plus 3.50%
Canadian Hills construction loan, due 2013	238,755(3)		Libor plus 3.00%
Total current maturities	$ 303,890	$ 20,958	

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(1) During the three months ended September 30, 2012, we designated the Path 15 project as an asset held for sale. Accordingly, Path 15 senior secured bonds current maturities of $9.0 million and long term debt of $143.0 million, including a purchase accounting fair value adjustment of $10.0 million, are recorded as a component of liabilities associated with assets held for sale on the consolidated balance sheets at September 30, 2012. See Note 11 for further discussion.

(2) The terms of the Piedmont project-level debt financing include a $51.0 million bridge loan for approximately 95.0% of the stimulus grant expected to be received from the U.S. Treasury 60 days after the start of commercial operations, and an $82.0 million construction term loan. The

13

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Long-term debt (Continued)

$51.0 million bridge loan will be repaid in early 2013 and repayment of the expected $82.0 million term loan will commence in 2013.

(3) On October 31, 2012, the Canadian Hills project entered into an equity contribution agreement with four entities for their commitment of a tax equity investment in the project to be funded on date of commercial operations. The proceeds from our equity contribution, the tax equity investments and a draw on our senior credit facility will be used to pay down the construction loan at the completion of construction.

Notes of Atlantic Power (US) GP

On June 22, 2012, Atlantic Power, Atlantic Power (US) GP and certain other of our subsidiaries entered into an amendment to the Note Purchase and Parent Guaranty Agreement, dated as of August 15, 2007 (the "Note Purchase Agreement"), which governs the 5.87% senior guaranteed notes, Series A, due August 15, 2017 (the "Series A Notes") and the 5.97% senior guaranteed notes, Series B, due August 15, 2019 (the "Series B Notes" and collectively the "Notes") of Atlantic Power (US) GP. Under the amendment, we agreed: (i) that Atlantic Power and the existing and future guarantors of our 9.00% senior notes due November 2018 (the "Senior Notes"), our senior credit facility and refinancings thereof would provide guarantees of the Notes; (ii) to shorten the maturity of the Series A Notes from August 15, 2017 to August 15, 2015; (iii) to shorten the maturity of the Series B Notes from August 15, 2019 to August 15, 2017; (iv) to include an event of default that would be triggered if certain defaults occurred under the debt instruments of Atlantic Power and certain of its subsidiaries; and (v) to add certain covenants, including covenants that limit the ability of Curtis Palmer LLC ("Curtis Palmer"), a wholly-owned subsidiary of Atlantic Power Limited Partnership (the "Partnership") to incur debt or liens, make distributions other than in the ordinary course of business, prepay debt or sell material assets and our ability to sell Curtis Palmer. The parties entered into the amendment following a series of discussions concerning our acquisition of the Partnership. Although we believe that the acquisition of the Partnership was in full compliance with the terms and conditions of the Note Purchase Agreement, the holders of the Notes agreed to waive certain defaults or events of default that they alleged may have occurred as a result of our acquisition of the Partnership in return for Atlantic Power and its subsidiaries entering into the amendment.

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 September 30, 2012, all of our projects were in compliance with the covenants contained in project-level debt. However, our Epsilon Power Partners, 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. The non-recourse holding company debt relating to our investment in Chambers is held at Epsilon Power Partners, our wholly owned subsidiary.

Table of Contents

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Long-term debt (Continued)

Senior Credit Facility

As of September 30, 2012, $20.0 million was drawn on our senior credit facility and $135.5 million and Cnd$1.0 million were issued in letters of credit, but not drawn, to support contractual credit requirements at several of our projects. The applicable margin on our senior credit facility was 2.75% at September 30, 2012.

In connection with the continued evolution of the Company's strategy to focus on late-stage development and construction projects, and the possible disposition of certain projects, including our Florida projects, on November 2, 2012, we amended the senior credit facility in order to change certain financial and leverage ratio covenants and obtained certain waivers from our lenders in connection with certain of our projects. See Item 5. Other Information to this quarterly report on Form 10-Q for additional information.

5. Convertible debentures

The following table contains details related to outstanding convertible debentures:

(In thousands US$, except for share amounts)	6.5% Debentures due October 2014	6.25% Debentures due March 2017	5.6% Debentures due June 2017	5.75% Debentures due June 2019	Total
Balance at December 31, 2011	$ 44,103	$ 66,306	$ 79,154	$	$ 189,563
Issuance of convertible debentures				130,000	130,000
Principal amount converted to equity	(13)				(13)
Foreign exchange loss	1,516	2,279	2,722		6,517
Balance at September 30, 2012	$ 45,606	$ 68,585	$ 81,876	$ 130,000	$ 326,067
Common shares issued on conversion during the nine months ended September 30, 2012	1,048				1,048

Aggregate interest expense related to the convertible debentures was $4.9 million and $2.8 million for the three months ended September 30, 2012 and 2011, respectively, and $10.6 million and $9.3 million for the nine months ended September 30, 2012 and 2011, respectively.

On July 5, 2012, we issued, in a public offering, $130.0 million aggregate principal amount of 5.75% convertible unsecured subordinated debentures due June 30, 2019, (the "2012 Debentures") for net proceeds of $124.0 million. The 2012 Debentures pay interest semi-annually on June 30 and December 30 of each year beginning December 30, 2012. The 2012 Debentures are convertible into our common shares at an initial conversion rate of 57.9710 common shares per $1,000 principal amount of debentures. We used the proceeds to fund a portion of our equity commitment in Canadian Hills Wind, LLC.

Table of Contents

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 September 30, 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.

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 42,872	$	$	$ 42,872
Restricted cash	112,633			112,633
Derivative instruments asset		25,028		25,028
Total	$ 155,505	$ 25,028	$	$ 180,533
Liabilities:				
Derivative instruments liability	$	$ 145,851	$	$ 145,851
Total	$	$ 145,851	$	$ 145,851

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 60,651	$	$	$ 60,651
Restricted cash				