

ATLANTIC POWER CORP  
Form 10-Q  
August 08, 2012

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

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**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 June 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):

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Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a  
smaller reporting company)

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

The number of shares outstanding of the registrant's Common Stock as of August 3, 2012 was 119,248,868.

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ATLANTIC POWER CORPORATION

FORM 10-Q

THREE AND SIX MONTHS ENDED JUNE 30, 2012

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**GENERAL**

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

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

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)**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	<b>(unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 62,693	\$ 60,651
Restricted cash	19,139	21,412
Accounts receivable	58,702	79,008
Current portion of derivative instruments asset (Notes 6 and 7)	7,402	10,411
Inventory	18,908	18,628
Prepayments and other current assets	26,582	10,657
Total current assets	193,426	200,767
Property, plant, and equipment, net of accumulated depreciation of \$150.0 million and \$116.3 million at June 30, 2012 and December 31, 2011, respectively	1,609,672	1,388,254
Transmission system rights, net of accumulated amortization of \$55.3 million and \$51.4 million at June 30, 2012 and December 31, 2011, respectively	176,356	180,282
Equity investments in unconsolidated affiliates (Note 3)	450,175	474,351
Other intangible assets, net of accumulated amortization of \$133.2 million and \$90.2 million at June 30, 2012 and December 31, 2011, respectively	572,571	584,274
Goodwill	343,586	343,586
Derivative instruments asset (Notes 6 and 7)	12,145	22,003
Other assets	70,669	54,910
Total assets	\$ 3,428,600	\$ 3,248,427
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable	\$ 19,379	\$ 18,122
Accrued interest	18,482	19,916
Other accrued liabilities	66,949	43,968
Revolving credit facility (Note 4)	20,000	58,000
Current portion of long-term debt (Note 4)	309,336	20,958
Current portion of derivative instruments liability (Notes 6 and 7)	46,210	20,592
Dividends payable	10,700	10,733
Other current liabilities	3,021	165
Total current liabilities	494,077	192,454
Long-term debt (Note 4)	1,361,850	1,404,900
Convertible debentures (Note 5)	189,342	189,563
Derivative instruments liability (Notes 6 and 7)	112,135	33,170
Deferred income taxes	157,105	182,925
	45,339	71,775

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Power purchase and fuel supply agreement liabilities, net of accumulated amortization of \$2.5 million and \$1.4 million at June 30, 2012 and December 31, 2011, respectively		
Other non-current liabilities	61,266	57,859
Commitments and contingencies (Note 12)		
Total liabilities	2,421,114	2,132,646
<b>Equity</b>		
Common shares, no par value, unlimited authorized shares; 113,681,691 and 113,526,182 issued and outstanding at June 30, 2012 and December 31, 2011, respectively		
Preferred shares issued by a subsidiary company	1,218,233	1,217,265
Accumulated other comprehensive loss	221,304	221,304
Retained deficit	(1,964)	(5,193)
	(432,776)	(320,622)
Total Atlantic Power Corporation shareholders' equity	1,004,797	1,112,754
Noncontrolling interest	2,689	3,027
Total equity	1,007,486	1,115,781
Total liabilities and equity	\$ 3,428,600	\$ 3,248,427

See accompanying notes to consolidated financial statements.

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**ATLANTIC POWER CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands of U.S. dollars, except per share amounts)  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Project revenue:				
Energy sales	\$ 70,882	\$ 17,865	\$ 146,850	\$ 36,367
Energy capacity revenue	63,039	27,651	125,557	54,789
Transmission services	6,363	7,491	13,524	15,135
Other	14,961	251	36,924	632
	155,245	53,258	322,855	106,923
Project expenses:				
Fuel	55,512	14,316	117,611	31,384
Operations and maintenance	46,100	7,801	77,600	18,873
Depreciation and amortization	40,364	10,924	76,832	21,803
	141,976	33,041	272,043	72,060
Project other income (expense):				
Change in fair value of derivative instruments (Notes 6 and 7)	(44)	(4,574)	(58,166)	(1,013)
Equity in earnings of unconsolidated affiliates (Note 3)	5,473	1,962	8,420	3,273
Interest expense, net	(6,999)	(4,543)	(14,032)	(9,190)
Other income (expense), net	14	(31)	29	(33)
	(1,556)	(7,186)	(63,749)	(6,963)
Project income (loss)	11,713	13,031	(12,937)	27,900
Administrative and other expenses (income):				
Administration	8,086	4,671	15,919	8,725
Interest, net	21,414	3,510	43,450	7,478
Foreign exchange gain (Note 7)	(4,205)	(535)	(3,219)	(1,193)
Other income, net	(6,000)		(6,000)	
	19,295	7,646	50,150	15,010
Income (loss) from operations before income taxes	(7,582)	5,385	(63,087)	12,890
Income tax benefit (Note 8)	(5,526)	(7,684)	(21,817)	(6,161)
Net income (loss)	(2,056)	13,069	(41,270)	19,051
Net income (loss) attributable to noncontrolling interest	3,030	(117)	6,108	(271)
Net income (loss) attributable to Atlantic Power Corporation	\$ (5,086)	\$ 13,186	\$ (47,378)	\$ 19,322
Net income (loss) per share attributable to Atlantic Power Corporation shareholders: (Note 10)				
Basic	\$ (0.04)	\$ 0.19	\$ (0.42)	\$ 0.28
Diluted	\$ (0.04)	\$ 0.18	\$ (0.42)	\$ 0.28
Weighted average number of common shares outstanding: (Note 10)				
Basic	113,682	68,573	113,630	68,116

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Diluted	113,682	68,884	113,630	68,543
See accompanying notes to consolidated financial statements.				

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**ATLANTIC POWER CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands of U.S. dollars)

(Unaudited)

	Atlantic Power Corporation Three months ended June 30,		Noncontrolling Interests Three months ended June 30,		Total Three months ended June 30,	
	2012	2011	2012	2011	2012	2011
Net (loss) income	\$ (2,056)	\$ 13,069	\$ 3,030	\$ (117)	\$ (5,086)	\$ 13,186
Other comprehensive income, net of tax:						
Unrealized loss on hedging activities	(548)	(762)			(548)	(762)
Net amount reclassified to earnings	226	259			226	259
Net unrealized losses on derivatives	(322)	(503)			(322)	(503)
Foreign currency translation adjustments	(13,858)				(13,858)	
Total other comprehensive income, net of tax	(14,180)	(503)			(14,180)	(503)
Comprehensive income (loss)	\$ (16,236)	\$ 12,566	\$ 3,030	\$ (117)	\$ (19,266)	\$ 12,683

	Atlantic Power Corporation Six months ended June 30,		Noncontrolling Interests Six months ended June 30,		Total Six months ended June 30,	
	2012	2011	2012	2011	2012	2011
Net (loss) income	\$ (41,270)	\$ 19,051	\$ 6,108	\$ (271)	\$ (47,378)	\$ 19,322
Other comprehensive income, net of tax:						
Unrealized loss on hedging activities	(533)	(762)			(533)	(762)
Net amount reclassified to earnings	457	531			457	531
Net unrealized losses on derivatives	(76)	(231)			(76)	(231)
Foreign currency translation adjustments	3,306				3,306	
Total other comprehensive income, net of tax	3,230	(231)			3,230	(231)
Comprehensive income (loss)	\$ (38,040)	\$ 18,820	\$ 6,108	\$ (271)	\$ (44,148)	\$ 19,091

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)

	Six months ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$ (41,270)	\$ 19,051
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	76,832	21,803
Long-term incentive plan expense	1,475	1,639
Impairment charge on equity investment	3,000	
Gain on sale of equity investments	(578)	
Equity in earnings from unconsolidated affiliates	(10,842)	(3,273)
Distributions from unconsolidated affiliates	8,719	11,584
Unrealized foreign exchange loss	11,823	4,499
Change in fair value of derivative instruments	58,166	1,013
Change in deferred income taxes	(25,999)	(5,691)
Change in other operating balances		
Accounts receivable	20,306	(666)
Prepayments and other current assets	(14,102)	1,244
Accounts payable and accrued liabilities	(384)	(4,996)
Other liabilities	2,226	(1,492)
Net cash provided by operating activities	89,372	44,715
Cash flows used in investing activities:		
Change in restricted cash	2,273	(5,290)
Proceeds from sale of equity investments	24,225	8,500
Cash paid for equity investment	(264)	
Proceeds from related party loan		15,455
Biomass development costs	(200)	(587)
Construction in progress	(230,242)	(42,321)
Purchase of property, plant and equipment	(802)	(577)
Net cash used in investing activities	(205,010)	(24,820)
Cash flows provided by (used in) financing activities:		
Proceeds from project-level debt	255,242	29,890
Repayment of project-level debt	(9,325)	(10,341)
Payments for revolving credit facility borrowings	(60,800)	
Proceeds from revolving credit facility borrowings	22,800	
Deferred financing costs	(18,879)	
Dividends paid	(71,358)	(38,390)
Net cash provided by (used in) financing activities	117,680	(18,841)
Net increase in cash and cash equivalents	2,042	1,054
Cash and cash equivalents at beginning of period	60,651	45,497
Cash and cash equivalents at end of period	\$ 62,693	\$ 46,551
Supplemental cash flow information		

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Interest paid	\$	58,198	\$	17,600
Income taxes paid (refunded), net	\$	1,520	\$	(436)
Accruals for construction in progress	\$	25,534	\$	

See accompanying notes to consolidated financial statements.

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**ATLANTIC POWER CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Basis of presentation and summary of significant accounting policies**

***Overview***

Atlantic Power 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 3,397 megawatts ("MW") in which our ownership interest is approximately 2,141 MW. Our current portfolio consists of interests in 31 operational power generation projects across 11 states in the United States and two provinces in Canada and an 84 mile 500-kilovolt electric transmission line located in California. In addition, we have one 53 MW biomass project under construction in Georgia and one 298 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](http://www.atlanticpower.com). We make available, free of charge, on our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Additionally, we make available on our website our Canadian securities filings.

The interim consolidated financial statements have been prepared in accordance with the SEC regulations for interim financial information and with the instructions to Form 10-Q. The following notes should be read in conjunction with the accounting policies and other disclosures as set forth in the notes to our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2011. Interim results are not necessarily indicative of results for the full year.

In our opinion, the accompanying unaudited interim consolidated financial statements present fairly our consolidated financial position as of June 30, 2012, the results of operations and comprehensive income for the three and six month periods ended June 30, 2012 and 2011, and our cash flows for the six month periods ended June 30, 2012 and 2011.

***Use of estimates***

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the periods presented, we have made a number of estimates and valuation assumptions, including the fair values of acquired assets, the useful lives and recoverability of property, plant and equipment, intangible assets and liabilities related to PPAs and

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**ATLANTIC POWER CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

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. As better information becomes available or actual amounts are determinable, the recorded estimates are revised. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

***Recently issued accounting standards***

***Adopted***

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

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

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**ATLANTIC POWER CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**2. Acquisitions and divestitures**

*2012 Acquisition*

On January 31, 2012, Atlantic Oklahoma Wind, LLC ("Atlantic OW"), a Delaware limited liability company and our wholly owned subsidiary, entered into a purchase and sale agreement with Apex Wind Energy Holdings, LLC, a Delaware limited liability company ("Apex"), pursuant to which Atlantic OW acquired a 51% interest in Canadian Hills Wind, LLC, an Oklahoma limited liability company ("Canadian Hills") for a nominal sum. Canadian Hills is the owner of a 298.45 MW wind energy project under construction in the state of Oklahoma. On March 30, 2012, we completed the purchase of an additional 48% interest in the Canadian Hills for a nominal amount, bringing our total interest in the project to 99%. Apex retained a 1% interest in the project. We also closed on a \$310 million non-recourse, project-level construction financing facility for the project, which includes a \$290 million construction loan and a \$20 million 5-year letter of credit facility. The construction loan is structured to be repaid by a tax equity investment, in which we are actively pursuing, when Canadian Hills commences commercial operations. We have invested approximately \$190 million of equity (net of financing costs) following the closing of our convertible debentures and equity offering on July 5, 2012 (see Note 13 for further information). The acquisition of Canadian Hills was accounted for as an asset purchase and is consolidated in our consolidated balance sheet at June 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. At close, expected in the third quarter, we will receive gross proceeds of \$3.7 million. As a result of the pending sale, we recorded an impairment charge of \$3.0 million in equity in earnings from unconsolidated affiliates in the consolidated statements of operations for the three and six month periods ended June 30, 2012. We do not anticipate recording additional gains or losses at the time of the transaction close.

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 \$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 in equity in earnings of unconsolidated affiliates in the consolidated statements of operations for the three and six month periods ended June 30, 2012. The \$6.0 million management termination fee was recorded in other income, net in the consolidated statements of operations for the three and six month periods ended June 30, 2012.

*2011 Divestiture*

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

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**3. Equity method investments**

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenue				
Chambers	\$ 14,725	\$ 13,009	\$ 27,952	\$ 26,278
Badger Creek	1,091	1,334	2,270	4,655
Gregory	4,637	7,633	8,952	14,814
Orlando	10,957	9,375	21,769	19,302
Selkirk	11,547	12,961	23,609	23,861
Other	10,571	3,132	22,304	4,952
	53,528	47,444	106,856	93,862
Project expenses				
Chambers	8,749	9,545	18,502	18,925
Badger Creek	1,003	1,414	2,140	4,398
Gregory	4,350	6,900	10,130	13,530
Orlando	10,205	9,605	20,298	19,068
Selkirk	10,724	12,631	21,059	25,289
Other	10,244	2,366	18,638	3,795
	45,275	42,461	90,767	85,005
Project other income (expense)				
Chambers	(422)	(663)	(1,615)	(1,090)
Badger Creek	(3,004)	(7)	(3,008)	(11)
Gregory	(143)	(194)	(226)	(231)
Orlando	(20)	(13)	(34)	(44)
Selkirk	2,252	(929)	2,187	(2,566)
Other	(1,443)	(1,215)	(4,973)	(1,642)
	(2,780)	(3,021)	(7,669)	(5,584)
Project income (loss)				
Chambers	5,554	2,801	7,835	6,263
Badger Creek	(2,916)	(87)	(2,878)	246
Gregory	144	539	(1,404)	1,053
Orlando	732	(243)	1,437	190
Selkirk	3,075	(599)	4,737	(3,994)
Other	(1,116)	(449)	(1,307)	(485)
	5,473	1,962	8,420	3,273

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**4. Long-term debt**

Long-term debt consists of the following:

	June 30, 2012	December 31, 2011	Interest Rate
<b>Recourse Debt:</b>			
Senior unsecured notes, due 2018	\$ 460,000	\$ 460,000	9.00%
Senior unsecured notes, due June 2036 (Cdn\$210,000)	206,262	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%
<b>Non-Recourse Debt:</b>			
Epsilon Power Partners term facility, due 2019	34,232	34,982	7.40%
Path 15 senior secured bonds	142,005	145,879	7.90% 9.00%
Auburndale term loan, due 2013	8,400	11,900	5.10%
Cadillac term loan, due 2025	39,031	40,231	6.02% 8.00%
Piedmont construction loan, due 2013	117,285	100,796	Libor plus 3.50%
Canadian Hills construction loan, due 2013	238,754		Libor plus 3.00%
Purchase accounting fair value adjustments	10,217	10,580	
Less current maturities <sup>(1)</sup>	(309,336)	(20,958)	
Total long-term debt	\$ 1,361,850	\$ 1,404,900	

(1)

Current maturities in 2012 include \$238.8 million of construction loan debt related to the Canadian Hills project. This facility is expected to be repaid in late 2012 by tax equity funding.

**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 have 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 Curtis Palmer's ability 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, a wholly-owned subsidiary of Atlantic Power Limited Partnership (the "Partnership"). 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 have agreed to waive certain defaults or events of default that they alleged

Table of Contents**ATLANTIC POWER CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****4. Long-term debt (Continued)**

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 June 30, 2012, all of our projects were in compliance with the covenants contained in project-level debt. However, our Epsilon Power Partners, Idaho Wind, 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.

***Senior Credit Facility***

As of June 30, 2012, \$20.0 million was drawn on the senior credit facility and \$138.9 million was issued in letters of credit, but not drawn, to support contractual credit requirements at several of our projects. The applicable margin was 2.75%.

**5. Convertible debentures**

The following table contains details related to outstanding convertible debentures:

(In thousands, except for share amounts)	6.5% Debentures due October 2014	6.25% Debentures due March 2017	5.6% Debentures due June 2017	Total
Balance at December 31, 2011 (Cdn\$)	44,853	67,433	80,500	192,786
Principal amount converted to equity (Cdn\$)	(13)			(13)
Balance at June 30, 2012 (Cdn\$)	44,840	67,433	80,500	192,773
Balance at June 30, 2012 (US\$)	44,043	66,234	79,065	189,342
Common shares issued on conversion during the six-months ended June 30, 2012	1,048			1,048

Aggregate interest expense related to the convertible debentures was \$2.8 million and \$3.0 million for the three-month periods ended June 30, 2012 and 2011, respectively, and \$5.7 million and \$6.4 million for the six-month periods ended June 30, 2012 and 2011, respectively.

**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 June 30, 2012 and December 31, 2011. Financial

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**6. Fair value of financial instruments (Continued)**

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

June 30, 2012				
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 62,693	\$	\$	\$ 62,693
Restricted cash	19,139			19,139
Derivative instruments asset		19,547		19,547
<b>Total</b>	<b>\$ 81,832</b>	<b>\$ 19,547</b>	<b>\$</b>	<b>\$ 101,379</b>
<b>Liabilities:</b>				
Derivative instruments liability	\$	\$ 158,345	\$	\$ 158,345
<b>Total</b>	<b>\$</b>	<b>\$ 158,345</b>	<b>\$</b>	<b>\$ 158,345</b>

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

The fair values of our derivative instruments are based upon trades in liquid markets. Valuation model inputs can generally be verified and valuation techniques do not involve significant judgment. The fair values of such financial instruments are classified within Level 2 of the fair value hierarchy. We use our best estimates to determine the fair value of commodity and derivative contracts we hold. These estimates consider various factors including closing exchange prices, time value, volatility factors and credit exposure. The fair value of each contract is discounted using a risk free interest rate.

We also adjust the fair value of financial assets and liabilities to reflect credit risk, which is calculated based on our credit rating and the credit rating of our counterparties. As of June 30, 2012, the credit valuation adjustments resulted in a \$20.7 million net increase in fair value, which consists of a \$1.3 million pre-tax gain in other comprehensive income and a \$19.4 million gain in change in fair value of derivative instruments. As of December 31, 2011, the credit valuation adjustments resulted in a \$5.8 million net increase in fair value, which consists of a \$0.9 million pre-tax gain in other comprehensive income and a \$5.1 million gain in change in fair value of derivative instruments, offset by a \$0.2 million loss in foreign exchange.



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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**7. Accounting for derivative instruments and hedging activities**

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

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

*Gas purchase agreements*

On March 12, 2012, we discontinued the application of the normal purchase normal sales ("NPNS") exemption on gas purchase agreements at our North Bay, Kapuskasing and Nipigon projects. On that date, we entered into an agreement with a third party that resulted in the gas purchase agreements no longer qualifying for the NPNS exemption. The agreements at North Bay and Kapuskasing expire on December 31, 2016 and the agreements at Nipigon expire on December 31, 2012. These gas purchase agreements are derivative financial instruments and are recorded in the consolidated balance sheet at fair value and the changes in their fair market value are recorded in the consolidated statement of operations.

On May 9, 2012, the Nipigon project entered into a long-term contract for the purchase of natural gas beginning on January 1, 2013 and expiring on December 31, 2022. This contract is accounted for as a derivative financial instrument and is recorded in the consolidated balance sheet at fair value at June 30, 2012. Changes in the fair market value of the contract are recorded in the consolidated statement of operations.

We have recorded a \$1.2 million unrealized loss and a \$59.1 million unrealized loss for the three and six months ended June 30, 2012, respectively, related to our gas purchase agreements accounted for as derivative financial instruments.

*Natural gas swaps*

The operating margin at our 50% owned Orlando project is exposed to changes in natural gas prices following the expiration of its fuel contract at the end of 2013. We entered into natural gas swaps in order to effectively fix the price of 2.0 million Mmbtu of future natural gas purchases representing approximately 40% of our share of the required natural gas purchases at the project during 2014 and 2015. In the third quarter of 2011, we entered into additional natural gas swaps to effectively fix the price of 1.3 million Mmbtu of future natural gas purchases representing approximately 25% of our share of the required natural gas purchases at the project during 2016 and 2017.

The Lake project's operating margin is exposed to changes in natural gas spot market prices through the expiration of its PPA on July 31, 2013. The Auburndale project purchased natural gas under a fuel supply agreement that provided approximately 80% of the project's fuel requirements at fixed prices through June 30, 2012. The remaining 20% was previously purchased at spot market prices and therefore the project's operating margin was exposed to changes in natural gas prices for that

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**ATLANTIC POWER CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

portion of its gas requirements. Beginning on July 1, 2012, the project's operating margin is exposed to changes in natural gas prices for 100% of its natural gas requirements until the termination of its PPA at the end of 2013. Our strategy is to mitigate the future exposure to changes in natural gas prices at Orlando, Lake and Auburndale consists of periodically entering into financial swaps that effectively fix the price of natural gas expected to be purchased at these projects. These natural gas swaps are derivative financial instruments and are recorded in the consolidated balance sheet at fair value and the changes in their fair market value are recorded in the consolidated statement of operations.

*Interest rate swaps*

The Cadillac project has an interest rate swap agreement that effectively fixes the interest rate on its non-recourse, project-level debt at 6.02% until February 15, 2015, 6.14% from February 16, 2015 to February 15, 2019, 6.26% from February 16, 2019 to February 15, 2023, and 6.38% thereafter. The notional amount of the interest rate swap agreement matches the outstanding principal balance over the remaining life of Cadillac's debt. This swap agreement, which qualifies for and is designated as a cash flow hedge, is effective through June 2025 and changes in the fair market value is recorded in accumulated other comprehensive income.

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

The Piedmont project has interest rate swap agreements to economically fix its exposure to changes in interest rates related to its variable-rate, non-recourse debt. The interest rate swap agreement effectively converted the floating rate debt to a fixed interest rate of 1.7% plus an applicable margin ranging from 3.5% to 3.75% until February 29, 2016. From February 2016 until the maturity of the debt in November 2017, the fixed rate of the swap is 4.47% and the applicable margin is 4.0%, resulting in an all-in rate of 8.47%. The swap continues at the fixed rate of 4.47% from the maturity of the debt in November 2017 until November 2030. The notional amounts of the interest rate swap agreements match the estimated outstanding principal balance of Piedmont's cash grant bridge loan and the construction loan facility that will convert to a term loan. The interest rate swaps expire on February 29, 2016 and November 30, 2030, respectively. The interest rate swap agreements are not designated as hedges, and changes in their fair market value are recorded in the consolidated statements of operations.

Our wholly owned subsidiary, Epsilon Power Partners, has an interest rate swap to economically fix the exposure to changes in interest rates related to the variable-rate non-recourse debt. The interest rate swap agreement effectively converted the floating rate debt to a fixed interest rate of 4.24% and a maturity date of July 2019. The notional amount of the swap matches the outstanding principal balance over the remaining life of Epsilon Power Partners' debt. This interest rate swap agreement is not designated as a hedge and changes in its fair market value are recorded in the consolidated statements of operations.

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**7. Accounting for derivative instruments and hedging activities (Continued)***Foreign currency forward contracts*

We use foreign currency forward contracts to manage our exposure to changes in foreign exchange rates, as we generate cash flow in U.S. dollars and Canadian dollars but pay dividends to shareholders and interest on convertible debentures and long-term debt predominantly in Canadian dollars. We have a hedging strategy for the purpose of mitigating the currency risk impact on the long-term sustainability of dividends to shareholders. We have executed this strategy by entering into forward contracts to purchase Canadian dollars at a fixed rate to hedge approximately 79% of our expected dividend and convertible debenture interest payments through 2015. Changes in the fair value of the forward contracts partially offset foreign exchange gain or losses on the U.S. dollar equivalent of our Canadian dollar obligations. At June 30, 2012, the forward contracts consist of (1) monthly purchases through the end of 2013 of Cdn\$6.0 million at an exchange rate of Cdn\$1.134 per U.S. dollar and (2) contracts assumed in our acquisition of the Partnership with various expiration dates through December 2015 to purchase a total of Cdn\$112.0 million at an average exchange rate of Cdn\$1.13 per U.S. dollar. It is our intention to periodically consider extending the length or terminating these forward contracts.

*Volume of forecasted transactions*

We have entered into derivative instruments in order to economically hedge the following notional volumes of forecasted transactions as summarized below, by type, excluding those derivatives that qualified for the normal purchases and normal sales exception as of June 30, 2012 and December 31, 2011:

	Units	June 30, 2012	December 31, 2011
Natural gas swaps	Natural Gas (Mmbtu)	12,130	14,140
Gas Purchase Agreements	Natural Gas (GJ)	53,315	33,957
Interest Rate Swaps	Interest (US\$)	50,010	52,711
Currency forwards	Cdn\$	220,028	312,533

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

*Fair value of derivative instruments*

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

	June 30, 2012	
	Derivative Assets	Derivative Liabilities
Derivative instruments designated as cash flow hedges:		
Interest rate swaps current	\$	\$ 1,700
Interest rate swaps long-term		5,116
Total derivative instruments designated as cash flow hedges		6,816
Derivative instruments not designated as cash flow hedges:		
Interest rate swaps current		2,618
Interest rate swaps long-term		11,077
Foreign currency forward contracts current	7,569	167
Foreign currency forward contracts long-term	12,253	108
Natural gas swaps current		21,142
Natural gas swaps long-term		11,283
Gas purchase agreements current		21,033
Gas purchase agreements long-term		84,376
Total derivative instruments not designated as cash flow hedges	19,822	151,804
Total derivative instruments	\$ 19,822	\$ 158,620

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

*Accumulated other comprehensive income*

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

For the three month period ended June 30, 2012	Interest Rate Swaps	Natural Gas Swaps	Total
Accumulated OCI balance at March 31, 2012	\$ (1,402)	\$ 264	\$ (1,138)
Change in fair value of cash flow hedges	(548)		(548)
Realized from OCI during the period	283	(57)	226
Accumulated OCI balance at June 30, 2012	\$ (1,667)	\$ 207	\$ (1,460)

For the three month period ended June 30, 2011	Interest Rate Swaps	Natural Gas Swaps	Total
Accumulated OCI balance at March 31, 2011	\$ (66)	\$ 593	\$ 527
Change in fair value of cash flow hedges	(762)		(762)
Realized from OCI during the period	349	(90)	259

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Accumulated OCI balance at June 30, 2011	\$	(479)	\$	503	\$	24
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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

For the six month period ended June 30, 2012	Interest Rate Swaps	Natural Gas Swaps	Total
Accumulated OCI balance at December 31, 2011	\$ (1,704)	\$ 321	\$ (1,383)
Change in fair value of cash flow hedges	(533)		(533)
Realized from OCI during the period	570	(114)	456
Accumulated OCI balance at June 30, 2012	\$ (1,667)	\$ 207	\$ (1,460)

For the six month period ended June 30, 2011	Interest Rate Swaps	Natural Gas Swaps	Total
Accumulated OCI balance at December 31, 2010	\$ (427)	\$ 682	\$ 255
Change in fair value of cash flow hedges	(762)		(762)
Realized from OCI during the period	710	(179)	531
Accumulated OCI balance at June 30, 2011	\$ (479)	\$ 503	\$ 24

*Impact of derivative instruments on the consolidated statements of operations*

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

		Three months ended June 30,	
Classification of (gain) loss recognized in income		2012	2011
Natural gas swaps	Fuel	\$ 5,009	\$ 2,055
Gas purchase agreements	Fuel	15,863	
Foreign currency forwards	Foreign exchange (gain) loss	(3,112)	(3,155)
Interest rate swaps	Interest, net	1,191	955

		Six months ended June 30,	
Classification of (gain) loss recognized in income		2012	2011
Natural gas swaps	Fuel	\$ 9,824	\$ 4,531
Gas purchase agreements	Fuel	32,648	
Foreign currency forwards	Foreign exchange (gain) loss	(15,042)	(5,692)
Interest rate swaps	Interest, net	2,348	1,931

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

	Classification of (gain) loss recognized in income	Three months ended June 30,	
		2012	2011
Natural gas swaps	Change in fair value of derivatives	\$ 4,215	\$ (1,237)
Gas purchase agreements	Change in fair value of derivatives	(1,237)	
Interest rate swaps	Change in fair value of derivatives	(3,022)	(3,337)
Total change in fair value of derivative instruments		\$ (44)	\$ (4,574)
Foreign currency forwards	Foreign exchange (gain) loss	\$ 7,653	\$ 1,303

	Classification of (gain) loss recognized in income	Six months ended June 30,	
		2012	2011
Natural gas swaps	Change in fair value of derivatives	\$ 2,420	\$ 1,646
Gas purchase agreements	Change in fair value of derivatives	(59,114)	
Interest rate swaps	Change in fair value of derivatives	(1,472)	(2,659)
Total change in fair value of derivative instruments		\$ (58,166)	\$ (1,013)
Foreign currency forwards	Foreign exchange (gain) loss	\$ 12,863	\$ (2,133)

**8. Income taxes**

The difference between the actual tax benefit of \$5.5 million and \$21.8 million for the three and six months ended June 30, 2012 and the expected income tax benefit, based on the Canadian enacted statutory rate of 25%, of \$1.9 million and \$15.8 million, respectively, is primarily due to permanent differences related to one of our projects and is partially offset by the increase in our valuation allowance.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Current income tax expense (benefit)	\$ 2,797	\$ 18	\$ 4,182	\$ (470)
Deferred tax benefit	(8,323)	(7,702)	(25,999)	(5,691)
Total income tax benefit	\$ (5,526)	\$ (7,684)	\$ (21,817)	\$ (6,161)

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**8. Income taxes (Continued)**

As of June 30, 2012, we have recorded a valuation allowance of \$96.5 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.

**9. Employee Incentive Programs***Long-Term Incentive Program*

The following table summarizes the changes in LTIP notional units during the six months ended June 30, 2012:

	Units	Grant Date Weighted-Average Price per Unit
Outstanding at December 31, 2011	485,781	\$ 11.49
Granted	209,009	\$ 14.65
Forfeited	(28,932)	\$ 13.91
Additional shares from dividends	18,111	\$ 13.00
Vested	(231,687)	\$ 10.10
Outstanding at June 30, 2012	452,282	\$ 13.77

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

The calculation of simulated total shareholder return under the Monte Carlo model for the remaining time in the performance period for awards with market conditions included the following assumptions as of June 30, 2012 and December 31, 2011:

	June 30, 2012		December 31, 2011	
Weighted average risk free rate of return	0.19	0.39%	0.15	0.28%
Dividend yield		8.80%		7.90%
Expected volatility Atlantic Power	19.4	23.5%		22.20%
Expected volatility peer companies	16.1	119.6%	17.3	112.9%
Weighted average remaining measurement period	1.67	years	0.87	years

*Equity Incentive Plan*

On April 23, 2012 the Board of Directors, upon the recommendation of the Compensation Committee, adopted the 2012 Equity Incentive Plan (the "2012 Incentive Plan"), which was approved by the Shareholders on June 22, 2012. The 2012 Incentive Plan increases flexibility of the Compensation Committee to use various equity-based incentive awards as compensation tools to

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**9. Employee Incentive Programs (Continued)**

motivate our employees. Adoption of the 2012 Incentive Plan did not have any impact on previous award grants and no new awards have been granted under the 2012 Incentive Plan. The 2012 Incentive Plan has an expiration date of June 22, 2022.

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

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average common shares outstanding during their respective period. Diluted earnings (loss) per share is computed including dilutive potential shares as if they were outstanding shares during the year. Dilutive potential shares include shares that would be issued if all of the convertible debentures were converted into shares at January 1, 2012. Dilutive potential shares also include the weighted average number of shares, as of the date such notional units were granted, that would be issued if the unvested notional units outstanding under the LTIP were vested and redeemed for shares under the terms of the LTIP.

The following table sets forth the diluted net income and potentially dilutive shares utilized in the per share calculation for the three and six months ended June 30, 2012 and 2011:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
<b>Numerator:</b>				
Net income (loss) attributable to Atlantic Power Corporation	\$ (5,086)	\$ 13,186	\$ (47,378)	\$ 19,322
<b>Denominator:</b>				
Weighted average basic shares outstanding	113,682	68,573	113,630	68,116
Dilutive potential shares:				
Convertible debentures	13,251	14,055	13,251	14,430
LTIP notional units	474	311	480	427
Potentially dilutive shares	127,407	82,939	127,361	82,973
Diluted EPS	\$ (0.04)	\$ 0.18	\$ (0.42)	\$ 0.28

Potentially dilutive shares from convertible debentures and potentially dilutive shares from LTIP notional units have been excluded from fully diluted shares in the three and six months ended June 30, 2012 because their impact would be anti-dilutive. Potentially dilutive shares from convertible debentures have been excluded from fully diluted shares in the three and six month period ended June 30, 2011 because their impact would be anti-dilutive.

**11. Segment and geographic information**

We revised our reportable business segments during the fourth quarter of 2011 subsequent to our acquisition of the Partnership. The new operating segments are Northeast, Northwest, Southeast, Southwest and Un-allocated Corporate. Financial results for the three and six months ended June 30, 2012 and 2011 have been presented to reflect the change in operating segments. We revised our segments to align with changes in management's resource allocation and assessment of performance.

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## 11. Segment and geographic information (Continued)

These changes reflect our current operating focus. The segment classified as Un-allocated Corporate includes general and administrative activities that support the projects, executive offices, capital structure and costs of being a public registrant. These costs are not allocated to the operating segments when determining segment profit or loss.

We analyze the performance of our operating segments based on Project Adjusted EBITDA which is defined as project income plus interest, taxes, depreciation and amortization (including non-cash impairment charges) and changes in fair value of derivative instruments. Project Adjusted EBITDA is not a measure recognized under GAAP and does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. We use Project Adjusted EBITDA to provide comparative information about project performance without considering how projects are capitalized or whether they contain derivative contracts that are required to be recorded at fair value. A reconciliation of project income to Project Adjusted EBITDA is included in the tables below.

	Northeast	Southeast	Northwest	Southwest	Un-allocated Corporate	Consolidated
<b>Three month period ended June 30, 2012:</b>						
Operating revenues	\$ 45,905	\$ 47,461	\$ 16,664	\$ 44,558	\$ 657	\$ 155,245
Segment assets	1,180,033	434,269	784,195	987,712	42,391	3,428,600
Project Adjusted EBITDA	\$ 22,413	\$ 25,069	\$ 12,417	\$ 17,013	\$ (4,132)	72,780
Change in fair value of derivative instruments	(1,572)	(1,058)			1	(2,629)
Depreciation and amortization	20,212	9,366	10,594	11,146	43	51,361
Interest, net	4,699	94	1,526	3,073	(91)	9,301
Other project (income) expense	255	14		2,689	76	3,034
Project (loss) income	(1,181)	16,653	297	105	(4,161)	11,713
Administration					8,086	8,086
Interest, net					21,414	21,414
Foreign exchange gain					(4,205)	(4,205)
Other income, net					(6,000)	(6,000)
Loss from operations before income taxes	(1,181)	16,653	297	105	(23,456)	(7,582)
Income tax benefit					(5,526)	(5,526)
Net income (loss)	\$ (1,181)	\$ 16,653	\$ 297	\$ 105	\$ (17,930)	\$ (2,056)

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## 11. Segment and geographic information (Continued)

	Northeast	Southeast	Northwest	Southwest	Un-allocated Corporate	Consolidated
<b>Three month period ended June 30, 2011:</b>						
Operating revenues	\$ 5,017	\$ 40,660	\$	\$ 7,491	\$ 90	\$ 53,258
Segment assets	276,149	375,610	45,965	218,613	92,643	1,008,980
Project Adjusted EBITDA	\$ 10,095	\$ 22,670	\$ 1,620	\$ 8,626	\$ (157)	\$ 42,854
Change in fair value of derivative instruments	748	4,078				4,826
Depreciation and amortization	4,616	9,438	857	2,733	17	17,661
Interest, net	2,461	279	1,153	3,199	(4)	7,088
Other project (income) expense	230	14		5	(1)	248
Project (loss) income	2,040	8,861	(390)	2,689	(169)	13,031
Administration					4,671	4,671
Interest, net					3,510	3,510
Foreign exchange gain					(535)	(535)
Income from operations before income taxes	2,040	8,861	(390)	2,689	(7,815)	5,385
Income tax benefit					(7,684)	(7,684)
Net income (loss)	\$ 2,040	\$ 8,861	\$ (390)	\$ 2,689	\$ (131)	\$ 13,069

	Northeast	Southeast	Northwest	Southwest	Un-allocated Corporate	Consolidated
<b>Six month period ended June 30, 2012:</b>						
Operating revenues	\$ 112,831	\$ 89,212	\$ 31,964	\$ 87,254	\$ 1,594	\$ 322,855
Segment assets	1,180,033	434,269	784,195	987,712	42,391	3,428,600
Project Adjusted EBITDA	\$ 64,811	\$ 46,743	\$ 25,856	\$ 35,777	\$ (7,557)	165,630
Change in fair value of derivative instruments	56,444	(652)				55,792
Depreciation and amortization	37,659	18,738	21,020	23,803	86	101,306
Interest, net	9,437	263	2,622	5,881	(34)	18,169
Other project (income) expense	497	28	7	2,771	(3)	3,300
Project (loss) income	(39,226)	28,366	2,207	3,322	(7,606)	(12,937)
Administration					15,919	15,919
Interest, net					43,450	43,450
Foreign exchange gain					(3,219)	(3,219)
Other income, net					(6,000)	(6,000)

Loss from operations before income taxes	(39,226)	28,366	2,207	3,322	(57,756)	(63,087)
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Income tax benefit						(21,817)	(21,817)
Net income (loss)	\$	(39,226)	\$	28,366	\$	2,207	\$ 3,322 \$ (35,939) \$ (41,270)

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## 11. Segment and geographic information (Continued)

	Northeast	Southeast	Northwest	Southwest	Un-allocated Corporate	Consolidated
<b>Six month period ended June 30, 2011:</b>						
Operating revenues	\$ 9,565	\$ 82,087	\$	\$ 15,135	\$ 136	\$ 106,923
Segment assets	276,149	375,610	45,965	218,613	92,643	1,008,980
Project Adjusted EBITDA	\$ 17,583	\$ 42,257	\$ 2,485	\$ 17,127	\$ (605)	\$ 78,847
Change in fair value of derivative instruments	1,237	804			1	2,042
Depreciation and amortization	9,212	18,872	1,298	5,694	22	35,098
Interest, net	4,895	588	1,522	6,288	35	13,328
Other project (income) expense	431	45		3		479
Project (loss) income	1,808	21,948	(335)	5,142	(663)	27,900
Administration					8,725	8,725
Interest, net					7,478	7,478
Foreign exchange gain					(1,193)	(1,193)
Income from operations before income taxes	1,808	21,948	(335)	5,142	(15,673)	12,890
Income tax benefit					(6,161)	(6,161)
Net income (loss)	\$ 1,808	\$ 21,948	\$ (335)	\$ 5,142	\$ (9,512)	\$ 19,051

The tables below provide information, by country, about our consolidated operations for the three and six months ended June 30, 2012 and 2011. Revenue is recorded in the country in which it is earned and assets are recorded in the country in which they are located.

	Project Revenue Three Months Ended June 30		Project Revenue Six Months Ended June 30	
	2012	2011	2012	2011
United States	\$ 109,359	\$ 53,258	\$ 213,683	\$ 106,923
Canada	45,886		109,172	
Total	\$ 155,245	\$ 53,258	\$ 322,855	\$ 106,923

	Property, Plant & Equipment, net June 30,	
	2012	2011
United States	\$ 1,053,638	\$ 308,851
Canada	556,034	
Total	\$ 1,609,672	\$ 308,851

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Progress Energy Florida ("PEF") and the Ontario Electricity Financial Corp ("OEFC") provided approximately 28% and 19%, respectively, of total consolidated revenues for the three months ended June 30, 2012, and 26% and 23%, respectively, of total consolidated revenues for the six months ended June 30, 2012. PEF and the California Independent System Operator ("CAISO") provided approximately 69% and 14%, respectively, of total consolidated revenues for the three months ended June 30, 2011, and 70% and 14%, respectively, for the six months ended June 30, 2011. PEF purchases electricity from the Auburndale and Lake projects in the Southeast segment, OEFC purchases

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**ATLANTIC POWER CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**11. Segment and geographic information (Continued)**

electricity from the Calstock, Kapuskasing, Nipigon, North Bay and Tunis projects in the Northeast segment and the CAISO makes payments to Path 15 in the Southwest segment.

**12. Commitments and contingencies**

*Path 15*

In February 2011, we filed a rate application with the Federal Energy Regulatory Commission ("FERC") to establish Path 15's revenue requirement at \$30.3 million for the 2011-2013 period. On March 7, 2012, Path 15 filed a formal settlement agreement establishing a revenue requirement at \$28.8 million with the Administrative Law Judge for review and certification to FERC for approval. The settlement was approved by the FERC on May 23, 2012.

*IRS Examination*

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

We intend to vigorously contest these proposed adjustments, including pursuing all administrative and judicial remedies available to us. The Company expects to be successful in sustaining its positions with no material impact to our financial results. No accrual has been made for any contingency related to any of the proposed adjustments as of June 30, 2012.

*Lake*

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

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**ATLANTIC POWER CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**12. Commitments and contingencies (Continued)**

*Morris*

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

*Other*

From time to time, Atlantic Power, its subsidiaries and the projects are parties to disputes and litigation that arise in the normal course of business. We assess our exposure to these matters and record estimated loss contingencies when a loss is likely and can be reasonably estimated. There are no matters pending as of June 30, 2012 which are expected to have a material adverse impact on our financial position or results of operations.

**13. Subsequent Events**

On July 5, 2012, we closed a public offering of 5,567,177 common shares, at a purchase price of \$12.76 per common share and Cdn\$13.10 per common share, for an aggregate net proceeds from the common share offering, after deducting the underwriting discounts and expenses, of approximately, \$68.5 million. We also 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 have a conversion price of \$17.25 per common share and are convertible into our common shares at a conversion rate of 57.9710 common shares per \$1,000 principal amount of debentures. We used the proceeds to fund our equity commitment in Canadian Hills Wind, LLC.

**14. Condensed consolidating financial information**

As of June 30, 2012 and December 31, 2011, we had \$460.0 million of Senior Notes. These notes are guaranteed by certain of our wholly owned subsidiaries, or guarantor subsidiaries.

Unless otherwise noted below, each of the following guarantor subsidiaries fully and unconditionally guaranteed the Senior Notes as of June 30, 2012:

Atlantic Power Limited Partnership, Atlantic Power GP Inc., Atlantic Power (US) GP, Atlantic Power Corporation, Atlantic Power Generation, Inc., Atlantic Power Transmission, Inc., Atlantic Power Holdings, Inc., Atlantic Power Services Canada GP Inc., Atlantic Power Services Canada LP, Atlantic Power Services, LLC, Teton Power Funding, LLC, Harbor Capital Holdings, LLC, Epsilon Power Funding, LLC, Atlantic Auburndale, LLC, Auburndale LP, LLC, Auburndale GP, LLC, Badger Power Generation I, LLC, Badger Power Generation, II, LLC, Badger Power Associates, LP, Atlantic Cadillac

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**ATLANTIC POWER CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**14. Condensed consolidating financial information (Continued)**

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

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

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

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## 14. Condensed consolidating financial information (Continued)

## ATLANTIC POWER CORPORATION

## CONDENSED CONSOLIDATING BALANCE SHEET

June 30, 2012

(in thousands of U.S. dollars)

(Unaudited)

	Guarantor Subsidiaries	Curtis Palmer	Atlantic Power	Eliminations	Consolidated Balance
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 61,023	\$ (11)	\$ 1,681	\$	\$ 62,693
Restricted cash	19,139				19,139
Accounts receivable	69,636	24,500	2,954	(38,388)	58,702
Prepayments and other current assets	43,696	1,170	8,026		52,892
Total current assets	193,494	25,659	12,661	(38,388)	193,426
Property, plant, and equipment, net	1,436,727	174,061		(1,116)	1,609,672
Transmission system rights	176,356				176,356
Equity investments in unconsolidated affiliates	4,464,936		392,064	(4,406,825)	450,175
Other intangible assets, net	409,256	163,315			572,571
Goodwill	285,358	58,228			343,586
Other assets	480,774		443,275	(841,235)	82,814
Total assets	\$ 7,446,901	\$ 421,263	\$ 848,000	\$ (5,287,564)	\$ 3,428,600
<b>Liabilities</b>					
Current Liabilities:					
Accounts payable and accrued liabilities	\$ 123,614	\$ 7,826	\$ 11,760	\$ (38,388)	\$ 104,812
Revolving credit facility			20,000		20,000
Current portion of long-term debt	309,336				309,336
Other current liabilities	49,229		10,700		59,929
Total current liabilities	482,179	7,826	42,460	(38,388)	494,077
Long-term debt	711,850	190,000	460,000		1,361,850
Convertible debentures			189,342		189,342
Other non-current liabilities	1,207,930	8,198	952	(841,235)	375,845
<b>Equity</b>					
Preferred shares issued by a subsidiary company	221,304				221,304
Common shares	4,192,702	215,239	1,218,233	(4,407,941)	1,218,233
Accumulated other comprehensive income (loss)	(1,964)				(1,964)
Retained deficit	630,211		(1,062,987)		(432,776)
Total Atlantic Power Corporation shareholders' equity	5,042,253	215,239	155,246	(4,407,941)	1,004,797

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Noncontrolling interest	2,689				2,689
Total equity	5,044,942	215,239	155,246	(4,407,941)	1,007,486
Total liabilities and equity	\$ 7,446,901	\$ 421,263	\$ 848,000	\$ (5,287,564)	\$ 3,428,600

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## 14. Condensed consolidating financial information (Continued)

## ATLANTIC POWER CORPORATION

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three months ended June 30, 2012

(in thousands of U.S. dollars)

	Guarantor Subsidiaries	Curtis Palmer	Atlantic Power	Eliminations	Consolidated Balance
Project revenue:					
Total project revenue	\$ 147,089	\$ 8,306	\$	\$ (150)	\$ 155,245
Project expenses:					
Fuel	55,512				55,512
Project operations and maintenance	44,312	1,500	388	(100)	46,100
Depreciation and amortization	36,523	3,841			40,364
	136,347	5,341	388	(100)	141,976
Project other income (expense):					
Change in fair value of derivative instruments	(44)				(44)
Equity in earnings of unconsolidated affiliates	5,473				5,473
Interest expense, net	(4,158)	(2,835)	(6)		(6,999)
Other income, net	14				14
	1,285	(2,835)	(6)		(1,556)
Project income	12,027	130	(394)	(50)	11,713
Administrative and other expenses (income):					
Administration expense	5,045		3,041		8,086
Interest, net	19,734		1,680		21,414
Foreign exchange loss	(2,443)		(1,762)		(4,205)
Other Income (loss)	(6,000)				(6,000)
	16,336		2,959		19,295
Income (loss) from operations before income taxes	(4,309)	130	(3,353)	(50)	(7,582)
Income tax expense (benefit)	(5,527)		1		(5,526)
Net income (loss)	1,218	130	(3,354)	(50)	(2,056)
Net loss attributable to noncontrolling interest	(177)				(177)
Net income attributable to preferred share dividends of a subsidiary company	3,207				3,207
Net income (loss) attributable to Atlantic Power Corporation	\$ (1,812)	\$ 130	\$ (3,354)	\$ (50)	\$ (5,086)

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## ATLANTIC POWER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## 14. Condensed consolidating financial information (Continued)

## ATLANTIC POWER CORPORATION

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Six months ended June 30, 2012

(in thousands of U.S. dollars)

	Guarantor Subsidiaries	Curtis Palmer	Atlantic Power	Eliminations	Consolidated Balance
Project revenue:					
Total project revenue	\$ 304,207	\$ 18,923	\$	\$ (275)	\$ 322,855
Project expenses:					
Fuel	117,611				117,611
Project operations and maintenance	74,379	3,136	260	(175)	77,600
Depreciation and amortization	69,228	7,604			76,832
	261,218	10,740	260	(175)	272,043
Project other income (expense):					
Change in fair value of derivative instruments	(58,166)				(58,166)
Equity in earnings of unconsolidated affiliates	8,420				8,420
Interest expense, net	(8,483)	(5,543)	(6)		(14,032)
Other income, net	29				29
	(58,200)	(5,543)	(6)		(63,749)
Project income	(15,211)	2,640	(266)	(100)	(12,937)
Administrative and other expenses (income):					
Administration expense	10,179		5,740		15,919
Interest, net	40,113		3,164	173	43,450
Foreign exchange loss	(1,310)		(1,909)		(3,219)
Other income (loss)	(6,000)				(6,000)
	42,982		6,995	173	50,150
Income (loss) from operations before income taxes	(58,193)	2,640	(7,261)	(273)	(63,087)
Income tax expense (benefit)	(21,818)		1		(21,817)